

**CONSUMER INTERESTS AND THE REFORM OF THE CAP:  
A REVIEW OF RELEVANT DOCUMENTATION AND RESEARCH**

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## **SUMMARY AND CONCLUSIONS**

This paper reviews documentation and relevant research that relates to the consumer interest in the evolving reform of the Common Agricultural Policy.

### **Increasing Pressure from European Food Industry Stakeholders**

EU Commissioners, Member State government ministers, consumer associations, food industry representatives and our global trading partners are all calling for radical change in the CAP. The policy is perceived, rightly or wrongly, to have contributed to the series of food crises that have smitten the European food industry and led to a breakdown in consumer confidence in the food chain. Farmer organisations, however, remain resistant to significant change and continue to exercise powerful influence on the policy-making process – to-date, significant CAP reforms have emerged only if “there is no other way out”. Yet, the European mood is ripe for change, driven by well-supported food safety and environmental initiatives, pressure from WTO to reduce export subsidies, and the prospect of additional financial pressures from EU enlargement.

There is a litany of criticisms on the adverse economic and social impacts of the CAP. It is very costly for consumers and taxpayers - OECD estimate that the total cost of CAP support was around €1,000 per EU household per year in the late-1990s/early-2000s, well over €100 billion per year in total. It has favoured larger-scale, better-off farmers and has failed to adjust to the structural changes that have taken place in the farm sector. CAP has been and still is regressive to the disadvantage of poorer consumers. It has damaged producers in less-developed countries and has been an obstacle to world trade liberalisation.

### **Demographics and the Changing Consumer**

There has been a transformation in the economic fortunes of most EU households since the institution of the CAP forty years or so ago. Household real incomes have trebled and the proportion of household income spent on food “at-home” has halved (to 12% in the U.K.). Distribution of income is, still, unequal and this is reflected in the range of food products for the income “haves” and the “have nots” on the shelves of the supermarket. Clearly, food is much more than fuel and, in relatively high income regions like the EU, we use food (amongst other things) to satisfy self-development needs. The price level of food products remains important, particularly for low income consumers, but increasingly, we value non-price attributes (and have long done so in Mediterranean areas), such as provenance, taste, animal welfare aspects, and environmental friendliness.

Demand for organic food products has risen sharply across the EU, driven in part, by concerns about food safety and the impact of conventional farming on the environment. U.K. survey data shows that a relatively small proportion of consumers account for the large majority of purchases. Research on the ethical consumer indicates that 50% of consumers are concerned about ethical issues, but not sufficiently to trigger purchases, 20% are solely price-driven, and 30% are conscientious ethical product purchasers, of which a minority are passionately so.

## **The Lack of Linkage between Food and Health Policies in the EU**

Health lobbyists criticise the CAP for its contribution to poor diets and diet-related diseases. They call for a new integrated approach to health, but, there are few concrete recommendations on the particular nature of the linkages and required policy action. Yet, it seems intuitively obvious that policies on food and the health of the EU citizen should be “joined up”. The WHO policy model seems apposite, *viz.* an overarching food and nutrition policy supported by four pillars – food safety, nutrition, sustainable food supply, and healthy lifestyles.

## **Evolution of the CAP and Contemporary Consumer Concerns**

The EU Commissioner has provided some clear indications of the direction of future CAP reform which has garnered widespread support (with the notable exceptions of, *inter alia*, the Governments of France, Ireland and most farmer organisations): capping subsidy payments to individual farmers (at €300,000 – draft MTR); tightening environmental and animal welfare requirements, a more coherent food supply chain approach, shifting direct support to farmers to more flexible rural development and environmental enhancement envelopes, and simplifying and decoupling support for small-scale farmers by providing “lump sum payments for undertaking good farming practices”. However, consumers should be wary of the rhetoric – in the past, reform has been incremental at best and, invariably, associated with more rather than less support from consumers and taxpayers.

### *Farm Income Adequacy and Stability*

Research indicates that agricultural households have average disposable incomes per household that are typically similar to, or higher, than the all-household average. In such households, one-half to two-thirds of the household income comes from farming and the remainder from outside agriculture. Agriculturally-generated income is less stable than other income and this emphasises the importance to the farm family of off-farm income. CAP reforms that include non-farm businesses in their ambit would contribute to improving the stability of farm household income.

From a consumer perspective, CAP income transfers are both inefficient and inequitable. Current discussions about modulation and degressivity simply serve to distract from the more radical initiatives which are, unequivocally, in the consumers’ better interests, i.e. to remove price supports, quota paraphernalia, and direct payments which are production-based. However, modulation which has a rural development and/or environmental management orientation is a preferred policy direction, in the stead of direct payments to farm businesses.

### *Food Safety, Quality & the Impact of Agriculture on the Environment*

Clear conflicts exist between the EU food industry stakeholders when implementing CAP objectives. Safe food should be non-negotiable and a given, yet the EU banning growth promoter usage in livestock, for example, is perceived as a constraint to trade by our overseas trading partners. Even within a composite group, there are conflicts – consumers want the right to choose, whether that choice involves a saturated fat food product or an organic vegetable; healthy citizens would prefer a “fat tax”.

### *Food Safety*

Notwithstanding that diet-related diseases are 50 times more likely to cause damage to consumers than food-borne diseases, the focus of the food safety debate and governmental responses has been firmly on the latter. The European Food Safety Authority and national equivalents, plus supporting control systems, with effective sanctions, and the private sector embracing HACCP, are seen as the best defence to combating future food crises. In fact, the means by which the CAP, *per se*, can address food safety and quality demands are less clear.

At the producer level, an important response to improving the integrity of the food chain and to re-establish consumer confidence has been to establish quality assurance schemes for many farm commodities. These initiatives are in the interests of EU consumers although, to-date, farmers have struggled to communicate the benefits of such schemes to customers. This area is worthy of consideration for CAP-financed support (as direct financial payments are reduced).

### *Environmental Aspects*

Driven by a combination of concerns about food safety and the impact of modern farming methods on the environment, consumer interest in organic foods has risen sharply in the latter part of the 1990s and early part of this decade. However, there is no evidence that organic food is any safer than conventional produce. Organic food market segments are oases of growth for the food industry, in an environment in which markets overall are static. Supermarkets are in the van of driving organic sales forward. There is widespread consumer and other support to switch CAP resources to encourage more organic food production. The organic production sector is changing rapidly - with larger, more technologically sophisticated producers servicing the major supermarkets to a great extent. In part, this is supermarket-driven, as they do not wish to purchase produce from a fragmented, diverse supply base which lacks economies of scale. The size of the organic market segment will be constrained by the extent to which the conventional sector responds to consumer concerns about pesticide residues etc. and practices more environmentally-friendly integrated farm management.

Some policy analysts warn that initiatives to encourage more environmentally-friendly farming through linking income support to production practices will not convince our WTO trading partners that cross-compliance is a mechanism for changing blue payments to green payments. Further, and more generally, consumer advocates should be concerned that loud and long discussion about environmental issues and the multifunctionality of farming only serves to obfuscate the central point of the debate and its outcome – the seemingly continued growth in income growth from taxpayers and consumers to farmers.

### *Food Quality*

Food safety is the starting point for food quality. In high income regions such as the EU, consumers have increasingly sophisticated requirements of food quality that transcends organo-leptic attributes to include elements such as animal welfare- and

environmental-friendliness. The level of concern about these more esoteric elements may well be linked to the meal occasion – the higher involvement the meal, the more picky is the consumer. Consumers purchase products with the mix of quality attributes that match their budget and non-monetary preferences.

For many who shop at supermarkets, facing thousands of products with confusing labelling, it is difficult if not impossible to make optimum purchase decisions. The area of labelling will require substantial policy and market attention in the future to ensure that consumers can make appropriate informed purchase choices. This is a vital area for EU food producers – in an increasingly trade liberalised world, price competition for food commodities will increase – and EU producers will not be amongst the low cost producing group. It will be essential that they focus on producing products from the top end of the quality spectrum and ensure that they communicate the benefits of these products to EU consumers to justify any price premiums. If they fail to communicate effectively, EU producers will carry the additional costs of producing premium products without gaining the benefits of additional revenues.

### *Rural Development*

The MTR of the CAP places an enhanced focus on attaining wider rural development goals. However, the targets for fostering rural development remain solely farm businesses. In an EU in which many farmers and their dependents seek off-farm income opportunities – as a conscious lifestyle choice, and/or as a mechanism for increasing farm household income – CAP initiatives which seek to facilitate economic growth for any business based in a rural area would seem to merit serious consideration.

