European Economic Policies: Common Agricultural Policy

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Who am I?

- **Laurent Weill**
- Full Professor of Economics, Sciences Po Strasbourg, University of Strasbourg.
- Director of LaRGE Research Center, University of Strasbourg.
- Co-supervisor of the Double Degree "Corporate Strategy and Finance in Europe" between Charles University and University of Strasbourg.

Who am I?

- **Teaching :** macroeconomics, European economics, banking economics, transition economics.
- **Research interests :** banking and corporate finance in European countries and in emerging markets (Russia, China, Islamic finance), political economy.
- About 90 papers published in peer-review journals and in books.
- REPEC: https://ideas.repec.org/e/pwe10.html
- Regular visiting researcher at the Bank of Finland, collaborations with the Czech National Bank.
- Professional experience in a bank (BNP-Dresdner Bank) in Prague as credit analyst.

What is Common Agricultural Policy ?

- A very complex assembly of instruments and regulations
  - Trade controls
  - Price-support measures.
  - Income transfers.
  - Production subsidies.
  - Health regulations

- A very important policy in the EU history :
  - Since the creation of the EU, CAP represents a large share of the EU budget.
  - **With the common currency, this is THE European policy.**

Outline

- To understand the complex CAP, you must know its history.

1. Introduction
2. The original system
3. The pressures to reform
4. The first wave of reforms: the introduction of supply-control mechanisms
5. The second wave of reforms: the MacSharry Reforms in 1992-1993
6. The third wave of reforms: the Agenda 2000 measures.
7. The reform of 2013
8. CAP and the enlargement
9. Conclusion

1. Introduction

- Creation in 1962.
- Period still marked by the shortages of the war.
- 5 objectives of the CAP (Treaty of Rome):
  - Increase agricultural productivity.
  - Ensure a fair standard of living for the agricultural community.
  - Stabilize markets.
  - Secure availability of food supplies.
  - Ensure that supplies reached consumers at reasonable prices.

2. The original system of CAP

- Presentation of the system implemented from the beginning until the important reforms in 1992.

- Two key instruments:
  - The import tariffs.
  - The excess supply and the intervention buying.

2.1 Import tariffs

- Dominant method of agricultural support: import tariffs.
- Means to raise agricultural prices.
- The 60s situation:
  - EC states net importers of cereals and oilseeds.
  - Only self-sufficient in livestock products.
- Instead of fixed tariffs, the EC adopted a variable import tariff system.
- In place until July 1995.

What is variable import tariff system?

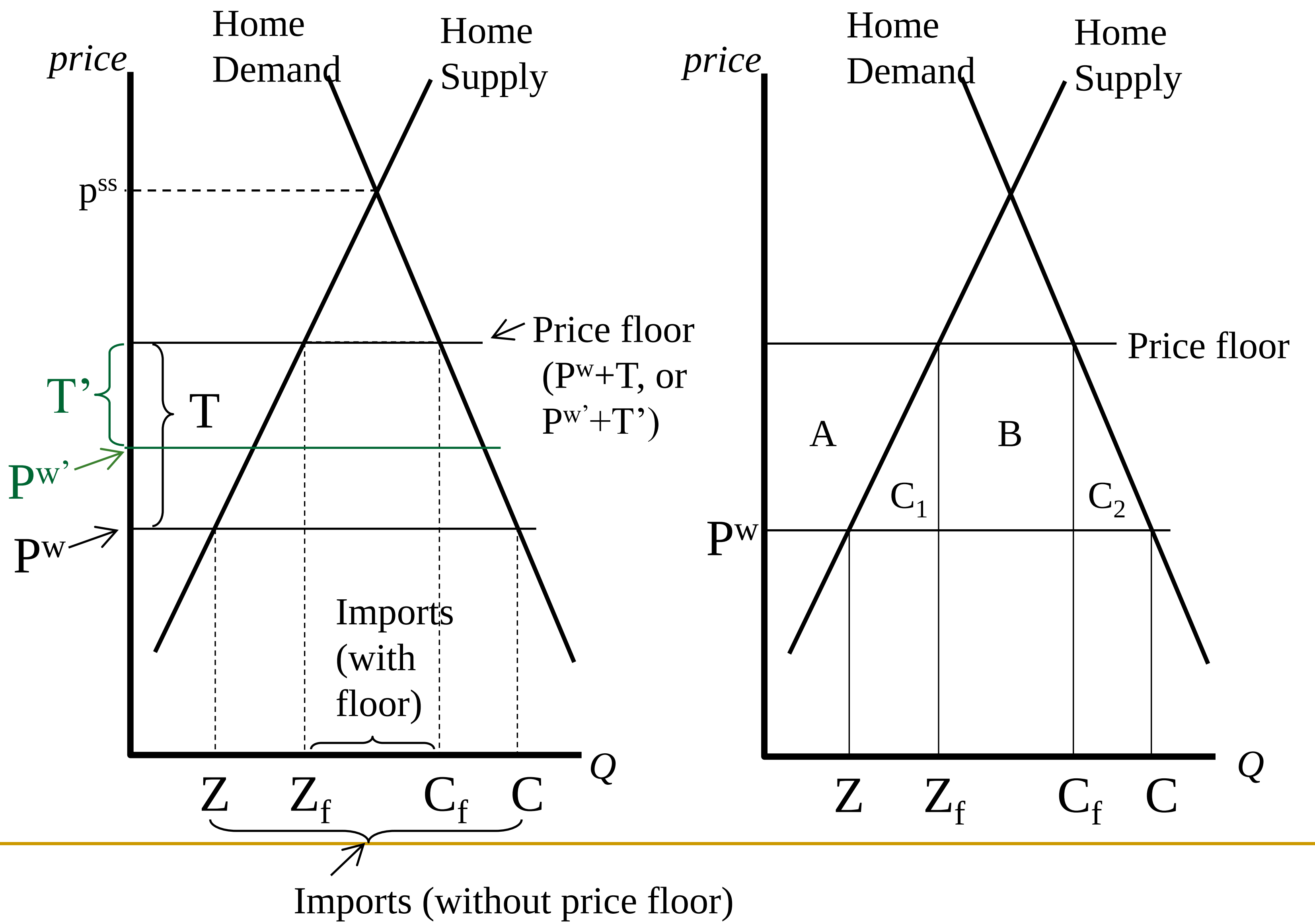
- Setting of minimum import prices (MIP) with variable import levies (VIL)

- VIL = minimum import price minus lowest price offered by the importers at the EC's borders.

