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**Article**

## CAP Reform

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## CAP REFORM

Recent problems with animal health, particularly Bovine Spongiform Encephalopathy (BSE) and Foot and Mouth Disease (FMD) in England, where they contributed to a fall in the income of a typical 500 acre farm from £80,000 in 1999 to £40,000 in 2000 and £2,500 in 2001, have added to pressure to reform the CAP. Other pressures come from its effect on the community budget, on third world economies, on relations with countries exporting the products we export – but on a more commercial basis and the consequences for the enlargement of the European Union to include its eastern neighbours, such as Hungary and Poland, which have large agricultural sectors. The political balance within Europe may have changed recently, particularly with the role of the Green Party in Germany's ruling coalition. Environmental issues, such as those raised by the "Set Aside" policy under which farmers are paid not to cultivate some 14 per cent of previously cultivated land, have taken an increasing role in agricultural (and agri-environmental) policy.

The need to reform the Common Agricultural Policy has been recognised for many years and a start has indeed been made in switching support from output subsidies, which encourage intensification with adverse environmental effects, to agro-environmental programmes which support conservation and rural incomes without adding to agricultural surpluses. Progress is, however, inadequate to meet the growing pressures for reform.

The pressures come from several directions: the oldest is the financial pressure reflected in the fact that the CAP absorbs 48

per cent of the EU's communal budgetary resources or EUR 41.5 billion – see Table 7.1. One would expect the EU's budget, as opposed to that of its member states, to be concentrated either on redistribution from richer to poorer members or on externalities and public goods that operate at a supra-national level – such as greenhouse gases or mutual defence. Agricultural support is an indirectly redistributive arrangement and, for historical reasons, the CAP still provides more support to "northern" crops grown in France and Germany than to "southern" crops grown in Spain and Portugal. Together they have the same area under cultivation as France but in 1999 received 15 per cent of expenditure compared to France's 23.6 per cent. Nor does it benefit the poorest farmers. While support averages £20,000 per farm, the maximum is twenty times that.

The second, and related, pressure is from the planned enlargement of the EU to the East.

**Table 7.1**  
**Comparison between domestic and international**  
**prices for main agricultural products**  
**Price 1999–2000**

EUR/ton	EU	World	Gap in %	EU Spending EUR billion
Wheat	133	118	13 } } arable	16.64
Maize	140	92	52 }	
Rice (milled)	600	300	100 }	9.23
Sugar	650	250	160 }	
Bananas	660	360	83 } other plants	
Citrus Fruit	485	467	4 }	
Tomatoes	787	633	24 }	
Beef Meat	2,780	1,176	57	4.46
Pig Meat	1,120	1,113	1 }	1.53
Poultry Meat	1,335	977	37 }	
Sheep Meat	3,333	1,476	126 sheep/goat	
Whole Milk Powder	2,605	1,384	88 }	2.77
Skimmed Milk Powder	2,055	1,419	45 } dairy	
Butter	2,954	1,307	126 }	
Cheese	3,500	2,154	62 }	
Rural Development				4.1
Other				2
Total				41.47

Source: EU Commission DG-Agri (2000), "EU Trade Concession to Developed Countries (Everything But Arms)", p. 7.

Poland, in particular, of the first wave candidates, is a large country (40 million people) with a large agricultural sector (accounting for 18 per cent of the civilian working population – four times the EU average).

To extend CAP support prices to Polish (and Hungarian) output would be costly. The CAP is not financed by any means entirely by the budget; consumers also pay prices higher than those on world markets. Thus the entrants should be expected to respond to CAP membership by raising output and reducing consumption – changes which have to imply larger European surpluses to be disposed of on world markets at much lower prices than have been paid to EU producers.

This is one of the areas in which the terms of the Accession Treaties have yet to be finalised – but there can be no doubt that EU enlargement would aggravate the costs of the CAP. This is true not only of costs borne directly by EU consumers and tax payers but also in the form of strained relations with allies and trading partners. The increased net surplus of Europe in agricultural products would tend to depress world prices and antagonise established commercial exporters such as Argentina, Australia and Canada.

The EU's relations with developing countries in this area are complex. This is because they are treated differentially on the basis not only of their poverty but also whether they were ever colonies of EU member states. Generally, the agricultural protection associated with the CAP militates against imports from the third world. Some poor countries, however, have privileged access to EU markets for some products. Although they would lose in a completely liberalised system it has been calculated that, as a group, developing countries would benefit more from liberalisation than they do from existing EU development-aid budgets – aid does less than compensate for barriers to agricultural exports even before one considers other exports, such as textiles.

