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# Fair Play: The Recent Common Agricultural Policy and Its Limited Effect on Development

*Bettina Rudloff and Michael Brüntrup*

**Once again, we have the same old story: The negotiations on a new financial framework for the European Union (EU) will also influence the Common Agricultural Policy (CAP). Critics of the CAP are increasingly using its development policy (side) effects in the debate: European subsidies would promote poverty and food insecurity in developing countries through cheap European exports and destroy prospects for those populations, especially for young people in rural areas. But is this accusation justified, and what implication does it have for the future CAP?**

The Commission's communication on November 2017 ("Food and Agriculture of the Future") presented the first indication of what a future CAP would contain: In addition to the traditional justifications for agricultural subsidies, such as safeguarding producers' incomes and ensuring reasonable consumer prices, it also promises to take greater account of environmental concerns and the international dimensions of the CAP. Furthermore, it stresses the need for coherence with other policies. But where does the CAP stand in terms of its effects on development?

## General Market-related Side Effects of the CAP for Developing Countries

The CAP can affect developing countries through various mechanisms ("hinges").

**"Export hinge" —** If the EU, as the world's largest exporter of agricultural products, increases its exports, prices on the world market and possibly also in developing countries might fall, which could undermine their competitiveness and displace local products.

**"Import hinge" —** As the world's largest importer of agricultural products, the EU is also increasingly part of international value chains. An increase in input-intensive production could lead to more imports of required raw materials, such as animal feed, originating from developing countries.

**Direct and indirect "climate hinge" —** The direct-effect results of the EU's agricultural greenhouse gas emissions are that they might lead to a decline in harvests, especially in tropical and subtropical regions. An indirect effect that could arise,

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particularly with regard to the intensive rearing of cattle in the EU, is that it leads to more animal husbandry than would be optimal in terms of the climate. This would have the same effect as a production-increasing subsidy, which could displace animal husbandry in developing countries.

## What Are the Side Effects of the Current CAP?

It is important to differentiate between the actors that are affected. Increased production levels and lower prices resulting from subsidies are detrimental to producers and exporting countries, but beneficial to consumers and importers. The reverse applies to price increases. In the long term, however, production boosted by higher prices can reduce prices again, and thus support consumers who are initially burdened. This fundamental conflict of interest between producers and consumers is a dilemma of any agricultural policy intervention. Often, small farmers in developing countries buy more food than they sell, or they buy inputs such as animal feed. Thus, the net effect of price changes is decisive, but losers may still arise. Price stability is clearly positive for both sides — production and consumption.

## Export Hinge of Little Relevance

**Export subsidies.** The WTO Ministerial Conference of 2015 in Nairobi abolished the export subsidies of all signatory states; thus, the usual criticism of this unfair policy no longer applies. Even before their abolishment, the subsidies had hardly been used since 2007, when world market prices had peaked. Other politically induced increases in exports of milk, for example, followed the abolition — instead of the introduction — of an agricultural policy intervention, that is, the end of the milk quota in 2015. The pushed exports may harm local production in some developing countries.

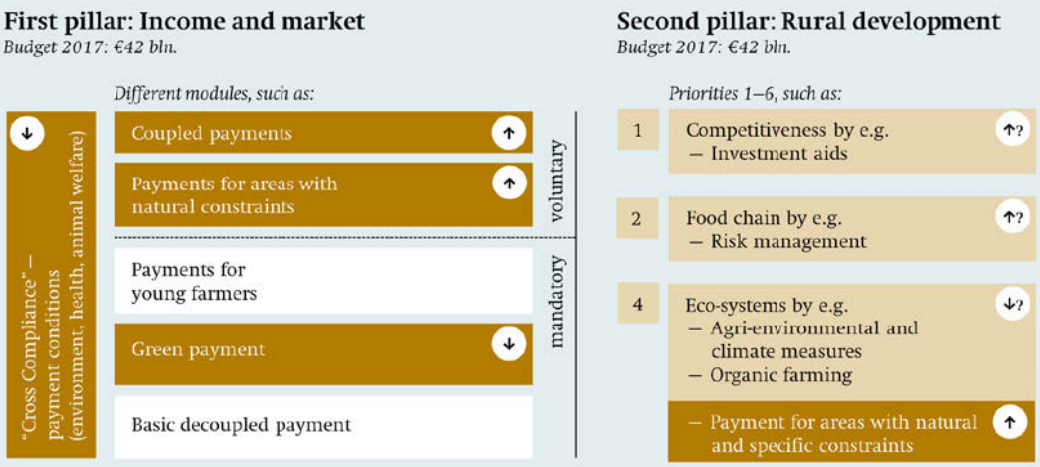
**Production growth through internal subsidies** has largely ceased due to numerous CAP reforms (see Figure 1):

- The basic payment per hectare — including the payment to young farmers — supports the income and financial liquidity of the farms, but the effect on production is low. In regions with special requirements (such as mountainous areas), subsidies help to keep farming activities in the region. However, this is hardly effective in the ongoing high-price phase. A large portion of these payments are passed on to the landowners via leases and, thus, do not influence production.
- The "green" direct payment is linked to environmental criteria and could even reduce output by increasing the price of production. Due to a lack of strict criteria, this current payment method is hardly effective. The same applies to the general criteria for all payments ("cross compliance").
- Up to 15 percent of national expenditure may still be coupled following the old CAP tradition — and thus be paid out in a way that distorts production and trade. This option is used by all Member States, often for animal products, in structurally weak regions except Germany.
- A safety net in the form of guaranteed intervention prices still exists for some products (such as dairy products). Development policy problems should only arise if the price incentive is so high that it offers production incentives.
- Measures under the financially weaker second pillar are geared toward certain overarching objectives of rural development, such as a focus on ecology. The effect on production has not been thoroughly analyzed. However, the chances for a potential increase in production through investment aids — or even its reduction through payments for special environmental services — are currently regarded as being low.

