

EU AGRICULTURAL POLICIES AND IMPLICATIONS FOR AGROBIOTECHNOLOGY

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Despite the rhetoric, the European Union (EU) and the United States (US) share a common attitude towards farming and its role in society and, as a result, their policies are converging rapidly. The rationale behind the policy instruments used in agriculture reflects dissimilarity of geography, history, traditions, and mentalities between the US and the EU. These differences may in some cases lead to diverse societal approaches and policy decisions, such as in the case of hormone-treated beef or genetically modified organisms (GMOs), which tend to become bilateral trade conflicts. However, these transatlantic trade irritants (which represent less than 2% of the bilateral agricultural trade between the EU and the US) should not overshadow the fact that the EU and the US share the same goal and commitment to maintaining and developing agriculture in rural communities, and that they recognize the need for support of agriculture, though in different ways.

Key words: genetically modified organisms; GMOs; bilateral trade; conflicts; rural communities.

This paper provides a European perspective on how agricultural policies have developed in the European Union (EU) and the United States (US). The goal is to dispel the myth that exists in some places in the US, particularly inside the beltway in Washington, DC, that the EU and the US are diametrically opposed in their approaches to agriculture. The EU and US do in fact share a common attitude towards farming and, as a result, their policies are converging very rapidly. In addition, all is well for successful negotiations to take place in Geneva on further liberalization of world trade in farm products. This liberalization of markets is already underway and will be to the mutual benefit of both the EU and the US.

This paper also addresses the current problems encountered in the trade of agricultural products, such as hormone treated beef and genetically modified (GM) crops; how these products relate to the concerns of European citizens about food safety; and how the EU is trying to resolve these concerns in the interest of greater trade across the Atlantic.

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Why Farming Is Different

An important premise on which many subsequent arguments follow is that farming is different from other sectors of the economy. It has always been different from other activities, particularly manufacturing. Many reasons necessitate such an approach. This is what has been special about agriculture ever since our ancestors gave up the nomadic life, began to settle in one place, and to plant crops; and it remains true in our society even for city dwellers. Rural life has a special place in our cultural heritage. Traditionally, farming has also been about feeding a population, about self-sufficiency, and community. This is still true of many developing areas of the world today where agrarian populations live on a shifting boundary between subsistence and starvation. This was also true in Europe in the period after the Second World War, when hundreds of thousands went hungry in a continent devastated by internal strife, exhausted after the long combat against totalitarianism.

It was in this context that the EU's common agricultural policy (CAP) was conceived. This was the first common policy for what was at the time a fledgling political entity. So it is not surprising that the CAP is one of the most successful policies ever devised by a government, comprised by the EU. Nobody now starves in Europe, and the EU is a net exporter of many agricultural commodities on world markets. This success has brought with it its own problems, however, as success so often does. It was recognized in the early 1990's that the CAP model needed adjustment. Farming policies are needed which allow the world community to feed itself. This will only be possible by allowing trade in food to thrive.

In Europe, agricultural policy is also about maintaining the economic, social, and environmental health of rural areas, or the sustainability of human life. It is about preventing the flight of populations from the land. This phenomenon is common in the developing world where families unable to survive in the country, flock to the cities, cannot find employment, and end their day in squalor. Europe did not want this to happen, and in this regard the CAP has also been successful. The decline in the farming population has been gradual, 5% of the active workforce is still retained on the land. In the US, the comparable figure is 2%.

It is also evident, and it has become more so over the last few decades, that farming has had a major influence on the physical environment, ecosystems, biodiversity, and water quality of Europe. Likewise, in the United States there are examples of how agriculture has influenced the physical environment. The deteriorating quality of water in Chesapeake Bay can be attributed, in part, to the density of chicken farming on the peninsula, which separates it from the Atlantic Ocean. Hence, this relation between farming and environment can also be accepted for the United States.

Given this background, one can conclude that the European Union and the United States recognize that farming requires a specific set of policies tailored to its unique role. This perspective is not shared by all partners in the World Trade Organization (WTO) who believe that farming should be treated like any other form of economic activity. In the case of Atlantic trade, however, the differences that arise are due to the way which these principles and attitudes are translated into specific policies.

