

# SUBSIDIES AND MULTIFUNCTIONALITY IN EUROPEAN AGRICULTURAL POLICY

*Ricardo Abramovay\**

## **Abstract**

Multifunctionality is an ambiguous term. On the one hand, it potentially represents a way of dissimulating protectionist interests; but on the other it articulates a crisis brought about by the distinct pattern of growth and social representation linked with agriculture. This paper examines this twofold aspect of multifunctionality and shows that changes determined by the 1992 reform of the European Union's Common Agricultural Policy preserved the interests of the main European grain and meat producers while causing European subsidy programs to become more transparent and therefore more subject to social criticism. As a result, the actual meaning of policies to sustain agricultural income in contemporary societies has come under question. Multifunctionality, from this perspective, represents new demands and new social factors emerging as an expression of the current importance of rural development.

**Key-words:** Common Agricultural Policy (CAP); multifunctionality; subventions; rural development

---

\* Full Professor of the Economics Department of FEA and President of the Graduate Program in Environmental Science (PROCAM) of USP - [abramov@usp.br](mailto:abramov@usp.br).

Received 18 January 2001 Accepted 20 August 2001

## 1. Presentation

Defined by the World Trade Organization as a neologism indicating only the obvious fact that – as any other economic sector – agriculture can produce positive externalities, multifunctionality is put on the witness stand to point a finger at those guilty for the failure of the conference to launch the Millennium Round in Seattle.<sup>1</sup> Luiz Felipe Lampreia, Brazilian Minister of Foreign Relations, was categorical in addressing multifunctionality as a “concept rejected by Brazil and by the other members of the Group of Cairns, who saw in it an attempt to legitimize protectionist policies and subsidies.” During his passage through Brazil in March 2000, Pascal Lamy, European commissioner of trade relations, retorted, “we shall not permit that our 7 million farmers share the same fate as the coal miners.” The World Trade Organization’s actual agreement on agriculture sustained the need to establish a system of market oriented agricultural exchanges while recognizing the importance of non-trade concerns, such as food security and environmental protection.

Lampreia and Lamy synthesize the two sides of multifunctionality: it can be a smokescreen behind which new modalities of agricultural subvention hide. The large grain producers from the region surrounding Paris, for example, are already preparing to present their reduction in the use of chemical inputs as an expression of multifunctionality, thus attempting to legitimize their receipt of direct assistance payments.

Direct payments are an international trade distorting mechanism whose economic and social meaning has become more and more

---

<sup>1</sup> Text based on Abramovay (1999) and on research developed at the Centre d’Économie et d’Éthique pour l’Environnement et le Développement (C3ED) da Université de Versailles St. Quentin en Yvelines (França). I thank Denis Requier Desjardins for the discussions I was able to maintain with various colleagues from C3ED. My thanks also to Catherine Laurent, Hélène Delorme, Bertrand Hervieu, Philippe Lacombe and Claude Béranger for the interviews and bibliographical references they granted me. I equally thank the anonymous reviewer who read the article so carefully for this journal. This work was supported by a productivity grant from CNPq.

contested. In Europe, direct payments arose as a means of providing government assistance to agriculture with the fall in state price supports mandated by the 1992 Common Agricultural Policy reform. In 1994, one of the greatest European agricultural economists warned of the danger that supposedly agro-environmental measures would serve as an umbrella to dissimulate forms of sustaining agricultural income (Tracy, 1994). But, it cannot be denied that there is a growing trend in contemporary societies towards valuing the not immediately mercantile functions filled by farmers. That this is not a simple idiosyncrasy of the Brussels bureaucrat is shown clearly in this statement from the Economist's brief on agriculture: "Modern agriculture is being shaped by many of the same technologies that transform other industries, but is also subject to rather particular economic and political restrictions. It is expected to produce cheap food in abundance, but, at the same time to take into account the environment, look after the rural landscape, and attends to the welfare of animals and the health of the consumers" (El Feki, 2000:3).

In both cases – artifice to cover up protectionism or portrait of the new demands of society as to the use of the countryside – multifunctionality only came into international negotiations due to its connection with agricultural subsidies.

The central idea of this article is that reform of the 1992 Common Agricultural Policy (CAP) involves a fundamental contradiction that is now being expressed in the debate over multifunctionality: on one hand, the replacement of agricultural price supports with direct aid ended up protecting not the "7 million farmers" on whose behalf commissioner Lamy expressed himself but a minority that answers for an essential supply of grains and whose presence in the world market indeed depends on state subsidies. In other words, as it exists today, income support for European farmers does not fundamentally aim at payment for multiple socially valued functions that are not remunerated by the market, but is basically a form of guaranteeing the place of major

European agricultural product producers in the world market. A report prepared for the European Commission by some of Europe's most important academics begins by showing that the issue of internal supply ceased being a central CAP objective and that "the European farmers and food industry more and more see their role as offering foods on a commercial bases to those parts of the world where income grows the most and that have a scarcity of agrarian resources – namely Asia" (European Commission Directorate-General for Economic and Financial Affairs, 1997:6). Similarly, Agenda 2000, a document that defines the European Union's basic strategies for the new millennium's first years, begins its chapter on agricultural policy by insisting on the "expected growth of world demand for food products" (Commision Européenne, 1997:27).

However, the move away from agricultural price supports to direct payments represented much more than just trading six for half a dozen: it opened the path for discussion about the amount, distribution, and the very meaning of public aid to agriculture, not only in the international arena, but mainly within the European societies themselves. The management of agriculture, which since the inception of the Common Agricultural Policy at the end of the 1950s was the exclusive concern of farmers and the State, now mobilizes a varied set of players that question more and more the purely agricultural destination of state subventions. This is why the changes that CAP has undergone over the last 9 years cannot be considered merely cosmetic, but the result of public concern.

