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Centre for Agricultural Strategy

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8 Pressures on the CAP and an analysis of the way forward

Michael Franklin

My task is a dual one this afternoon - to comment on the papers so far and to say something about our study of European agricultural policy. As a member of Chatham House let me take the opportunity of saying how happy we were to collaborate with the Centre in this conference. I should also like to congratulate the organisers of this event for bringing together such an excellent array of speakers and papers.

Here at Chatham House we have been engaged in a project under the European Programme on the future direction of European agriculture (Franklin & Ockenden, 1994). It fits in extremely well with your deliberations and I am very grateful to a number of people here who have been helping us. Our study has not been as wide-ranging as today's conference. We have not attempted to cover the world scene in the way that Mr Taylor has just done and Professor Anderson did earlier this morning. I just make the point that if it is true, as Professor Anderson was saying, that over the next twenty years or so there are going to be really major opportunities for European agriculture to export, that will make the task of shifting the weight of politics, as I believe we have to, that much easier. There will of course be the temptation, which some will find irresistible, to use it as an excuse for not making the changes, but all experience suggests that structural shifts are very much more easily achieved at a time of economic development and growth than they are in a time of recession. Our time focus is slightly shorter than yours. You have taken us well into the next millennium, whereas we will be looking rather more at the period up to the end of this one. Our study is heavily policy orientated.

Finally, we have tried very hard not to be too Anglo-Saxon as befits an Institute of International Affairs. We are trying to look at issues from a European vantage point. It is true, as speakers have said today, that the UK is well ahead in the thinking process. That carries the risk that we should absorb UK thinking and ignore thinking elsewhere in the European Union (EU). But we have done a certain amount of analysis of attitudes in the rest of the EU. I would tend to confirm the view that Mr Waldegrave expressed, that there is a shift in opinion. Nobody should underestimate the fact that, as part of the MacSharry Reforms, Germany accepted the lowering of cereal prices. Historically, high cereal prices have been an absolutely vital ingredient in Germany's agriculture policy. There is no doubt that in France a major debate is going on. There are differences of view, but some strands of thinking accord very closely with the conclusions that are emerging from our studies. Nor must we forget that there is quite a legacy of feeling in the southern Member States that the Common Agricultural Policy (CAP) has operated primarily to the benefit of the northern Member States. You may find this surprising because we tend to have the opposite view. But the feeling exists and I think it is not going to disappear as a result of the changes currently in prospect.

We started our study by revisiting the objectives. I am not talking about renegotiating Article 39. That might be a waste of time. It is, however, quite important to recognise that since the CAP was first conceived priorities have changed. For instance, the importance of food security has clearly diminished. On the other hand, the environmental concerns that find no mention in Article 39 undoubtedly have grown in importance. If one were writing Article 39 now they clearly would have been included. We have found it useful to start by re-examining just what the objectives of policy are. Some of them are much more implicit than explicit; some of them are wrapped in the ambiguity which politicians find convenient. But if one is trying to think where we should be going, it is important to tease out just what the objectives of policy are in this day and age. They are undoubtedly different from those of 20 years ago. Until you have asked yourself the right questions about what you are trying to achieve you are unlikely to get the right policy mix. The bigger condemnation of the CAP is that it has not even delivered efficiently the objectives its authors had in mind.

We took as our method of working an analysis of the different pressures both internal and external, that are likely to bear on European agriculture over the next few years. Internally, we have spent quite a time looking at environmental issues. Martin Holdgate's paper gave an extremely good view of that perspective. Again I think it is probably true that the debate is further advanced and that pressures are greater in the UK than in other parts of the Union. At the beginning

of his paper Martin Holdgate very usefully distinguished the apparent strands in the environmental debate, ranging from the risks and dangers of pollution to the preservation of the landscape. Each raises different issues. Some must be dealt with if degradation is to be avoided; others one would regard as coming into the area of choice. Similarly some need to be dealt with on a Community basis, whereas others, where there is no risk of distortion of competition, can be left to national or regional discretion. No problem arises, for example, if Governments decide that they want to preserve a particular kind of rural landscape. So there is scope for subsidiarity. Indeed there is a necessity for it, given the range of conditions and circumstances in the different parts of the existing Community. These differences will be even greater next year, when Finland and Austria, with their very strong emphasis on remote and difficult areas, enter the EU.

