Overdue Reforms in European Agriculture
Implications for Southern Consumers

The history of the European agricultural policy dates back to 1957. On 25 March 1957, the then members of the European Economic Community (EEC) signed the Treaty of Rome. At that time, the EEC had adopted ambitious aims in the field of agriculture: increase the farm productivity, offer a fair standard of living to producers while protecting consumers' interests with reasonable prices, assured food supply, and stabilised markets. The intention was to have policies in place, which would modernise farming and put Europe beyond external food dependence.

However, the Treaty did not elaborate ‘how’ these objectives will be achieved. Issues relating to this important question were discussed in a meeting in a small town in northern Italy, Stresa, in July 1958. This was the genesis of the European Common Agricultural Policy (CAP).

The participants were divided on the crucial question: “to what extent must Europe be open to trade exchanges with other countries in the world?” This was overcome and the final resolution adopted had far reaching political implications: introducing trade barriers for agricultural goods produced outside the EEC, so as to encourage progressive development of trade between member states and to strengthen the internal market.

This Briefing Paper reviews the history of the CAP, its objectives, the 1992 reforms, Agenda 2000 reforms, and overall, their implications for Southern consumers

CAP Objectives

The genesis of the CAP was reflected in its ultimate objective, which was much more than those related to farm issues. As early as 1950, the noted thinker, Robert Schumann, had said: “A common agricultural policy is likely to create a de facto solidarity, favourable to the creation of a united Europe.” Thus, the CAP, linking territories and food markets together, would be contributing towards regional cooperation.

As contained in Article 39 of the Treaty of Rome (1957), the objectives of the CAP are to:

- increase agricultural productivity by developing technical progress and by assuring the rational development of agricultural production and the optimum utilisation of the factors of production, particularly labour;
- ensure, thereby, a fair standard of living for the agricultural population, particularly by increasing the individual earnings of people engaged in agriculture;
- stabilise markets;
- guarantee regular supplies of food; and
- ensure reasonable prices in supplies to consumers.

As far as the immediate objectives of the CAP are concerned, it certainly increased the production and intra-Europe trade in agricultural goods. In 1992, as percentage of the region’s total trade in agricultural goods, the intra-regional (i.e. within Western Europe) trade was 78 percent (see Table 1).

The answer to the second question (i.e. whether the EEC is food dependent or not?) is a mixed one (see Table 2). The EEC is the world’s leading exporter of potato (66.8%), powered milk (55.4%), wheat flour (54.3%), beef (33.2%); the second largest of wheat (26.3%), maize (9.6%), chicken meat (35.6%). But, it is a major importer of tropical and temperate food products. In fact, the EEC’s external trade deficit in agricultural products reached Ecu20.8bn in 1991. These figures proved that though there is the CAP of Europe, ultimately the CAP is not for Europe only. It has had a global dimension from the very beginning.
Europe has also been successful in achieving the political objective of the CAP. There has been no armed conflict in Western Europe in the last forty years. However, it is a different issue that there is a growing tension between different regions in the same country. And, agricultural subsidies through the CAP may be one among various reasons. For example, in France, while a farm in Languedoc-Roussillon receives FFr 50,000 per annum as direct subsidy (from France and Europe), a farm in Ile-de-France gets FFr 270,000. Even if one calculates the subsidy in terms of per cultivated hectare, the average difference remains one is to three. This type of, and many other, differences tends to increase territorial imbalances, and resulting inter-state conflicts.

However, if one takes into account the final objective of any government intervention, i.e. the attainment of “common good” for society as a whole, the CAP has failed miserably. As classified by Aristotle, the forms of government is ‘perfect’ if they were aiming at the common good, and ‘degenerate’ if aiming at the private good of individual or group of individual.

The CAP is an example of ‘degenerate’ policy. The cost of the CAP, mainly due to agricultural price and farm revenue support, amounts to almost 50 percent of the EU budget, paid by the taxpayers. According to an OECD (the Organisation for Economic Co-operation and Development) estimate, although agriculture accounts for only 1.7 percent of the gross domestic product of the European Union, the total transfers associated with the EU agricultural policy (Ecu106bn in 1995) are larger than the total EU budget (Ecu82bn) and almost as large as the agricultural value added (Ecu110bn). Thus, the cost of agricultural policy for consumers and taxpayers in fact exceeds the cost of the EU budget as a whole.

