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The EU's Common Agricultural
Policy, 1973-2013: *A policy
reformed, or just more of the same?*

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Outline

- Some background comments
- Pressures for reform
- As a result policies have changed
 - Even though fundamental objectives have not
- Institutions matter
- A brief conclusion

Background

- In 1973 the 'old' CAP, involving market price support, intervention buying & public stocks, and export subsidies, was well established
- It was the result of intensive state intervention in the inter-war and post-war years, and the construction of the EEC
- Sicco Mansholt's reform proposal of 1968 had

Background

- By 2013 the world had changed
 - technology, global politics, societal expectations, international finance, and economic ideologies
 - and the EEC had become the EU: the original membership of 6 had become 27 (soon to be 28)
 - Denmark, Ireland & the United Kingdom joined on 1 January 1973
 - Sweden, of course, joined in 1995

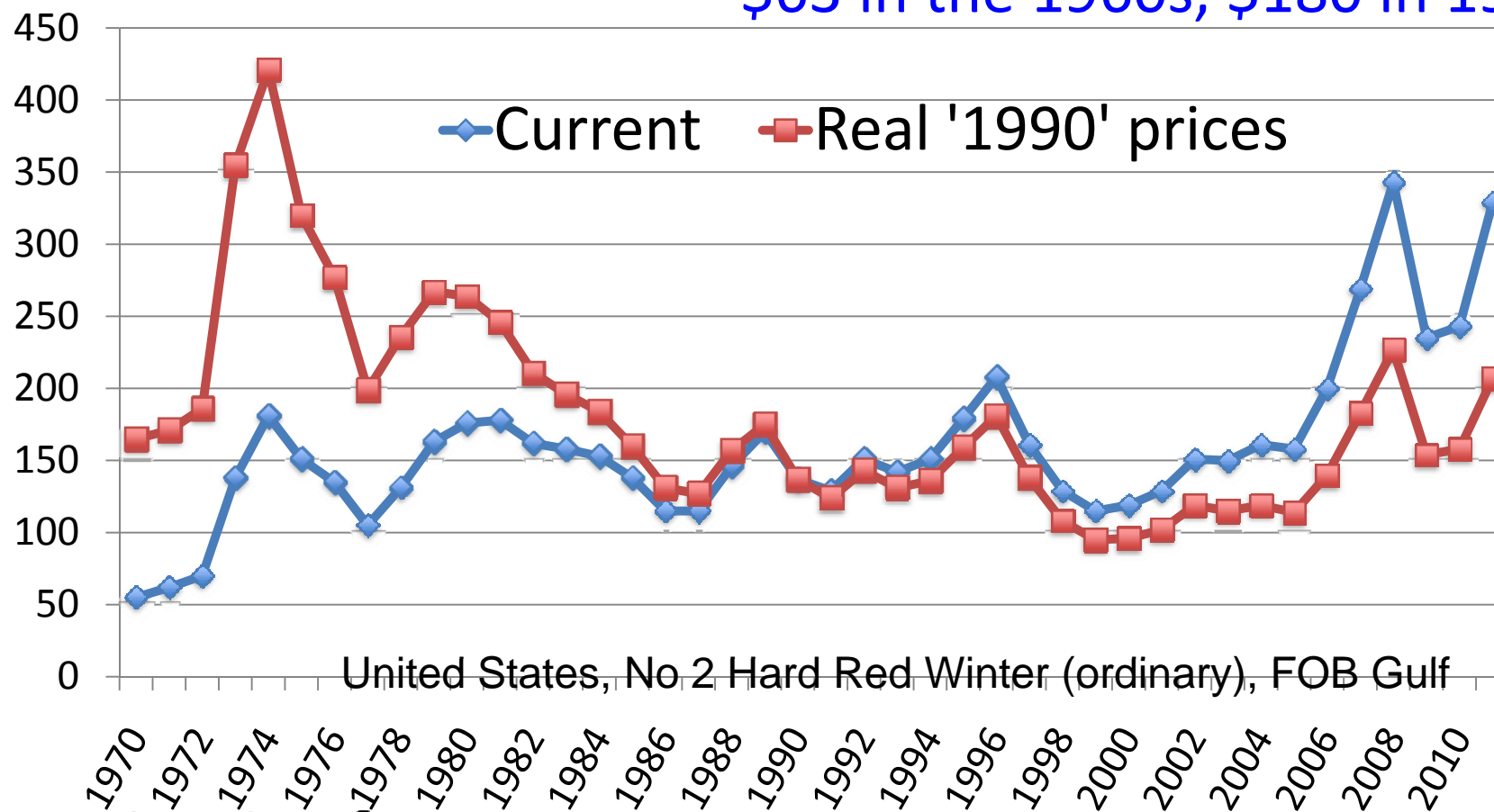
Background

- And we have gone from one world food crisis to another

World wheat prices, 1970-2011

(US\$/tonne, annual data)

\$63 in the 1960s, \$180 in 1974



United States, No 2 Hard Red Winter (ordinary), FOB Gulf



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UNCTADSTAT, and World Bank for US GDP deflator

Background

- But the 1973 accession of the United Kingdom, *a net food importer*, coinciding with the world food crisis of the early 1970s, abated pressure for CAP reform by a decade

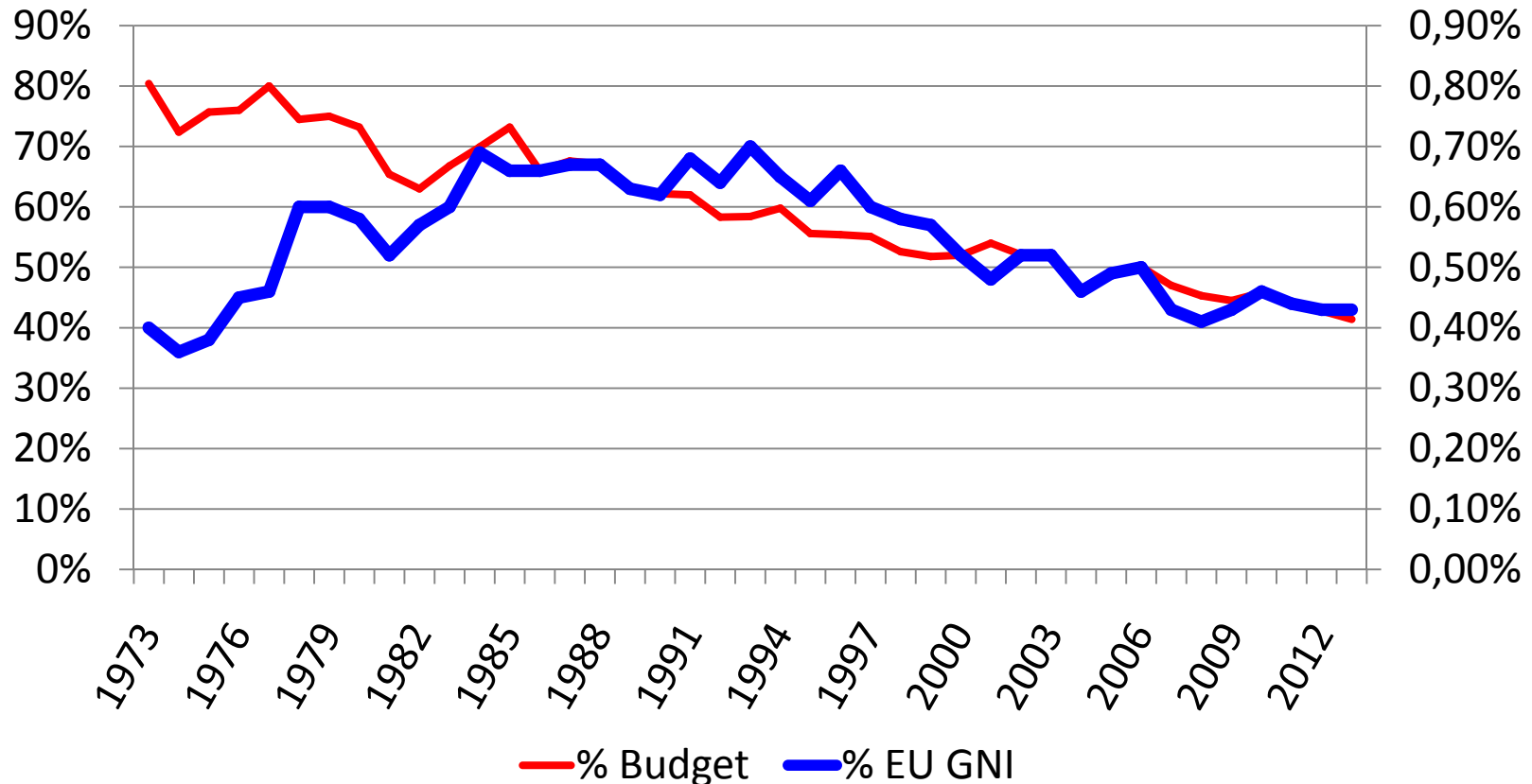
What were the pressures?

