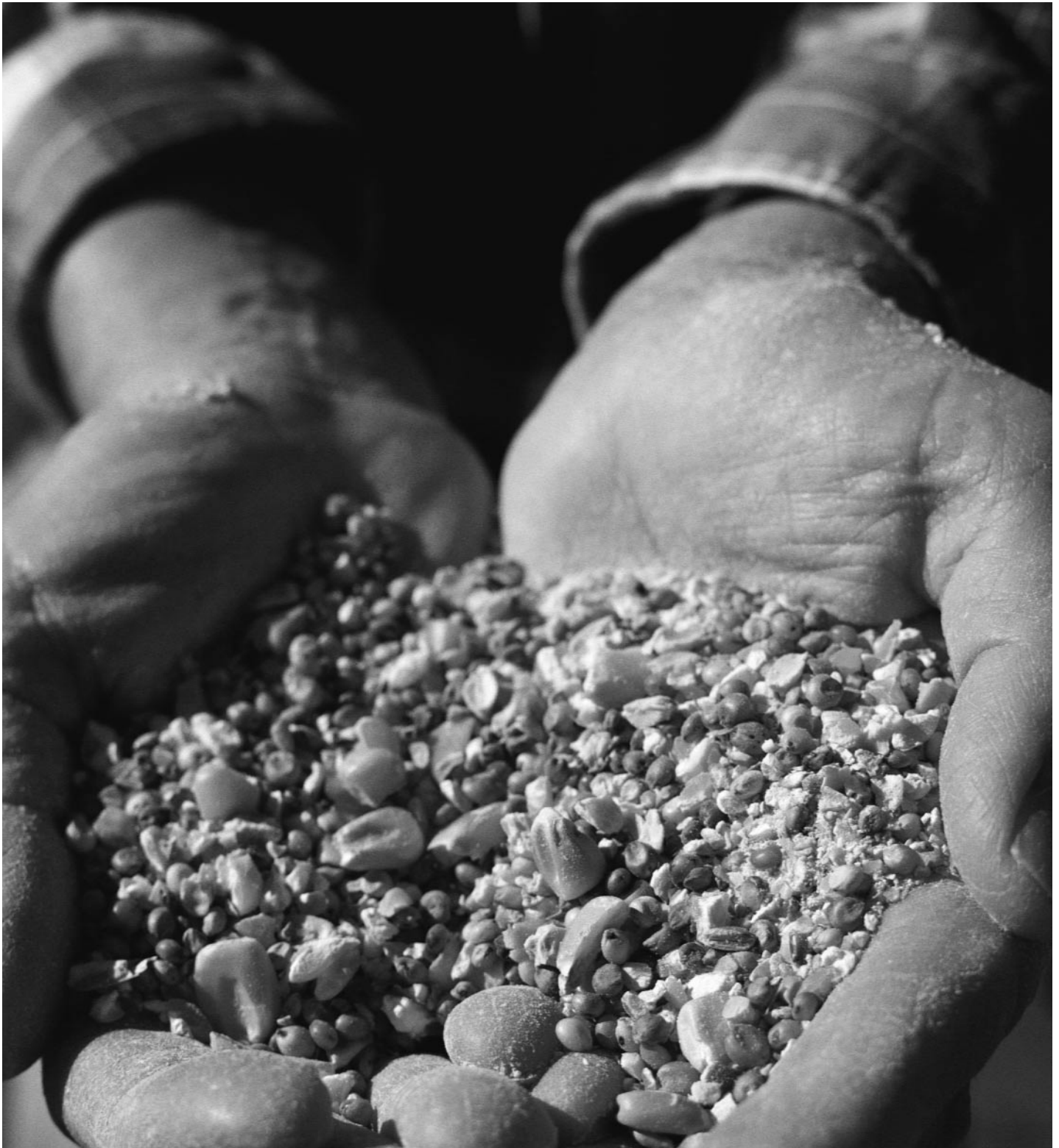
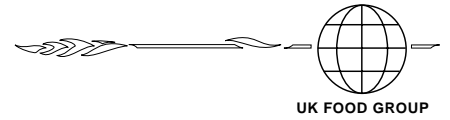


The CAP doesn't fit

Sustain and UK Food Group recommendations for reform of the Common Agricultural Policy



Why the CAP needs to be reformed now

The Common Agricultural Policy (CAP), is no longer an effective way to deliver the European Union's broader objectives for food and farming.¹ As noted in the recent report of the UK Policy Commission on the Future of Farming and Food² the CAP does not provide good value for money for European consumers or taxpayers.