Overall, the production and price effects of the current CAP are negligible. These effects are not determined by the overall size of the CAP budget but by its mostly production-neutral design: According to the Joint Research Centre, even the complete

*Figure 1*

**Production effects of the current CAP**




White: no effect; dark brown: production effect probable; light brown: production effect unclear but probably small; ↑ increase in production; ↓ decrease in production.
Source: Own composition.

abolition of the CAP would only lead to a slight decline in agricultural production.

## Import and Climate Hinges with Development Effects

**Import demands in international value chains**. The consequences of European imports on development are often wrongly attributed (solely) to the CAP. The case of biofuels shows how development risks can arise along a global value chain. The EU demand in the form of the biofuels quota increases imports but originates in climate policy goals rather than being due to agricultural concerns. The resulting competition in the cultivation of biofuels can lead to supply risks in developing countries.

*Soya imports for animal feed:* The EU ranks second in the world after China in this area. Large-scale soy cultivation destroys ecosystems in Latin America. There are certification systems for land cultivation that have been cleared legally, but these are relatively easy to circumvent by means of selective declarations. The CAP promotes meat production through voluntary coupled direct payments in some regions and a lack of internalization of external damages, for example to climate, health, and groundwater. Agricultural policy initiatives such as the German protein strategy promote the idea of import substitution through the use of alternative domestic protein plants. However, their nutritional-physiological utilization by animals is limited, and a massive expansion in the use of these plants would also have ecological costs.

*Biofuel imports* into the EU include sugar cane, soya, and palm oil, and their cultivation poses risks similar to those for soya. Here, too, well-functioning certification approaches are lacking. As of 2021, palm oil will be excluded from the guaranteed quota for biofuels. However, the majority of palm oil imports continue to be used in the food and cosmetics industries, for which there are no requirements, unlike in the fuel industry. A limitation of their use would require alternatives for processing (rape, sunflowers). Their cultivation requires more land than oil palms do — with associated ecological risks.

In all approaches to reducing EU agricultural imports, the negative effects on exporting developing countries must be taken into account, too: For example, Malaysia, as an exporter for palm oil, is criticizing the exclusion of palm oil from the biofuel quota. In any case, any restric-

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tions on imports can result in the diversion of exports to other large palm oil or soybean destinations, which undermines European development efforts. More of a focus on ecology in the CAP via stricter measures for "greening" the direct payments as well as cross-compliance and organic farming can have the opposite effect: Less production intensity in the EU can increase the demand for imports, which may provide income opportunities, but it bears risks for developing countries, because their own food security supply could suffer as export levels increase. Many certification systems also act as positive incentives, but these cannot be used by poor, small famers due to complex production requirements and high participation costs.

**Climate impacts of animal husbandry.** Worldwide, agriculture accounts for 11 percent of human greenhouse gas emissions — in the EU and Germany, methane emissions from cattle farming are a major source. Production-side solutions would be the end of coupled payments in livestock production. Taxing soy imports could also make production more expensive, and thus reduce demand — especially if European alternatives were not promoted concurrently. On the consumption side, demand taxes (e.g., a "meat tax") could be used outside the CAP to curb consumption — as is done with other consumer goods — which would have the advantage that imports would also be affected. However, the effects should be mitigated through socio-political means so that poor consumers are not disadvantaged. On a global scale, however, the extent of the impact from reduced levels of animal husbandry is small, but it could serve as an important role model.

## Future CAP: Less Coupling, More Coherence

The damaging effects of today's CAP on development only remain in a few areas, such as voluntary coupled payments, the reduction of the milk quota, and through complex interactions with other policy areas. Current agricultural trade between the EU and developing countries is therefore determined less by the CAP than by policy-independent productivity levels and specializations. But even when defining a necessary reform for environmental reasons, old patterns must be avoided, such as using more production-coupled instruments, thus triggering new development risks.

The historical injustices created by past subsidies, which at least could have supported today's EU productivity, and the few remaining effects of the recent CAP on development should be countered. The appropriate approaches should come less from the CAP than from development (infrastructure aid) and trade policy (protective tariffs). In order to link these different policy areas coherently with the CAP, the EU should use existing policy-impact assessment instruments. In the future, the EU should orientate these explicitly to the internationally agreed upon indicators for the UN Sustainable Development Goals (SDGs). Above all, developing countries must be more closely involved in this process. Only then can the potentially affected actors themselves be able to properly express whether, and how, the CAP is detrimental to their development — and the possible damages are not just stated or assumed by European actors.

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