

Which agricultural policy for Europe ?

Despite recent updates, nobody presently denies the fact that European agricultural policy fails to meet new societal requirements, and to comply with the global economic and social new deal. The debate was launched by the French President himself, in a speech in Rennes, in September 2007. The Commission followed, publishing the 'health check' that the Council requested in 2003.

In this framework, fellows of the French Academy of agriculture (their names are listed below) felt necessary to bring a contribution to the huge task of building up the CAP reform.

1. Does Europe still need a common agricultural policy ?

What, nowadays, is called an « agricultural policy » goes far beyond only accompanying agricultural production. Indeed, it is an agricultural, food, environmental and territorial policy, aimed at catering consumers both quantitatively and qualitatively for reasonable prices while preserving futures opportunities. It must thus be embedded into a global, consumer oriented policy vision, conformable with citizen's expectations. At the same time, it must also take into account farmers interests and the specificities of agriculture.

To date, 500 million is about the number of consumers in the European Union. Accordingly, the later is the widest solvable market in the world. The creed along which the world market could regularly and safely meet European consumer needs in quality and in quantity is therefore totally illusory. The 1973 American embargo on soybean exports, as well as the difficulty for balancing supply and demand on some contemporaneous markets provide evidence of the importance for Europe to secure its self sufficiency and food security, at least as far as commodities it can produce are concerned. .

While, in the 60's, the post second world war situation was justifying setting up a voluntarist food security European policy, one must acknowledge that the end of the cold war did not significantly reduce the present world instability. The necessity of, to day as well as yesterday, preserving the European food sovereignty follows.

The basic objectives for Agriculture, as defined in the Roma treaty, therefore, still hold. But in view of technical progress, as well as of citizens and consumers expectations, they must be supplemented with new requirements in terms of product quality, environment preservation, and rural space development. Any common agricultural policy must tackle such considerations.

Finally, citizens increasingly claim for more transparency and sound governance in public policies. It implies that, in agriculture as elsewhere, the size and distribution of any public expenses or subsidy be carefully justified and consequences evaluated.

Only an ambitious and consistent Common Agricultural Policy can achieve such a set of tasks.

2. What can be learned from facts ?

Experience shows that the direction of Europe since 2003 (even since 1992) leads to a dead end. The whole logic of all reforms, either contemplated or undertaken, is based on one postulate, developed by the OECD, and endorsed by the WTO after the Uruguay Round, along which global market and liberalisation will increase efficiency.

But considering the observed effects of the agricultural WTO agreement in 1994, as well as those

of the policy changes which followed, none of the expected targets – be it reducing the amount of public subsidies, or lowering international price volatility, or developing less developed countries - were hit

The difficulty of arriving at a conclusion in the Doha Round (itself a continuation, with aggravation, of the Uruguay Round) confirms the idea along which the WTO principles regarding agricultural policies enter a blind alley. Except for a few big exporting countries, holding specific structural and geographical rents in certain productions, most WTO members do not find any advantage for themselves in the present proposals. In this situation, the only explanation for the pursuit of negotiations is essentially political, each participant trying to let others bearing the responsibility of failure.

Economist's findings are also convergent. Whatever their origins, they congregate in the idea that **agricultural trade liberalisation cannot result in significant welfare increase at world level**, because the gains in comparative advantage are small, while agricultural markets instability with risk averse producers is detrimental for investment and productivity enhancement¹, ultimately harming consumers.

They congregate also in denying consistency to the WTO policy techniques classification according to the “decoupled/undecoupled” criterion. Indeed, so called “decoupled” just as “undecoupled” policies affect markets to the same extent. As a consequence, the total or partial decoupling options chosen by the EC in 2003 (the reinforcement of which is envisaged in the forthcoming “health check”) contradict the basic principles at the very origin of agricultural policies, namely curbing production and price fluctuations, in order to maintain perennial production and catering capacities at reasonable and stable consumer prices. At the same time, European citizen will be increasingly difficult to convince of granting certain producers subsidies without production commitments.

Food demand is poorly elastic. Small changes in supply cause large price variations. For that reason, rather than trying to directly correct downstream perverse erratic price fluctuations effects, upstream interventions on supplied quantities are more efficient. It means that any income insurance scheme, designed to smooth price fluctuations effects, will probably be much more costly and less efficient than regulating production volumes at the source of the problem. .

Agricultural activities are linked with « environmental » good and services by joint production” relationships². In case of joint productions, managing the corresponding outputs through different independent markets is not possible. In agriculture, the complexity of production systems, and their intricacies require one global consistent policy tacking into account the joint production of non marketable “amenities” and marketable goods output together.

The possibility of isolating different segments of agricultural policies, each with their own financing and management rules, is therefore precluded. For instance, the coexistence of independent “first pillar” (inducing manpower reduction, farm size augmentation, geographical concentration, and farm systems specialization), and “second pillar” (recommending diversification, maintaining agriculture in poor land areas, and creating employment in agriculture) policies would just induce a double cost for the taxpayer and the consumer.

