

Spotlight on subsidies

Cereal injustice under the CAP in Britain

The Common Agricultural Policy (CAP) lavishes subsidies on some of Britain's wealthiest farmers and landlords. Losers include small farmers, consumers, taxpayers, and the environment in the UK - and millions of people in developing countries. Current reform plans do not go far enough. The 'new' CAP will still overwhelmingly benefit a wealthy minority in Britain, and finance the export dumping that causes poverty in developing countries. The British Government should be doing far more to demand fundamental reform.

Executive summary

The Common Agricultural Policy (CAP) lavishes subsidies on the UK's wealthiest farmers and biggest landowners. Losers include the vast majority of small farmers, taxpayers, consumers, and the environment in the UK – and millions of farmers in the world's poorest countries.

Some European Union (EU) governments like to claim that the CAP protects vulnerable farmers. The facts set out in this briefing paper tell a different story. We investigate the distribution of payments in the cereals sector for England. The picture that emerges is one of a perverse system of social welfare, with billions of pounds in taxpayer finance benefiting some of the UK's richest families and wealthiest agricultural regions.

We examine CAP cereal subsidies for seven of the wealthiest individuals in England, including the Duke of Westminster. The average payment to the landowners in this group amounts to £879 a day. A single parent with two children living in an inner city, struggling to survive in the lowest income bracket, is entitled to £7 a day in family tax credit.

Reforms agreed in June 2003 will not substantially address the worst excesses of the CAP. Under these reforms, the UK government is reviewing two options for introducing the new system in 2005. Option 1 would base future entitlements on 'historic' payments, or what recipients received in the past. Option 2 would base future payments purely on land area, with the distribution of payments reflecting the distribution of land holdings.

The two approaches share one common feature: they would perpetuate a profoundly unfair system. CAP subsidies will continue disproportionately to reward those with wealth and assets, diverting public finance from urgent public policy priorities such as environmental sustainability and rural development. And the reforms will leave in place a system that uses taxpayer money to finance the over-production and export dumping at the heart of unfair trade between Europe and the developing world.

Far more radical approaches are needed to ensure that public spending in agriculture reflects public interest at home, and public concern over poverty in developing countries. In the words of Chancellor Gordon Brown, 'We must do more to tackle the waste of the CAP.'¹

The starting point should be a recognition that the CAP remains an extravagant folly that is bad not just for the UK and for social justice in Europe, but also for international co-operation. The EU's failure to adopt a credible programme of CAP reform contributed to the breakdown of the Doha 'development round' of trade negotiations – and it remains an obstacle to the resumption of those negotiations. This erodes the credibility of the World Trade Organisation and multilateral system of rules that it represents. And it raises questions about Europe's willingness to translate encouraging rhetoric on the reduction of global poverty into substantive action.

Who benefits?

The CAP costs UK taxpayers £3.9bn a year, before taking into account the £1.5bn that they pay to clean up the environmental damage caused by intensive agriculture. Consumers also pay in the form of higher food prices: the annual food bill for an average family of four is £800 higher than it would be without the CAP. Where does the money go?

That question is difficult to answer. Government agencies refuse to disclose information on the size of payments to large farmers. In no other sector do taxpayers spend so much and have so few rights to information about the use of their money. This raises fundamental questions about transparency and accountability in the use of taxpayers' resources. Oxfam has attempted to close the information gap by investigating subsidy transfers based on land ownership.

When the new CAP reform package was adopted, the UK government rejected a proposal to place a £187,500 limit on payments to farms in excess of 1,000 hectares. Our data show that 224 farmers in the cereals sector benefited from this action, representing 0.4 per cent of UK cereals farmers.

These farmers received £47m in 2003. Average subsidies of £2.00 are paid every five minutes to each member of the '224 club'. More than 2.8bn people in developing countries live on a daily income less than this amount. Wider comparisons raise important questions about public expenditure priorities. For example, annual subsidy payments to the '224 club' exceed the total UK aid budget for Ethiopia – a country with more than 30 million people living in poverty.

Beyond the group of 224, the largest 2 per cent of land holdings in the UK account for around one fifth of total subsidies. At the other end of the social spectrum in the rural areas, Oxfam is working with farmers in the Peak District who make less than £10,000 a year. Their incomes have fallen by half over the past decade – and their plight is typical of the fate of small farmers across the UK. While subsidies are clearly helping the rich, the CAP is fundamentally failing small farmers.

Eastern England and Lincolnshire, two of the wealthiest agricultural regions in the UK, receive the bulk of CAP support. The poorest regions get the least support. We have identified 75 farms in Lincolnshire, Norfolk, and Suffolk that share around £16m in CAP subsidies. The 'Lincolnshire 8' – farms with more than 1000 hectares – receive an average payment of more than £337,000.

Some of the UK's richest families receive generous support from UK and other EU taxpayers, with CAP subsidies topping up their personal fortunes. Two of the UK individuals on the 'Forbes' list of the world's richest people – the Duke of Westminster and Sir Adrian Swire – receive some of the largest CAP subsidies in the United Kingdom.

Because CAP subsidies are based on the area of land under cultivation, the distribution of benefits is governed by a simple equation: the more land you have, the bigger the subsidy you get. Official secrecy makes it impossible to establish the precise scale of support. However, using estimates of the area under crops eligible for support makes it possible to derive indicative figures.

- **The Duke of Westminster:** Britain's richest man – and 14th on the Forbes list of world billionaires – receives £326,000 in CAP subsidies: an hourly rate of £37.33, day and night.
- **The Duke of Marlborough:** his arable farm on the Blenheim Estate attracts around £369,000 in cereals payments.
- **Sir Adrian Swire:** head of the Swire Group, which holds a controlling stake in Cathay Pacific, he owns farms in Oxfordshire that are eligible for CAP payments of around £200,000
- **The Earl of Leicester:** the arable area of his estate is worth around £245,000 in area-based CAP payments.
- **Lord de Ramsey:** the former head of the UK Environment Agency, with a home farm covering more than 2000 hectares of prime agricultural land in Cambridge, Huntingdon and Lincolnshire, receives CAP payments on cereals estimated at around £377,104.

It should be emphasised that these figures are estimates, based on land-use data. Moreover, there is no suggestion that any of the individuals mentioned in this report receive payments to which they are not fully and lawfully entitled under the current system. Our criticisms are directed at the CAP system itself, not at the individuals who benefit from it.

Even so, the sheer scale of the transfers involved raises fundamental questions about social justice and equity in the use of public finance. The assorted dukes, earls, knights of the realm, and lords included in our survey receive more than £2m a year under the CAP – a figure which translates into a daily subsidy rate of £879. This is not a group that suffers conspicuous financial hardship, so the public-interest rationale for supporting them is unclear.

Taxpayers in the UK might also ask fundamental questions about the implications of CAP subsidies for domestic spending priorities. The UK government has prioritised increases in public spending aimed at overcoming poverty. Yet public subsidies to the country's richest farmers outstrip payments to its poorest people by a very wide margin:

- The hourly CAP subsidy rate enjoyed by the Duke of Westminster is more than eight times the national minimum hourly wage.
- A single parent of two children in the lowest income bracket in the UK is entitled to £7 a day in family tax credit. The seven estates investigated for our survey collect more than one hundred times as much in cereals subsidies.
- The average weekly subsidy for these seven estates represents an amount equivalent to the State retirement pension for more than 600 pensioners.
- The £47m paid in subsidies to the biggest 224 farms could pay the salaries of 3916 additional nurses in the National Health Service.

Landlords are among the biggest beneficiaries of the CAP. Because subsidies are based on land area, they artificially inflate the value of land and the price of rents. This is bad for tenant farmers, a group that includes some of the poorest in the UK; but it is a financial boon for landowners. We estimate that the rent inflation caused by CAP subsidies adds £64,000 to the rental income of the Duke of Marlborough's tenanted land, rising to more than £100,000 for the Duke of Grafton's estate in eastern England.

Losers from the CAP represent a far bigger constituency than the winners. Millions of farmers in developing countries lose because CAP-sponsored export dumping destroys the markets in which they operate. Under the reformed CAP the EU will continue to export large volumes of sugar, cereals, dairy and livestock at prices that do not reflect production costs. This will lower the international and domestic market prices for the agricultural goods produced by developing countries. The natural environment of Europe loses, because the CAP is at the heart of problems that range from water pollution to soil erosion. European consumers lose not just because – or even principally because – of higher food prices, but also because intensive agriculture poses risks to their health. And taxpayers lose because they are paying for a system that is wasting their money and diverting resources from areas of genuine need.

This paper recommends six key reforms aimed at aligning the CAP with public interest in Britain, and with international responsibilities towards the world's poorest countries.

- **Export subsidies:** an EU commitment to the early phase-out of the direct and indirect subsidies that finance export dumping.
- **Payment ceilings:** a cap on CAP payments to individual producers. This should be set at £50,000 with immediate effect, and reduced to £20,000 by 2007 for all payments not directly linked to targeted social and environmental goals. The resources saved should be transferred to a rural development fund targeted at marginal areas, poor people, and environmental projects.
- **Increased spending on social and environmental priorities under the 'second pillar':** the UK should increase to the full 20 per cent now permitted under current rules the level of support provided through the 'second pillar' for rural development.
- **Stronger compliance conditions:** within five years, all CAP support should be geared towards well-defined social and environmental objectives.
- **Public disclosure of payments:** there should be immediate and full disclosure of all payments in excess of £20,000.
- **More support for extensive agriculture:** less than 1 per cent of total CAP support is directed towards organic agriculture, which has the potential to reduce export surpluses, improve the EU environment, and meet consumers' concerns about health. Investment should be increased.

Introduction

The Common Agricultural Policy (CAP) is at a crossroads. In June 2003, the European Union (EU) adopted a package of reforms which will be implemented from 2005. It is already clear that the new CAP, despite some positive elements, bears an unhealthy resemblance to its predecessor.