### **Emergence of the Consumer-Citizen**

The relative importance of non-price attributes for food will grow throughout this decade, if real household disposable incomes continue to grow, too. As a result, the importance of ethical and other quality issues involved in production will have an increasingly important position in the list of criteria that shoppers consider when making food purchases. These consumer concerns will even influence their purchase decisions when they are in fast food mode, i.e. when food is being used solely as fuel.

By decade end, there will be a significant growth in the emergence of the consumer-citizen, which will require a reorientation of food policy to place consumers in the centre of policy development and implementation. There is a substantial down side for the EU food industry if this does not happen – a better informed consumer, with the resources to make a wide range of choices – will take her/his custom to the food chains that do not take their business for granted.

## Consumer Interests and the Reform of the CAP

### **Terms of Reference**

The European Union is at present involved in a process of reflection on possible reforms to the Common Agricultural Policy (CAP) as part of a mid-term review of its present Programme which will end in 2005. The Directorate General for Health and Consumer Protection wishes to ensure that consumer interests are taken fully into account in the course of this review, since most aspects of the CAP have a considerable impact on consumer welfare. This paper represents a review of documentation and research undertaken in the area. Particular attention is addressed to issues relating to: consumer value for money – covering food prices, quality, choice, information, and transparency; food safety and animal health and welfare; and international trade issues as they relate to the aforementioned.

### **Increasing Pressure for Change from European Food Industry Stakeholders**

*“Agricultural and food policies need to be changed radically. The entire food and animal welfare must be stimulated, and consumer confidence in the food that is consumed must be restored. Our food needs to be produced in a socially responsible way. The government must clearly indicate the conditions for this, and the market must be prepared to take on more responsibility.”*

(“Future Of Food: Germans And Dutch Talk About The Future Of Agriculture”, p.86, 2002)

The source of the above quotation is not a radical consumer organisation, it is a joint statement from The Dutch Ministry of Agriculture, Nature Management, and Fisheries and The German Ministry of Consumer Protection, Food and Agriculture. This is indicative of the evolution in thinking about agricultural and food policy that has occurred in the EU since the early days of CAP formulation. Further, influential voices – covering the range of stakeholders in the food chain - are calling for policy change, now. Some further examples support this point:

*“As a Commission, we start from the position that the situation in England’s farming and food industry today is unsustainable, in every sense of that term. It is serving nobody well. Taxpayers are handing over huge subsidies every year for a policy that is destroying economic value. Consumers are paying more for their food than world prices. The environment is being degraded. Farming incomes are on the floor. We believe the real reason that the present situation is so dysfunctional is that farming has become detached from the rest of the economy and the environment.”*

(The UK Government’s Curry Commission on Food and Farming, p. 109, opening paragraphs to Recommendations, February, 2002).

*“In all respects (the CAP) is counter-productive. It encourages the over-cropping of valuable agricultural land and excessive use of fertilisers and crop protection agents.*

*More than €44bn of EU taxpayers money is spent on agriculture without a proper sustainability assessment.”*

(Antony Burgman, CEO Unilever, speech, The Netherlands, April 11<sup>th</sup>, 2002)

Consumers’ views, as articulated by consumer organisations and representative bodies, generally, have been excoriating:

*“(The CAP) increases agricultural and food prices costing consumers an extra large amount of money....(Consumers) are concerned about a CAP largely influenced by producers for their own benefit, to the detriment of product price, quality, safety, choice, the environment, and with negative socio-economic consequences...Lack of transparency...The burden of price support is proportionately higher for low-income households... and the benefit is higher for better-off farmers...”*

(European Commission Consumer Committee, various press releases, 1998-2001)

The view that the CAP in its current form is failing to deliver stakeholder benefits is not held solely by an educated food industry élite. The Eurobarometer poll canvassing the opinion of 16,000 respondents in May and June, 2001 revealed that:

- the original CAP objectives continue to have consumer support – for example, “to ensure healthy and safe products” 90% in favour, “to promote respect of the environment” 89%, “to ensure adequate and stable incomes for farmers” 77% support;
- however, when asked did the CAP attain these three objectives, the satisfaction levels were 37%, 41% and 29%, respectively;
- and only 36% of those surveyed felt that EU agricultural policy ensured that the food they bought was safe to eat. Only 22% felt that it gave enough information on how food is produced and processed, and only 18% that it ensured good treatment of farm animals.

Yet, care should be taken that the above is not misinterpreted. Is the “Euroconsumer” knowledgeable about and interested in CAP developments?:

“ .. a recent Eurobarometer survey found that only about half of the EU public knows about the existence of the Common Agricultural Policy and 46% think that more government funds should be allocated to EU farmers.”

(see Swinnen, J.F.M., CEPS Working Document No. 173, September, 2001, p. 20)

There is a pervasive view that, not only is the CAP onerously costly for taxpayers and consumers, it fails to deliver significant benefits to the principal stakeholders. Just how expensive the CAP is, is identified by the OECD in its annual review of agricultural policies in the OECD countries (see Annex I for details):

- the total cost of CAP support – to consumers and taxpayers – was between €11 billion and €22 billion per annum between 1998 and 2000, i.e. around €1,000 per household per annum;

- stripping out costs associated with programme monitoring, miscellaneous services and the economic deadweight losses associated with the CAP's implementation and impact (€4 billion in 2000), €8 billion was directed towards farmers in 2000 (€108 billion in 1999). Roughly half of this farm-level support is paid for by consumers in higher food prices than would be the case in the absence of price supports/tariffs etc., and half is a taxpayer contribution (delivered as income supplements, for example, via set-aside and headage payments);
- the €8 billion of farm financial support delivered by consumers/taxpayers in 2000 amounted to 38% of gross farm receipts. This figure, the Producer Subsidy Equivalent (PSE), was dwarfed by its equivalent in Japan (support was 64% of farm receipts), above the U.S.A. (PSE of 22%), with the PSE in New Zealand being 1%.

The U.K. Consumers' Association (2001) calculates an similarly high financial burden on European households, but bases its calculation on a family of four persons: *"The CAP both distorts demands and imposes a considerable burden..... the cost of EU agricultural policies, in terms of both taxation and higher prices, for an average family of four in the EU is around £16 per week (i.e. €25.81 per week, or €1342 per annum.)"*

Policy analysts from the EU, national governments and NGOs are, increasingly, scathing about the CAP. A recent study undertaken by Professor Tarditi for DGHCP endeavored to take stock of the plusses and minuses. The conclusions of the study were damning and included:

- the CAP has favored better-off farmers, leaving poorer farmers well behind – 35% of financial benefits accrue to 3% of larger farms, while 5% of benefits are shared by 50% of smaller holdings;
- the support policies have resulted in increased prices for farm land, have disfavored new entrants to agriculture as a result of the high entry costs, have hampered the mobility of resources (e.g. quotas etc.), and have wasted domestic resources (e.g. via set-aside);
- CAP has been and still is regressive to the disadvantage of poorer consumers.

The U.K. Consumers' Association (2001) add further criticisms of the CAP, including:

- fails, in many cases, to provide adequate farm income or to support rural communities;
- is anti-competitive and distorts markets;
- damages producers in less-developed countries by limiting their exports to us and dumping surplus EU produce in their markets;
- in some sectors, notably sugar and dairy, is a barrier to a single EU market;
- is an obstacle to world trade liberalisation;
- fails to tackle issues of food quality or to reflect animal welfare, health, diet or ethical considerations.

The CAP was crafted in an era when food security concerns were paramount – the food deprivations/rationing associated with World War II and its aftermath were the back cloth for launching a production expansive policy programme. Even for the late-entrants to the EU, such as the UK, domestic production was given a CAP-propelled boost: home production as a percent of total UK food supplies was 55% in 1973 (year of EEC entry) and this had increased to around 67% by 2000 (see Annex II). Home supply of some key commodities within the EU outstripped demand, surpluses were the inevitable result which were exported with the assistance of significant subsidies, or denatured/destroyed. The McSharry and Agenda 2000 reforms have, with some success, addressed these previous problems and a late-in-the-day, albeit modest environmental orientation has been given to the CAP overall. However, the CAP in its present form has been left behind in the wake of a changing world, *inter alia*:

- EU consumer dietary needs have changed – food shortages for the large majority of consumers are no longer an issue, indeed, obesity (too much of the wrong kind of food) is a major threat to health;
- changing diet has been driven by changing consumer lifestyles;
- changing consumer concerns about food – in addition to concerns about food prices and safety, for example, “citizen concerns” about the environment, animal welfare, and “fair trade” are increasingly evident;
- the structure and business of agriculture has changed;
- international trade policy environment has changed;
- the country composition of the EU has and will continue to change.

