ali CAP layout 18/10/02 4:36 PM Page 1

A Common Agricultural fund

Breaking the CAP stalemate

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Reform of the Common Agricultural Policy (CAP) is back on the table once again—not that it has ever been absent for long. With the inter-governmental conference out of the way, the European Commission is due to present a major package of reforms during the summer of 1997. They will be designed to prepare the EU's agricultural sector for the challenges of enlargement and the next WTO trade round. Britain's new Labour government, like its predecessor, has put agricultural reform at the top of its European agenda, and has pledged that it will be a priority during its presidency of the European Union in the first half of 1998. For many years most economists, if not most politicians, have argued that not only has the CAP been expensive for taxpayers, consumers and the environment, but that ultimately it has proved unable to maintain farming incomes and sustain rural communities. Proponents of radical change invariably believe that there should be a de-coupling of financial support from production. But the stumbling block has been reconciling this with every member-state's determination to see their *juste retour* or fair share of the EU budget.

ali CAP layout 18/10/02 4:36 PM Page 2

The CAP has by no means been a total failure. There can be no doubt that it has succeeded in providing post-war Europe with food, or that it has made a major, although often overlooked, contribution to Europe's political stability and to the development of the Community's internal market. But the world has moved on and the CAP's institutionalised policies have become inflexible, despite the substantial reforms which were introduced by Ray McSharry in 1992. The policy has proved incapable of adapting to new European and global circumstances. The European Union's internal budgetary constraints, its international commitments agreed under the GATT Uruguay Round, the effects of the proposed entry of the central and eastern European countries (CEECs), future trade negotiations, and the perennial problem of maintaining farm incomes have all conspired to make CAP reform inevitable.

This paper does not address the question of whether agriculture should or should not be supported, but whether the CAP is the most effective mechanism for delivering that support. Policy-makers, academics and trade associations have spent a great deal of effort developing suitable alternatives. But none has been able to bridge the divide between those member-states committed to market-driven solutions to the problems of farming, and those who see even gradual change as a Trojan horse for reducing their share of Community resources.

In order to break this stalemate, this paper proposes that the CAP should be replaced with a Common Agricultural Fund (CAF). Supplanting the budget of the guarantee section of the CAP, the CAF would continue to be commonly financed, with member states receiving CAF allocations determined by their guarantee section receipts over a base period. Member-states would then be responsible for distributing their national CAF allocations to their agricultural communities in accordance with their individual priorities. To avert the disintegration of the single market in agricultural products, only non-trade distorting policies, de-coupled from production, would be allowable under the CAF programme. To avert the economic and social dislocation that could initially arise from the introduction of a new support policy, price support derived from tariff barriers and export subsidies would not be reduced unilaterally, but only as a result of existing or future international agreements. However, price intervention mechanisms would be abolished, allowing EU production to balance domestic demand plus allowable subsidised or even non-subsidised export volumes. Quotas and set aside would not have to be abandoned, but their continued use in a more transparent internal market would become hard to justify.

ali CAP layout 18/10/02 4:36 PM Page 3

To facilitate and speed up EU enlargement, CAF payments would only be applicable to the existing EU15 countries. Support for CEEC agriculture would be provided from a much expanded guidance section. This would avoid the massive increase in agricultural spending that would come from extending price support to all new members, with their over-sized agricultural sectors. Increased resources would be provided to restructure central and eastern European farming. CEEC agriculture would benefit from access to the developed markets of the western Europe, while EU15 agriculture would have the certainty of budgetary support undiluted by CEEC accession.

Table: CAP Expenditure By Member-State In 1995

	Million ECU	*percentage*
Austria	86.1	0.25
Belgium	1,622.1	4.70
Denmark	1,389.4	4.00
Finland	61.9	0.18
France	8,376.6	24.20
Germany	5,380.0	15.60
Greece	2,438.8	7.10
Ireland	1,417.5	4.10
Italy	3,364.3	9.80
Luxembourg	14.0	0.04
Netherlands	1,929.7	5.60
Portugal	705.7	2.00
Spain	4,562.3	13.10
Sweden	5.1	0.22
United Kingdom	2,954.0	8.60
Other	125.2	0.36
Total	34,502.1	100.00

Totals may not add due to rounding

By removing support from the agricultural pricing process, and thus breaking the link with production, the market will play a greater role in the allocation of resources within Europe's agriculture. By increasing farmers' awareness of

ali CAP layout 18/10/02 4:36 PM Page 4

market signals, European agriculture will not only be more efficient domestically, but also be more competitive internationally as it becomes increasingly flexible and better able to adjust to changing conditions. But where the CAF comes into its own is in circumstances where member-states believe it is in their national interest to maintain, or to adopt, certain types of farming that a laissez-faire approach might neglect. Thus, if the British wish to promote the laying of extra hedgerows, or the Finns arctic agriculture, or the Greeks farming in isolated areas, then they will be free to do so. Whatever the reason—social, political, strategic, cultural or environmental—member states will be free to allocate their CAF receipts accordingly.

