



# THE COMMON AGRICULTURAL POLICY EXPLAINED

Published by Eugène Leguen de Lacroix,  
European Commission Directorate General for  
Agriculture

Project coordinator: Isobel Maltby  
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# Foreword

And so more than a decade ago began our “Long March” away from support for over-production towards a market-oriented, environmentally-friendly CAP geared to efficient and sustainable farming. Following the Agenda 2000 reforms, the radical overhaul of the CAP in 2003 was just the next logical step towards a policy that supports not just farming, but the long-term livelihood of our rural areas as a whole.

Today’s agricultural policy is barely recognisable. Not only has the CAP been vastly simplified with the amalgamation of an array of different direct payment schemes into a single farm payment, it is also a more efficient mechanism, meeting more objectives at a lower cost. A policy that once ate up a massive two-thirds of the total EU budget now absorbs less than half, a figure that will be down to just one-third in ten years’ time. And whilst its cost might be lower, its scope is constantly widening following the introduction of a comprehensive rural development policy which supports the diversification, restructuring and evolution of rural areas and economies throughout the European Union.

Farm support too is now geared specifically to consumer concerns and public priorities. A far cry from

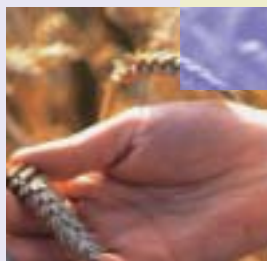
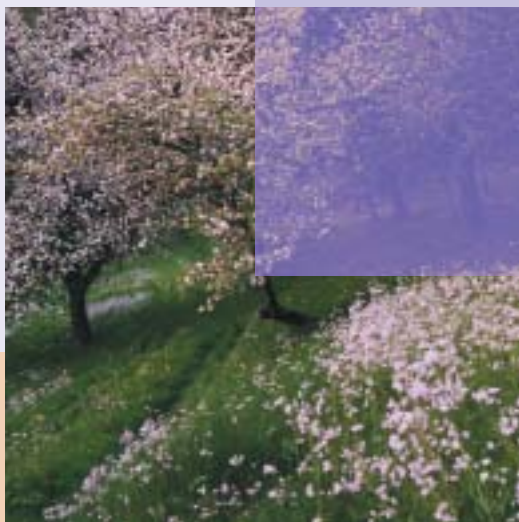
the policy that once offered subsidies in response to the quantity produced, CAP support is now dependent on meeting quality, environmental and food safety guarantees, in line with the priorities of the European public – our farmers finally have back the freedom to farm to market demand. And in removing the incentives to overproduce, our reforms have also made the CAP less trade-distorting and better able to take account of the needs of developing countries.

In the last decade we have had, if not exactly a green revolution, at least a green evolution in agricultural policy. Consumers and taxpayers have different demands today than when the CAP began. 91 % of EU citizens think it is a core activity of the common agricultural policy to guarantee safe food. 89 % consider environmental protection to be another key function. The new, reformed common agricultural policy has clearly taken these new consumer demands on board and we now have a firm basis for preserving our rural heritage, producing the agricultural goods demanded whilst ensuring our position in the global marketplace.

In the past ten years scarcely a stone has been left unturned in the EU’s common agricultural policy (CAP).

In the pre-1990s period the CAP was based on certain key objectives, notably the desire to guarantee self-sufficiency in basic foodstuffs in response to post-war food shortages. The result was a rigid, production-oriented subsidy policy which lived on into the 1990s, by which time the CAP had well and truly become a victim of its own success. As the primary objective of producing more food was realised, unfortunate side-effects began to appear, such as the fabled beef and cereal mountains and trade distortions on the world market, particularly damaging to developing countries. These were accompanied by increasing concerns about the environmental impact of the CAP and, indirectly, health scares such as BSE. Consumers and taxpayers gradually began to lose confidence.

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# Introduction

**The geography of the European Union (EU) is predominantly rural and shaped by human occupation and activity. Its rural areas are very diverse since their natural environments have been shaped by various forms of farming and forestry and the crafts and industries associated with them.**

This brochure is intended to explain what the CAP is, why it exists, what it costs and how its shape has evolved. Above all it explains how today's CAP meets the needs of both farmers and society as a whole.

