

1. Agricultural and rural development and policies in the Netherlands¹

Kees de Bont, Siemen van Berkum and Jaap Post, LEI

1.1 Introduction

This paper presents in brief the major problems in agricultural and rural development in the Netherlands over the period 1960-2002. It further shows what policies were applied to tackle the issues identified. The aim of this paper is to present key issues relevant to the development of the Dutch agricultural sector and the role of policies in that development process for discussion with representatives of Poland. The difficulties that the Dutch agricultural sector had to face may show resemblance to problems the Polish agricultural sector face today. Setting out the Dutch development issues and policies to tackle them may provide ideas to Polish policy makers in their effort to find solutions for obstacles hindering further development of their own agricultural sector.

A number of problems identified in the farm sector and related to rural development, which are listed in this paper, already existed in the 1960s at the eve of the introduction of the Common Agricultural Policy (CAP) of the European Union (EU). Most of these issues are still questions today and thus have a long history (2.1). Other problems, however, came up more recently (2.2), as a consequence of the developments in the sector and in the general economy and society as well. Policies to tackle the major problems are national (agricultural) policy measures (section 3), but also the CAP played a role (section 4). Lessons from the interaction of policies and agricultural development are drawn in the concluding section 5.

1.2 Main problems in agricultural and rural development in the Netherlands

1.2.1 Problems existing in the 1960s

In the first two decades of the post World War II period a major problem for the Dutch farm sector was that many farms were too small to earn a reasonable income. In general, prices of farm products were the result of the market situation on which only the most efficient suppliers could realise an income comparable to other sectors. The Dutch government gave high priority to access to export markets and was very reluctant to provide price support or subsidies to the sector. In the early 1950s policies to improve the structure of the sector were emphasised, aimed at increasing productivity in the sector. Soon, productivity and production increased significantly. Investments in improvements of the structure of farms and the sector as a whole were crucial for further development. However, not all farmers could join that process.

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Income disparity

With the exception of the first years after World War II when market conditions were favourable, most Dutch farmers had high production costs compared to their returns for their products. Total family income of the farmer could only be reasonable if remuneration for labour (of farmers and their family members) and for own land and capital was considered part of that income. Of course, incomes could differ strongly within the sector depending on many factors such as the size of the farm, productivity levels and prices for products marketed. Especially farmers who had to rent land and borrow money for making investments (the majority of farmers at that time) earned low incomes compared to average incomes in the rest of the economy and overall income disparity between the agricultural and non-agricultural sector increased.

Farm structure

The farm structure in the Netherlands could be characterised as small: in 1960 the average acreage of a farm was 7 hectares, with farms much smaller in some regions in the South and East of the country. Farms were often mixed family farms and productivity levels were low. In part this situation was the result of the economic crisis before World War II. Around 1960 there were still many young farmer sons interested to take over the family farm. Major reasons for this were the (physical) distance to the cities with employment opportunities, lack of schooling for non-farm jobs and the wish to stay in the farm sector and be an independent entrepreneur. These reasons hindered the discharge of labour and became an obstacle for agricultural productivity growth in the sector.

Finance/ investments

In general, farmers were reluctant to finance investments in modernisation and expansion from external loans and tried to use mainly own or family capital. Farmers also had problems to get loans with a reasonable interest rate from banks. Many farmers, who rented a farm (rented area in 1960 was about 50% of all agricultural land), were not able to provide sufficient securities for bank loans.

Infrastructure (production conditions)

Efficient production in many regions was handicapped by the fact that agriculture parcels were small, scattered at different locations, and sometimes far from the farm building. Besides that, water control (an eminent factor in Dutch agriculture with more than 60% under sea level) was insufficient for an optimal production and land roads often were not adequate for modern transport.

Infrastructure (processing, marketing)

For a large part processing and marketing around 1960 was based on local co-operatives and small-scale private enterprises (milk processing, slaughterhouses, auctions for fruits and vegetables, deliveries of animal feed, fertiliser, machinery etc.). Agribusiness was largely oriented towards the regional market for selling its products. Export activities were organised separately by specialised enterprises, for instance for dairy products.

1.2.2 More recent problems

In the 1960s and 1970s, the agricultural sector in the Netherlands (and also in other EU countries) was in a phase of growth, scaling-up, mechanisation and modernisation. Soon, problems linked to the rapid growth of production came up.

Environment

Intensive production on farms on the base of high levels of inputs such as fertilisers and pesticides as well as an increase of the number of animals (cattle, pigs, poultry) per hectare has led to several environmental problems. In fact a surplus of minerals (nitrates, phosphates and ammonia) as well as chemical products used to protect crops polluted soil, water and air. In the 1970s, Dutch society became more aware of this and increasingly refused to accept the negative effects of agricultural practices on nature, the landscape and biodiversity. Following the public concerns governmental measurements were announced to restrict the emissions of the sector of harmful components to the environment.