Not only will de-coupled payments reduce the seepage of support away from agriculture to other sectors, but they will eliminate the need for member-states to argue about reform proposals or budgetary allocations based on commodity considerations. No longer will Italian olive growers be pitted against Dutch dairy farmers. It will also put an end to issues of agricultural support entering other subject areas, which has typically had a detrimental effect. As a consequence we can expect an improvement in EU decision making.

A policy which has had its time

If the policy makers of Europe were to sit down today to design an agricultural policy for the EU, it is highly unlikely that they would choose the instruments currently employed within the CAP. Price supports, guaranteed markets, high levels of border protection, export subsidies, and latterly production quotas—the five principal support mechanisms of the CAP—have acted to reduce the competitiveness of European agriculture and place farming in a welfare straight-jacket.

However, hindsight cannot be bought at an opticians and at the time the CAP was being designed the traumas of the post-war years were very recent memories. Food deficits, the Communist threat to the east and the need to sustain newly reinstated democracies were the realities upon which the CAP was built. Not only was it very effective in ensuring western Europe's food supplies, but the policy strengthened the foundations of democracy, which we now take for granted. Neither a hungry urban population, nor an impoverished rural community would have done much to achieve that European settlement. Indeed, Peter Walker, former British secretary of state for Agriculture, once remarked that the CAP's greatest success was in stopping Italy turning Communist. The CAP was also the forerunner to the single market of today. Since its inception, the policy has established common standards in animal and plant health and public safety, and it has sought to put right the harmful effects on the environment that have either resulted from over-stimulated production or have only recently been discovered.

So the CAP has had its successes. But it has also had its time. European agriculture now faces a number of challenges, each of which will become more pressing as we approach the millennium.

Pundits generally agree that there are five main pressures developing:

★ In 1999 the EU is due to take decisions on its future financing. This is to include the overall ceiling for the Community's budget, fixed for 1999 at 1.27 per cent of the EU's gross national product. Against this background a number of member-states have already indicated that they do not wish to see an increase in this figure. It is also likely that rural development will be included in the 1999 review of the EU's structural funds. Given this battle for scarce resources, the existing level of CAP funding is likely to be challenged.

★ The Union's GATT commitments will prevent Europe's farmers and food industries from exporting unlimited quantities of subsidised agricultural products. Assuming continued productivity increases, to prevent stock accumulation the EU will have to either reduce domestic price levels and/or introduce tighter production constraints. In order to meet its subsidised wheat export commitments, it is estimated that set-aside would have to be between 25 and 30 per cent.[1]

[1] *Agra Europe, March 7, 1997*

★ A review of the Uruguay Round agreement is due to start in 1999. Pressure from the EU's trading partners for further reductions in agricultural protection and support is certain to intensify, particularly as the 1996 US Farm Act has unilaterally reduced government subsidy of farm production by abandoning the use of deficiency payments and introducing de-coupled support payments.

★ The eastward enlargement of the EU to include the new democracies of central and eastern Europe will result in a significant increase in budget expenditure if the CAP is extended to these countries in its present form. EU Agriculture Commissioner Fischler recently put the costs of handling agricultural surpluses from the Union's inclusion of 10 CEECs at ECU 12 billion per year, or an additional 30 per cent of the present CAP budget

ali CAP layout 18/10/02 4:36 PM Page 6

[2] European agriculture: the case for radical reform. MAFF, 1995

of ECU 40.8 billion. Other observers believe this figure could be even higher. The UK Ministry of Agriculture, Fisheries and Food estimated that the increase in expenditure for Poland, Hungary, the Czech Republic and Slovakia alone could reach ECU 15 billion.[2]

★ Extension of the high price levels currently enjoyed by the EU15 to new members to the east would most probably stimulate further production leading to additional surpluses. This would create extra problems for an enlarged EU since, under WTO rules, the CEECs have little or no allowance for subsidised exports. The baseline for current arrangements is 1990, when these countries were still to a large degree excluded from the international trading system. The EU could then be faced with huge surpluses which it would not be able to subsidise in order to export.

