European Agriculture in the Crucible of the WTO

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Introduction

British agriculture underwent a revolution in the 18th century, a precondition for the industrial revolution that followed. An independent peasantry was more-or-less eliminated in favor of a capitalist agriculture with the consolidation of a *rentier* land-owning class drawing its wealth from a class of increasingly productive and market-oriented tenant farmers whose farms were worked by landless agricultural laborers.

Contrary to expectation, the abolition of the Corn Laws in the middle of the 19th century did not bankrupt British agriculture. Nor, later in the 19th century did the introduction of steam ships and refrigeration and the substantial competition that this brought from New Zealand, Argentina and elsewhere. The percentage of the population working on the land was smaller in Britain than in any other comparable industrial power, yet its levels of productivity were relatively high.

But the slump of the 1930s led to the abandonment of free trade, and a massively subsidized agriculture emerged with a mixture of direct subsidies, import duties, and marketing monopolies established in this period. Even so, farming as a whole was barely profitable, and the proportion of the economically active population engaged in agriculture fell by over a third from 6.3 percent in 1920-22 to 3.9 percent in 1937-38 as agriculture struggled to maintain itself by increased productivity via mechanization, yield improvement, and other modern methods.

The devastation of continental Europe in the Second World War affected Britain badly as well, though its industry had not been destroyed to anything like the degree elsewhere. Postwar agricultural policy emerged in a Europe fearful of food shortages if not actual starvation, and although the mechanisms of support adopted in Britain were very different from those adopted elsewhere in Western Europe, they nonetheless shared some common assumptions: a never-again-would-the-threat-of-hunger-be-allowed-to-hang-over-the-country determination plus a quasi-religious belief in “modernization” and continual growth, to be achieved by the application of science and technology to production.

The government was concerned about the nation’s ability to feed itself, so it allocated money to increase soil fertility and bring 1.5 million acres of grassland into cultivation for the 1939-40 season alone. In August 1947, a program was adopted to raise agricultural output by 20 percent in five years, with subsidies for fertilizers, fuel, drainage, hedgerow removal, preferential rates for farm borrowing, free advice, and research into intensive systems The policy was continued and consolidated in the 1957 Agriculture Act; carrot-and-stick pressure was increasingly put on farmers, and the only way they could cover the increases in costs of production was by increasing their productivity. As Lowe, et al. put it:

> The farmer was required in effect to run up the down escalator; only if he could run faster than the escalator would he remain solvent or increase his profits. Caught in this cost-price squeeze, farmers had little option but to take up the grants on offer and to invest capital in

> new buildings, plant and machinery, to adopt new technologies, to make use of hitherto unproductive land, to remove any features that stood in the way of maximizing production, to dispense with much of their labor force, and to concentrate production in larger units—in short to carry through the second industrial revolution. Those who did so prospered. Those who could not went under.

The main mechanism for supporting British farmers was that of "deficiency payments": farmers sold their goods at the highest prices they could get and were compensated by direct payments to cover the difference between average market prices and some guaranteed minimum. What was adopted in the newly emergent Common Market was very different. Here the situation was simply one of paying farmers to produce more—with no ceiling on potential output. Born of the same concerns as in the U.K.—a fear of hunger and desire for self-sufficiency—the Treaty of Rome was ratified in 1957. It set up the original Common Market, a market of the six (West Germany, France, Italy and the Benelux countries). Ten of its clauses were devoted to agriculture, of which Article 39 states the intentions:

> to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilization of the factors of production, in particular labor; thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture; to stabilize markets; to assure the availability of supplies; [and] to ensure that supplies reach consumers at reasonable prices.

It was to take the better part of the next decade to translate these somewhat contradictory aims into something resembling a common policy, the Common Agricultural Policy (CAP). The main peg adopted was the policy of price support, which was based on a view that the essential problem was one of how to produce "enough." That particular mechanism provided an open-ended incentive to farmers as the best way to achieve this goal. It must also be remembered that roughly a third of the French population was dependent on agricultural production at the end of the 1940s compared to under 4 percent in Britain. Thus, the CAP approach to agricultural support served, at least in part, to provide a cushion for the least productive peasant farmer and consequently undercut the appeal of right-wing populism (of which the Poujadist movement in France in the 1950s was a painful reminder) in the rural milieu.

