

Reforming the Common Agricultural Policy

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The EU Common Agricultural Policy (CAP) has undergone several waves of reforms over the last few decades. Yet, many market- and trade-distorting practices still persist, and the EU's agricultural sector remains disproportionately dependent on public support when compared to its counterpart in other developed countries, such as Australia, Canada and New Zealand.

Despite previous attempts to maximise its contribution to the UN Sustainable Development Goals (SDGs), the CAP continues to harm poor and developing countries through high import tariffs. It also hurts domestic taxpayers and consumers through large support to farmers and the suppression of technological innovation.

Policy incoherence is at the heart of the CAP. On the one hand, the EU has de facto imposed a moratorium on cultivating GM crops. On the other hand, a large number of EU farmers desperately need imported rDNA to feed their livestock. All of this is in stark contrast with the overall objective of the Union's Development Cooperation Policy.

Introduction

Since the 1992 MacSharry Reform, the EU's Common Agricultural Policy (CAP) has undergone substantial change. However, despite a noticeable move towards less market- and trade-distorting policies, the post-2013 CAP continues to harm farmers in developing countries by subsidising agricultural production in the EU. At the same time, the CAP also remains the Union's most expensive, most complex and most interventionist programme (Rickard, 2016a).

Over the last 25 years, the total cost of the CAP has been broadly stable, costing to EU citizens some €50-60 billion per year (in 2011 constant prices). Simultaneously, CAP expenditure as a share of the EU budget has decreased sharply over the last three decades, from 73% in 1985 to 39% in 2015 (European Commission, 2017). Compared to its current manifestation, the CAP started out with the straightforward intention of holding the domestic prices of key agricultural commodities at sufficiently high and stable levels to encourage production and provide a reasonable standard of living for farmers. Yet, despite several attempts of reform, its current dysfunctional structure will not change until 2020 and the pace of structural change will continue at a very slow rate (Rickard, 2016a).

The need for free-market reforms

According to a growing number of industry specialists, the Common Agricultural Policy is damaging productivity growth in Europe (Rickard, 2016b). By discouraging efficiency-enhancing expenditure, promoting the continuation of marginally profitable farming and blocking the development of alternative technologies, recent reforms have done little to boost productivity growth. In fact, agricultural Total Factor Productivity (TFP) growth has averaged only 0.3% per annum between 2002 and 2011 in the EU-15 (DG Agriculture and Rural Development, 2013; EPICENTER, 2016a).

With a TFP growth of only 0.8% in the last 10 years, the EU performed far worse than developed countries such as the United States (1.76%), Canada (1.26%) and Australia-New Zealand (2.1%), as well as the major developing economies of Brazil (2.96%) and China (3.32%) (Farm Europe, 2017).

With an EU-wide productivity level half that of the United States (Timmer et al., 2010), EU authorities should focus more on innovation and alternatives technologies, rather than subsidies and other inefficient interventionist policies. With a global population estimated to exceed 9 billion people by 2050, it is of fundamental importance for Europe to allow market forces much greater influence over the sector (Rickard, 2012). Thus, if progress is to be made in terms of CAP modernisation and simplification, the current large state support, the growing regulatory burden and the increasing power of non-farming interest groups should be replaced by greater reliance on the dynamic ability of markets to improve resource efficiency and the productive potential of European agriculture.

A very good reform example comes from New Zealand. Following a process of slashing agricultural tariffs and subsidies in 1984-1985, New Zealand rapidly built a very efficient, productive and innovative farm sector. From 1985 to 2000 New Zealand's farm sector grew at nearly 4% per year in real terms and the entire agricultural sector actually grew as a percentage of GDP, from just over 14 percent of GDP in 1986-87 to 16.6 percent in 1999-2000 (Johnson, 2000; Cato Institute, 2005).

Since the reforms of agricultural policy in the mid-1980s, production and trade distorting policies have virtually disappeared in New Zealand. Moreover, due to open trade, almost all prices are aligned with world market prices (OECD, 2016a).