To these five pressures I would add a sixth: the desire of the agricultural and rural communities to share in the economic growth enjoyed by the rest of society.

Economists term the tendency of farming incomes not to keep pace with other incomes as the 'farm problem'. Since the birth of modern civilisation the agricultural workforce has been declining, as productivity has increased and opportunities for non-farm work have grown. Even in the last ten years there has been a fall of 70,000 in the number of people working on British farms. Productivity is a major factor in this relentless downward trend, but two other fundamental forces will continue to depress the numbers of those able to earn their living from the land. The first is physical in nature, the second economic.

Unfortunately for the productive farmer, the Billy Bunters of this world are not in the majority. Most of us can only eat so much. Once we are full, we are full. This situation has severe repercussions for farmers in societies with stable populations, where an increased supply of food pushes down its real price.

The second factor is that of economic progress and how, in a developed economy, its benefits often by-pass farming communities. As people get richer, lifestyles change and they tend to spend more on other goods and services. What extra they spend on food is often on the value-added portion of the final product, be that catering or packaging, rather than on the initial food ingredient. This is confirmed by figures published as part of the UK Ministry of Agriculture's National Food Survey. These indicate that there is a long term trend towards the increased consumption of convenience foods, which now

ali CAP layout 18/10/02 4:36 PM Page 7

accounts for 34 per cent of weekly household expenditure on food. That represents a rise of nearly ten per cent since the early 1980s.

A further, crucial issue that affects the ability of European farmers to further their economic well-being is their competitiveness in global terms. As the Uruguay Round provisions are progressively implemented by the year 2000, Europe's farmers will face not only a reduction in their ability to export with the aid of subsidies, but also greater competition in their domestic market as tariffs are reduced and market access agreements come into effect. GATT requires that the Community's variable import levies on agricultural products be converted into fixed tariffs and reduced by an average of 36 per cent over six years. In addition, if current imports were less than three per cent of consumption, then quotas would be introduced to raise import access to five per cent of consumption over the same period.

These changes undoubtedly place extra pressure on EU farmers, but the global market for food products is also likely to change rapidly over the next few years, creating valuable opportunities. By 2030 the world's population is forecast to rise from its present 5.7 billion to around 8.5 billion. This will increase the quantity of food required. At the same time, real income growth in middle income countries will increase the quality of food required.

If Europe's farmers are to share in these expanding markets they need to be competitive not only in terms of price but also in terms of meeting customer needs. To do this successfully they need better access to market signals, allowing them to respond rapidly to consumer demand.

For many reasons—social, cultural, economic, political and strategic—governments have sought to prevent an ever increasing number of farmers from leaving the agricultural sector, and the countryside, where few alternatives to farm work exist. Policy makers now cite another major justification for supporting agriculture. This is the farmer's role as guardian and manager of our countryside and natural environment. It is clearly the case that agriculture has shaped the European countryside over many hundreds of years and that it is farmers and landowners that continue to care for those landscapes we all enjoy. It is also apparent that if farmers are unable to make a living from the land then the farmer-made landscape will suffer.

So while there may be sustainable reasons for supporting agriculture, the purpose of this paper is to examine whether the Common Agricultural Policy is the most appropriate and effective mechanism to take Europe's food and farming industries into the new millennium, and to turn its future challenges into opportunities.

Unity, preference, solidarity

The policy enshrined in Article 39 of the Treaty of Rome was built upon the Community's three central principles of market unity, Community preference, and financial solidarity, and began with the following objectives:

★ To increase productivity

★ To ensure a fair standard of living for the agricultural community

★ To stabilise markets

★ To assure food supplies

★ To provide consumers with food at reasonable prices

The design of the CAP also sought to take into account the social structure of agriculture and of the structural and natural disparities between the various agricultural regions, with a commitment to 'appropriate adjustments effected by degrees'. The CAP is a common policy financed by a common fund, the European Agricultural Guidance and Guarantee Fund (EAGGF), embodying the principle of financial solidarity. Since it came into existence the EAGGF has been the single biggest item in the Community's budget (in 1996 around 49.8 per cent), and has thus been at the centre of the Community's development and performance.