The motives for the recent Agenda CAP 2000 reforms, and for continuing reforms are fivefold and reflect the above changes:

- market developments (not least, consumer concerns about food safety);
  - growing environmental concerns;
  - urban-rural economic disparities and the need for rural development/regeneration;
  - increasing trade liberalisation (WTO etc.);
  - smoothing the way for EU enlargement.
- (see Swinnen, p. 6, quoting Ahner and Scheele)

On the one hand, there is a burgeoning consensus on the need for continued and more radical CAP reform amongst the principal stakeholders; on the other, there is no commonality of view (indeed, on some issues, there are diametrically opposed views) as to the direction of change.

*“The food safety crisis has significantly contributed to the demand for reform of the CAP, and probably more than anything else put CAP reform on the political agenda and raised public awareness about agricultural policy. However, the reform ideas coming out of this agenda tend to go in the direction of more regulation rather than less, and of more subsidisation, albeit redirected, rather than less. For example, few of the environmental groups and parties who have recently pressured for a radical rethinking of agricultural policy in the EU see trade liberalisation and WTO negotiations as a positive development.”*

(Swinnen, p. 20)

Food safety and environmental concerns have been embraced most enthusiastically by consumer and environmental organisations, and by some governments, as key arguments for CAP reform. However, the tenets of the case for change, particularly relating to food safety, are shaky:

*“The BSE crisis had absolutely nothing to do with agricultural policy. [It is a puzzle] why organic farming is now so widely seen as the most appropriate response to the BSE crisis, and to Foot and Mouth Disease.....To argue that Europe’s farmers were driven to adopt cost saving dangerous practices because they were under constant price pressure is simply wrong; as is the suggestion that structural change towards larger farms endangers the environment, animal welfare, and consumer protection. Price support cannot do anything good for any of these concerns. Indiscriminate direct payments substituting for past price support help neither the environment, nor animals, nor consumer health.”*

(Tangermann, S., EuroChoices, Spring, 2001)

### **Demographics and the Changing Consumer**

Over the past few decades in most Northern European countries, real household incomes have increased significantly driven by two principal factors – real per capita incomes have increased reflecting productivity improvements, often, associated with technological advances, and households in which two persons are wage earners have increased substantially. Concomitantly, over this period, the real price of food products have declined in all EU countries (see Annex II, e.g. from the UK), albeit much less than in other more “open-economy” countries, reflecting agriculture’s ability to harness new technology and stimulate supply, often, in excess of prevailing demand. The result has been the provision of consistent proof of Engel’s Law, viz. the proportion of household disposable income spent on food “at-home” has declined as real income has increased.

In the UK (see Annex I), 25% of household income was spent on “at-home” food in 1975; by 2001, the equivalent figure was 12%. If this trend continues, the proportion could be less than 10% by 2010 and household spend on travel to work and leisure would exceed that on food. Of course, the 12% UK figure is an average – high income households spend less than this percentage and low income households a much higher percentage. This is reflected in the nature of food products made available on the retail shelf – premium products for the income “haves” and discount priced products for the “have nots”. Clearly, the relative importance of price to these two groups will differ significantly, and the income distribution gap in many EU countries has been growing over the past couple of decades (Annex II). Maslow’s Hierarchy of Needs makes a contribution here (Annex II) – as incomes increase, consumers seek to satisfy higher order needs and his hierarchy works well with food products:

- the penniless are desperate to satisfy physiological needs. Food is needed to maintain life, and the price of food is paramount;
- as incomes increase, we use food to satisfy other more esoteric needs – social, status and, at the apex of Maslow’s triangle, self-development needs. These are the income “haves” who use the food they buy and eat (and other products) to signal to themselves and their peers what sort of people they are – “I am

concerned about the environment, I buy organic food products”, “I am concerned about the exploitation of Third World farmers, I buy Fair Trade products”. This is not to say that low income consumers do not have esoteric citizen concerns; it is just that they do not have the income to pay the premiums associated with these products.

The above serves to underline the complexities associated with establishing food policy – for some, the level of food prices is everything, and any initiative associated with raising prices is unwelcome; for others, they have the economic latitude to pay for foodstuffs with higher environmental and welfare standards, and foods which are presented in the most convenient formats. The latter are increasingly wanting non-price benefits built into the food products they buy. Some within the agricultural sector would take the view that such consumers want the best of both worlds – more welfare, more environmentally-friendly, and at a lower price! Further, the increasing level of concerns that consumers hold about the safety of food adds additional complexity. Imperial College and Institute of Grocery Distribution surveys in the UK (2000/01) asked consumers “Apart from price, what factors influence your food purchases the most?” (Annex II). In order of importance, consumers responded:

- convenience and ease of preparation
- taste
- appearance
- sell-by-date
- brand
- healthy version
- non-GM
- home grown
- free range
- the “quality” of the ingredients
- quality assurance
- and organic.

Clearly, the neo-classical economist’s view on consumer demand for food products is too simplistic (with one key assumption being, for example, homogeneity of product, i.e. no product differentiation). For many shoppers when buying food, there is an analogy with purchasing a motor car. One can elect to buy the standard 2 door model (*c.f.* the battery hen white egg), or the top end of the range, with higher performance, albeit low emission engine, air conditioning, leather interior etc. (*c.f.* special breed, locally-produced, free range, organic, speckled egg), depending on one’s personal preference and ability to pay.

Consumers with the highest predilection to purchase food products which are differentiated by relatively esoteric attributes, e.g. organic, or ethical (a composite term which covers, *inter alia*, the environment, animal welfare, “fair trade”), can be characterised by socio-demographic and/or lifestyle variables to a degree (although, they are present in all age and income groups):

- organic food purchasers – taking a recent U.K. survey (Taylor Nelson Sofrès, January, 1992), 7% of organic buyers account for just under 60% of total organic

purchases. These committed organic shoppers are, most typically, well-educated, higher income women, over 40 years of age, in households where the children have exited to college etc.

- ethical food purchasers – extensive research undertaken for The Cooperative Bank in the U.K. (a financial institution that has a proactive ethical stance) identified five principal consumer segments (see, also, Promar International below) – 50% of consumers who are concerned about ethical issues, but not sufficiently to affect significantly their purchasing behaviour, 20% who are conscientious and seek out ethical goods, 20% who are solely price-led on all purchases, 5% who are passionate about ethical issues and purchase accordingly (often, younger, higher income consumers), and 5% “emerging young campaigners” who are just discovering, and interested in ethical issues (e.g. child labour in Nike factories). The market share of ethical goods is contingent on the sector being addressed. The main driving forces behind the growth of ethical products relate to health, environmentalism and concern for human rights. (see [www.co-operativebank.co.uk/ethics](http://www.co-operativebank.co.uk/ethics))

Irrespective of actual purchasing behaviour, some kinds of concerns about food affects virtually every consumer, although, the propensity to take some action will depend on consumer type. Promar International (U.K.) released the results of a consumer survey in January, 2002. Perhaps surprisingly, given the U.K.-originated BSE and FMD debâcles, consumers perceived British farmers as being credible – *“small businessmen with a livelihood at stake, who put a lot of energy into monitoring standards very closely to make their businesses a success”*. Promar identified five groups of consumers (which matched well with The Cooperative Bank analysis – see previous page):

- the passionate who are highly aware and concerned about ethical issues, and will go out of their way to boycott any sort of products that fall below their exacting standards;
- the confused who are fickle purchasers with opinions that change according to media “hype”;
- the informed who selectively choose “quality” media to inform themselves and are, particularly, prone to switch purchases on behalf of their children;
- the indifferent and the cynical who are both least likely to be influenced by contemporary food issues and/or concerns.