Land use, landscape and nature

Given the high population density in the Netherlands and the growing prosperity, claims on land for other purposes than agricultural production (such as housing, infrastructure, industries, recreation) increased. These claims are not only formulated in quantitative terms (number of hectares) but also qualitatively which means that the society demands increasingly a landscape that looks attractive enough to spend leisure and holidays.

Animal welfare and health

Since a number of years, the general public shows interest in the conditions of animals, especially of those in the intensive, relatively large-scale pig, poultry and calve sectors. Apart from that, it is important to prevent the sector from infectious diseases like swine fever or foot and mouth disease, which can lead to enormous financial losses.

Quality of products

In order to remain competitive the quality of products (taste, fresh, healthy etc.) is of growing importance in a more open international market. In this respect Dutch products are not always at the forefront. Consequently, this has a negative impact on prices and incomes of farmers.

Energy (prices and environmental issues)

Dutch horticultural sector is an important, yet energy-intensive activity. High energy (oil, natural gas) prices have, at least for the glasshouse sector (vegetables, ornamental plants, pot plants) an enormous impact on production costs (energy costs are around 15% of total production costs) and income. Further, the huge volume of energy used mainly in the glasshouse sector and its CO₂- emissions cause environmental concerns.

Labour (supply)

Some horticulture sectors (glasshouse, bulbs, fruits) are short of labour during harvest periods. The image of the sector, labour conditions as well as the short time work is available

(no contracts for a long period) prevent (Dutch) workers to respond to this demand, especially in periods of a favourable labour market (nearly no unemployment) which was the case in recent years.

Price reductions in the framework of the EU CAP

Starting in the sixties, some years later the EU was faced with its first market problems (surpluses, stocks, increasing budgetary claims), first on the dairy market and later on the cereals and beef markets. In those circumstances CAP's price policy had to adjust and could no longer guarantee prices at a level corresponding with growing costs of production (the aim was more or less to have parity prices, based on an objective method to follow the development of production costs). First, prices were frozen, farmers had to pay 'co-responsibility levies' and at a later stage it was decided to decrease prices (cereals, beef) or to maximize the volume of production (on milk). Consequently, farmers' incomes were under pressure.

Monetary imbalances and exchange rate volatility

In 1968 monetary stability in the European Union as well as exchange rate stability between European currencies and the US dollar disappeared. At least in the EU market both interrelated phenomena threatened the unity of the market and the farm price policy. For the farm sector an imbalance between the rate of inflation and the development of prices can have far-reaching consequences on incomes. For Dutch farmers a relative strong Dutch guilder resulted in lower guaranteed prices in the European currency (ECU) in a period that inflation and costs of production increased rapidly, as they did in the 1970s.

1.3 Interaction of the development of the agricultural sector in the Netherlands and national policies applied

1.3.1 Introduction

This section deals with policy instruments introduced in the Netherlands to tackle the problems mentioned in section 2. The aim is to present the Dutch approach towards agricultural problems that occurred over the period 1960-2002. The Dutch approach towards the problems of agricultural development may give Polish policy makers ideas on how solve problems the Polish agricultural sector faces presently.

It should be emphasised that agricultural sector policy is not separated from other elements of governmental policy. As an important point in the evaluation of policy instruments used to solve agricultural problems, it should be underlined that the farm sector in the Netherlands is always considered being part of the (whole) economy. On the one hand the sector contributes to general social economic goals, on the other hand the general economic development creates, at least in part, solutions for problems in the farm sector. The Dutch government formulated several economic goals in the 1950s: economic growth, full employment, productivity improvement and balance of payments equilibrium. It was stated that the agriculture sector should contribute to reach these goals. The creation of employment outside the farm sector, as it was supported by the socio-economic policy, was very

important to relieve structural problems in agriculture. In this framework, the Netherlands has an important practice of consideration between government (public authorities) and private organisations (corporative economy).

1.3.2 Policy instruments on problems with a longer history

1.3.2.1 Socio-economic policy

For a sustainable economic development of the agriculture sector, policies of other ministries than the Ministry of Agriculture are also important. Among the policy fields that affect agriculture are monetary and fiscal policy, the economic structural policy, social policy, town and country planning and environmental policy.

Macro economic policy

For an export-oriented agricultural sector, it is important that the currency rate, inflation rate and interest rate develop favourable vis-à-vis other countries. When around 1970 the fixed rates of exchanges of the European currencies and the US dollar (Bretton Woods agreement) were abandoned the Netherlands successfully aimed for a stable guilder against the German Mark and low inflation. An important objective in this respect was to follow the economic development of Germany, the main market for Dutch agricultural and other products. Inflation rates depend amongst others (fiscal and monetary policy) on the development of labour wages. The Netherlands has a long history of fixing wages by (collective) agreements between representative organizations of employers and employees (trade unions).

