

The Common Agricultural Policy: A Brief Introduction

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The Common Agricultural Policy (CAP) for the European Union was established in 1963 and has provided the basis for Europe's food and agricultural programs. This short backgrounder presents a brief history of the CAP, its establishment and the different reforms over time as well as some overview of the current context in European agriculture today. It also addresses the CAP review scheduled to take place in 2008.

Establishment of the CAP

The CAP was initiated after World War II as part of the Treaty of Rome that was signed in 1958. Following post-war shortages, Europe began to explore ways to become self-sufficient in food and agricultural production at the regional level. The Treaty of Rome set the stage for the CAP by establishing guaranteed markets as well as a fair price for agricultural producers.

The CAP went into effect in 1963 with four basic principles:

- **A unified market for the free movement of agricultural products in the European Union covered by community preference.**
- **Financial solidarity:** All costs of the CAP were to be financed out of a communal treasury, FEOGA (European Fund for Orientation and Agriculture Guarantee), supported by import tariffs and contributions from European countries.
- **Community preference:** European products were to be given preference over imported products.

- **Parity and productivity:** Farmers' incomes were to be equal to incomes in the other sectors, with reasonable prices in order to permit food access to the consumer.

Common Market Organizations (CMOs) were also introduced in the original CAP and still exist today. Within CMOs, each group of food and agricultural products is organized by harmonized rules. CMOs set minimum prices for products at the EU-wide level. Currently, there are 21 Common Market Organizations.

During the 1960s and 1970s, the CAP led to increased agricultural production in Europe and was generally considered a positive vision for growth in the post-war region. However, by the 1980s negative environmental effects of increased production (e.g. water pollution and soil impoverishment) began to surface. Structural overproduction became entrenched in European agriculture, which routinely produced more than those in the community could consume. As part of this trend, storage for surpluses in products such as milk, cereals and meat became increasingly expensive, and the European Community began exporting its excess products at below world prices (known as dumping).¹ In the 1980s, the EU began its systematic reform to deal with overproduction, negative impacts on the environment and dumping.



Written by Céline Delaven, IATP Trade and Global Governance Program

Institute for Agriculture and Trade Policy

2105 First Avenue South | Minneapolis, Minnesota 55404 | USA | (612) 870-0453 | iatp.org

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CAP REFORMS OVER TIME

Introduction of milk quotas in 1984

The first CAP reform was the introduction of the milk quota in 1984. The milk quota was put into place as a means to control dairy production and overall EU expenditures. The reform for milk was based on:

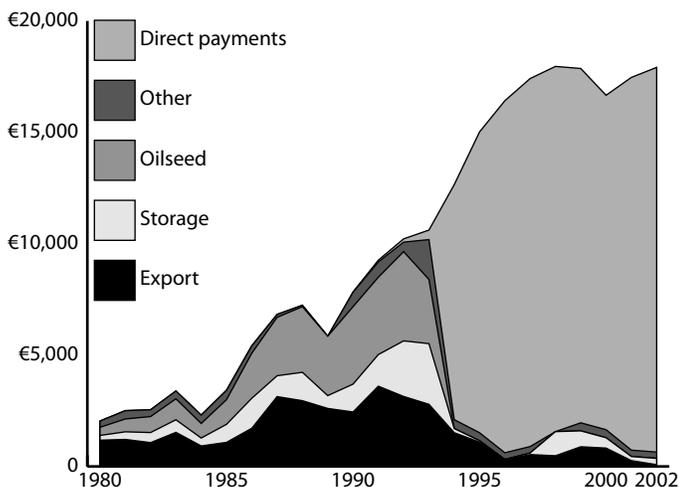
- Total guaranteed quantity: the quota of each country.
- The reference quantities: the producers' and/or purchasers' quotas.
- **The milk tax:** Taxes if producers exceed their reference quota.

While the milk quota was reasonably effective in limiting production in the EU, the limit was set in excess of the domestic consumption of dairy products in the EU. Hence about 10 percent of the production still had to be exported and since the minimum prices in the EU remained above world market prices, this was only possible with export subsidies. Dumping was reduced, but not eliminated.

