



June 2010

The time is ripe for a new EU agriculture policy: fair, environmentally sustainable and globally responsible!

Discussion Paper by the German NGO Forum Environment and Development on the CAP Reform 2013

The time has come for the big reform. Agriculture is facing massive challenges that must be overcome: climate change, the huge loss in biodiversity, unresolved water issues, the ever increasing gap between societal demands and world market-oriented agriculture, increasing unemployment and loss of prospects in most rural areas, and increasingly frequent global agricultural crises. Any reform measure by the European Union has global implications. As the biggest player in the global agricultural market, the EU must fulfil its global responsibilities. "Business as usual" is simply not an option from a farming, environmental and development perspective.

The EU has imposed on itself a world market-oriented reform course and is committed to international competitiveness in the agri-food industry. The solution to all agricultural problems is sought in increasing production and exports, and in expanding the international division of labour. This has serious consequences:

- Agricultural exports of dairy products, pork and chicken, as well as tomato purée and other products at prices well below the cost of production have a considerable impact on the basic income and the right to food of smallholders in developing countries.
- 78 percent of protein feed for European intensive animal farming comes from imports, especially soy and other oil seeds. In the countries of origin of soy, mainly in South America, this frequently leads to smallholder food producers and traditional land users being squeezed out, agriculture being expanded into the Amazonian regions and land use conversion happens at the cost of biological diversity.

- The obsession with increasing production and subsidies not being linked to effective ecological standards permits and encourages the loss in diversity, the pollution of nitrate in groundwater, the drainage of moors and damp meadows, soil erosion, intensive animal farming that is not humane, and excessive greenhouse gas emissions, which produce a carbon footprint. It is the farmers in the Global South particularly who have to suffer the consequences of global warming; it is primarily they who have to bear the costs of adaptation and mitigation, although they are least to blame for climate change.
- The one-sided orientation of the European agrobusiness towards the world market with their heavily processed foodstuffs gives rise to an accelerated demand for feed imports from other continents. European farmers are being pushed by the heavy dependence upon global market into contractual farming, taking place within ever increasingly integrated value chains. This model leads to the only choice for small farmers: get bigger or get out. The strong market power of the processors and food traders is often able to push producer prices below production costs. Those who profit from this model is predominantly the food industry itself, processors geared to export, and trading groups.

European agriculture policy applies double standards: on the one hand, it demands protection for its agriculture and particularly its food industry. On the other hand, in bilateral and multi-lateral trade agreements, it forces poor countries to open up their markets to European agricultural products. The EU is the biggest agricultural exporter worldwide. Maintaining and expanding this position is the declared goal of the existing EU agriculture policy. The majority of varied support programmes in the EU agriculture policy costing thousands of millions of euros have been aimed at this over the last 50 years. Primary production in agriculture and the processing food industry have been heavily rationalised and strengthened in their international competitiveness. In view of the diverse agricultural structures and local conditions within the EU, for example, compared to new settlement areas and savanna grasslands in North and South America, such international competitiveness can only be maintained for the majority of products at the cost of the environment, the tax payer and a huge loss in farms and jobs. For that reason alone, world market orientation and international competitiveness as a goal of the Common Agricultural Policy constitutes a flawed approach.

A. The existing EU agriculture policy has proved a failure

• *Fighting poverty and food security*

In many cases, the EU states that global food security is the main concern of the Common Agricultural Policy and of its own reform proposals. Accordingly, European agriculture must continue to increase its productivity and agricultural exports in order to do its bit to meet globally increasing food requirements. However, this argument ignores important lessons learnt from the food crisis, which alone has caused the number of starving to rise by 100 million. Sustainable food security is only possible if developing countries by strengthening their own production, reducing their dependence on imports and if they can protect themselves from increasing price fluctuations and cheap imports from the world agricultural markets. It is not up to our farming and food industry to feed the world. This claim would be absurd, because European agriculture depends to a large extent on feedstuffs imports and as such is not even in a position to feed its own people.

Strengthening food security in developing countries is not reflected in the EU's agricultural external relations. Rather, the Common Agricultural Policy (CAP) undermines the vital development of domestic food systems in developing countries due to its aggressive export offensive and its many mechanisms for market domination. Export subsidies are an important cause of dumping effects, but not the only one.

