The Common Agricultural Policy: Past, Present and Future

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Paper prepared for presentation at the ECSA Sixth
Biennial International Conference in Pittsburgh, Pennsylvania, U.S.A.
June 2-5, 1999

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1. Introduction

When the EC countries decided to tackle in common the agricultural problem by setting up a common Agricultural Policy (CAP) they embarked on a task of immense economic and social implications. Despite the difficulties which this has caused from the start, many observers agree that on the whole the EC has succeeded in establishing the most comprehensive common policy. The CAP, in a way, still reflects the balance of interests and the compromises reached between the original six Community members, which continue to have vested social and economic interests in their agricultural sectors.

The main purpose of this short analysis is to present an overview of the main developments of the CAP and to outline its prospects beyond the turn of the century taking into account the eastward enlargement of the European Union and the negotiations with the World Trade Organisation (WTO).

2. Objectives and Principles of the CAP

The main objectives of the CAP are clearly defined in Article 39 of the Treaty of Rome as follows:

- to increase agricultural productivity by promoting technical progress;
- thus to ensure a fair standard of living for the agricultural community;
- to stabilise markets;
- to assure the availability of supplies;
- to ensure that supplies reach consumers at reasonable prices.

The CAP was set up on three principles which guide every policy: the single market, community preference and financial solidarity.

3. An Evaluation of the Common Agricultural Policy

The CAP was created at a time when Europe was in deficit for most food products. Its mechanisms were devised to meet this situation. In essence, they support internal prices and incomes, either through intervention or border protection or, where no frontier protection exists, by variable aids in the form deficiency payments.

The main policy instrument before the 1992 reform of the CAP was price support. This was adopted not because it was considered to be the most efficient means of achieving the set objectives but because it is generally regarded as less interventionist than other policies, such as direct subsidies, and therefore politically more acceptable to the taxpayer.

The original CAP system revealed a number of advantages but also some serious deficiencies:

- Community prices of agricultural products are stabler than world prices, though at significantly higher levels.
- The CAP ensured security of supply of agricultural products in the Community through an increase in self-sufficiency.
- Intra-Community trade of agricultural products was multiplied many fold.
- Labour productivity in agriculture grew by more than 6 per cent a year, while the corresponding percentage for average labour productivity in the Community was about 4 per cent.
- High prices and guarantees stimulated output increases which went beyond the market's absorptive capacity. Between 1973 and 1991, the volume of agricultural production in the EC increased by 2 per cent per annum whereas internal consumption grew by only 0.5 per cent per annum. This resulted in surpluses for some commodities. In the 1991 budget, these stocks were worth 3.7 billion ECU.
- The impressive rise in agricultural output has led to a spectacular increase in Community expenditure on price support. The budget of the Guarantee Section rose from 4.5 billion ECU in 1975 to 11.5 billion ECU in 1991 at constant 1975 prices. Although European Agricultural Guidance and Guarantee Fund (EAGGF) expenditure increased over this twenty-year period approximately twice as fast as the rate of growth of Community GDP, real farm incomes remained almost unchanged. Three explanations of this paradox were offered: it was argued that, first, most incomes in the economy experienced stagnation or decline and that without the support of the CAP the fall in farm incomes would have been worse; second, the price support policy was not an efficient method for raising incomes; and third, half of the Guarantee Section expenditure is accounted for by the cost of stocking surpluses and by export restitutions.
- The public cost of protection of the agricultural markets seemed to increase inexorably, limiting the funds available for other purposes.
- Since the system linked agricultural support with quantities produced, it inevitably stimulated production growth and thus encouraged intensification of production techniques and use of more farm inputs (fertilisers, pesticides, etc).
- A consequence of the price support policy was that the largest and the most intensive farms absorbed the greater part of the EAGGF expenditures. It was calculated that 80 per cent of the support provided by EAGGF was directed to just 20 per cent of farms.
- EAGGF expenditure was traditionally dominated by the support provided to the "northern commodities" (i.e. milk, sugar, beef and veal) which received above-average protection. The "southern commodities" (i.e. fruit, vegetables, olive oil, cotton, wine, sheep and goat meat and tobacco) have traditionally played a minor role in the history, and certainly in the cost, of the CAP.
- World market prices for most agricultural products were well below those of the EC. Hence, the European consumer lost from having to pay very high prices. Moreover, as the poor in the population spend a relatively high proportion of their disposable income on food and the CAP's price support mechanism keeps food prices high, the CAP causes massive transfers of income from consumers in one member country to producers in another.