Despite the sluggishness and the resistance of the interests that still dominate agricultural policy, it is changing, based foremost on the idea that the countryside is a public good (Lacombe et al., 1998: 23). Rural areas are no longer only a physical space over which agricultural production is spread but have acquired a social role that requires their division among a very diversified set of actors. Thus, there have emerged new institutional devices whose importance in the very structuring of

agricultural policy is growing. Among them, the most important and innovative are the “Contrats Territoriaux d’Exploitation” (CTEs).

In 1999, the socialist French Government implemented the CETs in an attempt to change the role of agricultural subsidies from being merely compensation for income lost by virtue of price reductions into a force directed toward the fulfillment of social and contractually regulated environmental functions. Despite their incipient character and the still restricted mobilization of public resources (when compared to the funds coming from the conventional modalities of agricultural policy), the CTEs represent a path by which a new pact is established between the farmer and society; a pact no longer grounded on the continuous pursuit of productivity but on concern for the landscape, for biodiversity, for natural resources, and for agriculture’s capacity to create jobs (Laurent, 1999 and Laurent and Mouriaux, 1999).

The following section of this text exposes the significance of the change in the European Union’s CAP begun in 1992 and some of the reasons that this change led to such frustrating results in the eyes of European public opinion. In the third section, the text explores the basic ambiguities that characterize the transition process the CAP is undergoing. Lastly, the conclusions will show that the problems presently faced in Europe are not specific to the Old Continent but, in large part, carry the mark of the great challenges faced by agricultural policies and rural development in this new century.

## **2. Direct payments: interests and ambiguities**

The essence of the 1992 reform – a decisive historical turn in the Common Agricultural Policy – is in the passage from price supports to direct payments (also known as direct aids or even compensatory payments). This aid was seen as temporary, both at the time of its announcement and in the theoretical preparation that supports it. It appeared to the Organization for Economic Co-operation and

Development (OECD, 1994:9) that the reform took a long time to occur and, by virtue of this sluggishness, “more resources, namely labor, were retained in the agricultural sector; and this would not have happened if the adoption of structural reform programs had not been delayed.” Better late than never, the reform is being realized “with the minimum possible social upheaval” (OECD, 1994:9). Farmers now receive compensatory payments to counterbalance the fall in support prices, the traditional method used to assist farmers. Farm policy is now invited to fulfill a twofold role: “promote a transfer of incomes in benefit of the farmers without distorting the market signals” (OECD, 1994:11). The assumption being that direct payments can be “neutral in relation to the current and future levels of production” (OECD, 1994:12).

During the reform’s implementation, the OECD expected that measures would be adopted that would allow agriculture to increase the “supply of positive externalities and of goods of public interest” (OECD, 1994:19). This OECD document was a harbinger of multifunctionality (though in 1994, the term was not part of the vocabulary of farm policy), not only because of its emphasis on externalities, but also because it requires that the direct payments respond more and more to specific objectives with well-defined targets.

The essential aspect of direct aid resides in a “delinking” (*découplage*, in French) of production and income: Production should be ruled exclusively by the signals emitted in the market. Though the fall in farmer incomes resulting from the adoption of this new policy may be compensated, the direct payments must evolve so that they address positive externalities that, by definition, the market is incapable of considering.<sup>2</sup> Hence, this aid could be conditioned, for example, to the fulfillment of environmental clauses known as agri-environment

---

<sup>2</sup> OECD document published in 1993 examines this point directly: “The GATT negotiations led to a growing interest in new forms of agricultural support “delinked” from production, namely in financial aid to farmers that could be subordinated to the supply of environmental services” (OECD, 1993:14).

measures. But, as pure compensation for the losses derived from the reform, it is fundamental that “the measures of structural adjustment be limited to a transitory period...” (OECD, 1994:19).

Nine years after the beginning of CAP reform, the least that can be said is that its path has strayed considerably from that proclaimed by the models on which it was based.<sup>3</sup> First, direct payments are now essential to the formation of income in European agriculture, therefore their temporary character is not by any means ensured. Furthermore, the payments are concentrated in some countries, in some regions, in some products, and among a minority of farmers. This is what will be examined in the next sections.

The case of France will be cited in particular, not only because it is emblematic of the distortions to which application of the 1992 reform has led, but also because the country has prepared perhaps the most innovative alternative (the CTEs) to the path that European agricultural policy has been following. This alternative, in a way, seeks to express the very idea of multifunctionality in agriculture.

## 2.1. Transition and permanence

Almost 90% of French agricultural units receive direct aid, 75% of which is by virtue of the production of cereals and oilseed products. By 1995, what is now evident was being put forward: the functioning of the productive units geared to grain cultivation depends entirely on this mechanism of public revenue transfer. Colson and Chatelier (1996) show that, on average, no less than two-thirds of French farm net income

---

<sup>3</sup> One of the most controversial aspects of the debate on the CAP realized in October 1998 by the Club Demeter and the Mouvement Européen was precisely the sense of the direct aid. Arguing that the advance of direct payments in relation to price support is progress, Gerard Viatte, representative of the OECD, even so, pondered that “the types of direct payments are very diverse and it is necessary to question whether they really fulfill their economic, social, and ecological objectives in the most efficient way” (Mouvement Européen, 1999:30). Similarly Professor Buckwell, president of the European Society of Agricultural Economics centered his presidential address of 1997 on a set of questions on the sense of direct payments. The title of the text demonstrates well a certain perplexity in the face of the phenomenon: “If...Agricultural economics in a brave liberal world” (Buckwell, 1997).

comes from direct payments. As calculation of the amount of aid provided is based on the extension of land that each farmer has rather than market prices, the increase of international agricultural prices in 1996 caused European farmers to gain doubly, both from the sale of products to the market and from public compensation for the drop in support prices.<sup>4</sup>

Between 1992 and 1996, guarantee prices were reduced at much greater proportion (-30.6%) than market prices (-16%). The reform begun in 1992 was conceived in an economic environment of agricultural surpluses when it was expected that market prices would not exceed the lowest guarantee price level. Therefore, all farmer compensation would come from direct payments. No mechanism was in place to reduce the level of direct payments should market prices fall less than predicted, as they did between 1993 and 1996. Indeed, when the compensatory payment was added to market prices, the net result was that farmers were much more than compensated by the reform. A study by the European Commission Directorate-General for Economic and Financial Affairs (1997:30) calculated the magnitude of this overcompensation at ECU 2 billion, 4.2 billion, and 5 billion in the three years between 1993/94 and 1995/96.<sup>5</sup>