## **THE FEATURES OF EUROPEAN AGRICULTURE**

Agriculture and forestry, as major land users, play a key role in determining the health of rural economies as well as the rural landscape. Though agriculture may be less important to the economies of rural areas than it used to be, it still has a valuable contribution to make to their economic growth and environmental sustainability. EU agriculture is not one-dimensional as some may imagine. In fact, farmers perform many different functions ranging from food and fibre production to countryside management, nature conservation, and tourism. Farming can thus be described as having multiple functions.

- Europe has a modern and competitive farming sector occupying a leading position on world markets, both as a major exporter and the world's largest importer of food, mainly from developing countries;
- it has a sustainable, efficient farming sector, which uses safe, clean, environmentally-friendly production methods providing quality products to meet consumers' demands;
- the EU farming sector serves rural communities, reflecting their rich tradition and diversity; its role is not only to produce food but also to guarantee the survival of the countryside as a place to live, work and visit;
- Europe's agricultural policy is determined at EU level by the governments of Member States and operated by the Member States. It involves support for farmers' incomes while also encouraging them to produce high quality products demanded by the market and encouraging them to develop additional ways of improving their businesses in harmony with the environment.

# 1. The farmer's role



Amidst their many functions it should not be forgotten that farmers are businessmen and -women and, contrary to popular belief, farming is not a money-spinner. Farm profitability is low. Farmers work hard for relatively small rewards – it's a 24 hours a day, 7 days a week job for many farmers. If farming is not profitable then existing farmers will cease their activities, and young people may not be attracted into agriculture. This will mean the long-term decline of the industry and of rural areas.

Farmers' primary occupation is food production. To do this they employ time-honoured traditions that have been married to modern science and technology for the purpose of offering great food at an affordable price. This involves using a combination of traditional skills and knowledge (e.g. science, breeding techniques, machinery), allied to technical know-how and marketing talent. Farmers increasingly use information tech-

**Agriculture involves much more than the production of crops and animals for food consumption. The complexity of their profession requires farmers to play many roles. For most farmers it's a way of life too.**



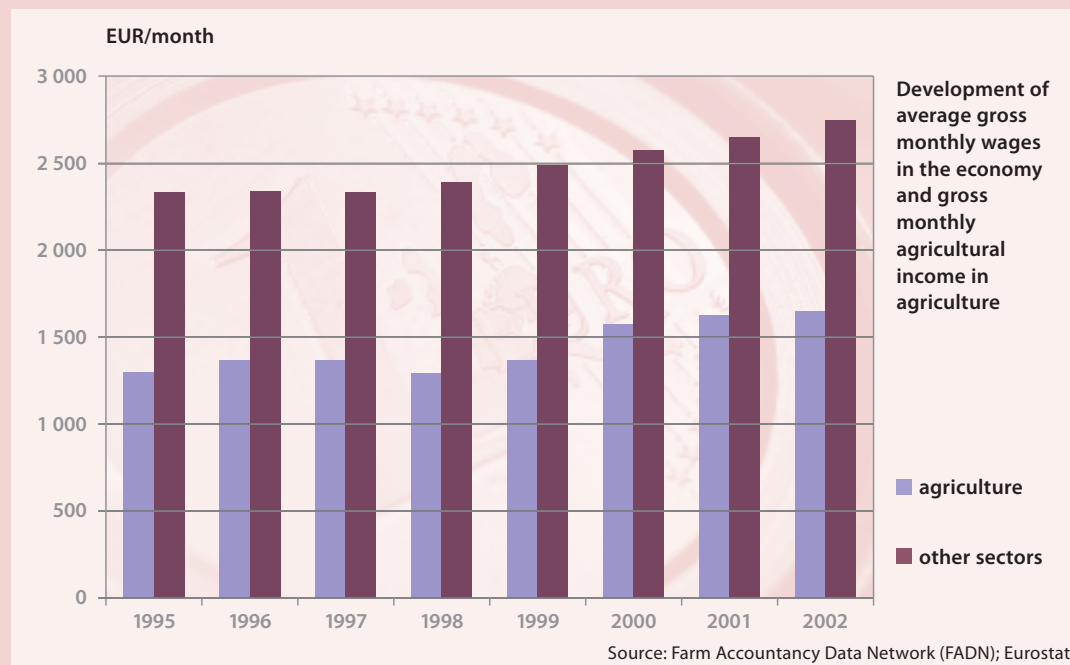
nology to aid their production and marketing efforts. To those attributes farmers must increasingly add land management and environmental expertise. In recent years they have been required to include food safety in a repertoire that already included animal health and welfare skills. It is doubtful whether any other occupation requires the practitioner to have such a broad range of abilities.

