

# The U.S. Farm Bill and the EU Common Agriculture Policy at a Crossroads- A Global Dialogue on U.S., Canadian and EU agricultural policies

## Presentation Summaries

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## The Reality of the US Farm Bill at Home

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- The most important impact of the U.S. Farm Bill is that it has driven prices very low for many of the primary grain and oilseed crops.
- The Farm Bill and other federal legislation also guides public research and development in agriculture, which subsequently impacts private investment.
- This has contributed to the loss of diversity in the Midwest landscape, which has resulted in some environmental problems.
- Federal agricultural policy also impacts the types of foods that are available to US consumers. The per capita consumption of sugars and fats have grown substantially, and it appears to correlate with pricing.
- The growing biofuels market provides some opportunities to correct some of these issues, and it also presents some perils for exacerbating the environmental and social problems in Midwest agriculture.
- Policy solutions are challenging, in large part because an enormous agricultural and food processing infrastructure has been created around the current system.

## The reality of the CAP: observations and reflection

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### **Prologue: What Has to be Said First**

1. For a long time, say from Aristotle to Adam Smith, it was explicitly recognized that economics should contribute to the ‘good life,’ in whatever form defined. As such it was no coincidence that economics was part of moral philosophy: it got an integrated treatment, where the value of efficiency was embedded within a broader normative context. Since the 17<sup>th</sup> and 18<sup>th</sup> centuries a new perspective on reality gradually emerged, which considered reality (including nature) as neutral and instrumental, and not connected with significance, meaning and inherent normativity. This development contributed to the ‘emancipation’ of economics, which often made it the exclusive explanatory and guiding principle to understand and evaluate life. In other words, the quality of life, or the performance of agriculture and the food systems were exclusively interpreted in economic terms.
2. Agricultural policies have been strongly connected with the ideal of economic progress, with a strong focus on expansion and efficiency. These policies have caused a lack of stewardship and balance. Agricultural policy by nature has a much broader set of concerns than economic policy. The prime aim of policy should not be only efficiency, but also (public) ‘justice,’ where justice means to give people, activities and things their proper place.
3. Agriculture has a number of particular characteristics, which should be accounted for in any analysis of the sector. These are: immobility of production factors, particularly land and family labor; ongoing productivity growth autonomous of markets; an organizational structure of production relying heavily on the family farm; and a multifunctional role including the connection between agriculture and preserving the landscape.

### **Observations on the CAP: what did it bring?**

4. The initial aims of the CAP were improving food security and availability of food as well as providing adequate remuneration to farmers. These aims were attempted to be accomplished by enhancing productivity growth and price support. Since its inception in the early 1960s the CAP has been adjusted several times, most notably with the crises of the 1980s and reliance on supply management measures (1984 milk quota, set-aside in cereals). Since the early 1990s the general trend has been the reduction of price supports and increased reliance on compensatory direct payments. These payments are increasingly ‘de-coupled’ and made conditional on ‘sustainability’ and good farming practice requirements (see 2003 Luxembourg Agreement, which introduced decoupling and cross-compliance).

5. Alongside the classical CAP (Pillar I) a second pillar has been introduced, which focuses on rural policy issues. The EU co-finances rural development programs aimed at creating closer links to the production of public goods and the generation of positive externalities, such as vibrant rural communities and the increasing multifunctional contribution of agriculture.
6. As a consequence of the policy reforms the budget expenditure as well as the composition of public expenditure on agriculture underwent significant changes. The trend in total expenditure on agriculture has been declining since the 1990s as compared to the 1980s. Moreover, since the early 1990s expenditures on export subsidies and classical market support has declined, whereas expenditures on direct aid and rural development has increased (with the amount spent on rural policies still being a relatively minor category). The share of budget expenditure on agriculture in the EU's GNP is less than 0.5% and that portion is declining over time.
7. Since the early 1990s the EU's expenditure on export subsidies has declined by about 60%. The EU's export shares in a number of important products (wheat, beef, poultry, dairy) has declined over time as well, implying a more inwardly-oriented EU agriculture. The hope is that the reduced price support/direct payment strategy will enhance the EU's competitive position and allow it to profit from the growing world market for agricultural products.
8. Farm income support is increasingly coming from the direct payments, rather than from invisible consumer purchasing. Whereas in the early 1990s the proportion of average family farm income derived from the market was about 75%; it is now less than 35%. The switch from price support to direct payments does not seem to have had a negative effect on the level of support for farm incomes (direct payments have an increased transfer efficiency and compensations for lost price support have been high).
9. Because the direct payments were introduced as compensations for price support decline they have a similar character: large farms got a lot of price support and therefore also receive large direct payments. The income distribution is far from equal; one should not forget that there is a lot of variety and diversity in farms, so they are also unequal. There is evidence that the increased emphasis on rural policies (Pillar II rural development programs) contributes to a more equal distribution of farm support (see evidence for Ireland).
10. The CAP has led to intensification of agricultural production and as such has caused an increased environmental burden. Although there has been an environmental policy with respect to agriculture since the 1970s consistency with the CAP has been lacking. The introduction of obligatory cross-compliance is a first attempt to enhance this consistency.

## **What about the future of the CAP?**

11. The objectives will be in line with the objectives of the latest reform: a competitive agricultural sector (further price liberalization), diverse and high quality food, environmentally friendly production methods, enhanced landscapes (extending Pillar II policy), vibrant rural communities, shrinking negative impact on world stage (phasing out export subsidies), and increased production flexibility (reforms of sugar and dairy policies).
  
12. The direction of reform is likely to continue toward fewer trade distorting policies. The link to the production of public goods is becoming more pronounced. The budgetary pressures facing European governments seem to hold more sway than WTO requirements. Farmers dependence for their income on direct payments is likely to further increase. Since these payments are becoming more decoupled they are likely to deviate over time, while part might be re-coupled by linking them to green and blue box ecology and landscape services.

## **Some conclusions**

13. In the past, the CAP has been strongly focused on the expansion of agricultural productivity and production. This has contributed to sufficient and cheap food and as such has been beneficial for consumers. Farm incomes have been supported, but this has not been without problems: while output grew prices have declined more than proportionally and market disequilibria has regularly occurred. This has been partly solved by relying on supply management, but the EU wants to get rid of this instrument in the future. Expansion and competitiveness are still key words associated with the modern CAP. Given the projected growing world demand for agricultural products (projected Asian consumption growth, bioenergy, growing world population, etc.) there is a clear drive to profit from the growing world demand. But is market-led reform automatically addressing the needs of the people...?
  