- The budget
- Environmental concerns/rural development
- Food safety and quality
- GATT/WTO

The Budget

- In the 1970s and into the 1980s, farmers responded to high support prices: production soared, and intervention stocks and subsidised exports grew
 - CAP budget expenditure reached 0.7% of EU Gross National Income (GNI) in 1984
- But budget pressures were not enough, in themselves, to trigger CAP reform
 - See Daugbjerg & Swinbank, 2009

CAP as % of EU Budget and of EU GNI, 1973-2013



Source: Felice Adinolfi, Jonathan Little & Albert Massot, *The CAP in the Multiannual Financial Framework 2014/2020*, Directorate General For Internal Policies, European Parliament, 2011 (derived from Commission data).

The environment

- Farmers were originally seen as the ‘guardians’ of the countryside, despite heavy criticism from academics and NGOs
- Environmental policies were first introduced into the CAP in the early 1990s

The environment

- The 1995 enlargement (Austria, Finland & Sweden), and the appointment of Franz Fischler as Commissioner for Agriculture, elevated *rural development* to be the *Second Pillar* of the CAP
- But despite the rhetoric, EU farm ministers resist any further transfer of funds from price & income support (Pillar 1) to Rural Development, as can be seen in the current debate on the shape of the post-2013 CAP

Food safety

- Various food safety and animal health & welfare concerns (e.g. dioxins, Bovine spongiform encephalopathy, foot & mouth disease) weakened public support for “farming”, and brought new issues and actors into the policy-making debate
- But the EU still struggles to pursue an appropriate policy on genetically modified organisms (GMOs)

GATT/WTO

- In the 1950s and 1960s ‘agricultural exceptionalism’ prevailed both in nation states and in the General Agreement on Tariffs and Trade (GATT)
 - Agricultural exceptionalism (or agrarian fundamentalism) is the belief that agriculture is so different from other sectors of the economy that markets cannot deliver appropriate outcomes

GATT/WTO

- From the outset the CAP was subject to sustained criticism in the GATT
 - Imports were blocked; and the EEC's subsidised exports unfairly captured world markets
- This was exacerbated by the trade losses countries suffered as a result of the 1973 enlargement

GATT/WTO

- In other sectors of the economy governments were embracing neo-liberalism and deregulation
 - Australia and New Zealand abandoned agricultural protectionism, and influential studies by the OECD (Organisation for Economic Co-operation and Development) emphasised the cost of farm support
 - Sweden too, in 1990
- Depressed world agricultural prices in the 1980s brought the matter to a head

GATT/WTO

- Agricultural protection was a key issue in the Uruguay Round (UR) of GATT negotiations (1986-1994) in which the EU was keen to liberalise trade in services and manufactured goods
- Thus the EU also wanted the UR to be a *Single Undertaking*, in which ‘nothing was agreed until everything was agreed’

GATT/WTO

- And so the World Trade Organization (WTO) was created, with increased disciplines on farm support (The Agreement on Agriculture), with the EU one of its key supporters
- To sign-up to this package the EU was forced to modify the CAP
- Thus I believe the MacSharry reforms of 1992 were brought about by external pressures (the UR negotiations), rather than budgetary, environmental, or consumer concerns

So policy changed

- Two key sets of decisions:
 - The MacSharry reform of 1992, negotiated in parallel with the UR, in which support for cereal & beef producers was partially decoupled
 - And the Fischler reforms of 2003, a key factor in the EU's negotiations in the now-stalled Doha Round
- With increased emphasis on the environment and Rural Development (CAP's Pillar 2) in the Agenda 2000 reform of 1999

