

VII. EU Common Agricultural Policy

1. Principles and approaches
2. 2003 CAP Reform
3. 2008 CAP 'Health Check'
4. CAP and Doha round

A) Principles



- **Free movement of agricultural goods**
- ❑ **Common food safety requirements** - European Food Safety Authority (EFSA) in Parma (Italy) – Risk assessment – for example GMO Panel.
- ❑ **Common Animal Health and Animal Welfare Requirements** – Council Directive 98/58/EC on the protection of animals kept for farming purposes. Based on [European Convention for the Protection of Animals kept for Farming Purposes](#).

Five freedoms:

- Freedom from hunger and thirst - access to fresh water and a diet for full health and vigour;
- Freedom from discomfort - an appropriate environment with shelter and comfortable rest area;
- Freedom from pain, injury and disease - prevention or rapid treatment;
- Freedom to express normal behaviour - adequate space and facilities, company of the animal's own kind;
- Freedom from fear and distress - conditions and treatment which avoid mental sufferings.

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➤ **Common system of preferences (subsidies)**

But with a strong difference between subsidizing farmers in old and new member-states. For example, Bulgarian farmers under Single Area Payment Scheme (SAPS) receive only part of the subsidy which farmers from the old member states should receive in the same position. This part is as follows:

2007 г. - 25%, 2008 г. - 30%, 2009 г. - 35%, 2010 г. - 40%, 2011 г. - 50%, 2012 г. - 60%, 2013 г. - 70%, 2014 г. - 80%, 2015 г. - 90%, 2016 г. - 100%.

The union subsidies decrease constantly at the expense of the increase of the so-called national subsidies. Now the share of national subsidies is about 25%. This tendency can cause unfair competition between the member states and hinder the free movement of agricultural goods.

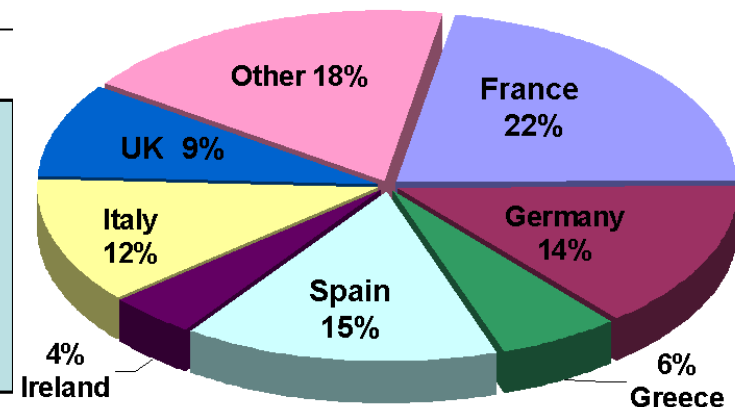
➤ **Financial solidarity among the member states**

Unfortunately the solidarity decreases after the 2003 CAP Reform. The share of CAP spending (market measures and direct payments) in the EU budget decreases from 32.6% in 2007 г. to 26.7% in 2013 г. For the whole period 2007-2013, the average share is about 30.1% . During previous financial framework 2000-2006 the CAP share in the EU budget spending was about 40%.

European Agricultural Guarantee Fund (EAGF) - finances direct payments to farmers and measures to regulate agricultural markets

European Agricultural Fund for Rural Development (EAFRD) -finances the rural development programmes of the member states

CAP Beneficiaries 2004



Pressure for additional cuts in CAP spending comes from:

- member states which are big donors but small users of CAP, especially from UK, Sweden, the Netherlands;
- big developing countries, which are important exporters of agricultural products;
- some developed countries – Canada, Australia;
- WTO.

B) CAP Approaches

i) Common market organization (by market sectors)

Today this approach refers to following sectors: durum wheat; protein crops; rice; dried fodder; energy crops; starch potatoes; seeds; nuts; cotton; olive plantations, flax; hemp; beans; wine; beef; veal ,goat, cow milk and dairy products, honey, etc.

2010 General budget (€ billions~)		
Title 05 — Agriculture and rural development		
Heading	Appropriations 2010	
	Commitments	Payments
Administrative expenditure of Agriculture and rural development policy area	0,133	0,133
Interventions in agricultural markets	4,100	4,101
Direct aids	39,273	39,273
Rural development	14,358	13,397
Pre-accession measures in the field of agriculture and rural development	0,170	0,132
International aspects of Agriculture and rural development policy area	0,006	0,006
Audit of agricultural expenditure	-0,301	-0,301
Policy strategy and coordination of Agriculture and rural development policy area	0,041	0,036
Total	57,780	56,777
Total EU Budget	141,5	

There are 4 main tools for the Common market organization:

- ✓ **Intervention purchases** of unsold quantities by in advance fixed minimal intervention prices. Refer to: cow milk, dairy products, beef, durum wheat, sugar, rice etc.
- ✓ **Compensation payments** (bonuses) – Refer to industrial crops, protein crops (soya bean), energy crops, olive oil and wine.