Most farms are small businesses, often family-run. They are an important local employer in many rural regions and major players in the rural world.

Farmers play a positive role in the maintenance of the countryside and the environment by working for secure and profitable futures for themselves and their families.

Farmers do not work alone. They are the first link in the food chain, sometimes processing their products on the farm, but more often selling them on to others who transform them into the food products consumers eventually find in the shops.

### FARM INCOMES ARE LOWER THAN THE POPULATION AVERAGE



# 2. A history of successful change



## THE ORIGINAL CAP

The CAP has its roots in 1950s western Europe, whose societies had been damaged by years of war, and where agriculture had been crippled and food supplies could not be guaranteed. The emphasis of the early CAP was on encouraging better productivity in the food chain, so that consumers had a stable supply of affordable food, but also to ensure that the EU had a viable agricultural sector. The CAP offered subsidies and guaranteed prices to farmers, providing incentives for them to produce. Financial assistance was provided for the restructuring of farming, for example by aiding farm investment, aiming to ensure that farms developed in size and in management and technology skills so that they were adapted to the economic and social climate of the day.

**The popular perception is that the CAP is a monolithic, unchanging policy created to part taxpayers from their money in order to reward a small group of people privileged enough to live in the countryside. In fact the CAP has always had, and continues to have, clear reasons to exist. And it has constantly evolved to reflect the changing needs of society rather than to respond to the demands of the farm lobby. The CAP of today is very different from the CAP of the 1960s.**



within the EU. These measures had a high budgetary cost, distorted some world markets, did not always serve the best interests of farmers and became unpopular with consumers and taxpayers. At the same time society became increasingly concerned about the environmental sustainability of agriculture, with the Rio Earth Summit<sup>1</sup> being a notable landmark in the early 1990s.

### **The CAP had to change ... and it did!**

#### **THE CAP OF TODAY**

Many important changes to the CAP were made in the 1990s. Production limits helped reduce surpluses and a new emphasis was placed on environmentally sound farming. Farmers had to look more to the market place, while receiving direct income aid, and to respond to the public's changing priorities.

This shift of emphasis included a major new element – a rural development policy encouraging many rural initiatives while also helping farmers to diversify, to improve their product marketing and to otherwise restructure their businesses. A ceiling was put on the budget to reassure taxpayers that CAP costs would not run out of control. In 2003 a further fundamental reform was agreed.

Farmers are no longer paid just to produce food. Today's CAP is demand driven. It takes consumers' and taxpayers' concerns fully into account, while giving EU farmers the freedom to produce what the market wants. In future, the vast majority of aid to farmers will be paid independently of what or how much they produce. In

the past, the more farmers produced the more subsidy payments they received. Under the new system farmers will still receive direct income payments to maintain income stability, but the link to production has been severed. In addition, farmers will have to respect environmental, food safety and animal welfare standards. Farmers who fail to do this will face reductions in their direct payments (a condition known as 'cross-compliance'). Severing the link between subsidies and production (usually termed 'decoupling') will make EU farmers more competitive and market-oriented. They will be free to produce according to what is most profitable for them while still enjoying a desirable stability of income.

This series of reforms has now painted a clearer future for the CAP, making more apparent its value to all of society.



<sup>1</sup> United Nations Conference on Environment and Development (UNCED), Rio de Janeiro, 3-14 June 1992.

