

Has farming in Western Europe got a future?

As the European Union contemplates a significant enlargement eastwards and a substantial reduction of market subsidies and protectionist barriers in agricultural products, many of its farmers fear that they cannot survive in such an economic climate. Indeed, despite the high level of subsidies they currently enjoy, many are already suffering the worst decline in income for generations, and the number of farmers is reducing rapidly.

The main reason for the current difficulties lies in the collapse of global agricultural commodity prices, with Ukraine, for example, prepared to sell wheat at £45 per tonne, where British and American farmers would expect about £80. The Euro's strength against non-dollar countries puts EU farmers at a serious disadvantage. Remarkably in September 2002, English wheat is being exported to New York because it is cheaper than grain produced on the prairies. Furthermore, the McSharry reforms in 1992 substantially reduced the levels of market subsidy, albeit replacing them with direct payments based in hectareage farmed and numbers of livestock. British farmers in particular have suffered as the pound has strengthened against the Euro, from an equivalent of 1.35 in 1994 to around 1.60 today.

The European market for beef has been devastated by BSE, which both shook consumer confidence in the product, and at the same time farmers had to absorb much higher costs because of regulation. Exports of beef have been badly affected. The Foot and Mouth epidemic in Britain proved very costly, although farmers were largely compensated by European taxpayers. The EU pig industry has been devastated by disease and oversupply.

In many countries it has been difficult to find the workers needed for labour-intensive industries such as poultry, fruit and vegetables, and pigs. This has, in part, been alleviated by allowing in large numbers of migrant labourers from Eastern Europe, but with an abundance of cheap labour, countries like Thailand have developed a strong position in Europe's poultry markets. (Pigs and poultry do not attract EU subsidies). There are understandable concerns that rigorous and costly environmental, food safety, animal welfare and workplace regulations, put European farmers at a serious disadvantage against developing world producers and manufacturers. Farmers fear, that they will go the way of the European textile industry, which has been decimated by cheap imports.

There is no doubt, therefore, that, relatively, European farmers are less wealthy than they were 30 years ago, although in absolute terms they are much better off. In the post-war years, where most people in Europe were poor, farmers were probably not suffering more than others. Because food was still in short supply as a result of the war, farmers were encouraged, through subsidies, to produce as much food as they could. Food was generally marketed locally, from local sources, at local prices. Because people were poor, they were still prepared to do unpleasant manual farm work.

But now food is in abundant supply, and indeed EU farmers find their production restricted by a complicated system of quotas and "set-aside" regulations. Most

European shoppers use national supermarkets rather than local shops and these supermarkets use their buying power, including their capacity to source cheap supplies both across the EU and from outside it, (thanks to modern distribution networks) to drive down prices. As a result the producer dominance of the market has disappeared and in today's world the consumer is "king". Fifty years ago, perhaps half of people's disposable income was spent on food. Today in the EU that figure is less than 15%, and less than 10% in Britain and Germany.

Some traditional markets have also been in decline. Demand for animal fat has plummeted as people's life style has swung from being physically vigorous to a sedentary existence. (Even so, consumption of animal fat remains far too high, as is shown by the startling growth in obesity over the past twenty years.) The huge reduction in European beef and pig herds has in turn reduced the demand for animal feed, thereby forcing European arable farmers to rely more and more on export markets which are highly competitive and volatile. Although export subsidies are still available they were much reduced as a result of the McSharry reforms in 1992. European grain producers have not benefited from the rise in demand for poultry, because this market is being increasingly satisfied by imports from Asia and South America.

Ironically, although the numbers engaged in farming have been decimated, European farming, more than any other industry, suffers from labour shortages, as those who would have been prepared to harvest vegetables in all kinds of weather, and with considerable physical demands, now find more attractive work elsewhere. Furthermore, at a time when great alarm is expressed about the possible consequences of mass immigration into the EU, the domestic labour-intensive sections of European farming – horticulture, fruit, vegetables, pigs, and poultry – would not survive if they could not access migrant labour from Eastern Europe.

So, although compared with other sections, farming has suffered badly over the past 40 years, real incomes have risen substantially. The peasant way of life was based on self sufficiency in food and heat, with little capacity to buy more than the essentials of life. The majority of farmers in France, Spain Italy, Portugal Ireland and even Germany, could have been classified as peasants. Elsewhere in Britain Denmark and Holland, whilst the peasant tradition had already disappeared, the larger more affluent family farms, selling their livestock products into urban markets, dominated the countryside.