- Under the CAP, the European Community has changed from net importer to net exporter of food and agricultural products. This turnaround has been the outcome of support policies rather than not of any market-created shift in comparative advantage. In its trading capacity, the EC has been accused of using protectionism as an instrument for social policy in support of farmers and of adding to the instability of world markets by buying agricultural products abroad only when domestic supplies are short and by selling its surpluses on world markets at subsidised prices. This has not only caused serious financial problems to the Community but also to its major trading partners and to the less developed countries and has complicated EU international relations.

4. Reform of the CAP and its Consequences on the EU

On 21 May 1992, the Council of Ministers reached political agreement on far-reaching changes to the CAP. Although the reform makes fairly wide-ranging changes to the rules in force until then, it does not invalidate the objectives laid down in Article 39 of the EEC Treaty or the three principles on which the CAP was founded. The basic policy instruments, i.e. intervention buying to support market prices and variable levies and export refunds to close the gap between Community and world market prices, have been kept in place, albeit at much lower levels. In addition, they have been supplemented by new instruments (Swinbank, 1993), namely:

- a substantial reduction in the prices of agricultural products to make them more competitive both within the Community and on world markets;
- compensation for the price cuts in the form of hectare or headage payments;
- implementation of measures to limit the use of factors of production (set-aside of arable land and stocking rate criteria) alongside the retention of earlier supply management measures such as the milk production quotas;
- introduction of accompanying measures such as environmentally friendly farming, afforestation and early retirement of farmers.

The reform implies a major shift in emphasis from price support to forms of farm support not directly linked to production. It covers 75 per cent of agricultural production falling under common market organisations.

For cereals, the support price was lowered by about 30 per cent, bringing it close to world market levels. Producers was compensated for the price cut in the form of hectare payments. To be eligible for the compensatory payments, the larger producers (with a production capacity of 92 tonnes of cereals or more) had to set aside 15 per cent of their arable land, while small farmers were exempted. The same policy was adopted for oil-seeds.

In the milk sector, the butter intervention price was reduced by 5 per cent over two years. The quota system was maintained, although the reference could be cut by a further 2 per cent spread over two years. Greece and Spain received a quota in increase of 100,000 and 500,000 tonnes respectively in order to make up part of their serious deficit in fresh milk.

In the beef sector, the intervention price was reduced by 15 per cent and a headage payment was given to outweigh the drop. In the sheep sector, a limit per producer of a 1000 head in the less favoured areas and of 500 elsewhere is introduced for the number of ewes eligible for the premium.

For tobacco, the varieties produced in the Community were regrouped in 5 categories plus 3 special varieties of Greek tobacco. The global maximum quantity eligible for a premium was reduced from 370,000 tonnes in 1993 to 350,000 tonnes in the 1994-95 period and intervention and export refunds were discontinued.

The agri-environmental measures were directed at promoting environmentally friendly production methods for which farmers would receive extra aids in recognition of their role in the protection of the rural environment and management of the countryside. Against a background of Community deficits in wood and wood products and in recognition of the environmental importance of woodland, the afforestation programme was meant to provide additional finance means for planting trees on agricultural land no longer needed for productive purposes. Finally, the early retirement scheme was intended to increase the aids available to older farmers wishing to step out, on condition that the land released be used to improve the production structure and economic viability of the remaining farm holdings.

After the 1992 reform, there has been a considerable improvement in market imbalances and a decrease of public stocks in most of the reformed sectors. The general evolution of agricultural per capita incomes has been positive since the reform, growing on average by 4.5 per cent yearly between 1992 and 1996, with a diversity of situations according to member states and farm orientations. Improvement of the market situation, the strong adaptative capacity of farmers, the agri-monetary context and, last but not least, the continuing decline in agricultural employment have contributed to this result (Baltas, 1997).