P_i – price of the intervention purchases (intervention price)
 P_e – internal market equilibrium price (marginal market price),
 D – internal demand before intervention;
 S – Internal supply
 E – internal market equilibrium point before intervention

P_w – world price of the subsidized agricultural product
 V – quantity of traded goods,
 D_i - demand after intervention
 S_w – world supply
 E_i - internal market equilibrium point after intervention

Impact of intervention purchases on production and trade

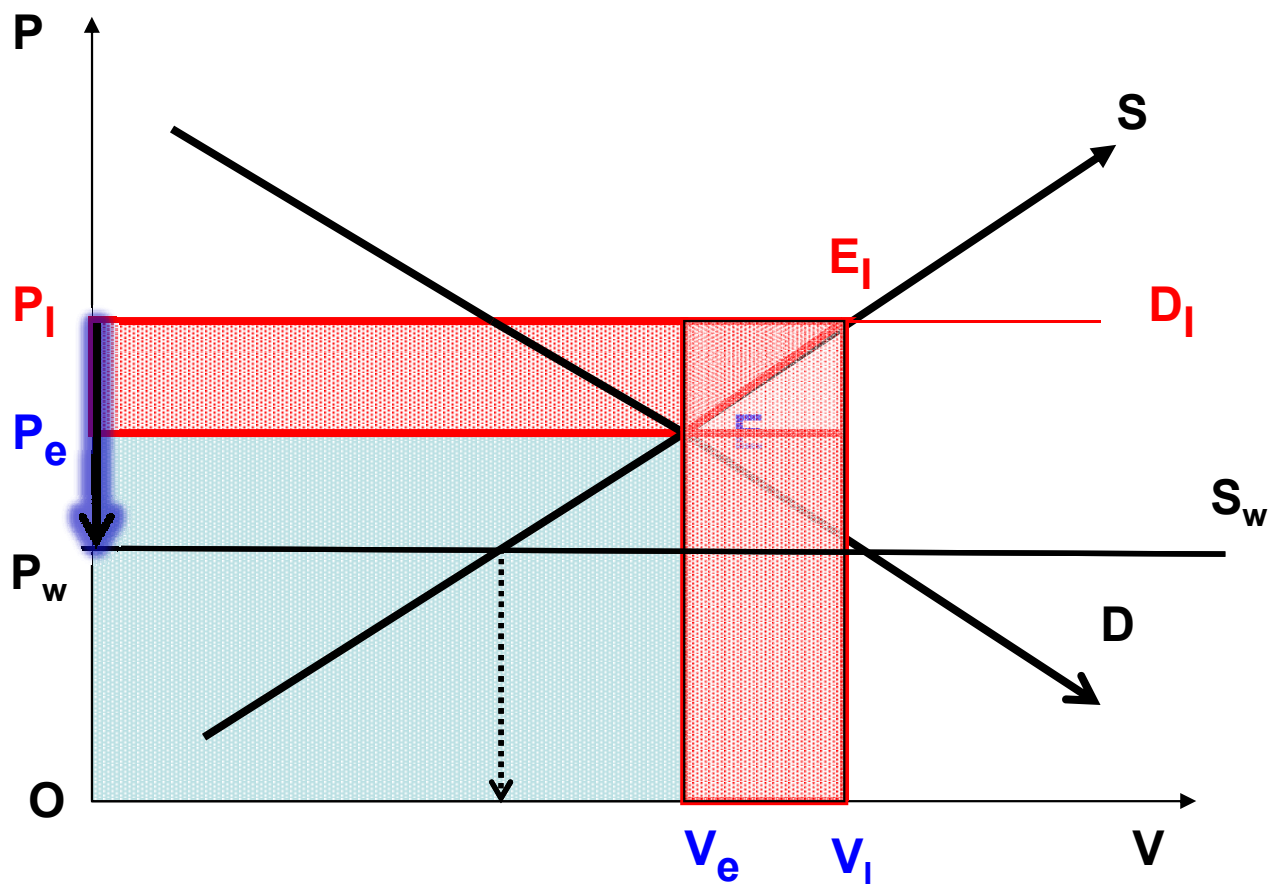
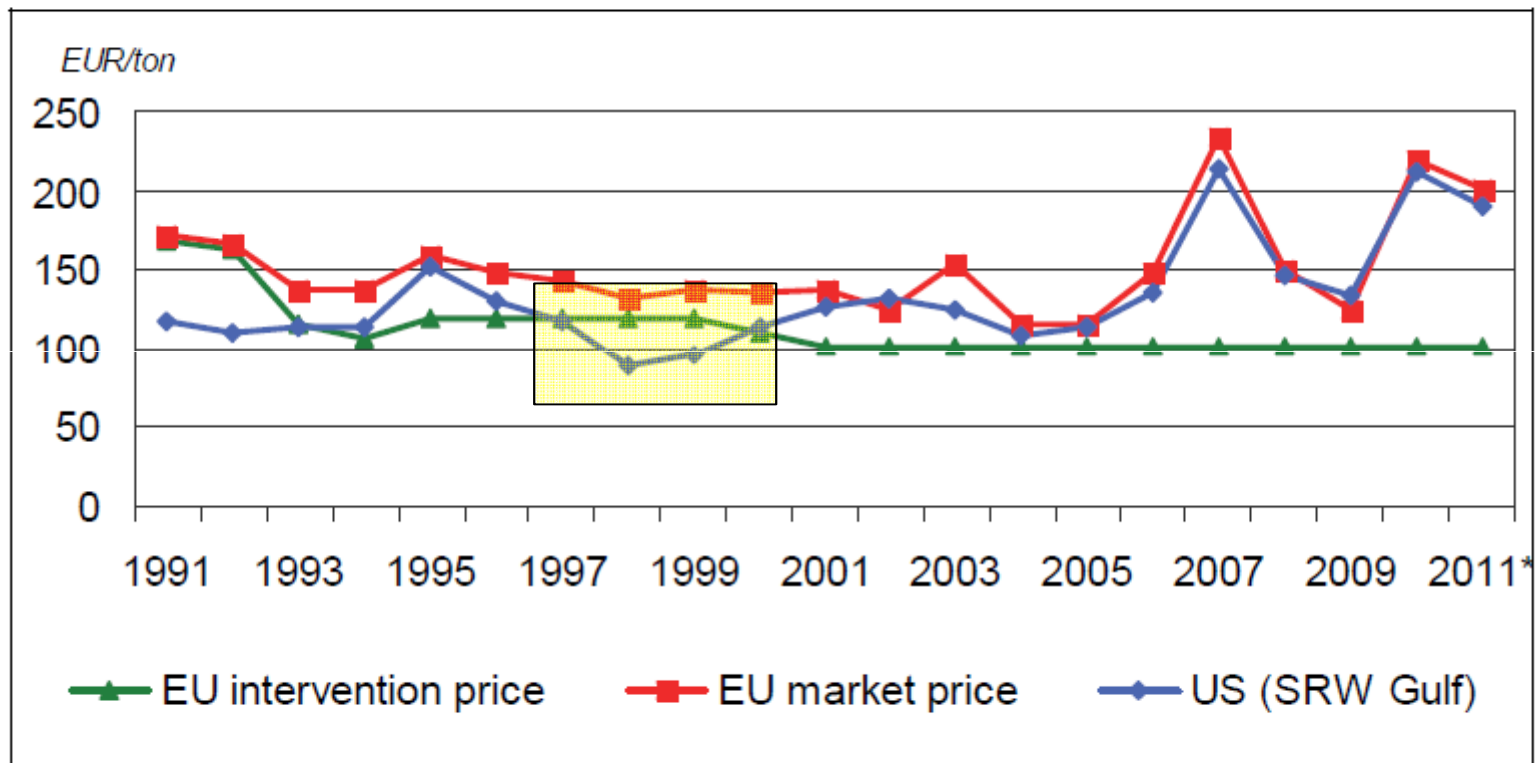