All this has changed. Although the peasant way of life is still a feature in the poorer Mediterranean countries, it has largely disappeared elsewhere. And even where they do survive, today's peasants demand the right to a TV, a fridge and a motor car. It is difficult to satisfy these expectations if the farm holding is only 5 or 10 hectares in size.

Incidentally this peasant farming tradition still prevails in most of the new applicants for EU membership, though even there the farmers are also demanding the same consumer goods that others take for granted.

Against all this depressing background, it is surprising that farming in the EU has survived as well as it has done, having to cope with lower prices, rising costs, stiffer regulations, and higher labour expectations. There are five main reasons for this state of affairs.

- First, agriculture still enjoys enormous taxpayer support, amounting to perhaps 40% of the income of arable, dairy, beef and sheep farmers. Without this support very large numbers of farms would go out of business in existing market conditions.
- Second, farmers have benefited from extraordinary scientific and technological developments. Innovation in plant and animal breeding, in disease control of plants and animals and in controlling weeds and pests, have transformed crop yields per hectare, litreage output per cow, piglet numbers per sow and growth rates of livestock for human consumption. Costs of production have been reduced dramatically by the mechanization of many traditionally labour-intensive farm activities. The modern combine harvester can cover as much as thirty hectares a day, perhaps 10 times as much as a generation ago – and the speed of harvesting as well as reducing costs, enables farmers to cope far better with the vagaries of the weather. The fork lift truck has eliminated most of the manhandling on farms, which was such a feature until recently. Modern automatic milking parlours enable one man to milk 300 cows, perhaps five times more than previously.
- Third, farms have been getting much larger, as the more enterprising farmers have exploited the technology which enables them to manage more land and more livestock with fewer people. In my own case, over the past twenty years I have bought land from six neighbours and our hectarage has risen from 80 to 300 as a result.
- Fourth, whilst many farmers today are suffering great declines in their incomes, their assets continue to retain their value. Partly this is because the farmers themselves maintain high prices because of their zeal for acquisition. Furthermore, in overpopulated countries like England and the Netherlands, and where farms are close to large urban conurbations, the demand for land for housing and industrial purposes is incessantly rising and so are prices. Farmers, who own their land, therefore can always sell up and retire comfortably, whilst those who want to expand can often sell smallish plots for development, and use the resulting profits to buy more land, often without having to pay any capital gains tax. In uncertain global financial markets land remains a safe investment. Banks have been willing to support farmers during these difficult times because of their asset backing. Borrowers are also enjoying the lowest interest rates for a generation. If the cost of borrowing had remained at the level of a decade ago, land prices would have collapsed and many more farmers would have gone out of business.

In many EU countries, however farmers do not own their land, and therefore do not have the security which their landlords enjoy. I shall come to this point later.

- Finally, most farmers have proved remarkably resourceful in changing their way of life in the face of these changing circumstances. First of all there are fewer of them as sons and daughters, benefiting from a modern education, have been able to find more attractive work in towns and cities. Many of these, perhaps out of a sense of guilt, continue to support their parents who did not have such opportunities when they were young.

Many farmers, and especially their wives, have found part-time work in nearby towns, mainly in the growing service industries, to supplement their farm incomes. The growing affluence of town and city dwellers, has provided opportunities for farmers and others in the countryside to diversify into tourism. French and Italian farmers have redeveloped their properties and rented them to affluent holidaymakers. In England, Cumbria, Cornwall and the Yorkshire dales have benefited from a huge increase in all-the-year round short visit tourists. In Poland huge numbers of Warsaw citizens holiday in the Silesian countryside.

In many countries farmers have been able to convert redundant buildings into non-farming business activities, although planning regulations in overpopulated countries like Britain, inhibit opportunities to diversify. The IT revolution enables farmers to participate in activities which would have been denied them before because of geographical location.

Some farmers have diversified into “niches” such as growing organic food and investing in specialist production, English farmhouse cheese being a prime example. In France and Italy, long established local farm markets have continued to thrive, though efforts to create such markets in Britain have been less successful.

Finally, with varying degrees of success, European farmers have cooperated with each other in lowering costs through bulk buying. They share each others machinery to reduce costs, and they work together to market their products, including investing in primary processing. Experiences vary from country to country. In Denmark the progressive dairy and pig industry, including processing, is controlled by farmer’s cooperatives. The thriving Dutch produce and horticulture market is controlled by the growers. French farmers buy together and market their grain through cooperatives. But one of the reasons why British farmers are in such distress is that they have a poor record on cooperation, resulting in higher costs and weak marketing.