Total cereal production dropped by about 3.5 per cent in the three successive years following the reform. One of the major contributory causes of this cut-back in production was, undoubtedly, the success of the set-aside programme, introduced as an integral part of the whole reform process.[1] Under the reformed CAP, the intervention price for all cereals was reduced, reaching 119.1 ECU per tonne in the final year of the reform. These reductions were not fully offset by compensatory payments, which reached 54.34 ECU per tone per ha. However, the drop in production

[1] The area devoted to cereals stood at around 36 million ha following the decision taken by the Council of Ministers to reduce set-aside by 3 percentage points in the 1995/96 marketing year. Equally significant was the fact that the first two years have not seen the increase in yield which would offset any reduction in the area under cereals. However, in the third year, the fall in yields in Spain and Portugal, due to bad weather conditions, was partially compensated for by a rise in yields in other member states, particularly in Northern Europe.

resulted in a balanced internal cereals market in which the prices that prevailed were higher than the intervention prices and thus farmers from all countries benefited in the early years of reform, especially those in the peripheral countries who were also able to take advantage of devaluing currencies to raise nominal support prices during this period. It is expected that a stabilization of the areas devoted to the cultivation of these crops and to set-aside at a level of about 53.5 million hectares. Under the present policy framework, the cereal production is expected to rise from 201 million tones in 1996 to 214 by 2005. Cereal consumption is also forecast to further increase, though at a lower rate, in response to the development of wheat production. It would be possible to react the new cereals surpluses by increasing the compulsory set-aside rate since EU's prices remain above world prices the Union could well fail to benefit from the positive development expected on the world market.

In the case of oilseeds, too, the observed market prices have been most of the time significantly higher that the reference price, so that producers have benefited from the change in four years out of five. Oilseed yields are expected to increase very modestly and the cultivated area is limited by the Uruguay Round Agreement. Oilseed production is expected to increase slightly between 1996 and 2005 (from 12.2 million tonnes to 12.8). Trade deficits in oilseeds and oilseed meals would remain very substantial.

The current EU situation in the market for milk and dairy products seems fairly balanced after the CAP reform. It should, however, be underlined that market stability is still fragile and cloaks a structural surplus which consistently requires large-scale intervention in the form of subsidised end-uses.[2] Global milk demand is expected to decline by 3.1 per cent (112.2 million tonnes to 108.7) between 1995 and 2005. This is the result of decreasing consumption of some dairy products, notably butter and increasing demand for other products, such as cheese and fresh products. Further export growth in the cheese sector would appear to be constrained by GATT limitations on subsidised exports. Intervention stocks of skimmed milk powder will tend to increase from 1998 onwards and reach some 200.000 tonnes in the first half of the next decade, as the GATT export commitments become binding. For butter, GATT export commitments provide a sufficient margin for subsidised exports, so that no accumulation of intervention stocks would normally be expected.

The effects of the reform on the beef sector are similar to those on the milk sector. Here, too, intervention prices[3] for beef and veal were repeatedly reduced. These institutional price reductions were passed on to market prices, which were around 80

[2] The intervention price for butter was further reduced by 3 per cent as from July 1994 in order to improve its competitiveness following earlier price cuts in 1993. As a result, the target price for milk fell by 1.5 per cent. These moves have been accompanied by a drop in butter production and a sharp fall in the intervention stocks of butter and skimmed-milk powder which now stand at historically low levels. Total milk production is forecast to decline from 121.6 million tonnes 1996 to 118.1 in 2005, if the milk quotas remain unchanged over the coming years.