1992 Reforms and Southern Consumers

In the first half of 1990s, at the time of agricultural negotiations in the Uruguay Round, the EEC came under considerable pressure to reform the CAP. The pressure was from the US, supported by the Cairns Group of agricultural exporting countries (a mix of both developed and developing countries). With respect to liberalisation in agricultural sector, the EEC’s position at that time was to:

- develop emergency measures in certain sectors, e.g. cereals, sugar and dairy products (incidentally, these are the three major products of the EEC’s agricultural export basket); and
- reduction of support policies, to achieve, not free trade but stability and equilibrium in the world agricultural market.

The CAP reforms, 1992 were consistent with this objective. The package of reforms was agreed by the Council of Ministers of Agriculture under the then EU Agriculture Commissioner, Ray MacSharry. The MacSharry reforms spelt out its main aims as to:

- control production surpluses and the associated costs of their storage and disposal; and
- comply with the requirements of the GATT Uruguay Round of trade negotiations by reducing the level of government support to agriculture and the volume of subsidised exports.

The essential features of the reforms were to:

- introduce measures to reduce levels of agricultural production, such as set-aside for arable land and quotas for livestock;
- reduce price support; and
- compensate farmers for the subsequent reductions in income through direct compensatory payments conditional on their implementing measures to control supply.

The bottom line of these measures was that the CAP reforms, 1992 were aimed to reduce European agricultural production through direct as well as indirect measures (reduction in price support mechanism). A large part of the output, however, was used as food aid to Southern countries, especially to Sub Saharan African countries.

At the same time, during the last three decades, there was increased food dependency on the part of the developing and least developed countries. Between the triennium ending 1971 and 1990, food import dependency ratio (the percentage of domestic food availability that is imported) has increased in a large

<table>
<thead>
<tr>
<th>Region</th>
<th>World exports</th>
<th>Intra-regional trade as % of each region’s total trade</th>
<th>Share of intra-regional trade in world trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>87</td>
<td>22.3</td>
<td>4.4</td>
</tr>
<tr>
<td>Latin America</td>
<td>38</td>
<td>13.5</td>
<td>1.1</td>
</tr>
<tr>
<td>Western Europe</td>
<td>208</td>
<td>78.1</td>
<td>36.5</td>
</tr>
<tr>
<td>Central &amp; Eastern Europe</td>
<td>11</td>
<td>11.5</td>
<td>0.3</td>
</tr>
<tr>
<td>Africa</td>
<td>15</td>
<td>10.7</td>
<td>0.4</td>
</tr>
<tr>
<td>Middle East</td>
<td>4</td>
<td>30.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Asia</td>
<td>81</td>
<td>60.0</td>
<td>10.9</td>
</tr>
</tbody>
</table>

number of Southern countries: 33 from Sub Saharan Africa and 13 each from Latin America and Asia.

Together, this means that reduction in European agricultural production (with concomitant reduction in food aid) may create problems of food security for Southern consumers, at least in the short run. On this point, however, one may prove the fallacy of the argument by raising the question of domestic production in Southern countries. Thus, the issue is whether reduction in European production can be compensated through increase in domestic production of the South.

The answer is certainly yes, in the long run, provided there is correct policy and public action. But that would definitely not be the case in the present context.

There are enough examples to prove the hypothesis: food aid hampers local production. For example, the slow growth of Indian agriculture in 1950s and 1960s was largely due to US food aid under Public Law 480. One reason for India to adopt the policy of green revolution in late 1960s was the sudden change in the US policy on food aid to India following the outbreak of the Vietnam war.

The promotion of cheap imports has discouraged investment in African agriculture and favoured a long-term shift in dietary habits towards imported cereals. When the Senegalese government decided to revitalise national millet production by giving the farmer a better price, the harvest was significantly higher but could not be sold in Dakar, whose inhabitants have gradually stopped eating millet.