Agricultural products supported under the CAP are subject to common regimes. Spending on price supports and market policy (the guarantee section of the EAGGF) is termed 'compulsory' expenditure. This means that the Community has to guarantee the CAP's operation. In 1995 about 90 per cent (ECU 36 billion) of EAGGF expenditure went on the guarantee section, with about half of this being spent on direct payments to farmers. The remaining 10 per cent of funds was spent on the guidance section. This allocates resources to spending on structural programmes, such as aids for diversification, and grants for processing and marketing. Together with the European Regional Development Fund and the European Social Fund, it also finances rural development actions. It should be noted that the planning and execution of these measures is already

ali CAP layout 18/10/02 4:36 PM Page 9

fairly decentralised to member-states and regions, and that they are co-financed by Community and member-state funding.

While there are not many people who would argue against any of the CAP's five central objectives, there are some who would disagree with its core principles. The question then becomes whether a policy instrument can be found to address the pressures facing the CAP while adhering to its central objectives.

Recognising the pressures outlined above, many proposals for CAP reform—from politicians, academics, industry and even farmers themselves—have been mooted. Many have suggested that the CAP needs to replace price support, and its market-detachment effects, by de-coupling support payments from production. Farmers would then be able to produce according to the demands of the market.

A recent German Ministry of Agriculture proposal suggested a single CAP premium paid on a per hectare basis, irrespective of what a farmer produces.[3] Other proposals based on decoupling require some degree of management payback, in the form of environmental management for example. This latter principle, known as cross-compliance, had been much frowned upon by farmers' organisations but is gaining ground among farmers who have signed up for the various agri-environment schemes available in member states. A British example is the Country Stewardship scheme which pays farmers in certain areas to 'improve the natural heritage of the countryside' under ten year management agreements. For instance, farmers are paid £85 per hectare for managing lowland hay-meadow, £500 per year for giving access to educational visits, and £2 per metre for hedge laying and coppicing.

[3] *Zur Weiterentwicklung der EU-Agrarreform, No.459. Wissen-schaftliche Beirat des Bundes-ministeriums für Ernährung, Landwirtschaft und Forsten, Bonn*

In 1992 the EU did adopt a significant piece of reform involving a major re-direction (or re-balancing) of Community farm policy. The major planks of the MacSharry reforms were the price cuts introduced in the arable and beef sectors, with farmers receiving so-called 'compensatory' payments on a historical basis. The CAP also introduced schemes covering agri-environment, afforestation and early retirement measures. In the case of cereals and other arable crops, compensatory payments generally became subject to the withdrawal of land from production (set aside). In the case of beef premia, these payments are subject to individual or regional ceilings and maximum stocking rates. But despite the 1992 reforms, which covered around 75 percent of CAP-

ali CAP layout 18/10/02 4:36 PM Page 10

supported commodities, the European Union has failed to prepare adequately its agri-food sector for the future: the member-states were unprepared politically to go further down the route of liberalisation.

Indeed, we must recognise that while changes to our support regimes may be justified by the economics, political considerations usually take precedence. And, of course, there are fifteen member states, each with its own set of political considerations which do not necessarily fit the stereotypes. Reform has therefore tended to take a piecemeal, rather than a comprehensive approach.

A Common Agricultural Fund

This paper therefore proposes a radical departure from the existing political and institutional framework that has characterised EU agricultural policy for the past 40 odd years. This reform not only looks to the future but also enables member-states to take account more effectively of their national and regional interests, while maintaining the cohesion and market integration that the CAP has brought.

This would be achieved by establishing a Common Agricultural Fund (CAF) administered by the Commission. The CAF's budget would consist of the guarantee section of the EAGGF. An enlarged guidance section would function as it does currently.

Distribution of the CAF's budget would not, however, be on a commodity basis like the CAP. Rather, existing member states would receive a country payment based on their receipts from the guarantee section of the EAGGF in an agreed base year or base period. New members of the EU would not be eligible to receive CAF resources, but would be eligible for funding from an expanded guidance section of the CAP, and payments for rural development from the European Regional Development and Social Funds.

