

Milk of human kindness¹

International Business Environment In the European Union

What is the CAP?

Common agricultural policy commonly known as CAP is the largest system of subsidies and programmes in European Union. It represents around 46, 7% of EU's budget.

The CAP combines a direct subsidy payment for crops and land which may be cultivated with price support mechanisms, including guaranteed minimum prices, import tariffs and quotas on certain goods from outside the EU.² System is being currently reformed with stressing direct payments to land owners than to specific crop production. In other words farmer's financial subsidy is not going to be linked to production of specific product. This is due 2012 when all member states will come together to create common strategy.

Structure of the CAP

CAP was proposed by European Commission and in is based in Treaty of Rome, Article 33 since its signing in 1957. This led member states to losing their sovereignty in agricultural politics but was necessary in order to avoid any obstacles in newly established Common Market. In 1963 principles were raised trying to ensure fair environment for all member states. Question is how successful have they been till today as France and Germany are the largest net contributors and on the other hand poorer countries like Greece or Spain main beneficiaries. Objectives are as follows³ :

- to increase productivity, by promoting technical progress and ensuring the optimum use of the factors of production, in particular labour
- to ensure a fair standard of living for the agricultural Community
- to stabilise markets
- to secure availability of supplies
- to provide consumers with food at reasonable prices

All these objectives can be easily summarised into one simple aim. Stabilise the market and provide customers good quality agricultural products for reasonable prices.

Common Market Organization

Currently, there are 21 Common Market Organizations and the EU Agriculture Commissioner, Marian Fisher Boel, has proposed to collapse them into one single Common Market Organization as a means to simplify the CAP and to increase EU competitiveness in the world market.

The Common Market Organizations govern production and trade of agricultural products from each member states of the EU. They aim to reach the CAP objectives and notably stabilize the market, increase agricultural productivity and guarantee a stable income for farmers. The CMOs cover about 90 percent of the agricultural production in Europe. The 21 CMOs are:

cereals, pork, poultry and eggs, vegetables and fruits, banana, wine, dairy products, beef meat, rice, olive oil and olives, sugar, flower-growing, dry forages, fruits and vegetables added value, tobacco, flax and hemp, hop, seeds, sheep and goat meet.

For practical purposes, the CMOs set the price of agricultural products for each European market. ⁴Mechanisms that regulate the production are quotas, set aside, national guaranteed quantity. What also CMO does is setting the terms for exports and imports with developing countries.

Milk quotas

Milk is one of the few remaining commodities in which production limitations exist to ensure a higher market price. Agricultural Commissioner, Marian Fisher Boel, stated in her February 2007 speech that milk quotas are “out of place in the reformed CAP.” ⁵Milk quotas do not encourage competitiveness, which is the main focus of the Lisbon strategy. “Quotas hamper competitive producers by preventing them from expanding.”

However milk still residues as the surplus commodity on European market. When supply of such a commodity is strong it drives the market price down. This clearly is the problem of currently milk farmers. Selling milk under the level of costs can easily lead to bankruptcy of the business. This is when intervention of government is expected.

In the Czech Republic and Germany in past two months we might have been a witness of various protests of milk farmers. Farmers blocking access roads to large factories of milk

producers in Germany namely Nordmilch, Humana and Ehrmann caused great disruption in production and dairy had to be closed or limit their production. Farmers were blaming discount chains such as Plus and Edeka for pushing their price on unbearable level. Production costs of one litre of milk is calculated on €0,43 but buyout price only between €0,25 to €0,35. Farmers new that they can uphold such a strike for maximum two weeks due to financial losses. Only dairies were losing €20 mil every day. However the real output of their action is that rotten milk had to be poured onto fields, dairy product shelves were empty and incentive by chairman of agricultural union Gerd Sonnleitner to verify weather setting the price by discount chains was according to the rules of market competition.