14. CAP reforms in the past insufficiently addressed needs. This trends also holds for the future, with the reforms proposed so far. Summarizing the main consequences of the CAP, it is clear that there is still a need for reform. Consequences of the current CAP remain:
  - a. European farmers get unequal and badly targeted support and the weak profit least. Big farms receive 80% of all direct payments. Small family farms have been badly hurt by price decreases and a lack of direct payments. The options for modulation and targeted use of direct payment envelopes have hardly be used to make support more need-oriented. Agricultural concentration has accelerated, leaving many people unemployed and rural areas increasingly uninhabited.
  
  - b. The decrease in agricultural prices has not led to significant price cuts for consumers. As the food supply globalizes, it becomes more difficult for

consumers to know how food is grown and where it comes from, and has also decreased communities' food sovereignty.

- c. Developing countries have a point when they criticize the CAP because it results in European agricultural products being dumped on their markets, through the use of export subsidies. They strongly ask for an end to dumping. Now it is likely that export subsidies will be phased out, but the big question is whether direct payments are taking over the role of export subsidies by replacing open dumping with hidden or disguised dumping.
  - d. The agricultural production and trade system encouraged by the CAP enforces further industrialization, specialization and scale increase of farms at the expense of biodiversity. Moreover, the globalization of food supply means more transport, more waste, contributing to climate change; the industrialization of agriculture means more pesticides, more nitrates and worsening conditions for farm animals.
  - e. Agribusinesses and the food and retail industry can increase and more easily exploit their market power by sourcing cheap raw materials from farmers and increasing their margins.
15. As regards food and fibre production (the classic functions of agriculture) the ideas about good agricultural policy at this moment heavily rely on the idea of well-functioning markets. Previous experience shows that market functioning leads to ambiguous results and can cause situations in which the government might see a need to step in. There is no guarantee that evolution of production capacity associated with the expected EU and US policies will fit in with developments in supply and demand in the rest of the world. The use of supply management policies in order to achieve some form of international policy coordination will become more difficult since both big players tend to phase out these supply control instruments.
16. Current ideas for the CAP reform seem not to include adequate safety-net provisions or a targeting of support that addresses equity and income redistribution concerns.
17. The integration of agricultural sector policies with environmental policies is still not optimal. Cross-compliance helps to improve policy coherence and consistency, but improved compliance to the 19 SMRs and GAEC requirements does not yet guarantee a sustainable agriculture<sup>1</sup>. Moreover, except for the bioenergy policies, climate change does not yet play a significant role in agriculture .
18. Responsible agriculture needs to satisfy the following basic requirements: 1) food security, 2) food safety, 3) respect for animals and plants' welfare and

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<sup>1</sup> SMRs are statutory management requirements and GAECs stand for requirements of good agricultural and environmental practice. Fields covered are biodiversity, environment, food safety, identification and registration of animals, food security and anti-erosion strategies.

integrity, 4) protection of the environment and preservation of biodiversity, 5) reasonable income for agriculture workers, 6) playing a meaningful role in the conservation of societal values and a making contribution to the viability of rural communities. Requirements 1-4 are restrictions or side-conditions, and should be taken into account in regulatory constraints imposed on agriculture. (Requirements 5-6 have more a goal-oriented character and are dealt with in the next point).

19. A healthy agriculture policy should satisfy the basic requirements mentioned before and consist of three supportive pillars: 1) market and price support policy; 2) direct payments; 3) remunerative compensations for green services.
  - a. Market and price support policy: Since world market prices are often distorted and do not reflect marginal costs or reasonable costs of production, the world market price signals have to be corrected.<sup>2</sup> Price support policies should not provide open-ended guarantees, but should be, where necessary, complemented by supply management policies (e.g. set-aside in cereals; quota in dairy and sugar).
  - b. Direct payments: Two types of direct payments are distinguished: Type 1 payments are general direct payments aimed at supporting normal farms (including a cut-off criterion when the farm scale exceeds a certain threshold, since the policy is not meant to 'subsidize' large farms or all farms in a generic non-targeted way); Type 2 payments are specific direct payments aimed at helping farms overcome particular (natural) handicaps, such as nature conservation areas, mountainous regions, and protected cultural heritage landscapes) that have a crucial importance to remain present.
  - c. Remunerative compensations: targeted payments meant as cost-covering compensation for special services (green services like nature and landscape services).

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<sup>2</sup> Normal supply and demand conditions should be taken into account when determining the price support level. The support price should have a normative element, like covering costs for reasonably efficient and sustainable farming practices.

## Public policies and NAFTA's role in market control by transnational enterprises.

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Main changes in the Mexican countryside since NAFTA:

- For the agricultural sector in Mexico, NAFTA has important effects because 80 percent of Mexico's foreign trade is with the US.
- The shift in main import and export products has caused food dependence.
- Peasants have been the main losers in the liberalization process.

The combination of agricultural policy in Mexico, obligations under NAFTA and policies in the 1996 and 2002 US Farm Bills has meant that:

- Mexican grain producers lost their domestic market share due to cheap, subsidized imports from the US.
- Domestic prices in Mexico followed international prices and decreased by 50 percent.
- Food dependence has grown.
- Public enterprises like Conasupo were eliminated and TNCs now control important domestic market segments and operate as monopolies.
- The productive capacity of the peasant and small farmers' sector in Mexico was undermined and effectively dismantled, with massive emigration.

The case of corn is a prime example of how TNCs work, controlling every link of the production chain:

- Participation of TNCs in the US's export market and the CCC export support programs.
- Participation of TNCs in Mexico's corn imports, taking advantage of the government's exemption of tariffs set up by NAFTA for over quota volumes of corn.
- The TNCs are the main buyers for Mexican corn producers, because the government had eliminated the state enterprise Conasupo.
- TNCs fix the prices for Mexican corn with reference to prices in the international market, in which they also participate and influence prices.
- Mexican government gives them subsidies for the export of corn, the use of white corn as livestock feed, corn storage, and transportation.
- They also control the distribution of corn mills and corn flour processing for tortilla production.
- In February 2007 the TNCs sold corn to millers at double the price they had bought it from farmers just a few months before. This is basically "price gouging": using the much smaller increase in US corn prices (due to ethanol) as a pretext to jack up prices in Mexico, where consumer prices rose ten times more than US corn prices.
- They expect to increase their market share by driving small nixtamal mills out of business, which cannot compete with their low priced tortillas.