As regards the reform process itself one might have concluded from the presentation given by Mr Steichen, that following the 1992 CAP reforms, very little more needs to be done. That is not our view. We are more likely to say that the MacSharry reforms broke the mould of the CAP but left Europe with a 'dogs breakfast' if you will allow the mixed metaphor. It broke the mould because it did introduce for the first time the notion that you could bring down the price level; you didn't need to rely on price support and instead introduced direct income payments. But the new concepts applied essentially only to cereals and many commodities were left unreformed. New distortions were created, for example in the relative price level of cereals and sugar. So we would certainly take the view that what has happened so far opened up new possibilities and pushed the CAP in new and more promising directions but that there is still a great deal more to do.

Externally, the Union faces the task of implementing the GATT agreement, a task which marches hand in hand with the implementation of the MacSharry reforms. Our analysis will confirm the prevailing view that because the Union negotiated rather too well, the changes that the Uruguay Round Agreement requires can be largely accommodated within the reforms on which the Union has already agreed. However, there is a real question about how quickly the Community will run into the need for further restraint on cereals production. The assumption by the Commission that, as a result of the changes, the rate of growth in yield will slow down significantly is perhaps questionable. I don't want to imply in any way that we feel that the GATT agreement is unimportant. On the contrary, you have only to ask yourself what would happen if, as hopefully now seems unlikely as a result of the deal with Senator Dole, the US were not to ratify the GATT agreement. I don't suggest in any way the Union would go back on the MacSharry reforms. But if what I would describe as the corset of the GATT were not there, the pressures to ease the lot of the

farming community would be much less readily resisted. It is also important to recall that in a few years' time there is to be a review of the Uruguay Round settlement. I don't entirely share the view that the pressures for further liberalisation will be irresistible, but I think it is well for the Community to be putting itself in a strong position to negotiate next time round.

Finally, we have naturally taken a hard look at developments in Central and Eastern Europe. That has been a dominant theme today, and rightly so. Our appreciation will accord quite closely with the rather gloomy views of both Mr Taylor and Commissioner Steichen. I noted that the Commissioner thought fifteen years was the kind of time-scale for agriculture in Central and Eastern Europe to regenerate and begin to exploit its full potential. For this reason I believe that the various financial estimates which have been made should be treated with great caution. They generally assume both that Eastern Europe will have developed and that the CAP remains unchanged, but neither assumption is realistic. One is tempted to suggest that there is a certain amount of scaremongering involved in putting such high figures forward.

Our conclusion is that, while the prospect of enlargement will and should cast its shadow forward in determining changes within the CAP, it would be unwise to suggest, as the House of Lords recent report did, that it will make those changes absolutely inevitable. I think the time-scale makes that view an incorrect one.

In the light of this analysis we identify a number of issues which are going to have to be addressed. The level of price support is the key one. It was the key which unlocked the Union's position in the GATT. There is little doubt that running the CAP at such high levels of price support has been the main culprit in creating environmental degradation. Indeed it could be said to be the root of all evil. It has created the surpluses; it has put the Union in an extremely difficult international trading position; and of course it has led to the escalating costs of the CAP.

The level of support prices is thus the central issue which has to be addressed. There is a strong case for matching what has happened on cereals with a similar programme of price reduction in the other sectors of the CAP. That of course will leave, as with cereals, a problem over income support and I think one has to accept that some degree of compensation will be necessary to gain political agreement. But it need not necessarily take the same form as last time. Hopefully there will be greater clarity as to what exactly the purpose is. Is it to compensate for lost expectations? Is it to compensate for lost asset value? Is it to maintain farm income in perpetuity? In deciding on direct payments for cereals, these questions were left unresolved. As most speakers have

said today, for a whole variety of reasons any future payments need to be fully de-coupled from farming production decisions. Once payments of this kind are de-coupled, it becomes possible to allow flexibility in the way member states give or apply aid. I recognise that there are dangers of the kind which worry the National Farmers' Union in this country, for understandable reasons. The British Treasury is not notably the most generous funder in the EU. Nevertheless, de-coupling does seem to be a vital ingredient in the future.

