

# **The Issue of the Common Agricultural Policy**

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# Background

## The foundation

The notion of a common agricultural policy (CAP) was first outlined in the Treaty of Rome, in 1957. The food shortages which occurred after WW2 were still fresh on the minds of many, and the ability of Europe to produce its own food was seen as a high priority. The Stresa Conference of 1958 provided the general guidelines, and in 1960 the six members of the European Community (EC) adopted the measures agreed to. In 1962, the CAP came into force.<sup>1</sup>

## The intent

The European Community created the CAP to achieve several goals. These goals are defined in Article 33 of the EC Treaty, and read as follows:

- to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilization of the factors of production, in particular labour;
- to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;
- to stabilize markets;
- to assure the availability of supplies;
- to ensure that supplies reach consumers at reasonable prices.<sup>2</sup>

As has already been mentioned above, the post-WW2 years saw widespread food shortages. A large part of this was due to the fact that agriculture was devastated by the war. Thus the most important goal of the CAP from the outset was to provide consumers with the goods they needed, at reasonable prices. As we can see from Article 33, the CAP also had other goals, such as increasing agricultural output by increasing productivity, and providing a fair standard of living for those employed in the agricultural sector.

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<sup>1</sup> European Union. Common agricultural policy: beginnings to the present day. 21 Oct. 2004. 18 Nov. 2005 <<http://europa.eu.int/scadplus/leg/en/lvb/l04000.htm>>.

<sup>2</sup> *ibid*

## The way the CAP was set up

Between 1962 and now, the way the Common Agricultural Policy is implemented has changed. However traditionally, the CAP attempted to achieve its goals in three main ways. Firstly, there were import tariffs enacted on specific goods entering the EU. This was meant to raise the 'world price' of the good to the targeted EU price, ensuring that EU farmers would be able to sell their goods at a profit. The second way in which the CAP ensured its goals was by setting up an interventionist pricing system. This system set levels which, should the price of a given good fall below, the EU would then 'buy the goods', which would increase demand and thus increase the price. This involved setting three price thresholds, which were determined by the Council (with either Parliament or the Commission co-deciding) every twelve months (the specific product determined when this pricing structure was set each year).<sup>3</sup>

The first price is an 'indicative price', or the price which the EU determines a good *should* be sold at. The second price set is a 'threshold price', which is the minimum price which imported goods can be sold at (see the import tariffs mentioned previously). This threshold price is somewhere higher than the indicative price. This, in theory, makes people buy agricultural products made within the EU first. The third price set is the 'intervention price', which is lower than the indicative price, and the moment when the EU steps in and begins buying goods. As mentioned above, with this increased demand, the price of the good rises again, nearer to the indicative price. These goods are then stored, and eventually either destroyed, used for humanitarian aid, or sold by the Commission. <sup>4</sup>

The third (and most sensationalized) way in which the CAP works, is by providing direct subsidies to the producers. Originally this money went to producers of specific agricultural products. These subsidies helped to increase production by providing an incentive

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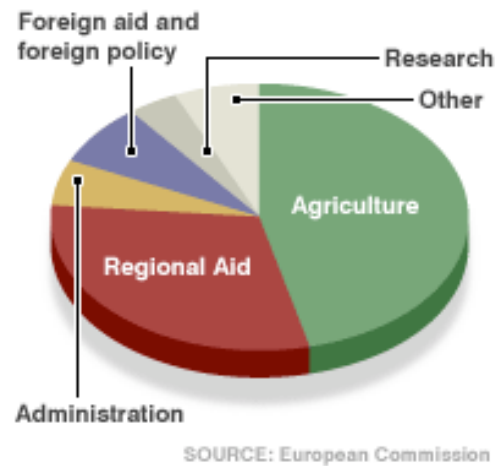
<sup>3</sup> European Union. Common organization of the agricultural markets: introduction. 27 Sept. 2004. 18 Nov. 2005 <<http://europa.eu.int/scadplus/leg/en/lvb/l11047.htm>>.

<sup>4</sup> *ibid*

to grow a chosen product. They also helped to increase the profits associated with a chosen product.<sup>5</sup>

### The costs

The CAP has been a significant part of the EU budget since its inception. The percentage of the CAP related to the total budget has been staggering, sometimes hovering upwards of two-thirds of all spending.<sup>6</sup> It remains a large expenditure today – nearly forty-five percent of the total EU budget (or 49bn euros) will go towards the CAP in 2005.<sup>7</sup>



## Problems with the CAP

### The opponents

Today, there are many opponents to the European Union's CAP – both from within Europe, and from without. The arguments against the CAP are varied, and its detractors come from all walks of life.