The TNCs are the winners under free trade agreements such as NAFTA, and of agricultural policies designed in their interest, while peasant agriculture and economies have been the losers. Migration of peasants to the US has increased dramatically during NAFTA years and Mexican communities are being abandoned.

The reduction of grain producers' prices has also had environmental effects. It has changed production patterns in commercial regions, forcing producers to use intensive agrochemicals and capital models of production to compete. Many Mexican varieties of seeds have been reported lost as a result of this change, and genetically modified seeds have contaminated native corn varieties.

A key point worth mentioning in conclusion is the issue of price. Some have criticized Mexican and US farmer organizations for first complaining about low prices and continuing to complain as ethanol drives prices up. We can understand this in the following way: the lack of a food sovereignty policy in Mexico allowed twenty years of the dismantling of domestic productive capacity through low prices, budget cutting and privatization, so that when international prices rise there is little capacity for national production to respond. So the real issue is that if Mexico had a true food sovereignty policy based on price protection and support for peasant productive capacity, then it would not matter if international prices dropped or rose. The reality of Mexico's policy is far from one based on food sovereignty; rather it has that of a drug dealer: give it away cheaply or even free at first—in this case via low prices or food aid—and then when the importing nation is dependent or addicted, raise the price.

Presentation from Saliou Sarr, representative of the ROPPA  
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ROPPA (Western Africa Network of Farmers and Agricultural Producers Organizations) is present in 12 of the 15 countries in West Africa<sup>3</sup>. ROPPA speaks in the name of the West Africa's 60 millions peasants (40 percent Sub-Saharan Africa's least developed countries are in West Africa).

ROPPA would like to thank the organizers (IATP, Coordination Sud, Action Aid, GRET etc...) for their invitation and for organizing this meeting.

Impacts of American and European agriculture policies in the global South countries, notably those in West Africa, are numerous and devastating.

But we, members of ROPPA, will talk primarily about the surroundings conditions in which the policies have been elaborated.

Countries from the North, make their decisions with all liberties and independence. Indeed, in the past, all tools used to support agriculture were essentially based on policies coupled to prices and markets (such as tariffs, intervention mechanisms to support prices, marketing offices...).

Today, these tools have been completely modified. In many Northern countries, tools filed in the Amber Box<sup>4</sup> of the Agriculture Agreement on Agriculture have been progressively switched to subsidies filed in the Blue Box (1992 Common Agriculture Policy reform) and then in the Green Box (2000 and 2003 CAP reforms). In this way, Northern countries escape the risk of decreased their support and can also continue to strongly lawfully support their agriculture. On the contrary, the majority of the Southern countries (notably West Africa) made agriculture policies determined under the Washington Consensus principles. The International Monetary Fund and the World Bank were important actors and the Structural Adjustment Programs were imposed: budgetary austerity (causing decrease of investments for the training, research and marketing infrastructure), trade and financial liberalization, unequal competitiveness for rights for foreign investments, privatization, reduction of subsidies (agriculture subsidies and consumption subsidies) etc.

In conclusion, in the global South, the Structural adjustment programs led to a sharp decrease in tariffs, to the disappearance of commercialization offices and trend to a privatization of community lands.

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<sup>3</sup> Benin, Burkina Faso, Cote d'Ivoire, Gambia, Ghana, Guinea Bissau, Guinea, Mali, Niger, Sierra Leone, Togo, Senegal

<sup>4</sup> Amber Bow: distortion effects tolerated but which need to decrease (export subsidies, etc.)

Finally, the actions of the WTO and the IMF's Structural Adjustment Programs led to unfair and unequal liberalization.

For the Global North (USA and EU), coupled support has been replaced with uncoupled support.

Concerning the South under the International Monetary Fund control, and because of their external debt, they are forced to liberalize their agriculture and to submit it without protection to the very low prices of the global market, to the dumping and the unfair competition led by the North. These 3 last points are of course a consequence of the modification use to support Northern countries agriculture.

Consequences for farmers from the South are well known and it is a vicious circle: decrease of prices for agricultural products leads to difficulties in marketing agricultural products in the South and a decrease of peasants incomes for all products (eg. cotton, rice, milk, meat, groundnut...).

This decrease leads to malnutrition, hunger and rural exodus (example with the youngs' pirogues). It has also led to a difficulty to obtain inputs (manure, high prices), to decreased agricultural productivity, to decreased yields and the national production.

Many consequences can be underlined among those the most important thing we can mention is the increase in food importations and leading to food dependence.

1<sup>st</sup> example: Intra-regional exchanges, which represented 11 percent of food imports in 1999, (already a small portion) have dropped to 5 percent in 2004.

2<sup>nd</sup> example: The food trade deficit has been multiplied by 3 between 1995 and 2003, increasing from 1.6 millions to 4.4 millions.

Through these examples, we can conclude without doubt that it is impossible for West Africa to reach regional integration and food sovereignty, which are the only proof of success for peasants from the South.

## Agricultural Trade Liberalization: Promise or Peril for Developing Countries?

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Agricultural trade liberalization is widely presented as a potential boon to developing countries. Dismantling the remaining subsidies, price supports, and tariffs in rich countries will eliminate market distortions that prevent developing countries from realizing their true comparative advantages in global agricultural markets. According to prevailing theory, developing countries will gain market share as rich-country producers lose their government supports and global prices, long suppressed by trade-distorting policies that encourage overproduction in the global North, will rise. The beneficiaries of such reforms, it is argued, will be developing country farmers, not just exporters and potential exporters but also small-scale producers who will see higher domestic prices for their crops as international prices rise.

