EU CAP: An Indispensable Policy for the EU?

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Is the EU Common Agricultural Policy the Only Way to Maintain Rural Diversity in Europe or Rather a Protectionist Policy Violating the Rules of International Free Trade?

In the face of current major debates about the future of the European Union, such as the debt crises of member states and further eastward enlargement, agriculture seems to have moved away from the spotlight of media attention. Nonetheless, the very fact that it consumes a vast share of the EU budget makes farming in the European Union a controversial issue that calls for attention. Although farmers only make up a small percentage of the EU's workforce, every year the agricultural sector, in order to remain competitive, receives billions of euros in financial support through the EU Common Agricultural Policy (CAP).

This essay will examine whether such a policy is outdated within the context of today's heavily liberalized and interdependent global economy, or whether it is the only way to maintain sustainable rural development and diversity in Europe. First of all, the essay will try to establish why agriculture is different from other economic sectors and thus has become subject to exceptional treatment by European legislation. In order to understand how the CAP operates today, the essay will look at the historical evolution of the policy and how it has been reformed to adapt to the challenges it encountered throughout the years. The essay will continue by weighing the benefits of the CAP against its disadvantages to see whether it remains an indispensable policy for the European Union.

Free-Trade Liberalism vs Protectionism

Agriculture has been a contested issue since the beginning of international trade negotiations in the 1950s. Liberalization of trade aims to benefit all countries by allowing each nation to specialize in the production of those goods in which it has a comparative advantage (Mahajan 2011: 3). In 1944, the world's industrialized nations agreed to form a liberalized, deregulated, and a free global market at the Bretton Woods Conference. Nonetheless, the agricultural sector has been subject to exceptional treatment in the form of non-tariff barriers, which include several types of policies that distort trade, such as measure that restrict imports or provide assistance to domestic production (Hillman 1978: 492). Skogstad (1998: 468) believes that the two main reasons for the exceptional treatment of agriculture are the special needs of farmers, as well as broader national interests which are at stake:

Agriculture is subject to unique and uncontrollable factors, stemming from the vagaries of weather and imperfect markets. As a result, farmers are disadvantaged by more unstable and lower incomes than those in non-farm sectors, and often at the mercy of their suppliers and buyers. [Furthermore,] a safe and secure food supply is in the public interest, lending ready justification to government intervention to secure it.

Given this national security aspect of food policy, by fearing eventual dependency on food imports, states have been reluctant to entirely liberalize their agricultural markets (Mahajan 2011: 3). Additionally, "socially, culturally, and symbolically, farming occupies a unique role as a traditional "way of life," from which identity is derived" (Shucksmith eds. 2005: 15). The agricultural sector has thus been subject to strong protectionism, in particular by Western industrialized nations.

Sampson and Yeats (1977: 99) identify the Common Agricultural Policy (CAP), initiated by the European Economic

Community (EEC) in 1957 and later taken on by the European Union (EU), as an issue of controversy:

Proponents of this system argue that a primary objective of CAP is internal producer income maintenance and stabliziation and as such, it cannot be considered in trade liberalization negotiations. This view has been bitterly contested by potentital exporters of agricultural commodities who have found their products effectively blocked by the EEC's variable levies and other related measures.

While defenders of the CAP insist that the policy is a necessary measure to guarantee domestic price stability, this leads to reduced imports and transferred instability to foreign producers (Sampson and Yeats 1977: 106). This mainly affects developing nations, which rely on agricultural exports, discussed in further detail below.

Historical Evolution of the CAP

Before assessing the policy's impacts on an international scale, it is essential to understand the EEC's motivations to establish the CAP in the first place. The European Commission (2012) states that the CAP is "one of the oldest policies of the European Union [and] strongly rooted in the European integration project." While the newly formed EEC was negotiating the creation of a Common Market, France, being the largest agricultural producer in Europe, pressed for a system of agricultural subsidies in return for agreeing to a free trade of industrial commodities (BBC 2011). As outlined in Article 39 of the Treaty of Rome (1957), the main objectives of the CAP were to increase agricultural productivity, ensure a fair standard of living for farmers by increasing their income, stabilize markets, assure food supplies, and guarantee fair consumer prices. After the experience of food shortages during WWII, Europe aimed to ensure self-sufficiency in agricultural production at the regional level (Delayen 2007: 1). Environmental protection was not mentioned in the original objectives while the potentially harmful impacts of agricultural modernisation were disregarded at the time, resulting in the CAP becoming increasingly criticised for farming practices that were "detrimental to the countryside" (Brouwer and Lowe 200:1).