In terms of protecting the environment, animal welfare or even rural farming communities in Europe, the CAP fails to provide the right support structure – if any – or exacerbates problems caused by technological advances and market pressures (see box: *An ill fitting CAP*). Many European farms and therefore farm jobs are being lost despite this expensive support system. Others rely heavily on subsidies to keep going. As the European enlargement process continues, these problems are partly reinforced in agreements being made with accession states such as Poland and Hungary. The CAP also has unacceptable negative effects on developing countries.

The Doha round of the World Trade Organisation's agriculture negotiations is due to complete the first stage by March 2003 and will inevitably influence the nature of CAP reform as will the recent US Farm Bill which increased by 80% the current subsidies to US farming.

There is strong and mounting pressure in several European Member States, including the UK, for radical CAP reform. Sustain and the UK Food Group members believe the opportunity should be taken at the CAP Mid Term Review in 2002/3 to signal major reform to achieve social, environmental, animal welfare, international development and health objectives.

Market distortions

It is well recognised that almost all agricultural subsidies distort the world market. This means that the CAP is also a major problem for low-income countries where agriculture often employs some 70% of the labour force and remains a major component of GDP. High EU internal prices to producers, coupled with new technologies, higher yields, and increased exports have led to chronic overproduction of some agricultural products and surpluses, which are dumped on the world market using export subsidies that depress world prices (see box: *An ill fitting CAP*).

Where surplus EU agricultural produce is 'dumped' – sold below the cost of production – on world markets, it

undermines food security and domestic farmers and workers. The effects are particularly damaging in developing countries where poor producers are crowded out of their own domestic and export markets. Notwithstanding recent reductions in their use, the EU accounts for 90 per cent of worldwide export subsidies which take up 14% of the 2001 CAP budget.³ Despite commitments by the EC to greater market access, barriers in the form of tariffs and quotas continue to exclude agricultural products (eg sugar, cotton, fruits and vegetables) of greatest interest to exporting low-income countries.

Domestic subsidies are also distorting trade to the detriment of developing countries as well as the European environment and farming communities. Direct payments (to both farmers and others⁴) boost the competitiveness of EU exporters by subsidising the costs of production and therefore giving European producers an unfair advantage on international markets. Direct subsidy payments to farmers have increased to £18.9bn (euro30bn) since the 1992 reforms and now account for 65% of the CAP budget. As these payments are linked to production, surpluses of wheat and beef remain.⁵

But CAP reform is not enough

CAP reform alone will not solve all the problems of the food system. Sustainable food production depends on far more than agricultural policy reform and it is essential that policy makers also examine and address the role of other parts of the food chain eg the agri-chemical, food manufacturing and retail industries, and the role of other policies (such as health, environmental, tourism, services, intellectual property rights, investment, and competition) on agriculture. The objectives we have outlined below should also form the basis for the current trade negotiations at the WTO.

Objectives for CAP reform

Considering the CAP, from the perspectives of public interest groups represented by Sustain and the UK Food Group, the following objectives are key:

- To maintain the diversity of farm systems in UK and Europe and stem the loss of farmers and workers from the land, in ways which do not disadvantage other farmers worldwide;
- To eliminate the negative effects on agricultural production and food security, particularly in developing countries;
- To support farming systems worldwide that provide food security, respect the environment, worker health and enhance wildlife and the landscape;
- To improve access to the EU market for developing country exports in a way that reduces poverty and is socially and environmentally sustainable;
- To promote, harmonise and maintain high standards for animal welfare and food safety worldwide while taking account of developing countries' capacity to comply with such standards;
- To promote rural development through sustainable farming;
- To provide good value for money for consumers and taxpayers commensurate with a fair return to the producer;
- To produce a bio-diverse range of food, in proportions that enhance the nutritional quality of the diet.