In this paper I will argue that the promise of agricultural trade liberalization, particularly the gains to exporters, is overstated and the perils of such reforms, especially for small producers, are generally underestimated. The paper will have the following sections:

- 1. Comparative advantage in the contemporary global economy** – I will present and analyze the structure of global trade in agricultural goods, identifying the commodities that are most heavily traded and the countries that currently control international trade in those commodities. I will show that the vast majority of global agricultural trade is currently dominated by the global North. I will then assess the extent to which liberalization is likely to cause significant shifts in dominance in any of those commodities markets. With the exception of Thailand's growing share of a liberalized international rice market and Brazil's rise in soybeans and some other crops, few significant changes in global markets are expected.
- 2. The promise of agricultural trade liberalization for exporters** – Lost in the enthusiasm for reforms are the long-term trends in commodity prices. I will present the argument that primary commodities tend toward overproduction, particularly in agriculture. I will present a series of graphs, modeled on an International Food Policy Research Institute (IFPRI) study of the effects of liberalization on global rice prices. They will show that the initial market adjustment associated with liberalization results in an increase in prices as rich-country production in the subsidizing/protecting country declines. Projected into the future, however, we can see that as global markets adjust, supply from new countries replaces lost production, and prices resume their downward trend. I will illustrate these points with examples from recent shifts in global markets, most notably the declining profitability of Brazilian soybeans. I will conclude this

section with the point that development economists long ago warned against: basing a developing economy on primary production.

3. **The perils of agricultural liberalization for small producers** – Contrary to economic theory, small producers have a lot to lose in such reform scenarios. Theory suggests that small scale agriculture is generally low in productivity, making inefficient use of both land and labor. In the modernizing, globalizing economy, competition should spur productivity growth in agriculture, with more productive farms growing as less productive farms are bought up. The labor freed from those farms will then be available as wage labor on the growing modern farms and in the other sectors of the economy that are growing with the influx of foreign capital. I will use the example of Mexico to show that:
  - a. **Prices do not rise with liberalization but generally fall** – I will cite the example of maize and other basic crops.
  - b. **The employment losses in the peasant economy far outweigh the gains in the modern agricultural economy.**
  - c. **There is little job growth in the modern economy as a whole.**
  - d. **The loss of government support, as neoliberal policies reduce the government's role in the economy, leaves small farmers exposed to market failures** – Market failures are common in credit, technical assistance, investment, and environmental services.

I will conclude that the evidence suggests that the losses in peasant agriculture from trade liberalization are likely to be large and they will not be made up by gains in either the modern agricultural economy or the manufacturing or service sectors.

4. **Conclusion – agricultural trade liberalization is not the answer** – The promise to exporters is ephemeral and traps developing countries in primary production, while the dangers to small farmers are great. While liberalization may be the right policy for the right country at the right time, it is not the right policy for all countries now. Developing country governments would do better to build on their peasant economic base, investing in productivity enhancing infrastructure like irrigation, compensating for market failures in credit, strengthening agricultural processing to capture greater value, and protecting domestic markets from overly disruptive international competition, under the “special products” exemption of the WTO. I will discuss some recent work at the Food and Agriculture Organization (FAO) on the growth potential of domestic food markets compared to international commodities markets, arguing for a return to agricultural policies designed to build productivity in national production for domestic and regional markets.

## Sustainable Biomass Land Reserves For a Sustainable Future

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As the United States responds to significant energy and climate challenges, swift progress is needed to move us away from a fossil fuel economy toward a carbohydrate economy based on sustainable renewable energy. However, in our haste to achieve greater energy independence, we should not simply focus on increased production. We must also focus on implementing conservation measures that reduce our insatiable demand for energy, and we must insure that the methods of renewable energy production are truly sustainable. Such a two-pronged approach will provide the best chance of achieving a healthier planet for future generations.

The next U.S. farm bill offers an historic opportunity to have a dynamic public debate over the role that agriculture should play in the different paths to a post-fossil fuel economy. If we make the right choices, the 2007 Farm Bill could move our country towards a rural renaissance that provides prosperity to farmers and rural communities while safeguarding soil, water and biodiversity both in the United States and abroad.

There are many important questions in the debate over agriculture's appropriate role in helping to meet our legitimate energy needs. For example, which approaches should be included for this newly emerging bioeconomy with regard to public subsidies, public research, tax and other investment incentives? Which bioenergy technologies should be promoted? Which types of bioenergy production facilities should be built? Which crops that should be grown to provide feedstocks to the new bioenergy plants? And who should benefit from the newly emerging bioeconomy—especially when public resources are involved?

To achieve its full promise, new bioenergy production must be done in a manner that benefits independent family farmers, rural communities and the environment. U.S. agricultural policy should promote local and regional use of biomass feedstocks, including on-farm uses, with an emphasis placed on meeting local energy demand. It should encourage farmer and community ownership of sustainable biomass processing facilities. And, U.S. policy should also require sustainable practices in crop production and processing, and focus the greatest attention on the most environmentally beneficial biomass feedstocks, such as native perennial grasses.

Because of decades of public and private investment into annual row crop production like corn and soybeans, the 2007 farm bill must establish substantial economic incentives for farmers to shift their existing crop acreage from industrial monocultural crops to diversified biomass crops that can be used as feedstocks for bioenergy production facilities. To ensure that farmers and rural communities will benefit from this shift, new mechanisms must be implemented to ensure that such public support will target incentives to those bioenergy technologies that are most conducive to farmer and community ownership. Policy makers must also target those technologies that are

conducive to farmers growing feedstocks that meet sustainability criteria, and that are ecologically appropriate to the region and climate in which they are grown.

## Farm Bill Reform: Creating an Alternative Vision

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Given the opportunity for reform, what is a realizable alternative vision to industrial commodity production and global market liberalization? What are some of the broad reform proposals of “Building Sustainable Futures for Farmers Globally”?

The Building Sustainable Futures (BSF) coalition was created in late 2005 by ActionAid USA, Federation of Southern Cooperatives, Friends of the Earth, IATP, Rural Coalition, NFFC. Grown to more than 50 organizations from family farm, environmental, religious, fair trade and other social and economic justice organizations.

### **Links between US, international farm and trade policies**

- Focus on developing country impacts, dumping and trade. Recognize that current system of overproduction hurts small and medium scale producers in the North and South. Even worse, in trade talks US and other developed countries insist that developing countries dismantle any remaining protections in name of “market access” even though in many cases last remaining defense. Common problems mean we need to consider common solutions.
- Convinced cutting subsidies not enough, needed to get at roots of problem. Need policies that curtail overproduction and provide fair prices to farmers. Just cutting subsidies would hurt farmers here, not substantially raise prices internationally, and lead to increased corporate concentration. Build new coalitions of farmers, faith-based organizations, development organizations who recognize common goals between North and South, find solutions that help farmers in US and overseas.
- Exchanges in Wisconsin, Alabama, Mexico City.

