

INTERNATIONAL AGRIFOOD MARKETS AND POLICY

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Common Agricultural Policy - CAP

Origins:

- National policies were already in place before the creation of the CAP:
 - to increase food production
 - to improve living conditions of farmers

- After World War II, two major challenges:
 - food production
 - farmers' incomes

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The European Economic Community (EEC), the best-known of the European Communities (EC), is the result of an agreement known as “Treaty of Rome”

The Treaty of Rome, officially the Treaty establishing the European Economic Community (TEEC), was signed on 25 March 1957 by Belgium, France, Italy, Luxembourg, the Netherlands and West Germany and came into force on 1 January 1958.

The treaty's name has been retrospectively amended on several occasions since 1957:

- the Maastricht Treaty of 1992 removed the word "economic" from the Treaty of Rome's official title and, in 2009
- the Treaty of Lisbon renamed it the "Treaty on the functioning of the European Union".

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The Treaty of Rome proposed the progressive reduction of customs duties and the establishment of a customs union.

It proposed to create a single market for goods, labour, services, and capital across the EEC's member states.

It also proposed the creation of a Common Agriculture Policy, a Common Transport Policy and a European Social Fund, and established the European Commission.

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Objectives of the Common Agricultural Policy:

- Article 39 of the Treaty of Rome established the objectives of the CAP
 - to increase agricultural productivity
 - to ensure a fair standard of living for the agricultural community
 - to stabilise markets
 - to ensure the availability of supplies
 - to ensure that supplies reach consumers at reasonable prices
- Generally, income objectives dominate farm policy objectives in developed countries, although rarely defined very explicitly
- The objective of CAP objective described in the article 39 of the Treaty of Rome is now included in the article 33 of the Treaty of Lisbon

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Article 33 (ex 39) set out objectives, but left open means to achieve these objectives

Note all original member states already had protectionist agricultural policies, so EC was not starting with a clean slate

Key decisions on market mechanisms taken in January 1962, though common prices not achieved until 1968:

- Principles established
- Market unity
- Community preference
- Financial solidarity
- (Producer co-responsibility)

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Initial principles

Market unity

Community preference

Financial solidarity

Initial measures

Price support measures

intervention buying

Import tariffs

Import quotas

Export refunds

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Note article 39 no mention of environment, food safety or rural development

Two broad policy instruments

- Price policy implemented through market organisation measures and funded by the Guarantee Section of EAGGF (FEOGA)
- Socio-structural measures funded by the Guidance Section of FEOGA

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Agricultural decision-making in the EU

Distribution of powers between EU institutions:

originally Commission proposes, Council disposes, Parliament advises, and Court rules

Greater EP powers of co-decision:

but only consultative powers on CAP expenditure, will change with Reform Treaty

Role of member states and lobby groups:

Formalised through management and advisory committees

Majority voting and the Luxembourg compromise:

Consensus decision-making encouraged by willingness of some member states to form a blocking minority when 'vital interests' of another are at stake. Of doubtful current relevance

Annual price review:

Based on formula approach in the past, now of much less significance because Commission's powers to manage markets increased under the Financial Perspective

