

## **EU POLICIES, CAP AND DIRECT PAYMENTS A SOLUTION OR NOT FOR FOOD SECURITY**

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### ***Abstract***

*Successive reforms of the CAP have been successful in reducing the market distortions caused by the CAP, from the price and market intervention system to the decoupled single farm payments. The question we are facing now is whether the SFP system, either in its current form or in a modified form is likely to address the key policy challenges in the future. One of the most daunting challenges ahead appear to be producing sufficient, safe and high quality food.*

**Key words:** *food security, quality, quantity, direct payments.*

### **Introduction**

We are at a historic moment in time, both in terms of the policy timing and in terms of the challenges that face us. This forces us to raise some fundamental questions regarding all EU policies, including the CAP, and, the subject of this paper, the direct payments in particular.

The past reforms have already introduced some new objectives. In line with the requirements of EU citizens, the following factors have taken on greater importance, according to the European Commission (2007): improving the quality of Europe's food and guaranteeing food safety (standards); looking after the well-being of rural society; support the multifunctional role of farmers as suppliers of public goods to society and ensuring that the environment is protected; providing ~~but welfare conditions~~ **but welfare conditions**; doing all this at minimal cost to the EU budget. This additional list of new factors/objectives is reflected in pillar II priorities and the so-called cross-compliance regulations, i.e. the conditions farms have to satisfy in order to receive the payments.

Regarding the future CAP payments, several task forces and reports have developed an even larger set of adjusted objectives for the CAP. For example, Bureau and Mahe present a list of 13 policy objectives for their future CAP model . In contrast, the IEEP report (Baldock et al 2008) presents two main new objectives: (1) to maintain the EU's capacity to produce food and maintain a renewable resource base in the longer term, and (2) to provide environmental benefits

(including biodiversity, valued landscapes, ...). These objectives appear relatively closely related to two objectives proposed by Allan Buckwell for the UK's Country and Land Owners Association (CLA) and the RISE Foundation, which are summarized as the "food security objective" and the "environmental security objective" - although the derived implications vary somewhat.

Needless to say, the extension of the list of objectives make the entire exercise of identifying precise objectives and developing targeted instruments not easier - which is recognized by some of the authors of the reports - who then also list the need for simplicity and low transaction costs as additional factors to take into consideration.

In the rest of this paper I will address the objectives which are most often presented and which seem to be the ones with the most important budgetary and policy implications, in particular regarding the direct payments- food security - and I will discuss those specifically related to objectives for direct payments (and not to pillar II initiatives).

#### **Food Security as a New Objective for CAP payments ?**

Food security was a major issue in Western Europe in the post-World War II era, as the history of food shortages was still vivid. As such the formal objectives of the CAP still reflect this with its reference to ensuring an adequate food supply . However, although the objectives have not formally changed, it is clear that the issue became gradually less important in EU agricultural policy, even when price hikes in the early 1970s brought the issue back temporarily.

The dramatic food price increases in 2007 and early 2008 have brought food security back to the policy table as an important issue. However, several issues need to be taken into consideration.

First, extensive research on food security issues globally, and particularly in developing countries, have made it clear that food security is mostly not a supply problem, but a demand problem. Wars, violent conflicts, or disasters which destroy supply lines are an exception to this rule but even then demand constraints are important.

This shift in perspective is also reflected globally in changed definitions of food security used by international organizations. The initial focus, reflecting the global food concerns of the early 1970s, was on the volume and stability of food supplies. Since the demand and safety and quality concerns have taken on a much more important role, reflected in the 1996 World Food Summit definition: *"Food security, at the individual, household, national, regional and global levels [is achieved] when all people, at all times, have physical and economic access to*

*sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life".*

While the international community has accepted these increasingly broad statements of common goals and implied responsibilities, its practical response has been to focus on narrower, simpler objectives. The declared primary objective in international development policy discourse is increasingly the reduction and elimination of poverty. In line with the focus of this paper, it is therefore important to conclude that food "security" does not only refer to "quantity" but also to "safety" and "quality" of food. In fact, there is evidence that the EU public in the 21<sup>st</sup> century is (much) more concerned about safety and quality than about quantity.

