

**A Common Agricultural Policy for European Public Goods:
Declaration by a Group of Leading Agricultural Economists**

Europe's Common Agricultural Policy (CAP) is in need of reform. The imminent negotiation of a post-2013 budget settlement for the EU offers a real opportunity to undertake the necessary changes. A broad public debate is vital if Europe is to make the right choices. We wish to contribute to this debate.

Since 1992, price support mechanisms have progressively been transformed into decoupled direct payments for farmers (the so-called Single Farm Payment). This has mitigated the CAP's negative side effects. Today's CAP engenders fewer distortions in European and global agriculture, and it causes less harm to poor farmers in developing countries. It also offers reduced incentives to engage in environmentally harmful production. Nonetheless, the costly Single Farm Payment confers very uneven benefits on member states and on individual farmers, without fulfilling any clear income distribution, rural development, or environmental protection objectives. Support for rural development and for environmental protection is frequently poorly justified and ineffectively implemented. Furthermore, remaining elements of the CAP's old market support mechanisms remain problematic for the EU's trading partners (export subsidies on dairy products, and high import tariffs for example), weakening the EU's negotiating position in its efforts to dismantle excessively protective policies worldwide and secure a successful conclusion to the Doha Round.

The time has come to redesign the CAP to strengthen its positive effects. Only if the CAP efficiently helps promote society's interests will it be legitimate in the eyes of our citizens and viable in the long run. The EU should only be involved in financing and regulating the sector to the extent that it serves these wider goals, and in particular when the effects of agricultural policies spill across national borders. Otherwise, policies should reflect the principle of subsidiarity. Social and redistribution policies should be left to national and sub-national authorities that are better placed to pursue local preferences with financial responsibility. Fair competition on the internal market can be obtained through EU oversight and does not warrant significant EU financing.

The objectives of the future CAP

Four classes of potential objectives for the CAP can be identified: enhancing economic efficiency and competitiveness, ensuring food security, changing income distribution, and promoting public goods. However, only the last objective provides a sustainable basis for the future CAP.

1. Economic efficiency and competitiveness: Generally, well-functioning markets rather than state intervention are the best way to attain a demand-oriented, innovative and competitive farm sector. But the EU has a legitimate role to play in encouraging research and development in both public and private sectors, since the benefits of research and development are often shared across borders, and member states can gain by pooling their research endeavours. Such EU support is best integrated into the EU's existing research policy that has the requisite competences, rather than form part of the CAP.

2. Food security: The EU is affluent and has the purchasing power to source supplies from the world market, even when world prices are high. Food security is thus not currently threatened in the EU. Poor households may still be hurt by periods of high prices, but the best way to help them is through social welfare schemes. Moreover, the EU could take measures to increase its own production if a future need arose. In response to rising prices, farmers would expand cultivated areas, use more intensive farming methods and shift production patterns to increase yields.

Preparing the EU against future threats, and maintaining a productive capability that would be easy to tap in the case of persistent shortages, are still legitimate goals. To this end, targeted payments – for instance to preserve soil fertility and water resources, and maintain a critical level of farming activity – would be more effective than blanket subsidies to maintain existing levels of agricultural production or employment.

In the international context of global warming, limited water resources, and an ever-growing population, world food security *is* an issue. But to invoke world food security arguments to justify the current CAP is implausible. Money intended to reduce hunger and poverty abroad would be better spent by investing in agricultural research and infrastructure in developing countries rather than by giving it to European farmers.

3. Income distribution: Although in certain member states farm household incomes are below the average income in the non-agricultural sector, and indeed may fall below the national poverty line, agricultural subsidies are not an effective tool for social policy. If public aid is dependent on agricultural production or land ownership, non-poor farmers and landowners reap the bulk of the aid while poor non-farmers are

disadvantaged. Instead, public aid should be targeted at households with low income and wealth regardless of the sector they work in.

Income disparities are still large across European regions and member states. Cohesion is an important principle in an EU of 27 diverse states, but the record of the CAP in addressing this issue is disappointing. Agricultural support is not targeted at the poorest regions or member states, and agricultural spending is not necessarily what the recipients need most to develop their economies.

4. Rural public goods: Farmers often create public goods valued by society but not sufficiently remunerated on the market. These public goods may include environmental protection, conservation of biodiversity, soil fertility and water quality, landscape preservation, food safety, animal and plant health, and rural development. Some of these public goods are more global by nature, such as biodiversity, and do call for EU action. Others, like landscapes, are local in nature, and would more appropriately be addressed by national or local authorities.