The 1992 MacSharry Reform

- Support prices for cereals and beef were reduced; farmers were *compensated* for the implied loss of revenue
 - These area payments (on arable land) and headage payments (on animals kept) were partially decoupled (i.e. they were now linked to inputs, not output); and there was a reduced need for export subsidies
- Agenda 2000 extended the reform

The 2003 Fischler Reform

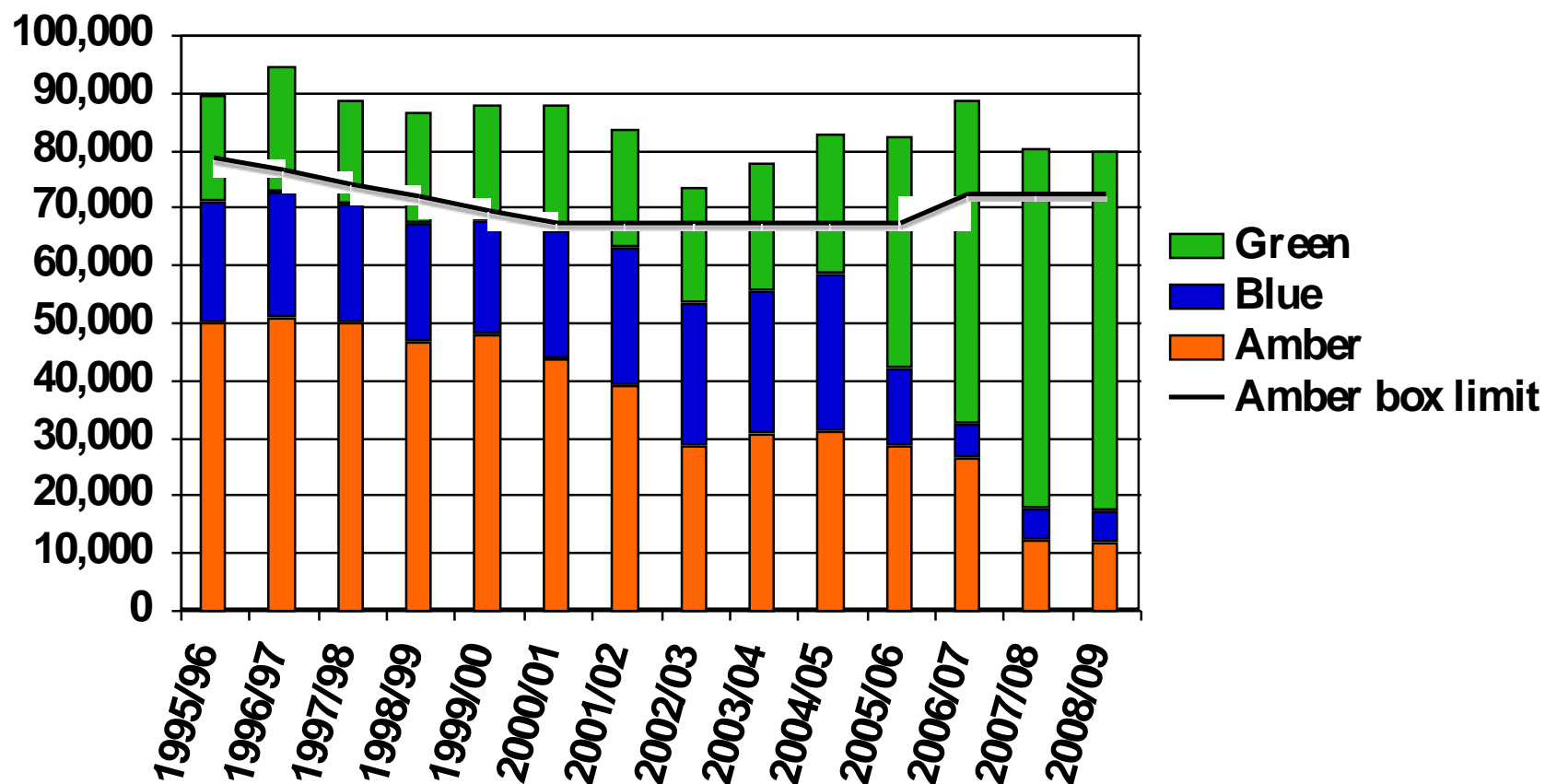
- MacSharry's area and headage payments were further decoupled by (in principle) breaking the link with production, but not with land: the *Single Payment Scheme*
 - Mediterranean crops in 2004, then wine, fruit & vegetables and sugar
- The 'Health Check' of 2008 extended the reform