I must pay tribute to David Naish for having been the first speaker today to tackle the whole question of supply and management. As he himself recognised, farmers tend to favour these rather cosy arrangements, at least those farmers who enjoy the benefits of a quota. But that should not disguise the fact that supply management carries with it very substantial economic costs. Mr Waldegrave quoted a fellow Minister of Agriculture as seeing nothing wrong with the sugar regime because it does not involve much cost on the Community budget. However this totally ignores the fact that, by a clever combination of arrangements, the whole of the burden of supporting a high sugar price is borne by the sugar consumer. So I think that issue does need to be addressed. And remember that the MacSharry reforms, far from introducing a greater degree of liberalisation, actually increased the amount of supply management in the system. Set-aside is another form of supply control. Its demerits have been widely recognised. It has no place in the long-term future of the CAP.

We have also been looking at some of the structural policies. They have been the poor relation of the CAP. Nevertheless, quite a lot of effort and time has gone into creating assistance schemes for the improvement of farm structure. It may well be that, for the countries that have been members of the Community a very long time, these schemes have achieved all that they can achieve. On the other hand, there may be a case for keeping them in countries like Spain and Portugal where there is still the possibility of significantly improving agricultural structure. Certainly there is a case for looking at the requirements of Central and Eastern Europe in any pre-accession strategy. There is also a case for looking at whether structural assistance should be uniquely given to farming, or whether it should not be made available to encourage other rural activities which contribute to a viable rural community. We also think there is a case for re-visiting the Less Favoured Areas scheme, if only because it has now been extended so widely in the Community. It is manifestly no longer a scheme simply to deal with rather isolated and extremely difficult areas. It has really become a vehicle for ensuring some degree of support for the viability of large rural areas.

This brings me to the wider question of rural development, again a very poor relation currently as compared with the CAP. It may surprise

you to know that Commissioner Steichen is not only the Commissioner for Agriculture, but also the Commissioner for Rural Development. It is not my impression that the latter part of his title takes up very much of his time, but I believe it should do. I believe, as do many other people, that if the objectives of the Union and most Member States are now more clearly seen to be the maintenance of the rural economy rather than that of simply producing food, then the emphasis of policy, including the structural policies, should shift substantially away from agricultural policy to a more integrated approach where the maintenance of farm income will no doubt be one, but not the only, consideration.

The last area which we have examined in the Chatham House study - and it is one of considerable sensitivity - is the question of the budgetary arrangements within the Community. The MacSharry reform shifted some of the burden of support from the consumer to the tax-payer. In my view this was a desirable shift, but nevertheless it has created additional strains on the budget. If a similar process were envisaged for other sectors, that would similarly increase the budgetary costs. The question would undoubtedly arise whether compensation need all be borne on the Community budget or could be borne in some degree by Member States in support of their own national or regional policies. Of course there are dangers of distortion of competition, and strict controls would therefore be necessary. Nevertheless, it seems to us to be an area which opens up new possibilities. Once you have shifted away from price support where common financing in support of the single market is justified, to a more varied range of policies in support of the rural economy, then common financing is no longer essential or possibly even desirable.

One concluding remark. We see a great many virtues in a multi-annual programme of reform. When I was working in the Commission in the 1970s, the notion that you could decide anything for more than twelve months was laughed out of court. One thing that the GATT settlement and the MacSharry reforms have done is to create a programme of adjustment. Over several years such a programme, which is not only implemented over several years but announced in advance, has several advantages. It allows the adjustment to take place with lower cost. It introduces a degree of certainty for investment decision both for farmers and for the agri-business industry. Above all I think it is very important in the context of the political integration of the countries in Central and Eastern Europe. If that is to be achieved effectively, there must be a gradual convergence of policies so that by the time membership becomes a real possibility, there is a set of common policies in existence which makes sense for the wider Community and which would be politically and financially acceptable. On a barometric scale of reform, of which Mr Waldegrave represented

today one extreme and Mr Steichen the other, our recommendations from the Chatham House study are likely to be closer to the reformist end of the spectrum. But never under-estimate the forces of inertia!

REFERENCE

Franklin, M & Ockenden, J (1994) *European agricultural policy - ten steps in the right direction*. Briefing Paper No 14. London: The Royal Institute of International Affairs.

GENERAL DISCUSSION

Mrs Vera Chaney (Green Network) expressed the view that support should not be for farmers or for the environment (*per se*) - it should be for farmers who actually demonstrate concern for the environment. She also referred to partnerships between farmers and consumers, and predicted that should partnerships be entered into with the food-processing industry, the outcome could be price reductions to the farmers and price increases for the consumers. Mrs Chaney considered also that encouragement should be given to the inclusion of 'cooking' in the educational syllabus and urged that farming organisations should give their support.