The fact is that even with the high international prices at the end of the reform's supposed transitional period (1992/1995) "direct aid was revealed as indispensable to the perennality of a vast number of French farms, including the largest, recognized for excellent performance" (Colson and Chatelier, 1996:42). In their 1999 study, the same authors made projections showing that in 2002, no less than 73% of the added value and 85% of the French farmers' profits (calculated prior to tax and social contribution payments) will come

---

<sup>4</sup> There is an important difference relative to the system inaugurated by the British even before World War I and adopted by the American agricultural policy since the New Deal: Americans paid the farmer a difference between the world price and a price set internally. If the world price rose, public expenditures diminished automatically (Tracy, 1979).

<sup>5</sup> This study is from 1997, prior to the adoption of the Euro.



from direct payments (Berthelot, Colson and Chatelier, 1999:24).

One of the main arguments in favor of replacing price supports with direct aid is the transparency of this public authority contribution to the formation of sectoral income. It is due to this characteristic that the Commission des Organisations Professionnelles Agricoles (COPA) – the farmers’ representative in Brussels – and its national affiliates opposed this change, alleging that they could not tolerate their members being transformed into “assistés sociaux.” The French Chamber of Agriculture refused to consider any proposal to reduce agricultural support prices, unless it was directed toward less favored areas and aging farmers.<sup>6</sup>

The reason for this opposition lies not only in the potential economic losses arising from the “delinked” system, in which income support does not pass exclusively through the path of prices, but also because of the implied separation of the farmer from the market. The problem is that the previous system of income support embedded the subsidy in an instrument that maintained an important formal resemblance to the market mechanism: the farmer produces and sells his product “in the market.” Though this “market” was largely the community authority, the farmer could still associate the income he received with his labor and expenditures. In this sense the farmer legitimized his earnings as if they were obtained by means of the market.

Delinking shatters this illusion, causing the subsidy to appear in all its clarity as a check the farmer receives from the community coffers. Professional organizations, when faced with the need to restrict agricultural production, have always preferred a system that preserved high prices and established taxations that compressed income a posteriori, to one that reduced nominal prices and compensated this fall-off with direct aid (Neville-Rolfe, 1984). What is at stake is more than a problem of income, it is the social function of the farming

---

<sup>6</sup> The Chambres d’Agriculture are representative, elected professional organizations, which provide all technical assistance and are very influential in the country. The Chambres branches are similar to the Brazilian Trade Associations (Associações Comerciais).

profession: receiving a government check means one has become a sort of employee, which will require a complete revision of the social contract established between the State and the farmer. The delinking now achieved by CAP reform is the clearest expression of the agricultural profession's loss of hegemony in the occupation of rural space.

Another often used argument in defense of direct aid – much less plausible than that of transparency – holds that direct aid is the path to increasing the exposure of farmers to market forces. Indeed, with the 1992 reform, the guarantee prices fell to near world market prices, but the losses from price reductions were compensated for by State support in the form of a compensatory payment. The amount of these payments is sufficiently high that it can be incorporated in the capital of the productive units to which it is directed. Thus, “productive de-intensification,” one of the most expected effects of the drop in prices in the cereal, oilseed, and protein sector, was not ensured. The work of Sylvie Bonny (1998) shows that despite the drop in prices subsequent to the 1992 reform, the wheat farmers of Beauce, France, continued to invest and intensify production for three basic reasons: the importance of the compensatory payments; the increase of prices in 1995/1996; and the advice farmers received from enterprises acting upstream and downstream from their activity to enjoy the good market.

The wheat example clearly demonstrates that “there is no true delinking, since we have watched the creation of production incomes.... With the ‘delinked’ aid we know better who is aided, but we no longer know why” (Wolfer, 1999:53).

In summery, there is no indication that direct aid has a temporary character or that with it farmers are more exposed to market forces than they previously were. Today it is essential to the functioning of the European productive apparatus. The important to stress that direct aid as it is now applied does not have a “social” character but is essential to the operation of the establishments of greater importance in agricultural supply, as will be shown in the next section.

## 2.2. Quadruple Concentration

The first version of the European Common Agricultural Policy reform, presented in 1991 by commissioner Mac Sharry, received immediate support from the professional agricultural organizations situated more to the left of the European political range, namely the *Confédération Paysanne*.<sup>7</sup> The reform had two basic characteristics. First, its rationale for reform put the emphasis on bad distribution of public aid, conceded to be primarily via price support: no less than 80% of the state funds geared to agriculture were concentrated in the hands of 20% of the farmers. Second, consistent with this rationale, Mac Sharry proposed to make the reform both an instrument of economic liberalization and a means of redistributing public aid to agriculture. It was hoped that the principle of delinking production and income should be applied so as to attenuate – or even revert – the situation that existed prior to the reform.

However, as Mahé and Laroche-Dupraz (2000:145) clearly show, this proposal was killed at the outset, mainly by the British and the Dutch, but also by French professional agricultural organizations that, incapable of avoiding the “delinking” of production and income, did everything in their power so that, at the least, the new policy would not negatively affect the interests and productive capacities of the major European grain and meat producers. In the 1992 reform, Europe ended up choosing a formula close to that of the Americans and in alignment with the interests of the major grain producers (Loyat and Petit 1999:20).

The restructured CAP maintained European community preference (one of the founding principles of CAP, which determined which bloc of products have precedence over imports) but lowered cereal support prices and compensated the farmers with direct aid. Thus, grain producer incomes were maintained, and something even more relevant was achieved: with the reduction in the internal prices of

---

<sup>7</sup> See Abramovay, 1999, chapter 2.

grains, European livestock farmers began to find the source of food for their animals in the Continent's own production and no longer in American imports. Contrary to what the farmers feared when the 1992 Reform was announced, farm income in the European Union increased (in real terms) no less than 12% between 1989/91 and 1995 (European Commission Directorate-General for Economic and Financial Affairs, 1997:29).