Today's CAP

- In 2013 the *architecture* of support is substantially different from what it was in 1973
 - Most support is 'decoupled' under the Single Payment scheme, and declared as decoupled 'green box' support in the WTO
 - But still very high tariffs on many products
- But to outside critics, the *level* of support has barely changed

EU's Domestic Support Declarations to the WTO

€ billion, G/AG/N/EEC/ document series



Today's CAP

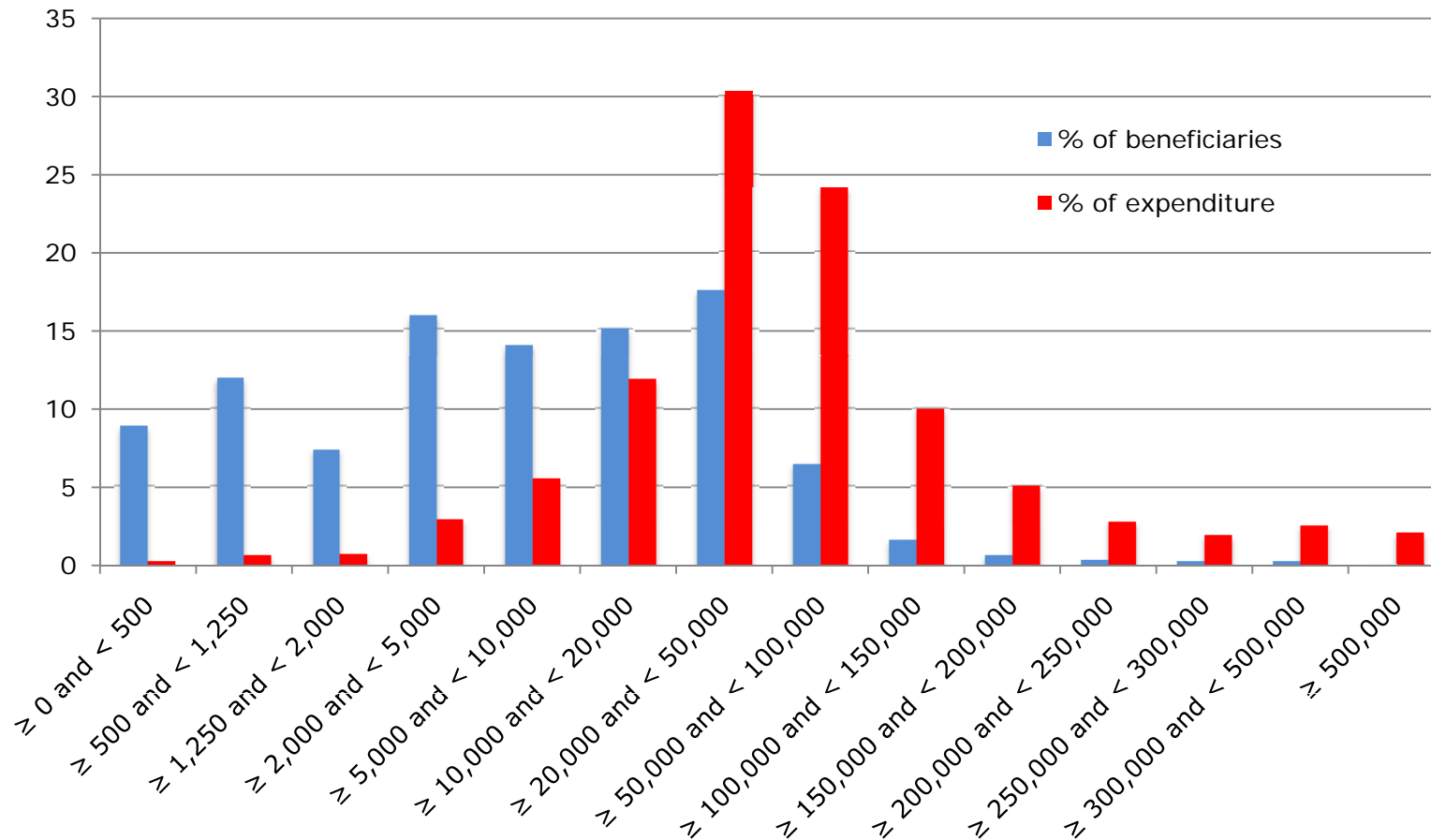
- The support of *farm incomes* is still the CAP's main objective, although as Stefan Tangermann (former Director for Trade and Agriculture at the OECD) has said: 'the Commission has in the past shown no interest in generating statistics that would allow the measuring of the family incomes of farm households' (see also Berkeley Hill)