Notice that neither of these arguments (quantity, safety, quality) is truly new as an objective - actually food safety and quality are mentioned as objectives in the 2003 and 2008 CAP reforms; and a sufficient supply of food is mentioned in the initial CAP objectives. However the notion that one would justify a large amount of EU payments for this objective is new - and we will evaluate the objectives from this perspective.

#### ***Food security -- Safety***

Until relatively recently, food safety policy was mainly a member state's responsibility, except for some veterinary directives from the European Commission. The food safety crises in the 1990s, particularly the BSE in 1996 and the dioxin crisis in 1998, were crucial in changing this. In 1997, almost the year after the BSE crisis, the Commission launched a new food safety initiative which resulted in the publication of its 'White Paper on Food Safety' in 2000 (European Commission 2000). This led to major legislative changes and to the *Basic Food Law Regulation*, including a recast of EU veterinary rules, and the creation of the European Food Safety Authority (EFSA).

The main goal of this EU food safety policy is protecting consumer health while ensuring smooth operation of the 'single market' and taking into account existing or planned international agreements on standards (like the Sanitary and Phytosanitary (SPS) and technical barriers to trade (TBT) agreements (OJEC 2002).

The EU has also adopted specific sector rules on products of animal origin intended for human consumption (Regulation (EC) N<sup>o</sup> 854/2004). This act covers fresh meat, fish, milk, dairy, poultry etc... while Commission Decisions 2006/766/EC and 2006/696/EC and subsequent amendments specify the list of non-EU countries from which imports of these products are allowed. In addition, official

controls on good hygiene rules of HACCAP principles and on maximum residue level (MRL) are in practice; as do specific rules on the use of pesticides; food supplements; colorings; antibiotics and hormones in food production; additions of vitamins; minerals and similar substances in food; products in contact with food stuffs-such as packaging.

Key policy issues for the future are whether the system as it has recently been designed and implemented is sufficient and efficient in addressing public concerns related to food safety; whether current and future 'agricultural policies' are consistent with the food safety rules and policies; whether there is a need to adjust these policies in the light of rapidly growing private standards and whether there is a need to adjust these policies in the perspective of trade agreements and trade development. None of these provide new objectives that should be addressed with direct payments.

### ***Food security Quality***

While there is both in theory and in practice an important relation between safety and quality, one can identify several product characteristics which consumers may appreciate (color, size, production process (e.g. no child labor, ...)) but which are not safety characteristics. At present there is no real EU quality policy, although the EU Commission is developing a proposal on this. There is some support for EU quality production under the CAP Pillar II (Rural Development Programs) where some of the programs are explicitly linked to upgrading quality or producing quality.

Most of the policy initiatives in this policy area are recent and at the member state level. Unlike before, where quality was almost only a private sector initiative, now governments are getting involved in the quality schemes and are setting up public-private partnerships initiatives. Key policy issues for the future are whether there is a need for an EU level food quality system, or to leave this at the member state level; whether to increase funding for local initiatives under the Pillar II; whether current and future EU-level 'agricultural policies' are consistent with food quality objectives and initiatives; and whether there is a need to make adjustments in the light of rapidly growing private standards. None of these provide new objectives that should be addressed with direct payments.

### *Food security -- Quantity*

On the quantity issues there is a demand side aspect and a supply side aspect, as well as a global versus EU aspect ("whose food security?").

If the objective of the EU's CAP should include addressing global food security, including those of the poor in the developing countries, then decoupled payments would not have an impact if they do not stimulate EU production - which is supposed to be the effect of decoupled payments. If payments do stimulate EU production, they would hurt developing country farmers, increasing rural food insecurity in developing countries, and hence would have a negative effect on global food security. The best way to support urban poor in developing countries is through a combination of local economic growth, targeted income support/social policies and employment creation; however I find it hard to imagine that this should be a CAP objective.

