

The rough guide to the CAP A CAFOD briefing

In Britain, the European Union's Common Agricultural Policy (CAP) used to be associated with scandals about wine lakes and beef mountains, the epitome of mismanagement and waste. The mountains have now gone, but the waste continues, consuming half the EU's budget in return for questionable gains. Moreover, high subsidies paid to EU farmers under the CAP lead to the dumping of artificially cheap food on world markets, with devastating consequences for Third World farmers.

Origins

The CAP was conceived in the 1950s by the six countries that formed the original European Economic Community (EEC). It came into force in 1962, under the Treaty of Rome, the EEC's founding charter. Europe was a very different place then, still traumatised by memories of war and hunger, and the CAP was intended to guarantee self-sufficiency in food, improved and stable living standards for farmers, and higher productivity.

These aims were pursued through a mix of mechanisms applied to what were then the principal commodities of the Community's producers, notably dairy products, beef and veal, and arable crops. As the Community expanded, new 'regimes' were added to cover a wider range of produce (for example sheep and goats, triggered by the accession of the UK and Ireland). Further adjustments were made to regimes covering 'southern' products, including olive oil, fruit and vegetables, when other Mediterranean countries joined alongside Italy.

The CAP's first decade was a great success. Agricultural production grew, the Europe of Six reached self-sufficiency and consumers could afford to buy food. But from the mid-1970s, the European Community began to produce surpluses. It propped up prices by buying and storing excess produce, giving rise to the infamous lakes and mountains.

As the scandals grew, so did calls for reform of the CAP. Successive reforms in the 1990s managed to curb some of the worst excesses, but in the process added layer upon layer of grants and subsidies. It is a wonder that farmers, obliged to fill in dozens of forms to claim from the full range of schemes, have time to grow anything.

Reform

The latest phase of CAP reform started in 1999. The impetus for change comes mainly from the high cost of the CAP, at around £27.8 billion a year, but there are other pressures:

1. **Enlargement.** Candidates for EU membership in Eastern Europe, for example Poland, are home to far more farmers than currently live in the EU. The cost of CAP regimes would skyrocket if they were to be extended unchanged to the candidate countries.
2. **The World Trade Organisation (WTO).** The EU is under intense pressure from developing countries and other agricultural exporters to reduce and reform its subsidies in the global trade talks launched in Doha in November 2001. Many people believe successful negotiations on agriculture hold the key to progress on the wider trade agenda.
3. **Public disenchantment.** BSE and foot-and-mouth disease have increased public distrust of the way farming has been managed, and led to calls for a new approach using less intensive, healthier and more environmentally friendly techniques.

4. **Urbanisation.** In the past 25 years the European farm labour force has fallen from 13 million to just 7 million. It is hard to justify spending half the EU budget on CAP, when less than 5 per cent of the workforce is employed in agriculture.

The CAP and developing countries

"The other issue, also very sensitive, is the removal of subsidies to farming in northern countries: can CAFOD campaign on this?"

Roxana Liendo, CIPCA, (CAFOD partner), Bolivia

Three quarters of the world's 1.2 billion extremely poor people live and work in rural areas: agriculture is crucial to their survival and the global fight against poverty. Nearly 3 billion people - half the world - live on less than \$2 a day. This is less than the support received by the average European cow.

The CAP hurts developing countries and their rural poor in two ways. First, it undermines producers in developing countries by dumping subsidised goods on their local markets. Second, it reduces the potential for developing countries to export farm produce to European and other markets.

CAFOD's concerns are mainly with the first impact. Dumping affects poor farmers directly, whereas developing country exports are often dominated by a few large farmers and thus have a less immediate impact on poverty.

Before the reforms of the 1990s, the CAP was based largely on 'price support' mechanisms that fixed a minimum guaranteed market price for EU farmers. This was usually higher than the world market price. If the EU wanted to sell its farmers' produce on the world market, it had to provide export subsidies to refund the difference to traders selling the product at (or often below) world market prices. Thus EU goods could be sold at levels well below the cost of production. World market prices reflect supply and demand and, in times of surplus, can fall below the production costs of even the cheapest producer.

Despite CAP reform, the EU accounts for 90 per cent of the world's export subsidies. Although the amounts have been declining, the EU spent £2.14 billion on export subsidies in 2001. (Export subsidies apply only to agricultural products.)

EU officials at the WTO argue that some CAP subsidies are worse for developing countries than others. Export subsidies are bad, because they directly encourage dumping on world markets; direct payments to farmers - giving money directly to farmers to produce — are not quite as bad as export subsidies; payments not linked to production ('de-coupled' payments), they argue, do not distort trade at all.

CAFOD agrees that export subsidies are the worst, but its research into the wheat sector shows that the direct payments promoted in the last round of CAP reform also lead to dumping. The EU is replacing the system of payments per bushel with one where farmers are paid on the basis of the area under arable crops. This removes the incentive to achieve ever-higher yields, but it still enables EU farmers to sell cheap wheat on the world market. An Oxfam study published in 2002 found that the EU's wheat export prices are 34 per cent below typical costs of production.