But this increase was not equally distributed. Since the 1992 reform was based on land extension or herd size, it maintained four main forms of concentrating of public aid to agriculture in the European Union.

Concentration by product: the grain culture, which prior to 1992 received 29% of total public subsidy spending, begins to receive through direct payments of no less than 43% of the European subsidies (Mathurin, 1999:43). In 1996, 36% of the units that specialized in grain production received aid of over 150 thousand francs (at the time, a little less than 50 thousand dollars) per farm. The new mechanism of direct aid continued to benefit the products previously supported. This becomes clear when comparing the units specialized in grains to those geared to dairy: 90% of French dairy units received less than 50 thousand francs (US\$ 10 thousand). At the end of the 1990s, the average aid allocated per French productive agricultural unit was 110 thousand francs per year (U\$ 17 thousand at the time), but establishments geared to cereals received 200 thousand francs annually (U\$ 31 thousand) (Bureau, 1999:47 and 48). Though fruit, vegetables, flowers, aromatic plants, and wines represent over 25% of the European Union's agricultural economy, they receive only 6% of the public aid to agriculture, according to the European Commission. Sugar beet production is also disproportionately benefited: in France, sugar beets produce only 4% of the national agricultural product but take 9% of the European aid to French agriculture.

It is important to emphasize that, even in international trade

negotiations, the most problematic area for Europe is the public support allocated to producers of cereals, meats, and sugar beets. The levels of subventions – including protection at borders – directed toward other agricultural products are much lower. Table 1 shows that cereals, oilseed, and protein (the “major crops”) received 48% of the European Agricultural Guidance and Guarantee Fund’s (EAGGF, FEOGA in French) Guarantee Section expenditures in 2001, up from 39% in 1994. Note that beef and the major crops take, together, no less than two-thirds of all European agricultural income support expenditures.

Table 1 – Division of expenditures of the EAGGF-Guarantee per product or type of product– 1994 and from 1997 to 2001 – Million Euros (a)– European Union

	1994	1997	1998	1999	2000 (p)	2001 (p)
Arable crops (b)	12,652	17,414	17,255	17,866	16,641	18,361
Rice	23	n.*	150	165	203	203
Sugar	2,062	1,675	1,674	2,113	1,996	1,831
Olive Oil	1,819	2,196	2,256	2,091	2,190	2,384
Textile plants and silk	863	907	870	1,027	1,024	758
Fruits and vegetables	1,557	1,555	1,921	1,454	1,654	1,714
Wine	1,176	1,030	806	615	695	1,143
Tobacco	1,057	998	987	911	975	1,002
Dairy products	4,249	2,985	2,976	2,510	2,735	2,744
Beef	3,467	6,580	5,786	4,578	4,476	5,925
Ovine and Caprine meat	1,280	1,425	1,413	1,894	1,832	1,794
Pork meat (c)	416	557	415	450	475	213
Eggs and poultry	240	n.a.	n.a.	n.a.	n.a.	n.a.
Various (d)	1,428	516	527	505	503	511
Total (e)	32,288	37,838	37,036	36,179	35,388	38,582

a) until 1998, ECU

p) temporary

b) cereals (with the exception of rice), oilseed, and protein

(c) as of 1997, expenditures on poultry and eggs are included in the data on pork meat

(d) seeds, fish, dried skins, and others

(e) does not include expenditures due to depreciation, stock flow-off, account adjustments, food programs, fraud control and prevention, action of promotion and information, etc.

(n.a.) Not available

Source: EUROSTAT, in *Déméter*, 2001:266, table 35.

Concentration by country: the European Union’s support to agriculture goes through the European Agricultural Guidance and Guarantee Fund (EAGGF). Created in 1964 with the objective of making

European agriculture more competitive, the Fund is composed by two sections: the Guarantee Section that sustains prices, and the Guidance Section that adapts and improves productive structures. Table 2 shows that the essential part of the budgetary effort of the European Union in 1999 was still concentrated on sustaining agricultural income, much more than on measures directed toward reform of the agrarian structure and reorganization of the productive units: of the 45 million euros that the EU devoted to the support of agriculture, 39.5 million euros went through the Guarantee Section, the majority of these funds were devoted to the direct payments policy initiated by the 1992 reform. Table 2 also shows that almost one quarter of this total goes to France alone, followed by Germany. Portugal, Ireland, and Greece together received about half of what went to France in 1999.

	EAGGF-Guarantee	EAGGF-Guidance	Total
Belgium	1,002	87	1,089
Denmark	1,255	47	1,302
Germany	5,725	893	6,618
Greece	2,570	321	2,891
Spain	5,231	991	6,222
France	9,348	857	10,205
Ireland	1,680	122	1,802
Italy	4,656	1,350	6,006
Luxemburg	23	11	34
Netherlands	1,299	61	1,360
Austria	839	188	1,027
Portugal	653	160	813
Finland	559	175	734
Sweden	735	79	814
United Kingdom	3,922	232	4,154
Community programs (a)	38.5	5.4	43.9
Total EU	39,541	5,580	45,121

(a) Among others the Leader program  
Source: Eurostat, *in* – Déméter, 2001

Concentration within each country: the predominate forms of agricultural sector support tend to concentrate production in the most propitious spaces, from the strictly productive perspective. Thus, while the grain-producing belt around the Paris (what could be called the “*grand bassin parisien*”) receives what corresponds to 181% of the national average of European aid to agriculture; the Southeast region of the country (which includes part of the Mediterranean area) gets only 46% of the average. Those that produce more (and have more land and more animals) are provided greater help by European policy. France is made up of almost 100 administrative units called “departments.” When we consider the ten most important French agricultural products, ten departments – all situated north of the Loire River – produce as much as the 45 most productive departments situated south of the Loire. Furthermore, each one of these 10 northern departments has the technical potential to almost double its harvests. Clearly an approach based on comparative advantages would only exacerbate this concentration.