Deeper and broader reform is an imperative for Europe itself. The current model of agriculture is environmentally unsustainable and socially indefensible. Even after the 2003 reform package is implemented, the budgetary burden of the CAP will continue to divert resources from poverty-reduction programmes in Europe and the developing world – and will continue to compromise EU enlargement. Moreover, the reformed CAP will persist in enriching big farmers and agribusiness interests at the expense of taxpayers, sustainable development, and rural communities.

The UK occupies a special place in debates on the future of the CAP. Over the years, the UK government has been a consistent supporter of reform. It can justifiably claim credit for some of the positive elements in the reform package, including the increased emphasis on rural development. On a more negative note, in 2003 the UK led opposition to proposals to place a ceiling on payments under the CAP, guaranteeing that Europe's biggest farmers will continue to receive the biggest subsidies. The UK government has also failed to give sufficient weight to CAP reform in negotiations between EU member states, enabling die-hard CAP defenders to maintain a level of budget support that is unjustified. To make matters worse, the Department for Environment, Food and Rural Affairs (DEFRA) is planning to implement the reforms in a fashion that will perpetuate subsidised inequality in the countryside. And a lack of public transparency about the recipients of subsidies raises fundamental questions about governance and accountability to taxpayers in the UK.

In the future, Europe can either defend the CAP, or it can provide real leadership in defending multilateralism and a poverty-focused international trade agenda in negotiations at the World Trade Organisation (WTO). It cannot do both. Within the EU itself, the choice is between developing public policies which address the challenges of improving social equity, environmental sustainability,

and consumer welfare, or maintaining a system which directs government finances towards powerful vested interests.

This paper is organised as follows. Part 1 briefly outlines the direction of CAP reform. Part 2 provides an analysis of the beneficiaries of the CAP. Apart from identifying some of the biggest winners, it draws attention to the excessive and pervasive secrecy surrounding information on beneficiaries from CAP support. Part 3 documents the costs of the CAP for developing countries, the environment, and consumers. Part 4 sets out an agenda for reform.

1 The CAP and the reform package summarised

The CAP provides the framework for agricultural policy in the UK. While the 2003 reforms increase the scope for flexibility at national and regional levels, the UK government and devolved regional governments will continue to operate within a Europe-wide policy regime negotiated between Member States.

Budget costs, support systems, and the ‘two pillars’

The CAP overwhelmingly dominates the EU budget. Under current financing parameters, spending will amount to £29.3bn in 2004, or just under half of the total budget.² As a share of overall EU expenditure, the CAP has been declining at a modest rate. However, this process could be reversed. The six biggest contributors to the EU budget want to see spending frozen at current levels for the period 2007-2013.³

With agricultural spending scheduled to increase in real terms, this implies a diversion of resources from regional and overseas aid, transport, foreign policy, and other priority areas. The accession of new States will add further budgetary pressures. Even leaving aside questions of social justice and international responsibility, it appears increasingly unlikely that the reformed CAP is sustainable – even in narrow budgetary terms.

Over the past decade, the structure of CAP support has gradually shifted. Under the old system, governments supported farm incomes through a system of high guaranteed prices, protected by import controls. Consumers met part of the cost through higher prices, and taxpayers financed market interventions, such as buying up surpluses and dumping exports. Over time, the burden of support has shifted away from consumers and towards taxpayers. Guaranteed prices have been reduced, with producers compensated through direct payments from governments, funded by taxpayers.

The 2003 reforms will maintain this trend, but at an accelerated rate. While the reform package itself is complex, and many details about implementation remain to be decided, the broad parameters are clear. Briefly summarised, the reforms introduce a new instrument for support called a **Single Farm Payment (SFP)** – effectively a transfer determined by the amount of land historically used to grow crops eligible for support. The model for this is the **Arable Area Payment Scheme (AAPS)**, described in greater detail below.

In order to claim the SFP, farmers must meet minimal conditions. These include keeping the land in good agricultural and environmental condition – a condition known as ‘cross-compliance’. As in the old regime, CAP support in England will continue to be allocated on the basis of area under cultivation during a historic reference period, or on the basis of historic payments. In theory, these payments will be available regardless of whether or not production takes place – hence the claim that they are ‘decoupled’, or have no effect on output. In practice, multi-billion pound payments will influence production, both because they will provide an important source of capital, and because they provide a guarantee against risk.

Financing for the SFP will come from the central CAP support fund, now termed ‘**Pillar 1**’. This will be supplemented by a ‘rural development’ fund, or ‘**Pillar 2**’, which includes a range of agri-environmental schemes. Over time, ‘Pillar 1’ spending will be reduced – or ‘modulated’ – to release finance for ‘Pillar 2’.

The aim is to modulate up to 10 per cent of ‘Pillar 1’ spending, with national or devolved governments matching funds from the CAP budget with national resources. In addition, up to another 10 per cent of ‘Pillar 1’ payments may be retained to create a ‘**national envelope**’ of funds that can be used to finance environmental and social measures, among other priorities.

There is no limit under the reformed CAP on the amount that may be transferred to individual farmers. In its original proposals, the European Commission proposed a ceiling of £187,500 on direct annual payments to farmers cultivating areas in excess of 1000 hectares.⁴ The proposal was eventually rejected, although the move would have affected fewer than 2000 producers in Europe – and just 224 holdings in England. The UK government led the opposition in resisting the imposition of a limit, strongly supported by the National Farmers’ Union and the Country Land and Business Association.

The UK was also influential in other, more positive respects. The ‘Pillar 2’ and ‘national envelope’ provisions, both of which reflect UK priorities in the reform negotiations, mean that governments can direct finance towards clearly defined public-policy objectives in a more transparent fashion. Although considerably weaker, the principle of ‘cross-compliance’ can be similarly fashioned to link support to wider social and environmental goals.

The UK contribution

The new arrangements have important implications for the UK. In financial terms, the CAP will continue to impose financial demands on taxpayers and consumers. On the other side of the equation, spending under the CAP will have important implications for the countryside.

UK taxpayers and consumers are among the biggest contributors to the CAP. For 2002, the UK budget contribution to the CAP amounted to £3.9bn, representing one penny in the pound on the basic rate of income tax.⁵ This means that every taxpayer in the UK contributes on average £134 a year to finance the CAP. For purposes of comparison, CAP spending absorbs 0.39 per cent of GDP for the UK. Aid spending represented around 0.31 per cent for 2002/03.

Consumers also pay through higher food prices, although the transfers involved are more difficult to calculate.⁶ Estimates by the OECD suggest that these consumer transfers amount to around £200 a year per person.

CAP spending in the UK varies from year to year, depending on market conditions. However, subsidies represent a large share of farm income. For 2002 direct subsidies, minus levies, amounted to £2.6bn, slightly exceeding total income from farming.⁷

Under its national plan for CAP reform, England is shifting resources from 'Pillar 1' to 'Pillar 2'. The devolved administrations in Scotland and Wales are committed to similar measures. For England, the scheduled modulation rate increases from 3 per cent in 2002 to 5 per cent after 2007.⁸ On the positive side, this creates an opportunity to support social and environmental measures enjoying public support. The problem is that the current modulation schedule is under-ambitious. There is considerable scope for accelerated modulation up to the 20 per cent ceiling, with financing provided by placing a ceiling on payments under Pillar 1. Proposals tabled by the Curry Commission in 2002 called on the UK government to implement modulation at this rate.⁹

2 Who benefits from CAP subsidies: past performance and future prospects

Over the past decade the locus of CAP support might have shifted from market-based support to taxpayer-financed transfers, but other features have remained constant – notably a bias towards large-scale agriculture.

In the new regime, the Single Farm Payment will no longer depend on cultivation of any specific crop – in technical terminology, it will be ‘decoupled’. The UK government is currently considering two options for implementing the new system in England when it comes into operation in 2005. Under the first option, future transfers would be based on ‘historic payments’ based on current transfers. In effect, this would maintain the current distribution of payments. In the second option, historic payments would be replaced by regional area payments. In this scenario, future access to subsidies would depend not on past payments, but on land area. Another possible outcome is the adoption of a hybrid approach, combining elements of both options.

At one level, the choice made will have important implications. The ‘historic payments’ approach would favour the cereals sector and cereals-producing regions. This is because they have received historically the largest payments. As research conducted for DEFRA has shown, regional area payments would redistribute the benefits of CAP payments away from eastern England and towards sectors (such as horticulture) with low historic payment levels, and cattle and sheep farms in less favoured areas (which typically have large areas and relatively low stocking rates).¹⁰

Powerful lobbies are lining up behind the two options. The National Farmers’ Union is a powerful advocate of ‘historic payments’, which reflects the strength of large-scale cereals farmers in the organisation. The Countryside Landowners’ Association, a body dominated by England’s biggest land owners, favours area-based payments for an obvious reason: it will increase their slice of the CAP subsidy cake.

Viewed from a wider perspective of public interest, there is little merit in either of the options under consideration. As we show below, the adoption of historic payments will reproduce the stark inequalities currently associated with the Arable Area Payments Scheme for the cereals sector. Land-area payments will benefit landlords, creating an almost feudal payments system under which households will be rewarded in proportion to the area of land that

they own. The result will be that the new CAP, like the old, will operate on the tried and tested principle of agricultural subsidy support: namely, the more you have, the more you get.

The UK cereals sector

The cereals sector is the single biggest recipient of CAP support in UK farming, accounting for around 40 per cent of total subsidies – or just over £1bn – in 2002/03. Analysis of the distributional effects of subsidies graphically highlights the deep inequalities that will be perpetuated if past transfers are used as the basis for calculating future subsidy entitlements.