The actual mechanisms of the CAP were to become bizarrely complicated, but the underlying principle was simple. A "target price," which is supposed to represent a decent return to the farmer, is set as is a "threshold price," the minimum price for imports to ensure that target prices can't be undercut. There is also an "intervention price," or price floor, at which agencies have to purchase farmers' outputs and store them if need be.

Coupled with this is a system of export restitutions and import levies. Those who export are compensated for the difference between what they are paid for the produce in question within the EU and the lower price on the world market. In other words, exporters receive substantial subsides if their domestic prices are above world market prices. At the same time, producers were protected against competition from abroad by the system of variable import levies—taxes on imports to remove any competitive advantage that such imports might otherwise have.

This pricing system was implemented within the framework of three guiding political principles: a single market, Community preference, and financial solidarity. There was to be a single market for any product in the EEC with a common pricing system; producers were to be protected from competition; and the Community as a whole took joint responsibility for the financing of the system. Individual countries' costs and benefits were not considered as relevant.

It was this system that Britain, Ireland and Denmark entered in 1973 in the first of many enlargements of the Common Market. The reasons, in Britain's case, were largely to do with its position as an industrial and financial power; the compromises it needed to make in agriculture were seen as just that—concessions necessary to get the other benefits offered by the large, open European market. The notion of "financial solidarity" was not one Britain warmed to as it emerged as the largest net contributor to financing the CAP, and this solidarity was strained to breaking point in the 1980s when Margaret Thatcher famously demanded "our money" back. But whatever its reservations about the CAP as a whole and its expressed desire for total reform, Britain's orientation within the policy-making bodies has always been to operate the existing system to its own advantage to get as much as it could for its own farmers.

The Malfunctionings of the CAP

In principle the mechanism of price support to achieve uniform prices in the Common Market appears simple. But not in practice. As each country in the Common Market had its own currency, it was necessary to establish an artificial currency as the "unit of account" for agriculture. With fixed rates of exchange, it was simple to translate this back into national currencies—but not for long. The French franc was devalued by 11 percent in August 1969 and the deutschmark revalued soon after; but France proved unwilling to devalue the "green franc" at the same time, as this would have led to a rise in consumer prices at home. So there was a phased devaluation of the green franc accompanied by a phased revaluation of the green mark and the introduction of a temporary system of border taxes and subsidies—the so-called Monetary Compensation Amounts (MCAs)—all this in a supposedly "single market!" Nor was the process temporary, for with the collapse of the Bretton Woods system and the introduction of floating currencies, negotiation over green money rates became part of the annual price-fixing negotiations. Governments were generally keener to devalue their green rates than to revalue them (as this led to farmers' returns being higher in national currencies). The Labour government (1974-79), by contrast, kept the green pound overvalued in order to keep consumer prices down. By 1978 there were no fewer than seven price zones in the EU-9, and the CAP price level in Germany was about 35 percent higher than in Britain!

A compromise agreement in 1984 to protect farmers from revaluations of national currencies made matters even worse, and the system became hideously complicated and opaque. As the Court of Auditors commented in 1989: "without detailed knowledge of the impact of the agrimonetary system, it is not possible either to understand fully the real meaning of the annual agricultural price-fixing decisions, or to interpret the accounting information presented by the Commission."

Opportunities for fraud abounded and were systematically exploited as people took advantage of cross-border disparities of price and MCAs, which by the 1980s were changing

on a weekly basis. In 2004 the Court of Auditors estimated that €3.1bn of CAP monies had gone missing since 1971, of which only 17 percent had been reclaimed and about 8 percent written off. The rest, the Commission hoped was "pending" and still recoverable, though what the report called "national administrative delays" and "the Commission's reluctance to accept offers of partial settlement," as well as the failure of attempts to punish offending parties by blacklisting them, makes this seem rather optimistic!

The Byzantine complexity of the green money system only increased in the 1990s as countries with strong currencies tried to protect their farmers against the effects of revaluation. The whole sorry mess was only brought under control with the eventual introduction of a single currency—but still complicated by the fact that not all member states are part of it.