The quota increase on milk, for example, has boosted the incentive to create excess supply and accelerated the fall in European producer prices on which the low export prices are based. Total deregulation of the production volume, which the milk industry is seeking by abolishing the quota and not replacing it, would further accelerate this development.

Dumping effects also arise from the current practice of flat-rate direct payments, as payments based mostly on the size of the acreage of a farm. These premium payments make it possible for highly rationalised farms to sell their products below their production costs. At the same time, despite direct payments, the majority of less rationalised farms cannot make enough income at these prices to cover their cost. The unequal effect of payments enables the agricultural and food processing industry to push producer prices below the production costs of most farmers; a large proportion of direct payments are shifted from agriculture to the food industry, thereby landing up in agricultural exports. This also applies if these unified area payments are decoupled from production (from quantities, prices, inputs, product-related criteria, commitment to production). Furthermore, dumping also arises from some investment incentive programmes, which are measures belonging to the Second Pillar, such as the investment aid for new animal confinements. These aids can account for up to 40 percent of total costs.

Beyond subsidies, there is also the issue of left-over parts of meat from poultry, pork, and vegetables, which do not meet the quality standards: they are partly sold abroad at knock-down prices because the European demand for the low quality market segment is insufficient. By means of product differentiation, prices in partial markets are pushed down below cost of production and new export opportunities are opened up, particularly in poor countries with different consumers' preferences. Such strategies can even receive indirect state support if the price of the main product line is lifted artificially on the European market by means of import tariffs. The domestic prices supported by the state in this way allow food businesses to cross-subsidise exports of partial products less in demand.

Through all these practices, the EU exercises enormous pressure on world market prices, destroys the livelihood of poor farmers outside the EU and thus exacerbates hunger and poverty in developing countries. Case studies prove that EU exports of, for example, milk powder to Burkina Faso, Cameroon and Bangladesh, of tomato purée to Ghana and of chicken parts to Ghana, Benin, Togo and Cameroon have had a severe impact on their local markets. The right to food is thus put at risk in two ways: On the one hand, selling opportunities, producer prices and smallholders' income are reduced, and thus their access to adequate food shrinks. On the other hand, the dependency of developing countries on the world market is strengthened. However, if world market prices rise, the provision of food at affordable prices for poor consumers is put under extreme threat.

In addition to the European agrobusiness export orientation, and inextricably linked to it, their strong dependency on cheap feedstuffs imports also poses a problem for certain developing countries. The EU currently imports almost 80 percent of its protein feed. Soy cultivation alone for European animal husbandry requires 20 million hectares of agricultural land abroad, which is equivalent to more than 10 percent of European agricultural land. Of these European soy imports, 65 percent come from Argentina and Brazil alone. EU imports of soy, pulses and oil seeds for the production of concentrated feed, but also more recently the massive import of energy crops for the biofuels industry, are normally sourced from large-scale farms overseas and squeeze out the smallholding food producers. Therefore, the future contribution from our agriculture must also include a reduction in our demand for feedstuffs and biofuels from developing countries, so that the freed-up production capacity can be used to improve food security for their own peoples.

- **Climate protection**

In defiance of current European environmental standards, about 15 percent of agricultural land in the EU is affected by erosion. 13 percent of environmentally-unfriendly greenhouse gas emissions in Germany are caused by agriculture, particularly by the use of mineral fertilisers, exploiting moorland and grassland sites for cultivation, and methane production by ruminants. If the greenhouse gas emissions resulting from imports of protein feeds and the accompanying deforestation of tropical rainforests are also taken into account, then the proportion of European emissions from agriculture rises sharply even beyond that figure.

At the beginning of 2010 the German Ministry of Agriculture declared that more account must be taken of greenhouse gas emissions from food production, so that there is sufficient food available for all people. However, in the case of climate protection, there is a significant difference between using mineral fertilisers and pesticides or organic, locally adapted cultivation methods. Nitrogen emissions from the use of mineral fertilisers and mining the humus content of the top soil through over-intensive farming contribute towards climate change considerably. There must be a paradigm shift by a climate policy in our farming methods, and this is the goal: less meat and dairy production, less environmentally-unfriendly intensive fertilisation, more soil protection, and more grassland management.

