

**INSTITUTIONAL CHANGE IN EU:  
HOW MUCH "FREE MARKET", HOW MUCH "WELFARE STATE"?**

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Abstract

*Recent evolutions in Europe raise questions on the viability of the actual economic and social model that defines the European construction project. In this paper, using the logics of economic theory, we will try to explain the viability of institutional European model that stick between free market mechanisms and protectionism. The main challenge for the EU is about the possibility to bring together the institutional convergence and the wellbeing for all Europeans. This is the result of the view, still dominant, of European politics elite, according to which institutional harmonization is the solution of a more dynamic and prosper Europe. But, economic realities convince us that a harmonized, standardized Europe is not necessarily identical with a Europe of harmony and social cooperation.*

The challenge for future in EU consists in the reaction and evolution of the European institutional arrangement post-integration faced with the necessity to reform the services sector in accordance with the free market criterion. If „development through integration” seems to be harmonization through institutional transplant, how could then be the European model one sufficiently wide open to market which create the prosperity so long waited for by new member countries? The second part of the paper will bring into discussion a number of issues related to the actual success and/or the failure of completing the internal market in the services sector. We will discuss the role of competition policy in liberalizing the market of services using examples of the EC decisions and ECJ jurisprudence. Then we will recollect the success and the benefits of liberalizing network industries in Europe. Finally, we touch upon the sensitive issue of services of general interest. Based on these findings we note that there is still a long and painful way to go towards the overprized completed single market, at least in the services sector.

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## Harmonized Europe or European Harmony?

Latest news presented great union demonstrations that almost paralyzed symbol towns of EU. Worried and astonished, we assisted to the terrifying show offered to the entire world. “Bolkenstein Directive”, against which were hundreds of thousands of European people, seemed to become a horror movie title that threatened to dethrone social privileges of the welfare state. In France, politics proposed in order to liberalize the labor market turned Paris in a siege capital, through which unions almost colonized the state. This is the image of an unprecedented institutional crisis that characterizes the present social arrangements of UE.

There is no doubt that we speak about an amazing state of affairs, contrary to “social cohesion and solidarity” challenges that begin and end almost all EU programmatic documents.

European integration is built on a system of common policies negotiated and adopted by European governments. This integration process is not the result of the political constraints abolition, it does not mean free market and competition mechanisms, despite all efforts towards these. We can speak about a political-bureaucratic option towards *what should be the economic and society European model*. And this political normative derived into an institutional arrangement exported, with the highest fidelity possible, to member countries and to those that applied for membership.

We are all aware of the confusion that the philosophy of EU political elite makes between “harmonization” and “harmony”. In fact, harmonization is another way of speaking about “unification”, meaning accepting a unique rule, in fact “standardization” that European institutional arrangement propose to almost all social life sectors.

Harmonization architects seem to ignore what is most important precondition for the economic prosperity, meaning diversity, competition between different institutional arrangements and, in globalization terms, even between different fiscal systems. Competition is the only one that can improve the situation, meaning reducing tax burdens and improving public services.

*Within economic sectors, same as in music, harmony does not derive from unanimity agreement, but from diversity agreement.* This could be the future of fiscal Europe: European contributors capitalize the inter-jurisdictional differences, and those will facilitate tax competition. For the very moment, hundreds of young French go abroad trying to escape from the French tax system rapaciousness. Which could be the harmonization scope? To stop the free movement of production factors by constraining the other European countries to “harmonize” (it could be also read “increase”) their tax system to rough requirements of welfare state.

## Free market vs. protectionism

The entire EU institutional arrangement - with American pedigree at its origins - is fundamentally the result of the European political system. Despite many economic arguments being quoted in favour of European integration, the defining source of the European project is, par excellence, primarily a political one. Initially, the energies of the European integration were animated by the necessity to build a (political) power to counterbalance the American „imperialism” and the un-precedent taking aim of East Asia. In time, the economic dimension gained (an) increasing importance.

But who are the creators of this political project and what were they aiming at? The founding fathers of the „United States of Europe”, starting with Jean Monnet, were convinced that the „high” European authorities would have the capacity to plan the economic development overriding the economic principles of the market. We talk here about the model of an economy built via and surrounding the state policies and budgets? As shown in *Institutions and Prosperity. From Ethics to Efficiency* (Marinescu, 2004), the allocation of public resources does not impede the exigencies of economic calculus and of markets, but rather political rationales. In fact, the political allocation of resources bears the stamp of any governmental budget. European budgets are built on an immense scheme of subsidies, aids, structural funds and financial external assistance. All this explains the redistribution of resources in the European space via governmental budgets, the European budget and the common policies.

The candidate countries, being in the position of net-receivers, consider this a very positive process, at least at this stage. Since the Marshall Plan, it became clear that the dramatic expansion of „foreign aid” programmes is the result of a political option and not necessary of an efficiency criterion. Hence, the impossibility to assess whether the politically „exported” resources will serve a real economic need or will only contribute to feeding corruption and the “ossification” of the state elites. Billions of dollars external aids offered generously to the African countries by international financial institutions had a modest efficiency or proved to be painfully failure in reducing poverty (India, some countries from Latin America or Africa). Numerous studies have shown that external financial assistance neither creates, nor is it correlated with the essential sources of prosperity. If liberty is the determining source of prosperity, one could notice that a reduction of economic freedom is often – paradoxically - the result of foreign aid increasing<sup>1</sup>. Setting external fund at the foundation of a country’s

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<sup>1</sup> See the works of Lal (2002), Bauer (1993), Johnson (2003), Bandow and Vasquez (2001). For example, Bandow and Vasquez demonstrate the obvious inefficiency of foreign aid in India’s case: starting with „*first five year plan*”, since 1951 till 1990, India received the highest financial

economic success is a dismal illusion. This approach neglects the role of liberal policies (some of them even anti-European) in creating prosperity. Ireland is a very good illustration of the case when the reduction of public expenditure exceeded the inflow of European funds.

In its essence, the transition to market economy resides in the generalization of the private property as a fundamental institution and its logic corollaries: economic freedom, markets and economic calculus. For all candidate countries, excepting probably Estonia, embracing the European model was the equivalent of reducing the degree of state intervention in the economy and accompanied by an expansion of the market mechanisms. From this point of view, for the governments of Central and East European countries, accession represented an external constraint favouring the completion of reforms towards the market. For example, the liberalization of external trade (the adoption of a common trade policy), reducing the barriers to foreign investment and the free movement, the competition policy in general which can clarify the national business environments and even the almost obsessively invoked safeguard of legal stability and certainty.

However, the very European model itself is insufficiently open to the market mechanism in order to rapidly induce in the candidate countries the long waited for prosperity. Moreover, embracing this model requires costs which are far from negligible and which can reflect in the slow down the economic performance. The so much wanted economic growth is the product of economic liberalization and market mechanisms. Prosperity is not a spontaneous result of gaining the EU membership, but of sound economic policies which stimulate capital accumulation, investment and entrepreneurship.