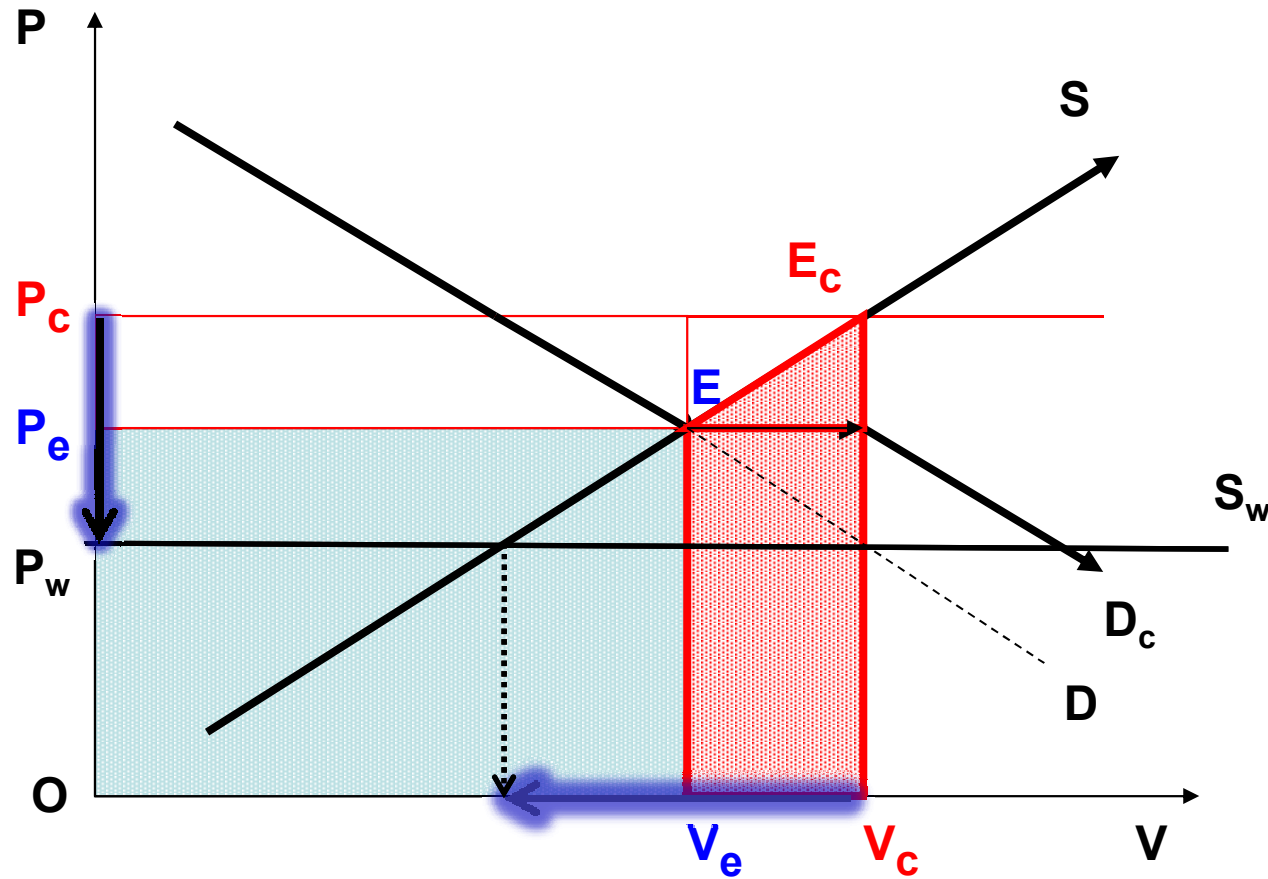
Figure 4.3: Development of EU wheat price