[3] In fact, they were reduced by 6.2 per cent at the beginning of July 1993 and by a further 5.3 per cent at the beginning of July 1994. Two further reductions by 5 per cent each have also taken place since then, as provided for in the 1992 reform.

per cent of the prevailing intervention prices. However, the reduction in the beef intervention price was outweighed by the reduction in feeding cost and the premia on bovine animals. The favourable market situation regarding intervention stocks, which were diminishing rapidly, remained until the outbreak of the BSE crisis in March 1996. Beef production will be influenced on the one hand by the short term measures adopted in 1996 and on the other hand by the elimination of adult cattle over 30 months in UK form the food and feed chain. Beef consumption is expected to gradually recover from the 1996 shock and return to its long-term declining trend. After 2001, if the market policy remains unchanged, production would return to its full potential whereas consumption would continue its long-term decline. Intervention stocks would tend to accumulate again and could reach some 1.5 million by 2005. In this case, it is not acceptable to solve the problem of over-production in the sector by the slaughtering or young calves a few days after birth. Nor can the surplus problem be solved efficiently by pure management (quotas on animal number or on production), as this would present major administrative complications.

In the sheep-goat sector, the Union is only 82 per cent self-sufficient. About 43 per cent of production is located in the southern countries of the EU and 5 per cent in Ireland. The basic support mechanism involves a sheep-goat premium. With the reform, the Union tried to stabilize the existing level of production in the sheep-goat sector which has in fact registered successive drops of - 3.1 per cent in 1992 and 1993 and - 1.4 per cent in 1994 and remained stable in 1995. In any case, no significant changes have taken place in the level of output and farm incomes.

In the case of tobacco, where more than 90 per cent of EU production is located in the four Mediterranean countries (including Italy), the 17 per cent drop of raw tobacco output in relation to 1992 is the direct result of the first-time application of the reform adopted in mid - 1992. Obviously, this measure negatively affected farm incomes. Greek farmers especially had significant losses because of the country's relatively large tobacco production (a little less than half of total EU output). This reduction is significant for certain varieties such as flue-cured tobacco produced in Greece.[4] Moreover, since tobacco production is localised and is one of the most labour intensive crops, net per cent farm losses in some regions were much larger than average (Baltas, 1998).

The reform effects on the environment[5] are mixed. Some positive elements can be identified: the more rational use of fertilizers and pesticides resulting from price decreases, the possible environmental benefits of set-aside (if well managed), incentives for a long-term improvement in the territorial distribution of livestock rearing. In this context, it is not without interest to note that the agro-chemical industry

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[4] These fell from 71,526 tonnes in 1992 to 37,921 tonnes in 1993 (i.e., a reduction of 47 per cent).

[5] Most of the 158 programmes submitted by the member States under Regulation (EEC) No. 2078/92 have been approved by the Commission. This Regulation continues and extends the measures provided for in Article 19 of Regulation (EEC) No. 2328/91, which came into force before the reform of the CAP. The programmes submitted by the member States set out a variety of approaches to solving environmental problems in agriculture.

reports reduced purchases of fertilisers and pesticides by farmers. But there are also negative elements, mainly the encouragement given to irrigated crops through the regionalization of direct payments to cereals, oilseeds and protein crops, as well as the relative advantage given to intensive livestock farming through lower feed prices and subsidized silage.

The plans on afforestation influence mostly the northern farmers, as farm sizes in the south are typically too small to be suitable for afforestation. Regulation (EEC) No.2080/92 institutes a Community aid scheme for forestry measures in agriculture.

Conversely, the early retirement scheme instituted by Regulation (EEC) No. 2079/92 might be particularly beneficial in the periphery of the EU, since in the South nearly three-fifths of the farmers are over the age of 55 while in Ireland less than half are above this age. The resulting restructuring of farm holdings will create the necessary conditions for maintaining the maximum number of viable farm households in the wider rural economy. Moreover, this scheme, which is co-financed by the EU, is characterized by higher levels of aid and greater flexibility in comparison to previous schemes. Although it is not compulsory, it could potentially prove very important from the social equity and macroeconomic perspectives, given the inadequate pension systems of these countries and their mounting social security and pension budgetary expenditure.

By 1995, nine member States (with the exception of the United Kingdom, The Netherlands and Luxembourg) had presented draft schemes for early retirement from farming. Taken together, the programmes' objective is the retirement of 184,200 farmers and 7,500 farm workers over the next six years. The area released should amount to almost 3 million ha. It is estimated that around 5 per cent of this land will be used for non-agricultural purposes, such as forestry and the creation of ecological reserves. The remainder of the area released will be taken over by other farmers, who will use it either to expand their holdings or set up as full-time farmers.