### **Integrated vision: Call for US agricultural and trade policies that:**

- Ensure food sovereignty
- Curtail overproduction, raise low commodity prices and end dumping. Concretely, support Food from Family Farms Act: fair price for farmers. Also strengthened antitrust enforcement to reverse current trend toward corporate concentration and industrialization of our food system.
- Advance sustainable bioenergy production. Dennis will describe.
- Promote healthier food through community-based food systems. Greater public procurement from local farmers, greater food safety.
- Diminish inequalities both among and within countries and support small-scale, family oriented agriculture. Promote ethnic, gender diversity and the preservation of rural livelihoods in US and abroad. Diversity initiative.
- Transform US food aid policies to promote more flexible and comprehensive aid to developing countries. Promote local and regional purchases, development of regional reserves, development assistance for agriculture.



- Respect the rights of immigrants and farmworkers. Curtail dumping, comprehensive immigration reform that allows for pathways to citizenship and to farming.
- In each of these, make connection between domestic and international issues. Not enough to address US policy, but make those connections.
- Led us some interesting directions. Mexico: consider relationship between dumping and immigration, as well as need to reform NAFTA.
- Food aid: consider long-term solutions, not only feeding people during emergencies, importance of local civil-society participation in decisionmaking. Food aid as last resort. Ask European colleagues for help in debunking idea that this transition just can't be done.

As I think all are aware, US and European ag policy at heart of collapse of WTO talks. Probably a good thing, but highlights importance of finding new solutions that address needs, identify common platforms.

Too often, caricatures of rich Northern farmers pitted against poor farmers in South. Element of truth, but is possible to identify common agendas.

EU milk quota and its necessary reforms  
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Milk production is the most important source of income for many European farms. Production structures are mostly very small. Often farms situated in pasture regions have no economic alternative to milk production. In these cases, up to 80 % of agricultural value added originates from milk production. In the EU, more than one million people work in the dairy sector, including processing.

The EU milk market is extensively regulated. There is almost complete protection against exports from non-European countries; only a few countries, such as New Zealand, can export dairy produce to the EU through specific bilateral trade agreements.

The quantity of milk produced in the EU is controlled by a **quota system**. For many years, however, the EU has produced approximately 10 % more milk than the Europeans are consuming. On average, producer costs in the EC are significantly higher than in many other milk producing countries. To be able to sell this expensively produced dairy surplus at all, the EU pays annual refunds of 1-2 billion Euros to export companies (**export subsidies**).

### **2003 Decisions of Luxembourg on the Reform of Common Agricultural Policy (CAP)**

The present CAP reform decisions were intended to expand milk output in the EU and to cut intervention quantities and prices. The present market organisation is expected to become less important for price formation. As a result, producer prices for milk will fluctuate more in the future, and dairy farmers will most likely come under greater economic pressure.

The dairy surplus problem in the EU will not be solved by the decisions of Luxembourg; rather, the reforms will intensify the problem. Intervention prices for butter and skimmed milk powder were cut in advance to comply with future requirements of WTO negotiations. If production prices decrease, subsequently reducing raw material prices for dairy processing companies, costs for export subsidies will be reduced without reducing the financed export quantities. The basic mechanism will be maintained: high surplus is purposely produced and sold on the world market, supported by export subsidies at changing levels in order to drive other suppliers out of market. As a result, the world market remains under pressure from European exports.

### **Necessary Reform Steps**

In contrast to the present export-oriented policy of the EU, a milk market policy should be developed that takes into consideration for peasant dairy farms in the North and the South, protects sources of income in rural areas, and guarantees milk production while

securing sustainable use of natural resources as well as protection of environment and animal welfare.

To achieve these objectives it is necessary:

- to keep milk prices at a level that guarantees adequate income for dairy farmers;
- to link milk production to environmentally sustainable land use;
- to reduce the EU's milk output to a level that prevents a surplus;
- to link compensatory payments and transfer payments to ecological and social criteria;
- to allow developing countries to protect their domestic markets.

**To implement these objectives the following measures are suggested:**

**1.** Elimination of export subsidies within five years. Then, only high-price products such as cheese could be exported from the EU. The reduced milk exports would lead to some milk surplus on the Single European Market, which must be taken into account when reducing the milk supply. This creates new export chances for Australia and New Zealand on the world market, but also for emerging countries like Brazil and India.

**2.** Gradual reduction of the EU's milk output to create a balance between supply and demand. Additionally, a flexible system to regulate the milk output must be introduced into the common organisation of the market in milk and milk products (COM). The target price is 40 cents per kilogram for milk, corresponding to average full costs of production on European dairy farms. If the target price is not reached over a longer period of time, quotas will automatically be reduced until the target price is reached.

**3.** In order to end the discrimination of peasant small-scale dairy farms in favour of large-scale farms, transfer payments by the EU must be linked to social and ecological criteria. This could be achieved by a graduation of direct payments linked to the actual labour costs of the farms. Besides that, the following segments must be strengthened through transfer payments from the second pillar of the Common Agricultural Policy (CAP):

- milk from pasture farming;
- milk from special regions (e.g. from low-mountain regions);
- milk from milk cattle with low input of concentrated feed, without GMO feed etc.

**4.** Furthermore, reforms would be required on the WTO-level to allow all countries to protect their domestic milk production against imports produced under lower social and ecological standards (qualified external protection or market access) since it has special significance for labour and environment. A price level enabling production according to these high social and ecological standards therefore benefits producers in importing as well as exporting countries. However a prerequisite for this approach is **that subsidies or cross-subsidies for exports are eliminated**. With this proposal, the EU could keep the pressure on tariff reductions at the next WTO negotiation round relatively moderate defining milk as a sensitive product.

The **European Milk Board**, a federation of farmers' organisations from 9 different European countries, who represents 20% of milk producers in the EU, speaks clearly for maintaining a legal frame work for volume regulation. They argue that a balanced market is the basic condition of prices high enough to cover production costs. The federation also emphasizes that there needs to be a flexible way of regulating milk volume, so that relatively quick adjustments can be made. They take the Canadian model with its three pillars (import control, price control, production control) as a good example of how effective supply management can look like. To get fast results concerning the milk market regulation, the German member organisation EMB has developed a model called

Voluntary Supply Opt Out. European dairy farmers would decide to produce less for one year in exchange for compensation.

