

For a New European Agriculture and Food policy that meets the challenges of this century

This paper is the result of joint work by researchers in social sciences specialising in agricultural policies and active in various member states of the European Union. 10 June 2010

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Summary

This document is meant to contribute to the public debate that has been launched in the European Union (EU) on the future of the Common Agricultural Policy (CAP) after 2013. In this contribution we wish to stress the necessity to thoroughly transform the CAP and to preserve strong regulatory tools at the European level.

The CAP has a history of successes and failures which yields important lessons that we should take to heart. It is now faced with two kinds of challenges: domestic and international. These considerations lead to a set of proposals.

I – The lessons from history

There have been two versions of the CAP:

- The 1960 version, which was in fact a continuation and adaptation of the former national policies, which in their turn were derived from the US agricultural policy as it was gradually developed by President Roosevelt's advisors in the aftermath of the Great Depression of the 30's; and:
- The 1992 version, aiming at the deconstruction of the preceding one, in order to let markets decide what and how to produce.

The 1960 CAP was successful in warding off famine in Europe, which was a serious threat in 1945. It allowed for a smooth transfer of manpower from agriculture to other activities, in a context of a rapid economic growth. It paved the way for a model of capital-intensive family farming, which was a welcome novelty for the agricultural sector. It had nevertheless very unpleasant side-effects, in the first place because it encouraged an unnecessary depletion of natural resources and in the second place because it led to an insuperable production surplus which had to be destroyed or dumped on international markets, thus preventing many developing countries from exploiting their own comparative advantages in agriculture.

The 1992 CAP was a reaction to the problems created in this manner. But instead of analysing the causes that led to this situation, the authors of the new policy course just reverted to the *statu quo ante*, that is, to the reign of markets, which was precisely the policy line which had led to such disastrous consequences. As the same causes have led to the same effects, we have recently seen markets ending up in as great volatility as in the 19th century, with all the associated problems regarding food security, especially for the poor. At the same time, it solved neither the budgetary cost problem of the CAP, nor the natural resources problem, because it is utopian (and contrary to elementary economic theory) to have two different markets for two linked products (commodities on the one hand and their externalities on the other).

Therefore it is time that we faced the task of getting to the roots of the problem: the advantages of isolating agriculture from markets, and the difficulties engendered by an awkward management of market substitutes. This implies meeting two kinds of challenges.

II – The domestic challenges of the CAP 2013

European socio-economic challenges:

- *Food security:* The EU is still showing a deficit and the trade balance seems very unbalanced in terms of products. This is particularly the case for fruits and oleaginous plants. The objective of European food security is also defined as affordable agricultural prices for consumers. However consumer prices have not decreased as much as producer prices and the gap between them is widening.

- *Employment and farm income:* In the past 60 years, the only objective seems to have been to save on labour without reducing materials and industrial input. The consequences have been a large decrease of farm employment and a strong concentration of land and capital in ever larger farms. This has to be addressed in a situation of mass unemployment, at a time when fossil fuel resources are limited.
- *Nutrition and health challenges:* The choice of food by consumers, which is largely determined by its price and availability, has led to more and more problems connected with obesity and to other nutritional problems.

European environmental challenges

- *Agriculture, climate change and growing energy demand.* Agriculture will be influenced by the impacts of climate change, which will become more severe and frequent. However, agriculture itself is also responsible for climate change, directly and indirectly. Intensive agriculture becomes more and more vulnerable to increasing shortages. Greenhouse gas emissions from agriculture as well as transportation must be reduced, by developing the local production and consumption of food.
- *Agriculture and loss of biodiversity.* The severe loss of biodiversity is partly the result of an ever more intensive agriculture. The adverse impact of agriculture should be reduced so that it can instead function as a reservoir for biodiversity.
- *Agriculture and water quality deterioration.* Pollution from agriculture and increasing demand for water for irrigation have led to problems with water quality and quantity. Using more adequate inputs should lead to reduced demand for water and less water pollution.
- *Agriculture and soil deterioration.* Increasing the quantity of organic matter by natural means, minimising tillage of the soil and favouring specific rotations should lead to the conservation of agricultural land, its productive capacity, its environmental value and its role in shaping landscapes, and to conserving the quality of soils.
- *Special consequences of livestock feed.* The massive imports of animal feed, mainly soya beans, have been implicated as a major driver of deforestation in South America. In the European Union, these imports are linked to the development of an intensive production mode, leading to considerable environmental and social damage. Options for addressing these problems include finding alternative sources of protein for livestock feed, changing livestock production methods and reducing volumes of livestock production.

Therefore, considering the environmental and nutritional challenges that humanity is presently faced with, changing production methods is a necessity. It will require more labour-intensive family farms, a more balanced localisation of agricultural production throughout the European Union and the diversification of production in all regions.

