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The EU's agricultural policy

Europe's farm follies

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Why the European Union retains its strange fondness for farm subsidies

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NEXT week sees both a European Union summit in Brussels devoted to the EU budget and a Hong Kong ministerial conference to review the Doha round of world trade talks. At first sight the two meetings might seem unconnected. But they share a crucial common thread: the attachment of the rich West, especially Europe, to farm subsidies. Indeed, the EU's common agricultural policy (CAP) will lie at the root of many of the arguments in both Hong Kong and Brussels.

Not that the CAP is the only problem in either set of negotiations. Big disputes also loom over industrial tariffs and trade in services. Even in agriculture, where the EU has come under attack for the meagreness of its offer to improve market access for farm products, it is by no means the only offender (see article). As for the EU budget, many political leaders gathering in Brussels next week are more concerned about the proposals by the current British EU presidency to cut regional aid and other spending than about France's obstinate defence of the CAP. And most want bigger cuts in Britain's EU budget rebate.

The CAP costs European taxpayers over €40 billion ($47 billion) a year, or around 40% of the total EU budget. That is a huge sum, given that farming accounts for less than 2% of the EU's workforce. Yet the share of the budget devoted to CAP spending has fallen sharply: 20 years ago, it was 70%. Moreover, the CAP has been reformed significantly, most recently in 2003, when a deal was struck to complete the switch of most CAP subsidies from price supports to direct income payments. After this reform has been fully implemented, some 90% of EU farm support will be classified as "non trade-distorting".

That has not dampened demands for more change, however. The world's big agricultural exporters want greater access to the EU market, meaning sharply lower tariffs on farm imports. Within the EU, countries such as Britain that get few farm subsidies want them cut further; those such as France that are big net recipients are determined to preserve them. The CAP is criticised even by those who want to protect Europe's countryside and its small farmers. As much as 80% of its subsidies go to the richest 20% of farmers, and—as recently published figures have shown in graphic detail—the biggest single recipients of CAP payments tend to be giant agribusinesses and big, wealthy landowners.

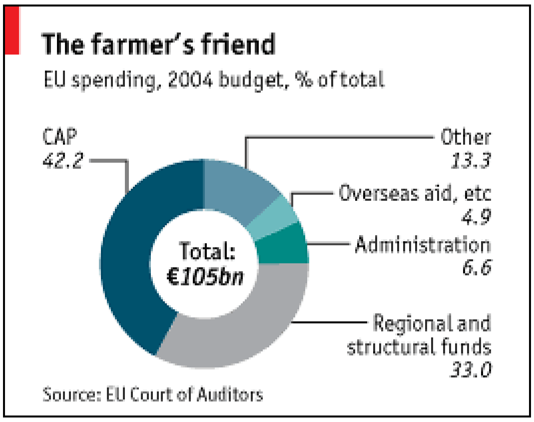
In the face of such attacks, the French, in particular, remain defiant. President Jacques Chirac, who cut his political teeth as a farm minister, insists on sticking to a deal that he struck in October 2002 with the then German chancellor, Gerhard Schröder, to freeze CAP spending in real terms until 2013. That deal was subsequently endorsed by all EU leaders, including even Britain's Tony Blair. Yet it is not only Mr Chirac who supports the CAP: so does the entire French political class. Given agriculture's shrinking role in the French economy, it is worth asking why.

The fat of the land

On a wooded plateau in eastern Normandy, near the village of Grossoeuvre, Didier Lefebvre keeps 110 dairy cows and farms 45 hectares of maize, wheat, rapeseed and flax. He is the model of a modern French farmer. His milking machines are computer-monitored. An automatic cleaning machine pushes muck across his stalls for recycling. He keeps 10,000 litres of milk in his cooling vat, and French literary classics on his bookshelves. A large chunk of his net income comes from the CAP.