# 3. A record to be proud of



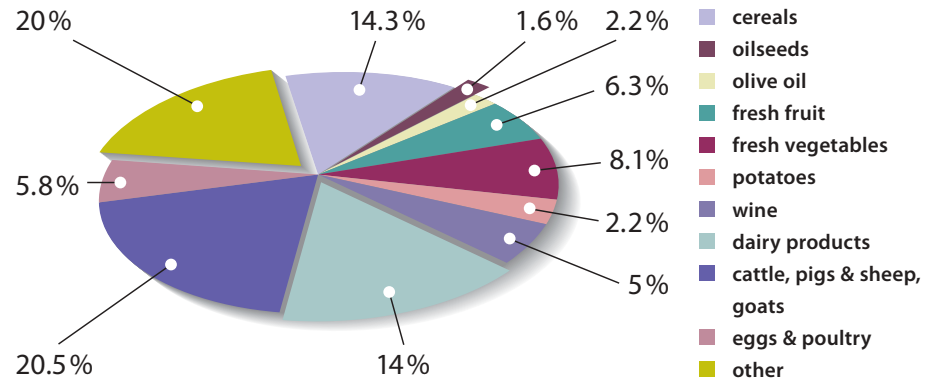
Improvements in farm efficiency and the incentives offered by the CAP led to a major increase in food production from the 1960s onwards. There were dramatic improvements in production and self-sufficiency levels. At the same time farm incomes rose, helped in many cases by growth in the size of farms, as some farmers left the industry and farms amalgamated.

## WE GROW NEARLY EVERYTHING

Geography and climate allow Europe to produce nearly all agricultural products. For several products Europe is considered as the world leader, for example in olive oil, meats, wines, whisky and other spirits. However, the EU is also a major importer of many different types of products.

These natural advantages, together with the CAP's benefits, led to rapid productivity improvements,

Main EU agricultural products (% share of production by value – 2002)



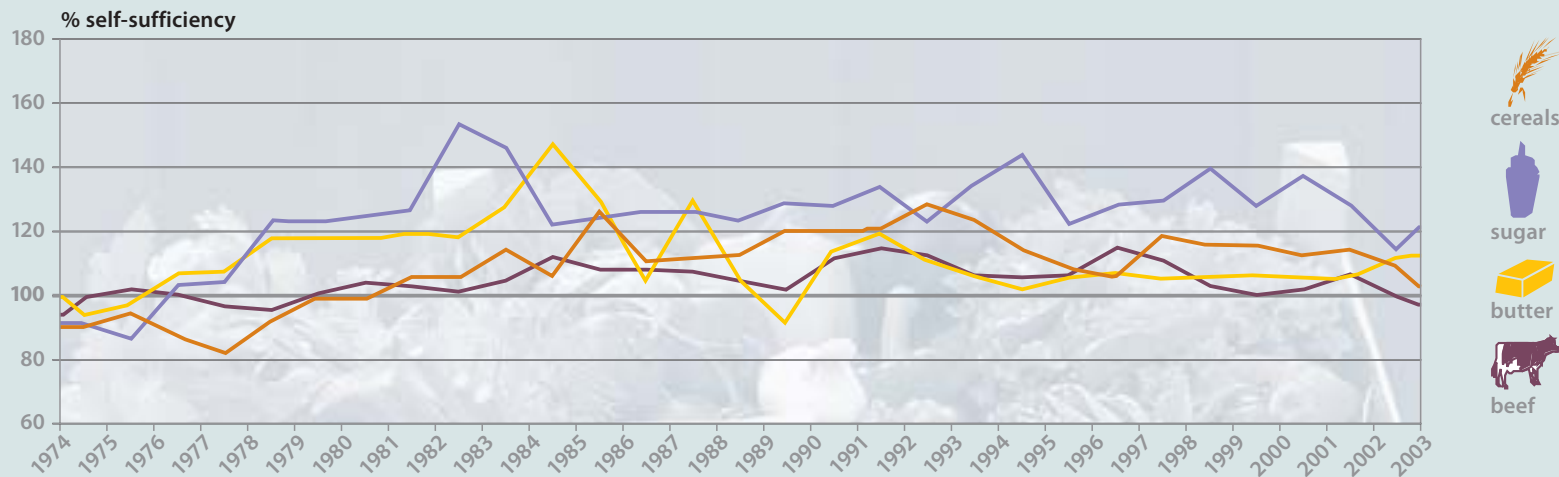
Source: European Commission

higher production, food security for most products and ultimately, to surpluses of many farm goods.

Surpluses had to be taken off the market to avoid a collapse of farmgate prices. This was achieved by subsidising product storage (the public intervention system) or by exporting products, with subsidies, to third countries.