European Price And Income Support Policies

The main tool traditionally used to support farming in Europe has been price support. By fixing a relatively high price for each commodity, farming families have an assured level of income comparable to other sectors of the economy. The downside of this policy was that domestic prices were detached from those in the world market. Therefore, in order for EU farmers to sell abroad, the

gap between high internal prices and lower world prices had to be bridged. This has been achieved through export rebates, also called export subsidies. These export subsidies, however, are accused of distorting world trade and putting a brake on its development. Hence, ever since the Uruguay Round and the first major CAP reform in 1992 the EU has reduced the level of support prices to farmers, thereby reducing the level of export rebates needed. Farm subsidies have not been given up, however, as the EU has increased direct payments to farmers to compensate them for the reduction in market support. The switch in the mix of farm payments has been further accelerated on a voluntary basis under a package of reforms agreed in 1999 under the EU's Agenda 2000 program. This program includes along side direct income support payments, payments that promote the diversification of economic structures in rural areas, payments linked to the environmental impact of farming, and other rural development payments.

Environmental impact payments take two basic forms. Either they support particular types of farming which benefit the environment (for example, subsidizing the employment of specific types of farming practice), or direct income payments are made conditional on certain environmental related standards being met. These programs are similar to the conservation programs that operate in the United States.

EU Farm Subsidies

In 1992, the total budget for agriculture amounted to 32 billion Euros (figure 1). By 1999, it had risen to 40 billion Euros—an increase in about 25%—not only to take into account the enlargement to the European Union of three new Member States but primarily accounted for by a switch in support for agriculture coming from consumers to the taxpayers. So we are increasing payments to farmers (in nominal terms). But over the same period, the level of our export rebates fell from 9.5 billion to 5.5 billion—a decrease of over 40%. Market support payments and export rebates combined are the two types of payments, which impact world markets. That total of these payments went down from 26 billion Euros in 1992 to 12 billion in 1999—a decrease of over 50%. Our direct payments to farmers, those that have decoupled prices from production levels, now make up 70% of the agricultural budget. Payments that directly affect trade are down from 82% of the total agricultural budget in 1992 to only 30% in 1999. This is a massive change in the space of only seven years and it is scheduled to continue. In addition, as export rebates in 1992 amounted to only half of the 1992 value, they could surely not be to blame for the current slump in the world commodity crisis. This eliminates one myth about the EU's agricultural policies influence on world markets.

US Farm Subsidies

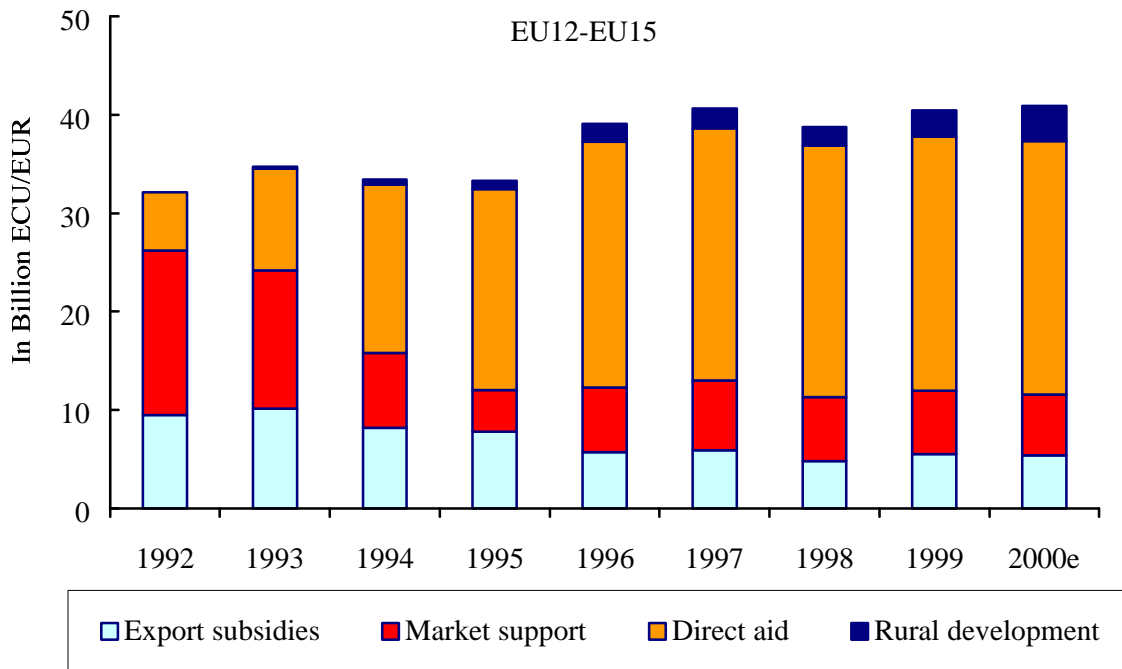
The US now spends around 0.7 percent of gross domestic product (GDP) on agricultural payments from the Federal budget. The EU budget for agriculture is down to about 0.5 percent of GDP. These may be considered as comparable amounts. Because European farm sizes are smaller, Europe has more farmers. In terms of payments per farm, then, US farmers received \$14,500 in government payments in 2000, while an average EU farm received \$4,500.

