Global governance and the Common Agricultural Policy

Wyn Grant

The Common Agricultural Policy (CAP) in the first decade of the 21st century is operating in a very different international setting from that which prevailed in the 1950s and 1960s when the policy was first devised and set up. Indeed, the setting has changed from the earlier to the later parts of the decade as issues such as climate change and food security have come to the fore.

When it was established, the design of the CAP was very much influenced by considerations of food security and in that sense the debate has come full circle. The founders of what became the European Union (EU) wanted the CAP to be a cornerstone of the new common market. Agriculture was far more important in the 1950s as a contributor to gross domestic product (GDP) and a source of employment than it is today. For example, one-quarter of the French population was still employed on the land. The designers of the CAP could vividly recall the state of Europe at the end of the Second World War when many people did not have enough food available to them to constitute a healthy diet.

Although one of the main objectives of the formation of the European Coal and Steel Community (ECSC) and then the European Community (EC) was to bind France and Germany close together and ensure that there would never be another war between European powers, the Cold War had raised a new set of security concerns. There were fears that if the Cold War became a hot one, sea lanes to Europe would be interrupted and the continent would not have enough food to feed its population. Any atomic exchange would, of course, contaminate crops and livestock with radioactivity, but some of the earlier plans for the aftermath of atomic warfare still envisaged, rather optimistically, that organized agricultural activity could be maintained after an atomic exchange.

What is significant here is not whether these expectations were realistic, but the creation of a decision-making context in which it was thought necessary to create a European agriculture that would be more self-sufficient. This led to a policy design which sought to stimulate European production and make it more difficult for imported products to enter the European market. In fact the policy succeeded beyond the dreams of the original planners and the EC countries became major food exporters, not least France, which came to be the second biggest food exporter in the world after the USA.
American and British attitudes

This development was not, of course, in the interests of the USA and, in particular, its powerful corporate agri-business interests. However, in the 1950s and 1960s the USA viewed the creation of the EC as a project that would strengthen the ability of Western Europe to resist communism. In pursuit of this grand project, it was prepared to tolerate developments that might not be in its immediate economic interests. Consequently, the USA did a deal with the EC to exclude agriculture from the provisions of the General Agreement on Tariffs and Trade (GATT), a deal that remained in place until the Uruguay Round (UR) brought agriculture back within the scope of the GATT agreement with the formation of the World Trade Organization (WTO). It was never fully excluded in any case and there were periodic disputes between the USA and the EC over such subjects as chicken, pasta and oilseeds which generated a heat that transcended the rather mundane character of the products themselves. As we shall see later, these disputes became both more intensive and extensive over time.

The United Kingdom decided not to join the EC at the time of its formation and was, therefore, not able to shape its character. The absence of British involvement was not so surprising when one considers the way in which its agriculture and food policy had developed historically. With the repeal of the Corn Laws in the 19th century, the United Kingdom threw open its markets to international imports of grain and other products. The not unexpected result was a slump in British agriculture, but it guaranteed cheap food for Britain’s growing urban population and reduced the chance of unrest among the industrial working class of the type that had been manifested by the Chartist movement earlier in the 19th century. Although the debate between free trade and protectionism was a staple of British politics in the early decades of the 20th century, the main consequence was a system of imperial preference which allowed the United Kingdom to import, for example, lamb and butter from New Zealand or cheese and grain from Canada.

The Second World War created a need to stimulate domestic agriculture. Some measures had already been taken in this direction in the 1930s, including the creation of the milk marketing boards, and after the Second World War the Labour Government created an interventionist and comprehensive system of support for agriculture through the 1947 Act. Although the Conservative Party changed some of the details of this system when they returned to office, they supported the general principle of managing the farm support system in conjunction with the National Farmers’ Union (NFU) (Self and Storing 1962). It was, however, a different and, some would argue, a more efficient system of support than that developed in the CAP.