France is Europe's biggest farm producer and the biggest single beneficiary from the CAP, taking around a quarter of all EU farm subsidies. Farmers such as Mr Lefebvre help to supply what is both Europe's biggest agri-food business and France's leading industry. From the fertile plains of the Paris basin and Picardy to the olive groves of the Mediterranean, France's agricultural variety makes it in many ways a test case for the changes in European farming.

In other ways, however, France is different. When the government says, in both the EU budget and the Doha negotiations, that it cannot touch the CAP, it is partly making a point about sticking to the October 2002 deal. “We all agreed to the 2002 reform," says Catherine Colonna, France's Europe minister, “and it cannot be changed until 2013.”



But there is also a more general resistance to reform that reflects the special place of farming in the French imagination. Its importance runs deeper than agriculture's tiny 4% share of the workforce or its 3% share of GDP. It is not by accident that French politicians rush each year to the Paris Agricultural Fair to pose for the cameras with heaving bulls.

Why are the French so infatuated by farming? And what would happen to French farming if subsidies were slashed?

The answer to the first question is a mix of tradition, nostalgia and Gaullist politics. Food in France is not just a way to fill the belly: it is part of the national identity. France's regionally based gastronomy emerged from the varied local produce of different *terroirs*. Across France, twice-weekly street markets that sell everything from skinned rabbits to whole unpasteurised bries are not rustic marketing inventions but ancient exchanges. The French are fussy about the quality and origin of what they put in their supermarket trolleys, often preferring to pay more at a butcher or baker than to buy stuff cellophane-wrapped.

Many town-dwellers, besides, still have living relatives who till the land, and memories persist of post-war food shortages. Pride in agricultural self-sufficiency, with the farmer as folk hero, is strong. De Gaulle once said, “A country that cannot feed itself is not a great country.” His political descendants keep the faith. Mr Chirac was first elected to parliament for rural Corrèze, and was farm minister under Georges Pompidou. The ruling Gaullist right sees food self-sufficiency, like the nuclear *force de frappe*, as a centrepiece of France's geopolitical independence.

Christine Lagarde, France's trade minister, recently described farming as “fundamental to our identity”. Even reformers such as Nicolas Sarkozy, the interior minister, back farm protection. The country's biggest farm union, the FNSEA, has powerful regional roots and a lobbying network that stretches from local elected officials to senators, 8.5% of whom are farmers.

Would any of this really be at risk if the protection that French farmers enjoy, through tariff barriers and direct subsidies, were radically dismantled? The government foresees catastrophe. Dominique Bussereau, the farm minister, told *Les Echos* recently that “almost all” farms would disappear and that tens of thousands of jobs would be at risk. He exaggerates. But the answer is more nuanced than zealous liberalisers like to think.

Rural exodus

Radical reformers concede that the number of farms in France would shrink dramatically. But this is already happening. France has 550,000 farmers—a quarter of the number in 1950—working fewer than 400,000 “professional” farms. Between 1993 and 2004, the number of arable farms fell by nearly a third. This is partly due to earlier CAP reforms that began the switch of support from prices to direct payments. Fearful that this might herald more cuts, many farmers expanded their land to keep their farms viable. Others gave up or went into retirement.

AFP

Bull technique: “Seducer” de Villepin, “Saint” Sarkozy, “Tough Guy” Chirac

Today, direct CAP subsidies make up, on average, 90% of a farmer's pre-tax income. That suggests that the average farmer would barely scrape a living without such aid. But the figure masks wide variations. For market gardeners, the share is below 10%; for quality wine-growers, it is 8%. Over a quarter of payments go to just 5% of farmers, according to the Groupe d'Economie Mondiale (GEM) at Paris's Institut d'Etudes Politiques. It calculates that the biggest 30 farmers—among them, Prince Albert of Monaco—get an average of over €390,000 each a year. That is 217 times the average received by the 180,000 or so smallest farms, which make up 40% of the country's total.

“The scandal is that these inequalities will be maintained by the latest CAP reform,” says Pierre Boulanger of the GEM. The EU's decoupling of aid from production, which takes effect in France next year, relates future subsidies to what each farm produced in 2000-02. The idea is to get rid of artificial incentives to produce. But the upshot is that big farmers will continue to get the most, and that small farmers are left most vulnerable to more reforms.