It would then be the responsibility of individual countries to distribute national CAF payments according to national and regional priorities. The CAF would therefore be more transparent in allocating support than under the CAP, and less susceptible to fraud and misuse. It would be more accountable to local needs and quicker to adapt to priorities and market opportunities. However, nationally or regionally adopted policies would have to be verified as non-trade distorting by the Commission, similarly to the vetting procedure for other state aids. The Commission would only lose responsibility for internal support instruments.

ali CAP layout 18/10/02 4:36 PM Page 11

Under the CAF policy, intervention buying would be abolished. Domestic commodity prices would therefore be determined by a combination of internal supply and demand, tariff barriers and allowances for exports. This policy does not require the abolition of production quotas (set aside and milk quotas), but they would become effectively redundant.

So how does the CAF concept address both the core principles and objectives on which the CAP was founded, and the pressures presently facing the EU?

Market unity

The establishment of the CAF would not harm the EU's single market in agricultural and food products, so long as policies adopted by national governments were not trade distorting. Such policies are well documented in the Uruguay Round agreement, where signatories agreed to cut domestic support for agriculture, calculated as an Aggregate Measure of Support (AMS), by 20 per cent over the six year implementation period. However, the compensatory payments and other supports that were deemed not to affect production were excluded from the AMS calculation. While there is likely to be further debate as to what type of policy is allowable in future negotiations, income supports and environmental payments that are de-coupled from production are likely to remain in the 'Green Box' of allowable policies.

Community preference

Given that the Uruguay Round is already increasing access for third country agricultural products to the EU market, the principle of Community preference has already been diluted in practise. The adoption of the CAF would therefore not reduce Community preference in itself. The arrangement would also depend on the relationship between internal prices, world market prices and the Community's tariff wall. Further reductions in EU agricultural tariffs are expected to be discussed in new trade negotiations, and while they may be economically desirable, this paper is not suggesting that they be introduced unilaterally. A lowering of border protection should be negotiated under the auspices of the World Trade Organisation, in exchange for concessions from our trading partners.

In fact, the introduction of national de-coupled support policies under the CAF would actually serve to strengthen the negotiating position of the EU in agriculture. The Commission would be able to seek out market openings in separate sectors that would be of benefit to the EU's agri-food industry rather than seek to defend the whole basis of the CAP.

ali CAP layout 18/10/02 4:36 PM Page 12

Financial solidarity

Financial solidarity under the CAF would be maintained as a core principle of the new policy. Indeed, financial stability for member-state agriculture will increase as any change in the CAF's aggregate budget will be translated proportionately to individual member states. At present, changes in commodity regimes have differential effects on member-states depending on their farming profiles.

In the past, arguments over commodities have often spilled out of the agricultural sphere into other areas of the EU's decision making. A common example is that of Italy, which has on occasion threatened to block other decisions if its desire for increased milk quotas was not met. By removing such commodity issues from the budgetary and negotiating equation, the EU's whole decision making process is likely to be streamlined. A whole range of sensitive financial questions would be removed from the complex web of trade-offs amongst member states and the Commission.

To increase productivity

Instead of guaranteeing market, the CAF would require member-states to introduce 'Green Box' supports. Interpreting the market would become easier, thereby improving farmers' and the food industry's resource allocation. By reducing price supports (allowing for the supporting effects of tariffs), raw material costs to food manufacturers will fall, allowing the food industry to compete more effectively in the domestic and global market. This will increase employment opportunities within the food processing sector, contributing to overall economic growth within the Union.

The CAF system will also be more amenable than the CAP to the development and use of new technologies in agricultural production. For example, semen sorting will allow farmers to determine the sex of a cow's offspring. As the CAP stands, such a technology would add to EU beef stocks as average carcass weights increased with the birth of more male calves and its use would be discouraged. With the CAF, there would be no price intervention for beef: semen sorting would be used to increase productivity not production.

As support payments would be made directly to farmers, rather than through artificially high market prices, input costs, including the price of land, will more closely reflect actual market conditions. A reduction in input costs would increase the real value of support payments to farmers and simultaneously benefit new entrants.

ali CAP layout 18/10/02 4:36 PM Page 13

A fair standard of living for the agricultural community

One of the many criticisms of the operation of the Common Agricultural Policy is that it has failed to prevent a relative deterioration in farming incomes. As indicated above, by concentrating on maintaining high prices, the CAP has had the effect of bidding up input prices, thus reducing the real value of agricultural support to farmers.