Some principles should guide the design of the reformed CAP. In particular and jointly:

- Public funds should support the delivery of only those public goods that are not delivered adequately by the market;
- All CAP subsidies should ultimately be redirected towards environmentally and socially beneficial farming and sustainable rural development. Moving support away from specific commodities and towards environmental and rural development would enable this to occur as they will support all systems that provide these public benefits irrespective of the commodities involved;
- There should be acknowledgement that this new support should be available for farming in the currently 'unsupported' sectors (pigs, poultry and horticulture), to reverse the trend towards highly intensive production, which has particularly negative effects on the environment and animal welfare;
- Support to small scale and family farmers should be given a central place to ensure a resilient food system

and livelihoods in rural areas, with agri-environment or rural development measures specifically targeted to ensure their viability;

- The external effects of the CAP on developing countries and the EU's own development policies on food security and sustainable development should be taken into account in the design and management of the CAP reform process.⁶ In particular, subsidies should be removed if they cause the dumping of produce in developing countries at prices below the cost of production;
- Access to the EU market for exports from low income countries should be improved, including by simplifying the import regime and making it more transparent;
- There should be no discrimination by CAP measures against organic farming⁷, and against conventional systems with improved sustainability and health effects;
- The reform process should also be accompanied by additional measures to begin to address the internalisation of external costs, thereby reducing the disparity in prices between conventional and more sustainable production;
- While overall support to agriculture within the EU needs to be significantly reduced (which according to the OECD was some 100bn Euros in 2000), the CAP budget (some 40 bn Euros in 2000)⁸ should be set at the minimum level necessary for all EU and new member states to achieve the social and environmental objectives, thus minimising its negative effects on developing countries.



An ill-fitting CAP?

Farm communities: support is concentrated on systems that have been able to shed labour relatively easily, such as arable crops. More labour intensive farming systems, such as fruit and vegetables and mixed farming systems, receive low levels of support. The number of farms and farm workers continues to drop drastically across Europe.

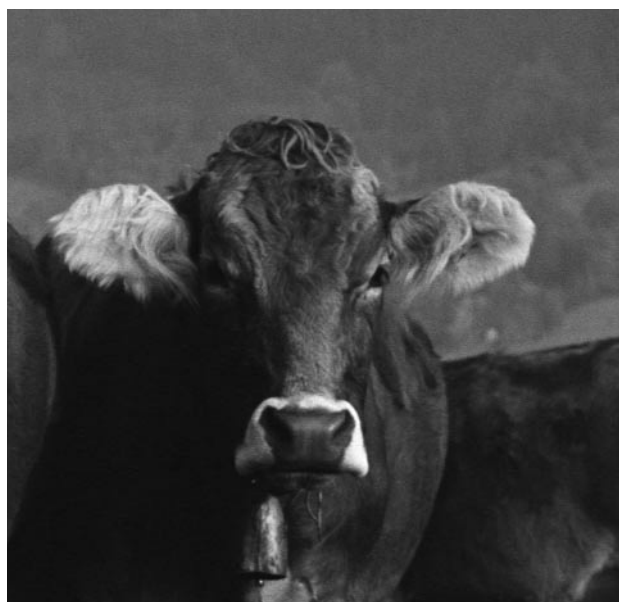
Conservation and environment: the CAP has accelerated trends of market concentration and technological advances towards intensive production with excessive use of pesticides and fertilisers, which cause water pollution and food residue problems. The loss of wildlife rich grasslands has also continued in many areas over the past 20 years, partly encouraged by CAP support for cereal production or higher stocking levels. New 'green farming' grants and the arable direct payments schemes are helpful but limited.^{9,10}

Developing countries: production subsidies and price support, which encourage overproduction, result in EU surpluses. When disposed of on world markets, these depress world prices, reducing the foreign exchange earnings of agricultural-exporting developing countries. For example, it costs about US\$660 per tonne to produce beet sugar in the EU, compared to US\$366 in countries like Guatemala and South Africa. But because of subsidies Europe is one of the world's biggest exporters of sugar, dumping sugar on the world market at prices far below its own costs of production.^{11,12}

Health and nutrition: the CAP fails to promote healthy products like fruit and vegetables but encourages surplus production and consumption of foods such as meat, sugar and high fat dairy products which current dietary advice recommends we cut back on.¹³ Intensive agricultural systems are also linked to a wide range of food safety problems (such as antibiotic use, pesticide residues and animal diseases which spread to humans).