One of the products given special, and limited, privileged access to the EU market, is bananas. This privilege has been contested by the United States on behalf of US-owned plantation and packing companies growing them typically in Latin America. The EU regime has been amended under pressure but it never conferred benefits on its intended beneficia-

**Table 7.2**  
**Agricultural support in selected OECD countries, 2000**

	Producer support		Consumer Support	
	USD billion <sup>a)</sup>	% <sup>b)</sup>	USD billion <sup>c)</sup>	% <sup>d)</sup>
Norway	2	66	- 1	- 44
Japan	60	64	- 68	- 54
EU	90	38	- 44	- 29
US	50	22	+ 4	2
Australia	1	6	negligible	- 3
OECD Total/average	245	34	- 147	- 26

<sup>a)</sup> Total support to producers by way of budgetary transfers and the benefits of protective tariffs;  
<sup>b)</sup> as % of gross farm receipts.  
<sup>c)</sup> Total support to consumers of agricultural products – negative figures represent effective taxation on consumers by way of taxes on agricultural products including imports. Producer support from general taxation (and associated deadweight costs) are not represented as (negative) consumer support.  
<sup>d)</sup> As % of total value of consumption expenditure on agricultural products at farm gate prices.  
 World prices are assumed unaffected by national support operations.

Source: OECD.

ries that warranted the costs to other parties – including the costs of administration.

Admittedly the EU is not the greatest protector of domestic agriculture (see Table 7.2). Norway and Japan offer even more extreme examples and the United States offers support to specific crops such as tobacco and peanuts. Indeed the EU is representative of other OECD members in this area.

The strains associated with production surpluses add to tensions associated with European reservations about production methods, particularly in the United States, but also in, for instance, Argentina. These problems relate particularly to meat, and to a lesser extent, dairy products based on the application to livestock of hormones (to stimulate growth) and antibiotics (to combat disease, especially in densely packed flocks e.g., of poultry). The question of genetically modified products also divides Europe from America.

Every one of these cases raises two questions: does the treatment or modification have effects on the product (e.g., residues) that makes its consumption by humans a threat to their health? Secondly, does the use of the technique pose threats to the health of the environment or to the wellbeing of its wild or human inhabitants?

There are arguments about the effects of residues on the health of human consumers of foodstuffs produced in these ways. The Americans, however, are as sensitive to threats to their health (even if not as sensitive to the taste of their food) as any European population. This provides some grounds for believing that the direct threats of such products to human health are indeed small. On the other hand the environmental effects are real in every case. Hormones (and antibiotics) are liable to get into groundwater – and ultimately into drinking water. The widespread and routine use of antibiotics increases the risks of the emergence of resistant strains of diseases that threaten man (such as MRSA). Genetically modified crops release pollen etc. that can travel considerable distances and could lead to changes in wild varieties, including weeds, in ways that are virtually impossible to predict – and could be adverse.

The European authorities have reacted to each of these threats by restricting the use of the relevant procedures within the EU – and also by restricting the importation of hormone (and antibiotic) treated meat and requiring the labelling of products incorporating genetically modified material, which, given European attitudes, approximates an import ban. However the arguments used above, suggesting that the environmental threats are greater than the threats directly to consumers, imply that restrictions on production are more appropriate than restrictions on imports or on consumption – unless residues from US hormone-fed and antibiotic-treated products passed through European consumers into the European environment – a relatively small risk.

Admittedly, in the absence of any interference in trade, a productivity raising innovation that was adopted in one country (the United States) but banned in another (Europe) would increase output and net exports in the first and reduce them in the second. The number of people and amount of land devoted to the relevant product in Europe would fall. It would still be open to European governments, reluctant to let this happen, not to ban imports from the United States but to impose a tariff or, more realistically, to raise support prices for the relevant products.

Unfortunately, it is not only things like hormones and antibiotics whose use in agriculture threatens the environment. The same is true of all production incentives. Raising the price of agricultural prod-

ucts can only raise output if land is used more intensively or if traditional permanent pastures, heaths and moorland are ploughed up, or water-meadows drained. All are likely to damage the environment and biodiversity. More intensive use of given land involves chemical fertilizers whose run-off into surface waters is damaging, and spraying of crops with pesticides in ways damaging to insects and those who depend on them for food. Ploughing up open land and rooting out hedgerows (for which EU subsidies have added to the needs of large machines) destroys wildlife habitats.

There are also questions about the implications of agricultural practices on the welfare of farm animals. How much space should a broiler chicken, a piglet, or a veal calf have? How free should they be to move around etc., etc? And under what conditions should they be transported, live, to “finishing” pastures or to slaughterhouses?

On all these questions the EU sets minimum standards and, as in other areas, national governments are free to impose higher standards on their own producers – but not to restrict imports from producers in other countries who meet only lower- or minimum-standards.

In most of the cases mentioned above, the UK imposes considerably higher standards than the EU minimum – which does not seem a very sensible policy. It diverts production from the UK to other parts of the EU to the obvious detriment of UK producers and no advantage to the animals concerned who ‘migrate’ involuntarily to countries with lower standards.

Although the perverse or ineffective policy is, in this case, a national one, the EU could help to meet the problems at issue. What is required is a set of definitions of progressively higher standards or methods of production (i.e. more conducive to animal welfare) and a labelling regime, together with enforcement and monitoring measures, so that consumers could be reliably informed of the welfare standards to which the producers of the product they use conformed.