### Protectionist, anti-development (“Fortress Europe”)

The first, most obvious argument against the way in which the CAP functions, is that it is a protectionist policy. That the CAP intervenes in the market, artificially inflating prices, and supporting industries which might otherwise fail or be uncompetitive. The CAP's involvement interferes with the invisible hand of the market. Meaning, also, that it flies in the face of the doctrine of 'free trade'. This is a very legitimate argument, and it also

<sup>5</sup> ibid

<sup>6</sup> European Union. *The Common Agricultural Policy Explained*. Oct. 2004. 18 Nov. 2005 <[http://europa.eu.int/comm/agriculture/publi/capexplained/cap\\_en.pdf](http://europa.eu.int/comm/agriculture/publi/capexplained/cap_en.pdf)>.

<sup>7</sup> "Q&A: Common Agricultural Policy." *BBC News* 9 Nov. 2005. 19 Nov. 2005 <<http://news.bbc.co.uk/2/hi/europe/4407792.stm>>.

makes some of the EU rhetoric about open and free markets ring hollow. This has caused some to talk of a 'Fortress Europe', where goods and people from outside are kept out. The EU is always talking about tearing down borders, and the free movement of goods and people, however it seems to only mean this within the confines of the European continent.

A similar economic argument is that the CAP and its subsidies to EU farmers hurts farmers in developing nations. This line of thought equates the CAP to an 'unfair advantage'. The CAP creates overproduction in the EU by encouraging production, while also inflating the 'true' cost of agricultural products. This overstock then might be sold to outside nations. Meanwhile, farmers in outside, developing nations are not able to sell their products to the EU, because of import tariffs and the subsidizing of EU agriculture. This hurts the farmer in the developing nation, and reinforces worldwide inequalities and poverty.

These objections are what organizations ranging from the WTO to OXFAM use against the EU to push for reform. They are also brought up by outside nations, such as the US, whenever it is politically prudent.

### **Inflated food prices**

As mentioned above, the CAP helps to artificially inflate food prices in the EU. OXFAM estimates that the average yearly food costs for a family of four in the UK is £800 more because of CAP subsidies. Additionally, the taxpayers in Europe also pay – from the same OXFAM study, it's estimated that UK taxpayers shell out £3.9bn a year for the CAP.<sup>8</sup> Recent reforms to the CAP hint at lowering these numbers, which will be discussed in a moment, but it's still undoubtedly a drain to taxpayers, and most likely consumers as well.

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<sup>8</sup> OXFAM. [Briefing Paper 55: Spotlight on Subsidies](http://www.oxfam.org.uk/what_we_do/issues/trade/bp55_subsidies.htm). Jan. 2004. 19 Nov. 2005 <[http://www.oxfam.org.uk/what\\_we\\_do/issues/trade/bp55\\_subsidies.htm](http://www.oxfam.org.uk/what_we_do/issues/trade/bp55_subsidies.htm)>.

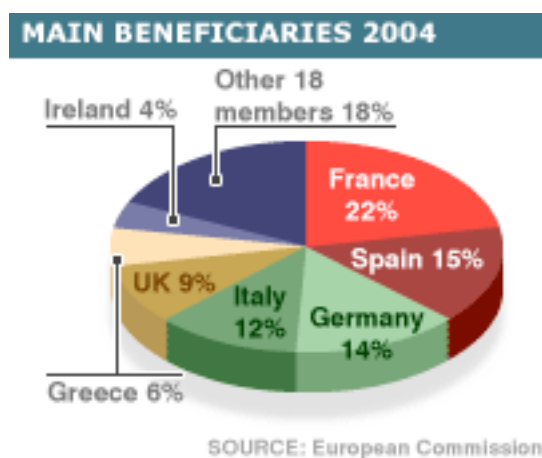
## Inequity among member states / farmers

A third argument floated against the CAP, is that it is inequitable, both on the national and local levels.

The majority of CAP subsidies going to farmers, is going to the largest operations – hereditary landowners and large agribusinesses. In the UK, the largest 2% of land holdings receive twenty percent of total subsidies flowing into the country.<sup>9</sup> In fact, two of the larger recipients of CAP subsidies in the UK, the Duke of Westminster and Sir Adrian Swire, made the Forbes list of the richest people in the world.<sup>10</sup> Several years running now.

Throughout the entire EU, it is estimated that 80% of total CAP subsidies go to 20% of farmers, while the lowest 40% of farmers receive merely 8% of these funds.<sup>11</sup> There are some proponents of the CAP who talk about its value in financing the small farms which dot the European countryside. Even if these farms might not be economically successful, they reason, the subsidies help to keep this ‘old world charm’ alive. While this would be nice to believe, and somewhat offset the actual costs of the CAP (how can you put a price on quaint village farms?), the actual statistics rule out this argument.