Environmental protection: Some environmental public goods could justify EU support. An obvious one is the fight against climate change, which is a global challenge justifying a supranational response. Monitoring greenhouse gas emissions in order to apply cap-and-trade schemes or carbon taxes is difficult in agriculture. Payments for climate-friendly farming practices may well be needed to induce farmers to go beyond minimum legal requirements. The protection of biodiversity also warrants EU support because animals, ecosystems and biodiversity-threatening pollution cross borders. Similarly, keeping water clean and preventing water scarcity as well as floods is an EU concern because Europeans share rivers, lakes and seas.

Landscape preservation: Most benefits of a diverse, traditional, well-kept landscape will be reaped within the country – by direct enjoyment, as an advantage to attract qualified human resources or through tourism. These are primarily *national*, not European, public goods. But Europeans also enjoy the landscapes of other member states, possibly justifying some collective intervention by the EU.

Food standards: It is sometimes suggested that subsidies are warranted to enable EU farmers to meet Europe's more demanding legislation on food safety, without driving agricultural production to foreign, low-standard suppliers. Imported foods do, however, have to meet the EU's food safety standards, and in that regard face the same costs.

There are, nonetheless, difficult issues relating to environmental, animal welfare, and other ethical aspects of production methods, which are not easily resolved. The EU should be more forceful in international negotiations, in ensuring products can be appropriately labelled for example, and in seeking international

harmonization of ethical and environmental production standards. If European voters decide to apply higher standards to Europe's farmers, then European consumers need to be adequately informed of the attributes of imported goods.

Rural development: When a country wishes to subsidize a more decentralized settlement structure, this is a national choice rather than a European public good. Nonetheless, the principle of cohesion has given the EU a role to help lagging regions develop their full potential. This is best achieved through the EU's regional policy, which is not limited to agriculture, and can adopt a more integrated approach to the rural economy. Rural development may form part of such policies in remote and sparsely populated areas, but current CAP rural development programs are not targeted at the areas most in need and single out farmers without a comprehensive view of local development.

The shape of the future CAP

We agree that Europe needs an agricultural policy, but it needs one that focuses on areas where European action creates the greatest value. The CAP is not the right policy framework to enhance the efficiency of agriculture, change income distributions in the EU and abroad, promote world food security, or encourage rural development. The future role of the CAP should be to give farmers appropriate incentives to deliver European public goods demanded by society, particularly in the environmental realm. This includes the fight against climate change, the protection of biodiversity, and water management (avoiding pollution, scarcity and floods).

A future CAP in line with this objective would differ fundamentally from the current CAP. The first pillar should be progressively abolished. Originally introduced to compensate farmers for lower price support, the main tool of the first pillar – the Single Farm Payment – does not promote societal interests. It should be phased out, and new schemes designed in which aids are granted not on past, but on future behaviour. Policies under the second pillar should be thoroughly reassessed. Only those policies that promote genuine European public goods, are efficiently targeted at their objectives, and avoid excessive payments, should be retained.

As pointed out above, some legitimate public goods which are produced by agriculture should, in the future, be funded by national budgets rather than the EU. However, there is a real danger that national and sub-national authorities could implement policies that distort the internal market. Further increases in member states' flexibility have to be counterbalanced by tighter EU oversight of national implementation of EU-supported programs as well as national schemes. This requires

strong and clear EU rules, thorough monitoring and assessment, and effective and consistent rule application.

The proposed changes of policies would themselves facilitate fairer competition in the internal market. Current distortions are substantial because the levels of first and second pillar subsidies differ across countries and farmers, and because some countries still invest in farm modernization while others prefer payments for environmental protection or the quality of rural life. A coherent move throughout the EU towards agricultural subsidies that promote public goods could thus level a presently uneven playing field.

An excessive concentration of market power in food retailing or manufacture can be detrimental to both farmers and consumers. The EU needs to address any evidence of abuse of market power in the food chain to ensure all participants obtain a fair deal.

As a result of agricultural policy reforms in the EU and elsewhere, and more uncertain weather patterns resulting from climate change, we are liable to face more instability in world market prices in coming decades. When market prices tumble, governments come under strong pressure to intervene in order to protect farmers; and this could jeopardize the future of the reformed CAP. The EU must resist such calls, especially where protection of European farmers comes at the expense of farmers in developing countries. But the EU also needs to recognise the real concerns low prices can create. This suggests that further CAP reform should be accompanied by new policies empowering farmers to use risk management tools, and possibly by providing income safety nets to cope with *exceptionally* depressed world market prices.

CAP reform in line with these recommendations will achieve a more reliable food supply, reduced greenhouse gas emissions, greater biodiversity, and more responsible soil and water management at lower costs. It will also help to ensure fair competition among farmers in the internal market, and facilitate responsible trade policies that enhance the legitimacy of the EU in the global community. Moreover, it would allow a re-orientation of spending across all budget headings on European public goods. CAP reform is therefore an important step in building a more effective European Union that wins and maintains the support of its citizens.