The reduction of price support coupled with direct compensatory payments have shifted the burden of agricultural support from the consumer to the general tax-payer. The increased CAP budget comes basically from the compensatory payments to cereal, milk and beef producers (Baltas, 1997). The overall budgetary cost in the tobacco, wine, olive oil and sheep-meat sectors will decline. The benefits to consumers resulting from the reformed CAP are rather small but have marked distributional effects for the relatively poor countries of the EU given that their consumers amount to much larger shares of the average consumer basket in the other countries.

5. The GATT Uruguay Round Agreement and the WTO Negotiations

The agreement reached following the Uruguay Round of GATT negotiations came into effect on July 1995 and will last until June 30, 2001. The Uruguay Round is the first-ever global trade agreement to encompass agricultural products and should bring a significant degree of liberalisation to world agricultural markets. The GATT agreement[6] on agriculture imposes disciplines on member countries in three separate areas; domestic support, market access, and export subsidies below the reference figures for 1986-88.

- ***Domestic support***

Domestic subsidies in the agricultural sector are to be reduced by 20% over six years (13.3% in developing countries). For the European Community, this part of the agreement has never been an issue because the various reforms in the CAP are already reducing subsidies by more than 20%.

- ***Market access***

All import restrictions are converted to customs tariffs (by "tariffication"). These tariffs are reduced by 36% over a period of 6 years with a minimum reduction of 15 per cent for each agricultural product. For developing countries the reduction will be by 24% over 10 years, using the 1986-1988 period as base for the calculations.

- ***Export subsidies***

The volume of subsidised exports is to be reduced by 21% - 14% for developing countries - over six years (base period 1986-90). Budgetary expenditure on export subsidies will simultaneously have to be reduced by 36% - 24% for developing countries over six years. Taking into account these commitments on export subsidies, non-exportable surpluses are likely to emerge after 2000 causing problems to the Union.

New multilateral trade negotiations will start in December 1999 as a follow-up to the Uruguay Round. Cutting border protection, reducing export subsidies and reshaping internal support towards more "decoupled" instruments will enhance the Union's regotiating stance in the new Round. To this end, as we will see in part 7, the Berlin Summit CAP reform outlines the EU's intentions in respect of the WTO negotiations. These are rather limited compared to the ambitious U.S. objectives. In particular the U.S. aims at the elimination of tariffs on export subsidies, substantial cuts, and where possible, elimination of tariffs on farm products, reduced domestic subsidies, reform of state trading enterprises, whose monopolistic position in domestic markets distorts trade, and tightened rules on technical barriers that unjustifiably restrict trade.

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[6] For more details see e.g. Delmore and Clerc, 1994; Josling, 1994; OECD, 1995; Swinbank and Ritson, 1995.

6. The EU's Eastward Enlargement and the CAP

The beginning of the next millennium will see the eastern enlargement of the EU to include countries that until recently were command economies. Political changes in the late 1980s and early 1990s mark the beginning of important economic reforms in these countries. Initially, the main objective was to return to a market economy but soon EU accession was added to the agenda. Most countries have applied for membership and have, as a first step, become associated with the EU by agreement involving trade concessions as well as assistance to harmonize legislation, develop democracy and to put a market economy in place.

The EU's eastward enlargement will add over 100 million consumers, whose average purchasing power however will be only roughly one third of that of consumers in the Union. It will also double the EU's agricultural labour force and increase farmland by half. In the Central and Eastern European Countries (CEECs), the share of agriculture in GDP ranges from 4.5 to 21 per cent (EC, 1997). The CEECs have a serious need for structural improvement in their agricultural and up- and downstream sectors (Mergos, 1998). Restructuring can be expected to reduce agriculture's labour absorption capacity, implying a need for diversification of their rural economies. Concerning the budgetary implications of the enlargement, various estimates have been made, ranging from 5 to 50 billion ECU depending on the assumptions used to develop alternative scenarios. According to EU estimates (EC, 1995), the cost of enlargement will require a 25 per cent increase of the CAP budget, which stands at 36 billion ECU.