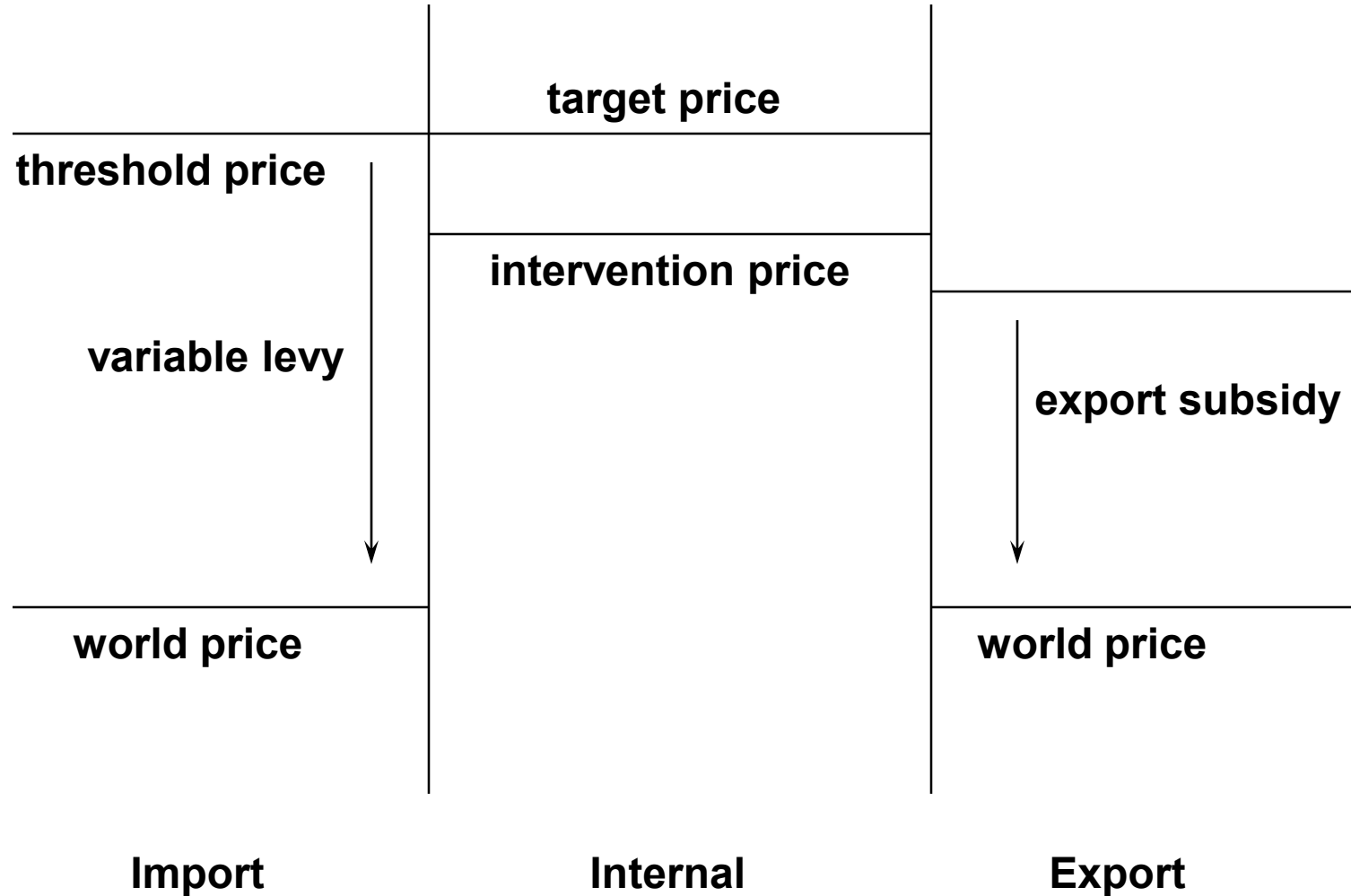
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Price policy mechanisms

- Cereals taken as the prototypical regime but each commodity regime has its own characteristics
- Three support pillars of import levies, intervention buying and export subsidies.
- Additional support through consumer subsidies, aids to private storage, withdrawals, deficiency payments
- Objective has been to provide price stability as well as price support, hence variable nature of trade instruments
- Mechanisms are in theory neutral as between farmers and consumers although price levels in practice set very high
- Support provided at wholesale, not farm, level. Assumes competition in commodity markets to reflect support back to farmers.

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Pre-GATT Uruguay Round CAP mechanisms



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The green money (agri-monetary) system

- CAP prices fixed in ecus (euros), require conversion rates to national currencies
- Conversion rates used administered (green) exchange rates
- Devaluation should raise domestic prices, revaluation should lower domestic prices
- Governments manipulated green rates to prevent these market effects from occurring, thus causing market prices within the EU to diverge
- Differences compensated for by border taxes and subsidies (MCAs monetary compensatory amounts)

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The green money (agri-monetary) system

- Introduction of 'switchover system' in 1984 at German insistence to prevent a cut in German nominal support prices meant a hidden upward push to support prices in that decade across the EU (extra 21% by 1992)
- Consequences of green money system and MCAs
 - While intended to prevent trade distortions, created additional distortions due to limited coverage, inadequate compensation and possibilities of fraud
- Changes consequent to single market 1 January 1993
 - Abolition of MCAs and the switchover system
 - Compensatory aid to farmers if prices cut by currency revaluation
 - Now relevant only to countries outside euro zone

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Budget impact of the CAP

- The role of the EU's 'own resources' – currently customs duties, VAT-based contribution and the GNP resource
- Overall EU budget very small, but share of CAP spending very high
- Transfers between member states arising from common financing of the CAP inequitable and a source of controversy
- Attempts to control budget expenditure have been a significant driver of CAP reform

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Consequences of EU price support policies

- Growth in self-sufficiency due to supply outrunning demand
- Unforeseen reliance on intervention mechanisms, although currently much reduced
- Uneven levels of protection across commodities, particularly for cereals/oilseeds and cereal substitutes
- Regional disparities in support – the North/South divide within the EU
- Introduction of milk quotas 1984 (until then, sugar was only CMO using quotas)

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Reforms of CAP

Origins in policies to promote agricultural restructuring

The Mansholt Plan 1968

- Removal of small inefficient farms in place of the larger mass-producing farms (failed)
- three socio-structural directives
- farm modernisation, early retirement, vocation training

Less favoured areas directive 1975

Mid-1980s – Integrated Mediterranean Programmes

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CAP reforms over time

- Introduction of milk quotas in 1984
 - Lowered price of milk, reduced production of milk
- 1986- Agricultural products included in GATT
- Mac Sharry reform in 1992 and Rural development Policy
 - Limited rising production
 - Heading towards a free agricultural market
- The Agenda “2000”
- Fischler Reform in 2003/04 (Mid term review)
- CAP “Health Check” 2008

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Introduction of milk quotas in 1984