### DEVELOPMENT OF SELF-SUFFICIENCY FOR CEREALS, SUGAR, BUTTER AND BEEF IN THE EU



Source: European Commission; Eurostat

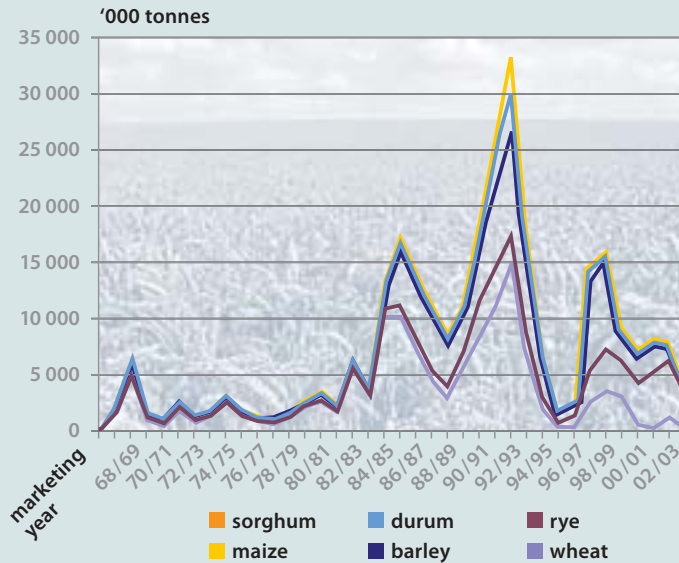
During the 1980s and 1990s the EU brought in policy measures to try to limit production of surplus products. A variety of measures was used (at first voluntary, then compulsory set-aside where farmers leave a percentage of their land uncultivated); fixed quotas on milk production, with penalties for overshoots; limits on the area of crops/numbers of animals for which a

farmer could claim subsidies. Gradually these policies succeeded and surpluses were reduced. CAP reforms in the 1990s, partly resulting from the World Trade Organisation (WTO) agreement of 1995, reduced the capacity of the EU to use export subsidies (i.e. to compensate exporters for exporting products at world market prices which were lower than EU prices).

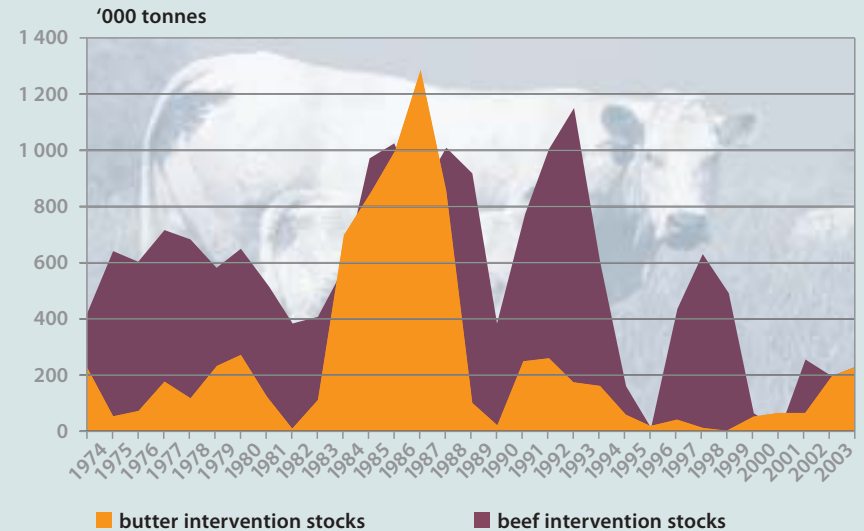
As a result of these policy initiatives the EU has reduced its use of export subsidies while at the same time maintaining and even increasing its agricultural exports.