- The MIP for all major products was almost always maintained above the international prices at which imports were available.

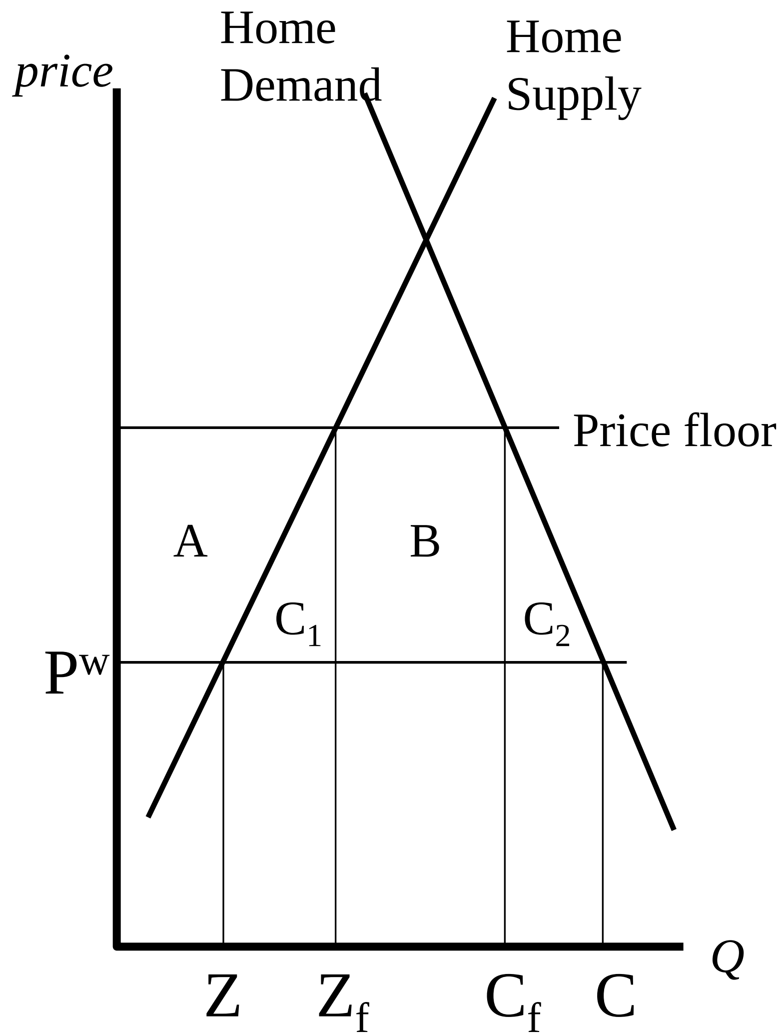
=> increase of the EC market prices of imported goods.

The effects of the price support



The effects of the price floor

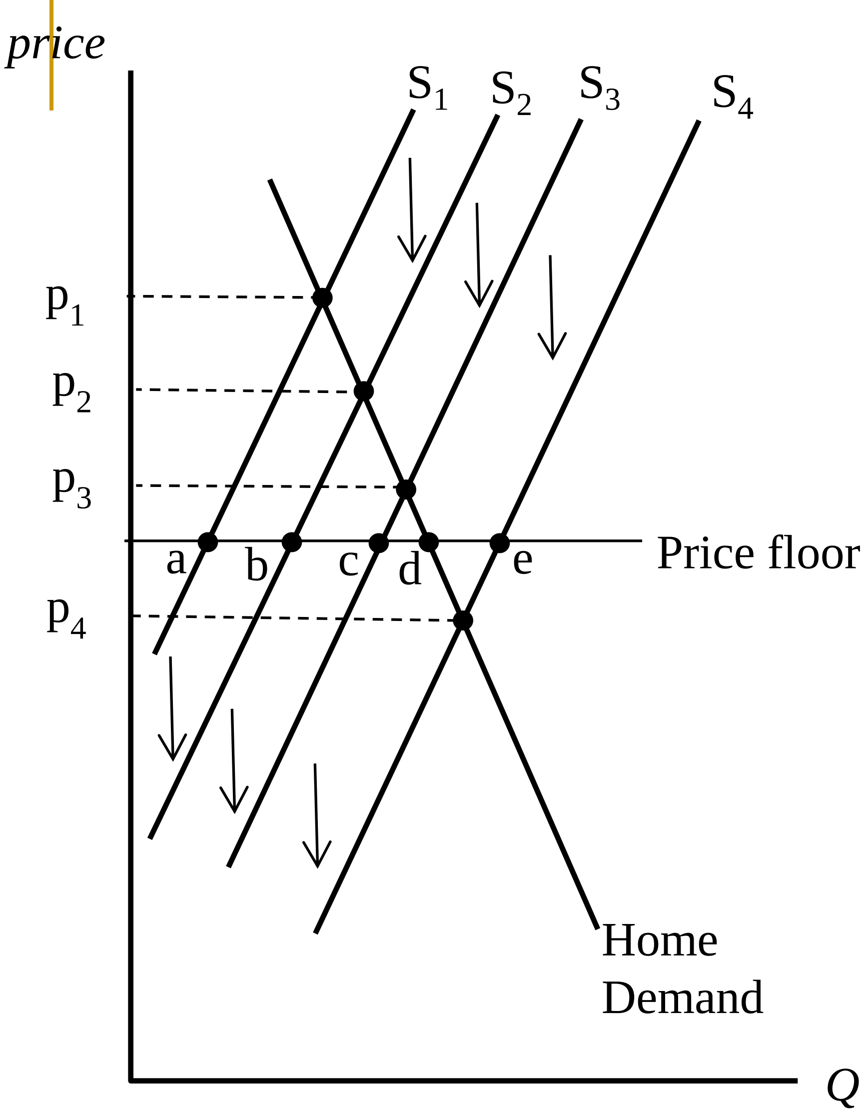
- Price floor supported by tariff is like all-in-one package made up of simpler policy measures.
  - (i) free trade in the presence of
  - (ii) a consumption tax equal to T and
  - (iii) a production subsidy equal to T.
- Price, quantity, revenue and welfare effects are identical.
- This is insightful:
  - makes plain that consumers are the ones who pay for a price floor enforced with a variable levy (loss for $A+B+C_1+C_2$).
  - part of what they pay goes to domestic farmers (A),
  - part of it goes to the EU budget (B),
  - part of it wasted (C_1 and C_2).