Animal welfare: generous subsidies (export refunds) are paid to exporters of live cattle to non-EU countries. 300,000 live cattle a year are exported to the Middle East and North Africa, with the rate of export refunds running at around 100m. Euro a year. This inflicts great suffering on animals. Subsidies are not available to help the intensive pig and poultry sectors move to more humane systems.

Consumers and taxpayers: the CAP costs an average family of four in Europe £16 per week in taxes and higher food prices.¹⁴



What reform options are available

The UKFG and Sustain commissioned a background paper to explore options for CAP reform by the Institute for European Environmental Policy. The three main Reform Proposals examined are:¹⁵

Model 1: 'modified status quo' = further decoupling of first pillar aids (production linked) and market support regimes and significant reduction of export subsidies and import tariffs, but no significant shift of funds out of first pillar measures. **Model 2:** 'the Cork model' = a significant shift of the existing CAP resources from first to second pillar through modulation, degressivity or other systems applied to first pillar aids and market support regimes, and transfer of the freed funds to allow significant enlargement of spending on rural development and environment (see box).

Model 3: 'radical liberalisation' = a significant net reduction in support to the agricultural sector involving a major reduction in direct aids and in market support but without an explicit, corresponding increase in aid for other purposes (e.g. environment and rural development) and the use of much less interventionist policy mechanisms for the sector as a whole.

Sustain and the UK Food Group have discussed these three options in detail. Despite some reservations about the nature, scope and speed of any changes implemented (see box: *The Cork Model*), **Model 2** provides the scenario most favoured by the Sustain/UK Food Group membership.¹⁶ Model 2 also reflects many of the changes called for by the UK Policy Commission on the Future of Farming and Food – 'The Curry Report'¹⁷ that was welcomed by many NGOs.

'The Cork Model'

This model is based on the 1997 'Cork Declaration' on future rural policy in Europe. It involves the gradual transformation of the CAP from a policy focused mainly on supporting agricultural markets to a policy focused upon support to rural areas (predominantly to farm businesses, emphasising farming's role in this), and given for explicit social, rural development and environmental goals. This would entail the reduction of all support given to farmers under the existing production 'regimes' (full decoupling) and its replacement by a raft of policies for environmental management, marginal producers, and the stimulation of rural economies through training, investment and diversification aids. A variety of mechanisms have been proposed for achieving this shift in funding from first to second pillars, with modulation (moving support for farmers away from production support into other types of schemes at national level but currently voluntary) and degressivity (moving part or all of the CAP budget from Pillar 1 to 2) being the most politically favoured options.

In the UK there is general consensus that we need to shift subsidies from Pillar I (production and price support) to Pillar II (environment and rural development support) of the CAP. However, there are a number of areas of confusion and research is needed to clarify the impact of increased Pillar 2 support, market access and trade distortions. For example:

- i. Who would be affected by changes in levels of EU market access for developing country producers? How can we maximise the poverty reduction impact including through access to the EU market for exports from low income countries?
- ii. What protection will there be against unsustainably produced imports? (eg lower standards for animal welfare, environment, health, and labour)
- iii. Will the changes lead ultimately to an overall reduction in EU support?
- iv. Will the payments still lead to dumping and how could this be avoided?¹⁸
- v. Should we be trying to decouple support further from production and farmers? There is a growing interest in a 'broad and shallow' scheme available to all, including farmers, which would be linked in some way to the size of the operation, for instance tapered.
- vi. How can the complexity of administration be reduced without weakening safeguards?