Let me now suggest that even if market subsidies are eliminated, as I believe they should be, there is still a viable future for European farming despite increased competition from outside, despite competitive disadvantages because of cost, despite many regions suffering from unfavourable climate and soil, and remoteness from the market and despite many flawed farm structures, particularly with regard to tenant farmers.

Many economists point to the New Zealand experience as the way forward. There the huge cost of state support became unbearable, and was virtually phased out. Yet farming has survived, even if there are much fewer but larger farms as a result. However New Zealand farmers have benefited from a continuous devaluation of the currency, good for them but not at all good for the rest of the economy. As a result New Zealand (and Argentina) which a century ago were amongst the six most prosperous countries in the world, are now, in the case of New Zealand, languishing well down the world’s GDP per capita league table (17th, just ahead of Greece and Portugal and behind Taiwan), and Argentina (a basket case) less than half of that of New Zealand.

There is no possibility of a similar devaluation of the Euro and the British pound, and there is no possible relief for farmers from that quarter.

So the first reassurance to EU farmers is that, whilst market subsidies should disappear if radical CAP reform was agreed, the Fischler reforms envisage ongoing substantial taxpayer support for the countryside, about 80% of existing levels. Admittedly this support would have to be earned, for farming in an environmentally sustainable way, unlike the present payments which are an automatic right. Whilst EU taxpayers are increasingly dissatisfied with the cost of market subsidies, they could be persuaded to continue to pay farmers for looking after the countryside.

Next, if the dumping of surpluses on the world market by the EU and America was banned, then it seems likely that global agricommodity prices would rise – to the benefit of all the world's farmers including those in Europe. (It is a given that North America would abandon its protectionist farm policies at the same time as the EU).

It would be logical to eliminate producer restraints at the same time as market subsidies. This would enable European farming like any other industry, to expand and exploit the benefits of scale, whilst farming in an environmentally friendly way.

There are fears that this would lead to overproduction and a collapse in prices, and if that happened, agricultural markets would have to adjust to that situation just as others have had to. But the existing CAP encourages farmers to cultivate land that is not suitable for crops, and to carry too many animals on their land. No such incentives would apply in future, which would reduce the EU's arable hectarage and the animal numbers.

The Fischler proposals also include a switch in a system that is biased in favour of large farmers to one which favours the smaller ones. This would be both equitable and reassuring to the smaller farmer, who would be less able to benefit from expansion in a less regulated market.

In an open global food market, free from protectionist barriers, European farmers fear that they could not compete with those in the prairies of North America, the pastures of New Zealand and Australia, and the sugar-cane farms of Central America, but there are four reasons why this may be less worrying than it appears.

- First, there are many regions of Europe which, for reasons of climate and soil, should be competitive in world markets. Arable farmers in the Paris basin, Schleswig-Holstein and Eastern England, should be able to grow cereals as well as anyone. (Though the elimination of the particularly unfair sugar beet subsidies in the EU and the US, would probably make that crop unviable). Milk producers in Southern Ireland and Normandy should compete with the world. Vegetable growers in Brittany, Valencia and Lincolnshire should survive, assuming of course they can find workers for the arduous jobs, increasingly from the new EU members in the East.
- Second, the majority of farmers in the EU have a huge advantage over their global competitors in that they are close to nearly 400 million affluent consumers who want a secure and safe supply of perishable, short shelf-life food in their shops and supermarkets. Whilst it is possible for New Zealand farmers to supply Europe with long life butter and milk powder, they cannot possibly service the growing market in short life dairy products, including fresh milk yogurts and desserts and soft cheeses.

Increasing concern about food safety in Europe is a market advantage for EU farmers who can be monitored more easily than those elsewhere. Demand for fresh food changes rapidly, depending on the weather, which again enables European farmers to respond quickly to such changes in a way which is impossible for those who are thousands of miles away from the market.

Higher costs incurred by European farmers because of regulations covering the environment, food safety and animal welfare, can be used as an opportunity to increase market share by building greater consumer confidence in the interests of both the product and the farm practice. The Finnish experience is interesting. For about a quarter of a century the Finns have been increasing farm standards through costly regulation, in a country whose climate already placed their farmers at a competitive disadvantage. Yet, to a remarkable extent, Finnish farmers have maintained and increased their share of the domestic market, even though their prices have to be much higher, because Finnish shoppers trust the domestic product more than the imported one. However, global free trade agreements will also have to recognize consumer concerns about the environment and food safety.

- Third, there are many regional products in the EU which have the capacity to earn market premiums because of their quality and reputation. Danish pork, Parma ham, many French, Spanish, Italian and German wines (though some have been losing market share in recent years through New World and Australian competition), high quality Italian olives, regional breads, Scottish beef (devastated, alas, by BSE), English stilton cheese, French and Italian soft cheeses and so on. Well established traditional markets should continue to thrive as rural tourism prospers but the range marketed must be varied and unique – a failing in the marginal British local markets.