2.2 The excess supply and the intervention buying

- Agricultural supply growth has continuously exceeded the domestic demand growth in the EC.
- Reason: the rapid technical changes in agriculture, stimulated by supported prices, resulting in higher productivity.

  => Excess supply in major agricultural products (cereals, dairy products, beef, wine, fruits).
- Role of the mechanism of intervention buying to favor surplus.
- Principle of the intervention buying mechanism : national authorities offer to buy domestic products at the price floor.


price
S1
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Price floor
Home
Demand
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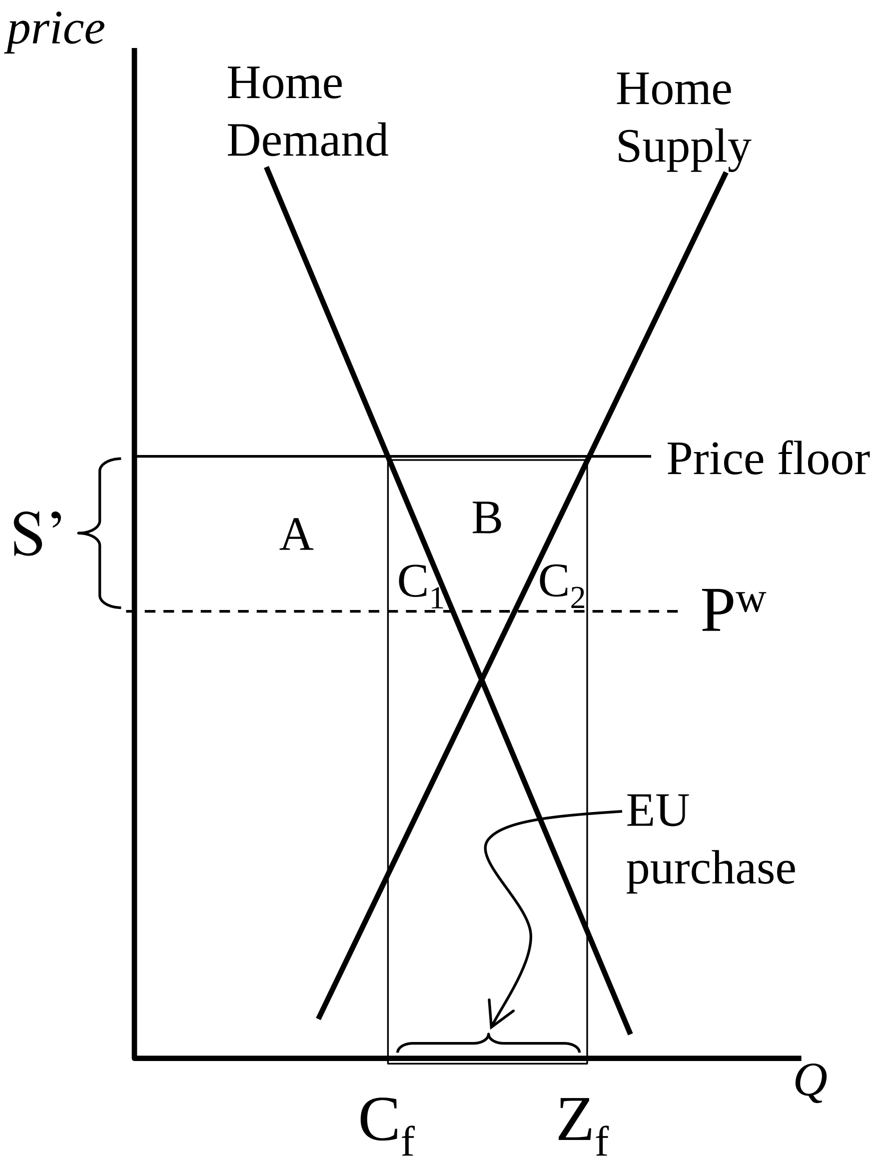
price
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Price floor
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The intervention buying mechanism

- Welfare effects
  - Producer surplus: gain for $A+B+C_1$
  - Consumer surplus: loss for $A+C_1$
  - Budgetary revenues: loss for $B+C_1+C_2$
  - Total effect: an economic welfare loss of C_1+C_2
- Remark: underestimation of the budgetary costs:
  - Inclusion only of the intervention of the authorities.
  - The storage costs of the surplus and the costs resulting from the deterioration and wastage of goods while stored.

=> The real welfare loss is in practice greater than C_1+C_2

3. The pressures to reform the CAP

- 4 sources of pressure to reform the CAP :

1. Budgetary pressures
2. Pressures from consumers
3. External pressures
4. Environmental pressures

3.1 Budgetary pressures

- **Two problems:**
  - the importance of budgetary costs from CAP.
  - CAP benefits are inequitable among farmers.

3.1 Budgetary pressures

- **The increase of budgetary costs**
- Costs of the CAP are a persistent source of political pressures to reduce the CAP.
- They led to an increase of the EU budget.
  - The total tax transfer to EU budget represented 0.77% of the nine EU members in 1980.
  - It represented 1.03% of the twelve EU members in 1989.

3.1 Budgetary pressures

- Several measures implemented to limit the budgetary costs of the CAP:
  - Milk marketing quotas.
  - Co-responsibility levies.
- => these measures failed to stop the rise of the budgetary costs of the CAP, making inexorable the reforms of 1992.
- The budgetary costs of the CAP are transfers: they are paid as taxes by certain groups in society and paid out or transferred to others.

3.1 Budgetary pressures

- Contributions made through direct national budgetary contributions and through import taxes.
- Revenues used to finance storage and subsidized disposal of surplus goods, but also for the new forms of agricultural support described below.
- Consequences:
  - The countries which import more agricultural products tend to give more revenues to the EU.
  - There is a net transfer to countries with greater surpluses to store and export.

3.1 Budgetary pressures

- The following table describes contributions of EU countries in 2000 :
  - **Agriculture represents 46% of the EU budget** (34% for the structural funds).
  - Largest contributors : Germany (24.3%), France (16.9%), UK (14.3%), Italy (13%)
  - Largest net contributor : Germany with more than 9 billion euros transferred abroad.
  - Net contributors are France, Austria, the Netherlands and Sweden.
  - Main beneficiaries are Greece and Spain.

  => Some countries have asked more for a budgetary reform than others !