The Organisation for Economic Cooperation and Development estimates that in the six years after the wheat reform, the EU will export nearly 40 per cent more wheat than before. Development expert Paul Goodison has described the difference to developing countries of the shift from export subsidies to direct payments as being 'pick-pocketed instead of mugged'.

The European Commission argues that the CAP should move to a system where payments to farmers are entirely unrelated to what they grow, and that this will end the dumping

problem. But annual EU support runs at £11,400 a farmer. However this is paid, it enables farmers to sell their crops at lower prices than they otherwise would have done, leading to the dumping of EU produce on the world market. Dumping will continue as long as such levels of subsidy prevail.

"Many milk plants have been closed, so thousands of litres of milk get spoiled and the farmers cannot find enough money to feed their cows. At the same time powdered milk has been imported into the country, increasing the problem of the excess of milk. Something similar happens with the sugar. Some [sugar] plants are closing because they cannot compete with the imported sugar, which is much cheaper than the one produced in our country - other countries, which did not cultivate sugar till now, have started to do so."
Begona Inarra, Msola, Kenya

Land of milk and sugar

Research carried out for CAFOD shows that artificially cheap EU powdered milk and sugar, which benefit from export subsidies, have caused havoc for Third World farmers. Although the EU is a high-cost producer, subsidies have made it the world's largest exporter of both skimmed-milk powder and white sugar. A study by Oxfam found that the EU exports skimmed-milk powder and white sugar at one-half and one-quarter of production costs respectively.

Jamaica

Since 1995, annual milk production in Jamaica has dropped by a third because EU milk powder has flooded the local market. Jamaican dairy processors have turned their backs on local produce, preferring to use cheaper milk powder from Europe. Nestle - the major buyer of Jamaican milk - now buys one-third less from Jamaica than it did three years ago. As a result, Jamaican farmers are forced to throw away thousands of litres of milk from overflowing coolers. Many have lost their jobs and their livelihoods.

"First the small farmers were forced out, now all Jamaican dairy farmers are faced with failed businesses because artificially cheap milk powder is replacing their fresh milk."
Fiona Black, former managing director of the Jamaica Dairy Farmers Federation

Brazil

In Brazil, milk and milk products are the second largest sector of food imports, which burgeoned in 1993 when the country opened up its markets. The largest source of dairy imports is the EU. CAFOD's research in the southern state of Mato Grosso do Sul shows that the dairy industry went into crisis in 2001, after the price local farmers received for their milk fell by a third. Two milk processing plants went bankrupt, leaving farmers with no outlet for their produce.

South Africa

Of the 51,000 sugar cane growers in South Africa, most of them farming in the lush terrain beside the Indian Ocean, 49,000 are small farmers. Another 85,000 South Africans depend on jobs in the sugar industry - harvesting, milling or transporting sugar cane.

It costs between US\$250 and US\$300 to produce one tonne of sugar in South Africa. In Europe, it costs US\$600. But EU subsidies enable European farmers to continue growing sugar beet and dumping their excess on the world market. The South African Sugar Association estimates that over the past decade, the EU has depressed the world sugar price by 20 to 40 per cent, forcing small farmers out of business.

"If there were changes in the subsidy regime, European farmers would no longer produce sugar. It might increase our chance of competing in the world market."

Vish Suparsad, director of external affairs for the South African Sugar Association

Full details of these case studies are available on the CAFOD website

www.cafod.org.uk/policy or from policy@cafod.org.uk

Isn't cheap food good for the poor?

At first glance, the EU might be seen to be helping poor countries by selling them subsidised food. If food costs less, poor consumers can buy more of it. But there are several reasons why this apparent philanthropy is counter-productive.

More than half of the world's poorest people depend mainly on farming or farm labour for their livelihoods. So if the market for their produce is destroyed, they will have no income with which to buy imported food, and their overall food security will be damaged.

This is particularly true of women. Agriculture accounts for 62 per cent of women's employment in developing countries. Women are generally in charge of buying food and feeding their families, so reducing their income from agriculture is particularly harmful to family nutrition.

Farmers in several countries have told CAFOD that powerful traders use dumped food to manipulate prices to their own advantage, for example by importing large quantities just before harvest time to drive down the prices they pay to farmers. Once the traders have bought the harvest, imports are reduced and prices rise again. Farmers lose out, but consumers do not gain.

Failing Europe

Not only does the CAP damage the livelihoods of poor farmers in developing countries, but it also fails to deliver the promised benefits to taxpayers, consumers and small farmers in the EU.

Consumers

- The CAP costs an average family of four in Europe £16 a week in taxes and higher food prices.

Environment

The CAP's focus on increasing productivity has damaged the environment:

- In the UK alone 300,000 miles of hedgerows have been lost since the 1950s.
- In the UK the populations of nine key species of farmland birds fell by more than half between 1970 and 1995.