How the CAP was shaped

The conventional wisdom is that the CAP rested on a deal between France and Germany. France gained subsidy and protection for its agriculture and access for its food products to the German market, while Germany gained access to the French market for its agricultural products. This is an oversimplification, but it contains a kernel of truth. Germany had a large number of part-time farmers who worked in, stereotypically, a Volkswagen factory during the week and on their farms at the weekends. It had a political interest in these and marginal full-time farmers being subsidized: these farmers largely supported the Christian Democrats (CDU), their Bavarian sister party (CSU) or, for some Protestant farmers, the Free Democrats (FPD). It is notable that the objectives of the CAP as set out in the Treaty of Rome were effectively translated from Germany’s 1955 Agriculture Act (Hendriks 1991; Wilson and Wilson 2001).
There were three of the original member states that played very little part in shaping the CAP: Belgium and Luxembourg, which largely followed the French line which suited them anyway, and Italy which made little systematic input of any kind (Knudsen 2006). One consequence of Italy’s non-participation was that the policy was very much directed towards northern commodities (provision for small-scale French tobacco farmers notwithstanding) and this became a challenge when the EC was enlarged to the south. Despite certain concessions to the first wave of new southern member states (Greece, Spain, Portugal), the stylized facts are that the policy remained based around northern European commodities.

The one country that did try to produce a different kind of CAP was the Netherlands. If the United Kingdom had been part of the negotiations, the outcome might have been different. As it was, the Dutch farm minister, Sicco Mansholt, went on to be the first agriculture Commissioner in the EC. Chancellor Konrad Adenauer of Germany discovered to his horror that Mansholt was, inexplicably to Adenauer, a farmer and a socialist. Mansholt was a visionary and reformist farm commissioner from 1958 to 1972, but was often out-manoeuvred by the Franco-German alliance. A common market that had had the United Kingdom as a member from the beginning might well have adopted the more market-oriented deficiency payments system as its principal policy instrument. In essence, this paid the farmer the difference between a guaranteed price and the prevailing market price, encouraging farmers to pay more attention to market signals and costing taxpayers less when the market was buoyant.

The international consequences of the CAP

The CAP relied in large part, until it was reformed from the 1990s onwards, on a system of intervention prices, backed up by variable import levies which ensured that the EC price could not be undercut. What this meant was a risk-free floor to the market. This meant that however much farmers produced of a key commodity, if they could not sell it on the market, they could always sell it into the intervention store, subject to initially quite limited quality controls. The intervention price was set above the marginal cost of production so this gave farmers an incentive to maximize production, regardless of the consumer demand for the product. In time, this led to the infamous butter and grain mountains and wine lakes. Given that these generally represented structural rather than short-run surpluses, the EC had to find some way of disposing of them, given that they cost money to store and deteriorated over time.

As far as ‘ageing butter’ was concerned, one solution was to sell it to the USSR and other communist countries. Consumers there were presumably grateful to have ageing butter rather than no butter at all, and some individuals made a great deal of money out of this trade. Another device was to bring parties of pensioners to ships which sailed from, say, German ports and notionally docked at another member state by throwing down a mooring rope. En route, the pensioners could buy as much surplus butter as they wished.

A rather more serious consequence was the unloading of surplus products on the world market through the payment of export subsidies to traders who would dispose of the surplus stock. The traders did rather well out of this, which was not the original policy objective. Moreover, this policy had two serious international consequences. First, it meant that the EC became a much more serious competitor with other agricultural exporting countries in ‘third country’ markets, like the Middle East and North Africa. Understandably, this was not welcomed by other major agricultural exporters such as the USA, Australia, and Latin American countries such as Argentina.

They reacted in a number of ways. The USA started to pay out their own export subsidies, rather than just relying on the traditional policy of disposing of surpluses to American forces.
based overseas. This further distorted the world market and produced something of a subsidy war between the EC and the USA which tended to ratchet up the amounts paid out. The Australians (and New Zealand) went down another route and eventually decided to get rid of almost all their subsidies. They also produced a series of powerful analytical critiques of the CAP from Canberra, but this had little or no impact on EC policy. Eventually they got together with other agricultural exporting countries in the Cairns Group to lobby for agricultural trade reform in the UR (Daughbjerg and Swinbank 2009).

The other consequence was that the ‘dumping’ of EC produce at prices below the cost of production in markets in the Global South undermined local producers, for example local dairy farmers being undermined by subsidized exports of EC milk in the form of skimmed milk powder. This offset the privileged access that the EC gave to its market through a succession of agreements (Lomé, Cotonou) to the agricultural produce of a group of African, Asian, Caribbean and Pacific countries, almost all of which were former colonies of its member states (Roederer-Rynning 2005). Eventually, Global South organizations like Oxfam began to campaign against the way that the CAP had adverse effects in least developed countries (LDCs).