Under the AAPS, producers receive a fixed rate of support for every hectare under cultivation.¹¹ For the marketing year 2003, the payment rate was set at £260 per hectare. Modulation means that a small tax is placed on this amount, while a premium is provided for protein crops.¹² In order to receive support, producers are required to remove 10 per cent of their land from cultivation – an arrangement known as ‘set aside’ – for which they receive additional compensation, calculated per hectare.

What do these arrangements mean for the distribution of support under the AAPS? Apart from the obvious correlation between farm size and subsidy, this is a surprisingly difficult question to answer. Government agencies are governed by legislation that severely restricts public access to information on farm size, ostensibly to protect the anonymity of individual producers (see Box 1). The result is that information about large taxpayer-financed transfers is kept out of the public domain, raising fundamental questions about transparency and accountability.

Box 1: Where does the money go?

Large amounts of public money are spent on the CAP. Yet in no other area of public finance is so little information available on who benefits – and by how much. Lack of transparency raises important questions about governance and accountability to taxpayers. It also hampers the development of an informed debate about how to achieve a more effective alignment between spending on agriculture and policy goals on domestic poverty, the environment, and international development.

Information is not the immediate problem. Government agencies oversee extensive statistical databases in agriculture. In England, DEFRA's statistics division manages the information recorded in annual agricultural censuses covering the structure of holdings, income trends, subsidies, and production. The Rural Payments Agency (RPA) is responsible for processing applications for farm payments and for despatching cheques through regional offices. Both agencies employ highly trained and motivated staff. Unfortunately, they operate under an almost bizarrely secretive system of reporting. That system provides ministers with extensive powers, including the power to withhold information from the public.

Under the 1979 Agricultural Statistics Act, the minister in charge of DEFRA is authorised to obtain statistical information from owners or occupiers of land. The same act stipulates that: 'no information relating to any particular land or business which has been obtained ... shall be published or otherwise disclosed without the previous consent in writing of the person by whom the information was furnished and every other person ... whose interests may in the opinion of the appropriate Minister be affected by the disclosure.'

Both the RPA and DEFRA restrict access to any data that could be used to identify individual recipients of CAP subsidies. For example, DEFRA's statistics division refuses to provide sub-regional breakdowns of farms in excess of 500 hectares. Similarly the RPA will not publicise area codes for payments in excess of £200,000. Such practices are indefensible. In the USA the Environmental Working Group, a non-profit organisation, has used the Freedom of Information Act to gain access to and make publicly available full details of farm payments. While it might be acceptable to protect the anonymity of small farm households receiving modest transfers on social grounds, the same principles cannot be applied to large farms and estates. These are commercial enterprises receiving a taxpayer-financed subsidy from government. As in other sectors – such as the provision of regional development grants and subsidies for industry – these payments ought to be made public. That is why Oxfam is calling for all transfers in excess of £20,000 a year to be posted on the RPA web site, with a description of the payment in question.

Authorities in England – including DEFRA – could usefully learn from Scotland. The new Freedom of Information Act, which comes into effect in 2005, has already facilitated challenges to the withholding of information. Under the new legislation, the onus will be on the Executive to show that it is in the public interest to withhold information. Any restrictions based on 'commercial sensitivity' will have to be balanced against the public interest and right to know.

The '224 club'

Oxfam has attempted to fill the information gap by constructing a regional and sub-regional breakdown of holdings that cultivate cereals and protein crops, disaggregated by farm size. We have used these data to estimate subsidy transfers to specific size clusters for the marketing year 2003.

Table 1 provides a breakdown of the cereals sector for England. It presents data on areas under crops eligible for CAP support and on numbers of holding. Using these data, we estimate subsidy payments for each size category. Our assessments take into account the direct payment rate for the UK, factoring in a 3 per cent modulation on direct payments and the premium paid for protein crops. On this basis, we estimate the average payment at £255/hectare.

Table 1: **Agricultural holdings growing cereals and oilseeds: Number in selected size categories**

Region	Size of holding (hectares)				
	0-50	50-100	100-500	500-1000	1000+
North East	328	472	1001	66	14
North West	1055	1198	987	—	21
Yorkshire and the Humber	2113	1704	2394	107	13
East Midlands	2542	1617	2980	234	53
West Midlands	1681	1764	2437	56	8
Eastern	3616	1865	3742	347	59
South East	1177	1181	2516	231	40
South West	2642	2963	3764	141	33
All England	15181	12781	19845	1199	224

Source: DEFRA statistics based on June 2002 census

Table 2 sets out the results (within the limits imposed by restricted public access to the relevant data). As noted above, the UK government resolutely opposed the introduction of a £187,000 ceiling payment for holdings in excess of 1000 hectares.¹³ Our figures suggest that the immediate beneficiaries are 224 holdings, representing 0.4 per cent of the total. At the other end of the scale, the vast majority of cereals producers receive relatively modest transfers from the CAP. Among the central findings are the following:

- The 224 holdings in excess of 1000 hectares share around £47m in support payments, with average payments per holding of £211,000 – equivalent to £578 a day.
- The country's 15,000 smallest holdings receive approximately the same level of support as that provided to the biggest 224 holdings.

Average payments are less than £4000, or 2 per cent of the level on holdings above 1000 hectares (**Figure 1**). As shown in **Figure 2**, there is a strong bias towards large holdings in the overall distribution of payments. The largest 2.5 per cent of holdings account for around 20 per cent of total payments, while the smallest 30 per cent receive less than 6 per cent of the total.

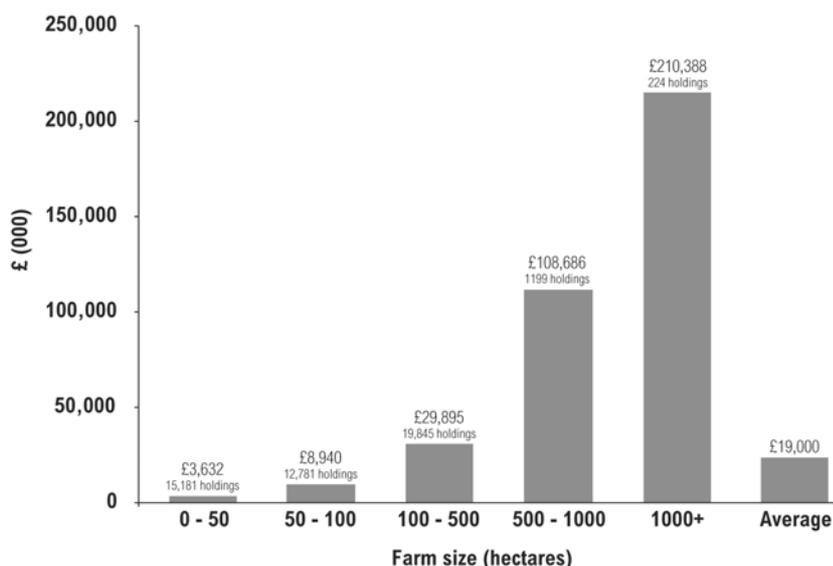
Table 2: **Estimated payments under the Arable Area Payment Scheme by size category (2003)**

	Size of holding					Total
	0-50	50-100	100-500	500-1000	1000+	
All England	15181	12781	19845	1199	224	49,230
Average size (ha.)	13	32	107	389	753	68
Percentage of holdings	30	26	40	2	0.4	100
Percentage of payments	5.2	12.3	63.1	12.3	5	100
Average payment (£)	3,632	8,940	29,895	108,687	210,388	18,999
Total payments (£m)	55	114	593	130	47	935

Source: Oxfam calculations based on data in Table 1

It is important to note that our estimates refer only to support payments for cereals. They do not capture taxpayer transfers in other areas such as livestock rearing. Nor do they capture consumer-financed transfers in sugar and dairy products, although we provide some indicative figures for sugar. Even in the cereals sector, our figures may understate the subsidies provided to individual producers. This is because large holdings are often divided and registered under different names.

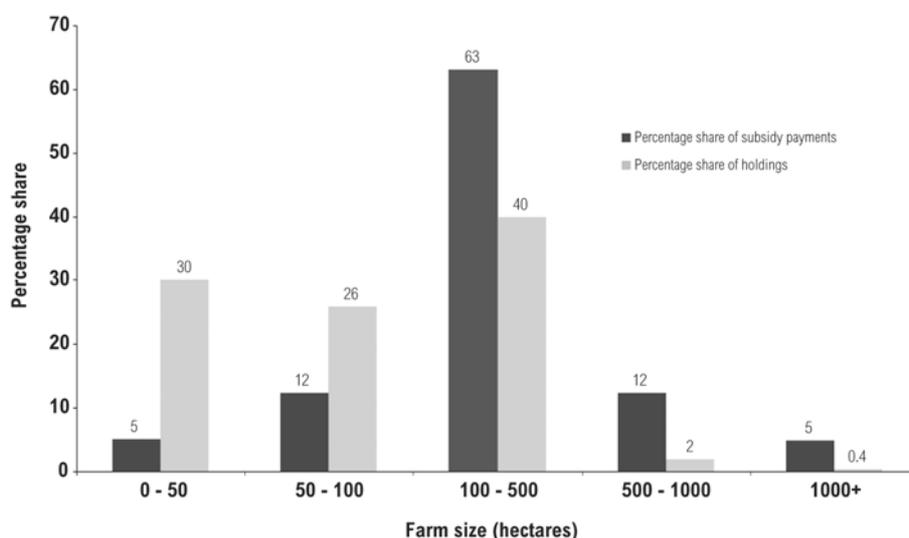
Figure 1: **Average cereal subsidy payment by farm size: selected size categories (2003)**



Source: Oxfam calculations based on DEFRA data

Contrasts between subsidy-sponsored wealth in the UK and poverty in developing countries are striking. Around 2.8 billion people in developing countries live on less than \$2 a day. The 224 large farms covered in our survey receive more than this sum every five minutes, in the form of subsidies from EU taxpayers. Their total payments exceed UK aid to Ethiopia, while payments to the biggest 2 per cent of farms exceed aid to Ethiopia, Zambia, and Tanzania *combined*. In other words, fewer than 1,500 farm holdings in England are receiving more support from UK taxpayers than countries with some of the world's highest levels of poverty.