Attempts at Reform

The Byzantine complexity of the green money system is matched only by that of the decision-making processes of the CAP itself. Like other institutions, those of the CAP have taken on a life of their own, aided significantly by the relatively autonomous status agriculture was accorded in the original Treaty of Rome. Coordination of decisions within the EU has long suffered anyway from the segmented structure of policy-making, with highly complex consultation and coordination processes culminating in decisions being made by the Council of Ministers of the member states—transport ministers for transport, agriculture ministers for agriculture, etc, operating on anything from a simple majority (quite rare) to a qualified majority, to unanimity—depending on the area and the significance of the issues at stake. Agriculture within the EU has traditionally been even more insulated from external pressures than other policy areas. On top of this, individual agriculture ministries have notoriously suffered from "capture" by the large farming organizations in the various member states (e.g., the National Union of Farmers in England and Wales, FNSEA in France).

All of this, not surprisingly, has contributed to a regime that is highly resistant to reform. The inevitability of overproduction in a system in which output was subsidized without limit was quickly recognized in the 1960s as extensive surpluses built up. But reform was painful—and resisted every step of the way by those who benefited from the status quo. It has come slowly since the early 1980s, propelled by a number of interlocking factors: budgetary pressures as the CAP at its peak took up to two-thirds of the Common Market budget and threatened to engulf the rest; external economic pressures, as neoliberalism triumphed worldwide and agriculture became included in the Uruguay Round of the multilateral General Agreement on Tariffs and Trade (GATT); and finally political pressures as the contours of Europe changed with the collapse of Communism, and an enlarged European Union found it impossible to contemplate extending an unreformed CAP to the vast agricultural sector of Eastern Europe. But it is increasingly the case that World Trade Organization negotiations are the most important pressure for further change.

Reform began timidly in 1984 with the introduction of milk quotas and continued through the MacSharry reform in 1992 (implemented from 1994), the Agenda 2000 reform, and the surprisingly extensive "mid-term review" in 2003, hailed by the Commission as a "reform [that] will completely change the way the EU supports it farm sector. The new CAP

will be geared towards consumers and taxpayers, while giving EU farmers the freedom to produce what the market wants."

The reality, of course, is different. Despite reform, European agriculture remains heavily subsidized in highly "unfriendly" ways. Internally the last five decades have seen a dramatic decline in small-farming within the EU, concentration of what farmlands continue to exist, and a corporatization that extends well beyond the agricultural sector. Externally, highly subsidized EU (and indeed U.S.) agricultural products have been dumped on developing countries with devastating effects on their ability to feed themselves. Furthermore, the agenda for reform that the British government pushes for within the EU and the WTO—despite all the rhetoric—is determined largely by the desire to liberalize trade in services. And in order to achieve that goal, the British government is prepared to sacrifice the interests of a viable alternative agriculture.

It is worth attempting some generalizations about the process and direction of reform. Of the policy of encouraging and giving farmers incentives to produce more, all that can be said is that it succeeded with a vengeance. Serious crises of overproduction emerged from the end of the 1960s, and the history of the CAP since then has been one of what to do about this. The earliest attempts were all within a totally "industrialized" view of agriculture—attempts to find ways of keeping and encouraging the "modern," "efficient" producers while discouraging/buying up/squeezing out those who were more "traditionally" inclined. From the 1980s, such pressure for reform was also driven by world trade negotiations among participants in the GATT and then when GATT was replaced by the WTO, within that forum. In both bodies, major agricultural exporters, particularly those in the free-trade Cairns Group, have applied increasing pressure to abolish import levies, while developing countries are pressing the major agricultural exporters to reduce export subsidies, which distort prices and interfere with the poorer countries' agricultural markets.

From the 1990s, CAP reform has been coupled with supposedly socially aware, environmentally sensitive policies and an active orientation towards rural development. It is true that such elements have made their appearance. Agenda 2000, in particular, recognized the "multifunctionality" of the farmer—as producer of food and guardian of the countryside—and introduced "rural development" as the so-called second pillar of the CAP. But the best that can be said of such developments—and parallel ones in EU environmental policy—is that they remain marginal to the central concerns of EU strategic thinking, which is to use the CAP as a bargaining chip in the wider free-trade game being played out at the WTO.

