

2011

The Common Agricultural Policy

History of Agriculture and Rural Development Policy of EU

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A. What's the Common Agricultural Policy (CAP)?

The Common Agricultural Policy (CAP) is a system of European Union agricultural financial supports and programs. It represents approximately 45% of the EU's budget.¹

The CAP merge a direct financial assistance payment for crops and land which could be refined with charge support mechanisms, including guaranteed lowest amount prices, trade in tariffs and quotas on goods from outside to EU.

B. Overview of the CAP

The design of a common agricultural policy was proposed by the European Commission with Treaty of Rome in 1957, which established the Common Market.

The CAP is frequently explained as the result of a political compromise between France and Germany: German industry would have entrance to the French market; in exchange, Germany would assist for France's farmers.²

1. Objectives

The main objectives were set out in Article 33 of the Treaty of Rome;³

- i. to increase productivity, by promoting technical progress and ensuring the optimum use of the factors of production, in particular labor;
- ii. to ensure a fair standard of living for the agricultural Community;
- iii. to stabilize markets;
- iv. to secure availability of supplies;
- v. to provide consumers with food at reasonable prices.

In Consolidated version of the Treaty on the Functioning of the European Union, 2009; "agricultural shall be understood as also referring to fisheries, having regard to the specific characteristics of this sector."⁴

¹ http://www.nao.org.uk/publications/0708/financial_management_in_the_eu.aspx

² The Economics of Europe – Dennis Swann (pg. 232)

³ Treaty of Rome, article 39

⁴ http://en.wikisource.org/wiki/Consolidated_version_of_the_Treaty_on_the_Functioning_of_the_European_Union/Title_III:_Agriculture_and_Fisheries

C. History of the CAP

The common agricultural policy was born in the late 1950s and early 1960s at what time the founding members of the EU had come out from over a decade of severe food shortages after the Second World War.

1. Beginning

The main beliefs of the common agricultural policy were set out at the Stresa Conference in July 1958. In 1960, the CAP instruments were adopted by the six founding Member States.

By 1962, three main beliefs had been established to show the CAP: market unity, community preference and financial solidarity. Since then, the CAP has been a central element in the European institutional structure.

2. Evolution and reform

At all times, the CAP has been a hard area of EU policy to improvement. The Council is the main decision-making body for CAP dealings. However, unanimity is needed for most serious CAP reform votes. Outside of Brussels, the farming lobby's authority has been a reason determining EU agricultural policy since the earliest days of addition. This lobby's authority has declined obviously since the 1980s.⁵

In recent times change has been more cooperative, because of external trade demands in common agricultural policy relationships by other parts of the EU policy structure, such as consumer supporter working groups and the environmental departments of the Union.

“In the 70’s CAP had budgetary problems with surplus production, in the same time Europe shifted from being and importer of foodstuffs to the status of a net exporter and increased pressure from GATT negotiations arise.”⁶

⁵ In the course of Founding Treaty in Bahcesehir University - Özgür Ünal, 2011

⁶ <http://researchers-blog.blogspot.com/2009/12/history-of-common-agricultural-policy.html>

3. Mac Sharry Reform

In 1992, the MacSharry reforms were shaped to border rising production, while at the same time regulate to the movement toward a more free agricultural market. The reforms reduced levels of support by 29% for cereals and 15% for beef.

Since the MacSharry reforms, cereal prices have been closer to the stability level, there is better clearness in costs of agricultural aid and the 'de-coupling' of income support from production aid has begun.

Affecting additional change in middle 90's⁷

- ✓ The threat of additional surpluses;
- ✓ Increased demand for new types of products and new roles for agricultural activity;
- ✓ The rising financial demands of other sectors of the economy and European society in general;
- ✓ The future enlargement of Europe;
- ✓ Increasing international commitments on trade;

4. Agenda 2000

In March 1999, the EU Heads of Governments and States met at Berlin under the German Presidency, and they prepared Agenda 2000 package.

The Internal factors were;

- ✓ The limitations set out in the agricultural budget
- ✓ The increase in productivity with competition on the agricultural markets
- ✓ To enforce the food safety & quality standards
- ✓ to achieve a more environmentally agriculture and higher welfare standards
- ✓ to simplify the EU agricultural legislation

⁷ <http://researchers-blog.blogspot.com/2009/12/history-of-common-agricultural-policy.html>

5. European Commission Report

A 2003 report was prepared by the European Commission, by the group of experts led by Belgian economist André Sapir. The report suggested a reconsideration of EU policy, redirecting expenditure towards actions intended to raise wealth creation and structure of the EU.

The report largely concerned itself discussing another measures more functional to the EU, rather than discussing the CAP, but it did also recommend that farm support would be managed more successfully by member countries on an individual basis.

6. Sugar regime reform

Sugar was not integrated in the 1992 Mac Sherry reform, or in the Agenda 2000 decisions; as of 21 February 2006, the EU has determined to reduce the guaranteed price of sugar by 36% in 2006. This is the first serious reform of sugar under the CAP.⁸

The reasons of this policy change are to agree to easier and more gainful contact to European markets for emerging financial systems.

7. Direct subsidy limits

In the 2007 the European Commission was reported to be allowing for a suggestion to limit subsidies to individual landowners and factory farms. The attempts have been unsuccessful in the past.

The reformed Common Agricultural Policy is as a result of coming into force after 2013. The Commission begun the CAP reform process with a general public discuss on the future by a public conference in July 2010. The aim of the discussion was to have different sectors of society taking part in.

⁸ http://ec.europa.eu/agriculture/capreform/sugar/index_en.htm

8. Latest Reform⁹

“More subsidies will be moved to rural development and conservation, further reducing the traditional EU incentives for farmers to produce. Milk quotas will be raised initially, but later scrapped, in the biggest overhaul of farm policy since 2003.

The reforms, covering the period 2009-2013, will make farmers spend 10% of their EU subsidies on projects to improve the countryside - double the current amount. In order to cushion the blow to dairy farms the milk quotas will rise by 1% a year from 2009, before they expire in 2015.”

D. Subsidies and Support¹⁰

Originally there were two main elements of the CAP:

1. The price support mechanism

The Council of Ministers sets a target price that farmers should receive for each product.

1. A floor (or ‘intervention’) price – if prices fall below this level, the EU intervenes and buys some of the product to stop prices falling further.
2. A ceiling (or ‘threshold’) price – if prices rise above this level, the EU will allow imports of the product, so encouraging prices to fall back towards the target.

2. The structural policy

The aids are not enough especially for very small farms. The CAP therefore provides a number of other sources of support for agriculture.

These include;

- a. Aid for farms facing specific problems; for example hill farms can obtain extra grants.
- b. Aid to encourage farmers to modernise or diversify; for example, there are grants for some forestry schemes

⁹ <http://news.bbc.co.uk/2/hi/europe/4407792.stm#thelatest,2008>

¹⁰ <http://www.sac.ac.uk/learning/geography/agriculture/thecap/subsidiesandsupport>

E. The CAP costs

The CAP is not shocking that the CAP budget has represented a large quantity of the overall EU budget and spending. This circumstance has now changed as CAP expenditure has been limited and as other EU-level policies have been developed.¹¹

The CAP costs about EUR 55 billion per year. This represents 40 % of the total EU budget, less than 0,5 % of GDP in the EU.

The other sectors, such as education, defense, transport health care or social security, whose cost is borne by national governments, the Member States have agreed that decisions about the EU's agricultural policy be taken at community level; we can say that there is supranational structure in this field.

F. References

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¹¹ http://ec.europa.eu/agriculture/capexplained/cost/index_en.htm