Fiscal policy

For almost a century Dutch farmers pay taxes in a normal manner, based on their income account. In this system depreciation on investments and paid interest stimulate investments. In addition, like other branches of industry, agriculture could make use of a system with premiums on investments (Industrial Investment Act WIR) in the 1970s and 1980s. This stimulated investments in new stalls as well as greenhouses. Bonuses linked to policy objectives, as small-scale activities, energy saving and environmental requirements, were important as incentives for specific investments. Some specific fiscal facilities for independent entrepreneurs (not only farmers), as well some specific regulations (fiscal facilities) for the farm sector on the value of land and production rights (quota) support the continuity of the farm (succession by son or daughter).

Industrialisation

In the first decades after World War II, the Minister of Economic Affairs stimulated the development of (non-agricultural) industry as well as the agricultural processing industry. This was important to create employment outside agriculture as an alternative for farm workers (employees) and farmers' family members and farmers themselves.

Social security

The system of social security in the Netherlands took shape above all in the 1950s. Schemes on pension and disability made it easier for (older) farmers to stop working and to make way for younger ones.

1.3.2.2 Consultation

Co-operation between public and private parties is a special characteristic of the Dutch economy. Since 1945 the Netherlands has a system of intensive consultation between the government and representative organizations of employers and employees. These organizations (social partners) are member of the Socio-Economic Council (SER) as well as of the Labour Foundation. Recommendations of the SER were in order to achieve the four central goals: economic growth, full employment, and productivity increase and balance of payments equilibrium. In this context, the Labour Foundation sometimes advised to limit (general) wage increase.

In agriculture, consultations between the government (the Minister of Agriculture) and the sector already started in the 1930s. At that time, a deep economic crisis depressed incomes. Immediately after World War II, the Statutory Industrial Organisations (PBO) were founded: horizontal sector boards as Landbouwschap for the farming sector (until late 1990s) and vertical Commodity Boards (Productschappen on, for instance, Arable Products, Dairy Products etc.). These PBOs have a task in regulating and stimulating activities in the sector (for example, improvement of quality of production, animal health), advising the government and representing and promoting interests of the sector. In fact, for a long time a large part of policy for the farm sector in the Netherlands was the result of direct consultation between the Minister and the representative organizations (so called Green Front including representatives of farmers' unions in political parties and the Parliament).

1.3.2.3 Research, Extension (advisory), Education

Economic development of agriculture is supported by a well-functioning knowledge and innovation system. Transfer of knowledge increases the skills of the farming population, improves productivity and eases structural adjustments. The roots of this system lie in the agricultural crisis of the 1880s, when the Dutch government saw it as its task for the future to promote technical and economic development of agriculture in an open market. The knowledge system is a product of close collaboration between the private sector and the government. In the Netherlands the three elements research, extension and education (REE/ in Dutch the OVO triangle) are developed in a close relation and with much coherence. The Ministry of Agriculture paid most of the budget for this knowledge system.

Fundamental **research** on institutes and on Wageningen University is financed (mainly) by the government. The private sector (by levies of the Productschappen and, earlier, by contributions of Landbouwschap) and the government both fund practical research, executed on regional centres and practical experimental farms. Applied and strategic research, as for instance on LEI, is financed primarily by public funds (around 70%). Recently applied research institutes got a private character (foundations).

Currently, agricultural **extension** is mainly provided by private organisations (DLV, LTO, etc.). Technical extension, however, was for a long period organised and financed by the Ministry of Agriculture. The farmers' unions organised socio-economic extension on economic, social, and legal questions on, for instance, succession of the farm, investments and retirement, but it was (and still is) co-funded by the state.

Agricultural **education** is providing schooling and courses on all levels, from lower professional education in the region to university level. Secondary and lower professional education is combined with part-time training courses in Agricultural Training Centres. Such courses are very important to keep the farming population in touch with new technical and management developments (for instance, on ICT, mineral management, use of pesticides).

1.3.2.4 Structural policy

Since its establishment in 1963, the agricultural Development and Reorganisation Fund (O&S-fonds) has played a key role in the improvement of farm structure. On the one hand, the Fund provided schemes for those who left the farm sector (farmers and workers). On the other hand, it provided grants for improvements (investments) of farms. In the period 1963-1973, spending on company reorganisation (retirement of farmers and farm workers) was higher than on company development. A specific regulation was to stimulate the breakdown of old greenhouses. Many schemes were incorporated later, from 1972 onwards, in the EU structural policy, for instance in measures on interest subsidies. In those years, the Board of the Fund (representatives of Farmers' unions and civil servants) advised the Minister of Agriculture on the implementation of the EU guidelines.

1.3.2.5 Capital and investments

An important funding instrument to promote the development of the sector is the Agricultural Loan Guarantee Fund (set up in 1951 within the framework of the Marshall Plan). The fund targeted investments with inadequate securities for skilled farmers with little capital at their disposal. The fund guarantees the payment of interest and the repayment of the loan. The Fund is still in operation. In recent years, many guarantees are issued for investments in improved working conditions, the environment and animal welfare.

