



## COMPENSATE FARMERS TO UNBLOCK CAP REFORM

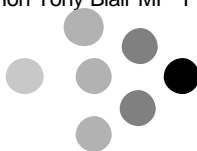
Europe's farmers should be paid one-off windfall compensation payments to neutralise their opposition to reform of the Common Agricultural Policy, according to a report published by the Foreign Policy Centre. In *How To Reform The CAP*, former MAFF Special Advisor Jack Thurston calls for all current direct subsidies for EU farmers to be converted into a cash bond, which farmers could choose to sell on the capital markets or take as a diminishing annual income over time. He also argues that exempting small farmers from subsidy cuts over the short term would unblock CAP reform.

According to Thurston's analysis, agricultural policy in Europe has been captured by a powerful and vocal agricultural lobby, preventing the interests of consumers, small-farmers and the environment from being taken into account. Agriculture Ministries across the continent have largely seen their role as supporting farmers rather than considering wider social interests. Because agricultural policy comes low on most voters' priorities, there has been little pressure for reform. However, the bold policy reforms suggested in the European Commission's Mid-Term Review comes at a time that is ripe for change:

### WHY THERE IS NOW AN OPPORTUNITY FOR REFORM:

- **Schroder's reelection increases the pressure for reform** as Germany attempts to reduce its net financial contribution to European agriculture.
- **The Mid-Term review package offers something for each member state:** The emphasis on environmental issues is designed to win the favour of conservation-minded northern countries. Greater emphasis on food quality and regional distinctiveness are intended to win support among traditionally anti-reform southern member states.
- **Traditional farming unions are being challenged by other rural voices.** In France in recent years the left-leaning Confederation Paysanne has become an alternative voice for many small-holders who have traditionally been represented by the much larger right-leaning *Federation Nationale des Syndicats d'Exploitants* (FNSEA).
- **The principles of CAP reform have widespread support:** The policy objective of "protecting small and medium size farms" has an approval rate of 82% among all Europeans. Approval of this objective is strongest in member states with large rural populations and small farms – Spain, Greece and Portugal, even though their Governments oppose change. Small farmers enjoy disproportionate public sympathy.
- **The Doha round of the WTO will provide the same kind of pressure for CAP reform during this decade** as the Uruguay round of GATT did during the 1990s.
- **The fact that the German and French Governments do not face another election for four years gives a window of opportunity for reform.** In the run-up to elections governments fear generating an electoral backlash among vocal farming and rural interests.

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## HOW TO REFORM THE CAP:

- **Exempt small farmers from subsidy cuts in the short-term.** This would achieve the twin objectives of buying off the largest amount of potential opposition for the least amount of expenditure. It is unlikely that the largest 2% of farms that currently receive 24% of all CAP payments – over 50 000 a year per farm – will generate anywhere near as much public sympathy.
- **Weaken the monopoly that agricultural interests have over policy-making:** Agriculture Council Meetings should be held in public. The creation of a “jumbo” council to negotiate CAP reform (including finance, environment, trade and consumer ministers) could increase the chances of achieving reform. Institutional reforms could be explored including abolishing the Special Committee on Agriculture and replacing it with a Food and Rural Policy Committee to be managed by the normal COREPER mechanisms.
- **Governments that favour reform must be more consistent.** The UK, for instance, though a general supporter of reform has traditionally protected its large farmers by blocking attempts to introduce upper limits on CAP entitlements.
- **The EU should convert every farmer’s CAP production entitlements into a tradable bond.** Farmers could choose to keep the bond and take a diminishing annual income or enjoy a large one-off windfall. For those wishing to stay in the industry it could be invested in equipment; for those wishing to leave the industry it could serve as an early retirement package. A farmer currently receiving 10 000 a year would receive a bond worth 85 000 Euros if it had a lifetime of twenty years and was subject to 5% annual degressivity.
- **Publicise payment levels to farmers to increase public pressure for change:** The EU should follow the US Federal Government practice of publishing online detailed information about how much each farm receives in federal subsidies. In the EU this information is still deemed “commercially confidential”.
- **The EU should pump-prime farmer insurance schemes and encourage agricultural futures market:** private sector insurance schemes can be used to smooth out cyclical variations in prices. North America has a well-developed agricultural commodity futures market and private agricultural insurance schemes. There is no reason why farmers cannot insure themselves against animal and crop disease outbreaks.
- **Agricultural supports in future should be structured to underpin farm incomes rather than inflate land values.** This will be of particular benefit to tenant farmers.

## Report author Jack Thurston said:

“The Commission has been bullish in proposing radical reform. Another fudge will have serious consequences for farming, rural communities, and the accession of new EU members. The very reputation of Europe as a mature polity is at stake. At such a time, agricultural policy is too important to left to farming ministers”.

## NOTES TO EDITORS:

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# The Foreign Policy Centre **Press Release**

*New Directions in Global Thinking*

1. Chris Haskins was Chairman of Northern Foods between 1986 and 2002. He has been a member of the Commission of Social Justice, a member of the UK Round Table on Sustainable Development, Chairman of the UK Government's Better Regulation Taskforce, and a member of the government's New Deal Task Force.
2. Jack Thurston was political advisor to Rt Hon Nick Brown MP at the Ministry of Agriculture, Fisheries and Food from 1999 to 2001.
3. The Foreign Policy Centre was established in 1998 by the Prime Minister Tony Blair and then Foreign Secretary Robin Cook.
4. *How To Reform The CAP* is the first output from the Future of European Rural Communities Project, chaired by Lord Haskins. It is based on seminars held by the Foreign Policy Centre in Warsaw, Berlin and Paris. The second in the series will be a paper by Vicki Swales, Head of Agricultural Policy for the Royal Society for the Protection of Birds, making practical suggestions about the implementation of a sustainable CAP. Third, Chris Haskins will examine whether there is a viable future for farming in Western Europe.

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