Finally, most economists congregate also on the idea that **economies of scale are negligible in agricultural production.** As a consequence, from a macroeconomic point of view, a large number of family farms the size of which is sufficient for allowing a reasonable reward of family labour, is just as much efficient as a small number of large farms based on wage labour. In this context, insofar as a minimal number of rural workers is necessary to achieve society's goals, undue farm concentration is not a token of efficiency and competitiveness. For according to the sustainable

1 It must be stressed here that the word « productivity » must not be taken in the narrow accounting sense, but involves also social and environmental considerations. A productivity gain can be achieved by producing the same output with a better environment, or with a better income distribution.

2 « Joint production » occurs when the application of one technique results in two different outputs. Such a situation causes difficult problems in economic production theory. If, in addition, one of the outputs can be sold on a market, while the other cannot, the problem is even greater.

development perspective, as defined by the Götteborg summit, the competitiveness of agriculture must be judged along the three performance axis : economic, environment and society.

3. Proposal for agenda guidelines

The above considerations provide a background for the definition of the principles which should orient the forthcoming common agricultural policy after 2013.

A long run objective : international agricultural markets regulation agreements

If controlling volumes is less expensive than compensating farmers for low prices, one must admit that, since the 1980's, the international community has been regressive in efforts to curb global agricultural markets instability. Under the influence of international organisations, all techniques of intervention on volumes (especially, set aside and stockpiling policies) have been abandoned, while priority has been given to financial instruments, such as loan rates, deficiency payments or decoupled subsidies, income insurance, etc.... But these solutions far from lowering price volatility, on the contrary, feed market instability, and actually increase it, by automatically linking domestic disequilibria to the world market.

Europe must assert a will to restart a process of international cooperation for concerted market regulation. Such a stance should find favourable echoes in a large number of countries – especially, developing countries, presently the great losers of the liberalisation process.

Establishing the principle of food sovereignty should allow less developed countries to protect their markets in order to develop domestic production capacity, just as the US have done (and still continue!).

At the same time, Europe must also makes perfectly clear that reproducing the previous international commodity agreements – on the model of those which were fashionable in the 1970's, some of which are still at least partially operational – is out of question. The goal is a set of multilateral WTO-type agreements, collectively binding all WTO members, not only a few exporters and importers, in order to avoid any “free rider” behaviour³.

Promoting international agreements, however, does not make sense in the absence of consistent national or regional (CAP similar) policies.

Inside EU, a consistent set of intervention instruments

Because all markets and productions are interdependent, and given the wide range of economic, social and environmental situations of countries and regions, imposing a unique format to agricultural policies, as suggested by OECD and WTO, is illusory, just as is illusory the idea of finding a magic tool (such as “decoupling”), which could be applied to any situation anywhere.

By necessity, an efficient agricultural policy is complex. Efficiency depends mainly upon the consistency and complementarity of various tools which are necessarily diversified. In that respect, it must be noticed that all the efforts made to “simplify” the European agricultural policy ultimately led to more complex and hard to manage administrative devices than the systems they were designed to replace (a good example is how the single payment scheme was implemented in France).

Stockpiling and commodity flow control: still essential tools

A first necessary tool is the classical system of intervention through public stockpiling. Insofar as

3 « Free riding » occurs when a non agreement committed country take occasion of the agreement existence to develop its own production, and benefit from the agreement without bearing the associated costs and disciplines.

upstream interventions on quantities are less costly than downstream interventions on prices, its utility remains high. However, such devices find their own limits in the fact that the stockpiling capacity itself is limited. They must therefore be coupled with other device capable of limiting the recourse on stock through time and space. Occasionally, stock situation dependant production volume control measures could be envisaged. Such national or regional stock regulation policies could be internationally concerted, for instance in the framework of multilateral agreements referred to above, in view of improving the regulation of global prices and catering.

The necessity of border control

As a consequence of the above reasoning, protecting border is a necessity before setting up any agricultural policy, In any case, all importing countries should be allowed border protection.

Beside, the article XXVIII of the GATT, still valid, allows for a renegotiation of any tariff concession which, although justified in the past, results now in harmful disequilibria because circumstances have changed. It should be more extensively made use of.

Proposals made in the Doha round framework convey important factors leading to market instability, especially European markets. There are no reasons for the EU bearing alone all the negative consequences of liberalizing agricultural trade – which, as seen above, is essentially a zero sum game. Therefore, the EU should not feel committed to any additional concessions in order to conclude the Doha Round. Insofar as, in this cycle, only a minority of emerging exporting countries have any interest in the presently existing proposals, the absence of agricultural agreement in the cycle should not be considered as a political failure, but rather, as a healthy return to economic reality.

The necessity of deficiency payments

Because of the social considerations, quality requirements, and environmental concerns which will drive European agricultural production in the next few years, European production costs will most of the time remain higher than world prices. The present upsurge of agricultural prices cannot be taken as a clue that all problems are solved. It would be irresponsible for Europe to set up a long or medium term policy on the basis of a short term favourable but essentially instable situation. The question of the medium and long run evolution of international agricultural commodity prices is still open.