The inequity on the national level is easy to see. France is the largest net beneficiary of the CAP, receiving almost a quarter of the entire budget. Spain, Germany, and Italy also receive a large amount of money from the CAP. This makes sense, since their shares of the CAP are roughly equivalent to their shares of EU agricultural output. However other nations, like Ireland and



<sup>9</sup> ibid

<sup>10</sup> "The World's Billionaires." *Forbes* 3 Oct. 2005. 20 Nov. 2005 <<http://www.forbes.com/2005/03/09/bill05land.html>>.

<sup>11</sup> "Q&A: Common Agricultural Policy"

Greece, receive a much higher percentage of subsidies related to their gross outputs. And the 10 new member states – including Poland, a large agricultural state – are receiving only a fraction of the CAP that they are entitled to (25% in 2004). This amount will slowly increase, until in 2013 when they will be getting the same rate as the older member states.<sup>12</sup> But this point leads to the final, and perhaps most significant, argument against the current CAP in the 21st century.

## **Unsustainable**

The EU is now comprised of 25 different member countries. This latest round of enlargement brought millions of new farmers – including two and a half million in Poland alone. Many of these countries are going to be net beneficiaries of the CAP – because they have sizable agricultural sectors, while at the same time they are not economic powerhouses. This means the nations which contribute a lot to the CAP will now contribute even more, while at the same time the countries which currently take in a lot of money under the CAP (France in particular) will see their share of the pie decrease. It is estimated that in the period between 2007 and 2013, the EU-15's CAP benefits will be cut by 5%. And if Romania and Bulgaria join in this period, this cut will increase to 8-9%.<sup>13</sup>

## **Reforms**

### **Progress so far**

The CAP has not remained static for the past forty years. There have been numerous attempts to reform the system, some more effective than others. Recently these attempts have been more successful, because of a variety of factors, including outside pressures from organizations like the WTO, or nations such as the US, and from pressure from nations within the EU which don't ultimately benefit much from the CAP, such

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<sup>12</sup> *ibid*

<sup>13</sup> *ibid*

as the UK, the Netherlands, or Sweden. Even the main benefactors of the CAP, such as the French, see the need for reform in the coming years.

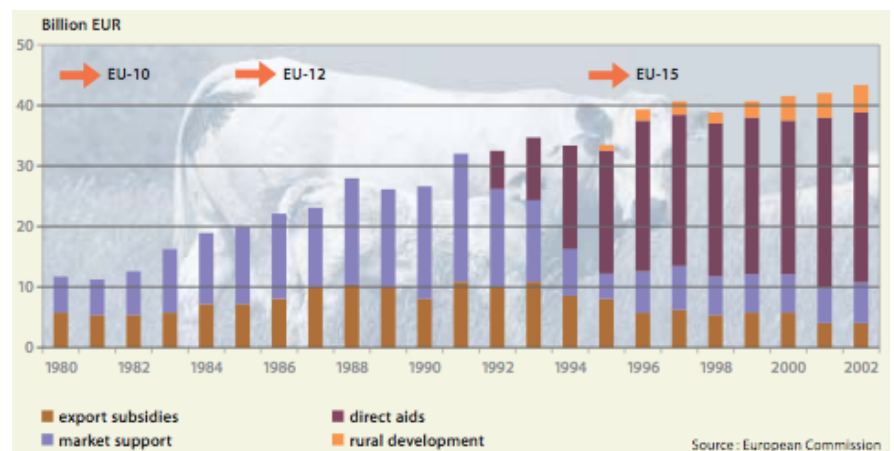
### Reforms from 1960s-1990s

The first attempt at reforming the CAP came just ten years after its inception, in 1968, in the form of the Mansholt Plan. Named after Sicco Mansholt, VP of the Commission at that time, this report sought to reduce the number of people working in agriculture, and attempted to promote larger, more efficient forms of production.<sup>14</sup>

The next changes to the CAP occurred in 1972, when structural reforms were introduced which tried to modernize European agriculture. However the problems of overproduction continued, and so in 1983 more fundamental reforms were proposed by the Commission. This resulted in the publishing of the Green Paper "Perspectives for the Common Agricultural Policy" in 1985. Its main goals were to settle the continuing problem of overproduction, and to "analyze alternative solutions for the future of the CAP."<sup>15</sup>

In 1988, as a result of this Green Paper, a package of reforms was passed by the European Council. This included the "agricultural expenditure guideline", which limited the amount which could be spent on the CAP as a percentage of the overall budget.

