Celebrating 50 years: EU–Australia

The *impact* of Europe's agricultural policy

Europe's Common Agricultural Policy has impacted on Australian and worldwide markets. Following years of reforms, the policy is very different today and there are now strong links in agricultural trade between the EU and Australia.

'Trade relations between the European Union and Australia have a history of discord, this is principally over the Common Agricultural Policy (CAP) and the associated impact of UK accession to the then EEC in 1973. However, this is very much a story of history, with the reasons for the dispute no longer applicable, as the CAP of today is now very different having been reformed on many occasions, in particular during the past two decades.'

HE Ambassador David Daly, speaking at the *ANU Conversations* series on 4 December 2012

Fifty years ago, the original focus for the Europe–Australia relationship was trade, and the most contentious issue was the Common Agricultural Policy (CAP).

The CAP had its roots in 1950s Western Europe, whose societies had been damaged by years of war and food rationing. Agriculture had been crippled and food supplies could not be guaranteed. The CAP was born in 1962 and so, like EU–Australia diplomatic relations, it is celebrating its 50th anniversary. In the early days, the CAP aimed to encourage better productivity in the food chain, market stabilisation, the availability of food supplies at reasonable prices, and a fair standard of living for farmers and growers. Incentives to produce were provided through a system of high support prices to farmers, combined with border protection and export support.

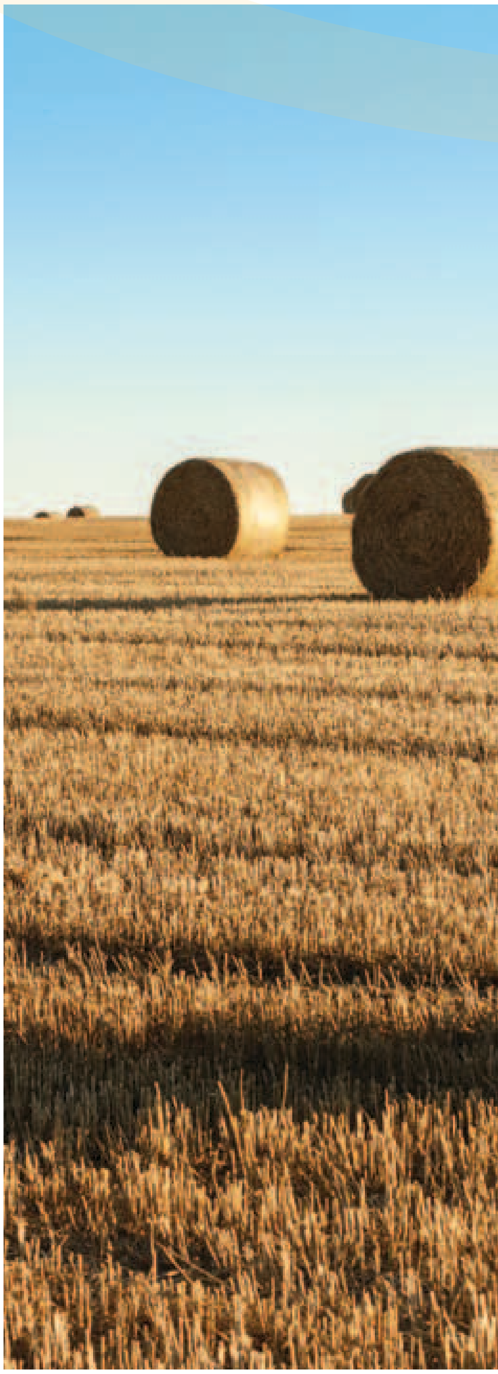
Historical development of the CAP

Productivity →

Competitiveness →

Sustainability →

The Early Years	The Crisis Years	The 1992 Reform	Agenda 2000	CAP reform 2003	CAP Health Check 2008
Food security Improving productivity Market stabilisation Income support	Over production Exploding expenditure International friction Structural measures	Reduced surpluses Environment Income stabilisation Budget stabilisation	Deepening the reform process Competitiveness Rural development	Market orientation Consumer concerns Rural development Environment Simplification WTO compatibility	Reinforcing 2003 reform New challenges Risk management



The CAP has evolved from a policy that supports products and as an unintended consequence distorts markets, to one which supports incomes and aims to maintain vibrant rural communities and keep more farmers on the land.

The crisis years: Over-production

These incentives, coupled with the 'green revolution', meant that the CAP was very successful in achieving increased food supplies. But by the 1970s over-production was beginning to occur. To address this, specific policy initiatives to speed up the structural adjustment of the European farm sector were considered. In 1972, legislation was passed to modernise farms, to promote professional training, and to renew the agricultural workforce by encouraging older farmers to take early retirement. In 1975, initiatives were taken to provide assistance to farmers working in difficult conditions, such as hill farmers and farmers in less favoured areas. In 1979, a 'co-responsibility' levy requiring farmers to pay a penalty for serious over-production was introduced in the dairy sector.