1.3.2.6 Planning

Town and country planning policy enabled the agriculture sector to develop without restrictions in the countryside. Provincial, district and local authority zoning plans are based on national memoranda protecting the agricultural character of many areas. It means in fact that in agricultural zones, it is not allowed to build houses, factories, or other non-agricultural buildings. Planning is needed as there is much demand for alternative uses of agricultural land. At the moment, land is being dedicated for the development of nature reserves (in the framework of the Ecological Main Structure, EMS), separated from or in connection with agricultural use of the land (see landscape and nature section).

The creation of 'new land' (165 000 hectares) in the former Southern Sea (IJsselmeer- or Flevo-polders) in the period 1935-1975 gave new opportunities for structure improvement; the departure of farmers to this new land provided for others more room for expansion of their farm.

1.3.2.7 Land reclamation

Reclamation of land (on average around 40 000 hectares of land per year during a long period since 1924), based on the Land Consolidation Act and its successors, made it possible to improve conditions of agricultural production. During the process of re-allotment in a region, many boundaries between small irregular plots of land (as ditches, hedges) were removed and water control as well as the infrastructure (roads, supply of electricity and so on) was improved. The act enabled large-scale projects in the field of (re)development, accessibility and water management of agricultural land. By now, the whole Dutch countryside has been modified at least once; in total more than 1 000 large and small areas were reorganized. The projects were joint public- private financed. Farmers and landowners can obtain necessary funds for their investments on favourable terms (long term finance, attractive interest level); in fact the government pays approximately 60% of costs.

Currently, land reclamation projects not only aim to improve production conditions for farms, but also to allocate land for nature and recreation.

1.3.3 One more recent problems

1.3.3.1 Environmental policy

Starting in the 1970s society has become aware of the negative impact of (intensive) agricultural production on the environment. In the 1980s and 1990s many legal regulations were introduced to offset the negative environmental effects.

Minerals

To tackle the mineral problem (manure surplus), a regulation was enacted in the early 1980s to prevent the expansion of the capacity of stalls for pigs and poultry on farms with insufficient land for the manure. In fact production rights were introduced. Besides that, at the end of the 1980s a system of mineral accounts was introduced: farmers have to pay levies for the manure in surplus (based on nitrate and phosphate criteria per hectare). In this context livestock farmers will try to minimise the volume of minerals and transport their manure to arable farmers (inside the Netherlands as well as exports). Some initiatives are on processing the manure to make it more suitable for exports (lower transport costs) and to use it to produce energy (as an alternative for oil, gas etc.). In recent years, the government financed the reduction of pig production (with approx. 10%) by allowances for demolition of stalls in some regions.

Pesticides

In order to restrict the use of pesticides, an agreement reached in the early 1990s between the government and the sector (organisations) aimed to reduce the volume with 50% over

the period 1985–2000. This objective has largely been achieved with several measures. First, courses and extension made farmers more aware of the benefits to produce efficiently with lower use of chemical inputs (it appeared that in many cases risks of depressed yields and quality were negligible). Second, a regulation was announced to prevent planting potatoes too frequently on the same parcel (to diminish the use of disinfections materials). The present policy aims at certifying farms (90% in 2005) for a low use of pesticide. So, individual farms are now directly responsible. If the use of pesticides maintains at a too high level, the government will introduce levies (as is the case in Denmark).

1.3.3.2 Land prices and tenure

Due to the 'Town and Country planning' (see section 3.2.6) prices of farmland are much lower than prices of land for urban purposes (housing). But at the same time as a result of the intensive character of Dutch farming, farmland prices are high compared to farmland prices in other EU countries. High prices of land may allow farmers to opt for higher loans as high land values mean security for banks. Yet, high land prices also imply high costs of production if the purchase of land has to be financed. Nowadays, no instruments are used to control land prices while there was such policy in the 1950s and early 1960s.

For tenants rental prices (per ha per year as well as on buildings) are normally fixed for a period of three years, with a maximum price level depending on the quality of the land. In the amended Agricultural Lease Act of 1995, it is set that the maximum rent for land is derived from market prices (2%). Tenancy contracts for a farm have a length of at least 12 years and six years for single plots. Tenants and their successors (heirs) have the right to continue after these initial periods. If the landowner does not want to continue the contract, the tenant can claim compensation. Besides that, the tenant has the first right to buy the farm and land at a price level lower than the market price. Currently, around 30% of the agricultural land is rented.

1.3.3.3 Landscape and nature

Nature and landscape management on agricultural land is stimulated by contracts with the government (Ministry of Agriculture). In 2001 the area increased with 8 000 hectares to 91 000 ha (some 5% of farmland) on more than 10 000 farms (>10%). Budget costs are about 40 million Euro. In some regions farmers as well as citizens are member of nature/environment associations. Some of them have collective contracts with the Ministry or local authorities.