The complexities of the CAP have also encouraged fraud, which has further reduced the proportion of the CAP budget that has actually reached its targets. The Court of Auditors' Head of Divisions, responsible for auditing the CAP, has said that the food surplus/export refunds system is de facto vulnerable to high levels of fraud: "in such a climate you stimulate fraud and that is a structural problem". By devolving the responsibility of support payments to national governments the problem of fraud is likely to be decreased in two ways. First, political accountability for payments is increased. Second, by de-coupling payments, reducing price support and improving resource allocation, there is likely to be lower uncompetitive surplus production, thereby reducing the need for export subsidies.

To stabilise markets and to assure supplies

Traditional arguments for agricultural market stability and the assurance of supplies have revolved around three issues; price and source stability for consumers and price stability for producers. While the CAP has provided a high degree of stability to the domestic market, it has done so by adding to instability on the world market. The most recent example of this was the EU's imposition of export taxes on cereals exports, when the internal price of cereals was below the world market price. By shielding the EU market from world demand the EU actually helped to increase cereals costs to the less developed net food-importing countries. Conversely, surplus production in Europe has regularly been exported with the aid of subsidies onto world markets, pushing down world prices and reducing the production incentive for farmers in other countries.

The CAF would increase stability of income for producers in Europe and around the world. It would make direct and more constant payments to farmers the norm in the EU; and it would help the international market to function more effectively—of great benefit to farmers in developing countries—by removing the distortions of the CAP's price and export policies.

As regards the stability of agricultural prices, this is of less concern to consumers in Europe now than when the CAP was established. This is because we now spend a lower proportion of our income on food, a lower proportion of the price of a food product is now accounted for by the raw material, and EU consumers are now comparatively wealthy, creating markets in a wide range of foodstuffs from a wide range of suppliers.

To provide consumers with food at reasonable prices

The definition of 'reasonable prices' can undoubtedly be debated for hours if not days by the many interest groups who have an interest in agriculture. What is clear, however, is that the price of food in the European Union is held at artificially high levels, in comparison to world prices, by the CAP's price support mechanisms.

Price support results in transfers from consumers to producers, while direct payments are transfers from taxpayers to producers. A still pertinent example of the cost to consumers came from the UK National Consumer Council, which estimated that, in the late 1980's, the extra annual cost on food prices of the CAP was £110 for every man, woman and child in the Community. [4] This was in addition to £59 per person charged in extra taxation. Given that spending on food represents a higher proportion of lower income families' total spending, price support has a digressive effect.

[4] *Consumers and the Common Agricultural Policy, NCC, 1988*

The CAF would not reduce tariffs directly, thereby maintaining an element of price support. But it would remove other intervention mechanisms which have acted as an institutional barrier to lower consumer prices, and tariffs are set to come down over time in line with trends towards the liberalisation of international trade.

Agriculture's social, structural and natural disparities

Many people believe the CAP protects small farmers, but except for upward limits on direct payments in the beef and sheep sector, and derogations for small cereals producers, it has generally not sought to differentiate between small and large producers. This is because CAP support has traditionally operated through the price system and such differentiation is therefore almost impossible to implement. With direct payments to farmers, financial support can be limited according to various criteria. For example, payments could be capped at a certain level, or could taper beyond a certain farm size, or payment could be based on the number of labour units employed on the farm.

Differentiation between farms of different sizes, or 'modulation', has its supporters and was very nearly introduced under the 1992 MacSharry CAP

ali CAP layout 18/10/02 4:36 PM Page 15

reforms. However, opponents, especially in the UK, argue that it would disadvantage those countries with a larger farm structure and therefore reduce aggregate country receipts. The social or economic justifications for treating farms according to size, location or enterprise are the subject of heated debate, but the CAF would at least allow countries wishing to introduce targeted payments to do so. It would then be a matter for national or regional governments to direct payments as they saw fit.

If the UK wishes to support its hill farmers more than farms on the most fertile land then that would be a matter for the British government. Similarly, if Greece wishes to support its smallest farmers then it can arrange to do so. This is an important facet of the CAF as it allows governments to direct aid on whatever social, political, strategic, cultural, or environmental basis they deem appropriate, and to do so in their national or regional interest. It restores some legitimacy and accountability to a heavily centralised administrative system. It also means that specific agricultural policy issues do not become overly contentious, paralysing EU decision-making, but are confined to the national domain where they are best debated.