In such a situation, if there is a sudden drop in food import/aid, it will definitely affect the food security of Southern consumers.

The Need for Further Reforms

As per the Uruguay Round (of multilateral trade negotiations under the General Agreement on Tariffs and Trade) commitments, all Member countries of the World Trade Organisation (WTO) will have to adjust their domestic and agricultural trade policies. However, it is to be noted that the Uruguay Round Agreement on Agriculture was formulated specifically to accommodate the EU system of agricultural support introduced by the 1992 CAP reforms. For example, through the Blair House Accord (bilateral EU-US agreement) direct payments to farmers that are ‘de-coupled’ from production (i.e. payments that do not affect farmers’ production decisions) were included in the “green box” (exemptions of those types of government support for the agricultural sector that do not have significant impact on trade). This was to cover the system of direct income payments introduced through the 1992 CAP reforms as well as direct income support to farmers by the US (“deficiency payments”).

In effect, it means that the agricultural support system as envisaged in the CAP cannot be challenged in the WTO. This is also true in case of subsidised exports. According to the Uruguay Round commitments, developed countries are to reduce the volume of subsidised exports by 21 percent over a period of six years, i.e. 79 percent of subsidised exports are still allowable. Given this, FAO (the United Nations Food and Agricultural Organisation) has estimated that top five wheat exporting countries could place around 40mn tonnes of subsidised wheat onto the market, i.e. about 40 percent of world trade in wheat in 1995. This means the world trade in wheat will continue to be influenced by subsidised exports. This is true for several other crops.

In short, the CAP reforms, 1992 were superficially related to the Uruguay Round commitments of the EU. The European Commission was optimistic that the reforms would ensure that the EU meets the obligations to reduce subsidised exports without any further changes before 1999. Thus, the underlined reason for the 1992 reforms were much more internal than to meet commitments/obligations as per the Uruguay Round Agreement on Agriculture.

At the same time, the Commission accepted the need for further changes in the European agricultural policy to meet the combined challenges of future WTO commitments, budgetary constraints, enlargement of the Union to accommodate Eastern and Central European countries, and to meet certain non-trade concerns vis-à-vis European agricultural policy (e.g. environment, rural development, food security etc).

<table>
<thead>
<tr>
<th>Products</th>
<th>EUR 6</th>
<th>EUR 9</th>
<th>EUR 10</th>
<th>EUR 12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cereals *</td>
<td>94</td>
<td>97</td>
<td>91</td>
<td>121</td>
</tr>
<tr>
<td>Wheat</td>
<td>112</td>
<td>114</td>
<td>103</td>
<td>132</td>
</tr>
<tr>
<td>Vegetables</td>
<td>100</td>
<td>97</td>
<td>93</td>
<td>101</td>
</tr>
<tr>
<td>Butter</td>
<td>113</td>
<td>116</td>
<td>93</td>
<td>133</td>
</tr>
<tr>
<td>Cheese</td>
<td>102</td>
<td>106</td>
<td>107</td>
<td>106</td>
</tr>
<tr>
<td>Beef &amp; Veal</td>
<td>89</td>
<td>96</td>
<td>100</td>
<td>107</td>
</tr>
<tr>
<td>Sheep &amp; Goat Meat</td>
<td>56</td>
<td>74</td>
<td>67</td>
<td>76</td>
</tr>
<tr>
<td>Poultry</td>
<td>98</td>
<td>101</td>
<td>103</td>
<td>107</td>
</tr>
</tbody>
</table>

Notes: EUR 6, EUR 9 etc refers to the number of countries in the European Communities as it expanded over time; * Excluding rice.
Source: Fowler, Penny, A Taste of Things to Come, CIIR Briefing, May 1996.
On the other hand, it was also true that the 1992 reforms had little impact on the levels of production and subsidised exports. Thus, there was scepticism about the CAP’s ability to comply with the Uruguay Round commitments by 1999 if there is a fall in world cereal prices.

The European Union will have to make policy adjustments to limit its ability to produce cereals, milk, beef, pork and poultry meat. He calculated that if the EU maintains its high prices in 1998-2000 when world prices return to the normal levels, EU subsidised exports of grain will exceed the 1999-2000 limit by 12 to 15mn tonnes (as per the Uruguay Round commitments).