III – The international challenges

Eradicating extreme poverty and hunger will largely depend on improving the living conditions of farmers and agricultural workers in developing countries, as the great majority of the 1.02 billion undernourished people in 2009 are people in developing countries directly or indirectly depending on agriculture for their livelihoods. Improving their conditions calls for various measures connected with policies determined by relevant international, regional, and national bodies. This necessary challenging of the policies concerned is notably a task for the EU.

Among other things, the liberalization of borders that the EU advocates under the structural adjustment programmes (SAPs) of the World Bank and IMF, the WTO and bilateral agreements, has opened developing countries' doors to low-price imports, notably of goods exported from Europe. This is where the CAP comes on the scene: it bears a major responsibility for the massive dumping of exports that it engenders.

The European Commission denies the CAP's responsibility for poverty and hunger of the rural populations of developing countries, arguing that the CAP reforms since 1992 have largely put an end to its dumping of agricultural exports. However, throughout this period most of the agricultural commodities exported by the EU were at prices well below their average production costs. In the course of the last 15-20 years the EU's dumping of exports concerned cereals (including wheat) and cereal-based products, milk and dairy products, sugar, poultry, beef and veal, among other things. It led to serious consequences in developing countries and notably in Sub-Saharan Africa, by depriving domestic producers of their markets and thus of their means of subsistence, preventing the creation of local food commodity chains and contributing to import surges in those countries.

Even if recent developments suggest that the magnitude of the unbearable competitive pressure that EU agricultural dumping continues to exert in many poor countries must be put into perspective, this behaviour undoubtedly bears a significant share of the responsibility for the food crisis and its exacerbation. In order to contribute to the eradication of hunger, the EU must first of all recognize the right to import protection in the SAPs, under the WTO, and in bilateral agreements (including the EPAs). As a corollary, the EU must put an end to the agricultural dumping for which its CAP is responsible. Setting up effective supply management systems founded on public control of production and on variable protection at the borders would contribute greatly to this.

IV – The proposals

- *In the first place, promote a new international framework for agricultural markets on a democratic basis, answering to social and ecological needs.* The rationale of the WTO, bilateral free-trade agreements and the World Bank's and IMF's policies is questioned by many developing countries. These countries have a right to development and deserve relief of their social and ecological needs. Therefore, the CAP does not need to scrupulously comply with WTO requirements. On the contrary, the EU should support a new, more democratic framework for the multilateral oversight of agricultural markets, based on common interests and cooperation between countries, social and ecological requirements and the right to food sovereignty.
- *Storage and flows management: still vital tools to guide production and prevent prices from fluctuating excessively.* Operating stocks that are sufficiently large to guarantee food security should be allowed. Mechanisms are needed which will allow supply to be managed. Therefore, price guarantees should cover costs, but they should be coupled with limits on production of the same order of magnitude as domestic consumption. Finally, further tools should be permitted – possibly including production quotas - to counter the geographical concentration of agricultural activities, environmental risks and adverse social outcomes.
- *Border measures are necessary due to the volatility of world markets.* For achieving stable farm prices and to complement the supply management instruments above, the right for variable tariffs has to be associated with the duty not to export any product at prices below the European costs of production. This is a necessary condition for international legitimacy of the CAP and for keeping sustainable family farms in Europe, which have higher production costs than in many third countries.
- *Market outcomes must reflect the economic realities of commodity chains.* The relationships between producers, processors and retailers must be reordered in order to make margins more transparent and the distribution of added value more equitable. Only the public authorities can help to even out this balance of power. This type of reordering means that European competition law must be revised and *the Commission must recognize the unique nature of agricultural markets.*

- *Insurance mechanisms must be strengthened but cannot replace public intervention.* Insurance policies are effective against increasing climate and health risks, but it is costly and erroneous to believe that turnover insurance could replace public intervention when prices are concerned.
- *Remunerate social and environmental public goods.* Single farm payments are politically unintelligible and socially unacceptable for both producers and taxpayers. There is no justification for splitting the CAP into two pillars, with the one striving to undo the damage to employment and the environment caused by the other. Support must be linked to outputs. The CAP should use stronger incentives to provide better support for agriculture with a strong environmental basis (low inputs, pasture systems, organic farming...). If prices are guaranteed to a level covering production costs, subsidies should only be given to producers who have higher production costs because they work in less favoured areas, to those who achieve more in the field of sustainability than is required by the basic rules, possibly to farmers working on very small farms, and similar exceptions. Strict environmental and animal health rules enforced by European laws should be required of all farmers.
- *Supporting the demand for quality food products with high nutritional value.* Europe must develop a more systematic food support policy, targeted on specific social categories and products with high nutritional value. Part of CAP support could also be used to support regional or national chains of quality products.
- *Reforming budgetary tools.* Management of the CAP budget must be much more flexible so that resources can be adjusted to needs and deal with crises (in health, climate or on the markets).

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