### **The Lack of Linkage between Food and Health Policies in the EU**

When the CAP was designed at the end of the 1950’s and implemented initially in the 1960’s, at the heart was a system of government interventions in the market to support a minimum price for farmers. A domestic intervention system was accompanied by variable import tariffs and export subsidies. Concern about and acknowledgement of the food consumer was implicit, rather than explicit in the policy rhetoric. Farmers were placed firmly in the centre, with consumers garnering the benefit of secure access to ample supplies of domestically-produced food. Agro-centric although this was, it was nevertheless in the best tradition of public health, *viz.* assuring the availability of supplies to all consumers at “reasonable prices” (Article 39, (d) and (e), 1958). As identified earlier, the CAP has been responsible for encouraging the expansion of EU food production (in fact, to a fault). Whether it has played an equally

influential role in delivering healthy food is moot. Health lobbyists argue that the CAP in its present form is not in tune with emerging public health priorities concerned with the environment, and with preventing the chronic diseases that plague high income economies. Health-based criticisms of the CAP include the following:

- higher than world market food prices, particularly for fruit and vegetables, disadvantage lower income consumers and this is reflected in low consumption of fresh produce. This argument has relevance in the U.K. where fruit and vegetable consumption is low relative to other EU countries, but is less convincing in the high-consuming Mediterranean countries. High prices explain consumption behaviour, in part, but, historical and cultural factors which are not CAP linked are also very influential;
- CAP has encouraged the expansion of production of “unhealthy” saturated fat products, such as beef and dairy items – although, these products are income elastic and, irrespective of the source of supply, consumers tend to consume more of them as incomes rise;
- subsidisation of tobacco production, particularly of high tar varieties, which are exported to low-income countries which already have unacceptably high levels of tobacco-related chronic diseases;
- CAP has encouraged the emergence of large scale farming and intensification of both crop and livestock production which has created unacceptable externalities, such as environmental pollution and pervasive use of antibiotics in livestock rearing. By implication, BSE and FMD problems have been presented as CAP-related (see Tangermann earlier for refutation);
- recommendations for policy action relating to the food industry have tended to have a subjective, ideological basis. Organic, home- even locally-produced foods from smaller-scale, mixed enterprise farms are seen as being healthier for both the human body and the environment than “industrial” farm alternatives.

(see, for example, “Health Impact of the EU CAP, Swedish National Institute of Public Health, 1997:36, and Why Health is the Key to the Future of Food and Farming, edited by Lang, T. and Rayner, G., supported by the U.K. Health Development Agency, 2002)

*“A new integrated approach to health – linking nutrition, food safety and sustainable food supply, an approach .. called ecological public health would provide the food and farming industries with a new framework that they desperately need..... Farming practices which sustain environmental improvement – namely to reduce energy use, to increase variety and biodiversity and to conserve amenity for the public – are congruent with one at the same time those which are most effective in promoting public health....”*

(Lang and Rayner, p.4, see above)

Ideological although these views may be, they are visionary and are supported by powerful special interest groups (e.g. WWF, RSPB in the U.K.). Analysts and lobbyists can argue the merits and demerits of the CAP in contributing to the improvement and/or decline of consumer health in the EU for decades, however, diet-related diseases in the EU are pandemic and very costly:

*“..food-related ill health is responsible for about 10% of morbidity and mortality in the U.K.: a figure which is similar to that due to smoking. In addition, I estimate that food-related ill health costs the National Health Service £4 billion [€6.5 bn.] annually. This compares with £2 billion on car and other accidents.....ill-health related to unhealthy diets is about 50 times greater than ill-health related to food-borne diseases.”*

(Rayner, M., British Heart Foundation Health Promotion Research Group, University of Oxford, draft paper, April 12<sup>th</sup>, 2002)

The picture on diet-related diseases is significantly more depressing in the U.S.A.:

*“Diet-related health conditions cost society an estimated \$250 billion annually in medical costs and lost productivity..... health care savings from improved and better diets could amount to \$3.6 billion to \$21 billion. USDA also estimates that improved dietary patterns could save \$43 billion in medical care costs and lost productivity resulting from ..... heart disease, cancer, stroke and diabetes each year and prevent over 119,900 premature deaths among individuals fifty-five to eighty-four years of age, valued at \$28 billion per year.”*

(Sun-Yong *et al.*, The Journal of Consumer Affairs, Winter 2001, Vol. 35, No. 2, pp. 346/7)

Clearly, the European diet and, particularly the urban diet, has improved substantially over the past centuries (generally, measured by seemingly inexorably increasing life expectancy). Yet, as clearly, food-related diseases – linked to under-, over- and mal-nutrition – are at critical levels, as they are in other countries with high incomes and a predilection for high fat diets and sedentary lifestyles. The extent to which CAP reform, *per se*, can influence consumption behaviour in the EU is constrained. Providing the consumer with a wide choice is a central tenet of open market economies, so banning “junk” food is not an option. Governments can use fiscal measures and education/communication messages to signal food choices that are believed to be in the best interests of the individual and the nation, but in the final analysis, the consumer will make a choice (rational or irrational) and s/he does not take kindly to being lectured to by “nanny state” politicians and government bureaucrats.<sup>1</sup>

It does seem intuitively obvious, however, that there should be much greater linkage between agricultural and food policy and health policy. The current U.K. Government has coined the phrase “joined up government” to accentuate the need for much greater co-operation between ministries and departments. Given the demographic structure of the EU population (aging consumer base) and escalating problems associated with food-related diseases, the clear indications are that the future CAP should be “joined up” with policies that focus on the health of EU citizens and of the EU physical environment. This “joined” up model is consonant with the WHO view of the policy world; *viz.* a pavilion is envisaged, with the roof being an overall food and nutrition

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<sup>1</sup> In the U.S.A., the Center for Consumer Freedom has the motto “Protecting Personal Responsibility and Protecting Consumer Choice”. The Center has launched a radio advertising campaign defending the rights of consumers to eat fattening foods, as political pressure mounts to impose “fat taxes” on unhealthy foods.

policy having the goal of delivering enhanced health for all citizens, supported by four pillars representing food safety, nutrition, sustainable food supply, and healthy lifestyles. Substantive recommendations on how health and food policies might be linked, however, are not much in evidence.

### **Evolution of the CAP and Contemporary Consumer Concerns**

In May, 2001, Franz Fischler provided some clear indications as to the direction of future CAP reform (Fischler, F., “The road ahead for EU agricultural and rural policy”, CDU Congress, Berlin). The key principles (see Swinnen, p. 39) identified were:

- tighten environmental/animal welfare requirements for CAP support by increasing cross-compliance and/or by introducing “good farming practice” requirements;
- address food safety and quality requirements by closer monitoring and a supply chain approach, and stimulating market-based solutions, including brand building;
- make modulation compulsory at 20% (now, voluntary);
- focus the above resources and all compensation/aid for environmental/landscape to rural development;
- simplify and decouple support for small holdings by providing “lump sum payments” based on “proof of environmentally-friendly maintenance of production capacity” only;
- allow funding of rural development activities outside agriculture.

Most recently (MTR, July 3, 2002), these principles have been given articulation as proposals included in the Medium Term Review of the CAP. Further, the enunciation of these principles are not unique to Minister Fischler. They have formed part of other influential statements on EU agricultural policy reform (see earlier, e.g. Curry Commission in the U.K., Dutch and German Ministries of Agriculture and Consumer Protection). Indeed, many consumer organisations would have a degree of warmth for these principles (e.g. the U.K. Consumers’ Association 2001 report on CAP reform identifies all of the above as desirable amongst its long list of recommended improvements – see “Summary”, pp. iii. to vii.). In short, there is a growing consensus amongst some (largely, northern ,EU country agricultural ministers on CAP reform measures that should be implemented within the ambit of the Mid-Term Review:

*“A majority of EU agriculture ministers backed Mr. Fischler’s concept of shifting a significant chunk of subsidies currently paid as direct aid into rural development. The idea will form the centrepiece of ... the Mid-Term Review ... designed to make the CAP more responsive to consumer concerns and easier to defend in trade liberalisation talks ... The forthcoming proposals have already been rejected by European farmers’ leaders ..”*

(Quoted in the U.K.-published Financial Times, May 1<sup>st</sup>, 2002, p. 6)

However, consumers and taxpayers should be wary of the rhetoric that, typically, surrounds discussion of CAP reform:

*“... the EU budget spent on the CAP has increased rather than decreased with the last reforms ..... the MacSharry and Agenda 2000 reforms have increased the*

*budget for the Common Agricultural Policy, although EU agricultural expenditures have declined from around 2.5% of GDP in the second half of the 1980s to around 1.5% in 1999.....When Agenda 2000 will be fully implemented, around two-thirds of the budget will go to direct payments, and less than 25% to market and price support.”*

(Swinnen, pp. 27/28)

So, while there is much discussion on reform and some action, the total cost has continued to increase, although the burden is less regressive, and has and is being shifted from consumer to taxpayer. Further, powerful farmer lobby groups and, more importantly, some national governments (France, Ireland, for example) have expressed strong views against making any changes to the current CAP prior to mid-decade (2006).