EU - US Trade

In terms of EU-US trade in farm products, the European Union is the world's largest importer of agricultural products. The EU imports about 55 billion Euros of agricultural products a year. Until last year, the US had a trade surplus with the EU that has now turned into a deficit. The trade deficit has resulted not from bans of US products, but because the US exports bulk commodities to the EU for which world commodity prices have recently slumped and also largely due to the strong value of the US dollar against the Euro. The EU, in turn, exports largely processed value-added products like

cheese and wine to the US, hence, the terms of trade have turned against US agricultural goods recently.

Figure 1: EU Farm Budget.



Note. From the Delegation of the European Commission to the US. They can be reached on the World Wide Web at <http://www.eurunion.org>.

Areas of Conflict

However, there are some areas of trade that have been the object of transatlantic conflict. Americans have been stunned over the lack of enthusiasm in Europe for imports of beef and GM crops. Let us deal with the issue of beef first. The first reason that there are problems in this sector is the extreme sensitivity of Europeans about the foods that they eat. Europeans spend a much larger proportion of their family budget on food than do Americans. And they spend more time preparing their meals and dining than Americans do. In other words, eating together performs an important social function in European society. Most Member states also claim great culinary traditions. Traditions and recipes go back in time a very long way. The emphasis on tradition and food is taken very seriously. In such a culture, food scandals are bad news and attract great attention. The recent food safety problems in Europe, whether it be contamination of pork and poultry by dioxins, or mad-cow disease in beef, have hit the headlines in a big way. In particular, BSE, or mad cow disease, has had massive and unexpected consequences.

- *The BSE story.* The BSE story can be summed up as follows. The competent food safety authorities, particularly in the UK, indicated to consumers that BSE was a local disease that existed in cattle and could not be transmitted through food to human beings. It is now generally

believed, and the scientific evidence for this is plausible and mounting, that a number of cases of Creutzfeldt-Jacob disease (CJD), and a resulting number of deaths, can be attributed to it. The result has been a collapse in consumer confidence and the credibility of food safety authorities in Europe. There is a wide spread consumer skepticism of what they are told by the food safety authorities, particularly in relation to the safety of non-traditional food products.

And it is the consumers' conception of "non-traditional" that is important here. Europeans thought their cows were raised on grass and pastures. They were horrified to find out that they had been fed on compound feeds containing animal residues. This was widely regarded by most farmers as a completely unnatural stock rearing practice. This is the climate in which the European Union signed to ban the use of drug hormones in rearing beef cattle -- a practice that was widely regarded as also being "unnatural." This climate has been mixed in with the exports of American beef.

