

Politics essays - common agriculture policy (cap)



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Common Agriculture Policy (CAP)

Agriculture has been at the heart of the European Union project since the very onset of it, the Common Agriculture Policy (CAP) under EU was established in 1957 because of food market instabilities, the disproportionate influence of food prices on inflation and a need to maintain domestic food industries for political reasons. The key objectives of the CAP, as highlighted in the EU treaties, is focused towards increasing the agricultural productivity thus to ensure a fair standard of living for agricultural producers, to stabilize the markets, assuring the availability of supplies and further more, to ensure reasonable prices are offered to consumers. The fact was that, the countries outside the EU were generally able to produce agricultural products at far lower prices than EU member countries because of the enormous size and the scale of their industries such as USA and Canada, or possibly because of lower standards in the developing countries, but EU is largely keeping prices up.

Agricultural policies in the European Union are influenced by factors, such as consensus that farmers' incomes should be supported through transfers from other parts of the economy, the desire to maintain many heritage and rural lifestyle values and to improve environmental and animal welfare standards that are influenced by agricultural activities, the need to reach common grounds between the national and agricultural interests of what has been a rapidly increasing number of member countries, a need to limit the budgetary costs arising from agricultural support, economic efficiency considerations arising from resource use distortions and associated costs to the overall economy arising from agricultural support and protection and, the

desirability of reaching agreement with other countries, both multilaterally and bilaterally on issues affecting agricultural trade and protection (Ivan & Trant, 2007).

Since 1992 the European Union has been pursuing a process of ongoing policy review and reform, with a view to moving away from commodity specific support and concentrating domestic support increasingly in a single payment scheme under which support payments are largely independent of current commodity production and prices. Key landmarks in that process have been the Agenda 2000 reforms and the 2003 Mid Term Review. A new financial perspective for the European Union was developed for the period 2007–13 from discussions and negotiations that took place over the period 2004–06.

The fundamental guiding principles on which the CAP was developed were free internal trade, preference for member countries and joint financial responsibility (Marsh and Swanney 1980; Harris et al. 1983). Those principles remain as relevant today as they were when the CAP was first being designed and developed during the 1960s and early 1970s. Initially, the aims were achieved through a free internal market on which prices were insulated from world markets. The support systems used for most commodities restricted imports, mainly through variable import levies. Internal prices were managed around administratively set internal prices that were managed through intervention agencies, and export subsidies enabled excess supplies to be disposed of on world markets at below the internal prices (European Commission 2007b). For oilseeds, large quantities of which were, and still are imported, support was through government deficiency <https://assignbuster.com/politics-essays-common-agriculture-policy-cap/>

payments. For fruit and vegetables, support was through government sponsored withdrawals from the market when supplies were heavy and a combination of tariffs and variable import charges designed to maintain internal prices at stable supported levels (Harris et al. 1983). Export subsidies were also available to cover the difference between internal and external prices. From the late 1970s, aids were also paid to processors in Mediterranean countries, provided they paid recommended prices for their purchases from farmers.

Sugar had a highly regulated three tier support arrangement, with high support prices for 'A' quota sugar based on a quantity similar to domestic consumption, lower but relatively stable supported levels on a smaller 'B' quota, with any production above A and B quotas, termed 'C sugar', required to be exported at world prices. Imports were strictly limited through quotas allocated mainly to members' former colonies. From its early years the European Community closely managed both the quantities of agricultural products imported and the sources of its imports. Many of the imports were restricted by quotas that in many instances were allocated to particular supplying countries, which were primarily former colonies or traditional suppliers. Such preferential arrangements remain an important characteristic of EU agricultural imports, although there have since been some changes in the mechanisms used to implement them.

To finance its many programs under the CAP, the Community established a fund termed the European Agricultural Guidance and Guarantee Fund (EAGGF) in the early 1960s. This fund consisted of two parts — the Guarantee section and the Guidance section. The Guarantee section is

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sometimes referred to as the first pillar and covers expenditure on price guarantees, support payments, export subsidies, storage costs etc. This pillar accounts for some 90 per cent of EU agriculture budget outlays. The Guidance section covers outlays on rural development and environmental measures (Rudloff 2006). The CAP mechanisms resulted in high levels of open ended support, primarily through maintaining internal prices at stable levels well above world market levels. This encouraged production that expanded substantially and discouraged internal consumption. As a result, the European Community was transformed from being a net importer of many temperate zone agricultural products to a net exporter.

Under the policy, Europe's farmers receive subsidies of about 50bn euros (£33bn; \$60bn) a year, just under half the entire budget of the EU. It is believed that it is less than half the welfare spending in Germany - otherwise each citizen of Europe pays two euros (£1. 3) a week. The claims on the budget increased with the EU enlargement to 25 members in May 2004, adding four million farmers to the existing farming population of seven million. According to the European Commission all the money goes to the farmers. But each government is free to choose who it pays - admittedly upon meeting certain criteria. But critics say wealthy landowners and the agro-business benefit most.