### Farm Income Adequacy and Stability

The evolving shape of the CAP, of course, is of direct interest to consumers and taxpayers across the EU. After all, it is they that finance the CAP behemoth and, as identified earlier, emerging evidence indicates that the benefits delivered are far outweighed by the costs. Consumers have put up with CAP inefficiencies, to a large extent, because they have been sympathetic to the plight of farmers – particularly, small-scale farmers – who are perceived to have and are still suffering from low and unstable income. But, even in this core area of the CAP, serious doubts are being raised about the ability of the CAP to deliver:

*“Concern with the living standards of farmers is central to the CAP yet it demonstrates the sort of muddled objectives, inappropriate indicators and misdirected interventions that are the stuff of analysts’ worst nightmares. As a consequence, the performance of the CAP in terms of this fundamental aim has, in all likelihood, been very poor. Attempts to reorientate the CAP to be more in lines with its declared objectives face enormous vested interests in the agricultural industry and among policymakers.”*

(Upcoming article in Economic Affairs, Professor N.W.F.B. Hill, Imperial College, University of London, 2002)

An acknowledged expert on EU farm incomes, Professor Hill summarises his findings in an upcoming book which reviews the findings of Euro farm income surveys:

*“Agricultural households in all (EU) countries are recipients of substantial amounts of income from outside agriculture. Though typically about half to two-thirds of the total comes from farming, there are large differences between Member States ....*

*The total income of agricultural households is more stable than their incomes from farming alone .....*

*Agricultural households have average disposable incomes per household that are typically similar to or higher than the all-household average, although the relative*

*position is eroded or reversed when income per household member or per consumer unit is examined. However, there is substantial variation from year to year ....”*

These findings serve to underline that, from a consumer (and taxpayer) perspective, the CAP unequivocally fails to deliver value for money, even in the core area of transferring income to farmers (a view with which OECD would concur. In a 1997 OECD report, the income transfer efficiency of CAP was calculated as being 20% at best). The CAP was built on a perceptual platform of small-scale farming households struggling to survive in a competitive world. This is still the view, yet farming businesses have evolved to meet 21<sup>st</sup> Century economic and social realities – for many, farming is increasingly a part-time business that has a strong lifestyle element that individuals, often, are willing to embrace in the full knowledge of the economic consequences. Increasingly, the CAP is presented as an agricultural and rural development policy. The farm income survey results emphasise the pivotal role that non-farming income has to the farm household in both its contribution to total absolute household income and to the stability of household income. The need for vibrancy in the rural economy overall is vital for the sustained success of EU farming businesses. The implication is, therefore, that if income transfers to the rural sector be considered socially or, indeed, politically appropriate, then, non-farm businesses should be as eligible as farm businesses for support. This view is not one held by farmer organisations in the EU (see Rural Development section later).

As identified earlier, CAP reform pronouncements are, increasingly, sympathetic to limiting payments by amount per farm, or linking them to the size of farm (“modulation”), and having them co-financed by the Member States themselves. From a consumer perspective, the available evidence (see earlier) is that income transfers are an inefficient and, inequitable mechanism for redistributing income whichever way the income is spent by the recipient. However, if modulation results in better environmental management, then, it is arguably a better use of transferred income than if the beneficiary of the income transfer simply received a cheque.. Further, smaller-scale farm businesses, in particular, have responded to inadequacies and instabilities in farm-generated income by seeking off-farm income opportunities. For consumers, the modulation argument, and those surrounding degressivity – current subsidies declining over time - simply serve to distract from the more radical initiatives which are clearly and unequivocally in consumers’ better interests, *viz.* the removal of price supports, quota paraphernalia and direct payments which are production-based. Radical although these may be, they are well-supported across the EU. For example, they reflect the principal recommendations of the U.K. Curry Commission report (2002):

*“The guiding principle of (the CAP) must be that public money should be used to pay for public goods that the public wants and needs (see Curry, p.iii):*

- *remaining price supports and associated production controls must go;*
- *direct payments should be phased out as quickly as possible;*
- *they should be decoupled from production and be subject to base environmental conditions (cross compliance) for as long as they do exist;*
- *resources should progressively transfer to the so-called Pillar II of the CAP to pay for rural development and environmental protection schemes ....”*

Returning to the issue of modulation, consumers do have a clear view if the absolute level of taxpayer support to farmers is “frozen” for the foreseeable future at around €40 billion or so. As Swinnen identifies (2001):

*“There is a clear potential consensus on modulation of direct payments. In fact, France is one of the few member states already implementing modulation. Hence making modulation compulsory .. could be presented as part of a significant CAP reform in Germany with significant funds being made available for organic farming, better environmental practices etc..; and by making all support conditional on better farming practices.”*

Total removal of direct financial support would be in the best interests of consumers, although politically unpalatable. Redirecting a proportion of the total amount of direct support to environmental and better farming practices would be second best (see below).

### Food Safety, Quality and the Impact of Agriculture on the Environment

Returning to two of the original CAP objectives identified earlier, viz. the provision of healthy and safe food and promoting respect for the environment, clear conflicts are increasingly evident between the interests of consumers and other food industry stakeholders, between consumer groups themselves, and between nations:

- safe food is and should be non-negotiable, a given, although the series of food crises which have led to a decline in the confidence that EU consumers express in the food chain indicate that EU food policy has failed to deliver on this objective in recent years (and, thus, the appearance of the European Food Safety Authority and national equivalents – see later). In principle, the provision of healthy food has widespread consumer support; yet, we want the right to choose “unhealthy” alternatives (see earlier);
- but what is safe? The EU Scientific Committee on Veterinary Measures relating to Public Health confirmed on April 22<sup>nd</sup>, 2002, that the use of growth promoters for cattle poses potential health risks for consumers. Banning them can be presented as being either safeguarding the health of the consumer or constructing a barrier to trade in beef, or both, whichever is your point of view;
- food which is produced with high environmental and animal welfare standards may be commonsensical from a food policy perspective. Yet, farmers are concerned that the imposition of such standards unilaterally on domestically-produced products will disadvantage them in an era of lower tariffs and globalisation of food supply;
- further, if such standards do raise both the costs and prices of food, lower income consumers may be disadvantaged – society may benefit, but the immediate welfare of some consumer groups may suffer.

Food safety, food quality and the impact of agriculture (indeed, the food industry overall) on the environment are three separate issues which are inextricably intertwined from a consumer perspective. While the method of farming (e.g. organic versus “conventional”), and the application of science through genetic modification of seeds, for example, may be objectively associated with environmental issues, there

relevance to arguments about food safety are more ambiguous; as, indeed, is the means by which the CAP, *per se*, can address food safety and food quality demands.

### *Food Safety*

Earlier, it was identified that concerning the complicated issue of food safety, diet-related diseases were 50 times more likely to cause damage to consumers than food-borne diseases. Yet, the focus of the food safety debate and governmental response has been firmly on the latter. This has reflected the series of food safety-related problems that have bedeviled the EU food industry in more recent years – including BSE, FMD, Salmonella and E-coli outbreaks, as well as widespread concern about the application of new technologies (see later), pesticide residues, and indiscriminant hormone usage. Food safety issues, in practice, may be evaluated by the scientific community, and a judgment regarding levels of risks reached amongst experts; but this approach alone does not address adequately the more subjective perceptions of the consumer. Often, the former avenues were pursued and actual levels of risk evaluated, but at the expense of the economic and other impacts being determined from subjective impressions of risk. In the wake of the BSE crisis, this became more pronounced, and the scientific community in the U.K., under political and commercial pressure, announced that there was a “zero level of risk” which had to be humiliatingly and damagingly retracted at a later date by the U.K. Government.

The principal policy response to the food crises was the establishment of the European Food Safety Authority at the EU level, and national equivalents such as the U.K. Food Standards Agency and the Austrian Health and Food Safety Agency. The concept of the food chain and the need to regulate and control throughout the chain to earn and build consumer confidence gained considerable currency. Yet, it is accepted that flexibility is required of the legislation and its implementation because the food industry stretches along a continuum from state-of-the-art technology through to artisan. However, wherever placed on the continuum, traceability from “farm to fork” is, now, a *sine qua non* within the European food industry. Traceability has an important safety dimension, but, it also provides a guarantee to consumers – a means of verification – when purchasing products differentiated by location of production, production technology, variety etc.; i.e. it has a quality dimension, too (see later).