What might the French landscape look like if all subsidies and external tariffs were drastically cut? Estimates suggest that France would lose between a third and two-thirds of its farms. A sustainable industry might consist of just 150,000 farms, according to a recent study by the Institut Montaigne, a think-tank. These would range from big, efficient producers, such as lowland cereal, dairy and beef farmers, through the fruit, vegetable and wine-growers who already get very little help, to niche producers of "*appellation d'origine contrôlée*" and organic foodstuffs.

The big lowland farmers are already among Europe's most competitive. The latest talk among them is about a new satellite-controlled combine harvester. Indeed, Patrick Messerlin, director of the GEM, argues that it is in France's interests to reduce CAP protection, since its farmers would be better placed to compete than those elsewhere. Back in Normandy, where farmers face a mountain of paperwork tied to the latest CAP reforms, not to mention the new environmental tasks these payments now require, farmers are already preparing for the day when subsidies will be cut again. Mr Lefebvre concedes that, while cereals would suffer, his dairy farm would manage. "French farming will survive," he says, "because French farmers are dynamic and adaptive."

Beef farmers might have more trouble. Increased imports from countries such as Argentina or Brazil would force French producers to look more to the quality end of the market. Already, "quality" foodstuffs (from small, local or specialist producers) account for some 20-30% of French consumption. Even in hypermarkets, French shoppers can choose between quality cuts of French Charolais beef or cheaper stuff of uncertain provenance. The more that consumers, in France and abroad, move upmarket, the more French producers will stress this strength.

Would the French countryside lose its bucolic look, and give way to vast American-style fields bereft of hedgerows or quietly grazing herds? Such concerns are widespread. "If you take the cows out of the Massif Central," asks Xavier Beulin of the FNSEA, "who would go there to visit?" The 2003 CAP reform stresses farmers' role as rural park-keepers, not hardy producers, a change that some consider emasculating. And is it not the quaint farms, as much as the rugged landscape, that holidaymakers in search of authenticity want to see?

In reality, the average French arable farm has already grown in size, by 40% over the past decade. Yet the average French farm is less than a quarter the size of the average American farm. Even the plains of Picardy do not resemble the vast flat spaces of the American mid-west. Moreover, the French farm-property market is regulated, and farm size is controlled. Upland farmers in marginal terrain, such as the Massif Central, already find it hard to survive without taking up activities such as tourism. Keeping such farms going, for reasons of tourism or the rural economy, has become a social-policy choice.

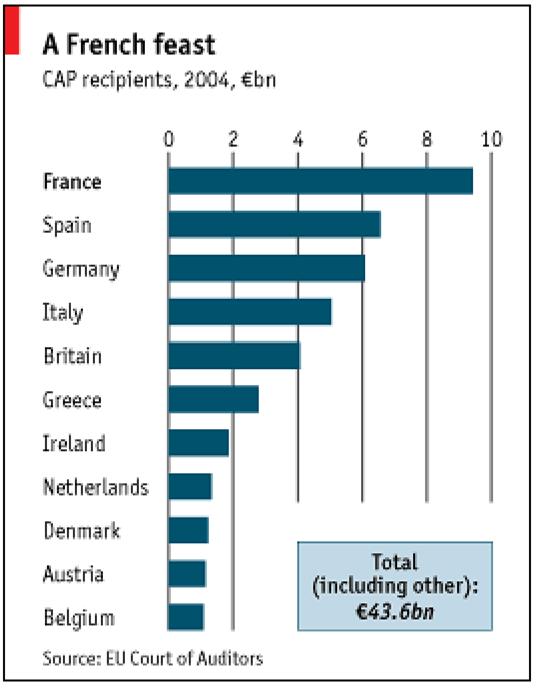
In any event, nobody is seriously proposing the abolition of farm protection altogether. What is clear from French farming, however, is that there is still room to reduce it, as long as it is managed carefully for the most vulnerable small farmers. At the very least, there is a strong case for putting a ceiling on payments made to individual big farmers. The long-term outlook for world agricultural demand is strong, and competitive French farmers are well placed to take advantage of it.