Intergovernmentalism

The CAP has operated for most of its life in a way that fits well into intergovernmentalist theoretical accounts of the EU, although again there have been changes in the 21st century. In the unreformed CAP, the Council of Agriculture Ministers was at the centre of the decision-making process and enjoyed a rather ‘club-like’ atmosphere in which deals were negotiated at long, drawn-out and often exhausting meetings (Swinbank 1989). No one’s vital national interests were ever undermined or at least unhappy member states were bought off with significant side payments. The ministers were supported by national agriculture departments which generally had a close relationship with their farming organizations on whose behalf they acted much of the time as spokespersons. The farm ministers were invariably male, often from rural areas and usually had some kind of personal link with farming, if not as a farmer, then as an official in a farmers’ organization or an agricultural bureaucracy. The work of the Council was prepared by a Special Committee on Agriculture which was distinct from the conventional Committee on Permanent Representatives (COREPER) route and drew on officials with agricultural expertise.

DG VI, the directorate-general that dealt with agriculture, invariably had a French official at its head and contained a substantial number of French officials or officials from other member states who were Francophiles. The farm Commissioner generally had agricultural links and was usually drawn from a small member state with a significant agricultural sector. One benefit of working at DG VI was that it was claimed to have the best canteen in the Commission. DG VI and the Farm Council had a close working relationship with European farm organizations, exemplified by the so-called ‘objective method’ for fixing support prices, which was neither objective nor a method.

The process of reform

All this changed substantially in the first decade of the 21st century. What is now DG Agri is no longer dominated by the French, following the Kinnock reforms. With 27 member states, the club-like atmosphere could no longer be maintained. National farm ministries have merged in some countries into environmental or consumer affairs departments, there have been farm ministers drawn from the Greens, and the mandate can be taken by a female lawyer rather than
a male farmer. The farm organizations have been losing influence for some time, in part because they failed to appreciate how the terms of the debate were shifting (Jones and Clark 2001; Cunha and Swinbank 2009). Environmental and conservation organizations have gained a new influence in the debate about agricultural policy.

The policy itself has been substantially reformed—just how substantially is a matter for debate. What is particularly interesting is the extent to which this reform process has been driven by individual Commissioners. In 1992 the then Commissioner, Ray MacSharry, took advantage of the threatened breakdown of the UR talks to drive through a series of reforms on the way in which the CAP was operated. The exact sequence of events and how much MacSharry seized a window of opportunity or had planned the reforms for some time and had even provoked the crisis remains contested (Kay 1998; Moyer and Josling 2002). What was important was that the MacSharry reforms initiated the ‘decoupling’ of farm support payments, a process that is not yet wholly complete, although the Commission hopes that it soon will be. What decoupling means is that farmers do not have to over-produce to receive their subsidy payments. Indeed, as long as they keep the land in reasonably good condition, they do not have to farm at all. This reduces the propensity of the CAP to produce structural surpluses.

The reforms were consolidated and extended in 2003 by the Austrian farm commissioner, Franz Fischler. Fischler sometimes made out that he was a simple Alpine small farmer who did not understand the ways of Brussels, but in fact he was a visionary strategist and a wily tactician. The story of how he worked largely in secret with a small group of trusted officials to outwit member states opposed to reform has now been told in full (Swinnen 2008). His successor, Mariann Fischer Boel, the first woman to be Commissioner for Agriculture, carried out a more modest tidying up exercise known as the ‘CAP Health Check’ which was completed in 2008, but there were significant shifts in the policy instruments deployed (Grant 2010).

What drove these reforms and what have they achieved? In the 1980s, it was principally budgetary pressures that drove the reform of the CAP. At one time taking up as much as 70% of the EC budget, the CAP threatened to financially derail the whole European project. This led to the introduction of milk quotas in 1984, which at least halted the growth of the structural surplus in milk and dairy products, but also ossified the European dairy industry and made it less able to deal with international competition.

Once agriculture was brought within the GATT negotiations, trade became the principal driver of reform and it was a more potent source of change than budgetary pressures. Given the complexity of the CAP, budgetary deals could always be fudged so that they seemed more radical than they actually were. Although they brought in finance ministers, the circle of decision-makers was not widened that much beyond the traditional agricultural policy-making community.