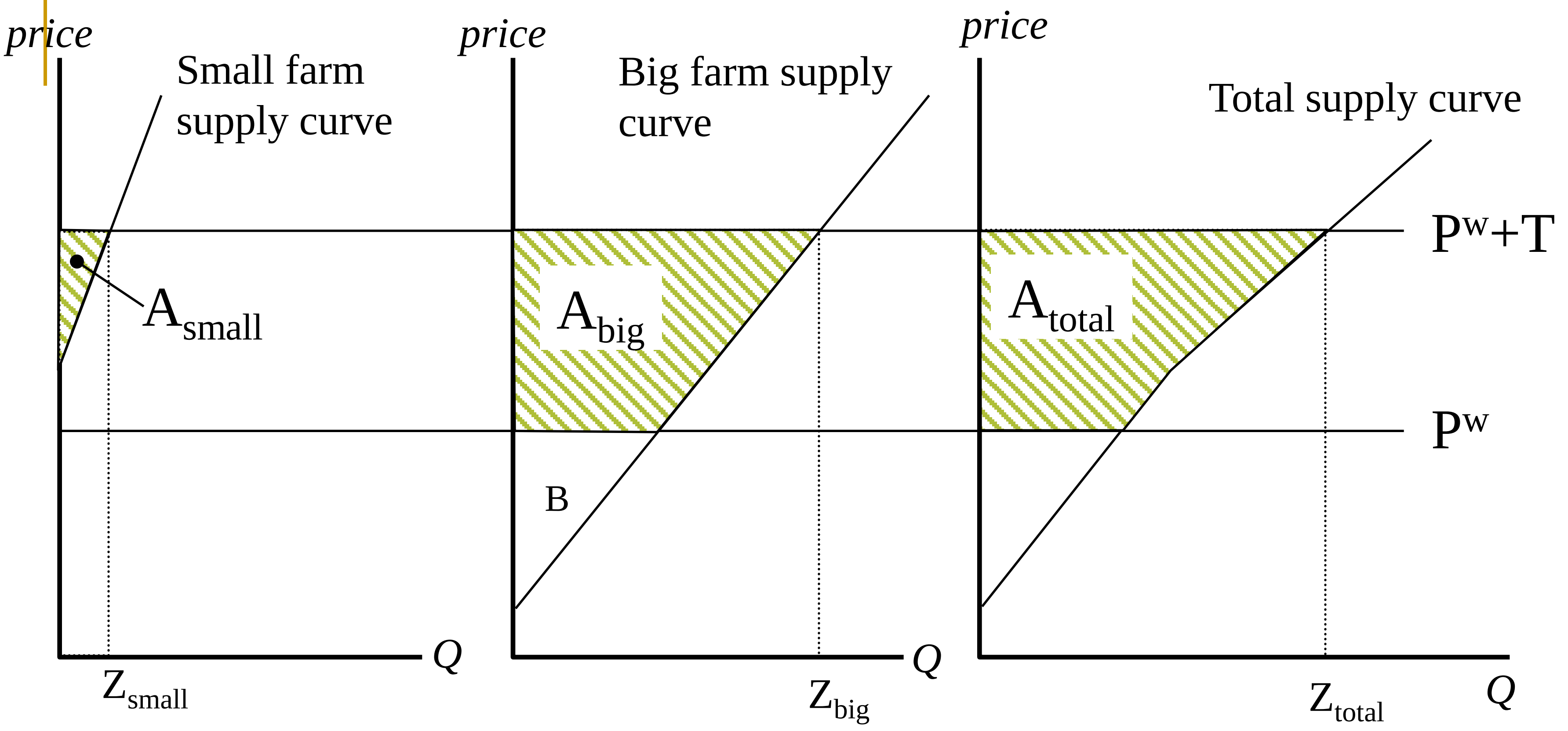
Country	Contribution as % of total budget	Net budget. position (bil euros)
Austria	2.4	-0.6
Belgium	3.9	-0.4
Denmark	2.0	0.2
Finland	1.5	0.3
France	16.9	-1.4
Germany	24.3	-9.6
Greece	1.7	4.4
Ireland	1.3	1.7
Italy	13.0	0.7
Luxembourg	0.2	-0.2
Netherlands	6.5	-1.7
Portugal	1.5	2.2
Spain	7.8	5.1
Sweden	2.7	-1.0
UK	14.3	-3.8

3.1 Budgetary pressures

- The second objective of the CAP was "to ensure a fair standard of living for the agricultural community"
- **Problem : CAP benefits very inequitable between farmers**
  - CAP ensures a very high standard of living for a few farmers…
  - …while many farmers only receive a small part of the whole aids.
- Why ?

3.1 Budgetary pressures

- Let's consider two farms : a small one and a big one (more cost efficient).
- The following graph represents the supply curve for each farm and for all farms
(supply curve shows marginal cost => a higher supply curve means a higher marginal cost at any level of output for the small farm).
- World price : Pw
- With price intervention : Pw+T



price
Small farm
supply curve
A small
Z small
Q
price
Big farm supply
curve
A big
B
Z big
Q
price
Total supply curve
A total
Z total
Q
P W+T
P W

3.1 Budgetary pressures

- <u>Consequences :</u>
  - Production :
    - For the small farm : Zsmall
    - For the big farm : Zbig
    - Total production : Zall
  - Producer surplus :
    - For the small farm : Asmall. Gain : Asmall
    - For the big farm : Abig+B. Gain : Abig

    => The gain generated by the price intervention is unevenly distributed

    => Price intervention helps all farmers but most gains go to large farmers who tend to be richer than small farmers.

3.1 Budgetary pressures

- **Some figures on how inequitable the CAP benefits were:**
- 20% of the farmers received 80% of the CAP benefits (European Commission, 1994).
- Consequence:
  - In 1987, the EU12 had 6.9 million farms and spent 23 billion euros for the CAP.
  - The 20-80 breakdown:
    - 18.4 billion euros was given to 1.38 million farms => i.e. 13 333 euros per farm.
    - 4.6 billion euros was given to 5.52 million farms => i.e. 833 euros per farm.
  - => for the majority of farms, the CAP was therefore peanuts.
  - => it explains why most farmers strongly protested against any cuts in CAP spending.

3.1 Budgetary pressures

- **The vast majority of farms are still relatively small:** (European Commission, 2013):
  - 12 million farmers
  - The average EU farmer has 15 hectares of land.
  - 70% of farms are smaller than 5 hectares.