Agriculture must be held accountable for climate protection from a development perspective as well, because especially in Africa and Latin America global warming is already having a huge impact on harvest yields and thus also on food security.

- **Safeguarding rural incomes and jobs**

The growth and world market orientation of the Common Agricultural Policy not only damages smallholders in developing countries, but also many farms in Europe. The decline in prices for agricultural products and their very low levels are a major threat to the survival of most farms. In the former 15 EU Member States, half of all farms have closed down since 1992. This is equivalent to a drop of 30 percent in the number of full-time employment in that sector. The parlous social situation of German farmers is also illustrated by their lower income compared to other workers. Average farming incomes in Germany between 2005-2007 were less than half of the average income. Moreover, the precarious working conditions, which many seasonal workers are exposed to in European agriculture, are wholly unacceptable. Extreme examples of this are the exploitation of many migrant workers from Africa and Eastern Europe in fruit or vegetable production in Italy or Spain.

The EU's existing subsidy practice favours rationalising farms, and is accompanied by a reduction in employment. Accordingly, industrialised and land-intensive farms receive up to 120,000 Euros per worker through the area payments, while the average across all farms is only 10,000 Euros per worker. Direct payments thus enable rationalised businesses to maintain prices that are unprofitable for the majority of farms even when direct payments are included. Thus, the unified payments linked solely to the size of the farm lead not only to a distortion of competition to the detriment of labour-intensive farms in the EU, but also simultaneously allow producer prices to sink to a level that is only adequate for highly rationalised farms. Thus, direct payments are introduced strategically as another instrument to strengthen the international competitiveness of the food industry and to allow exports at prices below actual production costs.

B. Demands of the German NGO Forum Environment and Development

"Business as usual" is not an option. Instead, the German NGO Forum Environment and Development demands a fundamental reform of the Common Agricultural Policy. Food sovereignty must have precedence over export interests. The future of European agriculture will

not be found abroad, but lies right next to the farm gate: the proximity to a giant domestic consumer markets and the close links to consumers' preferences. Only a regionally adapted food production system geared towards quality and other consumers demands is viable in the long-term for densely populated Europe, not the industrialised mass production of raw materials or animal products for the European food industry. A substantial EU budget of taxes totalling more than 50 thousand million euros per year can only be justified by an agricultural reform which contains the diversity of structures, promotes environmental and nature conservation, ensures humane methods of animal husbandry, looks after the cultural landscape, while simultaneously contributing constructively to achieving the Millennium Development Goals (MDG) and to implementing social human rights such as the Right to Food. The EU must recognise its international responsibility for balanced development of world agricultural markets and global food.

Our key demands are:

1. The acceptance of **international responsibility** must be enshrined as a fundamental goal of the Common Agricultural Policy as follows: "As one of the world's largest agricultural importer and exporter, the EU takes responsibility for viable international agricultural relations, for the long-term world food security and the balanced development of world agricultural markets. The Common Agricultural Policy makes the Right to Food a priority at national and international level." This also includes coherence of the European agriculture policy with the Millennium Development Goals, safeguarding an evolution of international product and process standards which are sensitive to developing countries' needs, and the obligation under international law not to hinder but to advance the implementation of social human rights such as the Right to Food.
2. All **export subsidies** must be eliminated and deleted as a legal instrument from the EU market regulations. This step must not be made dependent upon an agreement within WTO and preconditions demanded from other players. The export subsidies must not be replaced by other export incentive measures, such as export credits, sales incentive instruments or *Public Private Partnerships* with an impact to open up other markets. In addition, all forms of support that are coupled to production must be phased out unless they can be justified on ecological grounds.
3. The CAP reform must create framework conditions so that in future farmers will receive **fair prices** for their products and will no longer be so reliant on subsidies. Public payments should only be awarded for **public benefits**. This includes meeting effective criteria in the field of environmental, nature conservation and animal welfare as well as maintaining and creating decent employment. The present across-the-board distribution of subsidies, which disadvantages all those who preserve or create jobs on the land, keep animals in a humane manner, protect the environment and preserve biological diversity, must be replaced by an progressive awarding system for the social and ecological performance of farms.
4. With regards to the **milk market**: In order to prevent downward price spiralling on the internal market and dumping exports on third countries' markets as well as excessive upward price volatility, forms of flexible demand-oriented quantity control are necessary for the milk market. The objectives of this control must be: adjusting to domestic demand, avoiding dumping exports, fair producer prices, ecologically-sound milk production and simultaneously affordable quality-oriented consumer prices. The EU must create a legal framework for this, in which farmers and consumers are appropriately and effectively involved in the regular calculation and establishing of production volumes.