Some farmers and supermarkets in Europe believe that they can create a significant market in organic produce and the Fischler reforms would mean more support for organic farmers, at the expense of large intensive producers. But, even with this support organic production will be much more costly than conventional methods, and whilst some shoppers will pay an ethical premium for the food they eat they will comprise no more than 5% of the market, perhaps even less. If too many farmers convert to organic, resulting in over supply, premium prices will collapse. This has already happened in many organic sections, with catastrophic consequences for growers. Farmers should not be beguiled by the encouraging noises of retailers and evangelists.

European farmers can further exploit science technology and cooperation in order to lower their market costs and increase outputs, although the application of science and technology is more likely to strengthen the competitiveness of farmers in poorer countries, who, so far, have been unable to afford the new technologies because of lack of cash (a situation that should be remedied by fair free trade agreements).

But it would be wrong to deny European farmers the right to use new technologies such as genetic modification, if other countries legalized their use and the technology was considered safe and compatible with a sustainable environment.

Greater cooperation between farmers will further lower costs of production and strengthen their marketing position and farmers in Britain, particularly, who have been slow to realize the benefits of cooperation, must make it a priority if they are to maintain or improve their competitiveness.

One remarkable feature of European farming is the enormous difference in performance between farmers operating in comparable conditions. Even in today's circumstances many farmers continue to be profitable whilst their neighbours are going out of business. If the worst performing farmers were able to learn from the good practices of more efficient neighbours, they would not find themselves on the verge of extinction. This reluctance to learn from others arises in part from the culture of dependence, whereby many farmers believe that society owes them a living, however incompetent they may be.

European supermarket groups have been accused of weakening the position of farmers by abusing their buying power and by sourcing cheaper goods from countries with less demanding regulatory standards. Supermarkets should be closely scrutinized to ensure they do not apply dual standards, and farmers, through cooperation can strengthen their bargaining power with them. The more fragmented catering industry is a more likely area for double standards and is harder to police, but regulatory agencies must do their best.

Finally, of course, if all else fails EU farmers, and especially the smaller ones, as well as enjoying the generous social security and health benefits which are not available to the poorer countries, will continue to get direct payments from the taxpayer as long as they behave in a responsible manner. These obligations will not be arduous.

The European Commission, national and regional governments can play their parts in helping farmers to reorganize their lives and cope with the future. In many countries, especially overpopulated ones such as England and the Netherlands, planning authorities resist farmers requests to diversify, notably in the conversion of old buildings to different economic activities. Such requests should be reviewed more sympathetically assuming that they do not jeopardize the environment. Too much attention is given to the views of the rural communities and owners of second homes in the countryside who care little about the rural economy.

The Commission and national governments should be encouraging the migration of rural workers from the East to the West – too often they appear to see this trend as a social threat rather than an economic necessity and opportunity.

The EU for understandable reasons, has created a plethora of rural regulations to tackle pollution and raise safety standards. Some countries then apply these regulations in a rigid, bureaucratic manner. Two issues should be addressed. First, is statutory intervention always the answer or can codes of best practice or some degree of self regulation by farmer organizations, especially the cooperatives, deliver the same outcome with less bureaucracy and cost. And secondly, countries like Britain, who appear to enforce EU directives with too

much rigidity, should adopt an approach of light, flexible enforcement alongside tough penalties for failure to comply (as the American tax authorities have done, with so much success through the self assessment procedure).

National governments can already give tax incentives for farmers to cooperate with each other, but more can be done, especially where, as in Britain, cooperation has not been very affective.

National and regional governments take different positions about the degree of support given to supporting rural developments and maintaining rural services, including public transport and retail services. France has always been very generous in this respect. But the cost can be high in relation to the benefits achieved, so it is for local taxpayers to decide whether subsidizing the countryside, usually at the expense of the more deserving inner cities, is acceptable to them.

European farming activity is now as much about property management as it is about agricultural production. In the densely populated countries, like England and the Netherlands, the consistent demand for more housing and business sites forces land prices up, often making farming itself uncompetitive as a result. Farmers who find themselves in this situation can, within the constraints of sensible planning laws, supplement their farm incomes with selected land disposals. Those who want to retire can do so and be comfortable. Those who want to expand by acquiring more farm land, can raise the necessary finance by disposing of plots of land, suitable for development, at very high prices. Some countries exempt their farmers from capital gains tax if they reinvest their gains in farm land.