To effect the appropriate adjustments by degrees

Reform is needed now. That is the opinion of the Commission. If the CAP is merely tinkered with, the pressures of budgetary constraints, of GATT, of eastward enlargement and of the 'farm problem' will continue to build, necessitating more radical, harsher changes in future years. By adopting the CAF, the European Union would be able to allow market linkages to operate, with member-states able to direct support to those sectors most in need of assistance. By initially maintaining tariff walls, future multilaterally negotiated reductions would indeed allow 'adjustment by degrees'. And, as detailed previously, in return the EU would be able to negotiate increased market access for its products—to the benefit of Europe's farmers.

Coping with future pressures

Given the political will to drive forward the eastward expansion of the EU, the 'ring-fencing' of the CAF would be of clear importance to the existing members. New entrants would not be eligible to receive assistance from the CAF, but they would, like existing members, be entitled to payments for structural programs from the guidance fund, the expansion of which would be vital. Given the nature of their farming sectors, new members would most likely receive a disproportionately large share of rural development funding.

Since current estimates put the cost to the CAP of the accession of the CEECs who have applied for membership at ECU 12 billion or more per year, and the Commission suggests that half these costs would be in compensatory payments, it would appear that the guidance fund could be expanded substantially from its current annual level of around ECU 4 billion. Membership of the EU would give CEEC agriculture full access to the large markets of western Europe, which would help stimulate growth in other areas of their economies. At the same time, CEEC agriculture would not become saddled with the straight-jacketing effect of the old CAP, with its short-term inflationary implications. A restructured agricultural sector in central and eastern Europe would still hold the competitive advantage of lower input costs.

The implications for agricultural competitiveness are often overlooked by those who discuss support policies, but the ability to compete is absolutely fundamental if Europe's farmers are to be able to participate in the world market. As mentioned above, three main factors will drive the global demand for food in the next two decades: the quantity of food that will be required by a growing number of people, and the increased quality and variety of food that is consumed by people when their incomes grow. To compete effectively in both these markets the European farmer has to be competitive.

A CAF system will assist farmers to compete by allowing them to adjust to global demands via price signals, without having to ask first for an interpretation by bureaucrats. It will also allow food manufacturers to export more value-added foodstuffs, thus creating more jobs within the industry in Europe. Perhaps it is not too hard to envisage structural funds being used to assist in helping food companies in rural areas to become export-orientated.

And there are other aspects which we should not lose sight of: internal competition and encouraging new entrants. The recent removal of guaranteed markets has meant farmers have had to produce for the market, rather than for intervention. This has meant that better farmers have improved their positions. And, by reducing price support, asset values, especially land, tend to reflect market realities more accurately, thereby helping new entrants into the industry.

The CAF will also have important implications for the rural economy. The EU's rural areas account for around 80 per cent of its total land mass and around 25 per cent of its population. Perhaps more than any other aspect, it is their cultural, social and economic diversity that contributes to the heterogeneous

ali CAP layout 18/10/02 4:36 PM Page 17

character of the EU. But that does not mean the rural areas are immune to change. Many have experienced a decline in farming activities, migration to urban areas, an ageing population, a lack of infrastructure and a decline in services.

Following the reform of the EU's structural funds in 1988, the problems in rural areas received further recognition in article 130a of the Maastricht Treaty. This identified rural areas as a priority for assistance under EU policies for economic and social cohesion, with the principal objective being to maintain viable rural communities. The EU believes that competitive agriculture is essential to this objective, but has also promoted diversification in rural economies. Specifically the Commission is keen to develop small and medium sized enterprises, exploit new technology in rural areas and promote rural tourism. Other stated priorities are access to services, the protection of the environment and appropriate training.

Rural development is encouraged under four of the six objectives of the EU structural funds and under the CAP's farming and land utilisation programmes. Around ECU 15 billion was allocated from the structural funds for rural development during the period 1989-1993, and the amount has been doubled for the period 1994-1999.

The Irish presidency hosted a conference on rural development in Cork in November 1996. The resulting Cork Declaration called for "sustainable rural development, more subsidiarity, simplification and integration". Commissioner Fischler said that the objective should be, "One objective, one legal framework, one coherent policy, one programme, that is simple transparent and efficient". But following fierce criticism from farmers' organisations, worried that agricultural support would be watered down in favour of rural support, the Commission clarified its position, saying that there was no question of a common rural policy supplanting the CAP.