### 'FOOD MOUNTAINS' NO LONGER EXIST

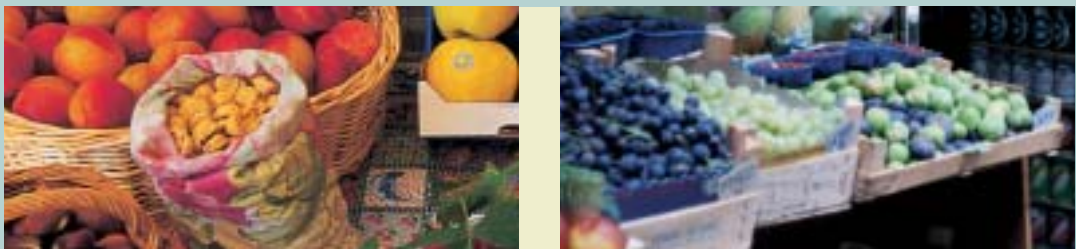
Development of public storage of cereals (Intervention stocks)



Development of public storage of beef and butter (Intervention stocks)



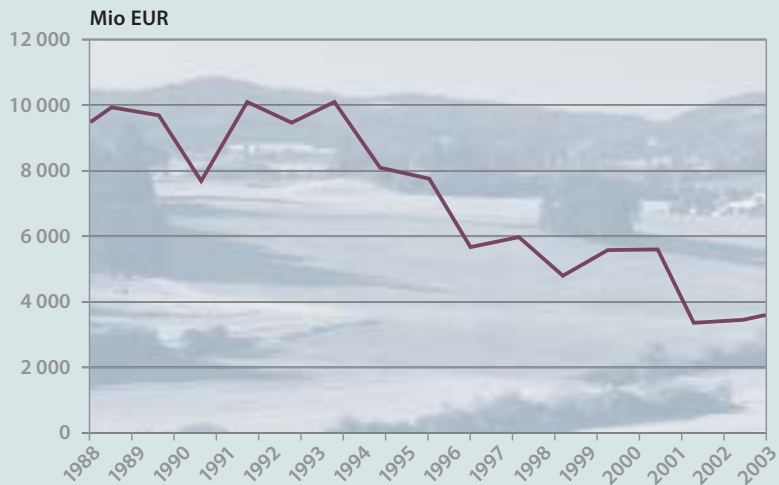
Source for both graphs: European Commission



© PhotoDisc

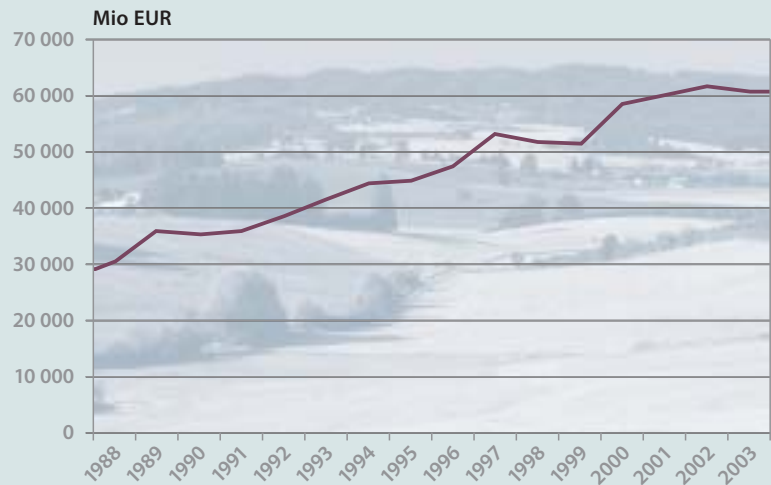
**AID FOR EXPORTS GOES DOWN BUT VALUE OF EXPORTS KEEPS RISING**

**Budget outlay for export refunds\***



Source: European Commission

**Export of agricultural goods\***



Source: Eurostat

\* (EU-12 1988 – 1994 / EU-15 from 1995)

# 4. Quality is a key to success



Europe is known for the diversity of its farming and its agricultural products, which derive from its natural environment and farming methods developed over centuries. Together with fine cookery, Europe's food and drink play a major role in the cultural identity of Europe's peoples and regions. High quality is EU agriculture's key advantage.

## HOW DOES THE EU ENCOURAGE BEST QUALITY FOOD PRODUCTION?

Europe has many different regions. The conditions for agricultural production vary. The different regions have specific production methods and culinary traditions. European and global consumers are showing an increasing interest in the qualities of these foods. The EU plays a major role in enhancing these high quality attributes.

The EU safeguards food quality in many ways, for example via measures to enhance food safety and hygiene, clear labelling rules, regulations on animal and plant health and animal welfare, control of pesticide residues and additives in food and via nutritional information. The EU approach includes strict monitoring and control systems, while ensuring the effective functioning of the European single market.





