COMMON AGRICULTURAL POLICY GLOSSARY OF THE EUROPEAN UNION

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Glossary*

The Common Agricultural Policy (CAP) is a set of measures and programmes for the subsidisation of farming in the EU. The object of the policy is to assure reasonable prices and acceptable quality for farm products for European consumers, satisfactory levels of income for EU farmers, and the preservation of the rural heritage. The CAP is one of the most important policies implemented by the EU, and it accounts for the spending of almost half of the Union's budget.

The application of the Common Agricultural Policy started in the late 1950s and early 1960s. The Treaty of Rome set the general framework for the CAP, and the principles of it were defined at the Stresa Conference (in Italy). It came to life in 1962 after the six original founders of the Community accepted it. Up to then, these countries had greatly intervened in their agricultures, particularly in the choice of what to produce, under what conditions, and what the prices of farm products would be. Such individual interventions jeopardised the free exchange of goods within the Community. Since some countries, France in particular, were supporting the continuation of strong intervention, the only solution was to transfer intervention measures to the level of the Community and then to harmonise them.

The objectives of the CAP were thus defined according to Article 33 of the Treaty of Rome:

- raising agricultural productivity by the promotion of technical progress, rational development of farm production and optimum use of production factors, particularly the labour force,
- ensuring a decent standard of living for the farm population, particularly raising the earnings of individual farmers,
- market stabilisation,
- security of supplies on the market,
- provision of farm products at reasonable prices for consumers.

The three principles on which the CAP is based are: 1) a single market; 2) Union preference; 2) financial solidarity.

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1) A single market has two meanings:

- for farm products, the application of the rules of free trade in goods among the member states,
- determination of joint prices and aid, irrespective of the principal place of business of the economic agent. Proper application of this principle requires a common regulation of prices, of payment of aid and rules of competition, the harmonisation of regulations about health insurance and administrative procedures, and a common foreign trade policy.

2) Union preference. Activities in two pillars are ensured by this principle:

- union agricultural products are given preference over imported products,
- protection of the internal market from distortions brought about by the uncontrolled import of low-priced farm products, and from upsets on the world market.

3) Financial solidarity. Costs that derive from application of the CAP have to be divided equally among all the member states, irrespective of their national interests.

The CAP consists of a set of rules and mechanisms that govern the production, sale and processing of farm products in the EU, with a special emphasis on the development of rural areas, and on the whole they include price support, direct subsidies to farmers and control of the supply.

The objectives set up have been successfully met by the CAP; production has been increased, productivity improved, the internal market has been stabilised, distribution to the customer has been ensured, and protection of producers from disturbances on the world market has been improved. Above all, production has greatly outstripped demand, leading to the creation of vast commodity surpluses, and levies for support to agriculture have risen exponentially. Thus, in more recent time, the CAP has undergone several forms.

The current system is the consequence of two key reforms of the CAP. The first began in 1992, and the second was carried out as part of Agenda 2000.

In 1991 the European Commission put forward proposals for a debate on the development and reform of the CAP. The proposals were the basis for a political agreement about reforms adopted on May 21, 1992. This reform actually marked a watershed in the development of the CAP, with a change in aid from price support to direct payments. It was expected that the prices of farm and food products would be reduced, for them to become competitive on the internal and world markets, and the reduced profits of farmers were compensated by direct payments. In addition to this, the reform brought in additional measures for governing the market and protecting the environment. The reform was named after the then commissioner for agriculture, Ray MacSharry.

The 1992 was considered a success. But the changes in the years to come (international trends, the enlargement of the Union and the process of including the countries of Central and Eastern Europe, the introduction of the common currency, the increased competitiveness of third country products and the new round of talks in the WTO) forced the Union to make new changes in the CAP.

In response to the expected enlargement, in July 1997, the Commission proposed a CAP reform within the context of Agenda 2000 – a projection of the development of the agriculture of the Union in the

2000-2006 period. Agenda 2000 was the most radical and sweeping reform in the history of the CAP. The foundations of it lay in the process started in 1992, the foundation for the development of EU farm development. Agenda 2000 divided the CAP into two pillars: production support and rural development. The price reductions started in the 1992 reform were continued, and direct payments to farmers were increased. In addition, a number of measures aimed at rural development were passed.

To be more precise, this reform provided for:

- increasing the competitiveness of farm products on the internal (European) market,
- enabling persons who lived from agriculture to have a decent standard of living,
- the creation of other jobs and other sources of income for farmers,
- the devising of a new rural development policy, to become the second pillar of the CAP,
- the implementation of an ecological way of thinking about and structuring the CAP,
- improvement of food quality and safety,
- simplification of agricultural legislation and decentralisation of the administration in order for the rules to become clearer, more transparent and more easily enforced.

The CAP is financed with resources from the European Agricultural Guidance and Guarantee Fund, EAGGF, founded in 1962. However it was superseded in 2007 by two funds that are integral parts of the Union's budget: the European Agricultural Guarantee Fund, EAGF, from which direct payments to farmers and measures regulating the agricultural markets are financed, and the European Agricultural Fund for Rural Development, EAFRD, which provides funding for the rural development of the member states.

The recent enlargement of the EU almost doubled the labour force and the cultivable area, and added more than 100 million consumers to the internal market. The new member states can immediately start using the mechanism of supporting the prices of farm products, while direct payments made to farmers will be spread out over a ten year periods (2004-2014). But member countries have to meet many conditions related to the restructuring and modernisation of the agricultural sector. Since the member states have agreed that until 2013 there will be no real growth of the agricultural budget, support to the old member states will have to be reduced in order to finance support to the new members.

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