THE WALL STREET JOURNAL.
WSJ.com

STATE OF THE UNION | SEPTEMBER 30, 2008

Fertile Ground for Farm-Subsidy Reform

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Don't look now, but Europe's farm-subsidies regime may finally be getting a serious review. Even more surprising: France is leading the way.

At a meeting of EU farm ministers this month, the French raised some fundamental questions about the future direction of the Common Agricultural Policy, or CAP. Among them: What should the objectives of the CAP be? And which instruments can best attain them? Answering these questions honestly may at last present the EU with the opportunity to replace the bureaucratic and interventionist CAP with better tailored and more fiscally responsible policies.

For almost two decades, CAP reform has been marked by a striking absence of serious scrutiny of the CAP's effectiveness. Instead, European farm ministers have consistently sought to cope with pressures -- such as market imbalances, trade negotiations, Eastern enlargement and societal discontentment -- in a way that least annoys farmers and maximizes EU payments to their own countries.

In contrast to this traditional approach, ministers at the meeting in Annecy, France, started a more systematic evaluation of four substantive issues:

- First, whether the EU should maintain subsidies that reward farmers for their output, area cultivated, number of animals and exports. These production-linked payments distort farm markets the most, and the EU has already begun to reduce them in recent years.

- Second, whether the EU should phase out direct income-support payments to farmers. These payments are not linked to farmers' current production decisions but are based on historic entitlements and were introduced to compensate farmers for reductions in subsidies linked to output.

- Third, how much the EU should strengthen targeted payments that promote rural development and environmental protection.

- And fourth, how much money the EU should devote to the CAP, and how it should distribute the money across policy instruments, countries and farmers.

Behind this more systematic evaluation of the CAP is the European Commission's preparation for the next EU budget framework in 2014. This review explicitly includes the CAP, which devours more than 40% of EU funds, and stipulates that the EU must assess all expenses against a number of criteria.

EU spending should be in line with policy priorities; apply only when EU spending is more appropriate than national spending; and should not exceed what is necessary to achieve the defined objectives. While such requirements may seem like common sense, in the dubious history of the CAP they have often been ignored.

France's decision to take the initiative on these questions does not necessarily signal a change of heart. Farm lobbyists have the ear of French policy makers, who prefer to perpetuate the maximum amounts of support to farmers. So Paris began the debate among farm ministers before the Commission's budget review gets those stingy finance ministers involved.

Along with countries such as Italy, Spain, Ireland and Poland, France seeks to maintain protection for agriculture by grounding the CAP in contemporary public concerns. These agriculture-heavy countries argue that, in the face of unpredictable world markets and climate change, farmers need a safety net. They further assert that the EU needs to increase agricultural production to ensure its own food security and to help feed the world. They point to this year's food price surge, which provoked riots and export restrictions in developing countries, to support theirs claims.

Opposing the French view is the British government, which is determined to transform the CAP. Allied with countries like Sweden, Denmark, the Netherlands and the Czech Republic, Britain proposes to abolish tariffs and all other measures that keep EU agricultural prices above world market levels and to end the direct payments that farmers receive irrespective of their production.

Britain has it right. Based on OECD figures for 2007, phasing out policies that distort markets and raise farm income across the board would save EU consumers €37 billion annually. It would also reduce EU agricultural spending by 80%, or €42 billion.

What's more, such a policy change would not endanger food security in Europe. Even in the highly unlikely scenario that imports could not compensate for bad harvests in the EU, nobody would have to go hungry in Europe. Countries could easily expand cultivated areas, use more intensive farming methods and shift production patterns to increase yields. Instead of pushing for subsidies, those worried about the remote possibility of food shortages should support targeted policies, such as boosting public food reserves, improving plants' resistance to diseases and diminishing agriculture's dependence on potentially endangered energy supplies. Likewise, improving production technologies in developing countries and providing income aid to their poorest households would be a far better response to global food shortages than protecting and distorting EU markets.

Some of the money saved by scrapping outdated policy instruments could be targeted at farmers who provide socially valued services that are not sufficiently remunerated on the market. For instance, agriculture can promote biodiversity by offering a habitat to species that depend on traditional farming. However, this would first require a detailed examination of the circumstances in which subsidies are justified. Regarding climate change, for example, it may be more efficient (albeit politically difficult) to include farmers in emission trading schemes than to pay them for the ecological modernization of their holdings. Similarly, it may be preferable to tax pesticides rather than compensating farmers for avoiding them.

Limiting the CAP to those targeted instruments that efficiently promote societal objectives would allow the EU to give back certain competencies to the member states. If subsidies are paid only for such services as preserving open spaces, enhancing scenic variety and promoting animal welfare, they will only minimally distort trade. In this case, the threat of trade distortions in the EU's internal market cannot serve as a justification for having a common agricultural policy. Agricultural subsidies could be largely left to national authorities that are in a better position to pursue local preferences, with locally responsive policies that are financially more responsible.

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