Farmers

- About 70 per cent of CAP money goes to 20 per cent of the largest farms in Europe.
- Small farmers account for nearly 40 per cent of EU farms, yet receive only 8 per cent of subsidies.
- Figures released in 2001 by the Ministry of Agriculture, Fisheries and Food (MAFF) revealed that five UK farms each receive more than £1m a year in European subsidies.

It need not be this way. Expenditure of £28 billion a year could make a real difference to Europe's countryside without destroying the livelihoods of millions of poor farmers in the Third World. Money spent on protecting and enriching Europe's environment, promoting rural development, and helping small farmers would do much less damage to farmers in poor countries, and would be something that EU taxpayers actually want!

The Mid-Term Review

In July 2002, the European Commission initiated a 'Mid-Term Review' of the current phase of CAP reform. Although CAFOD was disappointed at the lack of reference to the impact of dumping on

poor countries, the initial paper, which must now be discussed, amended and agreed by members states, sets out a fairly radical reform agenda. It argues that the CAP should:

- Stop linking subsidies to production
- Require farmers to fulfil stricter environmental and quality criteria in return for CAP benefits
- Redirect a proportion of spending away from all but the smallest farmers into rural development schemes targeted at the most needy
- Limit subsidy payments to individual farmers to a maximum of 300,000 Euros a year
- Keep the overall budget at its current level

Initial reactions from member states were not encouraging. Some felt the reforms did not go far enough, while others felt they went too far. Countries' attitudes to the CAP tend to reflect self interest: large net contributors such as Germany and the UK want reform, whereas net recipients, often in Southern Europe, want as little change as possible.

The Mid-Term Review debate raises some fundamental questions about the CAP:

1. What kind of farming do Europeans want?

In the past, by guaranteeing high prices irrespective of demand, the CAP encouraged a highly chemical- and energy-intensive, industrial form of agriculture. This is increasingly criticised for its impact on the environment and animal welfare, as well as its tendency to overproduction. Is it time to use public policy to move farming away from intensive agriculture?

2. Should Europe still aim to dominate global agriculture?

The CAP has enabled EU farmers to capture a large slice of world trade. Most rich countries have effectively abandoned such labour-intensive industries as mining and clothes manufacture for more knowledge-based goods and services, in the process making way for poorer countries to embark on the path to development. But far from moving out of agriculture, the rich countries and their powerful agribusiness lobbies have maintained their stranglehold on world output and trade, using subsidies and tariff barriers to stifle developing countries' potential. The rich countries have shifted the world market in agriculture away from a system based on comparative advantage in production to one based on comparative advantage in subsidies. They should instead consider changing the way the countryside is used, giving less priority to farmers and farming.

3. Should Europe be self-sufficient in food?

Some critics of the CAP, from the environmental movement in particular, remain sceptical of the benefits of opening European markets to developing countries. They believe this helps encourage the industrial model of agriculture in Third World countries, and leads to environmental damage through the unnecessary transport of food which can be produced

closer to home. 'Food miles', the distance food must be transported to reach consumers, is for some a telling indictment of this industrial and globalised model of agriculture. Developing country governments, however, stress the need for improved access to the European market for Third World producers, as does the British government. Developing country NGOs and farmers' organisations line up on both sides of the debate. Large-scale farmers tend to argue for market access; small farmers place more emphasis on self-sufficiency. CAFOD believes the rich countries should encourage developing country exports that directly benefit poor farmers and farm labourers.

4. Why are Europe's farmers so influential?

It seems astonishing that such a small minority of the population, of relatively little weight in the overall economy, has gained control of half the EU budget, and vigorously resists reform. What explains this level of political influence? Is it because many urban Europeans remember their roots in the countryside? Or because the public wants a Europe self-sufficient in food? Or because the agribusiness lobby has cleverly exploited public sympathy for the plight of small farmers? Whatever the reason, it is time for other voices (including those of the world's poor) to participate in designing rural policy in Europe.

5. Should the cost of the CAP rise, fall or stay the same?

Some NGOs feel that rural spending should rise, but be redirected towards environmental ends. Governments in the UK and Germany are keen to cut spending on CAP and redirect it to other needs, such as schools and hospitals. In international development terms, it is likely that spending at current levels will always lead to some form of dumping, and will therefore hurt the poor. So CAFOD believes the CAP budget should be cut, and substantially.

6. Scrap the CAP?

After the Foot and Mouth crisis, the British government decided to scrap the Ministry of Agriculture, Fisheries and Food, partly because it had been captured by the farm lobby and was failing consumers. It was replaced with a Department for Environment, Food and Rural Affairs. CAFOD, Friends of the Earth, the Consumers Association and many other NGOs believe a similar rethink is urgently required at the European level.

Beyond the impenetrable jargon, the debate is really very simple, and very important. Do Europe's leaders have the political vision and courage to replace the CAP with a system that the European public wants, that European farmers recognise as a positive way forward and, crucially, that provides a new - and fairer - deal to Third World farmers?

The Rough Guide to the CAP

This guide was written by Duncan Green and Matthew Griffith of CAFOD's Public Policy Unit.

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