Despite these initial high estimates regarding the EU's eastward enlargement the Berlin Summit agreed to set aside a budget for this future enlargement rising from Euro 4.14 billion in 2002 to Euro 14.21 billion in 2006 (Table 1). This assumes (very optimistically) that enlargement may begin from 2002. Agricultural spending will play a limited role, rising from Euro 1.6 billion in 2002 to Euro 3.4 billion in 2006.

Eastward enlargement of the EU will require extending CAP price support to new members. It is generally assumed that this will involve a significant increase in producer prices in the new member states, taking into consideration that farm gate prices in the CEECs were 40 to 80 per cent of the EU level. These gaps[7] were considerably reduced but not eliminated after the Agreement on Agenda 2000. It is not possible, at this stage, for the applicant countries to be immediately integrated in the CAP for the following reasons: First, it will trigger large supply responses in the new EU member states, in particular for sugar, milk and meat; Second, it will reduce competitiveness in the food industries of the acceding countries; and third, it will occasion sudden and undesirable changes to consumer prices resulting in a substantial

[7] For example, for cereals, oilseeds and protein crops they are around 10%, for sugar beet somewhere between 40-50%, for dairy products in the order of 15-25%, for beef in the region of 15-25%, while for certain fruit and vegetables those price differences can be even up to 80% (which is the case for tomatoes).

reduction of consumers' real incomes, taking into consideration that households in the CEECs spend on average a relatively high proportion -30 to 60%- of their disposable income on farm products.

Table 1: EU budget resource available for accession (appropriations for payments) (in million Euros, 1999 prices)

	2002	2003	2004	2005	2006
Payment appropriations	**4140**	**6710**	**8890**	**11440**	**14210**
Agriculture	1600	2030	2450	2930	3400
Other expenditure	2540	4680	6640	8510	10810

Source: *Agra Europe*, 1999.

7. Long -term Outlook and the Berlin Summit CAP Reform.

According to the major forecasting institutes world-wide, the long-term outlook for the main agricultural markets is favourable for exporting countries. Prospects for increased food consumption, mainly in developing countries, combined with the limited possibility of a proportionate growth in domestic production[8] are expected to boost world trade and sustain world prices over the next decade.

Two key factors influence food demand: population growth and rising incomes. The world population is expected to increase by more than 85 million a year between 1995 and 2005. Moreover, growing urbanization will influence the pattern of food consumption. The second factor determining food demand is the favourable prospects for world incomes and economic growth, particularly in developing countries.

In order to help european agriculture to take advantage of the expected positive world market developments, the Commission proposes in its Agenda 2000 deepening and extending the 1992 reform through further shifts from price support to direct payments and developing a coherent rural policy to accompany this process. Lower prices will improve the competitiveness of EU agriculture on both domestic and external markets, benefit consumers and leave more room for price differentiation in favour of high quality speciality products.

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[8] These will be due to, firstly, the limited availability of land, because of urbanization and environmental constraints and, secondly, to a slowdown in the growth of yields.

At the Berlin Summit in March 1999, EU heads of governments have reached a global agreement on the reform of the CAP[9], which was less ambitious than the proposals of the Commission and the one that emerged form the March 11 Agricultural Council.

The main points of the Agreement regarding agriculture are the following:

a. Crop sector: Cereals, oilseeds and protein crops

- The cereals intervention price will be reduced by 15% in two equal steps of 7.5% each in the first two marketing years of reform (2000/01 and 2001/02).
- Direct area payments are increased to Euro 63/tonne from 54/tonne. In the case of oilseeds, direct payments will be aligned to those for cereals (Euro 63/tonne) from 2002/03, which implies a three-step cut in the level of the special oilseeds payment.
- Set-aside: The basic compulsory set-aside rate is fixed at 10 per cent for the period 2000-2006. Furthermore, the monthly increments in the cereals intervention price are to be retained.
- Silage: Member states where maize silage is not a traditional crop, shall have the possibility of making grass silage eligible for arable crops area payments.
- Maximum Guaranteed Area (MGA) for durum wheat for Portugal was doubled from 59.000 to 118.000 ha.
- Potatoes: the payment for products intended for the manufacture of potato starch is set at Euro 118.14/tonne.