Figure 2: Shares of cereal subsidy payments by holding size (2003)



Source: Oxfam calculations based on DEFRA data

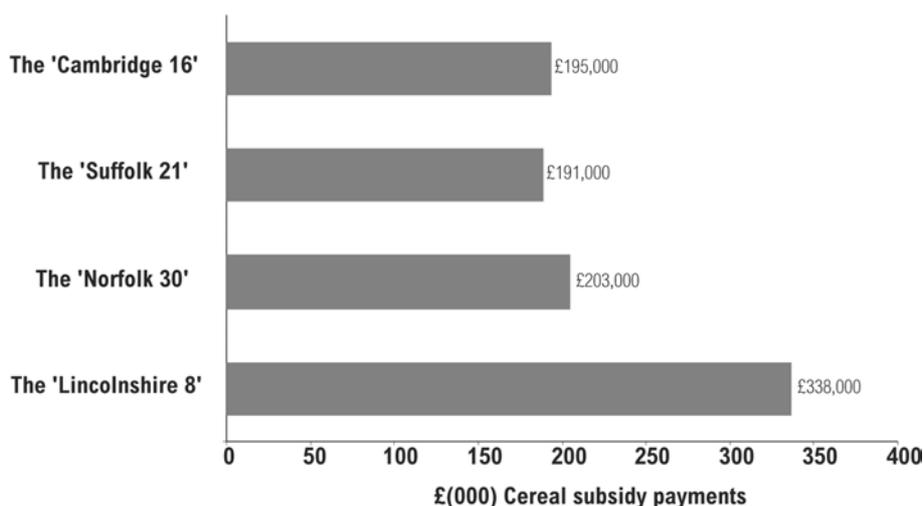
Viewed in terms of UK expenditure, the comparisons are equally stark. Subsidies paid to the 224 biggest cereals farmers in England are equivalent to the salaries of 3,916 nurses¹⁴. Most taxpayers would view this as a gross distortion of public-spending priorities.

Eastern England and Lincolnshire, two of the wealthiest regions in English agriculture, account for the bulk of large farms. Restrictions on public disclosure make it impossible to establish individual recipients, or to provide a detailed geographical breakdown of regional payments. However, reconstructing the sub-regional data for key areas indicates very large subsidies for individual producers. Using data for Lincolnshire, Norfolk, Suffolk, and Cambridge, we identified 75 farms sharing around £16m in public support (Figure 3).

These include the following:

- The 'Lincolnshire 8', with an average payment of more than £337,000
- The 'Norfolk 30', with average payments of more than £203,000
- The 'Cambridge 16', with average payments of £196,000

Figure 3: The 'magnificent seven' subsidy collectors: estimated payments 2003



Source: Oxfam calculations based on DEFRA data

The 'sugar premium'

As noted above, our figures do not include consumer-financed transfers in the sugar sector. For cereals farms in eastern England and Lincolnshire, this is a serious omission. Sugar is extensively used as a break crop in cereal rotation systems – and it remains one of the most profitable crops in the arable sector. One reason for this is that import restrictions keep EU prices at a level that is some three times higher than world market levels.

Large producers dominate sugar production in UK, with a strong regional bias. Of the 392 holdings in the UK growing sugar on holdings in excess of 500 hectares, 325 are located in eastern England and Lincolnshire.

Consumer transfers to sugar producers are difficult to estimate. However, at the end of the 1990s, the Ministry for Agriculture, Fisheries and Food (now DEFRA) estimated that sugar farmers received support worth £140m, or £740 for each hectare of sugar beet

grown.¹⁵ For a farm of 500 hectares, that would translate into £370,000.

The ‘magnificent seven’ subsidy collectors

Official secrecy notwithstanding, it is possible to identify some individual beneficiaries of the CAP. We have identified seven such beneficiaries on the basis of local land-use records and other evidence. They include some of the wealthiest people in the UK, including two of the UK’s 14 individuals on the Forbes list of international billionaires. International property tycoons, the country’s biggest landowners, and owners of major international airlines are among the major recipients of CAP support.

In the absence of public disclosure, any estimate of payments to individuals must be treated with caution. It also has to be acknowledged that individuals on low incomes have a right to anonymity. That privilege does not – or, more accurately, ought not – to extend to large commercial enterprises in receipt of public money. The seven cases reviewed in our survey fall into this category (see Box 2).

Box 2: Major subsidy recipients in the UK

UK taxpayers are financing transfers to some of the country’s wealthiest people. Large landed estates, created several centuries ago during the feudal era, have become lucrative sources for the collection of agricultural subsidies under the CAP. The scale of transfers is not made public – and any estimate comes with the standard caveats about the difficulty of obtaining accurate information under such conditions. Our estimates are based on subsidy entitlements derived from area under arable crops. We emphasise again that the collection of the large subsidy cheques calculated below is a perfectly legal activity.

Sir Gerald Cavendish Grosvenor, the Duke of Westminster, consistently leads the UK individuals on the Forbes list of the world’s richest people – and he is in the premier league of subsidy beneficiaries. The 2003 Forbes list puts the Duke’s net worth at \$7.5bn, making him the fourteenth richest person in the world. Much of this wealth derives from an inherited estate which covers 300 acres of exclusive commercial and residential property in London’s Mayfair and Belgravia. Grosvenor Estate is one of the world’s largest private real-estate companies, with extensive holdings in North America and the Far East as well as the UK. However, farming also contributes to the Grosvenor fortune – as does the European taxpayer. It is estimated that the Grosvenor farm near Chester has 1280 hectares eligible for support under the AAP scheme. This would make the estate eligible for payments of £326,000, or just under £1000 a day.

Sir Adrian Swire, head of the family Swire Group, is another of the 14 UK names on the 2003 Forbes list, trailing just behind Sir Richard Branson in ninth position. Forbes estimates his net wealth at \$1.4bn. Built on colonial trade in Hong Kong in the early nineteenth century, today the family fortune is based on commercial and residential property holdings in Hong Kong and elsewhere. The Swire Group also holds a 46 per cent stake in Hong Kong's international airline, Cathay Pacific. In the UK, Sir Adrian's portfolio includes Greendown and Lodge farms in Oxfordshire, which have an estimated arable area of around 800 hectares. Holdings of this size eligible for AAPS support would receive around £200,000 in annual CAP support.

Lord Iliffe is the 64th richest person in Britain. His Yattendon estate in Berkshire includes an estimated 1300 hectares under arable crops – such as wheat, barley, oats, and oilseeds – eligible for AAP support. The estate produces 4700 tons of wheat flour each year. The land is also used to keep 550 dairy cattle. Total payments for cereals are estimated at around £331,000 a year.

The Duke of Marlborough operates one of Britain's largest arable farms. Based in Oxfordshire, the estate includes an arable farm estimated at around 1600 hectares. Assuming that approximately 75 per cent of this area is eligible for support, the estate would qualify for around £369,000 in annual CAP payments.

The Duke of Bedford operates a 5400-hectare estate at Woburn Abbey, which is another major recipient of CAP subsidy cheques. Woburn Park Farm includes around 2000 hectares of arable land, principally used for growing cereals. If 75 per cent of this land is eligible for CAP support, subsidies would amount to £382,000 per annum.

Edward Douglas Coke, the seventh Earl of Leicester, is another major beneficiary of European taxpayer support. The Holkham Estate in Norfolk includes 405 hectares under wheat and 486 under barley, along with around 90 hectares set aside. This would make the estate eligible for annual support of around £245,000.

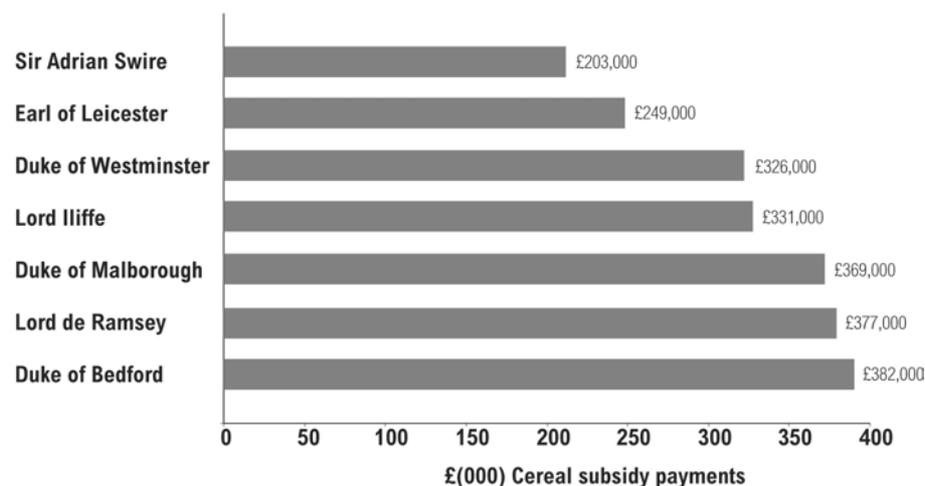
Lord de Ramsey owns one of the largest private estates in England. The 4451-hectare estate extends over Cambridge, Huntingdon and Lincolnshire. Around half of the estate is estimated to be farmed by the family, with around two thirds cultivated as arable land. Under the AAPS this area would be eligible for a subsidy of around £377,000 per annum.