There are some signs that French public opinion is beginning to change. Fewer young people now have any family links with the countryside. More voices are speaking out against the power of the French farm lobby. Medef, the French employers' federation, has urged the government not to let the Doha round fail since, for industry and services, a deal is "vital for growth and jobs in France". Yet the governing class remains, for now, as wedded to farm protection as ever.

Brussels sprouts

That is the background against which to assess France's approach both to next week's trade talks and to the EU summit on the budget. But the budget is also emerging as the last and biggest test of the current British presidency of the EU, which comes to an end this month. If there is no deal in Brussels, Mr Blair will be widely criticised for achieving little during his presidency. Indeed, fear of such criticism has become the biggest weapon wielded by other countries hoping to extract more concessions from the British prime minister.

What Mr Blair wanted to do was to achieve a more rational budget—or, more modestly, to set out a process that might lead to one. As he put it in his speech to the European Parliament in June, "A modern budget for Europe is not one that ten years from now is still spending 40% of its money on the CAP." Five months on, those who hoped for radical reform to create such a budget have been disappointed.



In the hope of averting rows, the British delayed their tabling of a budget compromise until this week. Yet when it came, it left CAP spending more or less untouched: a token cut of less than 2%, which will actually raise its share of the budget to 44%, plus a proposal for a review in 2008. Even this is arousing fierce resistance in Paris, where it is seen as just one more attempt to reopen the 2002 deal to leave the CAP unchanged until 2013.

The rest of the British plan for the EU budget has run into almost as much trouble. It revolves, yet again, around the CAP, and the rebate Britain receives because, as a country with relatively few farmers or poor regions, it gets back so much less than it contributes to the budget. In June, Mr Blair was one of five EU leaders who rejected a compromise put forward by the then Luxembourg EU presidency. That compromise would have frozen the British rebate at €4 billion a year, instead of letting it rise to some €7 billion. Yet Mr Blair conceded that he was at least willing to put the rebate on the table.

Now, because he has been unable to secure any more farm reforms, Mr Blair proposes to trim the British budget rebate only a little. The Luxembourg plan to freeze the rebate would have cost Britain around €3 billion a year and rising. The British presidency plan would cut the rebate by €8 billion in all (a shade over €1 billion a year). The aim, according to officials, is to leave Britain's net contribution more or less equal to that of France and Italy, at some 0.4% of GDP—whereas the Luxembourg proposal would have left Britain paying significantly more.

By shaving the rebate, Mr Blair can claim that Britain will pay its fair share towards the cost of EU enlargement to central Europe. But he has annoyed those countries by also suggesting a cut of almost 10% in the regional and structural funds that they were hoping to get from the budget. That, plus cuts in administrative and other spending, has enabled the British to pare the budget down from the 1.06% of EU GDP proposed by Luxembourg to 1.03%. By 2013, on the British plan, the budget should be below 1% of EU GDP.

This austerity is designed to win the backing for the budget of other big net contributors such as Germany, the Netherlands, Sweden and Austria. As for the central Europeans, Mr Blair is calculating that, although they will squeal at the 10% cut, they may be placated by proposals to cut the red tape that delays grant payments—and that they would prefer a smaller budget to be agreed now than the alternative of no budget deal at all. Thus the British hope that, by next week, there will be enough momentum to secure an agreement, even a bad-tempered one.

The odds are still against any budget deal being struck. Because it requires unanimity, only one political leader at next week's summit has to say no. And there is plenty of dissatisfaction around; indeed, the British have been forced to promise to float a revised plan next week. Yet the real objection to the British proposals is neither that they are too cheese-paring, nor that they hit the poor central Europeans, nor that they are skewed to protect the British rebate. It is that, once again, they fail to advance the cause of CAP reform, which remains as urgent as ever.