**Organizations ranging from environmental protection and nature conservation organizations to animal protection and development policy organizations** are warning as we do of the consequences of abolishing the milk quota system by drawing policymakers' attention to the many completely unanswered questions:

- What realistic alternatives can be offered for the more than 70,000 jobs that would be lost through farm closures? The number would be even high if upstream and downstream businesses (e.g. trades people and dairies) were accounted for.
- How can we prevent the continuing migration of milk production from less profitable areas, particularly from the low-yield grasslands of low mountainous areas and Alpine foothills? The low-yield yet particularly biodiverse areas can only continue to be used for farming through milk production; if the economic basis for dairy farming collapses, entire cultivated landscapes are in danger of turning into scrubland. This would cause them to not only lose also their value of conserving nature but also their attraction as places for excursions or holiday destinations, and thus their significance to the tourist industry.
- How do policymakers want to finance any government measures counteracting these developments? Budgetary funds for the relevant areas (i.e. promotion of rural development) have been cut back drastically for the next few years.
- Policymakers have failed to address the major development policy concern that, as the government ends the milk quota system at the same time that it co-funds cowshed construction and dairy investments, the European milk industry will become even more closely geared toward the world market. Even after the proposed ending of export subsidies, the EU will continue to dump milk in developing countries instead of finally putting a stop to it.

In contrast to this, the alliance of associations supports dairy farmers in Germany and other European countries in its joint approach of actively standing up for a higher price for milk producers around 40 cents per litre. It was clear to everyone that a cost-covering price at this level could only be maintained if quantities were effectively limited. The existing system of controlling quantities has to be developed further. An appropriate milk price would give all dairy farmers a viable future and thus provide disadvantaged regions with an important basis for sustained rural economic development. From a macroeconomic perspective, this would certainly be cheaper than the high costs of abolishing the quota system..

## Common Agriculture Policy –2008 Review process – Perspectives et débats autour de la réforme

By *Gérard Choplin, Coordination Paysanne Européenne/European Farmers  
Coordination*

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- European Farmers Coordination (CPE), 24 farmer and rural organizations in Europe. A founding member of Via Campesina. Wants to strongly change the European agricultural policy and the rules of international agricultural trade.
- Since 1992, the CAP as well as US Farm Bills, have followed WTO rules, which are rigged and written by the USA and the European Union. The different stages of the reform of the CAP (1992, 1999, and 2003) are linked with the different stages of the negotiations at the WTO. In these negotiations, countries lost sovereignty to determine their agriculture and food policies. Therefore, Via Campesina reacted in 1996 and launched the concept of food sovereignty, a right that is linked with the responsibility to stop all forms of dumping.
- The CAP was reformed with 3 goals: to export products at prices below the cost of production, to supply the food industry and food distributors/processors with cheap products, and to slide the subsidies into the WTO acceptable Green Box.
- The international context is shifting:
  - The negotiations at the WTO are stuck, or will the Doha Round finally be finalized?
  - There is a proliferation of free trade agreement negotiations but there is much delay and resistance
  - Is there a chance for a return to regulations and re-localization of economy?
  - There has been an increase in some prices of agricultural products linked with the development of biofuels: is it sustainable? What are the consequences for animal production?
  - Modification of the agricultural and trade geography because of global warming.
- The current CAP's lack of international, social and environmental legitimacy has led the EU to review its budget and call for the following changes for the years after 2013:
  - Strong decrease in agricultural subsidies.
  - End of the last public regulations of the market
  - Renationalization/end of the CAP, to be substituted by a national rural development policy with a European frame?
  - Attempt to legitimate the subsidies to big farms by replacing agriculture subsidies by energy subsidies for biofuels.

- Priorities of agriculture and commercial policies need to change in taking advantage of the climate change which gives reason to the relocalization of the economy.
- Opportunities for a debate about:
  - The use of arable lands
  - The role of public policies and of the market in agriculture
  - The mode of production, commercialization and consumption
  - An agriculture that serves health, employment and environment
- CAP review in 2008: the European commission wants an adaptation of the CAP of 2003 in order to prepare 2013:
  - All the subsidies will be totally decoupled and end of the general market management  
*CPE is against the decoupled subsidies and is for a market management.*
  - End of the milk quotas  
*CPE is for the maintain of milk quotas and for a best repartition between the countries and the*
  - Increase in subsidies for the rural development
  - Upper limit for the payments of the subsidies  
*We need an upper limit for each farm linked with the number of workers*
  - End of the set-aside:  
*Set-aside are adapted to the USA but not to the EU*

## A perfect moment for an improvement of the Common Agricultural Policy

By Gert Engelen, Vredeseilanden & European Platform for Food Sovereignty

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In the EU there are a number of problems and potential crises that could be solved at least partially if the CAP were reformed. It would mean a radical shift from the EU's current corporate-driven agenda, in areas such as climate change, international trade, energy security, agriculture, innovation and employment. The good news is that we don't need a bigger budget; we only need to spend the current budget more effectively in order to improve the wellbeing of all EU citizens. More jobs could be created, farmers would not be forced to leave their land, the food and energy supply would be more secure, nature inside and outside the EU could be protected, and the EU would set an example to the developed world in tackling climate change.

In this proposal the European Platform for Food Sovereignty will provide an alternative at this crucial time in history.

Currently the next trends and problems are becoming evident:

1. Russia showed the EU in 2006 and 2007 that an everlasting fossil fuel supply from outside the EU is a myth. So the EU urgently needs a well thought-out and democratically approved energy policy. We need a secure energy supply and should not end up being fully independent on energy from outside the EU. As Barroso said in January: 'We need a new post-industrial revolution'.
2. A phenomenon that we will have to deal with is 'Peak Oil': the moment when worldwide oil production will reach its production peak. This may occur within the next few years. After this moment oil production will decline, while the demand for oil is projected to increase by 75%. This is a recipe for conflicts, in fact they are already happening in Iraq, Afghanistan and Sudan.
3. Al Gore and Nicolas Stern showed the western world that if we don't tackle climate change quickly, we will have to bear enormous economic costs and that it will have disastrous effects on food security, nature and biodiversity all over the world.
4. The western style industrialised agricultural model uses on average ten times more (fossil fuel) energy than it produces, due to transport, production and processing, and the use of chemicals and fertilizers. In comparison traditional agriculture in Asia supplies up to 65 times more energy than it uses. Nevertheless, the current trend is to replace this form of agriculture, keep is beneficial for humans and the environment with a western style agriculture as part of 'development'.
5. The EU is dependent for its animal feed on soy beans from Latin America, and at an alarming rate it is also becoming dependent on palm oil from Asia for its bio mass and biofuel. These imports are very harmful to food security, nature and the livelihood of indigenous people in the countries of origin.