CEE economies are emerging economies for which economic progress and spread of prosperity via the market could be more important than the protection by the state of consumers' interests, job security or other aspects related to environmental protection. Moreover, it has been admitted that the implementation of European rules in labour, agriculture and environmental sectors is associated with huge costs, which would vitiate the potential for economic growth.

For instance, if the European environmental regulations were immediately applied, they would sentence the Romanian economy to stagnation, by the imposition of the required high standards and prohibitive costs. It is

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assistance of all developing countries, estimated at more than \$55 billions. Almost all of these foreign aids were "captured" by corruption and opportunistic political programs (of nationalizing sectors and enterprises – on „capitalist" money!!), that lead to political elite "ossification". Today, after over 50 years of centralized economy, a similarly high percentage of Indians (almost 40%) live at the limit of survival. Except a few cases, when the foreign aid proved fruitful - million of people where saved from starvation in 1950 and later on in 1960, the external financial assistance rendered a complete failure, encouraging corruption and socialism.

understandable why, at present, the most stringent standards and legislations regarding environmental issues are to be found in the developed countries: improving the environmental quality is the consequence and the reflection of an improvement in the standard of living. Empirical studies have shown that environmental standards tend to rise with the GDP/capita. This means that the European exigencies should give priority to the fast economic growth in the CEEC which should be followed, rather than preceded, by an improvement in the environmental standards. Besides, the possibilities of reforming the present approach (state ownership, high standards and huge governmental spending) through the systematic expansion of the private property in the environmental sector are an illusion.

Two years ago, the moment when ten central and eastern European nations were joining the EU, bringing the total number of members to 25, a great hysteria against “Polish plumbers” broke out. Being convinced that free movement of labor—a very possible pillar of the EU—would bring about a lot of poor central and eastern European workers desperate to earn better salaries or apply for welfare benefits in the richer nations, western Europeans began to demonize Polish plumbers. But only three countries out of the 15 old members states of the EU – Great Britain, Ireland and Sweden - decided to give workers from the ten new member countries the freedom to live and work almost without any restrictions. The other EU members imposed a seven-year delay on allowing those workers into their countries.

Based on official data given by every country from EU, the European Commission has published a report which proves the 12 protectionist countries were dead wrong. The three countries we have spoken about - that lifted restrictions on labor mobility - have seen their economies grow more and create more jobs than the rest due to migrant workers having essentially filled skill shortages in construction, restoration, and other services (many of them are dentists and bus drivers.) There has been no “invasion” of central and eastern European workers. Ireland, where the number is a bit higher, though still small, represents an exception as the workers are no more than 1 percent of the working-age population in the recipient countries. Moreover, restrictions have not stopped workers from moving to those western European countries that chose to keep them out—we can speak here about the underground economy. On the contrary, Austria, the country that places the greatest restrictions on foreign workers, is also the one that got the highest number of migrant workers—all of them being “self-employed.” And in those countries where they were welcomed, there has not been an increase in the number of people applying for welfare benefits—the great majority of workers simply want to work.

How to react to such a situation? On one hand, countries like Finland, Greece, Portugal, and Spain raised the issue of lifting the restrictions and. On the other hand, Germany, France, and Austria announced that they would keep the restrictions. What should mention the next report regarding France, as it is a country registering stagnation due to protectionist legislations<sup>1</sup>.

Protectionism provides an open space for *rent seeking*. An uncompetitive environment is not good for consumers as they are prevented from buying the best products, for employees as they are prevented from working for the most efficient companies and, in the same time, for a better paid job and last, but not least, for shareholders as they are prevented from getting the highest value for their investments<sup>2</sup>.

Although labor force and services liberalization represent principles established from 1957 within Rome Treaty, lying at the very heart of EU, in fact both workers and services providers that want to operate outside the origin country face off a lot of barriers, social, legislative and/or bureaucratic.

But, European Commissioners seem to be more and more convinced that reforming the traditional arrangement is absolutely necessary. Under these conditions, Achille's heel of ongoing reforms in EU seems to be services market. "Bolkenstein Directive" – after the name of its forerunner, the former European Commissioner for Internal Market, Frederick Bolkenstein - is his last major legislative proposal. It is designed to make the market for services within the EU as free as the market for goods. Its particular sting is a country-of-origin clause which would allow a Polish, Baltic or Hungarian person, say an architect or a market research agent, to sell a service in Germany or France while only paying the (low) social insurance premiums and taxes due in his home country. This is taken in Western Europe as a quite flagrant licence to practice "social dumping", the undercutting of decades of socialist achievements, and is political dynamite. President Chirac of France has promptly "vetoed" the directive and was joined,

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<sup>1</sup> French President Jacques Chirac denied the idea that his country has recently become more protectionist, sustaining that France is as protectionist as it has always been. The ten industries about which President Chirac and Prime Minister Dominique De Villepin, classified "strategic industries" are the followings: private security, arms manufacture, biotechnology, pharmaceutical labs that produce antidotes, nuclear power, cryptology, computer security, defense contracting, the interception of communications, and casinos. All these deserve protection against foreign takeovers. Yet the problem is not just that the French will protect their national champions at the expense of consumers—or rather taxpayers, since part of their electricity and gas bill is paid by general fiscal revenue. The real problem is that because France is a strong player in the European arena, it's setting a precedent that is already being followed by many others.

<sup>2</sup> The sector where protectionism is extremely dangerous is the energy one. All companies have to be big and profitable and not dependent on public money or state protection. The unique market liberalization is the necessary condition for the Old Continent to begin to grow again. The choice that European leaders are called to make is very important for our common future as a wealthy region.

though in less peremptory style, by German Chancellor Schroeder. Brussels says the directive has been issued under existing powers, cannot be "vetoed" and will stand. The French government of course will do as it pleases. It will not be the first time that it refuses to apply a directive or honor a treaty; its contempt for the deficit limit it signed up to in the Maastricht stability pact is eloquent proof that the EU cannot force a major member country to do what it really hates doing.

### **Institutional transplant of European centralism**

There are two ways in which the national governments could react to the generalization and the intensification of competition: giving up to the market forces or forming a cartel. The first means the consolidation of freedom and a greater prosperity, the second one erodes freedom, determines the preservation of the *status quo* and only redistributes wealth.

The first way reflects the generalization of the institutional competition, which represents the spontaneous adjustment of the national institutional arrangements with the aim of improving competitiveness and economic performance. IN the context of globalization – intensification of cross-border trade and the increased mobility of factors of production – economic systems are prone to certain adjustments and even to institutional changes of high magnitude. Under the new circumstances, the institutional competition – the competition between rules – is the natural consequence of technological and organizational innovations. These have induced the increase in the mobility of goods and people at international level, the unprecedented development of communications through the reduction of transaction costs. Thus, the opportunities offered by the external market are greater and their fructification becomes more advantageous.

The European model of institutional building and political governance corresponds to the second path. This derives from the European political elite belief that the politically and economically uniformed, harmonized United Europe will better resist the “disruptive” forces of globalization. In this view, the *acquis* would represent an instrument of harmonization through institutional transplant and the taking over the legislation *corpus* (*acquis communitaire*).

