Project Briefing

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The EU's Common Agricultural Policy and development

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Key points

- The CAP's impact on developing countries varies by product, country, policy, and timeframe: regular monitoring is essential
- If the EU is committed to a coherent policy for development, it must counter any negative CAP effects
- The EU could institute more effective instruments to achieve the objectives of CAP such as food security and improved environmental outcomes

The European Commission (EC) published its proposals for the Common Agricultural Policy (CAP) post-2013 in October 2011. These are now being discussed with the European Parliament and the European Council, with the aim of having them approved before the end of 2013.

The context in which the current CAP reform is taking place differs from that of previous reforms. High and volatile food prices and growing environmental problems are calling old measures into question. Policy Coherence for Development (PCD) requires the process to take account of European Union (EU) development cooperation policy objectives.[1] The rise of emerging powers has put CAP reform under a new spotlight. The negotiations are running in parallel with negotiations to reach agreement on the EU's multi-annual financial framework for 2014-2020, which will decide the budget for EU agricultural policy and its distribution during this period. And there are new decision-making procedures, including an enhanced role for the European Parliament.

A research programme (2010-2012) led by the Overseas Development Institute (ODI) has asked three broad questions:

1. How do the present CAP and the proposed reforms affect development: are they coherent with the EU's development objectives?
2. How can we ensure that the effects of the CAP on developing countries and, therefore, on development are monitored over time?
3. Is the CAP a good instrument for achieving its main objectives of supporting and stabilising rural income and protecting the environment? Is there a better alternative?

Six background papers have been prepared (see references) and two informal workshops have been held in Brussels with representatives of the Directorate-general for Agriculture and Rural Development, the Directorate-general for Development Cooperation and some Member States. The first presented initial findings and the research agenda (March 2011), and the second discussed the preliminary findings (September 2012) set out in this Project Briefing. The main conclusions are as follows:

1. there are identifiable effects of the CAP on developing countries that are likely to have an impact on their development
2. these effects are complex and not immediately obvious and vary over time, and therefore need to be monitored: as no mechanism currently exists, one needs to be established, whether by the EC itself or by external observers such as the Organisation for Economic Co-operation and Development (OECD)
3. current CAP instruments are not the most effective at pursuing EU objectives in the most development-friendly way or even the most effective in pursuing the objectives of the CAP (as stated below) and therefore need to be reassessed (see also Cantore et al., 2011).

What is the CAP for?

The EC put forward three broad policy objectives for the CAP for 2014-2020:

1. contributing to viable, market-oriented production of safe and secure food throughout the EU
2. ensuring the sustainable management of natural resources, and
3. contributing to balanced territorial development and thriving rural areas throughout the EU.[3]

This research project asks whether the current or proposed CAP instruments are the best way to achieve these objectives and whether the CAP is coherent with development.

History of CAP reform

Past reforms have changed the operation of the CAP and its effects on developing countries. CAP support (Pillars I and II)[4] has provided around €50 billion per annum in farm support for several years, but the composition of this support has changed dramatically. Market price support, including the use of export subsidies, has decreased significantly, in part because of the substantial rise in agricultural commodity prices in world markets in recent years. There has been an increase in the importance of direct payments to farmers. A number of trade-distorting features remain in the current CAP (see Box 1) that could affect development. The net impact of EU agricultural policy on world markets following these reforms is small compared with the recent volatility observed in world food markets, but there can be important effects on particular countries and specific commodities, which means a more disaggregated analysis is necessary.

Pressure groups (especially farmers) have a long history of engagement in the CAP process. Klavert and Keijzer (2012) examine which groups have the most influence on CAP policy and possible reasons for opposition to its reform, focusing on the positions of food security and environmental public goods stakeholders. They conclude that stakeholders have, to a large extent, used these two challenges to keep the CAP as it is.

Current and proposed CAP measures affect development

EU agricultural policies have major effects on the rest of the world, and in particular on developing countries, where agriculture is often the driver of exports and where spending on food is always an essential part of consumption (Box 1). Such policy instruments must be analysed in detail because they have different effects on different types of countries and products, and both the instruments and their impact have changed in recent years. Cantore et al. (2011) develop partial causal chains for each of the CAP policy instruments, and also suggest an agenda for future research on the CAP itself.