The last two rounds of CAP reform have led to significantly higher demands on the EU budget, as agriculture policy moved away from market supports, where the consumer pays much of the subsidy through higher prices, and towards direct payments. Any future CAP reform will however be negotiated

in the context of the agreed budget limits, leaving EU agriculture ministers with a very difficult circle to square.

They are not likely to wish to make their task even more difficult by concerning themselves additionally with the impact of the CAP on developing countries. However they may have no choice. Developing countries have moved much more centre stage in the early skirmishes of the new trade round than was the case previously. A series of EU statements have made it clear that the Union attaches some importance to getting the support of developing countries for the EU position in these negotiations. The EBA initiative indicates the seriousness with which the EU is pursuing such an alliance. Get help with your essay from our expert essay writers...

Developing countries were initially suspicious of the concept and this has not entirely dissipated. However there is a growing tendency to see it as a possibly useful vehicle for developing countries' own concerns. In particular it provides a possible framework for asserting the importance of agriculture in food security and poverty alleviation, which may affect a country's approach to liberalisation.

This debate may appear obscure, but has been at the heart of the preparatory discussions for the new trade round. It is a straw in the wind which suggests that it might be possible for the EU and the developing countries to find a joint interest in seeking some alternative to highly protectionist and costly agricultural policies on the one hand and outright liberalisation on the other (Driscoll, 2001).

Such an alliance would be valuable to the EU. It is in this context that developing country interests might yet feature in some form on the CAP reform agenda. The unexpected generosity of the EBA initiative is an indicator of the possible direction of events.

The EU has pledged to provide free access for “essentially” all products from least developed countries and has urged other developed countries to do the same. The EU already accounts for around 70% of agricultural imports by developed countries from the LDCs.

The Reforms of CAP for EU is aimed at improving the incomes of the rural communities in the CEECs whilst enabling their agricultural industries to remain competitive. For this there are two ways established in which it can go. Firstly, there is to support the agricultural production and for capital investments to improve agricultural land and boost productivity by impacting the fertility of the land. This is not seen as being the way forward. It would place emphasis on production rather than sustainable industry and would not improve the economy of the rural community as a whole. It can lead to farms having to amalgamate to be profitable, putting small farmers out of business and laborers out of work. The second way would be for a rural policy focusing on the CEECs. It would concentrate on supporting land management practices, which provide benefits to rural communities and the environment. To aid the accession countries adaptation to the EU's regulations and to begin the implementation of the CAP's environmental policy, a number of different programs have been established to assist in this, often with the assistance of NGOs who want to see sustainable agriculture introduced in the candidate countries without delay. There is the risk that the increased

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mechanization, likely to come when money is given to support the farmers, will lead to an intensification of production methods, establishment of monocultures similar to those in Western Europe, and an increase in the amount of artificial pesticides and fertilizers used by the farmers. The accession countries have often fairly recent legislation concerning nature conservation and protection. But the law enforcement and public awareness of nature conservation is often weak and often suffers from a lack of both funds and resources. Legislation from the EU needs to be adopted immediately and guidelines put in place to ensure that the regulations are followed.

One of the more worrying aspects of the enlargement process is the social impact the expansion may have on the rural population of the accession countries. The adaptation of a country's agricultural industry to a new regime is hard enough if the economy is developed, but if the economy is still developing and unstable, then the EU needs to ensure that there is supportive legislation available, maybe even special legislation for the accession countries to protect their rural communities and agricultural environment. The seven-year rural development plans, written by the accession countries have been submitted to the EU now, and the budget allocation has been made until 2006. The negotiations are still in progress regarding the allocation to the accessional countries of money from the CAP budget. There has been a major stumbling block concerning compensatory payments to farmers (direct support). The EU is reluctant to start the candidate countries on the road of direct payments and would prefer that the money be spent on rural development, as mentioned previously. This is not

of interest to all of the candidate countries. An agreement has been suggested where in the beginning 70% of the money will go to rural development and the remaining 30% to compensatory payments. Over a period of years, this split will change, as more money will go to compensatory payments and less to rural development. This development was not in the EU's aims but has come forward during the ongoing negotiations for EU membership⁶². This change of policy was unforeseen when the RDR was written and a qualifying section may be needed in order to strengthen the environmental policy in the CEECs so that the rural community and the environment are protected as intended. Furthermore, there is also another question hanging over the debate due to the issue of land tenure and land ownership in the CEECs. Compensatory payments cannot be paid out until it is clear to whom they should be paid (Nilson, 2000).

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