Our estimates of subsidy transfer are based on the area under cultivation of crops eligible for AAPS support. The results are summarised in **Figure 4**. According to this criterion, the holdings of Sir Gerald Cavendish Grosvenor, the Duke of Westminster, would qualify him for around £326,000 in CAP subsidies for arable land alone. The Duke is ranked 14th on the Forbes list of world billionaires, with a net worth of slightly more than £5bn.

Sir Adrian Swire, head of the Swire Group, is another of the UK's 14 names on the Forbes list, ranking in 303rd position. Forbes estimated his net worth in 2003 at £1.2bn. Among its assets, the Swire Group has a 46 per cent stake in Cathay Pacific airline. Sir Adrian himself

also operates two farms in Oxfordshire. The arable area covered would be eligible for up to £200,000 in payments. Also in Oxfordshire, the 1200 hectares under arable on the Duke of Marlborough's Blenheim estate would attract more than £300,000.

Figure 4: **Estimated annual cereals subsidies seven selected estates 2003 (£000)**



Source: Oxfam calculations

Taken collectively, the seven individuals investigated net more than £2m million a year in cereals subsidies. This is *before* taking into account support for livestock rearing, dairy farming, and woodlands management. This translates into average subsidy payments of £879 per day, implying an hourly rate of £37.

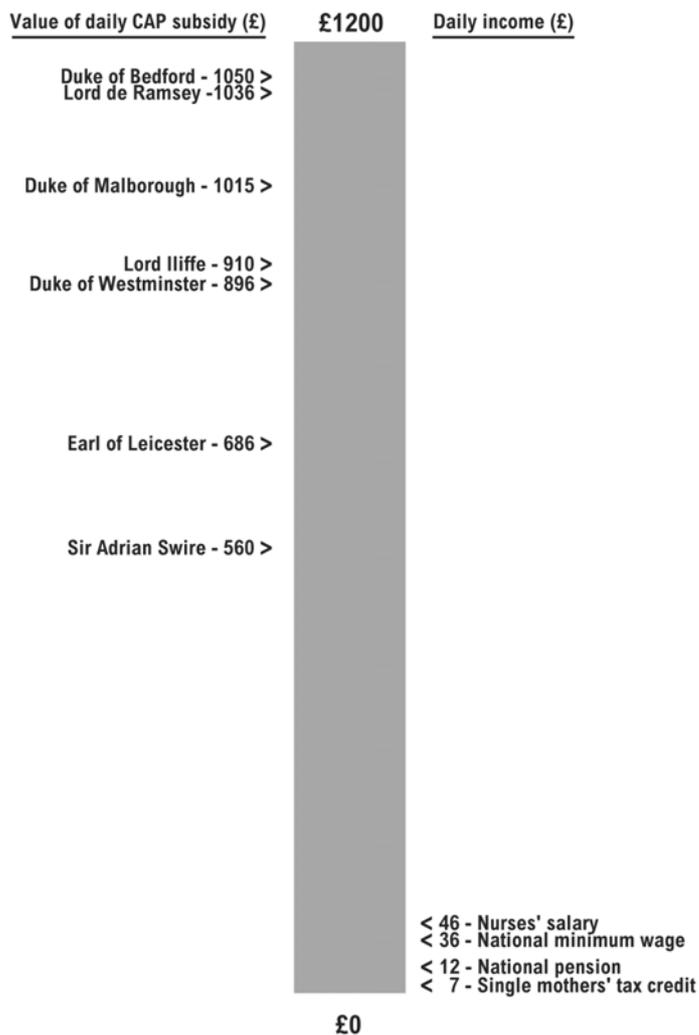
These are indicative figures, as are those of overall support under the AAPS. Even so, they merit comparison with other areas of public expenditure and public concern. **Figure 5** highlights the stark discrepancy between government payments in areas of vital importance to poverty reduction in on the UK on the one side, and payments rewarding landed wealth on the other.

Among the more striking comparisons:

- The Duke of Westminster receives CAP cereal subsidies at an hourly rate of £37. This compares with the hourly rate under the national minimum wage of £4.50.
- A single parent of two children, one of the groups in Britain most vulnerable to poverty, is entitled to £7 a day in family tax credit.¹⁶ The Earl of Leicester receives CAP subsidies of £686 a day. The seven agricultural estates analysed by Oxfam receive on average £894 a day in cereal subsidies.

- The £6153 weekly subsidy received by the assorted dukes, lords, knights, and earls covered in our survey is equivalent to the weekly State pension for 612 pensioners.¹⁷

Figure 5: **Sliding scales: daily CAP cereal subsidies to seven big farmers and daily income for selected groups.**



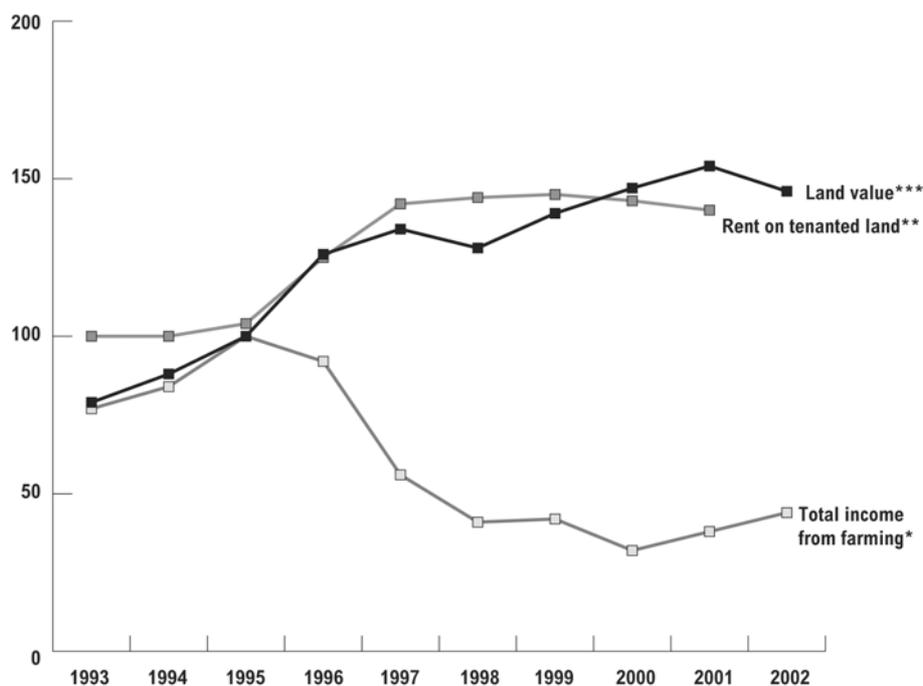
Source: Oxfam calculations and government sources

Regional bias

The concentration of CAP payments on the cereals sector in general and on large farms in particular has important regional consequences. One perverse outcome is an inverse correlation between support and need, with England's richest farming regions getting the biggest slice of the subsidy cake.

East Anglia and Lincolnshire are the winners in the cereals sector. Data from the Rural Payments Agency (RPA) show that Cambridge and Nottingham (the administrative region covering Lincolnshire) respectively received £230m and £170m in 2002, or just under one half of total payments (Figure 6). Average payments for Cambridge amounted to £25,000, compared with £7000 for the south-west of England – a region with one tenth of its average farm income. This is part of a broader pattern in which subsidies reinforce differences in farm incomes: the regions with the highest incomes get the biggest subsidies.

Figure 6: Changes in farm income, land value and rent payments for English farming 1993 - 2002 (1995 = 100)



Source: * DEFRA, Agriculture in the United Kingdom 2002, Table 2.1
 ** DEFRA, Average rents in England: 1996 - 2002 and 1968 - 1995
 (Source: www.statistics.defra.gov.uk/esg/datasets). For average rents 1994 = 100
 *** DEFRA, Agriculture land sales and prices in England, derived from Table 1a
 (Source: www.statistics.defra.gov.uk/esg/statnot/alp.xls)

The same pattern prevails beyond the cereals sector. Since agricultural spending dominates the balance sheet of EU transfers to England, it severely distorts the flow of European public expenditure (Table 3). CAP-related expenditure in England represents around £40 a head – some eight times the amount transferred through the European Social Fund.¹⁸ The largest flows go to the regions with the largest farm incomes. Total CAP-related expenditure in the East of England represents £100 per person, compared with £16 per head in

the North. The East and the East Midlands are the only English regions that receive a net transfer from the EU, with large-scale agriculture accounting for the bulk of the total.

Table 3: **Farm income and CAP spending by region 2000-01**

Region	Total farm income* per holding (£ 000)	CAP-related** spending (£m)	CAP-related spending** per capita (£)
East	17,350	541	100.2
Yorkshire and Humber	14,240	347	70
East Midlands	9,740	308	74
West Midlands	6,380	270	51
North West	2,490	124	10
South West	1,940	217	44
Total England	1,557	2023	41

Source: * DEFRA, *Agriculture in the United Kingdom, 2002*

** Office of the Deputy Prime Minister, 'Identifying the flour of domestic and European expenditure into the English regions', Table 5.6.

Data for Scotland reveals a similar pattern of unequal distribution for direct payments under the CAP.¹⁹ In 2002, 9754 farms - almost half of the total - shared under 2 per cent of support, whereas the largest 389 received just under one-fifth of total payments. In 2000 twenty-seven individual agribusiness companies received subsidies in excess of £250,000.