The Brussels bureaucracy, also called Eurocracy, has developed specific forms of hierarchical coordination and administrative harmonization (read *standardization*) in almost every domain of public policy. The transposition of the 97.000 pages of European legislation means importing institutions, administrative structures, legal practices and economic policies. The *acquis* illustrates probably the best way the legislation can be turned into a governing (political) instrument, thus creating a radical discrepancy between Legislation (governing regulation) and Law (applying the rule of law through the distinction between good and evil).

Moreover, the project of the European Constitution, the longest and most politicized constitution of all times - 270 pages and 70.000 words, in comparison with the only 17 pages and 4.500 words that the USA Constitution counts) is a clear example of European centralism at economic, institutional and political level.

With regard to the constitutional arrangements, one needs to mention that the most important difference between the American Constitution and the Constitutional project of the European Union resides in their view on "rights". The „Bill of Rights" of the US Constitution consists in a list of individual rights against the state and its constraining powers, the „Charter of Fundamental Rights" of the European project consists in a long list of rights to the state monopolized services, like the right to education and health, the right to security, social assistance, right to work etc. The US Constitution is largely build on the philosophy of "the right to ..." (ownership) because, lastly, the philosophy of the natural right of John Locke demonstrates the human rights cannot be conceived other than as ownership rights. In turn, the European constitutional project talks about "the right of...", a concept that implies the very undermining of the true human rights, by the expansion of political power and the authority of the state over the life of the individual. By the sacrifice of these fundamental principles of law, the authors of the constitutional treaty project have overloaded the vessel of social rights with nothing else but privileges that dilute the concepts of contract and individual responsibility, favouring set up of a union like, collectivist regime.

The accession process, as it was conceived, was based on the creation and consolidation of an executive specialized branch at national level, which favours the executive component of government. This derives from the fact that the negotiating process and the adoption of European norms is, in reality, an administrative exercise which has the nature of consolidating even more the "statist model" in Europe through the perpetuation of the welfare (redistributive) state and the social market economy model - a model whose economic performances are more and more modest. The fact that the whole process of EU enlargement has developed in a purely elitist, technocratic way has eroded the public support and the trust in the integration process. This could explain why, in what regards the enlargement issue, the public opinion in many European countries is less enthusiastic than in the Brussels officials' declarations.

From an economic perspective, it is not clear why should EU be an centralized institutional and political arrangement. The free market and competition are capable of boosting Europeans prosperity without necessarily regulating the size and shape of fruits and vegetables, as it happens with the European legislation. Almost all economic and social policies and subject to "harmonization" at a pan-European level while enlargement based on a strictly conditionality system becomes a powerful instrument of reducing diversity.

At fiscal level, harmonization could lead to the alignment of taxes “higher” at the level of most burdensome fiscal regimes. It is alarming that European officials tackle the competition issue only half the way: competition is good, but not between governments (at fiscal level). It seems ironic that many European officials have shown concerns for the fact that some countries use fiscal dumping as more and more business turn towards more friendly fiscal jurisdictions. Moreover, both at EU and OECD level, there are concrete proposals for fiscal harmonization in order to prevent the damages of fiscal competition!! These measures are meant to prevent the national governments to resort to the fiscal competition “gun” as the main means of rending their business environment more appealing; this is similar with prohibiting the entrepreneurs to use all the tools and instruments they know for obtaining the best quality product in the least costly way. In that case, the constitutional rights of American and Swiss citizens to legislative proposals of fiscal reductions should be forbidden, since this would lead to the reduction of revenues from taxation to the German or the French government?! And, to finally conclude on the issue of fiscal competition, we should quote Pascal Salin who said that prosperity needs not to abolish the “fiscal paradises”, but to abolish the „fiscal hell”...

Theoretically, *fiscal competition* is the natural consequence of the mobility of taxation base between the states. As a non-cooperative game between governments, the fiscal competition generates the incentive to reduce the fiscal pressure for the taxation bases with a higher mobility and the increase of the burden for the factor of production and activities less mobile. As globalization diminishes the possibilities for monopolies to resist in different markets, so it acts towards the limitation of the monopoly of governmental power. Consequently, governments that cannot resist fiscal competition could exhibit the tendency to operate at a higher level of constraint of the political monopoly, in a fiscal cartel very likely to be built at European level.

At present, the ample technological and institutional changes facilitate the international migration and the intensification of fiscal policy in the labour markets, a factor whose mobility has increased significantly: the high tech sector specific skills, artists, sportsmen, all place their activities taking into account the friendliest fiscal jurisdiction. For instance, the fiscal authority in France reports that each year, thousands of tax-payers leave the country for fiscal reasons; a large number of French entrepreneurs place their operations in UK; the strong relief of fiscal pressure in Ireland has reversed the traditional trend of migration.

At sector policy level, guided by its aim to “organize” (read make uniform) whole sectors of economic activity, the European Commission has adopted the strategy of „common policies”, based on the proliferation of regulations, administrative controls and political subsidies. What are the results? The ACP - an

expression of the view that private agriculture is impossible – has deprived consumers, contributors and even farmers. The Brussels fixed prices did not prevent the rural exodus; they have put pressure on households' income, while the protectionist policy diminishes the benefits from agricultural cheaper imports. Moreover, as a result of accession, the farmers in the new Member States will have to reduce their output in conformity with the already negotiated and arbitrary established quotas together with the European decision making bodies, based on un-loyal competition grounds, despite the fact that old Member States export more to Easter Europe than they import. But how do the production quotas – a concept reminiscent from the old soviet system - shake hands with the idea of a true, compete internal market?

### **The welfare state or the redistribution that deprives**

When the economic history of Europe from the last third of 20th century will be written, we will understand the whole series of battles that national governments have launched against the economic reality, with the mere illusion that victory can be granted by the embodiment of a simple majority. In this period, Europe was dominated by the institutional arrangement of the welfare state, whose practices were promising education, healthcare, security, prosperity, jobs, in a word happiness for everyone. For the achievement of this goal, national governments understood to increase governmental spending to over 50% of their GDP<sup>1</sup>.

Beyond the increase in public spending, the welfare state machinery was fortified by numerous protectionist laws, ranging from an extremely elaborated system of “working rights” to a huge administrative mechanism in the social insurance and social care. The almost full subordination of the economic to the political was justified, on a large scale, by two reasons. The first one, packaged in cheap electoral pills like „The man counts more than the market” or „In democracy, it is the votes that decide, not the dollars”, is based on the fallacy that man, on one side and dollars, on the other side, have conflicting interests. The second reason, one that amplified the invasion of economy by a multitude of “welfare” policies consists in the unhappy belief that the redistribution of income by the government through taxation and policies is an act of “social justice” and a moral duty.