But, as Hervieu (2001) shows, what is now in play is the discussion about the form of spatial occupation: do European societies desire a rural space occupied by a few thousand highly efficient farms or, to the contrary, do they prefer to “keep an agricultural tissue over the whole of the territory, not only over the more productive territories, with a not very numerous active population, but also over large number of farmers, whose existence cannot result merely from economic logic”? Agricultural production as a form of countryside revitalization; that is the social significance of policies that seek to avoid the concentration of agricultural production in a few regions. But direct payments, as they have been applied, work precisely to concentrate that production. This is contrary to what appears so valued if one credits the discourse of the European authorities themselves.

Social concentration: in 1995, each of the 4,474 French grain producers that farmed an area greater than 200 hectares received a

check averaging a little over US\$ 120 thousand from the European budget.<sup>8</sup> At the same time, the producers farming an area of between 20 and 30 hectares were each given a check that averaged more than 10 times less, US\$ 10 thousand, much less than the annual minimum wage. Only 24% of the total of this form of subsidy was divided among 68% of the French productive units, each receiving under US\$ 15 thousand in direct aid annually. Eighteen percent of the farmers received 27% of this total, each receiving between US\$ 15 and US\$ 30 thousand. While 13% of the farmers snatched almost 50% the European compensatory payments budget, over US\$ 30 thousand in direct aid each (Ministère de l'Agriculture, 1998). The concentration of subsidies is such that, despite agriculture being much more aided than the other sectors of the French economy, the average French farmer's income is approximately the same as the rest of the workforce (Bureau, 1999:48).<sup>9</sup>

### 2.3. Meager changes

In its chapter devoted to agriculture, "Agenda 2000" (Communautés européennes, 1997:30), which sets the objectives of the European Union through the middle of the present decade, notes that there is a need for public aid to agriculture to be "totally justified," "economically healthy, and socially acceptable." In concrete language, these generic declarations should translate to "the intention to propose the setting of a particular ceiling for all direct aid."

In 1999, this intention was put into practice in the so-called "reform of the reform" of the Common Agricultural Policy, with rather meager results. The re-reform did not establish a ceiling for direct payments but rather authorized governments to take 20% from those

---

<sup>8</sup> Calculation based on Table 8, "Transferts Publics à l'Agriculture – Paiements Directs", from p. 45 of the publication of Ministère de l'Agriculture, de la Pêche et de l'Alimentation, 1998.

<sup>9</sup> Though it represents only 3% of the economic activity, agriculture alone captured about a third of the public aid (national and European) in 1994. Ten years before, it received a quarter of this aid though representing a larger proportion of the national wealth (Bourdon, 1996:21).



at the top of the agricultural social/financial pyramid to finance rural development initiatives. The Contrats Territoriaux d'Exploitation (implemented by the French socialist government in 2000) is almost entirely financed from this source of revenue.

Maintaining the mechanisms and criteria on which direct aid allocation is based seems less and less compatible with the immediate future of the European Union. It is only tolerated by the World Trade Organization as part of a transitional mechanism and should be reviewed in 2003. But, the main point strangling this form of public subvention to agriculture is that it would be totally impracticable with the entry of the Central and Eastern Europe countries into the European Union. With diplomacy appropriate to the rhetoric of official documents, Agenda 2000 maintains, "if the instruments of the CAP... were applied at their current level by the countries of Eastern and Central Europe, specific problems would arise. Excessive injections of liquidity via direct payments would create income disparity and social distortions in the rural zones of those countries. Moreover, farm surpluses would increase, in particular for sugar, milk, and meat, which would further accentuate the market imbalances foreseen after the year 2000" (Communautés européennes, 1997:29). The European Union's current economically active agricultural population represents only 4.5% of all economically active persons, yet the sector consumes almost half the Community's budget.<sup>10</sup> In Poland, at the beginning of the 1990s, farmers made up almost 27% of the economically active population in agriculture, in Hungary, 15% (Pouliquen, 1993:106). An extension of CAP reform benefits to these countries would bring unbearable consequences to European Community finances.

In sum, the pillars of the CAP reform initiated in 1992 are today openly placed in question. The reform made compensations perennial when they were meant to be temporary, conferred public resources unconditioned by any service other than lowed production, left regulation

---

<sup>10</sup> Table of FAOSTAT published by Déméter 2002 – Table 8 – Agricultural population in the world in 1999, p. 237

of environmental impacts ambiguous, and did not lead to a true productive de-intensification. Contrary to what the reform's defenders claim, it failed to actually delink production and income, therefore, compromising the very exposure of farmers to market signals. Finally, the reform has led to a quadruple concentration of income, in contradiction to its announced redistributive objectives.

What is important is that the passage from price support to direct payments, as realized in the 1992 reform and reiterated in 1999 in Berlin, is not to be confused with the idea of multifunctionality. Up to now, European policy has not been about remunerating a set of positive externalities whose payment the market is incapable of ensuring, but simply guaranteeing compensatory incomes to the economic agents penalized by CAP reform.<sup>11</sup> But, as will be seen next, the very form that this compensation takes ends up opening the path to its own contestation and to important and promising agricultural policy innovations.

### 3. The slow construction of multifunctionality

The actual transition process of Europe's Common Agricultural Policy is characterized by a fundamental contradiction.

On one hand, there is the enthusiasm with which scientific literature, professional organizations, and public agencies speak of rural development and the new economic functions being created for the countryside. These new economic functions are seen to have positive repercussions on agriculture (by means of the expansion of clientele and valorization of local and regional products), on non-agricultural rural activities (tourism, industry, commerce, and a varied set of services), and on small and medium sized urban agglomerations. "Sustainable rural development," states European commissioner Franz Fischler in a

---

<sup>11</sup> It is with indignation that Jean-Christophe Kroll, director of the *Société Française d'ÉconomieRurale* asks: "how to explain to a Senegalese peanut farmer that the French sunflower farmer, regardless of the technical advantages available to him, remains a loyal competitor earning a premium of US\$ 700 per hectare"? (Kroll, 1995:58).

press release from the European Union at the beginning of 1997, "must be placed at the top of the agenda of the European Union, with the objective of reverting rural migration, fighting poverty, stimulating employment and equal opportunities, improving the quality of the rural environment, responding to the growing wish for better quality, healthier, safer foods, and for personal development and leisure."