1.3.3.4 Product quality

Minimum standards on product quality are formulated by the government (Minister of Agriculture in collaboration with the Minister of Health). Regulations specified per product are settled by Commodity Boards (Productschappen); these regulations have to be approved by the Minister of Agriculture. Control on quality standards is organised in private (on most products) and public institutes (on cattle and meat). The costs of control by these institutes are for a large part paid by the farmers. Since the early 1990s many initiatives

have been taken by the sector (Productschappen as well as private and co-operative enterprises processing products, retail-organisations) to improve product quality in relation to what consumers want. This is increasingly related to the quality of the production process (reduction of use of pesticides, antibiotics, minerals, and energy to minimum levels; improvement of animal welfare etc.). In the context of this process labelling and certification of enterprises continues (approach per product chain).

1.3.3.5 Energy

In the early 1990s the government and the sector (organisations) agreed to improve efficiency of the use of (mainly) natural gas in horticulture with 50% in the period 1980-2000. If growers invest in saving energy by modernising their greenhouses and by using computerised systems to save energy, they are assisted by research (on experimental stations, co-financed by the sector) and extension services to adjust their production systems. Since the early 1970s (years when high energy prices were high) the sector and the supplier of natural gas (GASUNIE) have made annual contacts on the conditions of delivery.

1.3.3.6 Animal health and welfare

Policies to ensure animal health are largely based on EU regulations and directives, as for instance is the case with infectious/contagious diseases like swine fever and foot and mouth disease. Since the early 1990s non-vaccination has been the general rule in order to maintain exports. This rule is subject to debate because of serious breakouts of these diseases in several EU countries. In practice the costs of these breakouts are partly financed by the EU (about 50%), while in the Netherlands a large part of the rest of the costs are paid by the sector (levies of Productschappen on milk and animals for slaughtering).

In the Netherlands, national implementation of some EU directives on animal welfare will be effective on a earlier date than is required by the EU. For instance, in the Netherlands battery cages on laying hens will be forbidden in 2007 while the EU has set 2013 as deadline. Also the ban on individual housing of calves for veal production will be implemented sooner than in other EU countries. Consequently, production costs will increase, but hopefully consumers will prefer the products and will be ready to pay higher prices. Labelling of products to indicate the special way of production can support this.

1.3.3.7 Market structure

Increasing specialization and collaboration in the agrifood chain (including upstream and downstream industries) has been very important for the further development of the farm sector in a more open international market. The agrifood chain largely depends on domestic agricultural production. The government supported this process only modestly: some investments in agro-processing were co-financed by the EU from Structural Funds, mainly in regions with specific socio-economic problems such as high unemployment rates. Besides that, research on improvements of processing and product innovation occasionally is co-financed by the government (research on DLO-institutes as ATO - Agro Technological Research - is however increasingly financed by the private sector).

1.3.3.8 Conclusion

Many problems of agricultural development in the Netherlands have been listed in section 2. In this section 3 the major policies that have been applied to tackle these problems were explained. This section concludes with table 1 in which a summary of the problems and policies is presented, together with an indication of the impact of the policy measures.

1.4 CAP and relieving agriculture problems in the Netherlands

1.4.1 Introduction

In the previous two sections the main problems in the agricultural sector in the Netherlands and national policy to address these problems in the period 1960-2002 are identified. However, in this period the process of integration of independent countries in the EU, the Common or Single market commenced and evolved. Therefore, it is of interest to see to which extent EU policies have relieved agricultural and rural problems in the Netherlands.

This section first presents a short description of the main elements and the development of the CAP. This is followed by an analysis of the impact of CAP on the farm sector and rural development in the Netherlands

1.4.2 Development of CAP

The integration process started with six Member States in the late 1950s (Treaty of Rome). A major element, often indicated as an essential political condition, of the integration process was the establishment of a Common Agricultural Policy (CAP) to replace most of the national policy instruments of the Member Countries. Important objectives of the CAP are:

- to increase productivity in agriculture;
- to ensure farmers a reasonable standard of living;
- to stabilise agricultural markets;
- to ensure food supply at reasonable prices for the consumers.

Market and price policy

The CAP has been shaped largely in the period 1960-1964 with the introduction of a common market and price policy. Common market regulations came into force for (amongst others) cereals, milk, sugar, beef, pig meat, poultry and eggs, vegetables and fruits. These market regimes are based on three principles:

- unity of the market: abolishing trade restrictions between member countries;
- community preference: protection of the market at the borders of the Community, for instance with levies/ tariffs on imports to respect minimum border prices and intervention schemes based on minimum internal prices; and
- financial solidarity: costs of the CAP are paid by the Member Countries regardless in which country costs have been made.