The politics of international trade brought entirely new pressures into the discussion of agricultural policy. Not only did trade ministers become involved, but heads of government might also intervene in their search for a deal. Although the interventions of the then G7 never seem to have much decisive influence on the progress of the UR negotiations, the domestic politics calculus changed. No one at a senior level in government outside farm ministries wanted to see a UR deal frustrated because of the failure to reach a deal on agriculture, which was a real threat at one stage. French opposition was a major obstacle to a deal on farm trade. A decisive moment occurred when German industrial interests pointed out to the German Chancellor that the country’s interests as a major manufacturing exporter could not be sacrificed on the altar of farm trade. The German Chancellor then put pressure on France to modify its stance (Webber 1998). Even then it was possible for France to demand what was, in effect, a re-negotiation of the agreement reached with the USA.
The UR deal on agriculture was effectively negotiated between the EU and the USA with side payments made to other countries, e.g. on rice to Japan and the Republic of Korea (South Korea). During the 1980s substantial momentum had built up in the USA behind the liberalization of agricultural trade. The Ronald Reagan Administration was eager to reduce the amount it spent on farm subsidies and at one time even proposed a ‘zero option’ that would see the abolition of all forms of support. Large corporate agribusiness in the USA in general thought that its interests would be served by a substantial liberalization of world farm trade and in particular by a reduction of the level of subsidy paid out by the EU. There were, of course, some exceptions to this general rule. Cotton farmers were keen to maintain protection and subsidy regimes, and in the dairy sector the smaller farms saw the perpetuation of subsidy and protection as being in their interests.

What emerged from the UR was a relatively modest deal in terms of reducing levels of subsidy and protection (Anderson and Martin 2005). However, its proponents claimed, with some justification, that what was important was that agriculture was now embedded in the processes of the new WTO and subject to the rulings of its Dispute Settlement Mechanism (DSM) which reached a number of judgements that have significantly altered EU policy, e.g. on sugar. The Australian-led Cairns Group of medium-sized agricultural exporting countries was disappointed with the deal arrived at, but arguably they had not played their hand at all well (Daugbjerg and Swinbank 2009). Perhaps the most disappointed group was made up of the developing countries, especially the LDCs, which thought that they had obtained very little additional access to developed country markets.

These concerns spilled over into the Doha Development Round (DDR), which gave some recognition to the concerns of the developing countries in its title. What the USA and the EU quickly discovered was that they could no longer arrive at a mutual settlement of their differences and then impose it on other countries. The international trade duopoly had become an oligopoly (Grant 2007). In particular, the emerging countries, especially Brazil and India, came to play a significant role in the negotiations. This was recognized in the constitution of one of the main negotiating fora, the Five Interested Parties (FIPs) made up of the USA, the EU, Australia, India and Brazil (sometimes with the addition of Japan). The DDR quickly ran into difficulties and no agreement had been reached by 2010, nor was any in prospect. If an agreement is ever reached, it is likely to be far more modest than was originally hoped. This means that an important driver for the reform of the CAP has been removed, or at least reduced in its effect.

What was the relative significance of different factors in bringing about reform? Cunha and Swinbank (2009) used a particular method, the Delphi technique, to survey a range of key individuals involved in CAP reform, including Ray MacSharry and Franz Fischler. It allows them to assess how the drivers of reform have changed over time through the 1992, 1999 and 2003 reforms.

The analysis confirmed that international trade negotiations were a major driver of reform, but the Agriculture Commissioner has a key entrepreneurial role. Pressures from environmental groups, and from the media and public opinion, were identified as of growing importance, from a low base in 1992 to real significance in 2003. By contrast, farmers’ organizations, the food processing industries, consumers and academics were judged to have had little influence on the reform process. This also applied to the European Parliament, where most CAP decisions were not subject to the co-decision process before the ratification of the Lisbon Treaty.

Pressures from the European Council and the finance ministers in ECOFIN (economic and financial affairs) were seen to be more important in promoting the reform agenda than the Farm Council. Views on the role of the Farm Council were more divergent than almost any other...
subject covered in the survey. Some thought it had been conservative for a long time, running behind events, while others took the view that it softened the Commission position. The need for a better relationship between agriculture and the environment was seen as of little importance in 1992, but became particularly important in 2003.

How extensive the reforms have been remains the subject of varying interpretations. The official view, which would be endorsed by France, is that the CAP has been fundamentally reformed so that it is now more responsive to market signals and to environmental and consumer concerns. Far from being a protectionist fortress, the EU is the world’s leading importer from the Global South.