The effects of implementing Model 2 are not easy to predict because this model involves a much greater redistribution of support among different EU producers (including those in accession states) according to their role and potential contribution to rural development and social and environmental goals. In general terms the EU's competitive advantage on world markets is likely to be less because more aid is likely to target less productive and less export-oriented farm sectors and regions.



Specific CAP measures

Sustain and the UK Food Group believe that to achieve the objectives they have outlined, the following short and medium term changes are required:

- Maintenance of a system of basic, area based, payments¹⁹ redirected to deliver specific environmental, rural development, animal health and other public goods.²⁰ There may be a need to consider assistance to farmers on initial application to the scheme and for differential levels of payment related to sectors using comparatively small areas such as horticultural or some livestock sectors. Payments should be tapered so the majority of subsidies would not go to the large farm businesses (as currently happens with most subsidies).
- Financial support during transition periods. This may be required to minimise economic and social disruption to the EU farming community and to those low income country producers that currently benefit from preferential access to the EU, and to provide assistance to poor net food importing countries. This should however be based on standards for environmentally and socially beneficial farming.
- Rural development programmes for additional measures such as
 - i equal support across Europe for the enhanced protection of natural resources (air, soil, water, forests) which included measures for organic farming and other methods defined by official guidelines;
 - ii maintenance/enhancement/establishment of special habitats;
 - iii schemes to promote rural development, encourage new entrants and to support local, sustainable food production for local consumption where appropriate.
- Development of other measures to encourage a sustainable food system such as:
 - i. green taxes on agri-chemical inputs (revenue used for the other measures);
 - ii. public information on the health, environment, international development and animal welfare aspects of food production.
- Agree a timetable to phase-out export subsidies.
- Support developing countries to protect themselves against dumping through EU support for a Development Box at the WTO.²¹
- Provide comprehensive duty-free access and quota free access not just for Least Developed Countries (LDCs), but all low income countries by 2005 while ensuring that Sanitary and Phyto-Sanitary standards, and similar provisions are simplified, transparent, enforced. The EU must provide substantial technical and financial assistance to help developing countries meet these standards and to be effective participants in international standard setting bodies.
- Provide duty-free access and quota free access to the EU for all products produced under Fair Trade accreditation and agricultural produce from sectors dominated by small or Low Income Resource Poor Farmers (as mentioned by the WTO Agreement on Agriculture – Article 6.2).

Most of these measures would apply from 2007, when a new CAP budget will be adopted and funds can be provided at an EU level. For the period 2003-2006, some of the measures should be funded through obligatory, progressive modulation at a national level, starting at 10% in 2004, rising to 20% at latest by 2006. Member States should apply a constructive form of modulation (using tapered levels of support or ceilings below which farmers will not have their payments modulated) such that small-scale and family farmers will not be further disadvantaged by income reductions.

Longer term shifts

The CAP must become a policy for rural development and sustainable food production, and must be reformed to end the production and dumping of surpluses, which have so negatively affected farmers in developing countries.

Support to agricultural systems and food production should be based on securing environmentally and socially beneficial farming and sustainable rural development. It should be designed to ensure that farming systems that use sustainable methods can survive and thrive. The following changes should be considered:

- target support to farms and areas of particular social or environmental need and ensure a diverse and resilient farm structure which includes small and family farms;
- phase out price support;
- continue the use of commodity supply management measures (based on demand and sustainability criteria)



- as part of the suite of instruments as appropriate;
- a gradual reduction in the CAP budget;
- ensure full internalisation of external costs of production and distribution by for instance taxation of international maritime and aviation fuel;
- make assistance available for fair and ethical trading schemes such as the Fair Trade mark, and for enhancing environmental, cultural and social benefits of shorter, more sustainable food chains at a regional and local level worldwide;
- subject all policy to health, environment, equity/ international development and animal welfare assessments to ensure policy coherence;
- reform other policy areas to take account of the need to protect farmers from unfair competition and unfair practices elsewhere in the food chain (including farm supply companies and retailers).