The institutional arrangement initially named “welfare state” was later on recalled in numerous programmatic declarations of EU as the “European model. This very skilful linguistic manoeuvre is meant to underline the clear antagonism

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<sup>1</sup> In 2005 the governmental spending reached 53% of GDP in France. That was accompanied by solemn promises from the political power to effectively control public spending within the next years, so that they would decrease to (sic!) 51% by 2010.

of the „European model” in contrast with the „Anglo-Saxon” or, even further, with its political rival, the „American model”. In this sense, the supporters of the institutional construction of the EU try to accredit the idea that the performance of this „European model” will be the more obvious, the more the good Europeans will disagree with the cultural model of Anglo-Saxon origin.

Obviously, the claim that, at present, this „European model” would be representative for all Europeans is biased. Essentially, the nature of the „model” is French-German. Its essence is derived from the French socialism of military Gaullist inspiration, from the German social-democracy and the doctrine of the unions<sup>1</sup>. Thus, the European model gets attached, as it is the case for any „rational planned” society, to its own system of cultural values, meant to clearly illustrate the dislike of the Anglo – Saxon civilization, still liberal, but more and more to a lesser extent.

The fundamental trait of the “European model”, taken over *ad-litteram* from the arrangement of the „welfare state”, consists in the redistribution of welfare in the society. Nowadays, the political redistribution of property is considered, even amongst economists, a “natural” prerogative of the state. But the institutionalization of the redistributive practices of the *welfare state* produces, during time, as it has been proved, two types of consequences that inhibit economic prosperity<sup>2</sup>.

a) *At economic level*, the incentives for work, initiative and entrepreneurial activity are negatively affected; a decrease in the rate of capital formation, the disincentive of the investments with depressive effects on the economic activity.

b) *At socio-cultural level*, changes occur in the social structure regarding the types of personality and character of humans. Social assistance is the one that creates a “mentality of assisted” and favours the collectivist and equalizing cultural values.

Beyond the precarious realism of the policies of the European welfare state, the main goal of the “model” consists in developing a vast scheme of social security, starting with the full monopoly of state in the education sector, goes further with the legal protection of labour places, the best paid holidays, the

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<sup>1</sup> The European Union tradition is well known. The Americans had spoiled theirs by the capitalist „spirit” that animated the initial development of their economy. If *socialism* was aiming at collective state property on capital, the *union-ship* (as a doctrine and a tactic) had as a fundamental goal the abolition of the separation of workers from the means of production and consequently the annihilation of the entrepreneurial spirit (see Ludwig von Mises, 1966, chapter XXXIII).

<sup>2</sup> See Marinescu (2004) Ch. 5 on Political institutions: the power of non-owners, p. 181-236.

lowest duration of labour-time that ever existed and ends up with the social insurances for the unemployed and the state pensions.

But which are the economic costs of this social „generosity”? First, we need to understand this public “generosity” is built on higher taxes that have always defined the welfare state institutional arrangement. The redistribution mechanisms and the burdensome taxation are the very sources of the economic problems that Europe faces at this moment. First, we talk about a very pale economic growth experienced by some of the *hard-core* members of the Union. Economic growth rates of 1-2% have become almost a rule, thus being official figures of the economic counter-performance in the EU. Happily, the economic growth deficit in the EU raises serious constraints for the European elite in continuing to rolling systematically the social (read “political”) leverages of “welfare”. Secondly, it is the serious frictions in the way of the realization of “social harmony” whose source resides, ultimately, in the administrative defection of the labour market mechanism. During the thirty years since the “social model” became a political must, unemployment exploded from an average of 4% to over 10% in France and to approx. 12% in Germany. And from the side-slip of the labour market (if we allow ourselves to call it labour market) to the undermining of the fundamentals of civilizations, of “social cohesion” (a concept so dear to the planners of the EU) are only a few very small steps.

The morale is that social policies meant at ensuring social cohesion end up by off-setting economic growth and implicitly, the creation of jobs, which also explains the dramatic tensions in the labour market in countries like France and Germany. Moreover, the partisans of the “European social model” proved the misunderstanding of a simple economic logic when they claim that unemployment is high in Europe because the model is not “social” enough...or “European”, which holds the danger of giving birth to an even more stringent need of European “harmonization. In reality, unemployment is the consequence of a labour market stiffens by its own over-regulations by the job protectionism. This is contrary even to the principle of “freedom of contracts” by a fiscal burden that ruins the incentives of entrepreneurship, hence the scarcity of the newly created jobs. In an economy dominated by the public sector, the thirty years time of economic socialist policies have spoiled the incentives of the entrepreneurship and turned the “working class” to an amorphous mass continuously nourished with preferential legislation<sup>1</sup>.

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<sup>1</sup> In „*Winning Policy Battles, but Losing the War Against Economic Realities*”, Anthony de Jasay (2006) shows how workers benefit from the „social model” compared with the ones exposed to the market’s whims. When some years ago Toyota set up a division of its automobile assembly-lines in the industrial region from Northern France, the president of the company expressed his satisfaction for this choice by contrast to UK because „English workers can allow themselves to be cheeky while French cannot”.

## An U-turn in Community law

Although for some three decades the Community adhered to what one would call the protectionism of the public utilities at national level, making them practically carved out of the internal market, the same Community embraces quite an opposite view nowadays. Since the late 1980s, the EU made great strides in the liberalization of network markets. One should notice that the core article on which both views are based has never been changed.

Art. 82, former Art. 86 of the EC Treaty is a compromise article balancing the Community interest - integration, as expressed in basic treaty provisions – and the member states' interest – the reasons of granting an exclusive right. The hard-core provisions of the internal market include free movement, free establishment and effective competition. With respect to undertakings, art. 82 (former 86) states that “Member States shall neither enact nor maintain in force any measure contrary to the rules in this Treaty, in particular to those rules provided for in art 12 (discrimination in what regards nationality) and articles 81 to 89 (rules of competition: antitrust and state aid control). This provision taken literally is (or should function) as a liberalization clause. However, one could get exactly the opposite conclusion from the 2<sup>nd</sup> paragraph where the same art 82 states that if undertakings have been entrusted with “services of general interest”, the subjection to treaty rules is conditional. It is particularly the case of network industries. The derogation is meant to protect the public-service function, as the rules *‘apply insofar as the application of such rules does not obstruct the performance, in law or in fact, of the particular task assigned to them’*. The old approach that ruled for three decades was to take for granted the fact that traditional public utilities needed exclusive rights for the performance *‘of the particular task assigned to them’*. Challenging the very existence of such legal monopolies or their exercise of exclusive rights occurred very rarely and did not have an impact on the markets.

Starting with the early '90, a different approach was embraced. The first change was marked by the Corbeau case, when the *necessity test*<sup>1</sup> was introduced in order to trace the boundaries of the Belgian postal monopoly. This test opened the pathway towards more fundamental queries, such as the necessity of the exclusive rights<sup>2</sup> for the universal service itself, with or without uniformity of tariffs.

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<sup>1</sup> Basically, the test consists in answering the question on what public service obligations would the utility be unable to meet without being a legal monopoly?

<sup>2</sup> The issues is whether or not there exist other less restrictive, pro-competitive solutions to the same problem that would not fragment the internal market by reducing competition.