P_c – price including compensation payment
 P_e – internal market equilibrium price (marginal market price),
 D – internal demand without compensation;
 S – Internal supply
 E – market equilibrium point without compensation

P_w – world price of the subsidized agricultural product
 V – quantity of traded goods,
 D_c - demand after compensation
 S_w – world supply
 E_c - internal market equilibrium point with compensation

Impact of compensation payments on production and trade



✓ **External price defense**

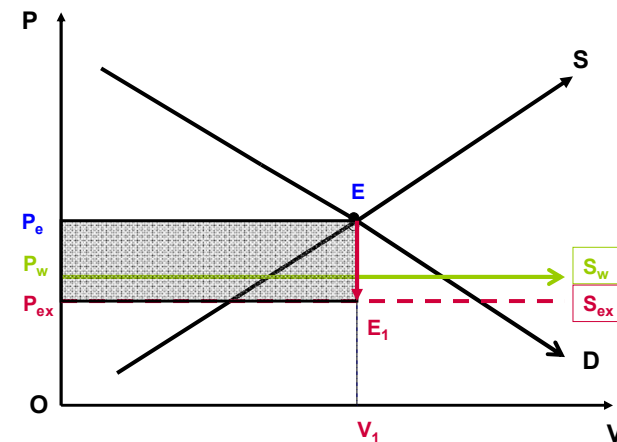
- ❖ Import levies are applied to specified goods imported into the EU. These are set at a level to raise the world market price up to the EU target price. The **target price** is chosen as the maximum desirable price for those goods within the EU.
- ❖ Import quotas are used as a means of restricting the amount of food being imported into the EU.
- ❖ Tariff quotas - some non member countries have negotiated quotas which allow them to sell particular goods within the EU without tariffs or with low (preferential) tariffs. This notably applies to the ACP-countries which had a traditional trade link with EU..