Before moving on to that, however, it is worth highlighting the two central defects of the CAP: waste and dumping. The CAP represents a vast and unwieldy—and environmentally catastrophic—misapplication of resources. There is every good reason for wanting to curb the waste. Free-traders just want to abolish the subsides and let the free market reign. But, starting from the assumption that there is nothing inherently unacceptable in subsidizing the agricultural sector for whatever reason (food sovereignty/security, rural development, environmental and/or health protection, etc.), there is nonetheless a clear need for a mammoth redirection of subsidies—in the direction of the second pillar. The system of export restitutions is probably the single most outrageous feature of the CAP. It underpins the dumping of expensively produced output at cheap prices on developing countries,

disrupting their markets and destroying their agricultural base. It has been described graphically as a "crime against humanity."

Background Politics

All agricultures, worldwide, were more-or-less heavily protected at the time the CAP was introduced, so there was nothing odd about the CAP in that regard, however much it went against the emerging trend of free trade promulgated by the GATT. The EEC was in itself an interference in the postwar free-market order, allowable because the GATT rules did not apply to customs unions and other forms of regional economic integration. On free-market principles, the U.S. was not much in favor, but a deal was struck in the Dillon Round of the GATT in 1961-61, since the U.S. wanted a more united Europe for political reasons.

However, a sweetener was given, allowing the duty-free importation of "substitute cereal products" (SCPs—products mainly fabricated using a base of byproducts of the agro-food industry, notably corn gluten feed, citrus pellets, and other similar products). This appeared marginal at the time, but cheap soy imports were to become the basis for industrialized animal production. As a result, meat production industrialized rapidly, and factory farm enterprises for intensive livestock and poultry production sprang up near ports (particularly in Brittany, Catalonia, the Netherlands, and Belgium). Firms producing feedstuffs developed the battery production of chickens and veal using hormones (the French term *hors-sol* captures neatly the break with traditional farming). And, at the same time, Europe came to sacrifice its independence in vegetable protein production—something not noted by many commentators, but of great importance if there were to be any serious trend towards organic production, which requires leguminous crops in its rotation cycle in order to restore soil fertility.

The Beneficiaries of the CAP

We tend to think of farming as a sector of individual farmers producing and selling their produce whether at home or abroad. In reality, of course, the major part of the agricultural sector is highly industrialized and integrated into the agribusiness food chain at every level. It isn't usually individual farmers who export but multinational concerns. A high proportion of "productive" (as opposed to subsistence) farmers are held in a vice-like grip by an industry that supplies their seeds, or day-old chicks or whatever, controls every aspect of their production, purchases their output at a fixed price, and appropriates the agricultural subsides that farmers receive to stay in business. This needs to be borne in mind when looking at the (mal)distribution of CAP subsidies among farmers.

Any system of price support favors those who produce more. And when it is coupled with a series of incentives for farms to "modernize" and become increasingly "efficient," it should not come as a surprise that larger farmers have traditionally done better out of the CAP. That there is a potential conflict between the first and second of the objectives laid out in Article 39 goes without saying. You can't increase agricultural productivity without limit and also ensure a fair standard of living for the agricultural community if a large part of that "community" consists of marginal—or even small—farms. So from the start, subsidies were slanted to encourage the more productive farmers to industrialize and the less productive ones to sell up and move on.

The much quoted figure that 80 percent of the subsidies go to 20 percent of the farmers is probably off the mark. Recent Commission figures suggest that 7 percent of beneficiaries receive 50 percent of payments, a figure that reduces to 5 percent if the special case of Greece is excluded. What is little appreciated, however, is the amount of subsidy that does not go to farmers at all, but, in the U.K. particularly, to landowners, food manufacturers and agribusiness in general.

CAP subsidies are capitalized—i.e., they appear in the value of the farm—and in a country like Britain where land ownership is generally separated from actual farming, it is the landowner who benefits directly. So as Oxfam's Freedom of Information enquiries revealed for the very first time in 2005, the Queen received £545,897, and her elder son Prince Charles (the organic farmer) £680,835, while the Duke of Westminster pocketed a mere £448,472 for his 6,000 acre estate. But, however offensive, these are minor maldistributions of the £3.5 billion budget that Britain receives. Look rather at the £227m that went to Tate and Lyle or the £30m to Nestlé (as compensation for the use of milk products in the chocolate it exports) to get an honest feel for the ultimate recipients of the subsidies.