Despite these adjustments, by the 1980s the EU had to contend with almost permanent surpluses of major farm commodities, some were exported (with the help of refunds), others had to be stored or disposed of within the EU. These measures had a high budgetary cost and distorted some world markets. They did not always serve the best interests of farmers and became unpopular with consumers and taxpayers. The conflict in international trade, arising from both EU and US export subsidies, led to Australia forming the Cairns Group of 19 agricultural exporting countries in 1986. Some measures were taken to address the over-production problem with milk quotas introduced in 1984 and a voluntary set-aside scheme in 1988. Milk quotas curbed growth in milk production, while set-aside took land out of production and also addressed growing society concerns about the environmental sustainability of agriculture. >

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The 1992 reform: A watershed for international trade

The 1992 MacSharry reform started the shift from product support (through prices) to producer support (through income support). The reform aimed to improve the competitiveness of EU agriculture, stabilise the agricultural markets, diversify the production and protect the environment, as well as stabilise the EU budget expenditure. Direct payments on an area or headage basis were introduced to compensate for the decrease of the price support (e.g. cereal guaranteed prices were lowered by 35%, and beef prices by 15%). Compulsory set-aside and other accompanying measures (agri-environment programs, afforestation, early retirement and diversification) were also introduced.

In international trade terms, these reforms represented a watershed and provided the necessary movement for the Uruguay Round and its Agreement on Agriculture to be concluded and for the subsequent establishment of the World Trade Organisation (WTO).

Agenda 2000: New policies for enlargement

Agenda 2000 introduced the necessary reforms to adjust for the enlargement taking in the central and eastern European countries. It explicitly established economic, social, and environmental goals within a new re-formulated set of objectives for the CAP. This had the aim of giving concrete form to a European Model of Agriculture and preserving the diversity of farming systems spread throughout Europe, including regions with specific problems. These objectives involved more market orientation and increased competitiveness, food safety and quality, stabilisation of agricultural incomes, integration of environmental concerns into agricultural policy, developing the vitality of rural areas, simplification and strengthened decentralisation.

A new rural development policy was introduced as a second pillar of the CAP at this time. This policy continues to encourage many 'bottom-up' rural initiatives while it also helps farmers to diversify, improve their product marketing, adopt more sustainable agricultural practices and restructure their businesses.



The 2003 reforms: Radical change in the CAP

The regular and consistent adjustment of the CAP to pressures from European society and its evolving economy was again illustrated by the new set of reforms in 2003, which aimed to enhance the competitiveness of the farm sector, promote a market-oriented, sustainable agriculture and strengthen rural development policy (both funds and policy instruments).

The 2003 reform introduced a radical rebuilding of the CAP, with a number of important innovations. These included a fundamental change with the de-coupling of income support payments to farmers, freeing them up to produce for the market and not for subsidies. This was achieved by replacing the 'coupled' MacSharry payments, with a Single Payment Scheme, which is considered to be minimally trade-distorting in WTO terms. Other innovations included the introduction of cross-compliance where producers have to be seen to meet minimum good agricultural, animal welfare and environmental practices as part of a social contract with the broader society; and modulation of support, which involves moving funds from market support to rural development. In the following years, those sectors still considered to be in surplus (e.g. sugar, fruit and vegetables and wine sectors) were also reformed, and a new rural development policy for the financial period 2007–2013 was prepared.

As part of its ongoing drive to reduce regulatory burden, there was a major simplification of the CAP to reduce red tape for both farmers and administrations by making rules more transparent, easier to understand and less burdensome.

The 2008 Health Check

The Health Check was a built-in review of the 2003 CAP reforms. It introduced further reforms to modernise, simplify and streamline the CAP and remove restrictions on farmers, thus helping them to respond better to signals from the market and to face new challenges such as climate change, water management and bio-energy. The reforms also included the phasing out of milk quotas and set-aside as unnecessary instruments in the new market environment. >

Middle: Sicco Mansholt, Vice-President of the Commission of the EEC in charge of Agriculture, considered as the father of the Common Agricultural Policy, 1962.

Right: Farmers demonstrating during the European Council meeting in 1991.

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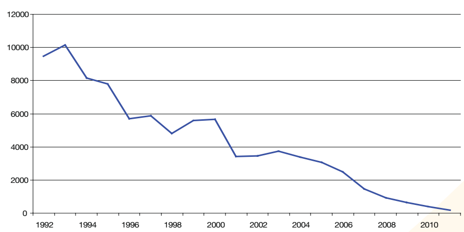
Post-2013: Competitive and sustainable agriculture

The CAP is due to be reformed again by 2013. After wide-ranging public debate, in November 2010 the Commission presented 'The CAP towards 2020', which outlined options for the future and launched the debate with other institutions and stakeholders. In October 2011, the Commission presented a set of legal proposals to make the CAP a more effective policy for more competitive and sustainable agriculture and vibrant rural areas. These are the subject of ongoing consideration by the Council and the European Parliament.

The impact on Australia and world markets

Over the past 50 years, the CAP has evolved from a policy that supports products and as an unintended consequence distorts markets, to one which supports incomes and aims to maintain vibrant rural communities and keep more farmers on the land.

The impact this has had on the international community, especially agricultural exporters like Australia, can be seen in the graph on expenditure on export refunds by the EU – export refunds are perhaps the most trade distorting of subsidies. It can be seen that expenditure peaked in 1993 – the year of the MacSharry reforms – at over €10 billion and has progressively declined. By 2011, export refunds totalled less than 2% of the level in 1993 at €180 million. With this evolution, agriculture is no longer the area of contention that it once was and Australia and the EU now have strong bilateral links in food and agriculture. •



This graph on EU export refunds expenditure (a subsidy for exports) shows that expenditure peaked in 1993 at over €10 billion and has progressively declined to €180 million in 2011. Export refunds are perhaps the most trade distorting of subsidies and the decrease in expenditure shows that the EU has moved from its protectionist approach to a more open market.