The alternative view would be that the CAP still has a number of serious defects. It still absorbs around 45% of the EU budget, a significant opportunity cost when there is perceived to be a need for investment in research and development to maintain competitiveness. Consumers have to pay more for their food than they would if there was no CAP, although the policy’s defenders might claim that this represents a food security premium. Nearly two-thirds of the money spent still goes on direct payments to farmers rather than on the second pillar, which covers areas like rural development and agri-environmental projects. Most of the money spent that reaches farmers goes to already wealthy farmers and, in any case, much of the money is absorbed on administering the policy. Systematic fraud, often involving criminal organizations, remains a serious problem. While cross compliance with environmental, animal welfare and other standards is a significant innovation, it is weakly monitored and enforced.

Above all, the CAP and related policies remain a source of tension between the EU and other parts of the world. Particular difficulties have been encountered with the EU’s resistance to various agricultural practices that are used in the USA on health and environmental grounds such as bovine growth hormone and genetically modified (GM) crops. Member states would argue that they are simply reflecting the views of their citizens on such issues, but the USA is inclined to see it as the pursuit of protectionism by other means. Very high levels of tariff protection also remain in place for some commodities and the CAP continues to be perceived as disadvantageous to LDCs.

The new international setting

In response to more general trends in social science analysis, work on the CAP in recent years has tended to place more emphasis on prevalent discourses and how debate about the CAP is framed (Fouillieux 2004), rather than the earlier emphasis on decision-making processes, the role of interests and the nature of policy-making networks, all of which have been extensively studied (Grant 1997). Three international discourses have become significant in recent debate about the CAP.

The first of these, which remains a highly contested space, has been the consequences of the global financial crisis and its implications for the role of the state in the economy. For a long time, the CAP was criticized on the grounds that it represented an arena where the liberalization that had occurred in other sectors of the economy had not taken place. Liberal critics of agricultural policy insisted that agriculture was ‘a sector like any other’. This is not literally true in that land has distinctive characteristics as a factor of production (Coleman, Grant and Josling 2004), and despite advances in modern agronomy, agricultural production is still substantially affected by the weather in a way that makes a short-run equilibrium position between supply and demand difficult to achieve. More generally, agriculture has a considerable breadth of impact given the size of the land area taken up by it and its contribution to public goods (or bads).
One consequence of the global financial crisis has been a new intellectual confidence in the merits of dirigiste policies, not least in agriculture. In particular, attention has been drawn to the need for mechanisms that smooth out volatile fluctuations in commodity prices. These need not, however, be as distorting or as interventionist as the policy instruments of the CAP. While dirigiste politics may be back in fashion, agriculture is unlikely to return to the policy silo in which it was in the past. There is a need to establish principles for future support and what the goals of public intervention are.

A second, and very influential, discourse has been the revival of concerns about food security. These were originally prompted by a spike in food prices in 2007/08, which led to food riots in developing countries. Food prices subsequently fell back, but there is concern about the longer-run position arising from increases in the world’s population. Some of the neo-Malthusian gloom is undoubtedly overdone. In the past, yields have shown steady, and sometimes spectacular, increases in response to technological change. There is, of course, now a greater sensitivity about the external bads in terms of environmental damage that arise, for example, from the profligate use of fertilizers and agrochemicals. This does not mean, however, that there is no scope for sustainable increases in production, not least in the Global South, even if one rules out contested technologies like GM. Much can be achieved through the systematic use of techniques of Integrated Crop Management (ICM) and Integrated Pest Management (IPM) (Chandler et al. 2008).

Food security is not like energy security, where there is a small group of dominant countries that could quickly disrupt supplies of oil and gas. However, a very substantial challenge to current agricultural policy arises from climate change, both in terms of mitigation and adaptation policies. Agriculture and food production is a substantial contributor to greenhouse gas emissions. Methane is a particularly potent greenhouse gas and becomes of more significance as consumption of meat increases in emerging countries. This, in turn, requires higher grain production for animal feed, altering the whole global structure of supply and demand. The transport of food is also a significant contributor to greenhouse gas emissions, although it should be noted that producing crops in Spain in the winter and transporting them to the United Kingdom can lead to a smaller carbon footprint than growing them in heated glasshouses in the United Kingdom.

The CAP is going to have to be climate change-proofed, possibly through the creation of a third pillar. The pace at which this happens will be substantially influenced by international negotiations on climate change mitigation policies. The challenge is to go on producing food in a way that is sustainable, and this may require rethinking the goals of the CAP and how they are to be achieved. This will have to take place in the context of international discussions rather than just within the EU itself.