✓ **Exports subsidies**

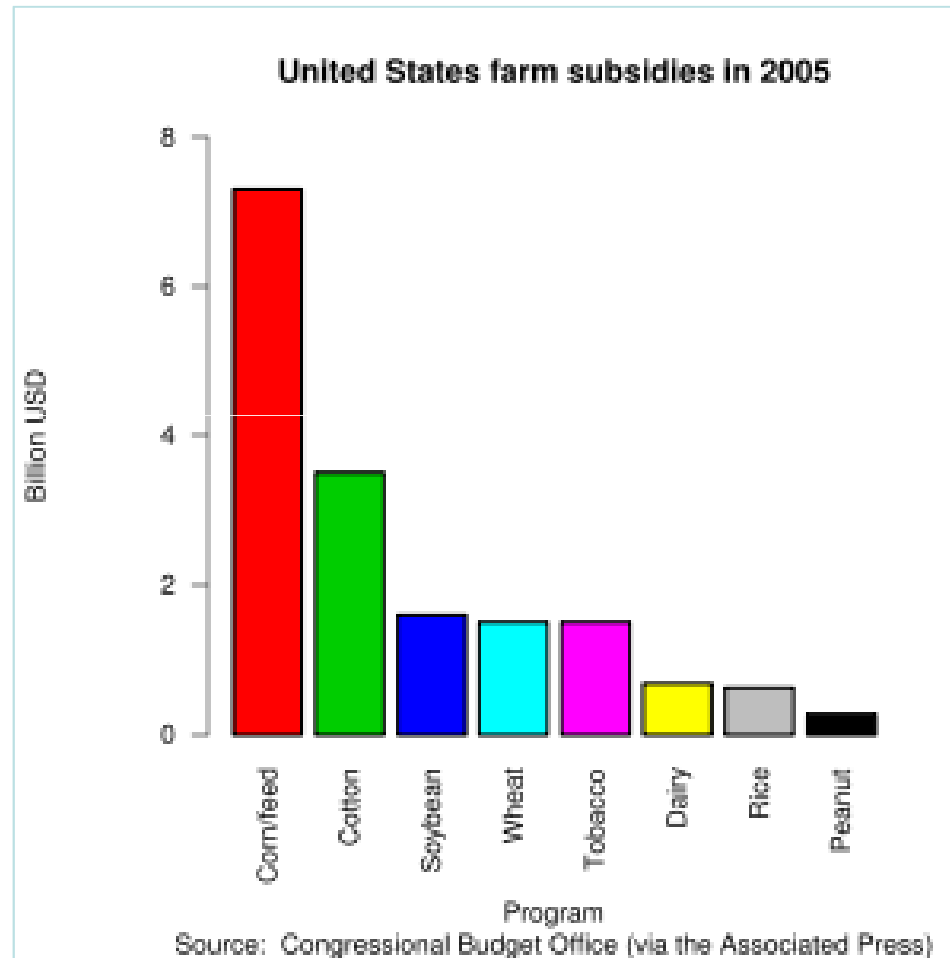
– **sugar and sugar products, dairy products, beef, wine, processed foods, etc.**

Dairy products take up the biggest category of EU export subsidies, worth about €1.5 BN a year. Sugar exports cost about €1 BN, processed foods - €380m, beef €251m and wine €13m each year.

- P_{ex} – exports price of the subsidized agricultural product
- P_w – world price of the subsidized agricultural product
- P_e – internal market equilibrium price (marginal market price),
- V – quantity of traded goods,
- D – internal demand,
- S_{ex} – subsidized supply (achieved also by intervention purchases or compensation payments)
- S_w – world supply
- E – internal market equilibrium point



US are also subsidizing farming. The chart shows the distribution of federal subsidy depending on the agricultural products.



Agenda 2000 – CAP traditional tools reform:

- Agri-environment schemes became compulsory for every Member State.
- The market support prices for cereals, milk and milk products and beef and veal were step-wise reduced
- Compensation payments to farmers were increased.
- External market defense was strongly reduced.

ii) Rural development

The '[Agenda 2000](#)' reform divided the CAP into two 'Pillars': production support and rural development. Several rural development measures were introduced.

2. 2003 CAP Reform

COUNCIL REGULATION (EC) No 1782/2003

of 29 September 2003

establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers and amending Regulations (EEC) No 2019/93,

In 2003 started the most radical CAP reform whose final goal is to eliminate the traditional CAP tools and to modify the CAP first pillar (market organization) into social policy measures and the second CAP pillar (rural development) into Usual regional policy.

RURAL DEVELOPMENT

Assistance is provided for farmers and others in rural areas, for such actions as:

- Training in new farming techniques and rural crafts;
- Assisting young farmers to set up on farms;
- Assisting older farmers to retire;
- Modernising farm buildings and machines;
- Assisting farmers to meet demanding EU standards, e. g. environmental, animal welfare and public health;
- Helping establish food processing facilities on the farm so that farmers can earn more income from farm products by adding value to them;
- Improving product quality and marketing of quality products;
- Setting up of producer groups in the new Member States;
- Support for farming in mountainous areas and other areas with handicaps;
- Renovating villages and rural facilities;
- Encouragement of tourism;
- Protection and conservation of rural heritage;
- Agri-environment measures to improve the environment;
- Development strategies put in place by local action groups.