If the focus of the CAP is on EU food security, it is clear from the above review of the concept of food security that one should focus strongly on the demand side. In this perspective, the main food security problem in the EU relates mostly to those living in poverty, which is a small minority in richer EU countries, and a sizeable group in poorer EU countries. Possibly in size the most important group are older people in NMS, including a large group living in rural areas on very low pensions and who have to keep working at old ages to produce some food for their household consumption. In terms of policy solutions, direct payments do not help - actually they may make things worse. The best approach is to address the fundamental problem, which is the low incomes of these people, e.g. by increasing their pensions (social policies). While one may argue that the rural poor may benefit from direct payments, in reality the rural poor who are food insecure generally do not benefit from the CAP. For example, some of the poorest EU citizens live in Romania's rural areas where poor elderly people keep farming since they can hardly survive on their very low pensions. However, their farm sizes are typically too small to benefit from direct payments (minimal size is typically 1 hectare) and they have insufficient capacity (or business strategy) to apply for pillar II support. In fact, they may actually be negatively affected because direct payments cause land prices to increase, which makes it harder for them to compete for land access with larger farms who do get the support payments.

On the supply side, the current concerns of food security, based on the uncertainty whether future food supply can meet demand, are related to the high food prices in 2007 and the first part of 2008. To analyze the policy implications, we should first look at the causes of the

high prices. Several studies have pointed out that the main reasons are a combination of structural, temporary, and policy factors. This includes the growth in food demand with the growth in developing countries such as China and India - but also in Africa, the growth in agricultural commodity demand for bio-energy - in particular biofuels, declining productivity (yield) growth in richer countries, bad weather, export constraints imposed by exporting country governments, etc..

Related to these factors, and indirect causes, are policies that have stimulated the growth of biofuels (subsidies and mandates), the high oil prices which affects both the costs of production and the (market) demand for bio-energy, and possibly climate change which affects weather conditions.

First, an important policy issue is how to deal with bio-energy as a competing demand with food for agricultural commodities. The main food security policy here appears to be to stop stimulating bio-energy demand by removing subsidy and mandate policies.

Second, if the growing global demand for food, feed and bio-energy causes a fundamental increase in real agricultural prices in the long run, then farmers should receive better incomes from the market than they have in the past decades, and there is less need to support their incomes. This conclusion has direct implications for the questions raised in the previous section on the need for continuing CAP payments to support farm incomes. An important observation in this respect is that agricultural production, both in the EU and globally has responded positively and strongly to the high prices: production in 2008 has increased substantially over the past years.

What is worrying though in the long run perspective of satisfying an increased demand for food, feed and bio-energy is the long-run trends of productivity improvement in EU agriculture. Statistics illustrate the evolution of yield growth in wheat, rice and dairy production, and all these data indicate that yields still grow in EU agriculture but at a rate which is much lower than in the 1970s and 1980s and at slower rates than in developing countries. While these data on yield are only a partial measure of agricultural productivity, studies calculating more sophisticated indicators, such as total factor productivity, generally confirm the slowdown in productivity growth in EU agriculture. This should be a cause for major concern, both from the perspective of the competitiveness of EU agriculture in the future, and from the perspective of increasing supply in the medium to long run. However, direct payments are unlikely to be an effective way of realizing such objectives - as is also documented by the data itself which cover periods with direct payments. Investments in R&D and

associated activities to increase productivity seem to be a more effective way of realizing this.

### **Conclusions**

Food safety and quality objectives are addressed by other policies and direct payments have a very limited role to play in this.

In terms of providing sufficient quantity of agricultural output, major challenges appear on the horizon. Even without government support for biofuels, demand for agricultural commodities for bio-energy purposes is likely to increase strongly in the long run - as we should expect oil prices to recover in the coming years. Similarly, the growth in food and feed demand from emerging countries, such as India and China, is likely to continue. Both fundamental developments are now affected by the current financial and economic crises in the world economy, but in the longer term one should expect them to resume their critical importance. On the production side, productivity trends in the EU and other developed countries face declining growth rates. These fundamental trends, which we have outlined in this paper, will cause an upward pressure on agricultural and food prices.

In this perspective, the EU should consider instead of spending the budget on direct payments to reallocate a substantial part of the CAP budget to stimulate the development and implementation of a series of new and improved ("green") technologies to stimulate the EU rural/food/bio-economy.

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