In 1992, the Council adopted a series of reforms drawn up by the Commission the year before, under the supervision of Agriculture Commissioner Ray MacSharry. These reforms were the largest to date, and attempted to cut back agricultural prices, to make them more



<sup>14</sup> "Common agricultural policy: beginnings to the present day"

<sup>15</sup> ibid

competitive in the internal and world markets. Other goals included compensating farmers for the loss of income, and measures “relating to market mechanisms and the protection of the environment.”<sup>16</sup> The reforms of 1992 shifted the emphasis of the CAP from pricing restrictions, to direct aid to farmers growing a specific crop.

### **Agenda 2000 and on**

By the late nineties, ongoing factors caused many to believe that further reforms were necessary. This resulted in the CAP being featured prominently in Agenda 2000, a blueprint for future EU policy in light of the eastern enlargement. The reforms of Agenda 2000 continued the slow process that the CAP had undergone from its inception. The main accomplishments of the Agenda 2000 CAP reforms were to reduce ‘market support prices’ for commodities such as cereals, milk and milk products, and beef; shift the focus from a wholly agricultural framework, to include a more broadly defined ‘rural development’ plan (through ‘modulation’, or taking funds away from direct payments and giving them to member states for rural development measures); strengthening environmental provisions and regulations in the CAP; and finally, leveling out CAP funding over the coming years.<sup>17</sup> Agenda 2000 also set out to improve food safety and quality, and to simplify agricultural legislation. <sup>18</sup>

In 2003, a major change to the CAP was introduced which decoupled direct payments to farmers from the crops they produced. Before, the amount of aid a farmer would receive was dependent on what sort of product he was producing. With the 2003 change, direct payments to farmers will now be dependent on how much land they are using to produce a given crop. This will, in theory, help to further end the supply and demand problems which the CAP had created. Farmers can grow whatever they wish, and still

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<sup>16</sup> *ibid*

<sup>17</sup> European Union. *Agenda 2000 – A CAP for the future*. 1999. 21 Nov. 2005 <[http://europa.eu.int/comm/agriculture/publi/review99/08\\_09\\_en.pdf](http://europa.eu.int/comm/agriculture/publi/review99/08_09_en.pdf)>.

<sup>18</sup> “Common agricultural policy: beginnings to the present day”

receive aid. The year after, this decoupling was continued with more 'delicate' crops, such as cotton, tobacco, and sugar.<sup>19</sup>

Decoupling aid is a difficult process, both technically and politically. For this reason, transitional periods were recognized as necessary, and each member state was allowed to set its own time frame for decoupling aid. This transition must begin by 2007, however.

### **What does it all mean?**

The CAP has changed markedly since its inception, but many of the arguments against it are still relevant today. The CAP started off as a policy focused on creating an adequate food supply. Today, this supply is assured, and the purpose of the CAP is murky. More emphasis is put on 'rural development', as it seems to be a more politically safe mechanism for funding rural areas.

## **Today's CAP**

### **What is the purpose?**

Depending on who you talk to, the justification behind today's CAP will be different. Some maintain that the CAP is necessary for EU farming to remain profitable. And the success of farmers has various proponents. There are those who would rather the EU remained self-reliant in terms of agriculture production. Then there are others who believe that farming in the EU should be kept alive, regardless of its profitability. This belief that the traditional, rural farming community should be subsidized has any number of explanations (the cynic might say that it is for city-dwellers to gawk at on the weekends).

The EU believes that farmers serve a greater role than simply providing agricultural goods. The EU farming sector "serves rural communities, reflecting their rich tradition and

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<sup>19</sup> ibid

diversity; its role is not only to produce food but also to guarantee the survival of the countryside as a place to live, work, and visit.”<sup>20</sup>

So, apparently the cynics might be onto something.

### **Europeans’ view of the CAP – Eurobarometer results**

The results from the Eurobarometer poll concerning the CAP are interesting and provide insight into the beliefs of the EU populace. As a group, they seem unsure of what the CAP actually accomplishes. When given a list of possible choices of what the CAP does, less than half agree with any one answer. The choice with the highest rate of agreement, was that it “ensures the food you eat is safe to eat”, which was agreed upon by 35% of respondents. Thirty-three percent of respondents said that the CAP “ensures that the food you buy is good quality.” And the rate of agreement goes down from there.<sup>21</sup>

Certain nations tend to agree more with the statements than other nations. Cyprus and Malta, for instance, tend to agree much more than the UK or Sweden. Agreement with the given statements rises with education level, and there is even a slight (statistically insignificant) gender gap!<sup>22</sup>