A second step forward was done by the need for justification of the exclusive right on the member states, what is called in legal terms “the burden of proof”. This is another radical change of approach, opposite from the past when the existence of the natural monopoly was legal if motivated by a public service. In this respect, the new interpretation of law forced national policy makers into a functional reconsideration about the rationale of utilities regulation.

It is true that solely the interpretation of the same old legal bases, in our case a few Treaty articles cannot by itself be considered responsible for this change of approach. There are other factors that play a role: actual observations of the network markets, trendsetting at national level, even the reasoned proposals from the Commission (many times the forerunner in the liberalization process). But, again, although ruling more in favor of the new approach<sup>1</sup>, the ECJ tends to allow considerable margins of discretion to member states (Blum, 2000).

A similar situation arises via regulation and fragmentation of internal market by self-regulation. In this case, it is not the state-monopoly, but the very national suppliers of services that would impose regulations hindering competition. In a decision dating April 2004, the Commission imposed fines on the *Belgian Architects Association* (BAA) who had infringed Art 81 of the EC Treaty by adopting and making available a minimum fees scale as "guideline" for its members. The fee scale contained in the so called *Ethical Standard 2* had a prescriptive character instead of being just a descriptive codification as claimed by the Association. The BAA had hindered price competition within this liberal profession for a time span of over 35 years.

One should see this very special case of art 81 application within the general framework of the Commission policy towards liberal professions and in the light of previous decisions<sup>2</sup> where no fines or only symbolic fine were imposed. In its Report on Competition in Professional Services (February 2004), the Commission stressed the need to *encourage the national regulatory authorities and professional bodies* to revise and amend their restrictive rules.

The BAA case is also to be seen in the wider context of the intentions of former Commissioners Monti and Bolkestein to liberalize liberal professions, a sector which is still highly regulated and the decision refers to a relatively new field of application of competition rules. This very decision has very often been presented by the lobbyists as an example of Commission ‘interfering with the right of and principles of subsidiarity’, which happens very often when people

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<sup>1</sup> In market sectors, probably the greatest impact of the Commission in giving the sign towards more ‘free’ movement of services and in the rulings of ECJ can be seen on telecoms and broadcasting. In postal services, the Corbeau has limited the scope of monopolies on express mail services.

<sup>2</sup> For example 1993 *CNSD - Italian customs agents* - and 1996 *Fenex - Dutch forwarding agents*.

only have superficial knowledge of the field and when enough rhetoric can weight into the favour of the louder voice.

### *Liberalisation and regulatory reform*

Despite the efforts of Commission, a forerunner of liberalization, backed up or encouraged by ECJ decisions, we need to remind that the nature of network liberalization is being *recent, gradual, uneven and complex* (Pelkmans, 2002). One should also keep in mind the very truth that competition policy is weak when the host country regime is still the rule in EU, which is the case, at present, in the services sector. Therefore a different approach was needed, and that was exactly the idea of the regulatory reform, coming as a proposal in the Bolkestein directive.

Most of the recent progress in the area of services was based on agreed liberalization and approximation, sometimes called harmonization. The use of directives adopted by codecision by the Council and Parliament represent a regulatory approach towards liberalization. The Commission, making use of its right of initiative, took often the risk of pushing towards more liberalization, while encountering the opposition of the member states representatives in the Council. Once a proposal passed this first obstacle, another staunch opposition would come from the majorities in the European Parliament, with MEP being persuaded to vote against for ideological reasons or for fear of the protests of the so well organized lobbyists of the public-service unions.

Different stages of the regulatory reform process and the level of competition differs significantly between sectors. While several empirical studies provide quantitative evidence of the sector-specific and economy-wide benefits of regulatory reforms in network industries (seen in terms of price level reductions, relevant for consumer welfare but also lowering inflation). Other research give evidence on the regulatory heterogeneity playing the role of an obstacle on the international trade for services. Increased competition (in terms of liberalization, privatization, unbundling, etc.) is generally associated with lower price levels, expanded output and labor productivity gains.

However, regulatory reforms do have some short-term costs, mainly in the form of initial employment losses. The ultimate impact on sector and aggregate employment depends on the labor market's ability to adjust to a changing economic situation. Service quality and the extent of R&D and innovation expenditures appear also to be positively linked to regulatory reforms. All in all, the empirical results in the literature tend to confirm that regulatory reforms in network industries enhance consumer welfare.

From a legal point of view most of these industries are now fully or largely subject to competition. With regard to telecommunications, regulators are gradually adapting the current regulatory framework to the new business

environment by lessening regulation where competition has emerged and strengthening it where incumbents still retain a dominant position.

Generally speaking, the experience of EU network industries demonstrates that an appropriate regulatory framework is indispensable in order to create *de facto* competition in these sectors, even after markets have become legally open. In other words, the ‘quality’ of the regulatory framework has a considerable impact on the extent to which regulatory reforms in network industries will result in price falls and other positive economic effects.

#### *Competition and regulation - blurred*

Although it is very difficult to isolate competition policy as a stand-alone policy when applied to services and especially when applied to network industries, one cannot notice the role played during time as well as the inevitable regulatory or quasi-regulatory aspects to be taken into account, that meaning that competition policy itself deviates from traditions in assuming quasi-regulatory functions. One cannot make a full analysis without touching on aspects like the general relation between EC competition policy and EC regulations in network industries, the thrust of rulings of the ECJ on network industries, the ‘essential facilities’ doctrine as an alternative to regulation, the problem of defining ‘relevant markets’ as well as the question whether the EC merger control application to network market regulation.

In the telecoms package, for example, in explicit attempt is made towards giving competition policy a quasi-regulatory role. That means, procedures, deadlines and published in the Notices and Guidelines are closer to en-ante rules rather than ex-post policy. On one side, significant market power in the telecoms sector (what corresponds to the dominance concept in competition policy) is to be employed in an ex-ante manner, with a legal basis for regulatory obligations.

The telecoms sector is a clear example of success for the Commission using its single instrument, the Directive, to show how free markets can perform better than monopolies, even in the case of SGI and public utilities. Moreover, the backing offered by the Court rulings, although surprising, nourished Commission’s determination to pursue the course of network liberalization in very sensitive area.

Is there an internal market for services? Is there an internal market for network industries? At least in the telecoms and the postal services, that would not be the case. In the telecoms, licencing is still too discretionary<sup>1</sup>. Although quality is higher and there is some convergence in prices, there is yet no removal of

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<sup>1</sup> There is no European licence and no mutual recognition, that meaning that the so distortive host country control continues to be the rule. There is still hope that the mobile companies will create the virtual European networks. In the postal services, the situation is worse, with large part of the industries still reserved, including all cross-border Reims II.

frontiers. As yet, none of the networking industries is operating in a genuine internal market.

### **Not yet ready to serve?**

All major network industries are now subject to processes of liberalization and minimum regulation. Competition policy has been, at least during Monti's and Bolkestein's mandates, actively applied, trying to send clear signals towards need of opening national markets, also as a pillar of the more extensive process of liberalization in the services sectors. Although we only marginally touched upon the examples from two sectors – namely telecoms - where the liberalization was more successful than in the other areas -, and postal services, in spite of the highly technical issues, we can still draw some more general conclusions.