Table 1: Overview of main problems, instruments and results

Problem(s)	Instrument (s)	Result
Farm structure, Low productivity, Income disparity	Socio-economic policy (non-agricultural industries), ag- ricultural development and reorganisation fund	More opportunities outside farm sector; Reduction of number of farms with 3%/year; Enlargement and modernisation of farms.
Capacity of farmers, Low productivity	Extension (advice), education, re- search	Higher yields and improved tech- nical results; Improvement of management
Finance/ Investments	Agricultural Loan Guarantee fund; EU directive; Fiscal facilities	Investments in modernisation of farms
Infrastructure/ production	Land reclamation, planning, Protection of tenants	Improved parcelling around farm buildings, water management
Infrastructure/ market; interna- tional competition	EU directive; fiscal facilities	Modernised agri- business
Environment	Agreements with farmers unions; regulations on pesticides; and on minerals	Reduction of volume of pesti- cides; Reduction of losses of minerals (N, P)
Land use	Land management contracts	5% of land under a scheme for landscape and nature
Animal welfare	Standards, legislation	Progress in farms, improvement of understanding with organisa- tions
Animal Health/ diseases	Regulations; co- finance of sector	Still risks (swine fever, FMD)
Quality of products	Minimum standards, control, ini- tiatives of partners in the chain	Improvement in exports, less complaints of consumers and re- tailers
Energy costs	Research, innovation, agreement on gas prices	Improvement of competitiveness of glasshouse sector

In practice, market organisations differ between 'basic or core products' (for example for milk, beef, cereals and sugar) with intervention schemes to guarantee minimum prices and market organisations for products (vegetables, fruits, eggs and poultry, pig meat etc.) without such schemes or at least with much less guarantees on prices. Furthermore, there are no market organisations for ware and seed potatoes, ornamental and pot plants. Besides that, the CAP does not cover all products, because in GATT negotiations it was agreed some products (such as substitutes for cereals as manioc, citrus pulp) could be imported freely.

Farm structure policy

Farm structure policy as part of the CAP came in force in 1972, when directives in the framework of the 'Mansholt plan' (Mansholt was the first EU Commissioner on Agriculture and Minister of Agriculture in the Netherlands in 1945-1958) were accepted. The main di-

rective was on investments (159/72) providing farmers with an approved development plan with interest subsidies for investments in, among others, stalls, barns, greenhouses, and store capacity for arable products. Farm structure policy also supported investments in re-allotment projects. After 1985 the interest subsidy scheme was replaced by a new scheme to increase quality of production and to stimulate environmental friendly production.

Other directives of the farm structure policy were on early retirement, extension services as well improvement of processing and marketing structures and on support to agriculture in Less Favoured Areas. The latter was the first kind of regional policy, introduced after accession of UK, Denmark and Ireland in 1973.

Reform of the CAP

After some years of experience with the CAP, market surpluses and stocks appeared and it became clear that price levels could not be guaranteed at levels as foreseen to follow the development of costs of production on farms. Some adjustments were made to tackle arising problems on the markets and increasing budgetary claims. Prices were frozen for some products in first instance during some years, despite the high level of inflation in the 1970s (energy crisis and monetary imbalances). At a later stage co-responsibility levies were introduced on milk and cereals. On milk, in 1984, a system of production rights (quota) was decided; the volume of (guaranteed) production was based on a reference period 1981-1983 with some cuts in the first years of quota application. To reduce cereal surpluses, set aside of land was introduced.

These decisions in the 1980s were not sufficient. Additional adjustments of the CAP were argued partly also because of the negotiations in GATT (Uruguay Round, 1985-1994) as well as the changed role of agriculture in the society (multi-functionality, the sector is not only producing food, but also important for landscape, nature, environment, rural economy). In 1992 the EU decided on a set of 'Reform-proposals' of Commissioner McSharry, including a strong decrease of prices for cereals and beef combined with the introduction of direct (compensatory) payments. The Agenda 2000 decisions (Berlin, 1999) again lowered cereals and beef prices (combined with adjustments of direct payments) and, starting in 2005, will lower prices for dairy products with the introduction of direct payments for dairy farmers.

Mid Term Review

The Mid Term Review on CAP in 2002 includes proposals to decouple direct payments from the production of specific arable crops and animals on the farm, as well as a reduction of these payments above a level of 5 000 Euro per farm. Compared to the system with coupled direct payments the new system is expected to save money, which then will be used for rural development (second pillar). Direct payments above 5 000 Euro will be conditional (cross-compliance). Besides that it is in discussion whether the quota systems in the dairy and sugar regime will be continued or not.

Second pillar

The reform decisions in 1992 and 1999 were accompanied by new regulations on agro-environmental issues, for instance to promote organic farming, (re-)forestation, nature and landscape management and rural development. These measures together are indicated as

the second pillar of CAP. National and regional authorities have to develop Rural Development Plans (RDPs) to get financial support of the EU; for the period 2000-2006 10% of the budget of CAP is reserved for this. Modulation (reserving some money from direct payments for RDPs) can be used to finance RDPs. Cross-compliance (conditions on direct payments), already mentioned in 1992 and underlined in 1999, can promote a more sustainable way of agricultural production.

Consumers concerns, environmental policy

In the 1990s the EU decided on several directives, which are not part of the CAP but (will) have an impact on the farm sector. In this respect the following directives should be mentioned: nitrate in ground water (1991/676), pesticides (1991/414), the water framework guideline (1999), Integrated Pollution Prevention and Control (IPPC, 1996/61) as well as animal welfare regulations (living conditions for animals in stalls and transport conditions).