b. Beef regime

- Gradual reduction of the effective market support from Euro 2780/tonne to 2224/tonne over the 2000-02 period, which is equivalent to a 20 per cent price reduction. As from July 2002, a "safety net" intervention system will set up, when the average market price for bulls or steers in a member state (or region thereof) is less than Euro 1560/tonne.
- The basic special premium for male animals will be increased in the year 2002 and will be continued at this level in subsequent calendar years.
- A slaughter premium will be paid directly to the farmer (80 Euro for bulls, steers, dairy cows, suckler cows and heifers, and 50 Euro for calves).
- The annual suckler cow premium will be increased up to 200 euro in 2002 and will continue to be based on individual ceilings. The national premium which is additional to the suckler cow premium is increased to 50 Euro/head.

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[9] See e.g. E.C. ***Agenda 2000*** and **Agra Europe** (1999).

c. Dairy regime

- Intervention prices for butter and skimmed milk powder will be reduced by 15 per cent starting in 2005/06.
- In return, all quotas will be increased from 2005/06 by 1.5 per cent and additional quotas will be provided in five member countries i.e. Greece, Spain, Ireland, Italy and the UK (Northern Ireland) which will come into force from the first year of the reform period (2000/01).

d. Mediterranean products

In Agenda 2000 there was no provision for reform of mediterranean products since for most of them the necessary adjustments have been made. The exception here is wine, for which a new Common Market Organisation was launched in the March 11 Agricultural Council.

- *Fruit and vegetables*

A major reform was adopted by the Council on July 1996. This involves, among others, a reduction of withdrawal prices as well as of withdrawal quantities which will be equal to of 10 per cent of the traded quantities within a period of five years. Moreover, the role of producer organization was strengthened and co-financing by 50 per cent of the operating funds was introduced, with the rest being covered by the contributions of producer organisations. For the processing of citrus fruit, the minimum guaranteed price to producers was abolished.

- *Tobacco*

*A variable part of the premium ranging between 30 and 45 per cent is introduced for a 3-4 year transitional period.
*A Community Tobacco Fund is set up to be financed by a deduction of 2 per cent of the premium.
*Individual producers may deliver excess production of up to 10 per cent of their quota in the following year.

- *Olive-oil*

- The national quotas for olive-oil is the following:

Spain	760,027	tonnes
Italy	543,164	tonnes
Greece	419,529	tonnes
Portugal	51,244	tonnes
France	3,297	tonnes
Total	1, 777,261	tonnes

- Production aid is reduced from ECU 1422/tonne to 1324.3/tonne for big farmers and 1550/tone for small farmers.
- Consumption aid is abolished.

- *Wine*

The decision of the Council of Agricultural Ministers establishes a new common market organisation for wine which will replace the present 23 regulations dealing with wine with a single regulation. The market mechanisms proposed will refocus their aims to the current situation; i.e. maintain all traditional outlets for wine-based products, allow the Commission to address exceptional cases of serious structural surplus, ensure continuity of supply and ensure the quality of wine reaching the market. The new system for planting rights will enable a disciplined increase of EU's wine production potential to enable the development of areas with a manifest need.

e. Rural development policy

The new policy is guided by a multi-functional, integrated approach to rural development. On the one hand, it recognises that farming plays a number of roles including the preservation of the rural heritage. On the other hand, it recognises that the creation of alternative sources of income must be an integral part of rural development policy.