These objectives surpass other official rhetoric in that they have received support from an important social movement of local associations (which resulted in France's "Contrats Territoriaux d'Exploitation") that extol the value of regional products and attributes, and have stimulated recent efforts focused on the very definition of "countryside." The OECD, for example, has set up a "Territorial Development Service" to formulate performance indicators for the countryside that have little to do with agriculture in the strict sense. The results of its first efforts show that "some rural regions are part of the most dynamic zones in the interior of the OECD member countries. They even created more new possibilities of employment than the whole of the economy... Rurality is not in itself an obstacle to the creation of jobs [though] the low population density and distance to market are frequently considered handicaps to rural development... The success of the dynamic rural regions is not due to the existence of a favorable sectoral composition [but rather] to a specific territorial dynamic that is not yet well understood, but that probably contains important aspects, such as regional identity, a climate favorable to entrepreneurship, the existence of public and private chains, or the attraction of the cultural and natural environment" (OECD, 1996:10).

The observations of an important study by INRA/INSEE (1998) are inclined in the same direction. The study, the title of which, "*La campagne et leurs villes*,"<sup>(12)</sup> gives advance warning that its emphasis is on rural development, found that 90% of the domiciles located in predominantly rural space do not include any agricultural

---

<sup>12</sup> The Countryside and its Cities.

workers and that under 20% of rural jobs are agricultural. If the agricultural exodus throughout the Continent continues to be significant (predicted to be a 2 to 3% increase per year by the European Commission), rural development and integration with small and medium sized urban nuclei will call attention to these areas as new foci of employment and income generation.

The notion of territory appears contrary to the sectoral character of European public policies, which stimulates another institutional apparatus to take territoriality forward. Whereas sectoral policy is basically decided by the influence of productive organizations on the Government, "territorial policy must involve the broadest interests of the rural regions" (European Commission Directorate-General for Economic and Financial Affairs, 1997). Another document from the European Commission insists on the idea that "to maintain agricultural activities, particularly in remote or peripheral areas where there are few other possibilities for good jobs, it is important both to prevent depopulation –with high economic and social costs – and to ensure that human presence and activities are well distributed around the territory" (European Commission Directorate-General of Agriculture, 1999:2)

However, examination of the European Union's budget<sup>(13)</sup> and of public transfers to the countryside shows that rather than allocating resources to enhance rural territory in general, most of the resources are concentrated in a few regions, a few products, and among a minority of the farmers. Based on French public opinion survey, Hervieu and Viard demonstrate that "present aid is directed at large plains empty of men, arable crops, or towards intensive cultures with their worrisome consequences to human health and the preservation of ecological balances.<sup>14</sup> Indeed, these types of agricultures do not create a landscape

<sup>13</sup> Its study is what allows us – to use the happy expression of Bonnet, Delorme and Perraud (1996:10) - "to assess the 'discourse-form' through 'expenditure-form'".

<sup>14</sup> Bertrand Hervieu was the main formulator of the "Contrats Territoriaux d'Exploitation" and headed the counsel of the Ministry of Agriculture of the socialist government.

that attracts us. At the moment, what saves farm policy is linguistic confusion: when some think countryside, they doubtless visualize minimally assisted, small explorations; whereas, in the offices of the ministries and professional unions, when they think countryside and subvention they have another vision. One day, without a doubt, this divergence will accentuate and remove the legitimacy of agricultural policies” (Hervieu and Viard, 1996:33).

Realizing that there may be a problem with the focus of direct aid programs, the European Commission itself observes, “If the generalization of the direct aid to farmers following the CAP reform of 1992 made financial aid to agriculture more transparent, it equally accentuated the need that this aid be economically sound and socially acceptable” (Commission Européenne, 1997:30).

If this concentration of public aid in rural segments that do not correspond to those with which society identifies (landscapes, tourism, pluriactivity, mountains, environmental preservation, and local and regional development, in sum, multifunctionality) were only a temporary expression of the corporate force of farmers, it would not be difficult to foresee its rapid elimination, since they are a minority. The solution would be simple and would translate into a catchphrase: gone is the era of agricultural policies, long live the age of rural development.

What, however, makes things more difficult is that the official documents of the European Union proclaim the best of both worlds: valorization of the territorial, social, and cultural functions of agriculture, the settlement of rural space, and local development; and at the same time, the reinforcement of productive capacity and the expansion of European participation in what the Brussels technicians judge to be the likely growth of the world market for agricultural products (Commission Européenne, 1997).

Examples of the vitality and potential of varied forms of rural development are innumerable, but there is no indication that the agricultural sector can dispense with the habitual fuel of its historic

growth: public subventions. It is true that support prices fell significantly with the reform of the Common Agricultural Policy initiated in 1992. But, it is no less true that this fall was compensated for by “direct aid,” a mechanism that guarantees the farmer a check coming straight from the public authority as compensation for the fall in agricultural prices. As this aid is calculated by the extension of land that each farmer cultivates, it is obvious that the one that receives more from the State is the one that has most land and the greatest production.

The words of European Commissioner Franz Fischler give European agricultural policy another face: “the greater separation between our market and income policies and our delinked direct income payments are key elements that characterize our modern farm policy; in addition to helping us export more, it will also help us guarantee that farming activity will be maintained, especially in the less favorable and mountainous areas.” Unfortunately, direct aid does not benefit the less favorable or mountainous areas but rather those areas that provide a greater share of supply and exports and whose social, territorial, and environmental functions are less valued by society.

The crux of the current problem with European agricultural support policies can be found in the concentration of supply among the largest producers who give no indication that they can dispense with the heavy subsidies on which their economic performance depends.