1.4.3 Impact of CAP on the farm sector and rural development in the Netherlands

The CAP and its development in the last 40 years have a number of consequences for the Netherlands, which are presented below.

a. Market

The development of the Common (later the Single) market has stimulated Dutch economic growth in general and the production and exports of agricultural products in particular. The abolishment of trade restrictions (levies, tariffs, import quota) among the Member States in the 1960s gave the opportunity to expand exports, mainly to Germany (the main customer for Dutch exports) but also to other partners in EU-6. The expansion of the EU in 1973 with UK, Denmark and Ireland as well as in later stages with Greece (1981), Portugal and Spain (1986) and Austria, Finland and Sweden (1995) had a similar impact: Dutch exports increased to each of these countries. Currently (2001) Dutch agro-exports to Germany is around 12 billion Euro, followed by some 5 billion Euro to France, to UK and to Belgium/Luxembourg and 3 billion Euro to Italy. The balance of agro-exports minus imports is positive (19 billion Euro), largely because of exports to EU markets. Exports to non-EU countries have been stimulated to some extent by EU export subsidies (for instance on dairy products).

b. Specialisation

In an expanded EU (and in some respect the world) market the Dutch farm sector had the opportunity to specialise in types of production for which natural, geographic and economic conditions were favourable. The Dutch farm sector specialised mainly in:

- Dairy farming:

In western and northern provinces many farmers were already specialised on dairy production; the peat soil in these regions is not suitable for arable crops. In other provinces, at least in areas with sandy soils, many mixed farms (arable, cattle, pigs) during the last decades made a choice towards (mainly) dairy farming. Favourable market opportunities, solid profitability figures in the dairy sector and possibilities for mechanisation and investments on the farm were some of the factors in this proc-

ess. However, the quota system restricted the development of the sector from 1984 onwards. High prices on the Dutch quota market make clear that many farmers wish to increase their milk production.

- *Intensive livestock farming*

The pigs and poultry sectors have benefited from cheap feed (cheap imports of substitutes of cereals) and a well-developed infrastructure (nearby ports, compound feed industries and slaughterhouses). For the development of veal production it was important that the EU dairy policy provided milk powder at reasonable prices. Veal production is mainly based on contracts with feed suppliers and slaughterhouses. Veal is mainly exported to France, Germany and Italy. Consumption in the Netherlands is negligible.

- *Horticulture in greenhouses: flowers, pot plants and vegetables.*

The Netherlands has horticultural clusters (centres as 'Westland, Aalsmeer') around big cities (original markets) in regions with favourable conditions (climate near the sea, light). In these centres the supply of practical experience, research, extension, training and materials as well as the infrastructure (auctions) to market products stimulates production.

- *Horticulture in the open air*

The world production of flower bulbs is concentrated in the Netherlands. It is an expanding branch of production. The production of nursery trees shows a similar positive development. The production of fruits (apples, pears) is, however, decreasing; the sector's profitability is low due to strong market competition. Production of vegetables in the open air is also under pressure of competition and is mainly for the Dutch market.

- *Arable crops*

Ware potatoes for direct consumption and processing and seed potatoes are the main arable products in terms of production value in the Netherlands. During the last decades processing of potatoes (chips and potato crisps) created new opportunities to expand. Specialised arable farmers use a rotation plan with mainly potatoes, sugar beet and cereals.

c. *Modernisation*

Linked to the developments and opportunities on the markets and the increasing degree of specialisation, many farms were modernised, mainly in the 1970s and 1980s. The modernisation process was stimulated by interest subsidies. In this framework EU Regulation 72/159 has been particularly important, especially for the dairy and greenhouse sector as conditions on the availability of land to produce feed for the intensive livestock sector restricted the application in the Netherlands. In the years 1973-1985 more than 20 000 Dutch farmers used this EU facility; many of them in combination with re-allotment projects and at a later stage combined with (national) WIR investments premiums. At a later stage EU-incentives on investments increasingly aimed at improving the quality of the production process (environment, labour conditions, quality of products).

d. Sustainability

Sustainability of agricultural production in the Netherlands is, apart from the instruments under the Farm Structure Policy, stimulated by other EU decisions.

A direct consequence of the introduction of the milk quota regime (1984) has been the reduction of the dairy herd with some 40% (1984-2002) and a 25-30% decline of total manure disposal (the dairy sector had some 75%, at the moment about 50% of manure production).

The 'nitrate directive' has so far stimulated and at least underlined the necessity of the introduction of national instruments to achieve a more balanced situation for minerals (manure). Due to restrictions set in the Dutch manure policy pig and poultry stocks have been reduced with some 10% in recent years. This process has been accompanied by national programme to financially compensate farmers who finish their production.