With the CAF option, rural development measures, such as the Leader program, would continue to be funded, as now, from the structural funds. However, as direct payments lead to more money reaching farmers' pockets than under systems of price support, rural economies will benefit more than under the CAP. In addition, member-states will be free to target payments to farmers in their most disadvantaged regions. It has also been argued that modulation can assist in rural development, as recipients of large amounts of support are more likely to spend a higher proportion of that support outside the immediate locality,

ali CAP layout 18/10/02 4:36 PM Page 18

than are smaller farmers. In any event, under the CAF it will be the responsibility of member-states to allocate payments in accordance with their national priorities.

The CAP has long been blamed for encouraging farming practices that have proved harmful to the natural environment. Many examples have been cited, including the over-application of fertiliser, herbicides and pesticides, and over-stocking on fragile land. All of these excesses can be attributed to the farmer's desire to increase production to profit from the high prices established by the CAP. At the same time, it is generally recognised that agriculture has also had a positive effect on our countryside, by providing such features as stonewalls and hedgerows.

A MAFF report has told us that the removal of CAP price support will reduce the use of agrochemical inputs.[5] There could be less land planted to cereals and more extensive livestock production in certain regions. But lower cereal prices could actually intensify livestock production in some areas, bringing other problems. In the absence of alternative support, a fall in farm incomes would be expected to lead to a fall in the voluntary management of environmental features. Some land may go out of agricultural use altogether, and there may be an increase in non-farming enterprises. While the MAFF report stated that positive environmental benefits were likely to outweigh the negative effects, it did propose the use of 'complementary measures' to ensure environmental objectives were met.

[5] *European agriculture: the case for radical reform. MAFF, 1995*

If member-states so wish they will be able to direct CAF payments to farmers in exchange for the production of countryside goods. The CAP already provides for the production of such goods through the agri-environment regulation, but the funding levels have been minor (around one per cent of total CAP expenditure). The decentralised operation of the CAF would also allow member- states to provide additional funding to organic conversion schemes.

By insulating Europe's agriculture from global market forces, the Common Agricultural Policy has increased instability beyond its borders. By stimulating production the EU has often found itself with excess stocks. It was only possible to export beef mountains and cereal stocks with the aid of export subsidies and this has had a depressing effect on world prices. Just as high prices have stimulated production in the EU, low world prices have stifled production, with damaging consequences in many of the world's poorest countries. The most contemporary example of the effects of the EU subsidised

ali CAP layout 18/10/02 4:36 PM Page 19

export policy is the damage that it has caused to beef markets in southern Africa, as highlighted by Christian Aid.[6]

[6] *Out of joint: report on research into European Union beef dumping in South Africa. Christian Aid, London, 1997*

Conversely, in times of high world food prices, the EU has chosen to impose export taxes. This has the effect of limiting global supplies, raising prices still further to those countries (often the poorest) needing to import. While it is not proposed that the EU unilaterally cut tariffs or abandon its GATT allowances, the CAF would nonetheless assist international agricultural development by altering European agriculture's frame of reference from not-so-splendid isolation to global involvement. This would inject a new spirit of liberalisation into agri-food trade negotiations, aiding the development of third world farming.

Many criticisms will undoubtedly be levelled at the idea of a Common Agricultural Fund. The first will be that it weakens the core principles of market unity, Community preference, and financial solidarity. The CAF maintains market unity by allowing member-states to adopt only non-trade distorting instruments. Community preference, in its strict form, has already been eroded under the Uruguay Round market access provisions. The introduction of the CAF is therefore preference-neutral. By continuing the principle of common financing the CAF maintains, financial solidarity. Indeed, farmers and rural communities are likely to obtain a better deal, favouring social cohesion, and they are likely to look on the EU with more favour, adding to the Union's legitimacy.

Following on from these criticisms, those opposed to any institutional change will probably regard the decentralisation involved under the CAF as anathema to the European Union, arguing that common funding necessitates a common policy. On political and economic grounds, this point of view smacks of central planning and of micro-management of the worst sort. Those who argue that the Commission will not accept a more modest role in the implementation of agricultural policy may find it to be a more enlightened institution than they had imagined.

Besides those who are opposed to any sort of change will be those who view the establishment of a fund for only the EU15—and not the members—as a betrayal of the 'European Principle'. It is my opinion that this argument is one of ideology and that if we are to achieve our objectives then we must be open to new relationships and new structures.

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ali CAP layout 18/10/02 4:36 PM Page 20