The problems of tenant farmers vary from country to country, depending on their number and the nature of their statutory rights. In Britain, because the property benefits lie with the landlord rather than the tenants, the latter feel that their rents remain too high, and of course without land ownership, they feel very insecure. Landlords can also refuse to allow tenants to diversify their buildings and businesses without good reason. The statutory rights of tenants should be reviewed by national governments, in the light of changing circumstances, and as there is also a human rights element, the European Commission might also take a view.

European farmers' own perception about their situation is both contradictory and self-destructive. On the one hand they complain that they are bankrupt, yet sales of farm machinery are buoyant in many parts of Europe. Many thought that British farmers who lost their livestock because of the Foot and Mouth outbreak would withdraw from farming, banking their generous compensation. Not a bit of it – the vast majority of them have chosen to restock, forcing the price of breeding stock up – which suggests that these farmers at least have confidence in the future.

European farmers constantly demand more support from the state and the commission, deliberately ignoring the vast scale of subsidies – 60 euros billion

per annum – which they already receive. On that evidence, if farmers are still suffering, subsidies are not the answer.

Indeed this culture of dependence, which prevails throughout the European countryside, is part of the problem. Reliance on state handouts undermines enterprise and promotes inertia. The recent Curry report on the state of British farming made some good points, but the only main agreement among the disparate commission members (farmers, retailers, environmentalists, consumers) was that the state should provide more money which it, (somewhat surprisingly) did.

European, state and regional support for agriculture and rural communities will continue to be generous, albeit switching from distorted market subsidies to encouraging good environmental practices, but economic purists might argue that farmers should be regulated but not paid to comply with good practices. Why should farmers deserve special treatment? The answer is that in the EU the citizens value a well maintained countryside and are prepared to pay farmers to do that. Second, other rich countries, especially in North America, will probably go on making payments to their farmers, so European farmers cannot be disadvantaged. Thirdly, whilst opening up European markets to farmers from the developing world, there is a case for giving support to EU farmers to mitigate the many competitive disadvantages they will be faced with – cheaper labour, lower regulation costs and so forth. European farming is different from the European textile industry or British mines in that it is the vital element in maintaining a strategic domestic supply of food and an attractive countryside.

A final challenge, in moving from a market support to an environmental support form of subsidy is to ensure that the vast amount of money available ends up in the hands of farmers. Under the present system, up to one third of the funds are siphoned off by middlemen. If that situation can be resolved everyone except the middlemen will be better off. But there is a great danger that environmental bureaucrats and middlemen will absorb far too much of the environmental budget.

It is essential also that farmers are seen to be earning environmental subsidies, and are not merely paid to “exist”. They will have to demonstrate that they are being actively productive as environmentally responsible farmers, if they are to receive support. That may be difficult to achieve on remote farms with poor growing conditions. Here, unless special help is made available farming will cease and the land left derelict. This is already happening in parts of the French Massif Centrale. Taxpayers have to decide whether or not they want this trend to be arrested.

Farming, like any other industry, must be prepared to rethink its strategies, its way of operating, and its structures in order to cope with the changing circumstances. The Fischler reforms and a WTO settlement of fair, free trade in food, create massive challenges for European farmers, as does the arrival of 11 new member states with a large, if antiquated agricultural sector. Many of the trends which are already happening – part-time farming and rural diversification – are welcome, necessary and should be encouraged to develop.

Those who believe, as many conservationists in Britain do, that the future of farming is all about reviving the past are mistaken. For all its shortcomings European agriculture is in much better shape than it was in the prewar era. Farmers are also more environmentally responsible than a generation ago. We must encourage that improving trend.

It could be argued that in an unprotected free market EU farmers might suffer the fate of the textile industry. But I think not. For all the reasons I have given there will still be a huge demand for European farm products, and for environmental reasons the European taxpayer will be prepared to support a thriving rural society. The greatest threat for the future lies with the farmers themselves. If they reject change, including the abandonment of the culture of dependence, then the long term erosion of their position will accelerate. But if they embrace the necessary changes they can arrest the decline and face the future with some optimism. There is no future in retaining the status quo.

Most farmers would also recognize that the reasons for these radical reforms – enlargement of the EU and fair trade in food – whilst being painful for them in the short term, will bring important and wider benefits to the new members and the poorer countries. But they will also bring indirect but real benefits to the farming community. As consumers themselves, farmers will benefit from a wider, stronger single European market. And the most crucial objective of these policies, to increase global prosperity and political stability, is as important to farmers as it is every other citizen of the EU.