Gepubliceerd in SpectreZine

The Future of the CAP

September 18, 2005 20:36 | by Guus Geurts

Time to put an end to the misunderstandings which prevail in the debate over the future of agriculture in the EU

The G8 summit, the proposed reforms to the European sugar régime, and Blair's plans for major cuts in the EU agriculture budget have led to renewed debate in the media. The enormous complexity of the EU's Common Agricultural Policy (CAP) gives the debate around this international issue a particular flavour. The dogmatic supporters of a free market theory dominate discussion. It's the silent multinationals who are sitting pretty, their work done for them by the thousands of lobbyists in their pay in Brussels and Washington, while they hear, for example, social democratic politicians and experts saying precisely what they want to hear. Here in the Netheralnds, PvdA (Labour Party) Members of Parliament Diederik Samson and Kris Douma argue that the EU agriculture budget must be reduced, and fast. (Volkskrant Forum, 13 July 2005).

Sustainable agriculture in Europe, opportunities for poor farmers from developing countries, and the conservation of nature and of the landscape: we can indeed achieve these things with far lower European subsidies. What advocates of lower subsidies forget, however, is that this policy must be coupled with protection of agricultural markets and the tackling of overproduction. This will only be possible if a number of stubborn misunderstandings which prevail in the current debate over agriculture are addressed.

Misunderstandings

The first of these misunderstandings is the idea that small and medium-sized European farmers profit from subsidies. Contrary to the dominant strand of public opinion, European farmers never, under the old sugar regime, received a double subsidy. They did obtain a price for sugar which covered costs, just as did their fellow farmers from ACP countries with access, by means of quotas, to the EU market.

The current sugar regime is nevertheless - when surpluses are dumped on the world market, some of which are supported by export subsidies - in serious need of reform. For sugar cultivated in Europe these are in fact generated, however, by levies paid by the growers and the sugar processing industry itself. The problem is therefore one of overproduction, not of a high guaranteed price. Reform proposals foresee a lowering of 39 percent in this price, with farmers receiving compensation through income subsidies to the value of 60 percent of the price. This means that farmers will, unlike under the present system, indeed receive subsidies.

The EU pulled the same trick when it reduced prices for cereals, beef and milk, coupling this with the replacement of export subsidies by income subsidies. Because of the domination of the World Trade Organisation (WTO) by the US and EU, export subsidies must be phased out, while these income subsidies are, on the other hand, permitted.

Overproduction has not in any case been addressed, and dumping on developing countries' markets, with all the disastrous effects it has for farmers in those countries, will therefore continue.

Because price reductions will only be partly compensated, farmers' incomes in Europe will be driven drastically downwards. The smallest family firms will be the first to go, but the whole of the arable sector will be under pressure, sugar having been the last product for which the farmer could receive a reasonable price.

In order to mislead the public, Dutch agriculture minister Cees Veerman says that income subsdies will be decoupled from (over)production, and that they are good for the environment, for nature and for the countryside. Yet how can farmers take more account of the environment, or of nature or the condition of the countryside at a time when their incomes are falling? The real result will be an increase in the size of farms to the disadvantage of precisely these values. At the same time, as we can see from previous reforms in the regimes for cereals and beef, the European consumer will gain virtually no benefit from the lower prices.

Who then does gain? The concentrated market power which stands between farmer and consumer: the multinationals in processing and other food industry sectors and in the retail trade. Their goal is to buy in raw materials from throughout the world, as well as the opening of local and national markets which in the past were supplied by local farmers. In this fashion farmers in both North and South will be forced into an unnecessary competitive struggle against each other.

A second misunderatnding holds that liberalisation could help farmers from developing countries to escape poverty. This ignores the fact that the vast majority of these farmers currently produce only for their own local and national markets. It is not for nothing that West African farmers' organisations, united in the ROPPA network, call first and foremost for the protection of their own markets rather than competition on a liberalised world market. Only then could these farmers and those in the EU receive, for products of a quality which meets social and environmental requirements, a price which covers costs. For farmers in developing countries protection of their 'own' markets is indeed the only solution, because their governments lack the resources to offer them financial support.

Yet it is precisely such market protection which to a growing extent falls foul of measures taken by the WTO, World Bank and IMF, each chanting the mantra of access to the markets of the North - or, in other words, ever increasing use of scarce aid resources in developing countries in order to support our consumption of luxuries. They 'forget' that only the most efficient producers such as Brazilian sugar plantations can survive on world market prices. This efficiency is often married to slave-like conditions, and the progressive destructuin of the last remaining virgin forests. Our beef is also produced under such conditions, by an industry made possible by tariff-free import access to the European Union. Meanwhile small farmers in Brazil who want to produce their own food from their own land are driven off by armed militias in the pay of the plantation owners.

Free market dogmatists such as Dr Kol of Erasmus University in Rotterdam have expressed the view that the WTO or the UN should put an end to these abuses. A complete misconception! It is precisely the

UN's weak environmental and social treaties which are undermined by the free trade agreements of the WTO, and only the WTO has the power to impose sanctions.

A third misunderstanding is that agriculture is comparable with any other economic sector, and is therefore suitable for the application of free market theory. The state has, however, a clear responsibility in relation to the security of food supply and the safety of foodstuffs, the conservation of nature and of the landscape, as well as the reckoning of environmental costs into the prices of products. It must be recognised in addition that rural employment must be protected as long as no alternatives exist elsewhere, and that cultural and religious aspects are linked to the production of food. And it is perhaps important to our (free market) economists to recognise that whether prices are low or high farmers will continue production in order to recoup their investment. There is therefore an inherent tendency towards overproduction, in the face also of inelastic demand.

Alternative

As well as the possibility of protecting domestic markets, production management should also form part of the policies of the EU and WTO. In addition, agreements on such primary products as coffee, cocoa, tea and rubber should be put back on the agenda. The fully liberalised market for coffee has shown that it is not the lack of market access which led to a crisis for coffee farmers, but the lack of production management, because of which the price of coffee has reached an historic low.

On the other hand, sugar farmers from ACP countries receive a high price for their export quote to the EU. Here can be seen, then, the solution to the problem of sugar policy: a further broadening of the export quota to include those Least Developed Countries (LDCs) with sufficient productive capacity. This would be at the expense of the quota for European farmers, but through maintaining a price level which covers costs, agriculture in both Europe and the poorest developing countries can each be preserved.

We would then at last arrive at a win-win situation: the EU's agriculture budget could, through the abolition of all trade-distorting export and income subsidies, be drastically reduced. Money would be needed only for payments to farmers who make special efforts in relation to nature, the landscape and the environment in general. We should not call such payments subsidies, but financial rewards for the provision to society of 'green' services.

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See also:

http://www.spectrezine.org/europe/cap.htm