- *Hormone treated beef.* The US government brought the case of hormone-treated beef before the WTO, and Europe lost. Because Europe has not lifted the ban, the WTO approved US sanctions in the form of punitive tariffs on a range of agricultural exports, such as cheese and mustard. It is very important to understand why the WTO found against the European Union. It was not a finding about food safety or science, but rather about the procedures used to introduce the ban. Under the WTO Sanitary and Phytosanitary Measures (SPS) agreement, the EU was committed to conducting a scientific risk assessment before banning an import for food safety reasons. In the case of hormone treated beef this was not done. European Union politicians jumped the gun. When the WTO found against the EU, this error was immediately corrected through the launch of a comprehensive risk assessment conducted by independent scientific experts. This assessment is being conducted on all aspects of food safety problems that could arise from consuming hormone treated beef. The studies are not yet complete; however, interim results indicate that at least one of the hormones concerned is, indeed, carcinogenic. Whether or not this finding is correct remains to be seen. However, the fact that an independent scientific panel has produced this finding means no European politician can possibly accept responsibility for lifting the ban. So the ban will remain until the definitive scientific findings become available. And these findings will have to be seen to be definitive and credible by scientists and by European voters. Currently, therefore, the US government is setting up a credible system for the export of hormone-free beef from the US to EU markets. The hope is that hormone-free beef exports will increase, and soon take the place of US sanctions on EU exports.
- *Genetically modified foods.* Like hormone treated beef, genetically modified foods challenge traditional European ideas about food. Europeans simply regard biotechnology with suspicion, at least where their food is concerned. Europeans perceive it to be unnatural to manipulate the genetic code of food crops. Europeans are also afraid of the possible negative effects on their health and the environment. All the talk of Frankenfoods in the United Kingdom has left its mark. Because of the public's response, the European approval procedures for GMOs are stringent and thorough. However, even these procedures are not enough to make these products acceptable. European resistance to the introduction of GMOs is so strong that approval has practically come to a stop. Europe is faced with a crisis -- voters do not want GMOs and do not believe in the assurances of their safety. As a result, Europe is in danger of rejecting this new science of biotechnology despite its enormous potential for good.

The European Commission's response has been to publish a series of White Papers, setting out proposals for a complete overhaul of its food safety policies. The setting up of an independent food safety authority, something akin to the FDA, which would conduct risk assessments and provide public information about food safety, has been proposed. The aim would be to establish

an authority with an independent credibility. It would be in a position to build a track record and establish its credibility. Its operations would be based on three principles -- independence, scientific excellence, and complete transparency to the public.

There are a number of other new initiatives connected with food safety including, for example, managing the related use of antibiotics in animal feed and the revision of our legislative framework on GM foods. These initiatives have all been driven recently by a common approach based on the principles just enunciated. This approach has also been pursued in the recent EU proposal on the precautionary principle. The word "precaution" often excites a response in the United States. However, fears about hidden motives on the part of the EU are unfounded. There are underlying similarities between the EU approach and the US approach. Decision-makers on both sides of the Atlantic are constantly faced with the dilemma of balancing the freedom and rights of individuals, industry, and organizations with the need to reduce the risk of adverse effects to the environment, human, animal, or plant health. A correct balance is never easy but requires a structured decision-making process with detailed scientific and other objective information.

It is the Commission's policy to take decisions, balancing objectives, and to achieve a high level of protection on the basis of sound and sufficient science. Decision-makers also need to be aware of a degree of uncertainty attached to the evaluation of available scientific information. Risk and uncertainty are two quite different concepts. Judging what is an acceptable level of risk to society is imminently a political question. Decision-makers faced with scientific uncertainty and public concerns have a duty to find answers. If they judge the level of scientific risk to be too high, they must reject it. If scientific data available are inconclusive or inadequate, they will, at least in Europe, err on the side of caution. This is what precaution is all about.

It is interesting to note how the same science on risk assessment can lead to politically different decisions. RU-486, otherwise known as the abortion code, provides an example. This code has been accepted in Europe for 10 years but only very recently has it been approved in the US. The risk was the same size as with GMOs but led for ten years to a completely different political decision.

Conclusions

Decision-making procedures and processes should be transparent and should involve as many as possible, and to the extent as reasonably possible, all interested parties. This is the system that we are now building in Europe. If this can be successfully done, the crisis in food safety in Europe can be brought to an end, and with it the trans-Atlantic trade problems. Europe can then, once again, be seen by US farmers for what it is — the World's largest market for food. In the years to come, we can expect to see rapid growth in the exports of organic foods to Europe from the US, as the system of organic labeling is put in place. Then, far from being irreconcilable and at odds over agriculture, the EU and the US will share a fundamentally similar view on farming and its place in society. A joint letter by members of Congress and members of the European Parliament, dated March 16, 2000, to the administrations on the two sides of the Atlantic, recently stated,

We are committed—all of us—to maintaining and developing agriculture in rural communities in our regions and we recognize that both United States and Europe strongly support agriculture, but in very different ways. Because for both of us, it is a vital component of the economy, geography and history of both regions.

With this attitude, it can safely be said that farming still has a great future on both sides of the Atlantic.