  - **Comparison with the US:**
  - US has 2 million farmers and an average farm size of about 180 hectares.

3.1 Budgetary pressures

- In England :
  - 24 525 beneficiaries of CAP payments in 2004 : 16% go to the top 20, 50% to the top 2000.
  - The Queen and the Prince Charles receive more than 1.5 million euros in 2003 and 2004.
  - The Duke of Westminster (net worth 7 billion euros) receive 1.5 million euros in 2003 and 2004.

3.2 Pressures from consumers

- Demonstrated above:
  - Reduction of the consumer surplus with the CAP.
  - Reduction of the consumer surplus > benefits in terms of budget and producer surplus.
- => Costs for consumers > Transfers
- Empirical estimations confirm this result.

3.2 Pressures from consumers

- **Estimation 1 : Roningen and Dixit (1989)**
- Estimations of benefits and costs of agricultural support for 1986.
  - All figures are in billion US dollars.
  - Net economic costs = consumer costs + taxpayer costs - economic benefits
  - Transfer ratio = (taxpayer costs + consumer costs) / producer benefits
- Importance of consumer costs in terms of higher food costs, almost equal to the producer benefits.

	EU	USA	Japan
Producer benefits	33.3	26.3	22.6
Consumer costs	32.6	6.0	27.7
Taxpayer costs	15.6	30.0	5.7
Net economic costs	14.9	9.2	8.6
Transfer ratio	1.5	1.4	1.5

3.2 Pressures from consumers

- **Estimation 2 : Messerlin (2004)**
- 17 000 euros per year transferred on average to each French farmer.
- **Estimation 3 : British Government (2005)**
- Average cost imposed on a EU family with four members to support the CAP : 900 euros per year
  - 500 euros through higher prices.
  - 400 euros through taxes.
- **Estimation 4 : Saint-Paul (2007)**
- 120 billion euros per year transferred from consumers to farmers => average cost of 1000 euros for a family with four members

3.2 Pressures from consumers

- **Problem with the CAP:** it transfers funds from the poorest members of the society to some people who are rather rich.

- Even more: high food prices hit poor consumers harder than they hit rich consumers.
- Why? The fraction of the income of poor people that is spent on food is higher than the fraction for rich people.

3.2 Pressures from consumers

- In spite of all these arguments, the consumers have not objected against the CAP.
- **Why?**
- **2 reasons**
- **Reason 1** : the political lobby for consumers' interests has not developed the same weight of influence than farmer and agro-industry lobbies.

3.2 Pressures from consumers

- **Reason 2** : consumers were happy with the CAP - at least at the beginning - for 3 reasons:

  - High increase of average income in the 50s and the 60s;
  - Memory of food rationing during the WWII and just after;
  - Great empathy with farmers: family links, symbolic importance of the rural life.

- => Economists – not consumers – have asked for a CAP reform because of the excessive cost for non-farmers (consumers and taxpayers).

3.3 External pressures : the problem

- Increase of trade distortion with the incorporation of new EU member states in the 70s and the 80s.
- => switch for these new members of a large part of their agricultural imports from non-members to members.

	Wheat (mil tons)	Other cereals (mil tons)	Butter (thd tons)	Beef and veal (thd tons)
EU 9 in 1977	+0.9	-20.8	+140	-210
EU 12 in 1991	+21.9	+7.4	+275	+804

3.3 External pressures : the problem

- => increase of the EU exports between the 70s and the beginning of the 90s.
- => the EU switched from a position of net importer to net exporter for many products.
- => dissatisfaction of non-member exporters of agricultural products
  - With new membership, they lost some markets, as a consequence of the principle of community preference.
  - They have to face new intensified competition in other markets from the EC’s subsidized exports.

3.3 External pressures : the problem

- **The US dissatisfaction can be underlined by its change of position in GATT negotiations**:
  - It was at the US' insistence that agricultural policy was excluded from the GATT negotiations during decades.
  - During the Uruguay Round (1986-1994), the agriculture became the centerpiece of the negotiations, owing to the USA.
  - They stated that without a satisfactory solution on agricultural policy they would not sign an agreement.

3.3 External pressures : the negotiations

- **The US was then backed by the Cairns Group.**
- Who is the Cairns Group?
  - Agricultural exporting countries in favor of a total free trade for the agricultural products.
  - Australia, New Zealand, Canada, Argentina, Brazil, Chile, Indonesia, Thailand…

- In the process of negotiation that followed, two key ideas emerged:
  - Tariffication.
  - Decoupling.

3.3 External pressures : the negotiations

- **Tariffication :**
- Non-EU countries particularly unhappy by the existence of variable import taxes.

  => with such taxes, the reduction of world prices does not favor the exports to EU countries.
- Principle of tariffication: the expression of non-tariff barriers as tariff equivalents, and the combining of these with specific import tariffs to create single and fixed tariffs.
- Two consequences:
  - The replacement of variable tariffs by fixed tariffs (to avoid the problem of variable tariffs).
  - The creation of a single tariff (to allow an easier negotiation of the reduction of trade barriers).

3.3 External pressures : the negotiations

- **Decoupling :**

- Central issue: trade distortion

  => there is no fundamental reason for an international dispute if a country chooses to support its farmers with methods which do not cause supply to exceed competitive free trade levels.

- Such payments are decoupled from supply response and may therefore not be trade distorting.

- Propositions for the decoupling.

3.3 External pressures : the negotiations

- Signature of the “Blair House Accord” in November 1992 (a bilateral agreement between the EU and the USA).
- It formed the basis of the final GATT Agreement.
- It opened the way for the USA to approve the Mac Sharry Reforms in 1992, applied for the CAP.
- The Uruguay Round Agreement (URA) was finally concluded in 1994, with the Mac Sharry Reforms accepted as the basis for honoring the EU’s commitments.

3.3 External pressures : the negotiations

- **EU's commitments:**
  - The reduction of all trade-distorting measures by 20%.
  - The reduction of existing and new tariffs by 36% on average, and of tariffs by at least 15% for each item.
  - The reduction of expenses on export subsidies by 36% and on the volume of subsidized exports by 21%.

3.4 Environmental pressures

- With the intensification of the agricultural production, several concerns appear on the negative effects of this production on environment:
  - Use of inorganic fertilizer => high nitrate and phosphate levels in rivers and lakes.
  - Increase of field sizes => remove of small woodlands and trees, resulting in a loss of wildlife.
- => requests from some environmental pressure groups for agricultural policy reform.