There is a stringent need that European, especially member states come down from what is called the high-handed rhetoric of the Lisbon European Council and formulate a truly well-considered strategy for liberalization of services in general and of network industries as well.

The Bolkestein directive is remarkable in a number of ways. Firstly, it aims at solving what we cannot exaggerate by calling an anomaly in the internal market, when the free movement of services, expressly mentioned in the EC Treaty, is working badly, randomly, be it in regulated on non-regulated areas. This situation is, economically speaking, a huge source of waste and foregone potential. The draft of the directive has one important feature – it is based on the “origin principle”, as opposed to the distortive “host country principle”, a rule that fragments the market and gives national authorities the discretion towards selection and restriction of foreign economic agents in their services markets. Few directives are based on the origin principle (TV without frontiers and the e-commerce directive), which makes the directive so special both from a legal and economic point of view. The directive is meant as a framework directive, feature that renders it as extremely complex and technical, and in many cases inaccessible to the public, a characteristic that makes it also prone to misunderstandings and which can raise unfair criticism.

The proposal has given rise to a tremendous emotional opposition, often with improper accusations and highly politicized debates at all levels. A few sticking points in the overly politicized debate are about two clusters of issues: on one hand, health and education, as long as not commercialized, do not fall under the head “services of general (non-economic) interest”, which will fall under the draft. On the other hand, the opponents of the directive say that labor protection via the posted workers directive and Rome I and II convention on labor contracts, is insufficiently shielded from the origin principle. While the Council in its

common position excluded only "non-economic services of general interest", MEP and rapporteur Gebhardt proposed, according to her report, only 11 technical changes. Amongst these, to exclude all services of general interest (SGI), arguing that "SGI are by their very nature non-economic".

Under the light of these, the very proposal to erase the services of general interest from the Directive will practically carve out the very core of the liberalization process from the legislative proposal, already a fragile compromise, rendering the document obsolete and lacking substance.

Although the spirits were not high on this issue, one could still hope that the proposal still bearing the seeds of a true and complete free internal market for services, planted by the liberal technocrat, i.e. the Commission, would not be completely washed away by the conservative "voice of citizens" as it sounds in the European Parliament, after having partially overcome the greed of the conservative "voice" national protectionism.

Unfortunately, the recent vote in the Parliament proved that Europe is still not ready to accept the most needed reform. The "historic compromise" although "still expressing the common goal of opening up the internal market for services" is very different from the text that would have indeed paved the way to services freedom in the European space. Not only is the scope of the adopted directive reduced, but most important, the 'country of origin principle' was completely moved away from the text and a new wording introducing far less legal certainty was introduced – the so called 'freedom to provide services. The Parliament also introduced the reservation that member state's "requirements with regard to the provision of a service activity, where they are justified for reasons of public policy, public security, social policy, consumer protection, environmental protection and public health" still apply. As the European Trade Union Confederation declared, on 15<sup>th</sup> of November, "the European Parliament (EP) has approved at second reading the modified Services Directive, burying for once and for all initial Bolkestein proposal". Thus, the convictions of the welfare state have won again in the battle with the free market.

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ORGANIC AGRICULTURE IN EUROPEAN UNION.  
THE CASE OF ITALY

Iuliana Mircea\*

Abstract

*This study aims to approach some interesting points of view on-looker the organic agriculture in Europe, a new relative area of modern agriculture, which is in a continuous development nowadays.*

*The organic agriculture has a very important place in the agriculture in Europe and in entire world. In contrast to other parts of European agriculture, organic farming is a growth sector. Although rapid growth has been observed in absolute terms, the organic farming sector is still quite small, covering only about four percent of total agricultural land area in the EU. Due to differences in support between Member States and regions, large differences in the development stage of the organic sector exist.*

The term "organic agriculture" refers to a process that uses methods respectful of the environment from the production stages through handling and processing. Organic production is not merely concerned with a product, but also with the whole system used to produce and deliver the product to the ultimate consumer. Two main sources of general principles and requirements apply to organic agriculture at the international level. One is the Codex Alimentarius Guidelines for the Production, Processing, Labelling and Marketing of Organically Produced Foods<sup>1</sup>. The other is the International Federation of Organic Agriculture Movements (IFOAM), a private-sector international body, with some 750 member organizations in over 100 countries. IFOAM defines and regularly reviews, in consultation with its members, the Basic Standards that shape the "organic" term<sup>1</sup>. According to the IFOAM 2002 Basic Standards, "organic agriculture is a whole system approach based upon a set of processes resulting in a sustainable ecosystem, safe food, good nutrition, animal welfare and social justice. Organic production therefore is more than a system of production that includes or excludes certain inputs."<sup>2</sup>

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<sup>1</sup> Scialabba, Hattam (2002, p. 3-5).

<sup>2</sup> IFOAM (2002)

According to the Codex Alimentarius, organic farming involves holistic production management systems (for crops and livestock) emphasising the use of management practices in preference to the use of off-farm inputs. This is accomplished by using, where possible, cultural, biological and mechanical methods in preference to synthetic materials.

The Codex guidelines specify<sup>1</sup> that an organic production system is designed to:

- “enhance biological diversity within the whole system;
- increased soil biological activity;
- maintain long-term soil fertility;
- recycle wastes of plant and animal origin in order to return nutrients to the land, thus minimising the use of non-renewable resources;
- rely on renewable resources in locally organised agricultural systems;
- promote the healthy use of soil, water and air as well as minimise all forms of pollution there to that may result from agricultural practices;
- handle agricultural products with emphasis on careful processing methods in order to maintain the organic integrity and vital qualities of the product at all stages;
- become established on any existing farm through a period of conversion, the appropriate length of which is determined by site-specific factors such as the history of the land, and type of crops and livestock to be produced”.

Organic livestock farming is based on the principle of a close link between the animals and the soil. The need for a link with the soil requires animals to have free access to outside areas for exercise, and also implies that their feed should be not only organic, but preferably produced on the farm. This sector of organic farming is, moreover, very strictly regulated by provisions on animal welfare and veterinary care.

The objectives of organic farming are identical whether we consider crop products or animal products: they comprise the application of production methods that do not damage the environment, more respectful use of the achievement of high-quality agricultural products.

On 24 June 1991, Council Regulation (EEC) No. 2092/91 on organic production of agricultural products and indications referring thereto on agricultural products and foodstuffs was adopted. Council Regulation (EEC) No. 2092/91 applies to non-processed crop and animal products, to processed agricultural products intended for human consumption, and to animal feed<sup>2</sup>, where labelling ,

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<sup>1</sup> CAC (1999, point 7).

<sup>2</sup> Article 1 of Council Regulation (EEC) No. 2092/91 of 24 June 1991 on organic production of agricultural products and indications referring thereto on agricultural products and

advertising material or commercial documents include the indication in use in each Member State suggesting to the purchaser that the product was obtained in accordance with the organic production method defined in the Regulation.