Skogstad (1998: 469) explains that the CAP measures "insulated European farmers from foreign competition (through the imposition of import levies), supported European food prices above world market levels (by intervention prices), and subsidized the export of European agricultural products into the world market (by export refunds)." These policies aimed to reduce Europe's reliance on imported food, but as farmers produced whatever gave them the most subsidy, instead of what the market wanted, this soon led to overproduction and the creation of infamous "butter mountains" and "milk lakes" surplus of food and drink (Harvey 2013). Subsequently, "storage for surpluses in products such as milk, cereals, and meat became increasingly expensive, and the European Community began exporting its excess products at below world prices" (Delayen 2007: 1). This generated vast criticism of the CAP and called for a modification of the original policies to solve the issues of overproduction, environmental damage, and price dumping.

CAP Reforms

The European Commission (2012) has stated that "due to the CAP's long history, it is also a policy that has been reformed on many occasions, in particular during the past decade and a half." European leaders became aware of the excessive cost of the CAP in the 1970s already, but it was not until the 1990s that the EU began to "break the link between subsidies and production, to diversify rural economy and to respond to consumer demands for safe food, high standards of animal welfare and environmental protection" (BBC 2011). As a result, the problems of overproduction and market distortion had to be addressed. However, even though the introduction of milk quotas in 1984 helped to limit production in the EU, excessive quantities of dairy products remained and had to be sold at subsidized prices on the world market (Delayen 2007: 2).

As Donald et al. (2002: 171) explain, the pressure to comply with international agreements on trade of agricultural products led to cuts in support prices under the McSharry reforms of the CAP in 1992. Since then, a shift from intervention prices to direct payments in order to "compensate farmers for these price cuts" has happened (Donald et al. 2002: 171). Notwithstanding, farmers found themselves compelled to set-aside a certain amount of land to qualify for the payments (Delayen 2002: 2). This was aimed at improving environmental protection, which was now outlined as a major CAP objective for the first time (Bouwler & Lowe 2000: 1). For example, both the US and EU reformed their agricultural policies in the 1990s. However, as Skogstad (1998: 463) points out, while the United States' FAIR Act moved decisively away from state interventionism, the 1992 MacSharry reforms to the EU's Common Agricultural Policy fell short of a significant change: "Although introducing new, market-liberalizing policy instruments, the underlying goals of the CAP remained intact."

Furthermore, the Agenda 2000 reform introduced the two-pillar system. While Pillar 1 included the direct payments and measures of intervention buying, Pillar 2 defined a new concept that introduced polices of rural development, which were designed as accompanying measures to promote environmental land management and modernise agriculture (Shucksmith eds. 2005: 34). According to Esposti (2007: 116), today the majority of the CAP budget, between 85% and 90%, is spent on direct payments or on market support (Pillar 1), while the remaining 15%-10% is targeted on rural development policies (Pillar 2). The European Commission (2010: 3) argues that the introduction of direct payments has been a step towards market-oriented reforms and has helped to improve the competitiveness of the agricultural sector by encouraging farmers to adapt to market conditions. The market measures of the past are today "merely a safety net only used in cases of significant price declines" (European Commission 2010: 4). The Pillar 1 payments make up almost half of a farmer's income in the EU, with every farmer receiving an average of 12,200 euros annually. EU Agricultural Commissioner Ciolos is lobbying for the direct payments to continue, as he considers them to be a "safeguard for public goods that are not rewarded by the market," such as biodiversity and leisure options (BBC 2011).

From 2014-2020, even though farm subsidies will be reduced, they still consume 38% of the EU budget with around 50 billion euros a year (Dunmore 2013). As some of the new member states such as Bulgaria and Romania have large agricultural sectors, the EU's agricultural land has been increased by 40% while 7 million farmers have been added to the existing 6 million due to the eastward enlargement in the recent years, which has put further cuts to the CAP into question (BBC 2011).

Advantages and Drawbacks

Although agriculture only generates a negligible percentage (1.6%) of the EU's GDP and employs merely 5% of EU citizens, currently roughly half the EU budget goes towards the CAP. In the light of strong competition from emerging economic giants like Brazil, China and India, it has, therefore, been proposed that the EU should decrease payments to farmers, and instead, focus on investment in scientific research and technology (BBC 2011). The allocation of payments among member states and individual farms has also been called into question. While we often imagine that the CAP supports small family-run farms so that they are protected from having to go out of business, this is far from the truth. Farmsubsidy.org, a movement of economic researchers, journalists, and activists to increase transparency of the CAP, has revealed that in fact, a small elite of wealthy landowners, large agri-businesses, and even the British royal family reaps millions in EU farm subsidies (Alfter 2009). Harvey (2013) claims that "Prince Charles and the Duke of Westminster are two of the biggest recipients of the aid in the UK" and that only a fraction is going to struggling small farmers.

