

Changing commodity
prices impact on
common agricultural
policy economics
essay



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In the wake of an increasingly globalized economy, one that has seen the emergence of large trade blocs and common markets, the nations of the world have been competitively forced into becoming more economically integrated year after year. In light of hundreds of years of consumer theory, this would almost certainly lead one to a conclusion of necessarily lower prices and more efficient production on almost all products. However, as is the case in many nations, the European Union (EU) has succeeded in creating an artificial market for agricultural products through the use of a Common Agricultural Policy (C. A. P).

The Common Agricultural Policy is a policy, set forth by the European Union (EU), which is comprised of a set of rules that regulate the production, trade, and processing of agricultural products. The C. A. P currently accounts for almost fifty percent of the EU budget, however, this number continues to decrease over the years. The C. A. P is significant in that it symbolizes Europe's switch from sovereignty on a national level to a European level. (McDonald and Dearden, (2005), European Economic Integration, Prentice Hall, 4th edition.)

Common Agricultural Policy (C. A. P).

The EU's agricultural policy dates back to 1957, when the creators of the Treaty of Rome defined the general objectives of a common agricultural policy, post-war food shortages still fresh in minds. The principles and mechanisms of the Common Agricultural Policy (C. A. P) were adopted by the six founding members of the European Economic Community, and in 1962 C. A. P came into force.

C. A. P was designed to secure Europe's self-sufficiency in food production. The basic principles of C. A. P remained the same for decades: guaranteed prices for agricultural products, often above world price levels, and subsidies based on the quantity of production, with little concern for the problem of surplus production.

C. A. P has been the most fully integrated of EU policies. In the 1970's, nearly 70% of the EU budget went into agriculture. After a series of reforms, agriculture expenditures in the budget have dropped to 35 % for the 2007-2013 financial period. Over the same period, more money (9. 7%) has been allocated for rural development and the expansion of EU's other responsibilities. (Common Agricultural Policy (C. A. P). European Journalism Centre (EJC) 2009).

Common Agricultural Policy's reforms.

The C. A. P has had a long history of reform, and is nowhere near perfect. The first attempt at reform came just ten years after its implementation. In 1968, the Mansholt Plan was put into effect in an attempt to reduce the number of people in the agriculture business and to promote more efficient means of agricultural production. In 1972, the extensive food surpluses were targeted through the creation of structural measures designed to modernize European agriculture. This attempt at reform is generally regarded as a failure because many of the problems it tried to fix were still left unchecked. In 1983, a publication was released entitled, The Green Paper, which sought to balance the ongoing disparities between supply and demand through improvements in production. In 1988, the European Council agreed on

various reform measures. The most important was the "agricultural expenditure guideline," which limited the percentage of C. A. P expenditure in the overall budget. In 1991-92, the future of the C. A. P was addressed through what has been called, "the MacSharry Reforms." The key aspects of the reforms included the cutback of agricultural prices to make the products more competitive, compensation for farmers that incurred a loss in income, and environmental protection. The reform of 1992 was generally regarded as successful, with positive effects on European agriculture. However, international trends, the enlargement towards Central and Eastern Europe, the preparation of the single currency causing budget constraints, the increasing competitiveness of products from non-member countries, and a new round of World Trade Organization negotiations forced further adaptation of the C. A. P" (europa. eu. int). In July 1997, "Agenda 2000" was created to address many of the important issues facing the EU and the C. A. P. The key focuses of this new agenda are the reinforcement of the competitiveness of agricultural commodities in domestic and world markets, the promotion of a fair standard of living, the creation of extra sources of income for farmers, a new rural development policy, revamped environmental considerations, better food quality and safety, and the simplification of C. A. P legislation.

The first wave of C. A. P reforms had decreased over-production, brought down butter mountains and emptied the milk lakes. But by 2002, several factors made it a necessity to undertake major review of the EU's farm policy, including several food crises, the EU's planned eastward expansion, World Trade Organization's objections to the C. A. P and the sustainable

development strategy defined during the Gothenburg Summit. In 2003, Franz Fischler, then the Commissioner for Agriculture, Fisheries and Rural Development, presented a C. A. P reform package he described as the most radical improvement to the EU's agricultural policy ever. His main proposals included:

decoupling of subsidies and production

high requirements of environmental, food safety and animal welfare standards as prerequisite for getting subsidies

more money to rural development as opposed to direct and market subsidies

cuts in intervention prices in many sectors

After heated debate, farm ministers agreed to go through with the C. A. P reform. Although, the link between farm subsidies and the amount of production was not totally abolished, as originally proposed, a major shift did take place, with the bulk of farmers' income now coming from direct aid, based on the size of their holdings and not production. (Common Agricultural Policy (C. A. P). European Journalism Centre (EJC) 2009).

The reform also prepared the EU for the WTO 'Doha' round of international trade liberalization talks, where the EU offered to eliminate export subsidies altogether by 2013. The talks were put on hold in 2006. Whatever the result of the trade talks, the EU remains the world's largest importer of food, especially from developing countries.

A number of sensitive sectors were left out of the 2003 C. A. P reform, including sugar, wine, bananas and other fruits and vegetables. Since then, a profound reform of the sugar sector was agreed on in 2005. In 2006 and early 2007 the Commission also proposed reforms for the wine, banana and fruit and vegetables sectors. (Common Agricultural Policy (C. A. P). European Journalism Centre (EJC) 2009).

Under the Barroso Commission, Mariann Fischer Boel took over stewardship of the renamed Agriculture and Rural Development DG. She continues to strive for higher food quality and safety, efficient application of the Rural Development Policy 2007-2013, energy crop schemes and simplification of the C. A. P and cutting of red tape.