At the same time, the structural overproduction exerted a downward pressure on domestic milk prices, which were usually at the level of the minimum price set in the EU. Since this minimum price was hardly adjusted upwards, small dairy farmers continued to go out of business, albeit at a somewhat slower rate than they would have without the quota.

Mac Sharry reform in 1992

The Mac Sharry reform marked the beginning of direct payments in order to compensate for the decrease of the price support. The Mac Sharry reform enacted price cuts for agricultural products (meat and cereals) as a means to ensure competitive domestic and international markets. Farmers were partly compensated for the lower prices through direct payments, based on the area on which they plant certain crops. In order to be eligible for these payments farmers also had to set-aside a certain amount of their land and limit the number of animals per hectare. It also introduced new subsidies to farmers for good environmental practices. The graph below shows the significant increase of direct payments that resulted from this reform. (Source: Data European Commission (taken from Lapperre 2006))



The Agenda "2000"

Signed in 1999 in Berlin, the Agenda 2000 created the second pillar within the CAP to take into account the "multi-functionality" of farming activities. Three main measures were proposed (among more than 15): agro-environment schemes, support to the least favored areas, and investment assistance to enhance productivity and competitiveness. The first pillar from the earlier CAP only addressed support for agricultural products. The modulation principle in the Agenda "2000" introduced measures to allow for funds to be transferred between the first pillar to the second based on this "multi-functionality" approach. In 2000, the EU expanded its basis for direct subsidies programs to address long-term goals for development.

The 2003 reform and the current CAP

In 2003, further reforms were introduced, which are in the process of being implemented today. These reforms coincided with the entry of 10 new countries from Eastern and Southern Europe into the EU - followed by two other countries which entered the EU at the beginning of 2007.²

The most important step was to decouple direct payments to farmers. Farmers today are allotted payment entitlements based on historical reference payments during the period of 2000-2002, largely independent of what they currently produce. These payments are brought together under the name of single farm payments (SFP). Each country can choose if the payment will be established at the farm level or at the regional level. Farmers receiving the SFP have the flexibility to produce any commodity on their land except fruit, vegetables and table potatoes. In addition, they are obligated to keep their land in good agricultural and environmental condition (cross-compliance). Countries that wish to can keep some subsidies linked with limited production. These subsidies are called "partial decoupling payments." For instance, in Great Britain all payments are decoupled, although in France some payments are still linked with limited production (e.g. payments for sheep are decoupled at 50 percent. This means that the farmer receives the total of the payment only if he still farms sheep. If he stops his breeding, he receives just 50 percent of the payments).

In 2003, the milk quota increased, prices continued to fall, and further subsidies were integrated into the SFP. The full granting of the SFP as part of the 2003 reform is linked to the compliance of a certain number of environmental, food safety, animal and plant health standards. Direct payments as formerly defined in the first pillar decreased by 3 percent in 2005 and by 4 percent in 2006 (modulation). It is expected direct payment cuts will reach 5 percent between 2007 and 2013 (this is called modulation of subsidies). However, the money formerly allotted to direct payments is now earmarked for the 2nd pillar of the CAP to support the environment, animal welfare, food quality and safety, and to invest in agricultural production.

Also in 2003, the EU initiated a directive to expand production of biofuel feedstocks to support its overall goal of decreasing greenhouse emissions. It set a target for 5.75 percent by 2010 and 8 percent by 2015. In real terms, however, Europe lacks arable land available for energy crops. It is already importing biofuels. This has become contentious at both the regional

and global level because of the concern that intensive biofuel production will not support sustainable development goals and the concern that European energy goals could potentially do more harm than good.

Review of the CAP in 2008 and beyond

In 2008, a review of the CAP will begin. Among others the following themes and issues will be discussed and/or will shape the future CAP:

Common Market Organizations: Currently, there are 21 Common Market Organizations and the EU Agriculture Commissioner, Marian Fisher Boel, has proposed to collapse them into one single Common Market Organization as a means to simplify the CAP and to increase EU competitiveness in the world market.

