

[Comment] Reform of the CAP needs reform of the constitution

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EUOBSERVER / COMMENT - I wrote last week in these pages about how the Common Agricultural Policy was first set up to encourage enough production, but actually had the effect of encouraging over-production. This phenomenon of people changing their behaviour in order to get the most out of the regulatory system is known as "moral hazard".

The designers of the regulations must also take responsibility for the foreseeable way in which people would act in response to them. This strengthens the case, in my view, for CAP reform.

But moral hazard brings with it another dimension. If farmers have borrowed money and invested in businesses in order to make the most of the prevailing CAP, and if we accept that the CAP itself bears a responsibility for this, it is also the case that reform of the CAP must also take account of the foreseeable consequences.

If farmers have been rewarded for and even encouraged to stretch themselves financially, it would be wrong to turn round now and immediately change the rules. That would be to create economic hardship in the countryside, not reduce it.

As an example, the reform of the sugar beet industry across Europe has substantial and generous – some would say too substantial and excessively generous – compensation arrangements built in.

In Ireland, while the bulk of the compensation will go to the sugar beet processing company that is closing down its remaining factory, as much as 32 per cent has been earmarked for the farmers and their suppliers who will also be losing out. A machine for harvesting sugar beet, which would be hired out to farmers when they need it, might be worth €400,000: that would be a lot of money to write off because of a change in the CAP regulations.

In the UK, where there is a market-based reform of the sugar beet industry going on – production is being concentrated in certain parts of the country but not reduced in volume, so the EU compensation arrangements do not apply – there are complaints from the farmers and contractors that they are not getting compensation on this scale.

To make reforms work, therefore, it is important to take into account the interests of all the stakeholders. And if reforms make economic sense, it is possible to do so.

A major argument for reform of the CAP is that it is economically irrational. It is more expensive to grow commodity crops such as sugar in Europe than in some other parts of the world, and the European industry can only survive because of an extensive network of quotas, tariffs and fixed prices.

Overall, this system only provides benefits to sugar growers and processors by putting up the cost to consumers and taxpayers in Europe and – here is the crucial point – it provides less benefits than costs. That is why it is economically irrational.

Research by the UK agriculture ministry revealed that every euro of benefit for farmers or processors cost consumers and taxpayers more than €2.50.

The EU lacks the means

It should therefore be possible to reform the CAP to provide more benefits at less cost, as

long as some of the increased welfare arising from reform can be captured and redistributed to those who would otherwise be losing out. And this is the real problem.

The EU, as it is at present, lacks the means to capture and redistribute that welfare.

The EU's finances are based largely on national contributions to the budget. The EU's agricultural policy depends on national contributions to policy-making: the directly-elected European Parliament has only a consultation power and not co-decision; the Council of Ministers remains in sole control.

As long as this remains the case, it will be hard to convince anyone, particularly the people who most fear losing out, that they should support CAP reform.

The constitutional treaty would put right some of these problems; a far-reaching review of the finances of the EU might deal with the rest.

With agriculture, as with so many other areas, the people who say it is more important to reform the policies than to reform the institutions are wrong. Both are necessary. And quickly.

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