



## Advancing Agriculture Reform in the EU and Australia

Reform of the Common Agricultural Policy (CAP) has been underway for some time. If it's done well, the benefits will be massive and widespread. In Europe, farmers will have more opportunity to build sustainable, profitable enterprises; consumers will buy the food they prefer at better prices; and the EU budget will be better able to deliver what its citizens, urban and rural, want.

The EU will be better able to position Europe in response to contemporary global challenges, such as energy security and climate change. More European resources will be available to promote innovation and competitiveness, which are priorities of the EU's Lisbon Strategy.

Can the EU benefit from other countries' experience of agricultural reform? It is true that only the United States could match Europe in scale and federal complexity and that in several respects, the EU has overtaken the United States along the road to market-friendly agricultural support.

But Europeans could try looking a long way south. Since 1988, Australia's farmers have adjusted to the elimination of agricultural production subsidies, and a cut in the national average tariff rate from fifteen to three per cent. Australia has had seventeen years of uninterrupted economic growth, largely due to economic reforms and trade liberalisation.

Along the way, the average size of Australian farms has increased no more than western European farms under the CAP. Over 95 per cent of Australian farms are still family-owned and operated, and Australian farmers export two-thirds of their production.

# AGRICULTURAL REFORM IN AUSTRALIA Agricultural

*Australia, like the European Union, was born behind tariff walls.  
For decades, industry groups squabbled over subsidies.  
Some predicted the loss of whole industries if market  
distortions were wound back.*

Australian farmers made change work. In the 1980s, their representatives realised that tariffs and subsidies comprised a pattern of inflexible regulation that overall did farmers more harm than good. Farmers' interests were seen as being best served by an economy-wide response to world markets.

Importantly, both major political parties, and so successive governments, continued the reform process until farmers were able to make production decisions with reference to markets. Australian governments have supported farmers' efforts to manage price risks in those markets, but also other risks and opportunities relating to production and climate.

In giving up the government's protection, farmers became more productive and more influential. They achieved greater flexibility in labour regulations, expertise as businesspeople and leadership in environmental stewardship – all assisted by government programs they helped design, which supported their initiative as producers.



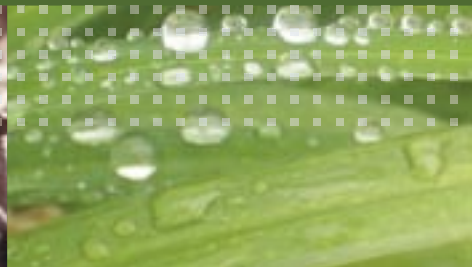
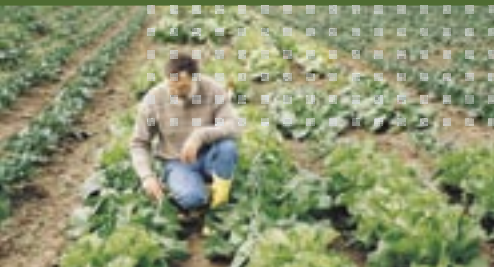
Australian experience suggests that three things are necessary to ensure this result.

- There needs to be a general **understanding** of the widespread benefits that flow from adjustments to the market and productivity gains.
- Farmers need **certainty** that reform will continue until a clear end-point is reached. That end-point is a situation in which all farmers make production decisions based on market factors.
- When a consensus exists within an industry that such reform is both desirable and inevitable, government and industry **collaboration** should determine its phases.

# reform in Australia Agricultural reform in Australia



*The adjustment to market conditions brought challenges. But rising to these challenges increased farmers' autonomy and widened their options, and brought about a higher standard of living for all.*

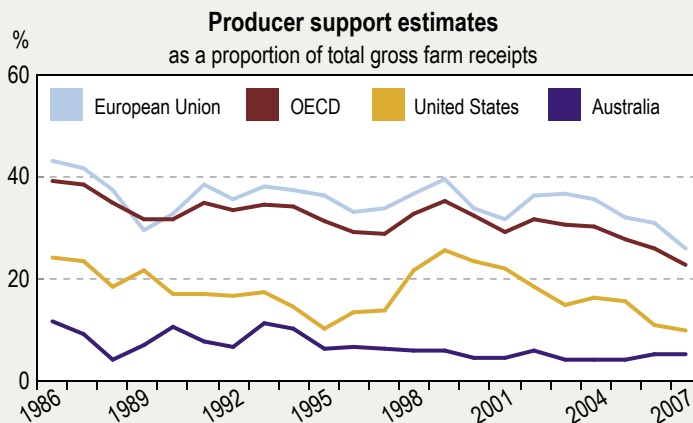


# REFORMING THE CAP

Since the 1980s, the EU has also made important reforms in agriculture. For instance, the European Commission (EC) has reduced direct production subsidies. The EC has also introduced a more predictable and manageable system of payments, and devoted more funds to environmental heritage, rural development and alternative energy.