The EU-directive stating that in 2020 10% of all fuels should be replaced by bio fuels will very probably increase the south's dependence on scarce natural resources.

Currently 20% of the people in the world – especially in the western world – already use 80% of all natural resources. Why is the EU always so proud that we import so much from developing countries, even though those countries need their natural resources for their own growing population and growing consumption per capita? What about the Millennium Development Goals?

6. The WTO negotiations have stalled, the EU doesn't want to decrease import tariffs and trade-distorting agricultural subsidies and the US doesn't want to decrease such subsidies either. Developing countries rightly oppose more liberalisation in industrial goods and services, and want to protect their agriculture and food security.
7. ACP countries (mainly former colonies of the EU) oppose the current negotiations which will lead to Economic Partnership Agreements (EPAs). Rightly so, because the EU wants full market access to these countries, while imposing a 'WTO-plus' agenda encompassing regulations on investment, government procurement and competition.
8. The whole WTO, bilateral and regional trade agenda is dominated by (mostly transnational) corporations who fight for a larger share of the world market, access to cheap raw materials and products, and freedom to invest in developing countries. These efforts can be measured by the number of lobbyists in Brussels: 10.000 of the 15.000 lobbyists are paid by corporations.
9. Economic growth and profits for a minority prevail over the supply of basic needs and the well-being of all living beings. The effects of this neoliberal policy (liberalisation, privatisation and deregulation) are:
  - a. local economies and markets are weakened and sometimes destroyed;
  - b. small and medium enterprises lose out, while TNC's profit;
  - c. natural resources in the South are exhausted
  - d. food security and job security are under threat;
  - e. nature and biodiversity are under very severe pressure.
10. The CAP-reforms since 1992, which made this corporate-driven WTO-agreement possible have led to a crisis among EU-farmers; arable, dairy and beef farmers are forced to produce below production costs, and are forced to leave the country side in huge numbers. Instead of the fair prices they used to get, they now get low prices partly compensated by direct payments. But 20% of the farmers get 80% of the agricultural subsidies; in Eastern Europe this is even worse.
11. The EU keeps on saying to the public that these reforms are beneficial for the environment, landscape and nature. But farmers who get a lower income are unable to improve their green services to society. The opposite occurs: because farmers have to reduce costs landscape and nature are less well attended to. Small farmers whose work resulted in an attractive and sustainable countryside are the first to move out of business.
12. The largely increased agricultural budget after the first reforms in 1992, is mainly used to improve Europe's market share on markets in other countries which were at one time supplied by local farmers. Export subsidies were recently replaced by



- direct payments and so dumping goes on, because these payments make trade at below production prices possible. Moreover the EU refuses to implement effective supply management to prevent over production.
13. The TNCs in food processing retail and trade are profiting because they get inputs at this artificially too low prices. Because of the huge concentration in the food chain, not consumers profit from lower prices, but these companies, while they apply pressure on producers to decrease prices.
  14. Many small producers in developing countries and Eastern Europe are unable to deliver according to uniform and hygienic standards applied by the EU and TNCs. So in Eastern Europe they are pushed off the local market to which they supplied for centuries. Instead these previously sustainable farmers are forced to grow bigger (or stop farming) and implement a western style agriculture, which is highly dependent on fossil fuels. (see point 4)
  15. In 2007 and 2008 there will be a Health Check of the CAP. Some member states, such as Great Britain, have already said that the current agricultural budget needs to decrease. It is becoming more and more difficult to legitimize the current CAP to the public.
  16. In 2008 it will also be decided whether the system of milk quota will be continued after 2015. The indications are that the European Commission and the majority of the member states would like to abolish this system. Due to the CAP-reform of 2003 the guaranteed prices to dairy farmers have been reduced so much, that the EU's previously rather effective policy is becoming untenable and vulnerable to criticism. Again it shows that the EU is listening to corporations who want a bigger share of the world market for dairy products, rather than to people pleading for a sustainable dairy production, cows in the fields and a fair income for dairy farmers in the North and the South.

#### Another CAP is needed

For all these reasons it is the right time to oppose the current policy and provide an alternative. Farmers' movements, consumers and environmental organisations, development NGOs and trade unions should unite in this opposition. They represent the majority of EU citizens, but see that current EU policy runs against their interests. The following proposals are an effective and efficient alternative for the current policy:

#### Original goals of the CAP still standing

Reform the CAP in line with the goals of the treaty of Rome (1957) which is the base of the original CAP;

- stabilise agricultural markets,
- enhance productivity,
- ensure a fair income to farmers,
- food security for all European citizens,
- a fair price for consumers.

The main instruments to reach these goals were:

- a price floor for products, i.e. the EU intervened if prices fell too low, and paid the difference to farmers,
- import tariffs on products from abroad.

This policy was successful, except for the fact that it caused one problem: overproduction and consequent dumping in developing countries with the help of export subsidies. The EU decided to solve this problem only partially, and by taking the wrong measures. Instead of effectively managing supply Europe decided to lower prices and replace export subsidies with direct payments, in order to maintain its export position on the world market. They did this in cooperation with the US, and so the Agreement in Agriculture in the WTO was mainly developed to serve the interests of the agribusinesses who needed new markets for this overproduction.

So let's now correct the mistakes that were made, and let's make the original CAP more effective. The health check of the CAP is a good moment to add new elements, which society demands from agriculture. A new and coherent CAP should be in place from 2013 onwards.

Besides the goals mentioned above, the EU should also aim for sustainable food production by European farmers, nature conservation, and an attractive landscape. Moreover small-scale farmers in less favoured areas, especially in Southern and Eastern Europe, need to be guaranteed a livelihood and they should be paid for taking care of nature and the landscape.