¹ *Background Briefing 1 The Common Agricultural Policy. How the CAP operates, the key commodities, competitors and markets for the European Union.* Sustain/UK Food Group (2002) and 'The CAP: Options for Reform and their Potential Impact' Background briefing 2 (2002) are available on request from Sustain/UK Food Group.

² *Farming and Food – a sustainable future*, Policy Commission on Farming and Food, Cabinet Office, 2002.

³ according to WTO criteria, Briefing 1, Sustain/ UK Food Group, 2002

⁴ A quarter of all CAP payments are to processors, exporters and other institutions rather than producers.

⁵ *Setting aside the CAP*, Consumers Association, 2001

⁶ The EU should engage in consultations with those developing countries that will be affected by CAP reform in products of specific interest to developing countries (e.g. sugar).

⁷ Organic farming depends on using crop rotations and greater diversity of crops, but as only a limited number of crops are eligible for arable area payments, organic farmers receive lower support payments than non-organic farmers.

⁸ OECD, 2002.

⁹ *England's Green and Unpleasant Land? Plantlife and the Wildlife Trusts*, 2002.

¹⁰ *Environmental Effects of the Common Agricultural Policy and Possible Mitigation Measures*, Joint Nature Conservation Council, 2002

¹¹ NEI. *Evaluation of the Common Organisation of the Markets in the Sugar Sector*, 2000.

¹² Borrel & Hubbard (2000) 'Global economic effects of the EU Common

Agricultural Policy' *Economic Affairs*, Vol. 20, No.2

¹³ Liselotte Schafer Elinder, *Developments since 1996 in the CAP from a health impact perspective*, 2002 National Institute of Public Health, Sweden, in preparation.

¹⁴ *Setting aside the CAP*, Consumers Association, 2001

¹⁵ *Background Briefing 1 The Common Agricultural Policy. How the CAP operates, the key commodities, competitors and markets for the European Union*. Sustain/UK FoodGroup (2002) And Background briefing 2 'The CAP: Options for Reform and their Potential Impact' Sustain/UK Food Group (2002)

¹⁶ However, additional thorough research is needed on the impact of CAP reform scenarios on farmers, rural economies, consumers, animal welfare and international development or poverty reduction in developing countries.

¹⁷ *Farming and Food -a sustainable future*, Policy Commission on Farming and Food, Cabinet Office, 2002.

¹⁸ 65% of CAP is direct payments and this can result in 'producers' selling agricultural produce at below cost of production.

¹⁹ The Policy Commission of the Future of Farming and Food report recommended a 'broad and shallow' scheme to be available to all farmers.

²⁰ Enforcement needs to be simple but effective, possibly based on the existing IACCS system but with spot checks and other monitoring methods.

²¹ A package of measures in the WTO Agreement on Agriculture to provide greater flexibility to developing country governments to protect small farmers from import surges of food crops.

Endorsements for the CAP doesn't fit (as at 4th July 2002).

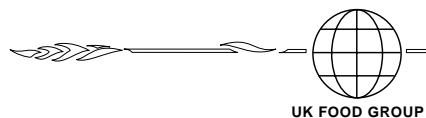
In supporting this document, each of the following organisations is indicating its formal agreement only in those areas where it has specific competence. At the same time, each acknowledges the expertise and authority of the other organisations in their respective fields.

ActionAid
CAFOD
Centre for Food Policy, Thames Valley University
Christian Aid
Compassion in World Farming
Ecological Foundation
Friends of the Earth
National Federation of Women's Institutes
Oxfam
Pesticides Action Network UK
Royal Society for the Prevention of Cruelty to Animals
Royal Society for the Protection of Birds
Soil Association
The Food Commission



Sustain: the alliance for better food and farming, represents over 100 national public interest organisations working at international, national, regional and local level. Sustain advocates food and agriculture policies and practices that enhance the health and welfare of people and animals, improve the working and living environment, promote equity and enrich society and culture.

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The UK Food Group is a network of non-governmental organisations from a broad range of development, farming, consumer and environmental organisations, who share a common concern for global food security. Through raising awareness of the impact of globalisation in food and agriculture, the UK Food Group seeks to promote sustainable and equitable food security and agriculture policies world-wide.

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