Sir David Naish in reply said that he fully favoured meaningful and beneficial partnerships between farmers and the 'food chain' comprising processors, manufacturers, retailers, and caterers, with particular recognition of the needs of consumers; he also referred to the importance of the production and provision of food at prices affordable to the consumers; and welcomed the decision of educationalists to re-introduce 'domestic science' into the national curriculum as an important development for which the NFU has been campaigning.

Mr Chris Bouchier (Agricultural Development and Advisory Service (ADAS)) referred to comments made in previous papers about the prospects of commodity output values reducing to world market levels and the impact such changes may have on agricultural asset values, especially land; he then questioned the nature of the measures that may need to be put in place to ensure the commercial viability of the industry in the event of such a major transformation.

Dr Michael Davenport in response said that he could envisage a wide range of de-coupling schemes with at one extreme one-off payments to farmers which may vary from country to country (possibly some form of unemployment benefit); at the other end of the scale Set-aside

which is a 'semi-type' of decoupling (related to various environmental and non-agricultural activities); and various other possibilities in between.

Sir David Naish added that the balance sheet is extremely complex because so much of farmers' income is already from non-farming sources and he felt that the proportion is likely to move increasingly in that direction.

Ms Annabel Holt (Annabel's Crusade for the Environment) expressed concern about the possible risks and problems associated with the development of biotechnologies, and strongly urged that there can be no necessity or justification for the use of techniques relating to genetically-modified organisms.

Sir David Naish stressed that in his earlier references to this subject he had been careful to emphasise that the scientific and commercial developments of biotechnology, biodiversity, and genetic engineering cannot be ignored in this competitive world, but those in the food production and processing businesses must make every effort to satisfy themselves of the benefits and/or risks of these developments and have regard also to understanding on the part of the consumer. He therefore felt that there is every advantage in wide-ranging and open debate of all the relevant issues so that those directly concerned can reach informed assessments of the balance between risks and benefits.

Mrs Mary Smith (Farmer) referred to the comments made by Sir David Naish about the desirability of reducing the number of grant aid schemes, and stressed the need for improved technical communication with farmers, especially where tree planting and environmental developments are proposed on agricultural land.

Sir David Naish accepted this point and added his concern that because of the number and complexity of schemes, some farmers are not making the most effective use of available funding. He therefore favoured a simpler and generally available system, providing support towards the cost of agricultural/environmental improvements, administered on a 'menu' basis.

Dr John Slater (Ministry of Agriculture, Fisheries and Food) referred to the recently issued European Commission report entitled *EC Agricultural Policy into the 21st century* and strongly recommended study of the comments relating to the separation of policies into those that achieved farming efficiency and productivity and those that relate

to rural and environmental objectives. He also referred to the high estimates of cost in the report, of applying the CAP to the Central and Eastern European (CEE) countries and commented that whilst estimates prepared by MAFF were lower, they were nevertheless significant.

Sir Michael Franklin agreed that the EC Report is relevant and well worth reading provided account is taken of the reasons for the long delay in publication. On the question of estimates of cost, he was concerned that these may lead some people to the conclusion that accession of the CEE countries may be politically and financially impossible. He felt that such a view would be profoundly mistaken and urged that the estimates should not be misinterpreted or misused.

Mr Hugh Oliver-Bellasis (Farmer) said that he felt he must challenge Mr Don Taylor's statement that agriculture is currently fully sustainable, on the ground that a large body of data shows that the number of beneficial insects is being reduced significantly by the use of broad-spectrum insecticides. He accordingly felt that the agrochemicals industry has a responsibility to ensure that the regulatory process is based on up-to-date parameters which take account of the current state of knowledge.

Mr Don Taylor's response was that he had expressed his personal view that to a large extent we already have a 'sustainable' agriculture in the UK and in most of western Europe. On the question of the regulatory procedures he said that in seeking approval of the safety and efficacy of proposed new products, the data submitted by the agrochemicals industry to the appropriate regulatory authorities is closely examined and discussed over a period of about two years, and he was therefore confident that current knowledge and scientific developments are taken properly into account.