Another compelling reason could be the review of the Uruguay Round Agreement on Agriculture, which will start on 1 January 2000. There will be considerable pressures on the EU to reduce its domestic agricultural support and export subsidy schemes, especially from the Cairns Group of agricultural exporting countries.

The CAP Reforms, 2000

With this as backdrop, the proposed reforms (known as the Agenda 2000 reforms) of European agriculture is much more encompassing than what had been done in 1992. More than pure farm questions (productivity etc.), the proposed reforms will have political and development implications; not only in Europe but also in the South as well. There are considerable pressures from developmental, consumer and environmental organisation for furthering the reforms of the CAP (see Box 1).

For example, environmentalists demanded that the CAP reforms should directly link domestic farm support to environment management plans and encouragement of extensive farming rather than promoting increased agricultural productivity through intensive farming. Furthermore, the imperatives of EU agricultural reforms is corroborated by the changing nature of the world trading system and associated political economy of the new international trading system.

In short, the following are some of the objectives of the proposed reforms:

- agriculture should be viewed as a multifunctional activity—in terms of employment generation and rural development, environment friendliness, and its link with local dynamics; and
- the policy will have to invent new intercourse between the community and its economic actors, i.e. to link together both decentralisation of the farm policy (as demanded by the regions and social groups who claim to be taking part in it) and the unity necessary to speak in one voice.

Box 1: Summary of Proposals

<table>
<thead>
<tr>
<th>Reform of the Common Agricultural Policy</th>
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<tbody>
<tr>
<td>• EU export subsidies for agricultural products should be rapidly phased out.</td>
</tr>
<tr>
<td>• Direct compensation payments to EU farmers should be phased out over for instance 10 years and be replaced by support measures which do not imply unfair competition with farmers in the developing world and which promote less intensive and more sustainable food production systems as well as conservation of biodiversity and family farming.</td>
</tr>
<tr>
<td>• EU market access for agricultural exports from the South should be improved and simplified, by ensuring permanent low tariffs and by abolishing quotas, seasonal restrictions and other non-tariff barriers as well as tariff escalation on processed goods.</td>
</tr>
<tr>
<td>• The European Commission should conduct impact assessments of the CAP reform proposals for developing countries and provide assistance to developing countries particularly vulnerable to any adverse effects of the CAP reforms.</td>
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<tr>
<th>Reform in other policies</th>
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<tbody>
<tr>
<td>• EU agricultural advisory and policy making mechanisms must be broadened to include official and non-official representation of development, environment, consumer and family/small farmer interests.</td>
</tr>
<tr>
<td>• The EU should play an active role in the coming negotiations on agricultural trade in the WTO in order to ensure a rapid phasing out of export subsidies and those types of farm support which result in artificially low world market prices that do not reflect the costs of production for farmers and peasants.</td>
</tr>
<tr>
<td>• Compensation should be provided to ACP (Africa, Caribbean and the Pacific) countries if they experience negative effects as a result of the implementation of the Agenda 2000 CAP reforms.</td>
</tr>
<tr>
<td>• The EU should initiate a political dialogue with ACP partners and other Southern regions on the negotiations over agricultural trade in the WTO to ensure that food security concerns of the developing world are taken into account fully in international trade rules.</td>
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</tbody>
</table>

Source: Statement by the Liaison Committee of European Development NGOs to the European Union, December 1998.
Therefore, the perceived aim of the Agenda 2000 CAP reforms is to reduce/avoid expensive agricultural surpluses. Secondly, reduction in links between subsidies and farm prices is seen as essential for winning the WTO’s support for increasing exports.

The European Commission has suggested a cut in direct payments for the richest third of farmers by three percent a year. This step is proposed to stabilise spending on European agriculture and, at the same time, command the support of the majority. This would also help to achieve reduction in price levels, enable the Union to expand to the East, and increase exports.

In a recent report, the EEC argued that the proposed reforms would cut household food bills by at least two percent, or Euro10bn per year, but still leave room for farmers’ incomes to grow. Commenting on the report, Franz Fischler, the EU Agriculture Commissioner said: “It [the report] was a well founded contradiction to the prophets of doom and gloom.”