3.4 Environmental pressures

- Green paper by the European Commission in 1984 on "Perspectives for the Common Agricultural Policy":

  "A need for agricultural policy to take more account of environmental policy, both as regards the control of harmful practices, and the promotion of practices friendly to the environment".
- But no substantial measures for environment until the reforms of 1992.

4. The First Wave of Reforms: the introduction of supply-control mechanisms

- Several changes in the instruments and regulations of the CAP before the 80s.
- E.g. introduction of some measures to favor domestic consumption (subsidies to some consumers or some industrial users of food products during the 70s).
- First major changes to the CAP appeared only in the 80s with the introduction of three supply control mechanisms:
  - Marketing quotas.
  - Co-responsibility levies.
  - Budgetary stabilizers.

4. The First Wave of Reforms

- The introduction of these mechanisms is the end of unlimited price guarantees.
- New principle for the CAP: producer co-responsibility for surplus production:
  - If production exceeds a certain fixed level, action is implemented to ensure that a part of the cost of the additional surplus was borne by producers.

4. The First Wave of Reforms

- **Marketing quotas :**
- Introduced in 1984 and retained in the reforms of 1992.
- First implementation on EU dairy producers.
- Motivation : the structural surpluses of dairy products, the depressed world market, the increasing budgetary costs of milk support.
- First solution : the introduction of a system of maximum guaranteed thresholds

  => problem : the political cost.

4. The First Wave of Reforms

- Choice : to maintain the level of price support at its existing level + to adopt a system of marketing quotas made effective by charging a very high tax on excess deliveries beyond the quota.
- Mechanism :
  - Each country was allocated a national quota (i.e. a reference quantity) set equal to their 1981 milk production levels plus 1%.
  - Quotas were then allocated to individual farmers, again on the basis of their historical production levels.

4. The First Wave of Reforms

- Why did the EU decide to implement milk quotas rather than a reduction of the price floor for dairy products ?

- Two answers :
- (1) more weight for the farmers' interests in the decision-making process than the consumers' interests.
  - Preference for a measure minimizing the negative impact on farmers.
- (2) CAP decision-makers preferred a measure guaranteeing a limit to the production
  - Special worry about excess production.

4. The First Wave of Reforms

- **Milk quotas in practice :**
- Reduction of the production from 103.7 million tons iin 1984 to 96 million tons in 1992.
- System successful by reducing the budgetary costs of the milk regime.
  - Success made possible owing to the way the milk is marketed:
  - All milk is sold from farms to a relatively small number of processing plants.
  - This bottleneck in the marketing chain allows the production to be monitored.
  - Quota would not be efficient for cereals, owing to the absence of an equivalent bottleneck.

4. The First Wave of Reforms

- For other agricultural products, the EU adopted two other types of supply control methods :
  - The co-responsibility levies.
  - The budgetary stabilizers.
- Both methods expected to control the output and the budgetary cost.
- But less successful than the quotas for dairy products.
- Reason : harder to monitor the individual levels of production.

5. The Second Wave of Reforms: the Mac Sharry Reforms in 1992-1993

- Main cause : the international trade negotiations and the pressures from other agricultural exporting countries.
- What is the contents ?
- 1. Reduction in the level of support (-29% for cereals, -15% for beef)
- Consequences :
  - A benefit for consumers (assuming that the reduction of the price support is transferred in the form of lower food prices).
  - A benefit in terms of a reduction of the budgetary cost.
  - A loss in producer surplus for farmers.

5. The Second Wave of Reforms

- 2. To offset farmers for their potential loss in income, EU decision to give direct payments to farmers, if they accept limits on the use of inputs.
  - For livestock producers (e.g. pork breeders) : compensation payments are limited to a fixed number of animals.
  - For arable producers (e.g. cereals farmers) : compensation is paid if a farmer agrees to set aside a proportion of his arable land.

5. The Second Wave of Reforms

- Main consequence of the Mac Sharry reforms : a move towards decoupled farm income support.
- Mechanism :
  - By partly replacing price support with direct income payments, the relationship between the amount of support received and the amount of output produced has been weakened.
- Changes in practice :
  - The introduction of direct income payments.
  - The reduction of price floors.
  - A set of so-called "accompanying measures" was introduced to encourage farm forestry and farmer retirement, and to generalize agro-environmental policies.

6. The Third Wave of Reforms: the Agenda 2000 Reforms

- Mac Sharry Reforms were expected to run until 1999.
- A new package of reforms was then proposed in 2000 : the Agenda 2000.
- Amplification of the Mac Sharry Reforms : further reduction of the price floors and compensation of farmers for part of the loss by increasing direct income payments.
- It divides the CAP into 2 “pillars”:
  - Production support (original one).
  - Rural development : environment, rural development, support for young farmers.

6. The Third Wave of Reforms

- Measures of the Agenda 2000 :
  - Reduction of price floors (cereals, beef).
  - No change in the dairy regime:
    - The milk quota was extended until 2006, while some regions were granted small increases in their quota.
    - No cut until 2005 for the price floors for dairy products.
  - Changes in favor of environmental objectives:
    - New requirements for members to take appropriate environmental measures by strengthening the environmental criteria for direct support payments.

6. The Third Wave of Reforms

- Breakdown of CAP budget according to categories of expenses :
  - In the 2000 budget: 40.9 billion euros spent for agriculture.
  - 3 categories of expenses on agriculture:
    - Market interventions : expenses to support EU farm prices through intervention purchases, storage and export subsidies.
      12% of the total EU budget.
    - Direct payments : subsidies per hectare or per animal.
      30% of the total EU budget.
    - Rural development expenses : various programs.
      5% of the total EU budget.

6. The Third Wave of Reforms

- **The 2003 Reform**

- Fundamental reform of the CAP : the vast majority of subsidies to be paid independently from the volume of production.

- => Higher level of decoupling.

6. The Third Wave of Reforms

- **New elements of the 2003 Reform :**
  - 1. **A single farm payment** for EU farmers, independent from production.
    - Limited coupled elements may be maintained to avoid abandonment of production.
    - The single farm payment was implemented at various dates (2006 for France).
  - 2. This payment is linked to the respect of environmental, food safety, animal welfare standards.
  - 3. A strengthened rural development policy with new measures to promote the environment, quality and animal welfare, and to help farmers to meet EU production standards.
  - 4. A reduction in direct payments for bigger farms to finance the new rural development policy.