Thus, as of today, New Zealand's agriculture, forestry and food sector generates nearly two-thirds of the country's merchandise export earnings, employs 11% of the total workforce and is widely recognised as one of the largest hubs of agri-business innovation (New Zealand Government, 2017).

Alternative technologies like GMOs are key to modernisation

Following the publication of the Commission's Work Programme 2017, a key aspect of the CAP that should be addressed by EU policymakers is the paradox surrounding genetically modified organisms (GMOs) (Matthews, 2017).

Since the adoption of the 1990 Directive 90/220/EEC, the EU has de facto imposed a moratorium on cultivating GM crops. On the one hand, the EU has probably the most restrictive regulations in the world with regard to recombinant DNA (rDNA) plant cultivation. However, at the same time, it has continued to allow the importation of millions of tonnes (e.g. 36 million tonnes of equivalent soybean) of recombinant DNA seeds because it needs them to feed its livestock (EPICENTER, 2016b).

The EU livestock sector is currently highly dependent on third countries' production for its vegetable proteins (e.g.: soybeans). In 2013, the Union imported 18.5 million tonnes of soymeal and 13.5 million tonnes of soybean, representing more than 60% of the Union plant protein needs (European Commission, 2015).

As TIMBRO (2013) reckons, the development and cultivation of GM crops is key for Member States if the Union wants to promote a forward-looking, modern, and innovative agricultural sector. On the contrary, in the wake of the latest 2015/412 Directive, EU Member States are today able to restrict or fully prohibit the cultivation of GMOs in their own territory based on non-scientific grounds.

Not only this policy incoherence penalises the large number of EU farmers who desperately need imported rDNA seeds to feed their livestock, but it also harms European consumers, who keep buying food at higher prices, and discourages the advance of alternative technologies (Rickard, 2016b). On top of this, the current incoherent GMOs policy is in contradiction with the Union's Development Cooperation Policy (Lisbon Treaty, 2009).

As it stands, the CAP harms economic development and international trade

Producer Support Estimates (PSE) as a share of Gross Farm Receipts (GFR) for EU agriculture have fallen from 39 per cent in 1986 to 19 per cent in 2015. At the same time, total support to the farm sector as a percentage of GDP has decreased from 2.66 per cent to 0.70 percent (OECD, 2016b). Still, there is no room for complacency.

As Juma (2015) and Urban et al. (2016) argue, tariffs and direct support to farmers should be strongly reduced and abolished, respectively. This radical move would benefit European consumers, producers and developing countries alike.

Due to charges and barriers, such as a 7.5% tariff imposed on roasted coffee or a 30% tariff on cocoa products like chocolate bars or cocoa powder, several African countries have been heavily punished over the years (Juma, 2015). Moreover, it is a well-known fact that EU policymakers' reluctance to abolish the CAP domestic support payments has represented a significant stumbling block to the successful conclusion of the Doha Development Round until now (Elliott, 2007; Mahajan, 2011; Gechev, 2017).

The EU's high tariffs and relentless protectionism have ensured that Africa, as a continent which imports over 80% of its food, has an estimated 600 million hectares of uncultivated arable farmland, and, despite millions of people able to work on the land, remains unable to feed and sustain itself (Juma, 2015).

Conclusion

As the debate on modernisation of the CAP gathers pace, every proposal for future EU agricultural reforms that focuses both on a higher degree of liberalisation and on the detrimental effect of current policies on developing countries should be welcomed by the Commission (EPICENTER, 2016c). Despite previous reforms, the CAP still damages the interest of consumers and taxpayers in the EU and its increasing regulatory burden has lowered productivity growth and has been a real drag on innovation.

It is for all these reasons that if European policymakers want to transform the Union's agricultural sector in a global force of good, they should ultimately allow market forces to replace state support, tariffs and regulations. As the New Zealand liberalisation experiment demonstrates, free market agriculture would be perfectly feasible for European countries. Free-market reforms would boost TFP growth in the longer term, would incentive innovation and would align EU wholesale food prices to world market prices.

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