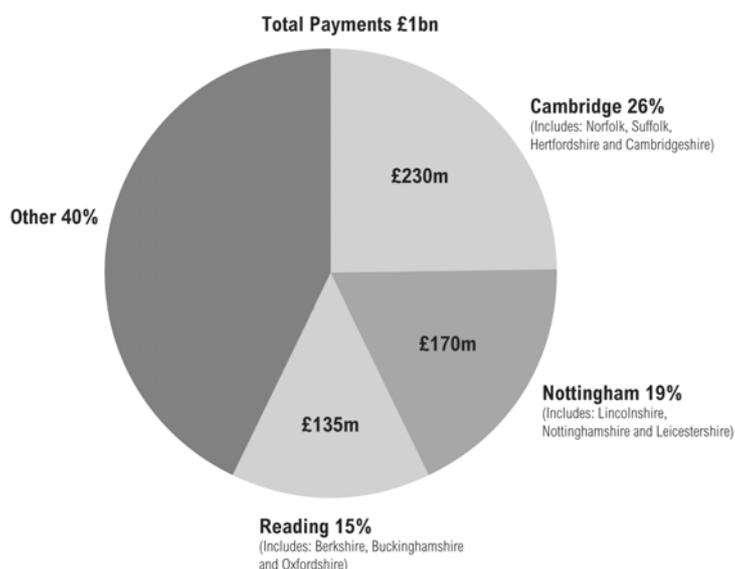
As in England, direct payments under the CAP are also associated with inequalities based on crop production and region. One hectare of arable land in Scotland receives support of £215, or six times the level for mixed livestock and arable farming. Payments for the Lothian region, with one of the highest farm income levels in Scotland, amount to £144 per hectare, while the Highlands and the Islands receive respectively £15 and £9. As in England these figures raise serious questions about the principles guiding resource allocation. The distribution of CAP support in Scotland owes little to the principles of environmental sustainability and social equity, and a great deal to the principle of rewarding those with wealth.

Renting benefits

Transfers from governments to individual producers represent only one aspect of support under the CAP. The mechanisms through which these transfers take place have important implications too. Under the emerging model of reform summarised above, support to agriculture has been linked increasingly to land. Not surprisingly, this has important implications for land values.

Much of the benefit associated with area payments is capitalised into rising land and rental values, generating large gains for landowners and costs for tenant farmers. This helps to explain one of the great paradoxes of English agriculture over the past decade: the association of sharply declining levels of agricultural income with spiralling land and rent values. Average land prices have doubled since 1993, and rental payments have climbed by more than 90 per cent (**Figure 7**).

Figure 7: Distribution of CAP cereal payments for England by administrative region for 2002



Source: Data provided by Rural Payments Agency

For landowners this is unambiguously good news. According to the OECD, around 46 per cent of the value of area payments is capitalised into land values.²⁰ Applying this rule of thumb for the UK would suggest an increase in the asset values of around £500m in the cereals sector alone. Estimating rental inflation linked to area payments is a hazardous exercise. However, one study commissioned by the UK government in 1996 estimated on the basis of survey evidence that around 16 per cent of the AAPS had been converted into increased rental values.²¹ In 2003 this would be equivalent to £41 per hectare.

Whatever the precise figure, large landowning families stand to make the largest gains. None is larger than the Royal Household. The Duchy of Lancaster – a huge 120,000-hectare estate – pays the Queen £6m a year. Rent on tenanted land, duly inflated by CAP support, represents a significant share. Other landed families benefit on more modest terms.

- The 2200 hectares rented out to tenant farmers on Lord de Ramsey's estate would gain a bonus of £91,000 a year.
- One of Lord de Ramsey's close neighbours, the Duke of Grafton, reaps an even bigger benefit. His 5600-hectare estate, located in prime agricultural land in eastern England, would enjoy a CAP-sponsored annual rent premium of around £114,800.²²
- The 1600 hectares rented out to tenant farmers on the Duke of Marlborough's Blenheim estate would gain around £65,000 a year.

On the other side of the equation, artificially inflated rents are unambiguously bad for tenant farmers. Given that around one-third of farmland is tenanted, this represents a significant constituency. In England and Wales this is a group that covers more than half of all producers, including many of the poorest in the country. More broadly, rising land values are bad for efficiency. They increase operating costs, stifle innovation, limit prospects for diversification, increase the risk of unsustainable debt, and create incentives for farmers to sink capital into landownership.

3 The costs of the CAP

During debates on reform of the CAP, the media spotlight invariably falls on the financial costs of the system. Public concerns are less narrowly focused. Opinion surveys in the UK and the rest of Europe consistently show that an overwhelming majority of people favour supporting agriculture – but not on an unconditional basis. Supporting small farms, and ensuring that farming promotes respect for the countryside and animal welfare, and produces healthy and safe foods are among the most widely expressed concerns. Public opinion is also increasingly aware that, in a globalised world linked through trade, agricultural policies in the EU can have an impact on the world's poorest people.

In all of these areas there is a large gap between what the public wants and what the CAP delivers. While current policies provide wealth in abundance for the few, they inflict severe damage on the interests of the vast majority, both in Europe and the rest of the world.

Developing countries

Some of Europe's most powerful agricultural and agribusiness lobbies are involved in seeking to shape the direction of CAP reform. Their influence is much in evidence around the negotiating tables of Brussels. Other constituencies are conspicuous by their absence – and none more so than the farmers of the developing world. This is an important omission, not least since more than three quarters of all the people in the world who survive on less than \$1 a day live and work in rural areas of developing countries.

In previous briefing papers dealing with the sugar and dairy sectors, Oxfam has documented the adverse impact of the CAP on the developing world. Reduced to its essentials, the problem is that CAP subsidies generate vast surpluses, which are then dumped overseas, with the help of direct or indirect export subsidies.

Small farmers in the developing world lose out in several respects. The dumping of EU exports drives down world prices, costing vulnerable households income and impoverished countries foreign exchange. In some cases, subsidised EU exports force farmers in developing countries out of local markets. This has happened to dairy farmers in India and Jamaica.²³ At the same time, high tariffs limit opportunities for exports. Restrictions on market access for sugar were costing Mozambique – a country with three quarters of its population living in poverty – an estimated £70m.²⁴

CAP reforms have so far failed to address these problems. In the dairy and sugar sectors, European taxpayers continue to finance export dumping on a large scale: both sectors provided export subsidies in excess of Euro 1bn in 2002.²⁵ In the cereals sector, direct export subsidies have stopped. However, subsidies totalling Euro 18bn play a key role in generating surpluses, facilitating exports at prices that do not reflect production costs.

Under the 2003 measures, financial transfers to producers will principally take the form of support based on land ownership, rather than output – a process known in the CAP reform vernacular as 'decoupling'. However, while the reforms might weaken the link between subsidies and output, they will not break it.²⁶ Big farms in Europe will continue to receive multi-billion Euro payments from governments, providing them with capital and guarantees against risk. These payments will inevitably influence productivity and output levels. As developing countries such as China, Brazil, India, and South Africa argued during the WTO ministerial meeting in

Cancun, elaborate subsidy repackaging is not a substitute for acting on the commitments made by the EU in the Doha 'development round': namely, **the elimination of all subsidies that support export dumping.**

Small farmers and agricultural labourers

Images of the large estates operated by the 'cereal barons' of East Anglia and other regions tell only a partial story. For the vast majority of farmers in the UK - like their counterparts elsewhere in Europe - life is a struggle for economic survival. By concentrating resources on large-scale, capital-intensive farms, the CAP does little to aid that struggle.

At the end of the 1990s, income from farming in England and Wales was at the lowest level for three decades. Small farms have been going out of business in record numbers. More than 5000 dairy farms stopped operating in the second half of the 1990s alone.²⁷ One consequence of the demise of small farmers is the relentless expansion of big farms. Around 80 per cent of food in the UK now comes from just 25 per cent of farms, with the largest ten per cent producing half of the total output.²⁸ CAP subsidies have supported this trend by systematically promoting capital-intensive farming.

Oxfam has direct experience of the agricultural crisis in England through its work with small farmers in the Peak District²⁹. Average income on a mixed beef and sheep farm of less than 250 acres is £7,482 - less than half of the level a decade ago. In order to protect their declining household incomes, farmers are forced to work excessive hours. Conservative estimates for the Peak District indicate an average working week of around 56 hours a week (see Boxes 3 and 4).

Box 3: How the other half live: small farmers in the Peak District

The Peak District offers some of the most picturesque scenery in Britain – and the scenery obscures some of Britain's most intensive deprivation. In contrast to the heavily subsidised cereals barons of eastern England, small farmers in this area are struggling to survive in an increasingly hostile climate, with limited support.

Sue Jackson is one such farmer. Her 29-hectare sheep and beef farm is located in the Peaks National Park. Her day starts before 5 am and typically continues well into the evening. Even with a small annual subsidy of between £3000 and £5000 a year for her seven pedigree Dexter cows and 115 Dorset Cross sheep, the farm makes a loss. Off-farm income keeps the enterprise afloat. Although the farm is run organically, the Jackson family is unable to afford the certification fee to be registered as an organic farm. The family is on the highest band of Working Family Tax Credit.

On the other side of the Peaks National Park, Ed Bradbury operates a 260-acre dairy farm near Matlock in Derbyshire. The farm has been in the family since 1947. Despite working 18-hour days, the farm made a profit of only around £4320 in 2002. For purposes of comparison, this represents less than the subsidies paid to the estates of the Duke of Bedford and Lord de Ramsey per week. Mr Bradbury receives no direct payments from government.

CAP subsidies have done even less to protect agricultural employment than they have to enhance the position of small farmers. By supporting the intensification of production, they have accelerated the replacement of labour by capital, giving rise to increasingly vulnerable employment contracts in the process.

Between 1990 and 2001, the labour force employed in UK agriculture fell by more than one quarter, or almost 100,000 people.³⁰ Economic pressures have also increased insecurity. Since the early 1980s there has been a shift in the composition of the labour force, with an increase in part-time workers. From less than one quarter twenty years ago, almost two thirds of the agricultural labour force are now employed on a part-time or seasonal basis. Women workers are in an especially vulnerable position. They account for less than 20 per cent of the work force in full-time employment, and around half of the part-time or casual work force.³¹

Box 4: How the CAP increases regional inequalities

Farming in the UK is marked by large inequalities based on region and sector, as well as on farm size. CAP subsidies systematically compound these inequalities.