It will become more and more difficult to explain why agriculture’s competitiveness depends on so hefty an injection of public resources to the benefit of a minority of farmers. Gone is the time when farm subsidies earned legitimacy through the recipients function as nourishment providers on a continent that had known penury. The French socialist government’s recent experiment with the CTEs, which accorded State support to the farm sector based on functions that exceed the purely productive sphere (such as preservation of the landscape, natural resources, and the very vitality of the rural social tissue) is, in a way, the realization of the utopia espoused by a group of political personalities

representative of the French countryside: an agriculture *marchande et ménagère* (Pisani, 1994) in which human occupation of rural space is treated as a positive externality of agriculture. So far, the CTEs are restricted to France and have insignificant resources when compared to the direct payments allocated on a purely compensatory basis. But, in a not too distant future, it is very likely that these payments will act as compensation for incomes lost over the prior decade and be conditioned to contractually established functions that cannot be reduced.<sup>15</sup> The tendency is that payments founded on the preservation of the landscape and environment would be considered remuneration based on a contract, not as subsidies or transfers: “they are payments for a service, not a charitable transfer” (European Commission Directorate-General for Economic and Financial Affairs, 1997:13).

It is too soon to say who will benefit from these new mechanisms. However, much more than simply being a new form of legitimizing old interests, the notion of multifunctionality – and its first materialization in the CTEs – points to the exhaustion of a model of sectoral intervention (sustaining agricultural income) and its replacement by a less and less homogenous public policy; a policy structured around topical, localized projects (therefore, contracts) and able to take into account regional characteristics and trends. The model of State intervention that treats agriculture in a unified sectoral manner is not replaced by supposed market freedom, but by a varied set of negotiation processes and by the emergence and strengthening of local organizations around contracts for the management of these public goods that more and more constitute the countryside. Multifunctionality is more about negotiating projects and less about setting models, transforming sectoral management into territorial management. This is the historical significance of the notion of

---

<sup>15</sup> In the words of an official document of the French Government: “the Territorial Exploration Contracts have the vocation of being the instrument of a more equitable division of public aid, integrating the remuneration of the non-mercantile services provided by agriculture to society. Dissociating the amount of aid from the quantities produced, the CTE is included equally in the perspective of “delinking”, a notion that becomes central in the international debates on the legitimacy of the different instruments of agricultural policy” (Ministère de l’Agriculture et de la Pêche, 1999:31)

multifunctionality, and it goes far beyond a simple cosmetic makeover of protectionism's conventional modalities. Indeed, the threat of change from sectoral to territorial management is the reason that multifunctionality – contrary to what is frequently believed in Brazil – is actually resisted by most European farmers: the *Rassemblement pour la République*, the political party of French President Jacques Chirac, wrote the finish of the “*Contrats Territoriaux d’Exploitation*” into their program, freezing everything that is connected to multifunctionality.

The main problem – the resolution of which is still unpredictable – is that dependence upon public subsidies, the situation in which fundamental sectors of agriculture find themselves, collides with the new orientations calling for socially aware development of the countryside. Nothing could be worse for the European grain and meat producers than the transformation of farm policy into a part of the vast set that would be rural development. And nothing could be worse for the European aspiration for rural development than to simply condition it to the interests of the major grain and meat producers.

#### **4. Conclusions**

What is at stake in the European Union is the formation of a new agenda centered on the public character that rural space increasingly assumes. Until the end of the 1970s, society had delegated the management of this part of its territory to the farmers in order to secure cheap abundant production. With the exception of forest areas, the use of open space was submitted to the needs of agriculture, and farmers were the fundamental mediators in the relationship between society and nature. Their central mission did not consist in preserving nature, cultural goods, landscapes, or biodiversity but in guaranteeing the food supply for populations still traumatized by wartime scarcity. Today, farmers are a minority in the rural space: of every 100 people that live in French communities with less than 2.000 inhabitants, only 13 depend



directly on a farming activity for income. As for the others, most work in small to medium sized cities or in non-agricultural activities in agricultural establishments (transformation of farm products, tourism, and a varied range of services). These people – added to those that have rural second homes and those that have developed leisure activities, from hiking and biking to hunting and fishing – have become new players in the management of rural space, with rights that once were reserved strictly for the farmer. The new users of the rural space want an attractive landscape, clean water, and refreshing air. This poses the challenge to farmers, the challenge of sharing space that, until recently, was almost exclusively theirs with other social categories. What is becoming more and more evident in Western Europe is that the rural space is composed of a varied set of public goods to which are linked values that go far beyond the mere production of food, fiber, or energy. It is precisely this that draws general interest to the European discussion of agricultural support policies and gives multifunctionality a character that stretches beyond the simple protectionist maneuver.

Domination of the field by agricultural production is today being challenged by the expanded dimension of rural space, directly interfering with this space's mode of use. There is new value in the countryside, and new forms of relationship between man and territory have emerged in which the needs of agricultural production are only one component – and a less and less important one – in the utilization of this space. In this sense, the multifunctional and multidimensional productive units that until 20 years ago were considered marginal will have a more and more important role. The great dilemma of the European Union is in the adaptation of its agricultural policy to the new exigencies that society places on the countryside.

## References

ABRAMOVAY, Ricardo (1999) - **Dilemas da União Européia na reforma da política agrícola comum** – Livre docência thesis – Department of Economics - FEA/USP.

BERTHELOT, Philippe, CHTELIER, Vincent e COLSON, François (1999) – “L’impact des mesures agri-environnementales sur le revenu des exploitations agricoles françaises” – **Économie Rurale** – january-february, n° 249: 19-27

BONNET, A., DELORME, H. e PERRAUD, D. (1993) – “Les interventions socio-structurelles dans la CEE (II) - Evolution des remboursements du FEOGA - 1979-1990” - **Ministère de l’Agriculture et du Développement Rural - INRA/CERI/ENGREF**, mimeo.