Cheap from the east

Czechs dealt with the same situation in their own way. With a great demonstration organised by Agricultural chamber, mainly ran by labour unions, things did not seem that easy. Their “historical” demonstration where around 8000 farmers from 7 states did not proved their point. Certainly for few days news was full of farmers marching through Prague, the reactions of government representatives but that is about it. Even presence of 2 cows did not help.

Fact, that Czech Republic in mainly exporting country is also reflected in their agriculture. On Czech milk market there are only 3 major dairy players. Olma Olomouc, Madeta a Czech owned company and Muller, German multinational processing milk from Czech cows. What could be easier than exporting hundreds of hectolitres just few hundred kilometres from its place of origin? It comes back to demand. Problems got even worse when good old Germans started to consume less of cheap Czech milk. Our surplus got even greater and price was driven down even more. For farmers who invested incredible amount of money because of new EU legislations brought into account after 2004, this was another nail to their coffin.

Another major player in this case are supermarkets which are pushing the prices as low as possible. Kaufland and Plus a leading supermarket chains in the Czech Republic drove the price of milk down to 6 CZK /l which is one third under the breakeven point. But whom to sell if not to Kaufland or Plus? For old rigid Czech agriculture it is extremely difficult to compete on open market. Coming from devastated co-operative farms of the soviet era to highly competitive environment only within 17 years meant nothing but struggle of surveillance. Before joining EU Czech government was to be blamed. Now it is Czech government and EU itself.

Since 1990 labour force had fallen by three quarters to 135 000 people. Czech farmers get 90% of EU subsidies but make only about half yield per hectare and also our milk quota still residues unfilled. So where is the problem? Is it money? It might seem rational; however, government subsidies have been steadily growing from year 2000 to 2008 in total volume of around €110 mld. Surprisingly there is €15 mld of last year payments which it is not known where they actually went. Might it be the bad supermarkets who want to make thick margins on fast turnover goods? Maybe, but after the change of regimes it was them who we let to enter our market and provide us with cheap food in great quantities. All these factors show that however effective and complex CAP can be Czech government is unable to implement them. Call for reforms in national strategies and legal issues certainly are present.

But is it really true that the only way out of this is through thick subsidies? Czech Republic has created a plan till year 2013 that guarantees payments to farmers on certain level and it did not particularly count with such a downfall of economies and still greater surplus. There might be claims that Czech representatives did not negotiate as much as farmers need however it is too late to blame someone now. Result of transformation process of Czech agriculture shows that even less than one common agriculture policy stronger government interventions only lead to survival of the less productive ones. New trends such as ecological farming and regional development programmes proved that when handled responsively it can not only survive but also make sustainable living. Ecological farming being more labour requiring is more costly but on the other hand brings more job opportunities. In hardly reformed old system with demographic difficulties an intervention of outside entity is essential. Education, training and organisation are the main needs of future agriculture. Farmers need to be led by national bodies which and in form of equal cooperation guide them to profitability. Exactly these programmes proved that when handled responsively it can not only survive but also make sustainable living. It is no doubt that this kind of farming might be more heavily subsidised As a indicator might have been seen that of ecological farmers went to demonstrate in Prague this March.

From the Action Plan to less red-tape in 2012

Each claim for the Single Farm Payment (SFP), irrespective of its value costs €794 to process. A significant number of SFP claims are worth around half of what it costs to process them, although this should change after the implementation. Only in Britain there were 14,465

payments under €428 in 2007 and 636 under €3. Five payments under €. It's a good example of a waste of taxpayer's money⁶. This certainly is not helping the farmers.