- Total guaranteed quantity: the quota of each country
- The references quantities: the producers' and/or purchasers' quotas
- The milk tax: Taxes if producers exceed their reference quota - (superlevy)

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Introduction of milk quotas in 1984

Impact on international trade

- End of overproduction of dairy products

Reduction of the production from 103.7 million tons in 1984 to 96 million tons in 1992

- Thus decrease in EU dairy export as result of abolishment of large production subsidies (=export subsidies)
- Side-effect – higher import of cows for beef (especially from Brazil)
- Decrease in storage costs

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Mac Sharry reform in 1992

- cut in support prices («intervention prices »)
- Pressures from other agricultural exporting countries
- From price support to income support
- The beginning of direct payments
 - compensation for the decrease of the price support
- New subsidies to farmers for good environmental practices
 - accompanying measures (agro-environment, early retirement, afforestation), “Set-aside land”

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Rural development policy

Beginning of EU rural policy

1988 “[Future of Rural Society](#)” report

1988 Reform of the EU structural funds

Regional, Social, Guidance and Fisheries

Five objectives

Principles of geographical concentration, programming, additionality and partnership

1991 LEADER programme

Bottom up approach to rural development

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Agenda 2000

- further price cuts
- compensation for loss of income
- Introduction of Second Pillar concept (Rural development)
- Basic principles
- Rural Development Regulation 1999
 - Menu of 22 measures in three groups
 - Restructuring/competitiveness
 - Environment/land management
 - Rural economy/rural communities
- Complex funding arrangements

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Fischler Reform in 2003/04 (Mid term review)

- decoupled direct payments
- cross – compliance
- modulation
- more market-oriented agriculture
- New Rural Development Regulation
- New single Rural Development Fund

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Fischler Reform in 2003/04 (Mid term review)

- New Rural Development Regulation
 - Expanded menu of measures in three Axes
 - Improving competitiveness of agricultural and forestry sector
 - Land management (including environmental measures and animal welfare)
 - Diversification of the rural economy and improving quality of life in rural areas
 - LEADER
 - Minimum spending thresholds on each axis
- New single Rural Development Fund
 - European Agricultural Fund for Rural Development

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Rural Development Policy 2007-2013

- One single rural development fund
- One single programming system
- One single set of financial rules
- One single control system
- For all rural areas in the EU

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The Health Check by Fischer Boel in 2008

- better targeting direct support to farmers
- better responding to market opportunities
- strengthen Rural Development to respond to new challenges

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The European model of farming in the new CAP (since Mac Sharry reform)

- No real reforms for 30 years, now three major reforms since 1992 and discussions starting on a fourth
- Explanations?
 - Declining economic importance and greater differentiation in farm structures has weakened power of the farm lobby
 - Environmentalist critique of the productivist model of agriculture
 - Consumer concerns not with prices but with food safety and market power
 - Development groups concern about impact of the CAP on developing countries
 - Anti-globalisation food security critique

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The European model of farming in the new CAP (since Mac Sharry reform)

- Emphasises the non-commodity outputs provided by farming activity
 - Cultural heritage
 - Rural development
 - Landscape
 - Biodiversity and environment
 - Food security
- Does provision of these non-commodity outputs provide a distinct justification for support to farming?
- Is underpinned by the idea of multifunctionality

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The European model of farming in the new CAP (since Mac Sharry reform)

- Is agriculture different?
- Plenty of evidence that it is treated differently
 - Very significant trade protection and support
 - International trade rules different for agriculture
 - Very prominent role in EU budget
 - Different mechanisms for EU decision-making

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The European model of farming in the new CAP (since Mac Sharry reform)

- Reasons for different treatment
 - Economic characteristics of food markets
 - Political and social importance of farm communities
 - Food security concerns
 - Agriculture as a provider of public goods
 - Importance in land management, watershed management
 - Agriculture as a driver of rural development

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The European model of farming in the new CAP (since Mac Sharry reform)

- Discourse emerged in the late 1990s
 - Partly to provide a new legitimation of public payments to farmers as the compensation justification became less convincing
 - To defend some types of support to agriculture in WTO negotiations aiming to continue the agricultural policy reform process
- Endorsed by the European Council in December 1997 which approved the Agenda 2000 strategy
 - “The Union is determined to continue developing the present European model of agriculture while seeking greater internal and external competitiveness”

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The European model of farming in the new CAP (since Mac Sharry reform)

Multifunctionality

- The existence of multiple commodity and non-commodity outputs that are **jointly produced, AND**
- The fact that some of these non-commodity outputs exhibit characteristics of **externalities or public goods**
- Why multifunctionality matters:
 - High protection countries argue that maintaining agricultural production is a necessary prerequisite for these non-commodity benefits

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The European model of farming in the new CAP (since Mac Sharry reform)

- Think about jointness wrt cultural heritage, rural viability via agricultural employment, landscape, environmental quality, food security
 - Can these non-commodity outputs be provided by the non-agricultural sector?
 - Are there economies of scope such that agriculture has a competitive advantage in supplying these outputs?
 - Does jointness imply fixed proportions?
 - Could there be non-agricultural provision?