Organic farming aims at sustainable farming by means of a specific farm production system offering an alternative to the more traditional approaches to agriculture. It emphasises the use of management practices avoiding off-farm inputs and responding to a consumer demand for naturally-produced foodstuffs (excluding as far as possible the use of synthetic substances). In particular, organic farmers are concerned about producing agricultural products while minimising the negative effects on the environment, preserving as far as possible natural resources and maintaining biological diversity on farms and their neighbourhood.<sup>1</sup> Rules have therefore been introduced to ensure the protection and the respect of organic farming methods.

Farming is considered to be organic at European Union level if it complies with Council Regulation (EEC) No. 2092/91. This Regulation has been amended on several occasions, in particular in 1999 when the Council extended its scope to cover organic livestock production (No 1804/99). In June 2004, the European Commission adopted the “European Action Plan for Organic Food and Farming” whose objective is to facilitate the ongoing development of organic farming in the EU with 21 measures to be implemented.

According to European Action Plan for Organic Food and Farming, impact of organic farming is very important for the environmental protection. The main benefits of organic farming relate to:

- Pesticides – restricting the use of pesticides, as in the case of organic farming, improves landscape, water quality, wildlife conservation and also the faunal and floral diversity.
- Plant nutrients – organic farming usually results in lower nitrate-leaching rates than those achieved on average in integrated or non-organic agriculture, as shown by studies on autumn nitrogen residues in the soil of almost all relevant crops.
- Soil protection – management practices used by organic farmers, such as growing catch crops to reduce nitrate leaching, wider and more varied crop rotations, and mixed grazing to reduce mono-specific overgrazing, all help to protect the soil.
- Biodiversity and nature protection – organic farming contributes to the preservation of species and natural habitats by means of its reduced inputs, its

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foodstuffs (OJL 198, 22.7.1991, page 1); (see also the Council Regulation (EC) No. 1991/2006 of 21 Dec. 2006 amending Regulation (EEC) No 2092/91);

<sup>1</sup> Kristiansen and Reganold, (2006, p. 3).

high share of grassland with in holdings and its grater use of indigenous breeds and plant varieties.

- Animal welfare – organic farming may have a positive impact on animal welfare since the standards for organic farming include several requirements in this area that go further than the statutory provisions<sup>1</sup>.

At EU-25 level, certified organic and in conversion area is 5.7 mio ha and represents 3.6% of the utilised agricultural area. At EU-15 level, certified organic and in-conversion area increased from 0.7 mio ha in 1993 to 5.1 mio ha in 2003.

There are substantial differences between the individual countries regarding the importance of organic farming in EU-25. In 2003 Italy had the most important organic area with more than 1.0 mio ha - about fifth of EU-25 – followed by Germany, Spain and United Kingdom, all three countries with about 0.7 mio ha, and France with 0.55 mio ha. The most important organic area in the EU-N10 is located in the Czech Republic with 0.25 mio ha and Hungary – 0.1 mio ha.

In 2004, 11 Member States were above the EU-25 average of organic area in utilised agricultural area: Austria 9.7%, Italy 8.1%, Sweden 7.2%, Finland 7.1%, Greece 6.8%, Denmark 6.1%, Czech Republic 6.0%, Slovenia 4.6%, Estonia 4.6%, the United Kingdom 4.3% and Germany 4.3%. Some of these Member States had already substantial share of organic area in 1993, but the ranking was different: Austria 4.0%, Germany 1.4%, Sweden 1.2%, Finland 0.9%, Denmark 0.8% and Italy 0.6%<sup>2</sup>.

Compared with 1999, all EU Member States increased their organic land. The highest increases in 2003 occurred in those Member States where the share was relatively low in 1999 – Greece (tripling the area), Portugal (+50%). With the exceptions of Austria (+10%), the Czech Republic (+15%), the United Kingdom and Germany, the increases werw relatively low in Member States, having a share in total utilised agricultural area above the EU-25 average.(Figure 1)

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<sup>1</sup> European Action Plan for Organic Food and Farming, Brussels, 10 June 2004, Commission Staff Working Document;

<sup>2</sup> Thielen (2005).

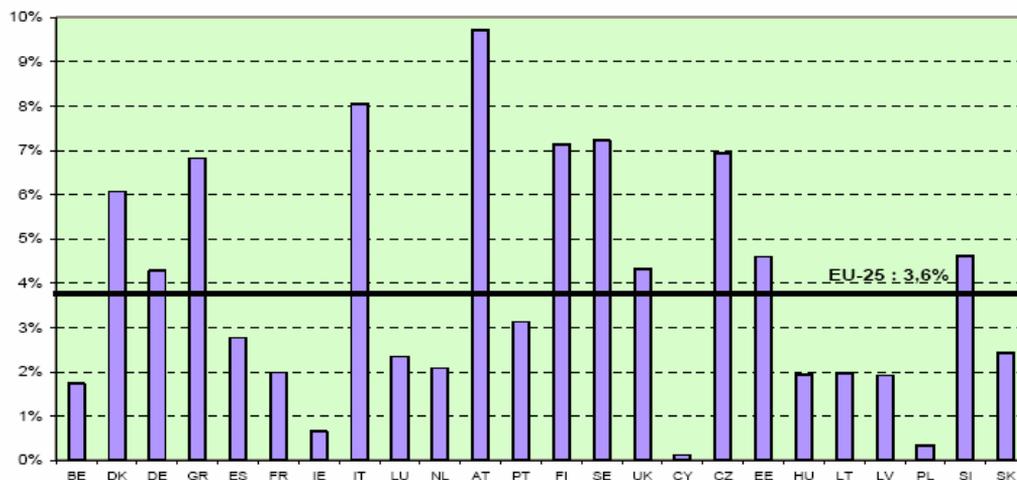


Figure 1: Share of organic area in utilised agricultural area in EU-25 in 2004 (%)

At EU-25 level, 149 000 holdings are certified organic and in-conversion holdings which represent 1,4% of total agricultural holdings. For EU-N10 organic holdings represent a share of 0,25% in total holdings.

In the EU-25, the average organically cultivated area per holding at 40 ha was significantly larger than the average area of conventional holdings at 15 ha of utilised agricultural area. Compared to the average conventional holding, organic holdings are particularly large in two Southern Member States: Greece and Portugal – it might be influenced by relatively high share of olive groves. However, in the Member States with the most important share of organic holdings are United Kingdom, Austria, Finland and Denmark (Figure 2).