A major innovation has been the bringing of a series of rural development measures together in a single, coherent package offering support to all rural areas in 3 main ways:

- ***By creating a stronger agricultural and forestry sector.*** The measures include those for the modernisation of agricultural holdings and for the processing and marketing of quality agricultural products. In addition, the viability of agricultural holdings will be facilitated by measures for the establishment of young farmers and through improved conditions to encourage early retirement from farming. For the first time, forestry has been formally recognised as a key element of rural development. Here new measures will seek to support the sector where it serves an ecological function.
- ***By improving the competitiveness of rural areas.*** Here, the objectives are to support the quality of life of rural communities and to promote diversification into new activities. The measures are designed to create alternative sources of income and employment for farmers, their families and the wider rural community.
- ***By maintaning the environment and preserving Europe's unique rural heritage.*** Agri-environment measures will support environment-friendly agricultural methods. They will be the only compulsory element in the new generation of rural development programmes and hence a decisive step towards the recognition of the multi-functional role of agriculture. As an additional measure which will help in the further "greening" of the CAP, the traditional compensatory allowances in support

of farming in less favoured areas will be extended to areas where farming is restricted by the existence of specific environmental constrains.

The guiding principles of the new rural development policy are those of decentralisation of responsibilities and flexibility. It is for the Member States to come forward with proposals for rural development programmes targeted at an appropriate geographical level. They can draw on a menu of rural development measures set out in the regulation according to their needs and priorities. Outside the EU's least developed regions, the so-called Objective 1 regions, rural development measures will be financed from a single source: the EAGGF-Guarantee Section.

f. EU budget system reformed

EU leaders have agreed that the CAP budget should remain "stable" over the next seven years. The budget target agreed for the CAP is Euro 40.5 billion a year on average plus 2% inflation, plus Euro 14 billion of expenditure on rural development (Table 2). In effect, EU governments have handed greater fiscal control to the Commission in return for guarantees that spending will not exceed the Euro 40.5 billion model. In order to do so, the Commission will now be forced to watch its expenditure and make early savings in areas such as export refunds and intervention buying, if there is danger of exceeding its remit before the end of any given financial year. To evaluate this, the Council added a demand for a report in 2002 from the Commission "on the development of agricultural expenditure, accompanied, if necessary by appropriate prosposals".

Table 2: Planned CAP expenditure 2000-06
(in million Euros, 1999 prices)

	2000	2001	2002	2003	2004	2005	2006
Heading1 (Agriculture)	**40921**	**42798**	**43899**	**43765**	**42759**	**42362**	**42104**
CAP expenditure (excluding rural development and accompanying measures)	36618	38478	39569	39425	38409	38002	37734
Rural development and accompanying measures	4303	4320	4330	4340	4350	4360	4370

Source: *Agra Europe*, 1999.

8. Concluding Remarks

Given the historical background of the six original member countries, their agricultural structures and the fact that the EC-6 was a net importer of agricultural products, the CAP objectives, essentially about productivity gains in order to bolster the living standards of Europeans farmers and to secure food supplies following the traumas of the 1940s and early 1950s, were neither surprising nor inappropriate. The same holds with respect to the choice of policy instruments, mainly internal prices support. However, given the massive technical progress and structural shake-out which took place in the European Community, the CAP soon became dominated by problems of chronic overproduction. It was not until mid-1992 that a significant reform has taken place under the intense pressure of the GATT Uruguay Round.

The reform resulted in a major shift from price support to forms of farm support not directly linked to production. After 1992, there have been considerable market improvements with significantly lower public stocks in most of the reformed sectors (except in the case of beef, which is due to extraordinary events rather than market policy). Moreover, farm incomes have markedly improved over the period.

However, the progress achieved was not sufficient to meet the challenges facing the EU in the light of the WTO negotiations which would push EU agriculture to a freer trade regime, on the one hand, and the EU's eastern enlargement on the other hand, taking into consideration that the CEECs farm prices are 40 to 80 per cent those of the EU's. The Commission, having reviewed these prospects and the expected positive world market developments, concluded that the best option was to continue the 1992 approach through further shifts from price support to direct payments and the development of a more integrated rural policy to accompany this process. However, the agreement reached at the recent Berlin Summit is less ambitious than the Commission's proposals included in Agenda 2000. It seems that the EU's negotiating position in future WTO negotiations will be formulated along the lines of the Berlin agreement, which fall far short of the US objectives regarding the liberalization of the international trade of agricultural commodities. Moreover, a delay is expected in EU's eastward enlargement. Nevertheless, it will be the first time in the EU's history that spending on agriculture will not have shown constant growth in real terms over the next seven years.

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