Esposti (2007: 117) also points to the regional imbalances in payments and finds that CAP expenditure tends to be concentrated more on richer regions than on lagging ones. This means that the work of the CAP is incrongruent with other EU objectives such as the cohesion policy which encourages equal development in all EU member states (Shucksmith eds. 2005: 193). A siginificant disparity exists between the subsidies paid to farmers in the old member states and significantly those in the east. According to Dunmore (2013), producers in Italy, Belgium, and the Netherlands receive more than 400 euros per hectare on average while farmers in the Baltic states get less than 150 euros per hectare. These inequities are due to be leveled out within the coming years, and there has also been a proposal to limit subsidy payments to Europe's wealthiest landowners by capping individual payments at 300,000 euros per year; so far these plans have remained unaddressed (BBC 2011).

Despite its difficulties, the CAP is still seen and defended as a central achievement of the European Union (Winter 1996: 166). The European Commission (2010: 3) warns that "any significant cut backs in European farming activity would in turn generate losses in GDP and jobs in linked economic sectors." According to the Commission, agricultural decline would also trigger wider issues such as rural depopulation and environmental consequences. Copa-Cogeca (2010: 2), a joint initiative of European farmers and agri-cooperatives, laments that the increasing pressure to meet high standards of food traceability, environmental protection, and animal welfare but simultaneously remaining competitive with non-EU farmers, can only be met if financial support through the CAP continues and is not further reduced. If funding is cut, a lot of farmers would go out of business, which may lead to intensification of farming in certain favourable areas and marginalisation of others, which would in turn, generate devastating environmental, economic, and social consequences (European Commission 2010: 4). As the BBC (2011) points out, "some fear that if the CAP ceases to exist, agricultural conglomerates and US-style factory farms will take over and change Europe's rural landscape."

However, when looking at the positive and negative aspects of the CAP, we should not merely take the European Union, but rather take the global agricultural market into consideration. The CAP's financial aid to farmers in the EU poses a significant obstacle to agriculture-exporting developing nations, who struggle to compete with the European food prices that are kept low artificially (Delayen 2007: 1), resulting in the CAP being seen as "part of an unfair trade system rigged in favour of the richer countries" (BBC 2011). Developing countries have, therefore, been criticising the highly protective farm policies of wealthy nations and have been fighting for a better access to rich countries' markets for their farm products in WTO negotiations over the past years (Anderson and Martin 2005: 2). Although agricultural earnings are vital to a large number of developing countries, as the majority of their population depends on the farming sector, the European Commission (2012), instead, defends the CAP, saying "the days of "wine lakes" and "butter mountains" are long gone" and reforms have made the EU's agricultural policy more development-friendly. In other words, the European Commission (2012) argues that protectionism is no longer in place:

Today, developing countries have excellent market access with low or zero tariffs and market distortions are significantly reduced. Today, around 70% of the EU's agricultural imports originate from developing countries. Furthermore, export subsidies have been reduced drastically: 15 years ago, we spent €10 billion a year on export subsidies. In 2009, we spent no more than €350 million. In the context of the WTO negotiations, the EU has offered to eliminate all export subsidies by 2013. By 2011, 90% of direct support is non-trade-distorting (not linked to production).

Furthermore, the Commission (2012) emphasizes that US farmers receive significantly more public support than those in the EU, and that the European Union imports more agricultural goods from developing countries than the rest of the Western industrialized nations combined. The European Council (cited in Swinbank 2005: 552) claims that the efforts made by the EU, particularly in terms of reducing support prices, represent an essential contribution by the European Community in stabilising the world's agricultural markets. Nonetheless, given the lack of success of the WTO's Doha Round, Mahajan (2011: 10) believes that the CAP will continue to impede multilateral trade negotiations and that it will take many more years before a compromise between developing countries and the European Union is reached.

Conclusion

Having outlined the benefits and disadvantages of the EU Common Agricultural Policy, there is no easy way to deem the policy essential or unnecessary, as the concerns of the two main interest groups, the European farmers on one hand and developing countries on the other, lack compatibility. Overall, the CAP is beneficiary to Europe, as it allows for the protection of European agriculture and rural landscapes. At the same time, it presents an unfair barrier to imports from developing nations, and therefore, violates the international rules of free trade that the Western industrialized nations created themselves (Anderson and Martin 2005: 2). Further reform, therefore, is necessary to overcome the downsides of the CAP, such as a greater emphasis on rural development and less focus on income and price support, since "agriculture not only produces food and fibre, [but] also shapes the rural environment" (Brouwer and Lowe 200: 1). As Dacian Ciolos (2013) recently stated:

"There is no longer just one variable—security of food supply—but multiple variables: the environment as well as economic, social and regional issues. The links between productivity, environmental sustainability, the distribution of income throughout the food chain, health issues and a whole number of other variables mean that complex approaches are needed."

In the meantime, in order to comply with the rules of the global market, a fairer attitude towards foreign trade partners needs to be more pursued.

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