Overall support for agriculture remains high in the EU (see Figure 1), with unintended, but not surprising, consequences. Artificially high incomes are capitalised into higher land values. Young Europeans are less able to buy land and new farmers carry higher levels of debt.

Support can also distort the way farmers work. The Australian experience suggests two questions that should shape any reform: Does it encourage farmers to become more efficient in response to market signals? Is it clearly a step towards a market-oriented agricultural sector?



## Income and incentives

Since the 2003 CAP reforms, the European Union uses direct payments to stabilise farmers' incomes. Australia's approach is to expose farmers to changes in the prices their products command. This openness to the market motivates farmers to respond to the interplay of consumers' preferences and other farmers' production. The resulting dynamism is market efficiency at work.

Farmers who receive direct payments are not likely to master market conditions. Agricultural policy reformers should allow the possibility of income volatility, and equip farmers with the business skills to manage risks.

As things stand in the EU, these direct payments are distributed to farmers along much the same lines as they have been for decades. The largest payments go to the largest producers. A further set of regulations and payments compensates small farmers in poorer areas. In this way, direct payments compound the CAP's basic problem – regulations that may have been appropriate when first devised, over time have produced undesirable effects. So new regulations are introduced piecemeal to remedy them.

During Australia's protectionist era, regulations accrued and became entangled in a similar way. It takes time to unravel the knot, but not only time: it also requires a shift in expectations, a clear goal, and consensus on the way to get there.

*"As long as I can remember, the EU's Common Agricultural Policy has been associated with bureaucracy, gigantic costs, and a millstone around the farmer's neck. Now we are finally seeing rising prices on the world market and increased profitability for agriculture. Now it's time to loosen the grip of politics and bureaucracy around the agriculture sector, and see that the farmer is paid by the people who should be paying, that is the consumer, and not by a capricious support system that doesn't enjoy the support of the taxpayers."*

Eskil Erlandsson, Sweden's Minister for Agriculture, 2007

EC literature claims that the 2003 model of income payments has painted a clearer future for the CAP. From an Australian perspective, the future for European farmers will be clear only when farmers and policy-makers agree that direct payments will not feature in common policy settings for agriculture beyond 2013, when the current EU budget cycle ends.

# A COMMERCIAL BASIS FOR AGRICULTURE POLICY

*Some European farming which is not commercially viable is nevertheless valuable for social, cultural or political reasons. Policy in relation to these imperatives could be developed outside the CAP. The distinction would clarify farm business decisions and likely free up EU budget resources, as targeted policies tend to be more efficient in achieving their objectives.*



The Australian experience suggests that a commercial basis for agriculture revitalises industries, and increases global food supply. As Australia liberalised agriculture, farmers and processors pursued their common interest in the productivity gains that made them competitive, including in growing export markets in Asia. Collaboration of this type was the catalyst for deregulation of the dairy industry – a sector Australians expected to be difficult to reform.

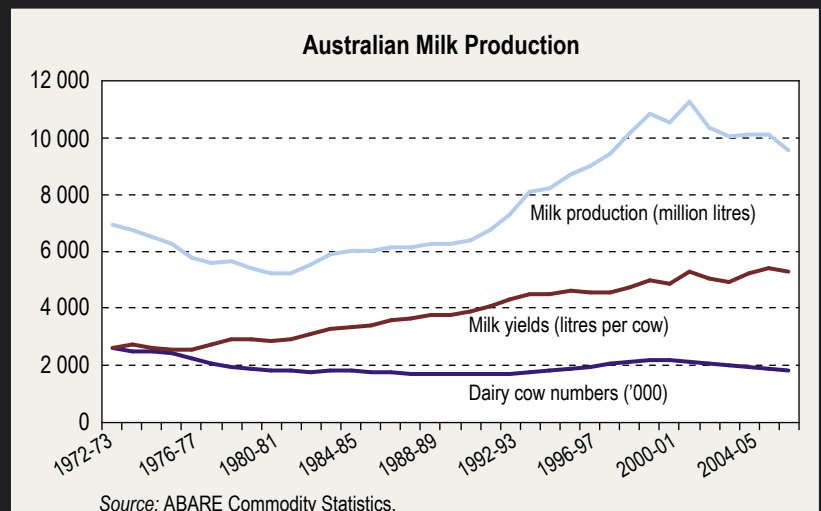
## Reform of the Australian dairy industry

During the late 1980s and 1990s, Australian dairy farmers made a gradual transition from high levels of protection to an open market. The Government largely deregulated the manufacturing milk segment of the industry. These reforms led to pressures within the industry for the removal of the remaining milk price supports, which occurred on 1 July 2000.