Welsh sheep farmers operating in less favoured areas earn among the lowest incomes in UK agriculture, averaging around £3000 a year for 2000/01-2002/03. That represents around one fifth of the average income in the east of England. Yet it is the east of England that captures the lion's share of subsidies.

Gordon Blackburn, aged 62, and his wife Christine used to operate a small dairy herd with 70 cows. Low prices forced them to sell off the herd in 2000. They now work a farm of 150 sheep on a 116-acre holding in Pembrokeshire, south Wales. Their total subsidy under the CAP amounts to £4000 a year. This includes a 'Less Favoured Area' payment and an annual sheep premium.

Even with this payment, they struggle to keep the farm in business. Gordon and Christine do around 70 hours a week of paid work off the farm to supplement their profit from sheep, which they estimate at around £10,000. Without the subsidy, the farm would collapse. But the average subsidy to farms in eastern England amounts to over £11,000, raising questions about regional equity in the distribution of payments.

The environment

The financial costs of the CAP are clearly visible in EU budget accounts. Putting a value on the environmental costs is more difficult, partly because the impacts are not directly valued in the market place; and partly because the costs are incurred either in non-agricultural budgets or by households. But while the environmental costs of the CAP may be less visible, they are real. By concentrating resources on intensive farming, the CAP has contributed immense damage in the form of habitat destruction, water pollution, and loss of biodiversity.

The Environment Agency and the Department for Environment, Food and Rural Affairs (DEFRA) puts the environmental damage caused by agriculture in the UK at around £1bn-£1.5bn a year.³² To put this in context, the value of the gross output of agriculture in 2000 was £15bn.

Agriculture accounts for around three quarters of land-use in the UK. It follows that agricultural policy has a large environmental impact through its impact on the landscape, on biodiversity, and use of water and soil resources. That impact merits urgent public-policy attention in a number of areas.

- **Pesticides:** Around 25,000 tons of pesticide are applied annually in the UK.³³ While this raises productivity, it also poses health and environmental risks. Exposure to pesticide occurs not only in food, but also through contamination of soil, air, and water.
- **Water pollution:** Fertilisers and pesticides used in agriculture are the major source of water pollution in the UK. High levels of nitrate, ammonium, and phosphate concentrations compromise drinking-water quality. Pesticides can cause pollution by spilling into surface waters, leaching into groundwaters, and through run-off. They are likely to have toxic effects on aquatic plants and may exceed permitted limits for drinking water, increasing the costs of water treatment. In 2002, around 80 per cent of river lengths in the Anglian, Thames, and Midland regions had phosphate concentrations higher than the government guideline level.³⁴ Phosphate leakage causes excessive algae growth in up to 200 freshwater sites each year. According to DEFRA, agriculture accounted for one fifth of all serious water-pollution incidents in 2001. The Environment Agency estimates the clean-up costs at £200m. Costs to the UK water industry, and therefore to the consumer, of removing pesticides from drinking water are about £120m a year.³⁵ Water customers pay around £7 each per year to remove nitrates and other pesticides from water supplies.
- **Global warming:** Agriculture contributes to global emissions of three of the greenhouse gases identified in the Kyoto Protocol: carbon dioxide, methane, and nitrogen dioxide.³⁶ Carbon dioxide is emitted when soil is rotated, nitrogen dioxide is generated by the breakdown of nitrogenous fertilisers, and methane from animal waste. Agriculture is estimated to be the largest source of both methane and nitrogen dioxide.³⁷ However, the problem extends beyond farming. The growing centralisation of food marketing has increased the distances between producers and consumers, with the average length of movement now 95 miles. The share of agriculture in road haulage adds a further 2 per cent to UK greenhouse-gas emissions.
- **Soil erosion:** Rates of soil erosion are high in the UK, with around half of soils having damaged structures.³⁸ Contributing factors include increased use of inorganic fertilisers, fewer fallow periods, and compaction of soil as a result of using heavy machinery. Soil erosion is a major cause of water pollution, including damage to rivers and lakes.
- **Loss of biodiversity:** Species diversity is declining sharply as a result of drainage, overgrazing, loss of hedgerows, and excessive use of chemical inputs. Farmland bird populations have declined

sharply. For example, the population of nine species fell by more than half between 1975 and 1995.³⁹

The reforms introduced during the 1990s and in 2003 have gone some small way towards addressing problems of intensification. The use of fertilisers and pesticides has declined. Under the new regime, producers in marginal grassland areas may lack the incentives to convert grassland into arable farming. Yet the new regime contains features which may exacerbate or prevent the reversal of other environmental problems. For instance, area-based payments have rigidly fixed the area of land under arable cropping, presenting an obstacle to farmers wanting to convert arable land to grassland. Moreover, direct payments provide a capital resource for investment. If farmers are given an incentive to maximise productivity on their cereals area, at least part of this resource will be invested in chemical inputs. In effect, the current system also penalises organic enterprises with lower yields.⁴⁰

Consumer costs

Reference has already been made to the costs of the CAP to consumers. For low-income families spending a large share of their income on food, CAP subsidies represent a tax on consumption that causes real hardship.⁴¹ But it is increasingly recognised that consumers are concerned with more than price. Other factors also matter, including a concern for the welfare of rural communities, the environment, food quality, and – increasingly – the impact of domestic policies on developing countries.

Research into consumer attitudes carried out by DEFRA and the National Consumer Council reveals a consistent pattern of concern about food safety, often linked to pesticide use.⁴² Intensive agriculture is frequently seen as a cause of problems of food safety and animal welfare. As the National Consumer Council puts it: 'Consumers are concerned about the harmful effects of pesticides on human health and the environment ... Intensive agriculture is frequently seen as a cause of food safety and animal welfare problems ... Consumers are increasingly demanding more extensively produced foods with higher safety, quality and traceability standards.'⁴³

One recent poll registered more than 40 per cent of respondents expressing concern over the impact of pesticides and chemical fertilisers.⁴⁴ This concern is reflected in growing demand for organic products. Around three quarters of this demand is currently met by imports, reflecting the fact that less than 3 per cent of land area is geared to environment-friendly production.

In the past, consumers scarcely figured in official thinking about agricultural policy. Until relatively recently, most policy makers still took the view that the driving consumer concern was to reduce food prices. Today, it is increasingly clear that consumers are motivated by a wider set of concerns, reflecting a wider assessment of the public interest. Unfortunately, public policy on agriculture continues to lag far behind.

4 Towards a win–win reform of the CAP

Reform of the CAP presents significant opportunities for increasing the public value for money of the agricultural support system, by aligning expenditure more closely to public-policy objectives. As the social, political, and financial unsustainability of the current system becomes increasingly apparent, EU governments have an opportunity to set a new course.

Tackling the need for reform would enable Europe to exercise real leadership at the WTO and beyond in fighting global poverty. On the domestic stage, reform could direct public financing for agriculture more explicitly to policy goals supported by the public, and to social and environmental objectives not recognised by market forces.

The challenge is to transfer support from production and land ownership towards goals that recognise international responsibilities and public benefits. The UK could set an example to the rest of Europe, both through its actions at home and by championing the case for reform more effectively in negotiations with other EU member states.

The danger is that the reform process will continue to be driven by a combination of political inertia on the part of governments and lobbying by vested interests. What is the public-interest rationale for using large amounts of taxpayer finance to reward individuals on the basis of their past subsidies, or for land ownership? This is a prescription for maintaining a CAP with a built-in bias towards wealthy individuals and agribusiness. And why does a government committed to transparency deny public access to information about the beneficiaries of tax transfers? After all, when other commercial operations receive State support, the information is routinely published on government web sites.

Deeper reform of the CAP will require political leadership. The alternative is to leave in place a system that is failing at home, inflicting immense damage in developing countries, and

undermining Europe's authority and standing with the developing world. Oxfam calls on the UK government and devolved regions to broaden and deepen the CAP-reform process through the following six measures, which combine immediate action with a longer-term vision.

Reviving the WTO 'development round'

The UK government should use its influence to persuade European partners to table negotiating proposals which will help to break the deadlock in 'development round' negotiations. Such proposals should include a commitment to the rapid phase-out of direct and indirect subsidies that support dumping. As a first step, the UK should promote dialogue between the EU and developing countries in the WTO, with a view to producing shared proposals.

Capping CAP payments

Maintaining an agricultural policy regime that concentrates support on those producers in least need is indefensible in social terms, and a gross misallocation of resources in terms of market efficiency. The traditional government argument that a ceiling on payments would penalise efficient large farms is misplaced: such farms should not need support. National and devolved governments should use national flexibility to limit transfers to individual producers to £50,000 in 2006 and to £20,000 by 2010. Exceptions to this rule should be based on payments for public goods, with clear and transparent criteria. Setting a ceiling on CAP payments would release resources for investments enjoying public support.

Full disclosure of all payments above £20,000

As a first step, the 1979 Agricultural Statistics Act should be revised. For England, the Rural Payments Agency and DEFRA should be required by legislation to publish annually the names of the individuals and enterprises receiving more than £20,000, along with the budget lines for their payments. In Scotland, the Scottish Executive should make public details of all payments under CAP schemes. This information should be made available on government web sites at the end of financial years. There are no grounds for restricting public access to information involving the transfer of taxpayer resources to what are essentially commercial enterprises.

More finance for the 'Second Pillar'

The UK government deserves credit for championing the case for 'modulation' and the 'Second Pillar'. However, in England it has shown a disappointing lack of ambition in using this facility. As an immediate priority, the UK government should increase the rate of

modulation from the current schedule, which aims at 5 per cent by 2007, to the maximum rate of 20 per cent.⁴⁵ Equally important, 'Second Pillar' resources should be used to develop a model of agriculture that reflects public concerns over the failure of the current system.