6. The Third Wave of Reforms

- Inclusion in these reforms of the concept of multifunctionality.
- What is multifunctionality ?
  - Farmers do not only produce agricultural goods but also services.
    - By being the "custodians" of the countryside.
    - By being the guardians of rural cultural traditions.

  => there are externalities to the production of agricultural goods.

  => if these services could be priced and sold separately, then farmers would be remunerated for them through normal market activity.

  => as it is not the case, transfers to farmers must take these externalities into account.

7. The Reform of 2013: CAP today

- **CAP reform of 2013 will apply for 2014-2020.**
- Debate initiated by the European Commission in 2010.
- The Commission launched CAP reform process with a large public debate on the future of CAP in 2010.
- Their motivation was to make different parts of society participate to the debate.
- "The Common Agricultural Policy is not just a matter for experts. It's a policy for Europeans." (Commissioner Ciolos).

7. The Reform of 2013

- It states that **the future CAP will have 3 priorities**:
  - **Viable food production**: to contribute to farm incomes, to improve the competitiveness of the agricultural sector.
  - **Sustainable management of natural resources and climate action**: to secure the enhanced provision of environmental public goods, to foster green growth through innovation, to pursue climate change mitigation.
  - **Balanced territorial development:** to support rural employment and maintain the social fabric of rural areas.

7. The Reform of 2013

- It proposes a new design of direct payments.

- **More equitable:** proposition to reduce the discrepancies between the levels of payments between farms, regions and countries. One uniform payment per hectare by 2019.
- **« Greening » :** proposition to spend 30% of direct payments specifically for the improved use of natural resources.
- **Young farmers:** to attract young people (under 40 years) into the farming business, proposition to give an additional payment for the first 5 years of installation.

7. The Reform of 2013

- The CAP budget is divided in 3 parts:
- **1. Income support for farmers and assistance for complying with sustainable agricultural practices (70% of CAP budget)**
- Farmers receive direct payments, provided they respect standards related to food safety, environment and animal welfare.
- 30% of direct payments are linked to good practices.

7. The Reform of 2013

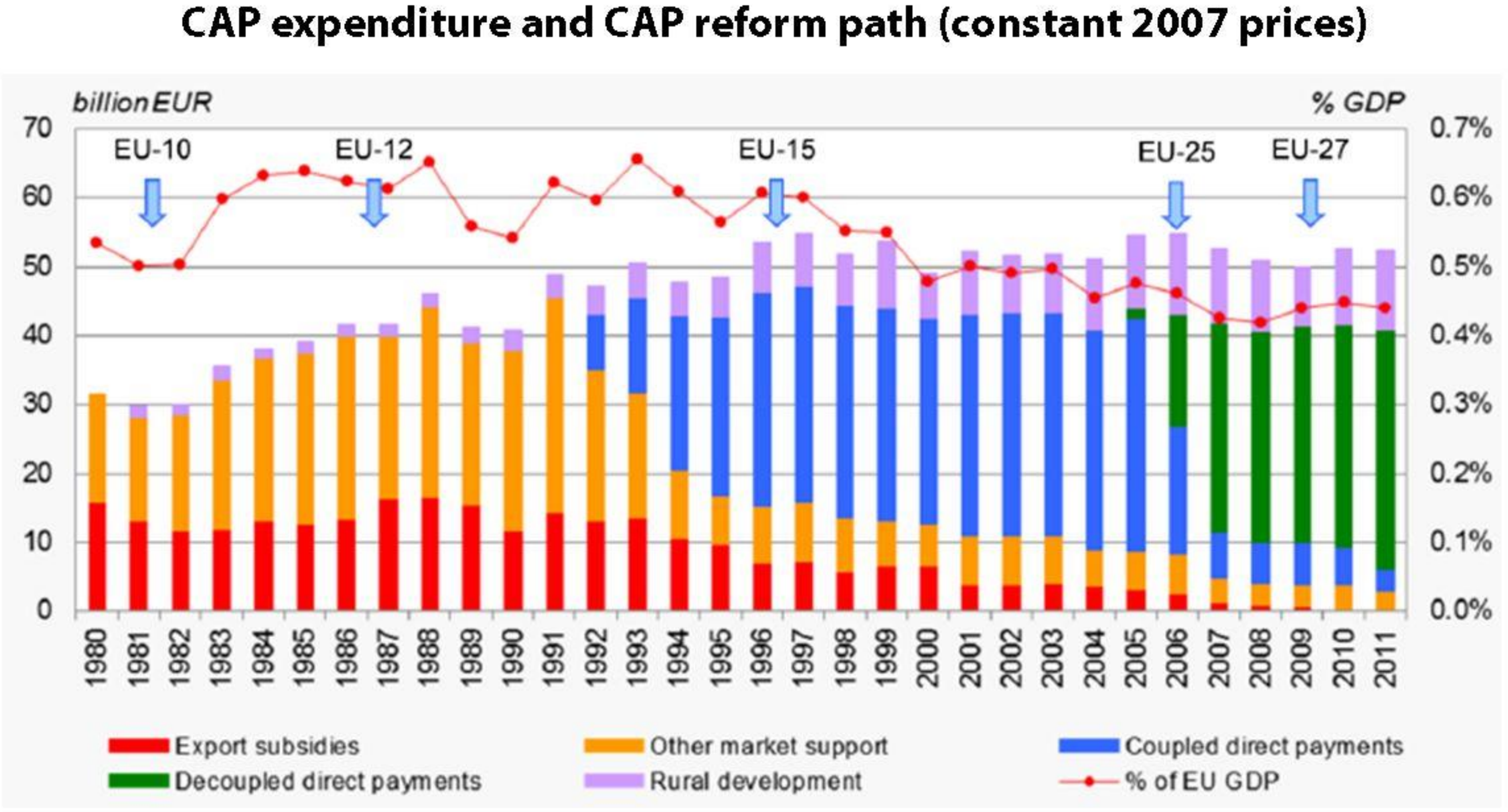
- **2. Market-support measures (10% of CAP budget)**
- Safety nets to prevent an economic, health or weather-related crisis which would destabilize markets.
- They include buying in to public intervention (national agencies withdraw surplus produce from the market) and private storage aid (to stabilize markets).

7. The Reform of 2013

- **3. Rural development measures (20% of CAP budget)**
- Intended to help farmers modernize their farms, become more competitive, and to protect the environment and contribute to the vitality of rural communities.