Boysen and Matthews (2012) look at how to monitor and analyse the effects of EU agricultural policy on individual countries. First, they measure the impact of CAP policy instruments or reforms on world markets. Second, taking into account the transmission of these impacts into national prices, they assess impacts on the structure of production and consumption and on economic welfare in the national economy. Third, taking into account the spatial transmission of these price changes and the initial distribution of household incomes and expenditure patterns, they investigate the distributional impact across households, paying particular attention to those at or close to the poverty line.

In practice, this ideal approach can be implemented only partially, given data and modelling constraints. Applying it to Uganda, the authors find different impacts of changes to the CAP, some negative, some positive. The changes are small in aggregate terms but even in Uganda, which is not expected to be among the most affected, some large disaggregated effects can be observed. For example, when the CAP is assumed to have major distorting impacts on world prices, CAP liberalisation is estimated to raise the price of land by 6.5% and to lead to changes in volumes of domestic production greater than 3% in 17 out of the 47 sectors studied.

Cantore (2012a) examines the consequences for developing countries of proposals to 'green' the CAP. If such new measures are binding and change the behaviour of EU farmers, they will reduce EU farmers' output in the short run, which could lead to increased commodity prices. This would stimulate exports from developing country producers (by up to 3% for certain countries and commodities) but harm food-importing countries. In the medium to long term, reduced emissions from greening would reduce the damage resulting from climate change in developing countries.

Cantore (2012b) analyses the potential effects of the CAP (both existing measures and proposed changes) on price volatility in developing countries, finding that current CAP measures exacerbate price volatility at world level. When world prices increase, EU mechanisms such as sugar and dairy quotas limit the production response by EU farmers, preventing additional production, which would help limit the price increase. Under current proposals, these quotas would be eliminated, but some critics of the proposals oppose this. Reductions in EU-applied import tariffs when world prices are high add to global demand and force these prices even higher. When prices are decreasing, CAP mechanisms such as export subsidies increase output by EU farmers and contribute to further price decreases. These mechanisms may stabilise EU farmers' income, but accentuate price volatility at world level which affects developing countries, depending on the scale of their economic integration and the extent of price pass-through.

Areas of concern around the current CAP reform process

Three major concerns from a development perspective should be addressed in negotiations on post-2013 CAP regulations.

- There is a need for empirical research on the significant positive and negative impacts of

Box 1: Impact of current CAP instruments on developing countries

Different policy instruments have different effects on different types of countries and products.

- **Import tariffs.** Most-favoured nation tariffs paid by countries without special arrangements with the EU are still high, even if current high world prices mean that applied tariffs on some commodities are now reduced or set to zero. The current CAP negotiations do not affect this key form of protection. Lower tariffs would help developing country exporters who face such tariffs but hurt those who already have tariff-free access. Lower import tariffs would increase EU, and therefore world, demand for specific commodities, which would damage developing country consumers dependent on food imports.
- **Coupled payments.** These are an addition to the price received for EU products and therefore encourage EU production. Reducing them would lead to increased exports and therefore opportunities in many export-oriented developing countries.
- **Direct decoupled payments.** These are described as non-distorting, but there is evidence that, by supporting non-competitive farmers, they may induce farmers who would otherwise leave the industry to keep on producing. As payment is conditional on ensuring their land remains usable for farming, these payments help retain more land in use for farming. Because direct payments increase EU supply, any reduction in such payments would allow an increase in developing country exports and higher world prices, although it would raise costs for developing country importers of CAP-affected products.
- **Pillar II payments for rural development.** The economic effects of Pillar 2 payments have contradictory effects on output and thus on developing countries. Investment-type measures such as farm modernisation aids and improvement in infrastructure increase EU supply, as do payments that support farming activity in marginal areas, again with different impacts on producers and consumers in developing countries. Payments for agri-environment measures are often linked to input restrictions and thus reduce agricultural supply, as do payments to encourage farmers to make alternative use of their land, such as for afforestation or renewable energy. If Pillar II spending reduces greenhouse gas emissions, this would benefit developing countries.
- **Export subsidies.** The EU paid farmers €1 billion in export subsidies in 2008 and €650 million in 2009, with decreases thereafter. Products that received subsidies included dairy products, pigmeat and poultrymeat. Because export subsidies support EU supply, some developing country consumers would lose from a reduction in export subsidies via a rise in the import price, but producers and exporters whose products EU exports have displaced would gain.
- **Intervention price.** Public intervention at fixed prices remains available in principle for cereals, beef, veal, butter and skimmed milk powder, but only for quantities fixed in advance or at very low prices given the current level of market prices. Since 2009/10, no cereals apart from soft wheat have been eligible for automatic buying-in for intervention. There are unlikely to be major effects in the future on the rest of the world.