The Common Market Organizations govern production and trade of agricultural products from each member states of the EU. They aim to reach the CAP objectives and notably stabilize the market, increase agricultural productivity and guarantee a stable income for farmers. The CMOs cover about 90 percent of the agricultural production in Europe. The 21 CMOs are: cereals, pork, poultry and eggs, vegetables and fruits, banana, wine, dairy products, beef meat, rice, olive oil and olives, sugar, flower-growing, dry forages, fruits and vegetables added value, tobacco, flax and hemp, hop, seeds, sheep and goat meet. For practical purposes, the CMOs set the price of agricultural products for each European market.³ (They allocate subsidies to producers in the sector, establish the mechanisms that regulate the production (quotas, set aside, national guaranteed quantity) and set the terms for exports and imports with developing countries.

A single CMO would further deregulate European agriculture. It is difficult to see how one common market organization could address the specificities that are linked to different products.

The EU-Budget: The budget remains a bone of contention among members of the EU, even though the CAP's budget is guaranteed until 2013. In fact, it could potentially be reviewed as early as 2008 or 2009 because some states have argued that agriculture consumes too much of the budget (essentially UK and the Nordic countries). The CAP budget is currently comprised of 54.7 billion Euros (71.7 billion dollars) per year, of which 40 billion are spent for the first pillar, i.e. mainly direct payments. However, the share of the CAP in the EU budget is regularly decreasing: today it represents 43 percent of the overall budget while in 1984 it represented 70 percent of the overall budget. This represents a marked shift over the last 20 years.

Even as it has decreased greatly, the agriculture component of the EU budget is still notably large. Part of the reason for this is that most agriculture policies and hence government spending is decided at the EU level.

Interestingly, a new debate around the need for a common budget to support a European agriculture policy has emerged. Some countries propose to abolish the financial solidarity prin-

ciple and bring the CAP to an earlier iteration that had been financed by countries individually rather than collectively. This would imply that wealthier countries such as Germany, France, Austria, Netherlands and Sweden could more easily support their agriculture. Yet, the new member states have less national wealth and would lose with this scenario. The new member states need investment to modernize their agriculture programs and to ensure that agricultural production is environmentally and socially sustainable. Eastern states would also seek to receive a larger part of the budget. Resolving this imbalance within the CAP budget will continue to be a difficult negotiation within the ever-changing EU.

Milk quotas: Milk is one of the few remaining commodities in which production limitations exist to ensure a higher market price. Agricultural Commissioner, Marian Fisher Boel, stated in her February 2007 speech that milk quotas are "out of place in the reformed CAP."⁴ Milk quotas do not encourage competitiveness, which is the main focus of the Lisbon strategy. "Quotas hamper competitive producers by preventing them from expanding." In light of the impacts of the reforms already in place, one can expect that dairy will be the subject of a contentious debate in the 2008 mid-term review.

Allocation and transparency of CAP payments: For 2008, Agricultural Commissioner Boel has made decoupled payments for all countries and all producers a priority for the European agenda. The implementation of this decision will be reviewed. Another key issue in relation to CAP payments is the so-called transparency initiative. Based on the critique and existing information to whom payments go in a few member states, transparency has become an important issue. Linked to this issue, the debate on how to improve the cross compliance and payment limits will certainly come up in the 2008 debates.

Biofuels: Recently the EU has established biofuel targets. The overall EU goal is to reduce climate change. As such, it is committed to decreasing CO₂ emissions by 20 percent over the next 13 years. The Commission proposed a fixed target to ensure that by 2020, renewable energy will represent 20 percent of its total energy consumed, including a 10 percent minimum in biofuels.

The demand for biofuels has triggered a price increase for commodities in the EU- at least in the short-term. In response, some farmers have shifted to biofuels production to improve their income. The debate around biofuels and climate change will certainly influence the direction of the CAP.

Some Positions for the 2008 CAP review

Below are the positions on the general direction of the CAP and agricultural budget by some interest groups:

The food-industry seeks further liberalization in support of cheaper raw materials and new food markets. The Committee of Industrial Users of Sugar supports more competitive agriculture and low sugar prices.