The report also found that, by 2005, there would be six percent increase in the production of cereals compared with what would happen without reform and this would be matched by an increase in internal demand and exports. The Commission’s conclusion stems from its belief that lower prices will increase demand for food in the European Union and ease constraints imposed by the WTO on food exports.

The rationale behind the reforms can be best understood by looking at the EU’s milk quota system. The EU set up the quota regime in 1984 in response to surplus production of butter and skimmed milk powder. The highly regulated market keeps the dairy farmers’ incomes relatively steady through production subsidies. However, European milk consumers ended up paying more than they would in a free market. On the other hand, according to the EEC, European countries are prevented from their export potential.

In sum, the Agenda 2000 CAP reforms aim is to reduce food prices and, at the same time, to increase farm incomes. The only way this can happen will be through increased production, “matched by an increase in internal demand and exports”.

Impact on Southern Consumers: Re-visited

What would be the impacts of increased exports on Southern consumers? Reduction in food prices will definitely help Southern consumers, both in the short as well as in the long run. But it will help only that set of consumers who are net food purchasers.

However, there is an important feature of Southern agriculture, which needs to be mentioned here. Agriculture in the South is more labour intensive with family members as the major source of labour; not that of modernised farming as in the case of Western Europe. Most producers of food are consumers as well. In simple terms, household food consumption is largely dependent on farm gate produce.

In such a situation, if there is an increase in exports from the EU (coupled with lower prices), it may seriously hamper local production in the long run. The effect will surely be on the household food security of subsistence Southern producers/consumers.

Secondly, in the event of low food prices (and consequently, food dumping), subsistence Southern producers/consumers may shift to cash crops for both exports as well as domestic consumption. This phenomenon has started happening in many Southern countries. Not only that it is hampering household and local level food security in the South, but if there is a sudden fall in EU’s food exports (say due to crop failure), food security, both locally and globally would be imperilled.

Furthermore, an indirect effect of food dumping could be on local level employment, especially in food processing industries. Recently, as a result of excessive production and exports of European beef and pig meat, many workers employed in tinned meat processing units in Namibia and South Africa found themselves out of employment. This has serious implications on household food security in those countries.

Conclusions

To conclude, European agriculture does need to be reformed. The challenges posed by the Agenda 2000 CAP reforms are a challenge for the European community as a whole. By taking into account, environment and rural development concerns, employment generation and local dynamics, and food security, it aims to meet Europe’s expectations of renewed agriculture.

At the same time, it is true that the CAP reforms are necessary for Europe, its effects will not necessarily be felt within Europe alone. A large number of people residing in the South are directly linked to and will be affected by the reforms in European agricultural policy. Among those who will be affected are subsistence Southern producers of food crops, who are consumers of food as well. Thus, it is necessary for EU to think about how to protect the food security of a large number of Southern consumers.

There are couple of ways through which EU can play its role in maintaining, advancing and sustaining Southern food security, while reforming its own agricultural system. The first is by providing technical and financial assistance to Southern subsistence producers. This will help in increasing agricultural productivity in the South and thus, in maintaining household and local level food security. The second is through developing and strengthening the Southern civil society to engage in international co-operation in matters of international trade policy. This will certainly help in increasing mutual understanding and conflict resolution.
Recommendations

• To provide technical and financial assistance to Southern subsistence agricultural producers for increasing their.

• To engage in regular dialogues with Southern civil society (consumer, developmental and environmental) organisations for increasing mutual understanding and conflict resolution.

• To address the issue of food security (especially for the net food importing developing countries) at the disaggregated level, and from the viewpoint of sustainability. In this regard pay more attention the Special Marrakesh Decision, 1994 on food security.

• To lobby at the WTO to prepare a report on export subsidies and domestic support to agriculture as practised by the European Union (and the US), and how are they affecting their farming system as well as in Southern countries.

• To pay greater attention and arrive at concrete measures on non-trade concerns vis-à-vis trade in agriculture during the review of the WTO Agreement on Agriculture.

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