According to the Oxfam report:

> Across the EU-15, about 70 percent of farmers receive less than €5000 a year and about half receive less than €2000. 96 percent of all farmers in Portugal fall into the less than €5000 a year category. On the other hand, a small group of fewer than two thousand producers receive more than €300,000 a year (the proposed new capping level). The majority of these farmers (1,260) are in Germany… although there are also 380 in the U.K.

But the report also makes clear that almost two-thirds of the subsidy payments go to small and medium-sized farmers receiving between €5000 and €50,000 a year. As *Agra Europe* notes, "this wide spread of benefit across the middle band of beneficiaries—encompassing some 1.4 million farm holdings in the EU—ensures that [the subsidy system] has solid political support and will not be easily relinquished."

The Agreement on Agriculture (AoA)

As already mentioned, the pressure for agricultural reform is both internal and external. The offensive waste and corruption of the system are rightly targeted. But more pressure has arisen from the progress of WTO negotiations and Europe's search for bargaining chips to get a freeing up of markets in the financial and services sector. The AoA was part of the Blair House agreement that transformed the GATT into the WTO on January 1, 1995. Its basic premise is that all restraints on trade—whether plainly protectionist and nationalistic or justified by considerations of a health, environmental or social nature—are prima facie questionable and in principle should be reduced.

A series of measures were introduced in order to reduce restraint on agricultural trade. First, a process of "tariffication" was introduced. All counties were called on to make an inventory of their protective measures, evaluate the obstacles these created to the liberalization of international trade and translate them into visible and quantifiable customs duties or tariffs that would have to be reduced by 36 percent over time. At the same time, the volume of subsidized exports was to be reduced by 21 percent for rich countries and 13.3 percent for poor countries, while the value of the corresponding subsidies was to go down by 36 percent for rich countries and 24 percent for poor countries. Finally, a

"minimum access" clause was included, which in effect required countries to open up their domestic agri-food market. The minimum access clause stipulated that imports equivalent to at least 4 percent of domestic consumption in poor countries and 5 percent in rich countries could be sold with a maximum tariff of two-thirds of the normal tariff.

To assist in evaluating the effects of various protective measures, a so-called "traffic lights" system was introduced whereby subsidies were classified according to their supposed degree of trade distortion. Red subsidies were those considered unacceptable and were slated for immediate elimination. Amber, or "coupled" subsidies linked to production or prices, were considered protectionist and were intended to be abandoned in the longer run but have been allowed to continue for the time being—with the proviso that they are gradually reduced. Green subsidies, such as agro-environmental supports, aid to disadvantaged regions, income guarantees, or public research, were held to be fully "decoupled," i.e., not linked directly to output and therefore said to have no effect on production. These were not subject to reductions and could even increase.

In reality there were a range of other subsidies that were permitted to continue without commitment to their reduction, and these fell into the so-called blue box. These are supports that are partly decoupled from production, because they are said not to give direct encouragement to the producer to increase levels of production. Since the U.S. Farm Bill of 1996 and the disappearance of the deficiency payments linked to target prices in the U.S., CAP direct payments have been the main items in this category. But recently, in a review of the blue box in 2004, a new category was added in order to accommodate the U.S. need to shift countercyclical payments from the amber box.

The immediate response to the new system was not any hoped for reduction in subsidies overall, but a massive swing of subsidies towards green (and, to a much lesser extent, blue) supports. The green supports of the 24 OECD member countries rose from $54 billion in 1986-88 to $120 billion in 1996 (the delay of several countries in notifying supports to the WTO did not allow for more up-to-date figures when these figures were produced *seven years later* in 2003!). At the same time, EU blue box payments that clearly did not exist before 1993 reached $27.4 billion in 2001. The OECD's total domestic supports, however classified, remained remarkably stable ($234 billion from 1986-88, $232 billion in 1997).