Instead of agitating for higher welfare standards to be enforced on producers in a particular member state (without any perceptible beneficial effect on animal welfare), NGOs, and their members, should concentrate on:

- raising the EU's minimum standards
- monitoring enforcement and compliance with all standards and labelling requirements throughout the EU
- persuading consumers throughout the EU to buy products produced in conformity with higher rather than lower standards – despite the price differential.

At the moment many questionable meat products are imported into the UK (and presumably other member countries) from outside the EU. It would seem reasonable to require improved labelling of such products even if WTO rules precluded a requirement that they be labelled in accordance with the EU's agreed grading of animal welfare standards – the issue that the EU's proposed requirements in relation to genetic modification will also raise.

Is there any link between the various concerns expressed above, intensification, medication, animal welfare and the two disasters that have recently struck British livestock farming: BSE and Foot and Mouth disease (FMD)? It is hard to blame either disaster on the CAP since both, though not entirely restricted to the UK, have been limited and controlled elsewhere in Europe.

The threat to human health, in the form of new variant Creutzfeldt Jakob disease (vCJD) had precedents in Britain in scares about salmonella, particularly in eggs, and listeria, particularly in certain cheeses. Many animal products – or vegetables fertilised with animal manure – can be a threat to human health (in the last case through e-coli).

What, if any, are the lessons of these cases for the CAP? Many of the threats (salmonella, e-coli, listeria) are endemic but can be limited or contained by prescribing appropriate production processes and by warning particularly vulnerable consumers. BSE and FMD are different. Although FMD is endemic in other parts of the world it is not unreasonable to hope to eliminate it from Europe – but measures designed to prevent entry by the virus from outside can never be guaranteed to be 100 per cent effective. It is therefore necessary to have contingency plans for an outbreak and to ensure that other arrangements do not make our agriculture unnecessarily vulnerable to an outbreak should one occur.

In the recent British case the outbreak was made worse by the amount of transport of livestock that had become normal. One factor is the EU regulation of abattoirs that has led to many closing down to be replaced by a small number to which animals have to be transported great distances. Another is the development of a lot of 'arbitrage' activity, particularly involving sheep being trucked between one local or regional market and another. It might be appropriate to tax rather than subsidise the transport of livestock both on welfare grounds and to make the system more robust to any future outbreak.

BSE presented a special challenge as we knew so little about the operation of the prions now thought to be the responsible agent. The problem arose from inappropriate feedstuffs (meat products) being fed to cattle after treatment at an inadequately high temperature. Most of the necessary regulations are now in place throughout Europe although compliance appears to be less than perfect. The British press regularly reports the finding of spinal chord material in meat imported from the Continent where it should have been removed at the slaughterhouse.

A reduction in the intensity of EU agriculture could only reduce all these health risks – which have also been aggravated by over-stocking. High density raising of livestock which requires feed supplements, presenting risks avoided when they are entirely grass fed, is liable to damage the structure of soils etc., and increases the risk and spread of infectious diseases in the animal population unless offset by widespread medication.

Thus reduced intensity is called for both in livestock and arable farming for environmental reasons as well as consideration of both animal and human health. How is reduced intensity to be achieved while maintaining the viability of rural populations if farmers' net income is, on average, no more than the value of CAP subsidies? Clearly what is needed is a shift from production subsidies to environmental support and inducements for elderly farmers to retire, and recognition that rural communities can be supported as well by assistance to craftsmen, and even computer programmers, as by support to farmers. Diversification is essential if rural communities are to thrive.

The general shape of the required shift is very widely acknowledged. It raises three questions:

- how fast should it be?
- should it be at EU or national level?
- how can the alternative arrangement be as neutral and nondiscriminatory as agricultural price supports?

Support for crafts generally might not go only to rural craftsmen even if its only rationale was to support rural communities. Agricultural products are unique in being produced only in the countryside.

Support of other kinds, including compensation for environmental management, is liable to be even more bureaucratic and inevitably to have discretionary elements difficult to reconcile with non-discriminating, competition-neutral support. It might be possible to put income support on such a basis – offering support to each community on the basis of its population and its per capita income – but that would not be true of environmental objectives beyond those achievable by measures such as taxes on fertilisers and pesticides related to the environmental damage they cause. Any more positive management of the countryside – and payment for it – inevitably calls for negotiations of individually tailored, and priced, agreements.

These considerations would appear to point towards national, or even sub-national, administration of such schemes rather than their maintenance within a union-wide framework – although some agreement on the limits of the relevant state-aids may be called for – as in other areas.

Finally, then, the question of the speed appropriate to the redirection of policy. It is tempting to say that these reforms are so long overdue, while the pressure for change has been growing, that it could not come too soon. Remember also that it is not proposed here that net support to rural communities should necessarily fall. Nevertheless there are some limits on the feasible rate of change. The essential steps are:

- to reduce support and intervention prices towards world prices
- to liberalise imports of agriculture products
- to reduce EU levies to finance the CAP and to encourage national governments to spend the

funds on support for the incomes and the environment of country dwellers

- possibly to adjust interstate transfers accordingly
- to improve information, eg., on product labels, and monitoring of particular schemes.

In principle there is no reason that such a programme could not be substantially completed within five years.