the CAP and associated policies in developing countries. As Annex 12 of the Impact Assessment prepared for the current reform shows, not investing in such research leads to unsatisfactory analysis and constrains opportunities to generate a strong evidence base for decision making.

- In order to do this, there is a need to monitor impacts on developing countries systematically to analyse development effects; no one is currently doing this.
- As global conditions change, we need to reappraise how best to achieve stated objectives and assess whether current CAP instruments are the most effective, as well as whether they are development friendly.

Monitoring global effects more efficiently and protecting global interests more effectively

The project makes two main policy suggestions. The first policy suggestion is that the impact of the CAP on development, recognising the heterogeneity of impacts, needs to be monitored to inform both discussion of reform and the EU's development policies. Keijzer and King (2012) suggest four ways to do this and examine their relative feasibility.

- Defined objectives for the effects of the CAP on developing countries spelt out in its legal text. The EC could then monitor these objectives.
- A monitoring mechanism for the effects of the CAP on developing countries without specific objectives enshrined in the legal text. This would mean following any unintended 'side-effects' of the CAP on developing countries.
- A more general EU monitoring mechanism covering all EU policies known or assumed to affect developing countries. A basis for such a process exists partially for food security, one of five areas for more proactive EU engagement on PCD identified in November 2009 and reaffirmed in May 2012.
- Monitoring by an external body, for example the OECD, which has mechanisms to monitor agricultural policies and outcomes, or civil society or academic institutions.

The analysis suggests that the second option and the fourth option (led by the OECD) represent the most feasible combination of proposals to monitor the external effects of the CAP successfully and deliver the potential for more coherent government development policy. In terms of sequencing and investments to set up both options, implementing the former option could help drive the latter.

The second policy suggestion is a re-examination of how the EU's objectives for agriculture can best be achieved, to establish not only more developmentally-friendly options but also more efficient and effective solutions for EU citizens.

- Guaranteeing European citizens healthy and quality food supply might be achieved more effectively by, for example, supporting global agricultural production and storage systems, improving global standards, and global agricultural innovation (see Lawrence and Luwanga Mayanja, 2012), rather than concentrating support on EU farmers. The best way to preserve the environment or address global public goods may be to fund action globally, not to channel funds through European farmers (see Cantore, 2012a).
- The objective of helping develop rural areas in the EU needs to go beyond support for EU farmers alone and consider the needs and welfare of all EU citizens.

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References, endnotes and project information

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Endnotes

1. The EU is legally obliged to take into account the development needs of low-income countries when making decisions.
2. Funded by the Bill & Melinda Gates Foundation. Findings and conclusions are those of the authors and do not necessarily reflect the positions or policies of the funder or of ODI. Contributions have come from Nicola Cantore, Jane Kennan, Sheila Page and Dirk Willem te Velde of ODI; Henrike Klavert and Niels Keijzer of the European Centre for Development Policy Management; Michael King and Alan Matthews of Trinity College Dublin; Ole Boysen of University of Hohenheim; and Lawrence Othieno and Musa Luwanga Mayanja of the Economic Policy Research Centre.
3. http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1181&format=HTML&aged=0&language=en&guiLanguage=en
4. Pillar I includes both direct payments to farmers and market management measures. Pillar II focuses on improving the structural and environmental performance of agriculture and promoting local/rural development, and requires Member State co-financing.

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