Would this be against international regulations? Not against the original international regulations! The GATT (forerunner of the current WTO) made it possible for each country to protect its own food production by means of import tariffs as long as it didn't harm the livelihood of farmers in other countries by means of subsidised exports.

We should resort to these effective policies to provide an answer to the current crises in agriculture. Moreover this could encompass policies to provide energy security and to counter climate change.

#### Integration of policies for agriculture, energy and environmental protection

We can reach the goals mentioned above if EU farmers produce mainly for the EU market, not only food but also all feed, and as well as part of the sustainable energy which needs to replace fossil fuels in the next decade. To reach these goals we should first and foremost save energy, both in and outside agriculture. That in itself might make the EU independent on energy supply from outside the EU. But because of the threat of climate change the EU – and European agriculture – should also drastically decrease its addiction to fossil fuels. This is possible through a replacement of fossil fuels with solar power, wind power and small scale biofuels. Moreover we should tax fossil fuels instead of labour, localise food production and use fewer fertilizers and chemicals.

The effect will be that the price of food will increase, and consumers will have to pay a fair price. However, society as a whole will stand to gain because the threat of climate change and other social and environmental problems will be reduced.

#### How to achieve this integration of policies?

- This much-needed change is only possible when EU farmers get a fair price for a products that meet all requirements from society in the field of the environment, nature and landscape. And this fair price is only possible by re-imposing import tariffs and supply management on all arable, dairy and beef products (including

- food, feed and small scale bio mass). This managed trade is especially necessary for those products which up to this day are exported with direct or disguised trade-distorting subsidies, or which are stored because of over production.
- In exchange for this fair price, all direct payments and export subsidies can be abolished (but not before the fair price is installed!). In contrast to what the general public thinks farmers don't need subsidies, they want fair and stable remuneration for their efforts to provide society with safe food and feed, conservation of nature, an attractive landscape and sustainable energy. This means that for this fair price, they can comply with even higher standards regarding the environment, labour and animal welfare.
  - Because this fair price will not be paid by subsidies, but by consumers, the current agricultural budget in the first pillar of the CAP – price support, storage, export subsidies and trade distorting direct payments – could be reduced drastically. And the budget for the 'second pillar'(rural development) should be raised considerably. This EU-budget for rural development should be used mainly for paying a minority of farmers for their services to society and the environment. These include job creation, nature and landscape conservation, sustainable energy production, solar and wind power, small-scale bio energy production, organic food production. Moreover, farmers in less favoured areas could be paid from this budget.

#### Results and strategy

This will lead to a fair income for farmers, no more dumping, more employment in the countryside including family farmers, a more energy-friendly and localised food and energy system, less greenhouse gasses, and a drastically decreased demand of scarce natural resources in developing countries. In this way it's perfectly possible to legitimize the maintenance of an agricultural budget in a reformed Common Agricultural Policy to the public.

## Biofuels: Potential Positive and Negative Consequences

*By Mark Muller, IATP*

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- Farmers are enjoying the best corn prices that they have seen in more than a decade, but if the past is any indication, it could be very temporary.
- Many Midwest states that are the center of U.S. corn production could experience corn deficits in the near future, and may need to import corn from other states.
- Water consumption will become more and more of an issue, particularly in the western corn belt.
- The high price of U.S. corn, if sustained, may have several impacts on Midwest agriculture, including:
  - A reduction in exports as more corn is used domestically
  - Pressure on the livestock market, which may increase the cost of meat and dairy, induce more imports, or create an advantage for grass-fed livestock production.
  - Increased use of distillers grains as a feed or energy source
  - Increase investment in using alternative crops for biofuel production.
- A reduction in US exports of corn and soybeans is likely, but the direct impact that reduced exports and higher prices has on the poor is unclear.
- For addressing poverty issues, the most important outcome is that biofuels enhance the productive capacity of U.S. agriculture. As petroleum sources become increasingly depleted and populations grow, agricultural lands will need to produce more food and more energy. Biofuels need to be incorporated in a manner that enhances soil and water resources.

## Towards an impact assessment of the policy of agro-fuels production on the food sovereignty in Meso América

*By Alejandro Villama, Red Mexicana de Acción frente al Libre Comercio (RMALC)*

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The policy to extend the production of ethanol and biodiesel from agricultural crops in the US, accompanied by the aggressive campaign by financial institutions from the region, is oriented to indirectly strengthen the agro-export model. And although it is in an early phase, there exists the potential danger of further debilitating meso-america's already fragile food sovereignty and increasing and consolidating its food dependence on the United States and Canada.

The phenomenon does not seem to be a simple process of stimulating the economy by opening fuel markets in developed countries, but looks like a geostrategic decision adopted by the transnational companies and the current American and European administrations. It is based in the plan to create a new world market for agro-fuels presented falsely as energy alternatives and a sustainable way to mitigate climate change.

The phenomenon is not new. In response to the historical shortage of fuel in the Central American region, it was promoted more than a decade ago. But now in the whole region there has been widespread adoption of specific legislations. This has accompanied an aggressive lending plan from the BID and American companies, with the support of technological studies on the part of European governments, particularly on biodiesel.

The response of the governments of the region, with some exceptions, has been uncritically positive, and they have managed to involve not only some farming and exporting business groups, but even some poorly informed organizations of social producers. But at the same time, resistance begins to grow in several regional and local rural organizations.

Although a mechanical copy of the American model has been promoted that would use genetically modified grain seeds, produced by transnationals such as Monsanto and Cargill, in the Central American region the prevailing approach is to use sugar cane to produce ethanol and local species of oilseeds for diesel.

An initial inventory of the projected agrofuel plants and the production of crops, together with the legislation, indicate the dangerous trend of strong corporate groups monopolizing - by means of subsidies and fiscal credits, the scanty public resources that governments devote to agriculture and food production for the internal market.

In this way the amount of farmland in Meso-America devoted to energy crops could be increased to meet the demands of the international market, but to the detriment of rural agriculture and food sovereignty.

There is also the risk that an increase in international lending will encourage investment in technologies that will soon be outdated compared to newer methods of producing ethanol from cellulosic or other types of biomass. Alarming are the risks of increased indebtedness, land appropriation and dumping of agricultural exports by the US and EU.

The dumping of agro-food exports illegally subsidized by the US and EU seems to be continuing thru the politics of production of the local agro-fuels in the region.