The knub of food safety legislation and regulation is enshrined in the new general food law, including the Commission’s proposal for establishing the European Food Authority which has been adopted by the European Parliament and Council of Ministers. However, as Commissioner Byrne identified in a speech on “European Quality Policy for Foodstuffs” (Speech/02/55, Winter, 2002), “*a system of food safety is only as good as its basic legislation, its implementation and the evaluation of its implementation.*” Dissatisfied with Community’s systems of official controls for the food industry, Byrne is set to launch a new controls’ package with two principal aims, *viz.*:

- to have a clear Community framework for control systems with the respective responsibilities of the Member States and Commission systematically established;
- a harmonized, co-ordinated and effective system of controls of imports of food and feed.

The vision is a food safety framework with “three pillars”: an effective range of food safety legislation; the European Food Safety Authority (which, incidentally, will have an input into issues associated with the “quality” of the EU consumer’s diet – an area which is not within the ambit of, for example, the U.K. Food Standards Agency); and the development of a new approach to official controls across the EU Member nations – supporting national authorities in the development of national control plans, carrying out general audit plans, conducting inspections of particular sectors and/or control points, and the implementation, if necessary, of significant sanctions at member State and at community level. The latter could include the power to withhold or suspend CAP and/or Veterinary Fund financial support.

Although often labeled “Quality Assurance Schemes”, at the farm level, a wide range of programmes – generally, national and commodity specific in scope (e.g. FABL – Farm Assured Beef and Lamb in the U.K.) – were launched to respond to actual and perceived food safety problems in the European food chain. A general criticism of them is that the required standards may have been set at too low a level; in part, for political reasons to ensure that a large proportion of producers could meet the scheme standards and, in part, with the view that the standards would be raised over time. Well-intentioned, these have contributed to consumer confusion on labeling. Farmers are widely skeptical about whether equivalent protocols are in place for food products that are imported from outside the EU. Their view is that the schemes carry costs without off-setting benefits and, therefore, if non-EU competitors are not required to meet scheme standards, then, the EU farmer will be left at a competitive disadvantage. In general, supermarkets do impose equivalent standards on products from non-EU sources, although how far back down the supply chain they do so is less clear. For example, a U.K.’s supermarket chilled meal Thailand chicken supplier has every bit as equivalent chicken growing (including feed traceability) and processing standards, but those associated with eggs for breeding birds and the feed source is less clear. Further, research work undertaken at Imperial College, U.K. (2001), shows that participation in assurance schemes does deliver financial benefits (as well as costs) – through improved production and business practices, and access to high value supermarket customers. These initiatives are in the interests of EU consumers, particularly, if standards are raised over time and food safety and quality levels are improved and may merit CAP-financed support.

### *Environmental Aspects of Food Production and the Food Industry*

Driven by a combination of concerns about food safety and the impact of “modern farming” methods on the environment, consumer interest in organic foods has risen sharply in the latter part of the 1990s and early part of this decade<sup>1</sup>:

- *sales of organic dairy products in Europe expanded by 26.2% in 2001 to top €1.2 billion ..... The highest growth was observed in the Italian and German markets last year due to the BSE crisis elevating consumer demand.... Supermarkets accounted for 63% of organic revenues in 2001 and they are the most important marketing channels for organic foods in most European countries..... Large*

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<sup>1</sup> industry observers of the market for organic food in the U.K. note that there was a organic food growth boom in the early-1980s which was not maintained (indeed, it fell away). Poor quality produce, high prices and inadequate marketing infrastructure were the major reasons identified for this organic “false dawn”.

*dairies are expected to gain market share as they are able to achieve economies of scale.... (and) already dominate the Scandinavian, French and Dutch markets... ”;*

(survey by Organic Monitor, quoted by just-food.com/news, April 30<sup>th</sup>, 2002)

- *in the U.K., leading supermarket retailer Tesco reported that sales of organic foods increased by 30% year-on-year (April 2002 versus 2001) and the principal consumer motivation was that organic foods are perceived as healthier than conventional. Tesco is to expand its usage of biodegradable packaging for organic foods.*

(Tesco News release, reported in just-food.com/news, April 18<sup>th</sup>, 2002)

Yet, a more comprehensive survey of the U.K. organic food market undertaken by Taylor Nelson Sofrès (January, 2002) shows a positive, albeit less buoyant picture:

- *the organic food market growth rate is slowing down and household penetration rate (the proportion of households purchasing organic foods) is levelling – this is only to be expected and is indicative of sales growth curves for most “new” product categories;*
- *7% of consumers purchase just under 60% of all organic foods (i.e. a niche set of purchasers). On average, organic foods accounts for only 1.1% of organic buyers’ grocery purchasing;*
- *small although the total market share is for organic foods, there is plenty of room for further growth and, for organic producers, the challenge is to encourage the 93% of shoppers who buy 40% of organic foods to purchase more (if the average organics consumer spend on organic foods increased to 1.5% of their total grocery purchasing, this would grow the total organic food market by 34%).*

In summary, markets for organic foods in the EU are “oases” of growth, in an overall food market that is characterized by slow or no growth, reflecting a static and aging population in many Member States. A relatively small core of committed organic food purchasers account for the majority of purchasers, although a broad spectrum of consumers will buy organic foods on a more *ad hoc* basis. Across the EU, supermarket companies are in the van of driving organic food sales forward. The organic market represents a threefold opportunity for them – responding to consumer demand, increasing sales growth in an overall food market that is static, and an association with “safe”, “green” foodstuffs that attract higher income and higher spending consumers.

There is widespread support from consumer, environmental and other special interest groups to switch CAP resources to encourage more organic food production in the EU. This reflects a strong loss in confidence in conventional agriculture occasioned by a series of disasters, such as BSE, FMD and dioxin pollution:

*“.. new financial instruments (should be introduced) to boost organic farming .. (and) included in the European Action Plan for organic farming being drafted by the Commission. ...in order to ensure that 10% of the EU area is farmed organically by 2006, an annual sum of €2.5 billion is required. .... It investigates the introduction of new instruments to raise this money; for instance, a levy on chemical pesticides*

*and/or fertilizers, or capping EU-support for beef and cereals. Reducing the VAT-rate on organic produce will single-handedly increase demand by 10%, as this reduces the difference in price compared to conventional products.”*

(Study supported by European Environmental Bureau, the European Association of Consumers, and the Dutch Bureau of Food Trade CBL, released February 12<sup>th</sup>, 2002)

There is no evidence extant that organic food is any safer than conventional food and, in this regard, the CAP is blameless (see earlier, Tangermann). However, organic food production is, likely, more environmentally friendly. Certainly, organic production has become a central part of the policy debate on the future of the CAP and has captured the attention of the policy makers (EC DG Economic and Financial Affairs E3/JNF D (2001)). Many arguments used in the debate, however, are based on shaky ground. Nunez Ferrer (DG ECFIN/600/01-EN) presents developments in the organic sector in the last decade that do redress some concerns about high price premia and organic foods:

*“ Farm structures, labour intensity and costs have already changed significantly. The increase in size of organic farms and the improvement in labour saving technology are increasing the productivity and reducing costs of production and, ultimately, prices to consumers. Trends in the organic sector indicate that farms are increasing their efficiency and productivity, leading to further erosion of the price premia.*

*Thus, introducing more stringent environmental requirements on agricultural production to meet consumer demands will probably not lead to sustained increases in food prices. Potential initial price pressures could also be significantly restrained by future reductions in price support which would induce a decrease in input costs including land.....Finally, organic farming should not be considered the unique option to meet consumers’ requirements.”*

It is salutary to reinforce this last point (above). The future size of the EU organic food market will be constrained by two further factors: the extent to which conventional agriculture will become “greener” by using fewer chemical inputs for disease control (in part, this is been driven by increasingly rigorous supermarket protocols); and, as this is communicated to consumers and as consumers become better educated as to the points of difference between organic and conventional (diminishing), the majority of consumers (the “armchair green”) will be less predisposed to pay the organic premium. Finally, to support the point made by Nunez Ferrer, in the U.K. at least, supermarket firms are going to their main line suppliers of fresh produce for their increasing requirements for organic fruit and vegetables, and fluid milk. These companies wish to deal with fewer, larger, more sophisticated suppliers who produce both organic and conventional produce, and not with a large number of small-scale, specialized organic farms.