The reality is that, decoupled or not, any subsidy allows production and exporting at below what would otherwise be full production costs and consequently has a dumping effect. Direct supports come to compensate farmers for the reduction in tariff duties and allow them to export at lower prices than they could otherwise do. At the same time, it must be recognized that providing subsidies in whatever form is a rich countries' game. Poor countries simply cannot afford to subsidize their agricultures in this way. What they could do, relatively simply and effectively, is install custom tariffs to protect their agricultures from unfair—or unwanted—competition. And that's the one option the WTO has ruled out as utterly unacceptable.

Where is Agriculture Headed?

It seems likely that we are headed for a two-track agriculture. One track is a largely "competitive" free-market industrialized agriculture that can only survive in the EU and in

large parts of the U.S. with massive subsidies, which, to be acceptable to the WTO, have to be recast as direct supports, independent of production. The second track is a small, designer quality/organic sector that produces highly priced niche goods for those who can afford it and who wish, for health, environmental and taste reasons, to escape the dangers of mass-produced fare.

No-one in power is advocating abandoning the "export vocation" of the EU which, together with the U.S., dominates the export of agricultural produce on a world scale. According to a U.S. Department of Agriculture report, the EU has become an "agricultural trade powerhouse" in recent decades, having been a net importer of nearly all major agricultural products as recently as the 1970s. It is now a major exporter of wheat, sugar, meat and dairy products. In the period 2000-02, the EU was responsible for nearly 17 percent of world trade in agricultural products, second only to the U.S. with 19 percent—although, paradoxically, the EU is still a net importer of food (e.g., tropical produce).

The only thing likely to shake the CAP off its current course—and give victory to the free-trade, largely unsubsidized agriculture option—is a trade-off of the agricultural interest against the financial and service industry interest. The new British Prime Minister, Gordon Brown, has made it quite clear he is willing to make substantial cuts in CAP subsidies in exchange for an opening up of financial and service markets worldwide. And while such a deal could come within the Doha Round—and come quite rapidly—it is more likely that the current paralysis will continue. There are simply too many interests at stake, and with countries like Brazil and India now major players in the negotiations, it is no longer possible for the EU and the U.S. to dominate as they might have hoped.

Alternatives

So the only alternative currently on offer is one that is likely to be worse than the one we have currently. Yet it is simple to envisage a genuine alternative—one that starts from social and environmental objectives, rather than a mystical faith in market forces. In a genuine alternative, there would be:

- A positive valuation of rural life in general, and agriculture in particular;
- Provision of an alternative to employment in agribusiness and suburban dormitories, generally on a smaller scale, in which the personal and the intimate are valued;
- An agriculture operating in conjunction with, rather than in domination over, nature;
- One that responds to citizens' demand for food that can be trusted and tastes better; and
- An agriculture that values diversity of plants, animals and environments.

The key to this would be to control output and trade rather than unleashing them and then trying to pick up the pieces. The principles of such an alternative, defined against the general trend of development of world agriculture, might include things like the following:

- The regulation of agricultural output and, in the case of overproduced tropical products, a quota system that allocates productive capacity fairly among producer countries;
- Outlawing of dumping—and its effective enforcement;
- Recognition of the right of every country or country grouping to make what arrangements it feels are needed to protect its ability to feed its citizens and its own democratically preferred ways of life, including the use of import tariffs to protect farmers producing for the home market;
- The embedding of all this in a framework for rural development that fosters a social and environmental fabric knit together by a network of small/medium-scale de-intensified farming units;
- A preference for the local and regional, with full accounting for the environmental costs of transporting food across large distances;
- A presumption in favor of, and positive support for, "organic" farming (with a full awareness of the danger of this being captured by the corporations);
- The recognition that all this requires prices to farmers to rise sufficiently for small farmers to be able to get an adequate return from their farming activities (for while both corporate profits and food prices have risen, the return to farmers in both developed and developing countries has been increasingly squeezed).

Many small farmers' organizations, consumers' groupings, and campaigning NGOs have gone a long way towards this, not just identifying the underlying principles of an alternative, but specifying some of the policy and resource implications of going down a different route. To do that, of course, would involve taking agricultural negotiations outside the WTO. That would be no bad thing for starters.