*“While change would affect different parts of the industry in quite different ways, the whole industry was able to unite and develop and present a proactive ‘reform solution’ to government.”*

Allan Burgess, dairy farmer, Shepparton, Victoria, 2008.

Establishing a clear pathway to reform helped continuing farmers adjust to the market; providing a one-off support package assisted others to exit dairying with dignity and a return on their investment. Dairy now enjoys independent sustainability.



Note: The dairy reform process, which saw milk production nearly double, commenced in the early 1980s. The decline in milk production from 2001 has been mainly due to widespread drought.

# MARKET-FRIENDLY GOVERNMENT PROGRAMS

*Australian government support now complements market forces in the rural economy. Programs which refine business skills, encourage investment and support diversification have improved Australian farmers' ability to develop food and fibre markets.*

Australian programs have achieved their objectives without distorting markets. Voluntary public-private partnerships have made farming more sustainable, and have protected and restored natural environments. Emergency assistance to farmers has enabled them to survive extreme events such as flood, fire and prolonged drought.



## **Productivity**

Farmers and the Australian Government jointly established the agricultural research and development (R&D) corporations for the individual agricultural industries. The Government matches dollar for dollar farmers' contributions to these R&D bodies, which research, amongst other things, new farming techniques that enhance productivity and adaptation to climate change.

## **Investing to mitigate financial risks**

Another kind of government-assisted investment has helped farmers manage financial risks. The Farm Management Deposits scheme has provided a low-tax means for Australian farmers to save income from the current year to use as a buffer against future drought, flood, pest and disease outbreaks or poor market conditions. In June 2007, 40,574 farmers held deposits totalling € 2.78 billion, an average of € 41,576 per farmer.

## **Business management**

Farmer education has been central to the promotion of risk management. Other key farming business skills improved through education programs include marketing, financial and strategic planning, and management of people, production and resources.

*"There is no doubt that the information age has created significant opportunity for farmers by ensuring that market signals, both price and anecdotal, are available in real time 24 hours a day. This means that farmers are now fully aware of what their customers are indicating is important to them (and what they will pay for). The current grain market is a great case in point, where market volatility over the last twelve months has been unprecedented. Australian farmers are now fully aware of the closing prices for both the Australian futures market, and also international markets such as Chicago. This information is available at any stage, is reported widely, and can be sent to your phone via SMS every day. This awareness has created trading opportunities for farmers, but also ensured that the international signal to 'grow some wheat' will translate into a large domestic planting of wheat."*

Dan Mangelsdorf, cereals farmer, West Wyalong, New South Wales, 2008



### ***Exceptional circumstances***

Farmers, like other businesspeople, should manage the risks that will occur from year to year. But when extreme events happen that would not be part of a normal business plan, short-term assistance may be necessary to help viable farmers survive.

Following rare and severe weather, the Australian Government uses meteorological data and production information to identify areas in exceptional circumstances. Farmers living in these areas may seek an assessment of whether they are eligible for relief payments and assistance in servicing debt. Help with the assessment process is available by phone. Also, locally placed drought-relief counsellors assist farm businesses and families.

### ***Environment***

'Landcare' is a national movement of around 4,000 volunteer groups, mainly farmers, who come together as stewards of natural resources. A Landcare project may span many farms and various levels of government. On the Dorrigo Plateau in northern New South Wales, for instance, seventy landholders, the local council and volunteers worked towards a healthier river system.

The Australian Government supports farmers to make the most of agricultural markets, collaborate as stewards of the environment, and weather the hard times. In every instance, Australian farmers know that the initiative and responsibility for their farms rests with them.



*“Only he can understand what a farm is, what a country is,  
who shall have sacrificed part of himself to his farm or country,  
fought to save it, struggled to make it beautiful.  
Only then will the love of farm or country fill his heart.”*

Antoine de Saint Exupéry (French writer, 1900–1944)

*“We know in our bones that the land is mightier than we are . . . .  
We know, deep down, that the land does not finally permit of imported  
attitudes that would make it simply a resource, a thing; it has broken  
too many of us who tried to make such attitudes fit it.”*

Les Murray (Australian poet, 1938– )



**Australian Government**

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**Department of Foreign Affairs and Trade**

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**Department of Agriculture, Fisheries and Forestry**