So far, the 'pesticides directive' did not restrict the permission of some specific crop protection materials. In fact, harmonisation on EU level of this policy is far from complete. Environmental, health, labour and economic considerations are included in national decisions made in this field. Some national decisions may hinder the production of specific crops when alternative plant protection materials are not available.

The 'animal welfare decisions' so far stimulated corresponding national decisions. Organic farming in the Netherlands, actually some 1.5% of total agricultural production value, is stimulated by a corresponding EU instrument.

e. Rural society

Rural society in the Netherlands has changed a lot over the last decades. Many farms disappeared while others expanded and modernised. With an annual decrease of 3% of the number of farms, the agrarian population has become a minority, counting only less than 4 % of the total population now. Recently more attention has been given to the multifunctional role of agriculture and the rural area. This is also stimulated by (financial) instruments of the EU (second pillar, RDPs). The interest of the Dutch population is focused on health and safety of food, an attractive landscape, recreation outside the cities etc. Farmers respond to this by initiatives to invest in agro-tourism and take up the management of landscape and nature in compliance with EU and national regulations on this field.

1.4.4 Impact of Mid Term Review

The Commission document on the Mid Term Review and its proposals to reform the CAP has been released on July 10th. Some first remarks can be made about the possible impact for Dutch agriculture:

- decoupling will give some more flexibility to farmers to decide on how to use their land (for which crops) and on the numbers of animals per holding;
- the acreage of cereals, starch potatoes and silage maize may reduce to some extent;
- the acreage of ware and seed potatoes and some horticulture crops may increase, yet, room for extra sales at markets seems limited;
- direct payment-entitlements (per farmer, farm and consequently per hectare) may have an impact on land prices and succession of farms. Whether land prices go up, will -depend on the performance of the sector;

- the administrative burden may decrease (linked to decoupling), but new administrative activities related with transactions of land and cross-compliance control may come up;
- a part of arable and dairy farmers will have lower incomes when direct payments are reduced subject to the proposal to reduce levels above 5 000 Euro per farm with 20%.

1.5 Lessons from the interaction of the development of agriculture and rural policy

1. The creation of the Single European market offered many opportunities to the economy as a whole and related to that to the farm sector. The expansion of the market triggered the modernisation of the farming sector and the further specialisation on products for export.

2. Relearned the Tinbergen-rule that you need for each policy objective a policy instrument and that you cannot use one policy instrument to realise more than one policy objective. The original CAP, however, tried to realise with mainly price support a number of objectives (agricultural income, agricultural productivity, market equilibrium etc.) Market and price policy aimed at income support frustrated the realisation of market equilibrium by stimulating production and creating surpluses.

3. A market and price policy has to take into account all related agricultural products to prevent imbalances in the development of the agricultural sector. The absence of import restrictions on cereal substitutes stimulated the import of these products and frustrated the grain policies of the EU.

4. The market and price policy of the CAP stimulated the growth of agricultural production and neglected the negative effects on the environment.

5. The structural policy of the CAP, in particular the interest subsidies, stimulated productivity growth in the agricultural sector but stimulated at the same time the growth in agricultural production.

6. EU countries with well-developed administrative systems made an extensive use of subsidy instruments to modernise their agricultural sector.

7. A continuous increase in productivity, in particular of labour productivity, and a limited growth of demand for agricultural products, needs a continuous decrease in the input of labour in agriculture. The CAP, market and price policies and structural policies, cannot solve agricultural problems without the help of non-agricultural policies, in particular policies aiming at increasing non-agricultural employment.

8. In addition a regional policy is needed to maintain the economic viability of the rural area. A decrease in agricultural population in rural areas will have negative effects on the availability of facilities and deteriorate the viability of villages and the rural area.

9. The policies for the rural areas have also to take into account the changing priorities in land use as indicated by the society. The striving for productivity growth can have negative effects on the value of landscapes etc. while the interest of society in nature and landscape values is growing, among others for recreation purposes.

10. CAP (market and price policy, structural policy) cannot solve the imbalance between farm and non-agricultural incomes. Experience in the Netherlands learnt that training (schooling), extension and research have at least an equal importance to assist farmers to develop their farm adequately. Next, it is important that the farming population strengthens its capacity and capability to work in other sectors in the economy.
11. Re-allotment plans can increase efficiency of agricultural production importantly (parcelling, water control, roads). For this, plans have to be developed and decisions have to be made before authorities and farmers can implement investments. These plans often take a long time, sometimes several decades.
12. Legislation and adequate institutes to improve and control the quality of agricultural products are very important to increase the market opportunities of the sector. In recent years safety and health aspects of products receive much attention.
13. An instrument like the Dutch Agricultural Loan Guarantee Fund has assisted (young) farmers with capacity to produce efficiently but who have a lack of financial resources and securities. This selective instrument can stimulate innovation in new products and production processes.
14. The restoration of the negative environmental consequences of a fast, uncontrolled growth of production and the use of inputs is time and money consuming. Many negotiations with farmers and farmers unions about regulations and control mechanisms are necessary to arrive at a new balanced situation.