a) Key elements of the 2003 CAP Reform

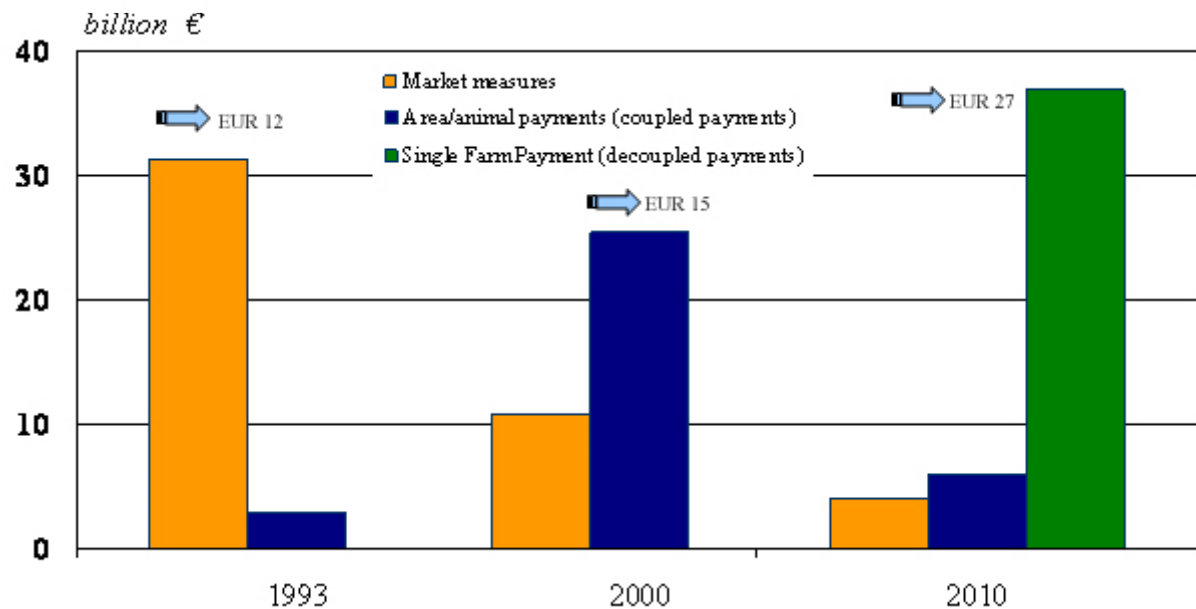
- A single farm payment for EU farmers, almost independent from the volume of the farm production (limited coupled elements remain to avoid abandonment of production in important agricultural sectors),
- Payment is linked to the respect of environmental, food safety, animal and plant health and animal welfare standards, as well as the requirement to keep all farmland in good agricultural and environmental condition ("cross-compliance"),
- More money for the rural development policy, new measures to help farmers to meet EU environmental and production standards,

- Some reduction in direct payments

("modulation") for bigger farms

(70% of subsidies go to 10% of EU farmers).

- Introduction of a mechanism for financial discipline to ensure that the farm budget fixed until 2013 is not overshoot,



- **Periodical revisions to the market policy of the CAP seeking:**
 - price cuts in intervention prices (durum wheat from €120 in 2007 to almost €100 in 2010),
 - reforms in subsidized sectors with the aim gradually to eliminate the subsidies – (rice, durum wheat, nuts, starch potatoes and dried fodder sectors).

b) Establishment of the amount (SPS)

- The reference amount is the three-year average of the total amounts of payments, which a farmer was granted under almost all CAP support schemes.
- The reference period is 2000 - 2002.
- Transfer of rights by selling the farm is possible.
- For each member state, the sum of the reference amounts for all farms can't be higher than a fixed national ceiling.
- Where necessary, a member state has to proceed to a linear percentage reduction of the reference amounts in order to ensure respect of its ceiling.
- Member states may grant national aid, in addition to the Community aid, but within some limits.