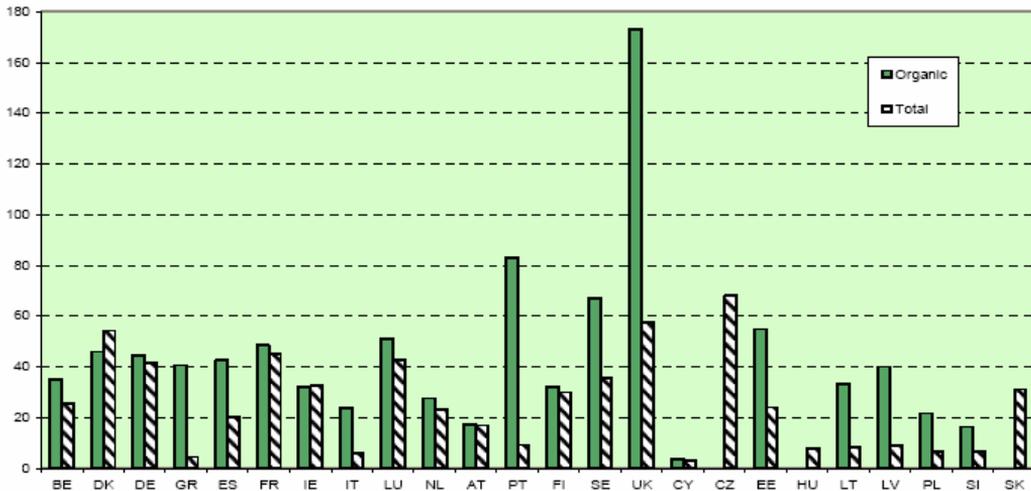


Figure 2: Utilised agricultural area per holding in EU-25 (ha).

In 2004, Italy had the largest number of organic holdings (31% of EU-25 total), followed by Austria, Spain and Germany with about 19 000-17 000 ha each. Over the period 1999-2004 the highest annual increase in number of holdings was noticed in the United Kingdom (13%), Spain (11%), Luxembourg (11%), Portugal (11%) and France (10%). In the same time, the number of holdings slightly decreased in Austria over this period.

### Organic agriculture in Italy

In Italy the earliest pioneering experiences in organic agriculture date back to the nineteen-sixties, but only took off in the nineteen-seventies, involving more and more farmers and consumers seeking an improved quality of life and consumption.

During the mid eighties, the first local coordination agencies established the "Commissione Nazionale Cos'è Biologico" (National Commission for Organic Agriculture). Made up of representatives of organisations and consumers' associations from each Italian region, the Commission established the first nationwide self-regulatory standards for organic farming. Once EU-Regulation 2092/91 was implemented, the numerous small associations of organic farmers and the producers and consumers committees operating in every region reorganised themselves, joining forces through mergers and a federative network. Today, there are 16 officially recognised certification agencies operating in Italy. In the nineteen-nineties the organic sector in Italy showed one of the largest average annual growth rates in Europe. Since 2002 the number of farms has, however, decreased, because in some regions aids are not available any more.

Most of the Italian organic farms are in the South and the Islands (32 %), even though with the recent decrease of the numbers of farms the share of the farms in the South went down. In Sicily organic farming developed at a very fast rate, with the number of farms increasing 2.5 times and land area almost doubling between 1993 and 1995. In comparison, the average rate of growth for the whole country was 123% and 126%, respectively, for the same period. The development in Sardinia is more recent, and mainly due to the application of EU Regulation 2078/92. When pastures were admitted to qualify for aid, many sheep-grazing pastures were converted into organic ones (for the most part, Sardinian farmers are sheep breeders and producers of the well known "pecorino" cheese). However, on both islands the number of organic farms recently dropped.

Tuscany and Emilia-Romagna have experienced pioneering organic movements dating back to the early 1980s. Indeed, out of the 16 certifying bodies five (ICEA, BioAgriCert, Codex, CCPB, QC&I) are based in Emilia-Romagna or Tuscany. Olive trees are grown by 60% of Tuscany's organic farmers, while cereals and fruit & vegetables prevail in Emilia-Romagna. Both regional governments have approved special laws after EU Regulations 2092/91 and 2078/92 to regulate and promote organic farming. Apulia in the South of Italy has also had a very recent growth, mainly due to policy support. Its main crops are durum wheat, olive oil and vegetables.

Since most farms are stockless (with some notable exception like the Parmigiano area in Emilia Romagna, the sheep breeding area in Sardegna or the Chianina Cattle breeders in Umbria and Tuscany), most grass is sold to nearby farmers or used as green manure. Cereals follow, dominating the cropping pattern in regions like Puglia, Sicily and Emilia Romagna. Organic rice is grown in Lombardia and Piemonte. Olive trees characterize most of Italian landscape and therefore thousands of hectares have been converted into organic management, as well as vineyards. Large orchards can be found mostly in Emilia Romagna, while small scale production is scattered everywhere. The same can be said about vegetable production, that is lagging a bit behind the expectations, mainly due to technical problems and the comparative low level of subsidies.

Agritourism is a characteristic feature of the Italian countryside and it has also experienced a huge development in the last years. On the organic farms, it allows not only to diversify income sources, but also to sell farm products and to educate the guests about the benefits of organic foods, once back home. In 2000, the number of organic farms was up to 595 all over the country, decreasing next year to 471. Almost half of them can be found in the four Regions of Central Italy, with Tuscany in leading position.<sup>1</sup>

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<sup>1</sup> Santucci and Pignataro (2002).

*Italy's Certifying and Inspection Bodies.* At present, nine Certification bodies operate nationwide in Italy. Some of them were initially cultural associations, as the Biodynamic Association (est. 1947), Suolo e Salute (est. 1969) and AIAB – Associazione Italiana per l'Agricoltura Biologica (est. 1988), linking producers, scientists, consumers etc, aiming at the development of organic farming. They organised conferences and training courses, published magazines and lobbied for recognition of organic farming. In 1993, the Italian Minister of Agriculture recognized three new organizations: AMAB – Associazione Marchigiana per l'Agricoltura Biologica -, AgriEcoBio and BioAgriCoop. So, the total number of certifying bodies was up to seven. In the German speaking Province of Sud Tirol, at the border with Austria, the German Certification Bodies Biozert and IMO are authorized to operate.

AIAB-ICEA is the largest Certification Body and probably the best known association at national and international level. It certifies about 24% of farms and 29% of the organic area. Suolo e Salute is the runner up, with respectively 20% and 16%. The third biggest Certification Body is Bioagricoop, with 15% of farms and 18% of surface.

The Biodynamic Association and AMAB still pursue stricter production codes than those established by the EU regulations and therefore farmers respecting these guidelines can even put these labels on their products. This nine Certification Bodies dispose of about 90 local offices, staffed with 1.000 agronomists and other technicians, properly trained, who are responsible for inspecting the farms, the processing plants, the storage facilities, in order to verify the respect of the EU Regulations and of the Production norms established by the various associations, for products not covered by the EU legislation.<sup>1</sup>

Organic farming is one of several approaches to sustainable agriculture. It represents a very important agricultural system because reduces or eliminates water pollution and help conserve water and soil on the farm. During the last three decades, the rapid increase of agricultural production in the European Region has been achieved mainly through the application of technologies involving intensive management, often at the cost of progressive deterioration of resources, and causing certain negative environmental impacts. The encouragement of farm production systems which place greater reliance on organic recycling, biological nitrogen fixation, and control of pests and diseases by husbandry methods is becoming an explicit objective of government policies for agriculture in many industrialized countries. The development and adoption of such systems are increasingly recommended as an alternative solution to present-day agricultural and environmental problems.

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<sup>1</sup> Biobank 2004.

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