- The 3 parts are interrelated: direct payments give stable income to farmers, while rural development measures give them incentives to modernize farms.

Evolution of policy and spending



Source: CAP post-2013: Key graphs and figures, European Commission, March 2013.

7. The Reform of 2013

- **CAP represents now around 40% of EU budget.**
- So the share of the EU budget devoted to CAP is high…
  - …but it was much higher before reforms implemented in the last decades (72% in 1984 while the number of farmers has doubled with the enlargements).

- And we have to remember that:
  - CAP is one of the few areas where one common policy is financed by the EU.
  - CAP expenditures represent less than 1% of all public expenditures in all EU countries. By comparison, EU countries spend three times more on defense.

8. CAP and the enlargement

- **Important effects of the 2004 enlargement on the EU agricultural industry.**
- Reason :
  - The new members have an abundant quantity of land which is well suited to produce the products that the CAP supports the most : dairy products, beef, wheat, sugar.
  - A much larger fraction of population in the new members are farmers : increase of the number of EU farmers from 7 to 11 million.

8. CAP and the enlargement

	Farmland (mil ha)	% of total empl.	% of agric. in GDP
Czech Rep.	4.3	4.9	3.4
Estonia	0.9	7.1	4.7
Hungary	5.9	6.1	1.9
Latvia	2.5	15.1	4.0
Lithuania	3.5	16.5	6.9
Poland	18.2	19.2	2.9
Slovakia	0.4	6.3	4.1
Slovenia	0.5	9.9	2.9
New members	**38.3**	**-**	**-**
EU15	**128.3**	**4.3**	**2.0**
EU25	166.6	5.0	1.6
Romania	14.3	32.6	8.1
Bulgaria	5.3	10.7	11.8

8. CAP and the enlargement

- Share of employment in agriculture higher in new members (Poland, Romania, Lithuania).
- Share of agriculture in GDP not significantly higher.

  => lower productivity of workers in agriculture in the new members.
- Very high surface for farmland in new members (30% of the EU15 farmland), especially for Poland and Romania.

8. CAP and the enlargement

	Increase of agric. GDP (in %)	Increase of agric. employm (in %)
EU6 to EU9	19	17
EU9 to EU12	32	54
EU12 to EU15	3	5
EU15 to EU25	54	134

- Very high increase with this enlargement of the agricultural employment and of the agricultural GDP.
- Not in accordance with the long-term trends of the CAP (reduction of production, employment, surface for agriculture).

8. CAP and the enlargement

- **Measure 1 : The direct payments** :
  - Direct payments are granted to farmers in the EU15 following the cuts of price supports of the reforms in 1992 and from the Agenda 2000.
  - As they are part of the *acquis communautaire* of the CAP, the new members can be excluded from these direct payments.

8. CAP and the enlargement

- But several arguments not to give the same payments to farmers from new members than to farmers from EU15:

  1. To receive the full direct payments would slow down the process of restructuring for new members.
     - No incentives to hamper modernization.
     - Freezing of the existing structures.

  2. To result in income disparities in the rural communities.

  3. These payments were historically implemented to counterbalance the reduction of the price floors.

  4. The high budgetary cost of these payments (farmers represent a higher proportion of total employment in new members than in EU15).

8. CAP and the enlargement

- Solution : the European Commission proposed starting direct payments at a low level combined with intensified support for restructuring, in particular with the rural development actions.
- Agreement at the Copenhagen Summit (December 2002):
  - In a first step, direct payments are introduced in the new members at a level of 25% of the current EU system.
  - They rise to 30% in 2005, 35% in 2006, 40% in 2007 and then 10% more every year until the full payments in 2013.
- One more argument : the European Commission argued that it takes at least 5 years for the effects of the EU programs to be felt, and at least 10 years for their full impact to be seen.

8. CAP and the enlargement

- **Measure 2 : the production quotas**
- The European Commission proposed to determine production supply management instruments, such as quotas, on the basis of the most recent historical reference periods, i.e. from 1995 to 1999.
- Specific problems taken into account (Russian crisis, climatic conditions)

9. Conclusion

- **Major reforms have been implemented for the CAP in the last 20 years.**

- They partly solved the main problems resulting from the CAP :
  - Costs for EU budget.
  - Costs for consumers.
  - Costs for other countries with trade distortions.

9. Conclusion

- **In the past, political pressures in favor of the farmers in many EU countries.**
- But **this situation changes for 2 reasons**.

  - There are fewer and fewer farmers and sons of farmers => reduction of the political weight of farmers.
    Evolution of number of farms:
    In 1966: France: 1.71 mil, Germany: 1.25 mil, Italy: 2.98 mil
    In 2010: France: 0.51 mil, Germany: 0.30 mil, Italy: 1.62 mil

  - New dangers in connection to environment and recent problems (e.g. mad cow disease)

9. Conclusion

- **What is today the cost of CAP following the reform?**
- (European Commission, 2015)
- **The CAP costs each EU citizen around 30 cents a day (i.e. 100 euros per year).**

- Does it worth the cost to guarantee a secure supply of affordable food?
- Make your own opinion!

What Europeans think of the CAP

- Eurobarometer (Survey in November and December 2015).
- About 1000 face-to-face interviews in each of the 28 EU countries (total: 27,822 interviews).

- **Main conclusions:**
- 1. A growing majority of Europeans consider **agriculture and rural areas as important for the future**, with 94% of respondents holding this view (90% in 2009).
- It ranges from 89% in Latvia to 99% in Luxembourg (93% in the Czech Republic and 95% in France).

What Europeans think of the CAP

- 2. The majority of Europeans consider all of the listed priorities of the CAP to be important, with two priorities mentioned more often as being "very important": **investing in rural areas to stimulate economic growth and job creation** (47%), and **strengthening the farmer's role in the food chain** (45%).

What Europeans think of the CAP

- 3. An increasing number of Europeans have **heard about the support the EU gives farmers** through the CAP since the last survey (69%, +5 since 2013).
- Large differences across countries: from 47% in Italy to 95% in Sweden (73% in the Czech Republic, 76% in France).

What Europeans think of the CAP

- 4. **45% of Europeans would like to see an increase in the EU financial support for farmers** over the next ten years (39% in 2009, 29% in 2007).
- 13% want a decrease, 29% want no change.
- (Czech Republic: 49% for an increase, 11% for a decrease, 28% for no change)

Thanks for your attention.