2. 2003 CAP Reform

The richest peoples in UK receive EU agricultural payments

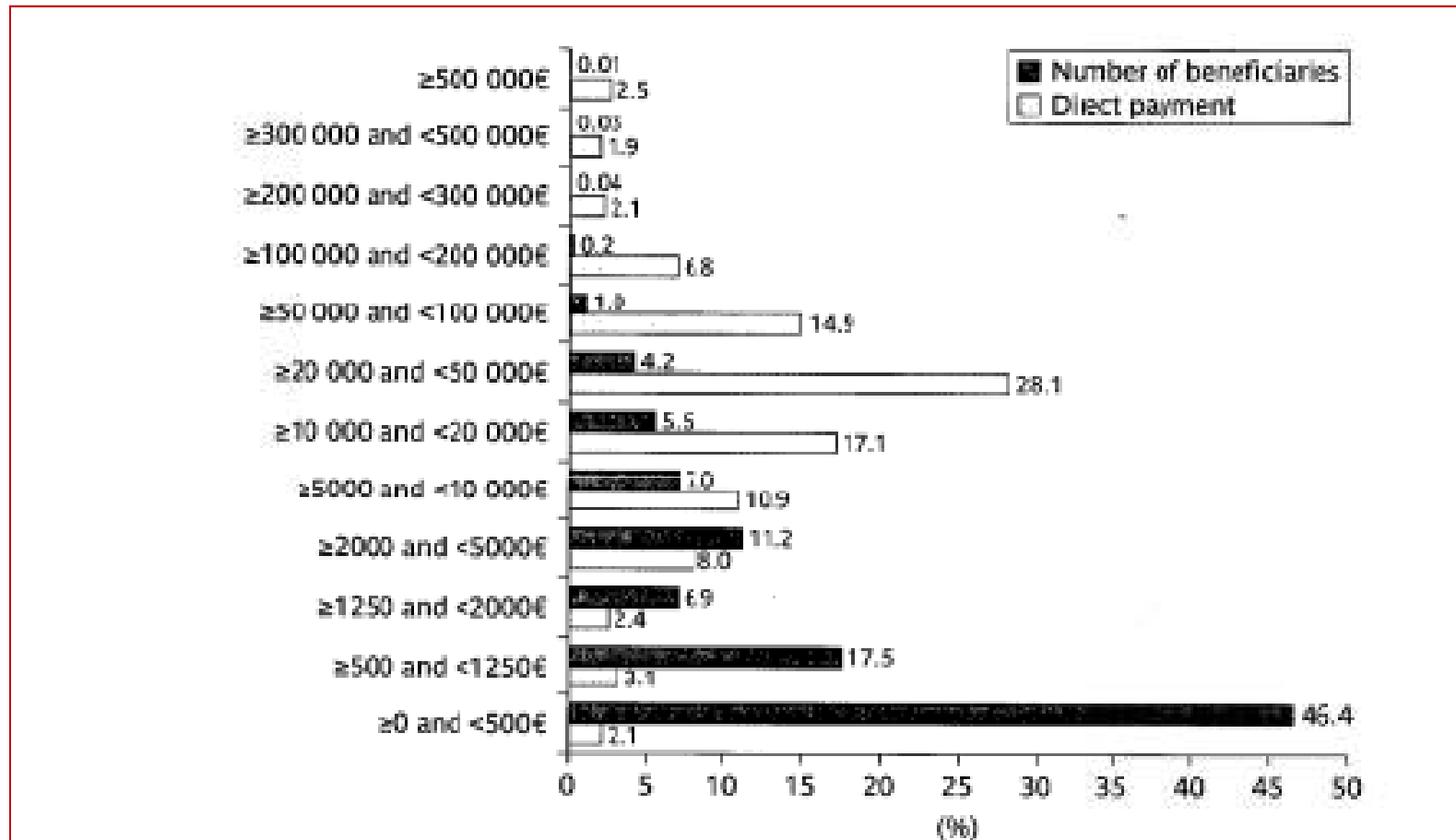
The list of English CAP recipients (the Scottish and Welsh governments refuse to release the information) includes some of the richest people in the realm. The Duke of Westminster, whose net worth is about €7 billion, received about €1 million over two years, the Duke of Marlborough got €1.5 million over the same period, and the Queen and Prince Charles received more than €1.5 million according to the data. The royal family is also a major landowner in Scotland (for which the data is still secret), so this is probably a serious underestimate. Multinational corporations, however, received even more. At the head of the subsidy list is the multinational corporation Tate & Lyle. It received more than ten times what the Queen and Prince Charles got, some €180 million (most of this went to paying for the dumping of sugar on the world market). Nestlé got €30 million.

Overall, there were 24 525 names on the list, but an eighth of the payments went to the top 20 names; half of the money went to the top 2000 recipients. Or, to put it differently, half the money was divided among the 22 500 smallest farms. The share of payments going to the bottom 10 000 recipients was just 13 per cent. See *The Guardian* newspaper's website for a full list. A similar list can be downloaded for Denmark from www.dicar.dk.

c) Single Area Payment Scheme (SAPS)

- In the new member states (excepted Slovenia, Malta and Cyprus) amounts are established according to the eligible hectare of agricultural land, up to a national ceiling laid down in the Accession Agreements.
- Complementary National Direct Payments (CNDP) are possible. They are financed from the national budget and in some cases by the EU rural development fund.
- No transfer of rights possible.
- CNDP requires authorization by the Commission each year

Distribution of EU CAP payments `2006



Source: Baldwin R., Wyplosz Ch., The Economics of European Integration

3. 2008 CAP “Health Check”

On 20 November 2008 the EU agriculture ministers reached a political agreement on the Health Check of the Common Agricultural Policy. The main changes are as follows:

❑ Further decoupling of support and agricultural production

Some remaining coupled payments on national level will be gradually decoupled and moved into the Single Payment Schemes or SAPS.

❑ More assistance to sectors with special problems

Additional money on national level can be used to help farmers producing milk, beef, goat and sheep meat and rice in disadvantaged regions or vulnerable types of farming; it may also be used to support risk management measures such as insurance schemes for natural disasters and mutual funds for animal diseases. Countries operating the SAPS system will become eligible for the scheme.

❑ Extending SPS is postponed

EU members applying the simplified Single Area Payment Scheme (like Bulgaria) will be allowed to continue to do so until 2013 instead of being forced into the Single Payment Scheme by 2010.

3. 2008 CAP “Health Check”

Investment aid for young farmers

Investment aid for young farmers under Rural Development will be increased from €55,000 to €70,000.

Abolition of set-aside

The requirement for arable farmers to leave 10 percent of their land fallow is abolished.