Thus, except for a few temporarily favourable periods, in view of the present situation of external protection, and because of the differences in production costs between domestic and foreign countries, direct subsidies will remain necessary in Europe.

In order to avoid squandering public money, while complying with the objective of market control, such subsidies should be given again a contra-cyclic character, that is, they must be adjusted in response to price variations. They should not be “decoupled” and independent of productions, to which they should be linked. A revision of the agricultural WTO agreement is indispensable on this point. Such a revision should be the more easy to obtain that the USA, which had been the promoter the idea of decoupling, recently renounced it.

To reconcile market control, social equity and rural development objectives, direct subsidies should be adjusted according to market situations, and be limited. A first limitation should be a certain production volume (or, indirectly, a number of hectares, or of cattle heads). A second limitation should involve a maximum amount by worker.

Since counting actual workers in European agriculture is difficult (the definition change from one country to another), it will probably be necessary to adjust the above mentioned maxima and subsidies distribution in a national or regional framework, although common general regulation should apply. In any case, the necessity of balancing the distribution of agricultural activities over the whole territory implies a regional modulation of subsidies – which is in line with the generally

admitted principle of natural handicap compensation, and underlines the limits of the present distinction between the first and second pillars of the CAP.

Reinforced protections for environment and employment

Social and environmental objectives of agricultural policy imply first, that existing rules must be correctly enforced, and, second, that direct public subsidies, whatever their nature, must be granted only on the basis of strict conditions. Such strict conditions can be supplemented by contractual individual commitments, in order to provide incentives for good practices the social or environmental benefits go beyond the mandatory requirements – for example, protecting biodiversity or landscapes. Installation subsidies should be reinforced, and made contractual, with adjustment according to the patrimony and economic situation of the farmer-to-be beneficiary.

A global single farm contract, which would sum up all subsidies, with one funding source and one controlling agency, could allow for more transparency and a better consistency of various actions in each farm, as well as a comprehensive view of all supports.

Granting food aid to poor consumers

The above considerations do not exhaust the content of the agricultural and food policy the EU needs for. Contrary to the US (which have developed the food stamps program), the EU never developed any targeted food aid system, directed toward specific categories (such as school restaurants, or the poorest categories) and strategic nutrients (vegetables, fruits, bioproducts, etc.;). Now, not only such policies can cover the needs of unsolvable consumers, thus widening demand for difficult to sell products, but also, they may be part of market regulation policies, and therefore be added to the panoply of the above mentioned market management instruments.

Reforming budgetary instruments

Implementing the above developed ideas and principle require more technical instruments which will not be described in detail here. Let us only mention a few of them. .

The principle of the annual EC budget must be revisited. If the main objective of the agricultural policy is correcting market failures (because markets are instable and can change completely from one year to another), intervention instruments must be adjustable throughout time. Interannual adjustment mechanisms as well as automatic forward carrying of non realised expenses, variable budgetary participation of member states, specific refinancing from the Central European Bank, and other facilities must therefore be designed.

The existence of different funds financing different « pillars » of the CAP (regional fund, social fund, cohesion fund, etc...) stands as a budgetary trick which nurtures confusion between different policies. The agricultural policy must not be a substitute for other common policies, such as the territory policy or the energy policy. Rural development should therefore be financed by the socio-cultural fund, and the energy policy by a specific fund to be created⁴. It is obviously necessary to have coordination between the different European, national or regional programs. It does not imply confusion in financing instruments.

Conclusion

At a time when the debate regarding the future of the CAP is open (health check in 2008, financial perspectives of the European budget, and the 2013 expiry date), the present euphoria on the world agricultural markets stands as a confusion factor, as shown by the deregulating measures contemplated by the Commission.

⁴ Presently, there is no energy policy of the UE. Certainly, it is an error. But it would be a greater error to think that the agricultural policy can stand for an European energy policy through the costly denaturation of food into biofuel.

Contrary to what can be derived from the Commission's plans, and many political speeches, no serious economic analysis support the view that unregulated markets can sustainably secure food supply and sanitary food quality to 450 million European citizens, complying with severe social and environmental norms, and without dramatic failures. Assuming that Europe does not need any agricultural policy, and that prices can be spontaneously adjusted to costs without market regulation is simply irresponsible. In addition, in view of its power, Europe cannot escape responsibility toward developing country.

For exerting its food sovereignty from a sustainable agriculture, Europe needs a strong and voluntarist agricultural policy. To build up such a policy, it is necessary to get rid of the intellectual fashions of the time, and derive lessons from a long food history, with many unforeseen turnarounds. During its first years, the European Community has been wise enough to set up a sound and efficient agricultural policy, capable of meeting the needs of the time. Now, these needs have considerably changed, as well as the size of the European Union, becoming the first economic power of the world. Nostalgically returning to the original common agricultural policy, built for other purposes in a different context, is therefore out of question. But while Europe so badly needs it, nothing would be more absurd than to ignore the lessons from history in designing the agricultural policies of the future.

Signatories

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