The enlargement of the EU from 15 to 27 members has brought new challenges to C. A. P - the number of farmers in the EU increased by over 70%.

Meanwhile, farming organisations have welcomed the EU's decision to set a minimum 10% target for the use of biofuels for transport by 2020. The EU has also created the possibility for agriculture to play a bigger role in the fight against climate change, according to the COPA organisation.

A key aim of the 2008 French EU Presidency was to bring the C. A. P up to speed with new global challenges. To this end, with the backing of the Commission and a vast majority of member states, four texts were adopted in November 2008, focusing on rural development, direct aid to farmers, and regulation mechanisms for the single market (dairy quotas, interventions, etc.). (A 'health check'(CAP)by Europa (European Commission) (2009)).
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These agreements officially launched the EU debate on the future of the C. A. P post-2013, also taking stock of global food balances, competitiveness, sustainable development, and the economic dynamism of rural areas.

The Czech Presidency of the EU, in the first semester 2009, failed to secure an agreement on the future of the C. A. P post-2013. However, the Agriculture Council did agree unanimous conclusions on agricultural product quality and the retargeting of aid in Less Favoured Areas (LFA). (Common Agricultural Policy (C. A. P). European Journalism Centre (EJC) 2009).

The quality policy paves the way to clearer labelling and, it is hoped, better communication and understanding among farmers, wholesalers and consumers. The Council also said it would consider national and private food certificates that follow Commission good practice guidelines and pledged to cut red tape for farmers and producers who want to apply for EU schemes like the organic label and geographical indications.

The LFA programme is designed to improve the "targeting of aid to farmers in areas with natural handicaps". Member states have been asked to produce maps by 31 January 2010, including specific details on climate, soil, and terrain. (Common Agricultural Policy (C. A. P). European Journalism Centre (EJC) 2009).

Global food prices and C. A. P reform.

The European Union's common agricultural policy protects and subsidizes agriculture so heavily as to bring serious social losses to the Economic Union.

The policy creates inefficiencies in the agriculture sector as well as other

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sectors of society such as manufacturing, textiles, and service industries.

Furthermore, " there have been many economic consequences of the C. A. P, including the high level of protection, the burdens on consumers, taxpayers, and the EU budget, environmental damage, the harm to international trading relations, and the failure to raise farmers' incomes" (The Common Agricultural Policy: Past, Present and Future. Brian E. Hill. `Metheuen & Co. Ltd, London. (page 117). There are a lot factors responsible of the food price rise: speculation in commodity markets, low global food stocks, subsidies, high cost of energy, concentration of important agricultural markets in the hands of a few firms, trade restrictions by important exporters to protect domestic consumers, depreciation of the US dollar and lower productivity growth due to low investment in agricultural research...

As global prices hit new highs, the European Commission had to intervene. First they sold its intervention stocks, removed the obligation to set aside 10% of arable land for the 2008 harvest, increased milk quotas by 2% and suspended import duties on cereals. (Global food prices and CAP reform by Euractiv. (2009). Then, the Commission proposed policy measures aimed at improving market transparency. It decided to enhance monitoring of developments in agricultural markets and analyze the impact of price speculation. The EU executive also announced plans to investigate the functioning of the food supply chain for potential unfair commercial practices, which may be holding back competition and driving up prices.

Overall, the Commission's policy to address rising global food prices comprises three strands of action:

Mitigating short and medium-term effects of the food price shock by monitoring price developments and speculative investments, changing the CAP

Increasing agricultural supply and ensuring food security in the longer term by strengthening the sustainability of EU and global policies on biofuels, boosting agricultural research to increase productivity and maintaining an "open but vigilant" GMO policy, and;

Contributing to the global effort to help the poor by promoting an open trade policy and concluding the Doha round of World Trade Organisation (WTO) talks, offering humanitarian aid and supporting agricultural and rural development policy changes in developing countries. (Global food prices and CAP reform by Euractiv. (2009).

C. A. P effects upon the environment.

The C. A. P has also caused concern for the environment as well as concerns for the economy. Because of the subsidies provided to farmers, they have the incentive to produce more agricultural products because they will receive more money. The C. A. P price policies have encouraged intensive farming and the overuse of antibiotics, pesticides, and nitrates. This has put a strain on the environment and has concerned the people of the European Union.

The policy did not foresee farmers overproducing and over using chemicals, but this has become an indirect cost created by the policy. Europeans are also concerned with food safety because of farmers using so many chemicals in production. Farmers have been getting away with using the chemicals and unsafe practices because of the limited food safety regulations. Policymakers
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believed that high price supports would lead to higher food safety and quality. " High support prices do not increase either food safety or quality: indeed, minimum prices and intervention guarantees encourage low quality and standardized produce" (The European Community: Economic and Political Aspects. (V. Lintner and S. Mazey. `Mcgraw-Hill, Maidenhead. (page 107) (1991).

CCL: C. A. P has been seen as a monument to the determination of politicians, especially in the early years of integration, to work together for a united Community. It has become a symbol of co-operation. C. A. P has economic and social dimensions.

There are many reasons put forward to explain rising food prices. These range from changing eating habits to trade restrictions and climate change. The European Commission insists that there is no connection between EU agricultural subsidies and rising food prices, and stresses that the C. A. P is much less trade-distorting than the American policy. (Global food prices and CAP reform by Euractiv. (2009).

ANNEXES:

Figure 2: EU agricultural payments, 1963-2013.

Source : Agriculture 2009 revised. ppt

Figure 3: EU expenditure: 1988-2006.

Source : Agriculture 2009 revised. ppt

Figure 4:

Source : Agriculture 2009 revised. ppt

Figure 5 and 6:

Source : Europa.

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