5. Measures to promote the **competitiveness** of European farm products on the international markets that do not serve to ecologically modernise farms must be scrapped. In particular, investment assistance to increase capacity in export-oriented sectors, such as pig farming, milk, poultry and cereal production must be abolished. Programmes for environmental protection, land management, for deprived areas and for rural development, which currently only make up a part of the Second Pillar, must become the key part of the development policy.
6. Supporting or protecting agricultural products through product-specific subsidies, tariffs or quantity regulation must not contribute towards **cross-subsidisation** of exports. For highly protected product lines which benefit from a protective tariff of more than 20%, there must be a ban on the export of partial products. Alternatively the introduction of an export tax, which levies off the support equivalent, could be possible. An export tax on highly processed and exported goods should siphon off the proportion of the value of the support that goes to the raw material..
7. The reform must introduce a **climate paradigm shift** in agriculture in Europe. It must create rules and incentives to trend away from intensive animal farming and environmentally-unfriendly over-fertilisation towards protecting the soil (increase humus levels) and grasslands. It must reduce dependency on imported feedstuffs by rewarding the cultivation of domestic protein fodder crops (legumes) in crop rotation. To this end, the Blair House accord with the USA, which, for instance, prohibits protective tariffs on soy imports into the EU, must be terminated. Furthermore, agriculture must be held accountable for climate protection. By 2020 its greenhouse gas emissions should be reduced by 40 percent.
8. State intervention into the markets through a stock holding policy – including state regulated private **intervention stocks** - should only occur within narrow defined benchmarks and temporal limits. Irrespective of that, minimum reserve stocks in the EU for times of crisis should be regulated by law, and must be closely allied to stock-keeping policies of other countries.
9. In the agricultural sector, the EU must abandon its "**Global Europe**" trade strategy, which unilaterally targets a comprehensive opening up of markets for European commodities, services and investments. In particular, the scope for developing countries to implement social human rights and to protect the environment must not be restricted. This also includes the possibility for them to protect their agricultural markets from cheap imports and regulate the setting up of European supermarket chain branches.
10. For products which adhere to the core labour standards of the International Labour Organisation (ILO) and internationally recognised ecological standards, such as those of the International Federation of Organic Agriculture Movements (IFOAM), the EU should guarantee preferential import conditions through a **qualified market access**. In addition, **tariff escalation**, which disadvantages the import of processed products from developing countries compared to unprocessed raw materials, should be scrapped. Escalation must also be abolished when setting standards.
11. The EU and Member States must use and tighten their competition law in order to countervail the rapid **concentration processes** in the food industry and in retail trade, because they share a large part of the responsibility for the growing gap between producer and consumer prices. European governments must ban European supermarkets and middlemen from applying unfair business practices, which can lead to violation of labour and human rights along the supply chain or to environmental

damage within or outside the EU. In order that this can be monitored, European companies must be obliged to disclose their supply chains and to render account of their adherence to social and ecological standards.

12. To take their **international responsibility** seriously, the EU must establish international agriculture policy as an autonomous section in the Common Agricultural Policy. In international negotiations in the agricultural sector, the EU must lobby for favourable framework conditions and rules to protect natural resources, for low environmental impact agriculture, to ensure the biological diversity of agricultural crops, for human rights and trade union rights, for good governance in national policies, for setting standards which are sensitive to developing countries' needs, and for a balanced development of world agricultural markets. The EU must provide financial assistance to the least developed countries so that they can improve their negotiation capacity in the agricultural sector and can better incorporate their interests into international negotiations. They must be supported in this effort by funds from the agriculture budget in order to meet the increasing technical and legal requirements for product quality and process standards and to be able to implement new international regulations on issues such as epidemic control, biosafety, environmental legislation, and trade policies.