Encourage the development of more extensive agriculture

Intensive agriculture is at the heart of the problems affecting the environment and consumer welfare in Europe and in rural areas of developing countries. Less intensive and organic agriculture could be a central part of a 'win-win' strategy. Consumer demand for organic food is increasing rapidly, yet 75 per cent of this demand is met by imports. This partly reflects a low level of support for organic agriculture.

Of the £3.1bn spent on subsidies and grants, just £23m was allocated to organic production in England for 2002.⁴⁶ Moreover, the way in which support is provided disadvantages organic producers, because it does not cover some of the crops used in organic rotation systems.⁴⁷ Some critics argue against increased support for organic production, on the grounds that it is less productive. That is true: yields are around 40 per cent lower on average in the cereals sector. But fertiliser and energy inputs are also far lower. Moreover, any assessment of efficiency would have to take into account the environmental benefits of reduced pesticides use. From an international perspective, reduced productivity would be an advantage rather than a handicap, in that it would reduce surplus production, and hence the need for export dumping. One strategy for encouraging less intensive agriculture is the imposition of taxes on chemical fertilisers and pesticides. This strategy has been successfully used in Sweden and Denmark to improve environmental standards.

Stronger 'cross-compliance'

At present there is a sharp distinction between the bulk of support provided under 'Pillar 1', where weak environmental and other conditions are attached, and 'Pillar 2'. The UK government and the devolved administrations should strengthen 'cross-compliance' by making all CAP support conditional on meeting public-policy goals and the promotion of less intensive agriculture.

Notes

¹ Gordon Brown, 'Speech by Chancellor to the Labour Party Conference', 29 September 2003 (www.scottishlabour.org.uk/brownconfspeech).

² Commission of the European Communities, 'The European Agricultural Guidance and Guarantee Fund, Financial Year 2002', Com (2003) 680, European Commission, Brussels, 2003.

³ *Financial Times*, 'Europe's leaders under pressure to revise farm subsidies deal', 30 December 2003. See also the comments by South African trade minister Alec Erwin in 'Developing countries were held to ransom in Cancun', *Financial Times*, 30 September 2003.

⁴ This figure is based on the exchange rate prevailing at the time when the original proposals were announced in 2002. Under the original plan the European Commission proposed a ceiling set at 300,000 Euros. For the 2002 proposals see European Commission, 'Communication from the Commission to the Council and the European Parliament: Mid-Term Review of the Common Agricultural Policy', European Commission, Brussels (http://europa.eu.int/comm/agriculture/mtr/comdoc_en.pdf).

⁵ These figures are derived from European Commission, 'Allocation of 2002 EU Operating Expenditure by Member States', Brussels, 2003.

⁶ OECD, 'Agricultural Policies in OECD Countries – Monitoring and Evaluation', Paris, OECD 2001. See also J. Thurston, *How to Reform the CAP*, European Rural Communities Paper 1, Foreign Policy Centre, London, 2002. In reality, it is almost impossible to derive an accurate estimate of consumer support. This is for two reasons. First, the prevailing world price used for reference purposes reflects the effect of subsidies in the EU and elsewhere. Second, the relationship between retail prices to consumers and farm-gate prices is very weak, and there is no guarantee that retailers would pass on the benefits of lower prices to consumers.

⁷ Department for Environment, Food and Rural Affairs (DEFRA), *Agriculture in the United Kingdom 2002*, pp.3-4, HMSO, London, 2003.

⁸ DEFRA, 'Arable crops - Arable Area Payments Scheme overview', November 2003 (www.defra.gov.uk/farm/schemes/aap).

⁹ Policy Commission on the Future of Farming and Food, *Farming and Food: a Sustainable Future*, p.75, HMSO, London, 2002.

¹⁰ DEFRA, 'CAP Reform Implementation: Distributional Impact of Area versus Historical Payment Schemes', mimeo 2003.

¹¹ Support is denominated in terms of Euros/hectare, with the rate converted into sterling. For a description of the payments system, see Rural Payments Agency, 'Arable Area Payments Scheme: Explanatory Guide', DEFRA, London, 2003 (www.defra.gov.gov.uk).

¹² The modulation tax for 2002/03 was 3 per cent. The premium paid for protein crops for 2003 was £40/hectare, or 15 per cent. See DEFRA, 'Arable Crops – AAPS Overview', op. cit. (www.gov.uk/farm/schemes/aap). Payment rates for the 2002/03 harvest are taken from Home Grown Cereals Authority (HGCA), *Bulletin*, Volume 38, 22, 2003, Table 30 (www/mibulletin.hgca.com/mibulletin.asp).

¹³ This is at January 2004 exchange rates.

¹⁴ A nurse (on band A) earns around £12000 per annum (source RCN website www.rcn.org.uk)

¹⁵ Oxfam, 'The Great Sugar Scam', Oxfam Briefing Paper 27, p.17, Oxford, 2002.

¹⁶ A single parent of two children aged 10 and 12 working full time (39 hours) at the national minimum wage of £4.50 per hour is entitled to 86 pence an hour in tax credits (www.taxcredits.inlandrevenue.gov.uk).

¹⁷ The basic state pension is £77.45 a week (www.thepensionservice.gov.uk).

¹⁸ Office of Deputy Prime Minister, 'Identifying the Flow of Domestic and European Expenditure into the English Regions', final report, September 2003, Office of Deputy Prime Minister, Her Majesty's Government, London.

¹⁹ For the data on Scotland, see WWF Scotland, 'CAP reform: opportunities for Scotland, December 2003' (www.wwf.org.uk/filelibrary/pdf/scotland_cap.pdf).

²⁰ OECD, *Agricultural Policies in OECD Countries*, OECD, Paris, 2002.

²¹ Ministry of Agriculture, Fisheries and Food, 'Economic Evaluation of the Arable Area Payment Scheme', p.31 and Table A1.5, MAFF, London, 1997.

²² Working on an assumption that 3000 hectares are rented out to tenants.

²³ On the impact of EU dairy policies on developing countries, see Oxfam, 'EU Dairy Dumping: How Europe's Dairy Regime is Devastating Livelihoods in the Developing World', Briefing 34, Oxford, 2002.

²⁴ Oxfam, 'The Great EU Sugar Scam', op. cit.

²⁵ Commission of the European Communities, 'The European Agricultural Guidance and Guarantee Fund, Financial Year 2002', op. cit.

²⁶ 'Sustain/UK Food Group, Response to DEFRA Consultation on Options for Reform of the Common Agricultural Policy, September 2003.

²⁷ Sustain, 'Land of Milk and Money: A Briefing on the Dairy System and Reform of Policies', Sustain, London, 2003.

²⁸ Policy Commission on Farming and Food, 'Farming and Food: a Sustainable Future', op. cit., p.53.

²⁹ See the Peak District Rural Deprivation Forum website: www.pdrdf.org.uk

-
- ³⁰ DEFRA, 'Agriculture in the United Kingdom', op. cit., p.28.
- ³¹ Data on agricultural employment are derived from DEFRA, 'Agriculture in the United Kingdom', op. cit., Table 3.5, p.28.
- ³² DEFRA, 'Farming and Food's Contribution to Sustainable Development: Economic and Statistical Analysis', p.26, DEFRA, London, 2002.
- ³³ The Soil Association, 'Organic Farming, Food Quality and Human Health: a Review of the Evidence', Bristol, 2002.
- ³⁴ DEFRA, 'Key facts about inland water quality, 1995-2002' (www.defra.gov.uk/environment/statistics/inlwater/iwkwf).
- ³⁵ Bird Life International, 'CAP Reform Proposals', mimeo, p.11, Brussels, 2001.
- ³⁶ O. Hartridge and D. Pearce, 'Is UK Agriculture Sustainable? Environmentally Adjusted Economic Accounts for UK Agriculture', CSERGE-Economics Paper, London, 2001.
- ³⁷ DEFRA, 'The Strategy for Sustainable Food and Farming', DEFRA, London, 2003, pp. 29-30.
- ³⁸ DEFRA, 'Agriculture in the United Kingdom', op. cit., p.114.
- ³⁹ J.Pretty *et al.*, 'An assessment of the total external costs of UK agriculture', *Agricultural Systems*, Vol. 65: 113-36.
- ⁴⁰ DEFRA, 'Analyses of the Environmental effects of Common Agricultural Policy direct aids', mimeo, London, April 2002; see also Joint Nature Conservation Committee, 'Environmental Effects of the CAP and Possible Mitigation Measures', mimeo, JNC, London, April 2002.
- ⁴¹ Consumers' Association, 'Setting Aside the CAP: the Future for Food Production', Consumers' Association, London.
- ⁴² DEFRA, *Agriculture in the United Kingdom*, op. cit., Chart 10.1, p.172.
- ⁴³ National Consumer Council, 'The Future of Food and Farming: Submission to the Farming and Food Commission', p.14, NCC, London, 2003.
- ⁴⁴ Opinion polls across Europe also point to a high level of public concern to protect small and medium-sized farmers. See European Commission, 'Agriculture in the European Union: Statistical and Economic Information 2001', European Commission, Brussels, 2001.
- ⁴⁵ The UK negotiated the right to have a higher level of modulation than other countries under the 2003 reforms. Although details remain unclear, it can modulate up to 20 per cent, taking into account the 'national envelope'.
- ⁴⁶ For Scotland the figure was £7m.

© Oxfam GB January 2004

Oxfam GB is a member of Oxfam International. Registered charity no. 202918

This paper was written by Kevin Watkins. It is part of a series of papers written to inform public debate on development and humanitarian policy issues. The text may be freely used for the purposes of campaigning, education, and research, provided that the source is acknowledged in full.

www.oxfam.org.uk

Published by Oxfam International January 2004

Published by Oxfam GB for Oxfam International under ISBN 978-1-84814-618-1