Today's CAP

- The Commission and the European Parliament argue that farm incomes lag behind those in the rest of the economy
 - European Parliament (June 2011 Resolution): *“agricultural incomes are notably lower (by an estimated 40% per working unit) than in the rest of the economy”*
- If so, this is a rather shocking result of 50 years of CAP price & income support!

But there is little evidence of *targeted support*

UK, 2010, All Direct Payments
Percentage, by size of payment



Proposals for the post-2013 CAP

- The EU's institutions are engaged in a review of the CAP, and the funding of the EU, to apply for the period 2014-20
- The basic idea is to roll forward the existing CAP
 - with some redesign of the Single Payment Scheme (making 30% of the payment conditional on additional environmental provisions for example)
 - whilst preserving the CAP budget in nominal terms
 - and with a limited redistribution of budget costs and benefits between Member States

Tangermann's verdict:

- “... the political aim appears to be to maintain as much of the existing payments as possible by suggesting a new, though phoney, justification ... The proposals do not create a new and future-oriented paradigm. They are a retrograde attempt at safeguarding an outdated policy approach ... *[The]* reform process ... is brought to a halt with these proposals.”

Institutions and individuals matter

- The original CAP was very much the creation of Sicco Mansholt. He worked closely with the farm unions
 - He fell out with them though over the Mansholt Plan, and their *direct* influence in Brussels is now much diminished
- Ray MacSharry, Franz Fischler, and Mariann Fischer Boel, all pressed for significant CAP reform
 - The current Commissioner, Dacian Cioloş, is backtracking on reform

Institutions and individuals matter

- The CAP and its budgetary consequences are a persistent cause of conflict between the Member States
 - Those with relatively important farm sectors strive to protect ‘their’ farmers’ vested interests
 - Others see the CAP as a budgetary burden, and pursue the politics of *juste retour* (wanting to see their contributions to the budget matched by offsetting receipts)

Institutions and individuals matter

- Until the Treaty of Lisbon (2009), the *European Parliament* had few powers over the CAP
- This is now changed ('co-decision' with the Council of Ministers) and its Committee on Agriculture and Rural Development (COMAGRI) shows no appetite for CAP reform
 - Difficult to see how, and when, the current debate over the post-2013 CAP will be resolved

Institutions and individuals matter

- Environmental NGOs have succeeded in changing the rhetoric of the CAP, and have had some impact on policy, but *farm* ministers and COMAGRI seem determined that direct payments for farm income support should define the post-2013 CAP

Institutions and individuals matter

- Past reforms were driven by the external pressure of the Uruguay and Doha Round negotiations, and the EU's wish to adhere to a Single Undertaking
- With the Doha Round stalled, that critical pressure for CAP reform has gone

In Conclusion:

- The CAP has changed significantly over the last 40 years
 - The change was driven by trade negotiations, but that reform trajectory has now stalled
- But the focus of policy has remained a fuzzy concept of the need to support farm incomes
 - Even though it's not the incomes of the poorest farmers we support
- More targeted support for the environment is needed

Apologies: what I've not covered

- Bioenergy
- Global warming and carbon sequestration
- Feeding a world population of 9 billion
 - *But a final word: world food security is not notably enhanced by supporting European agriculture!*

Reference Material

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