BONNY, Sylvie (1998) – “Quels rendements demain ? Perspectives d’évolution des rendements des grandes cultures” – **Notes et Études Économiques** – Setembro, n° 8:7-77 – Ministère de l’Agriculture et de la Pêche – Direction des Affaires Financières et Économiques – Sous-Direction des Études, des Programmes et de l’Évaluation – Paris.

BOURDON, Michel (1996) – “Évaluation des concours budgétaires au système productif: aides directes à l’agriculture et à l’économie non agricole” – **Économie Rurale** – mai-june, n° 233:18-22

BUCKWELL, Allan (1997) – “If...Agricultural economics in a brave liberal world” – Presidential address – **European Review of Agricultural Economics**, n° 24:339-358

BUREAU, Dominique (1999) – “Agriculture et négociations commerciales” – **Économie Rurale** – mai-june, n° 251:47-48

COLSON, François e CHATELIER, Vincent (1996) – “Modulation des aides et emploi: scénarios pour l’agriculture française” – **Économie Rurale** – mai-june, n° 233:41-48

COMMISSION EUROPÉENNE (1997) – **Agenda 2000 – Pour une Union plus forte et plus large** – Bulletin de l’Union Européenne,

Supplément 5/97 – Luxembourg.

DÉMÉTER 2002 – **Nouveaux enjeux pour l'agriculture** – Armand Colin, Paris.

EL FEKI, Shereen (2000) – “Agriculture and Technology Survey” **The Economist** – March 25st:3-16

EUROPEAN COMMISSION DIRECTORATE-GENERAL FOR ECONOMIC AND FINANCIAL AFFAIRS – (1997) – “Towards a Common Agricultural and Rural Policy for Europe” – **European Economy – Reports and Studies** – n°5, Bruxelles.

EUROPEAN COMMISSION DIRECTORATE-GENERAL OF AGRICULTURE (1999) – “Contribution of the European Community on the Multifunctional Character of Agriculture” – **Info- Paper** – October, Brussels.

HERVIEU, Bertrand. e VIARD, Jean. (1996) – **Au bonheur des campagnes (et des provinces)** – L'Aube – Paris.

HERVIEU, Bertrand (2001) – “La multifonctionnalité: un enjeu pour l'agriculture du XXIème Siècle” – Speech in Montreal, 19/09 – Montreal, mimeo.

INRA/INSEE (1998) – **Les campagnes et leurs villes – Contours et caractères** – INSEE, Paris

KROLL, Jean-Christophe (1995) – “Indignation: lutter contre les friches humaines” – *Économie Rurale* – July, n° 228:58

LACOMBE Philippe, HERVIEU, Bertrand e HUBERT, Bernard (1998) – “Agriculteurs et espace rural” – in ALLAIRE, Gilles, HUBERT, Bernard et LANGLET, A. (orgs) - **Nouvelles Fonctions de l'Agriculture et de l'Espace Rural – Enjeux et défis identifiés par la recherche** – Actes du colloque de Toulouse, 17-18 décembre 1996 – Second volume pp. 19-25 – Éd. INRA - Paris

LAURENT, Catherine (1999) – “Activité agricole, Multifonctionnalité, Pluriactivité” – Report for the **Ministère de l'Agriculture et de la Pêche** – june, mimeo, Paris.

LAURENT, Catherine e MOURIAUX, Marie-Françoise (1999) – “La

multifonctionnalité agricole dans le champ de la pluriactivité” – Centre d’Études de l’Emploi – **La Lettre** – outubro, n° 59:1-10.

LOYAT, Jacques e PETIT, Yves (1999) – **La Politique Agricole Commune (PAC)**- La documentation française – Collection réflexe Europe – Paris.

MAHÉ, Louis-Pascal e LAROCHE-DUPRAZ, Cathie (2000) – “La politique agricole dans les négociations internationales” – **Économie Rurale** – January/april, n°255-256:135-153

MATHURIN, Joel (1999) – “Analyse comparée des effets budgétaires d’Agenda 2000 pour les différents pays membres de l’Union Européenne” – **Économie Rurale** mai-june, n° 251:43

MINISTÈRE DE L’ AGRICULTURE ET DE LA PÊCHE (1998) – **Notes et études économiques** – mai, n° 7 – Paris.

MINISTÈRE DE L’ AGRICULTURE ET DE LA PÊCHE (1999) – “Projet de loi de finances pour 2000 – Les concours publics à l’agriculture – 1994-1998” – Ed. Ministère de l’ Agriculture – Paris.

MOUVEMENT EUROPÉEN – FRANCE (1999) – “Quelle politique agricole pour l’ Union Européenne” – La Lettre des Européens, hors série, January, n°9 – Paris.

NEVILLE-ROLFE, E. (1984) - **The politics of agriculture in the European Community** - European Centre for Political Studies - Policy Studies Institute – Londres.

OCDE (1993) - **L’intégration des politiques de l’agriculture et de l’environnement - Progrès récents et nouvelles orientations** – Paris.

OCDE (1994) – **Réforme de la politique agricole: nouvelles orientations – Le rôle des paiements directs au revenu** – Paris.

OCDE (1996) - **Indicateurs territoriaux de l’emploi - Le point sur le développement rural** – Paris.

PISANI, E. (1994) - **Pour une agriculture marchande et ménagère** - Ed. de l’Aube, Paris.

POULIQUEN, Alain (1993) – “L’agriculture post-communiste en

- Europe Centrale: du choc excédentaire à la recession”, in **Déméter 93 – Économie et Stratégies Agricoles** – Armand Colin, Paris.
- TRACY, M. (1979) - **Agriculture in Western Europe - Crisis and adaptation since 1880** - Jonathan Cape, Londres.
- TRACY, Michael (1994) – “Summary of Major Policy Issues” – KJELDAHL, Rasmus e TRACY, Michael – **Renationalisation of the Common Agricultural Policy ?** – pp. 1-3 Institute of Agricultural Economics – Copenhagen.
- WOLFER, Bernard (1999) – “La réforme des politiques agricoles – Le découplage: une fausse solution” – **Économie Rurale** – mai-june, n° 251:52-53