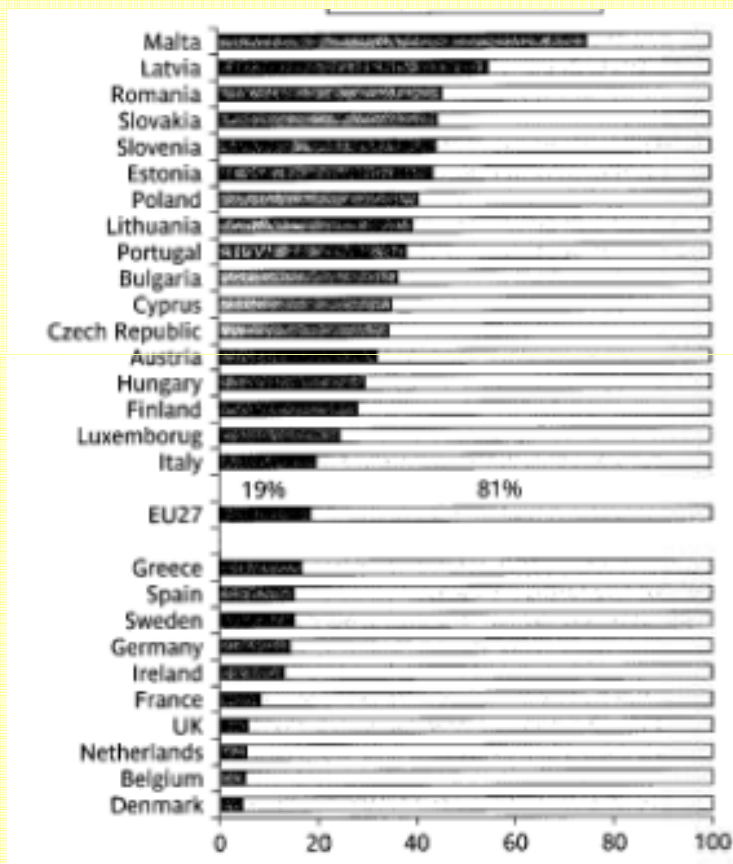
Market regulation measures will be reduced

Intervention will be abolished for pork, barley and sorghum. For wheat, intervention purchases will be possible only up to 3 million t for the whole EU. Beyond that, it will be done by tender. For butter and skimmed milk powder, limits will be reduced to 30,000 t and 109,000 t respectively for the whole EU, beyond which intervention will be by tender.

3. 2008 CAP “Health Check”

❑ Shifting money from direct aid to Rural Development (CAP Second Pillar)

All farmers receiving more than €5,000 in direct aid have their payments reduced by 5 percent and the money is transferred into the Rural Development budget.



Spending on first and second pillar
(2007-2013, %, second pillar in black)

This rate was increased to 10 percent by 2012.

An additional cut of 4 percent was made on payments above €300,000 a year.

The funding obtained this way may be used by member states to reinforce programs in the fields of climate change, renewable energy, water management, bio-diversity, dairy sector.

3. 2008 CAP “Health Check”

❑ Cross Compliance simplification

Aid to farmers is linked to the respect of environmental, animal welfare and food quality standards. Farmers who do not respect the rules face cuts in their support. This so-called Cross Compliance will be simplified, by withdrawing standards that are not relevant or linked to farmer responsibility.

Cross-compliance

To get the single payment, farmers are supposed to comply with the EU and national rules governing the CAP's environmental impact, European food safety and animal welfare. Importantly, these requirements were already in place. The idea is that tying the cash to compliance makes it more likely that farmers will obey the existing laws.

The rules to comply with are complex and vary somewhat from nation to nation. There are two basic categories:

- ‘Good agricultural and environmental conditions’. For the UK, the first category includes things such as: soil protection, post-harvest land management, waterlogged soil, crop residue burning, overgrazing and unsuitable supplementary feeding, heather and grass burning, stone walls, protection of hedgerows and watercourses, etc.
- ‘Statutory management requirements’. These include rules on: wild birds, groundwater, sewage sludge, nitrate vulnerable zones, pig identification and registration, restrictions on the use of plant protection products, restrictions on the use of substances having ‘hormonal or thyrostatic action and beta-agonist’ in farm animals, control of foot-and-mouth disease, certain animal diseases and bluetongue, welfare of calves, etc.

4. CAP and Doha round

Agriculture is a cornerstone of the Doha Round, not least because of the unprecedented level of developing countries' involvement. Negotiations on agriculture cover three areas or pillars:

- ❖ **Domestic support (subsidies for producers),**
- ❖ **Market access (import regime, including tariffs),**
- ❖ **Export competition (export refunds, export credits, food aid and state-trading enterprises).**

EU seeks a complex (package) deal and offers:

- ✓ **a steep reduction in the ceiling on trade-distorting subsidies, i.e. 80% cut of overall trade-distorting support and 70% cut of most trade-distorting support;**
- ✓ **a strong reduction of the EU border protection, with a minimum average cut of EU tariffs of 54%;**
- ✓ **elimination of export subsidies.**

In response, the EU expects the abolition of all tariff peaks (tariffs over 15%) in the imports of industrial goods (machine tools, cars, etc.) in developing countries. High tariffs are often imposed in big developing economies like China, India, Brazil, Argentina, etc., to protect emerging industries.