The above trends will not be supported by organic purist/ideologists and many hard line environmentalists who have a contrary vision of European agricultural and food industry development (see later under *Food Quality*). To-date, they have been influential or, at the very least, their views have been consonant, to a degree, with wider CAP policy opinion on the need to embrace more environmentally-friendly farming:

*“The (most recent – see earlier) reform strategy of the European Commission seems to be to shift as much support as possible from the blue box to the green box in two ways: partly by providing support to small farms on a simple contract of “good farm practice”. This would make the payments truly decoupled .....(secondly) by tightening some of the environmental conditions (“cross-compliance”) of the remaining payments...”*

(Swinnen, p.29)

Other policy analysts argue, however:

*“increasing cross-compliance will not make blue payments green ..... although the green box does specifically provide for “payments under environmental programs”, the EU trading partners are unlikely to allow such a flagrant misinterpretation of the (rules) to go unchallenged.”*

(Beard and Swinbank, Food Policy, 26 (2001), p. 141)

To conclude on environmental matters, from a consumer perspective: support should be accorded to decoupling initiatives under CAP reform; and cross-compliance linked to environmental conditions merits support in principle, although there is no environmental reason why small-scale farmers should be awarded proportionately more support than large-scale farmers. The concern is that, loud and long discussion about environmental issues and the multi-functionality of farming will serve to obfuscate the central point of the debate and its outcome – the seemingly continued growth in income transfers from taxpayers and, to a lesser extent, food consumers to food producers and to the exclusion of other rural-based businesses.

In an era of food crises, the introduction of biotechnologically-engineered (GM) food products has served both to concern and confuse EU consumers on food safety and environmental matters. Underpinning their concern has been their perception that GM products were launched on the EU market with insufficient attention given to the views of consumers. Specifically, the Monsanto “Round Up Ready” range of herbicides were seen by many consumers to offer little or no consumer benefits (although, if presented appropriately, there is a positive environmental message), and with prospective downstream costs to food safety (modest) and the environment (considerable). Life science companies have learnt (hopefully) not to take the consumer for granted. In 2001, sales of genetically-modified products worldwide were around \$28 billion, of which \$25 billion were pharmaceutical products and \$3 billion were agricultural seeds. Clearly, consumers will embrace GM products that offer significant health benefits and this suggests that, if future food products have significant (not trivial) consumer benefits, they may be embraced even in a sceptical EU.

Survey research shows that 80-90% of EU consumers are antagonistic to GM food products. However, Purdue University research suggests that public opinion and consumer behaviour differs. Despite the high level of opposition to GM foods, most Europeans were not concerned enough to read ingredient lists on packaging. Also, the

consumer's commitment to non-GM foods was linked with price – GM foods would be purchased if they were at a significant price discount to non-GM foods (just-food.com, April 17<sup>th</sup>, 2002). The GM issue is complex and has safety, environmental and quality dimensions (see later for labelling implications). To generalize, the American view is that good science applied to the food industry gives human kind mastery over nature. The more traditional European view is that scientific advancement in something as visceral as food should embrace the precautionary principle and that harmony with nature is more appropriate than mastery; although, influential consumer groups, such as the Consumers in Europe Group (CEG – see website under GM) do not go so far as to call for an outright ban:

*“CEG strongly supports - the segregation of GM and conventional food crops throughout the food chain... the labelling of all foods produced from GM sources.... (including) food additives and animal feed produced from GM sources..”*

In the meantime, it is likely that the apparent differential view of consumers in Europe and, say, the U.S.A. on GM acceptance may lead to WTO scuffles as food manufacturers and exporters in the U.S. perceive that the European position is a cover for trade protectionism.

### *Food Quality*

Food safety is the starting point for food quality. As identified, safety is a given; but, in high income countries of the EU, consumers want much more of their food than safety and affordability:

*“Consumers expect food to meet their nutritional needs, to be wholesome and tasty. They expect to be able to choose amongst a wide variety of foods. They expect their food to be produced and processed in accordance with good farming practices, with greater respect for the environment and for the welfare of animals. They also expect to be informed, in a precise and accurate manner, about the composition, the nutritional value, the durability, the origin and, in certain cases, the method of production of the food offered to them ... We eat more and more food prepared outside our own homes. .... We cherish the regional culinary traditions that we have inherited... It is important that Europe allows all the richness and diversity of foods to be preserved and developed .. We can reap the benefits of technical progress, improve the protection of our environment, and not give up any of our extraordinary food traditions. When we look at these three interwoven components of good food, i.e. safety, quality and nutrition, we can see how they become equally keys to production and consumption.”*

(Commissioner David Byrne, Speech/02/55, Winter, 2002)

Food quality can be highly subjective, even for aspects such as appearance, freshness and taste; but, particularly, for aspects which have psychological associations with the product. Thus, some consumers may have an aversion to elements that they perceive to be “unnatural”, such as genetic modification, not on health grounds *per se*, but according to more abstract notions as to what is “right” or “wrong”. Eggs from battery hens may be perceived as being inferior, in quality, to free range eggs by some consumers, similarly, organic may have quality precedence over conventional.

However, these notions are complex and can become confusingly so if one tracks actual purchasing behaviour of shoppers. Consumers may be adamant that their preference is to purchase free range chicken/eggs and, indeed, this may be their purchase preference on, say, the weekend when they are shopping for a “special” family meal. Mid-week, however, shopping behaviour and purchase choice may be completely different and the questions asked of the food vendors about the products they buy much less searching – for example, the method of production of the chicken and/or eggs in the convenience processed products is not considered a significant issue. This is the prerogative of the irrational, illogical and time-constrained 21<sup>st</sup> century consumer – “I know I should be concerned about the food ingredients in the week, but, I just don’t have the time!”.

Irrespective of the choice that the shopper makes at the retail shelf, the profile of animal welfare issues has risen inexorably over the past few years and the concerns of consumers have been articulated and presented in animal welfare legislation (of interest, in the U.K., one out of ten consumers – six million people - are paid up members of an animal welfare organization). Commissioner Byrne has contributed to raising the profile of animal welfare in the EU (Strasbourg, February 16<sup>th</sup>, 2000):

*“... in the context of the recently published White Paper on Food Safety, it is recognized that animal welfare questions need to be integrated more fully into food policy. It is also foreseen that animal welfare issues belong to the tasks of the European Food Safety Authority. ... this view is not universally accepted by all Member States and ... within business circles.”*

A widely-held and, on the surface, completely reasonable view is that many of the problems associated with food quality can be covered by inducing more transparency in the food chain and, not least, at the retail shelf. If consumers are provided with comprehensive information, then, they can “pay their money and take their choice”, electing to purchase products with the mix of quality attributes that match their budget and non-monetary preferences. In practice, for many who shop at supermarkets, facing thousands of products on the shelves with confusing labelling, it is difficult if not impossible to make optimum purchase decisions. Clearly, this is an area that deserves considerable attention. Shoppers and consumers will seek “short hand” means of identifying their products of choice. The current plethora of quality marques and bland assurances must be redressed and, likely, this is within the bailiwick of EU labelling legislation and regulation and not a CAP-related issue.

Ineffective and confusing labelling on food products does an immense disservice to the European food consumer and the food industry itself. A constant criticism from farmer organizations is that consumers profess to be interested in purchasing animal welfare/environmental/Fair Trade etc. products when surveyed, yet seek the cheapest product on offer when in front of the retail shelf. As the survey results show (see earlier), some consumers do behave in this manner. But many, in the time-constrained “window” that they allocate for their main shopping do not recognize/mentally process the labelling cues that are presented on the food package. Further, many of the assurance schemes that have been implemented at farm level across the EU, which have animal welfare and/or environmental elements, are marketed to producers to induce supplier support, but, are not communicated to consumers in anywhere near an adequate fashion. In part, this is understandable and for three major reasons:

- farmer organization marketing staff have few competences in developing and launching branded products and, essentially, when an environmental and/or animal welfare label is placed on a food product, it is akin to branding;
- if they have such competences, their organizations have limited resources and/or past practice and culture in investing promotional resources to communicate with final consumers. Indeed, it is instructive to ask supermarket staff what practices and production procedures are behind the various quality marques adorning many fresh food products on the supermarket shelves. Invariably, they do not know!;
- even for seasoned fast moving consumer goods companies, launching new products and, specifically, communicating product benefits to shoppers and consumers in a “noisy” market place is extremely difficult. For example, AC Nielsen (global market research firm) estimate that nine out of ten new grocery products fail to establish themselves on the shelves of supermarkets and are withdrawn. Is it any wonder, therefore, that a harassed shopper fails to notice that the more expensive fresh pork sausage is produced from pig herds that do not tether sows (see below).