In March 2009, the Commission adopted a Communication on Simplification of the CAP. An impressive number of CAP-related simplification projects have been completed over the last couple of years. The Action Plan 2005 launched at the end of 2006, it has evolved from 20 to around 50 projects from which 43 projects have already been implemented. In result farmers should have more time on their core competences which is farming and less worry about completing various forms. With various reliefs on land possession, health-checks, abolition of set-aside, better use of IT among others shall bring also an ease to the EU budget of about €1 bn⁷. Naming two largest items from all, the health check is likely to lead to a reduction in administrative burden to farms of around €135 million as a result of abolishing a number of specific aid schemes. Right next to it the abolition of set-aside is estimated to reduce costs to farms by €146 million. Since The Action Plan in 2005 about 300 obstacles have been repealed. However the new CAP simplification aims even higher. To reduce admin burden in agriculture by 25%..

Still there are calls for complete restructuring as small farms will still be in drawback compared to large farmers or farms running corporations. However, this all might have been seen positively as EU is fulfilling its goal of getting closer to local farming with local production and local customers. As Mariann Fischer Boel has been trying to propose; the aim of sustainable development in cooperation of small farms still keeping great variety of production. Single Farm Payment shall decrease by 13% (compared to currently proposed 5%) and these resources shall be shifted into development of rural areas. This restriction shall not apply to farmers whose support does not exceed €5 000 per year.⁸

Future

On 30th of March influential Land Use Policy Group will be launching their vision for the future of the CAP after 2013. This can be seen as a long term plan for environment, agricultural and farmers themselves. Especially for them a vision of 20 years ahead might be overexposed as they even might not know what the yield will be next year. However Land Use Policy Group wants to progressively transform CAP to a more environmental friendly policy with large respect to land management. Biodiversity, climate changes, sustainability of natural resources and social and economic objectives all are the key variables.

CAP 2020 blog looks even further. It summarises current economic crisis to the view of better or worse future of agricultural products. Fact that food will be always consumed and there are good reasons to maintain confidence in the EU's farming sector. Food is an unavoidable item of household expenditure and demand for agricultural commodities is likely to be maintained to the benefit of farmers and the food processing industry. But extreme optimism is not also in place. As peoples purchasing power decreases they might be looking at products of different quality and therefore ecological production might feel some downturn. ⁹Still being able to maintain quality will be seen as a distinguishable advantage. Only worry about current crisis might be unwise government intervention such as one in car industry. More governmental injection may only decrease already decreased price of commodities and in the end mostly negatively affect farmers themselves.

Running a farm in a policy that government is strongly subsidising its operations might not be the best possible way. It leads to protectionism and inequality on the European market. Unified model of agricultural policy has to meet various differentiations starting from the development of agricultural focused countries to service or industry focused ones. It shall respect diversification but at the same time bring unity to the whole market. As European Union is constantly changing the CAP is changing with it. Shifting from mass production to local production, following current trends and of course the needs and tastes of public. We can only believe that there will be fresh loaf of bread and glass of milk on our table tomorrow as we know it today.

¹ From Shakespeare's Macbeth, 1623: "Yet doe I feare thy Nature, It is too full o' th' Milke of humane kindnesse."

² Common Agricultural Policy, http://en.wikipedia.org/wiki/Common_agricultural_policy, March 2009

³ Common Agricultural Policy, http://en.wikipedia.org/wiki/Common_agricultural_policy, March 2009

⁴ Report; The Common Agricultural Policy: A Brief Introduction, Global Dialogue Meeting (May 14 and 15, 2007, Washington, D.C.)

⁵ Taken from Mariam Fisher Boel's speech, "Farming for the Future," Birmingham, 26, February 2007

⁶ Wyn Grant's blog; <http://commonagpolicy.blogspot.com/>, March 2009

⁷ CAP simplification

<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/409&format=HTML&aged=0&language=EN&guiLanguage=en>, March 2009

⁸ Mariann Fischer Boel; [Ihned.cz](http://ihned.cz); Trh, ne dotace platí na sedláka, 21.5.2008

⁹ Blog CAP 2020; <http://cap2020.ieep.eu/2009/3/17/the-economic-downturn-the-challenge-for-agriculture>; March 2009

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