CIAA (food and drink industry confederation) supports simplification of the CAP but does not agree with a single com-

mon market organization that has the potential to worsen, not lessen European bureaucracy in agricultural products.

The public health community has started to work for on CAP review in order to ensure that health is taken into account. There is a concern that the CAP has a link to a growing number of major diseases and disorders (obesity, high blood pressure, type II diabetes etc.) that are food related. The European public health alliance explains, “The CAP doesn’t support healthy crops, such as the fruit and vegetable sector. There is a shortage of fruit and vegetables in the market, which make them expensive and unaffordable to low income families.”

“Small farmers” have been critical of the 2003 reform because payments have been based on historical production. This has meant that the most productive farmers, which are the large-scale corporations, have received the lion’s share of these payments. However, the farming lobby is better organized and more effective than the loose coalition of consumer groups, Greens and development NGOs that seek to challenge the current reforms in the CAP.

The CPE (European Peasant Coordination) does not support a decrease in the EU agriculture budget, but does support better management of the funds. This organization supports the solidarity principle. The CPE and COAG (coordination of Ganaderas farmers organizations) support a reduction in the bureaucracy of the current Common Market Organisation (CMO), but express their concern that shifting to a single CMO will be used by the European Commission to suppress market regulation.

Similarly, in a common declaration “Re-thinking the CAP,” World Wildlife Fund, Oxfam, Bird Life, Eurogroup, Friends of the Earth, International Federation of Organic Agriculture Movements (IFOAM) EU Group and European Environmental Burea (EEB) have stated that the debate must not just centre on how much is spent on the CAP but also on how funds are allocated. They have also taken a position against the total decoupling of payments.⁵

Milk quotas: The European Dairy Association generally supports the liberalization of dairy production provided there is a phase-out process that would block any immediate reduction of import tariffs that could destabilize the EU milk market.

COCERAL (national trade organizations of most of the EU-25 Member States) is committed to free trade with few limitations and state intervention. This group is against quotas.

The EMB (European Milk Board) supports the regulation of milk volume regulation in Europe rather than an end to the milk quota. The NMV (Netherlands Association of Milk Producers) has published a study entitled “Abolition of the milk quota system: a historic mistake!” that supports this position.

CPE (European peasant coordination) and the European Platform on Food Sovereignty have also come out against the abolition of the quota.

Biofuels: A number of environmental organizations (e.g. WWF) have welcomed the growing share of agro-fuels in transport fuel because they believe it can help to tackle climate change. However, they have also expressed concern that it will “intensify production at the expense of wildlife, destroy rainforest through import of palm oil or harm wildlife overseas by using oil derived from GM-crops.” These organizations seek to establish sustainable biofuels certification (for biofuels production in the EU as well as for biofuel imports).

CEFIC (Council of the European Chemical Industry) has stated that industrial biofuels are potentially problematic because they are energy inefficient and could compete with production for food.

Structure of decision-making within the CAP

The European Commission, composed of commissioners designated by the member states, submits proposals to the European Council. The current Agricultural Commissioner is Mariann Fischer Boel (Danish).

The Agricultural Commissioner has the task to develop-based on consultations with the Member States and stakeholders – a proposal for a new CAP. This proposal is finally reviewed and decided upon by the European Council of Agriculture Ministers. The European parliament has only a consultative role.

References

1. Other countries around the world criticize the CAP for its unfair subsidies, its contribution to global price collapses and its dumping practices.
2. Agriculture is a major resource for these countries and will impact the overall dynamic of agriculture in the EU.
3. Indicative price is the price that the European authorities assess for the transactions, limit price is the minimal price that imported products can be sold, intervention price is the guaranteed price that an intervention organism designated by the member states buys the products and stores them.
4. Taken from Mariam Fisher Boel’s speech, “Farming for the Future,” Birmingham, 26, February 2007.
5. Friends of the Earth Europe et. al. “Rethinking the CAP.” November 2005. http://www.foeeurope.org/publications/2005/re-thinking-the-cap_Nov2005.pdf