### **Continued criticism – what now?**

Despite reforms to the CAP, many critics still level the same criticisms they did from a decade ago. Whether the CAP funds goes towards artificially increasing the demand of products (by buying them), or if it goes directly to the farmers, it is still seen as protectionist, and frowned upon by organizations such as the WTO. The change from direct payments (subsidizing) for specific products, to more general “single farm payments”

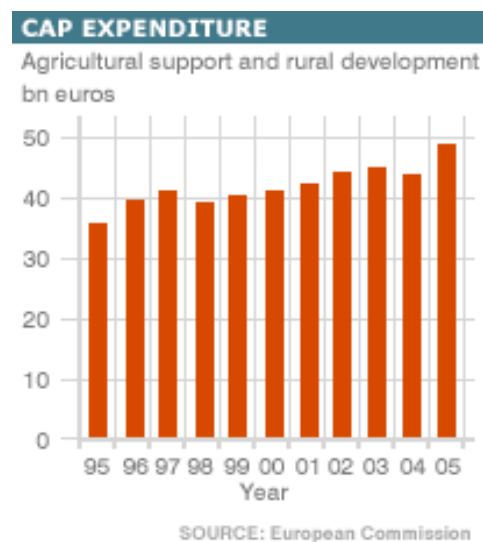
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<sup>20</sup> “The Common Agricultural Policy Explained”

<sup>21</sup> European Union. Europeans and the Common Agricultural Policy. Feb. 2005. 24 Nov. 2005 <[http://europa.eu.int/comm/agriculture/survey/2005/rep\\_en.pdf](http://europa.eu.int/comm/agriculture/survey/2005/rep_en.pdf)>.

<sup>22</sup> *ibid*

(subsidizing) is not a great step forward when looked at through the framework of free trade. The EU has lowered the market controls on agricultural goods – sometimes significantly (the intervention price of milk has been lowered by 25% as a result of the latest round of reforms, for instance<sup>23</sup>). But all of these reforms have not been enough to



Despite reforms, CAP expenditures are expected to continue to slowly rise until 2013

silence critics. In October 2004, the WTO issued a press release which stated that, “despite the continued decoupling of payments from production, the reform of the Common Agricultural Policy (CAP) falls short of liberalizing EC’s agriculture.”<sup>24</sup> The EU needs to make more serious reforms to the CAP. It remains to be seen whether these reforms will see the light of day anytime soon.

Eventually, these reforms must be made. Pressure from outside, especially the US and the WTO, will goad the EU into serious restructuring of the CAP (currently, the US and EU find themselves at a

stand-off – both sides say that they are ready to restructure and remove agricultural subsidies. They are just ‘waiting for the other side to make the first move’<sup>25</sup>). And pressure from the inside, namely from states like the UK, the Netherlands, and other nations which are net contributors to the CAP (meaning they put in more than they take out), will push through reform. The formerly strong agricultural lobby – the famous French farmers dumping dirt and various other farmer-related artifacts in the middle of Paris – is beginning to fail. And even the French government is beginning to see the need for further CAP reforms, following the Eastern Enlargement.

<sup>23</sup> European Union. CAP reform – a long-term perspective for sustainable agriculture. 24 Nov. 2005 <[http://europa.eu.int/comm/agriculture/capreform/index\\_en.htm](http://europa.eu.int/comm/agriculture/capreform/index_en.htm)>.

<sup>24</sup> World Trade Organization. Trade Policy Review: European Communities. 27 Oct. 2004. 24 Nov. 2005 <[http://www.wto.org/english/tratop\\_e/tp\\_r\\_e/tp238\\_e.htm](http://www.wto.org/english/tratop_e/tp_r_e/tp238_e.htm)>.

<sup>25</sup> Borak, Donna. "WTO Urges G8 Leaders To Reform Agriculture." (2005). 24 Nov. 2005 <<http://www.terradaily.com/news/g8-05f.html>>.

## Conclusions

The European Union's Common Agricultural Policy was created in a time when food supplies were not guaranteed, and the impact of the Second World War was still affecting the agricultural sector. Through the years, the CAP's goals have changed – from providing steady supplies at reasonable prices, to providing quality, safe products, the production of which helps the rural communities in which more than half of the EU citizens live, work, and play. Many still believe that more structural, larger reforms to the CAP need to be made, but the path to these reforms is unclear. Ultimately, however, the CAP will remain a large part of the EU budget, because no one is truly *for* scrapping the CAP altogether. Not even Tony Blair.

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