The pork sausage example given above provides an example of how lack of communication between farmers and consumers about the non-price benefits of food products can lead to competitive disadvantage. In short, the U.K. has a very effective animal welfare lobby, led by the Royal Society for Prevention of Cruelty to Animals (RSPCA). Through successful lobbying, sow tethering has been abolished within the U.K. pig sector (some years before this practice is to be abolished in other EU countries), yet, largely, this has gone about unnoticed by most U.K. pork consumers. Not tethering sows brings additional costs (higher piglet mortality rates etc.), but, pig farmers have been unable to extract a premium from the market place for their “advanced” animal welfare practices. Thus, they are at a competitive disadvantage *vis-à-vis* their direct competitors in Holland and Denmark.

The general point being made herein is that well-organised and well-meaning special interest groups can successfully bring about changes in policy – say, relating to environmental practices, animal welfare etc. – and if these changes (a) bring additional production costs, (b) without extracting an off-setting premium from the market place, then, the producer can be placed at a significant competitive disadvantage over within- or extra-EU competitors. The concern is that, by the time the environmental/welfare benefit is appreciated and paid for by the EU consumer, the EU producer could be out of business. EU farmers press this point particularly when it is related to the food service sector (i.e. hotels, restaurants, institutions) – a sector that is growing in importance and where non-EU suppliers are expanding their market share. In history, the food service sector has a strongly cost-driven culture and low-priced commodities can be sourced from outside the EU (e.g. chicken meat from Thailand and Brazil) and utilized in the preparation of processed dishes where the provenance of the raw materials are not divulged (generally) to the consumer.

As *per* the establishment of quality assurance schemes for EU food products (see earlier), the investment of CAP monies (extracted from direct payments) might be usefully employed in facilitating the communication process on the quality aspects of EU-produced foods between farmers and final consumers. In fact, the draft MTR

document identifies exactly this promotion function as a *bona fide* use of rural development funds provided under the CAP.

Effective regulation on labelling can deliver food policy objectives. The Nutrition Labelling and Education Act (NLEA) was promulgated in 1990 in the U.S.A. and instituted a sweeping change to replace the voluntary system established by the Food and Drug Administration in 1973. It requires mandatory nutrition labelling for almost all packaged foods, with a consumer-friendly *Nutrition Facts* information panel, and strict regulation of nutrient content and health claims. Research shows that label use does have a positive effect in improving diet quality (Sung-Yong *et al, ibid, p.359*).

The emergence of what might be perceived by some as rather esoteric quality attributes of food products is well-advanced in the U.K., relative to some other EU countries. An current example of the “Race to the Top” initiative may illustrate this and, perhaps, be indicative of developments across the EU market overall as this decade unfolds. Further, it is an example of a private (albeit NGO) initiative to induce changes in the production and marketing of food.

The “Race to the Top” initiative is focused on tracking supermarket progress towards a “greener and a fairer” food system. The key organizations responsible for its launch include: the International Institute for Environment and Development, Farm Animal Welfare Network, World Wildlife Fund, Fairtrade, Royal Society for Protection of Birds, English Nature, The Countryside Agency, and a major shop workers’ union. The principal supermarkets in the U.K. are being measured on seven indicators and will be “scored” as to how they perform on:

- biodiversity and landscapes
- animal welfare standards
- labour standards;
- regional sourcing and development;
- public health;
- sustainability management and reporting;
- and terms of trade with primary producers.

The scores of the major supermarkets will be benchmarked annually and the results published, along with case studies of best practice by supermarkets and their suppliers. In effect, the sponsoring organizations are seeking to use the might of the market place to induce change in procurement/production practices by the most influential participants in the U.K. food chain.

#### Rural Development Issues and the Mid-Term Review (MTR)

The draft MTR places particular focus on an expanded rural development role for the CAP:

*“Support between the two pillars of the CAP must achieve a better balance to meet society’s expectations of a policy that promotes food quality, sustainability, and value for money through reinforced rural development programmes. This improved balance must promote a more socially-acceptable allocation of support and contribute to*

*cohesion. The scope of rural development must be extended to meet new needs and opportunities.”*

(MTR 2.1, “The Aims of the Mid-Term Review”, July 2002.)

The MTR identifies three new rural development “chapters”, however, these should be “targeted primarily at farmer beneficiaries” – indicating a reluctance to extend financial benefits of the CAP to other rural sector stakeholders (e.g. non-farm businesses located in rural areas), *viz.*:

- a food quality chapter – using resources to encourage farmers to participate, *inter alia*, in QA and designation of origin schemes, and to promote QA and certification schemes in general;
- a “meeting standards” chapter – facilitating an accelerated uptake of high standards in food safety, the environment, and animal welfare, plus resources to cover farm audit support payments (associated with cross-compliance requirements etc.);
- introducing into the agri-environmental chapter the possibility to offer animal welfare payments that go beyond a mandatory reference level in line with agri-environment schemes.

The MTR authors ambitiously suggest that “for consumers, these proposals represent a major step forward in integrating food safety, food quality and animal welfare concerns into the CAP.”

The FMD disaster in the U.K., clearly identified the linkages between farming and the remainder of the rural economy (rural industry, tourism etc.). That is, the economic and social health of the rural sector are inextricably inter-linked – like a machine, all the bits must be working for forward progress to be maintained! As Professor Hill identifies (see earlier), non-farm businesses present essential income opportunities for an increasing proportion of farmers and their family members (opportunities that deliver more income stability than farming). CAP-financed initiatives to encourage rural business growth in its widest context can only contribute to achieving the overall rural development goals of a better balanced CAP.

### **Emergence of the Consumer-Citizen and the Need for Radical CAP Reform**

It is this author’s view that the relative importance of non-price attributes for food products will grow throughout this decade and, perhaps, at an accelerated rate if real household incomes continue to grow at levels characteristic of the past two or three decades. This seems axiomatic as we have a very personal relationship with the food we eat. After all, we put it inside our bodies! As a result, ethical and other issues involved in its production are brought home to us in an intimate way. The profile of ethical issues, such as animal welfare, environmental sustainability (whatever we perceive this to be), will percolate up in the consumer’s consciousness, driven forward by passionate special interest groups and a media hungry for stories about food and its production and preparation.

Over time, the communication that most European supermarkets have with their customer bases will switch from the pervasive focus on price (specifically, on low

prices, best price deals etc.) that is prevalent currently to a more balanced message that, also, stresses food quality attributes. If income growth stalls, then, so will the rate of growth of sale of food products with these non-price attributes and supermarkets will become even more price level-obsessed than they are now.

By decade end, there will be a significant growth in the emergence of the consumer-citizen – i.e. the proportion of shoppers who will, as is human nature, still seek good deals on price, but, accord equal if not more priority to social attributes of the food products they buy. The drive to differentiate themselves on the social aspects of their food product range will increase for the major supermarkets, as competition in the basic food commodity markets intensifies (driven by electronic auctions and global sourcing) and there will be a “flight” to quality where margins are more acceptable. Food policy in the 21<sup>st</sup> Century will place the food consumer firmly in centre stage, armed with relevant information to make informed choices. The CAP, as it stands now, would look totally anachronistic if it does not undergo substantial change and adopt a genuine consumer face. The gloomy view is, by historical observation, the most realistic view:

*“..it is hard to avoid the conclusion that the CAP and the policy-system which decides on its reforms, is extremely resistant to change. More specifically, two factors seem to characterize the significant CAP reforms: they are only agreed upon if there is “no other way out”; and they take the form of “let’s wait and see first”. The result is that the CAP has a history of postponing decisions and crisis-management.”*

(Swinnen, p.38)

The hope is that consumer and environmental organizations have tasted success relating to food safety and environmental initiatives, and the mood across the EU is ripe for change. Further, pressure from WTO to reduce export subsidies and blue box support is rising inexorably; and EU enlargement will bring additional financial pressures which will be conducive to supporting more radical change than in the past.

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