## A CONSTANT SEARCH FOR IMPROVEMENT

More and more consumers are prepared to pay for guaranteed quality, provided that they can see that they are receiving added value in return. In an EU single market of 454 million consumers, the CAP ensures that genuine products can be readily identified and that consumers are not misled by imitation products. Member States have the possibility to use policy measures under the CAP, including incentive payments, to

encourage farmers to participate voluntarily in EU or national schemes designed to improve and guarantee the quality of agricultural products.

Efforts to improve food quality have always been part of the CAP, going back to the development of wine quality labelling in the 1980s, and taken forward in the olive oil and fruit and vegetables sectors. They are now

a more central part of agricultural policy. In all areas of the CAP, efforts are being made to improve food quality. Examples of such measures are:

- beef cattle identification systems and meat labelling rules, designed to allow full traceability of meat from retail outlet back to the farm of origin;
- financial incentives available under rural development policy for farmers to improve product quality;
- specific encouragement for conversion to organic farming.





## SPECIAL PRODUCTS HAVE SPECIAL CHARACTERISTICS

The exceptional nature and quality of some products derives from both their place of production and the methods used to make them. Consumers and the food trade are increasingly interested in the geographical origin of food and other characteristics. The EU recognises this and has developed three 'quality logos'.

The logos for **Protected Designations of Origin** and **Protected Geographical Indications** (PDOs and PGIs) both apply to agricultural products or foodstuffs with a strong link to a specific region or place. A product that carries the PGI logo has a specific characteristic or reputation associating it with a given area, and at least one stage in the production process is carried out in that area. Examples are "Clare Island Salmon", "Arancia Rossa di Sicilia" and "Dortmunder Bier". The only foodstuffs which can bear those names and the PGI logo are salmon from Clare Island in Ireland, blood oranges from Sicily, and beer from the Dortmund area of Germany, that meet particular quality specifications.

A product bearing the PDO logo has proven characteristics which can result solely from the terrain and abilities of producers in the region of production with which it is associated. PDO products thus require all stages of the food production process to be carried out in the area concerned. Examples are "Huile d'olive de Nyons", "Queijo Serra da Estrela" and "Shetland lamb". In other words, only olive oil from a recognised area in the vicinity of Nyons in France, cheese from the designated area of Serra da Estrela in Portugal, and lamb from the Shetland Islands in the United Kingdom, meeting exacting requirements can qualify to use these names and the logo.

The **Traditional Speciality Guaranteed** (TSG) logo is used for products with distinctive features and which either have traditional ingredients or are made using traditional methods. Among the products in this group are "Kalakukko" bread, "Jamón Serrano" and "Kriek" beer. These have been registered by Finland,

Spain and Belgium respectively.

The advantages of protecting these quality indications are that they:

- offer guarantees for consumers about origin and methods of production;
- deliver effective marketing messages about high value-added products;
- underpin rural businesses producing quality products by protecting the label against unfair imitation.

By July 2004, the EU had registered nearly 700 geographical indications, designations of origin and traditional speciality guaranteed products. In addition, about 2000 geographical indications for wines and spirits originating in the EU and in third countries are protected on the EU market.

## ORGANIC AGRICULTURE

Organic farming is a production method that maintains soil structure and fertility, promotes a high standard of animal welfare, and avoids the use of synthetic pesticides, herbicides, chemical fertilisers, growth promoters such as hormones and antibiotics, or genetically modified organisms. Farmers use techniques that help sustain ecosystems and reduce pollution. Only a very limited number of additives and processing aids can be used in organic food processing.

EU rules guarantee the authenticity of organic farming products wherever they are produced and ensure that the labelling of organic products is accurate. By law the use of the word 'organic', and its equivalent in

other languages, on foodstuffs is reserved solely for products of organic farming. This gives guarantees to consumers about the quality and reliability of the organic produce they buy.

EU organic agriculture is one of the most dynamic sectors, accounting in 2002 for an estimated 4.4 million hectares (3.3% of total agricultural area) on 150 000 holdings. Many farmers have joined schemes to encourage them to convert farmland to organic production under EU rural development programmes.

Increased consumer awareness of food production methods and environmental concerns have contributed to the rapid growth of organic farming.

The EU **organic logo** below is available for organic farmers and food producers to use on a voluntary basis. It signifies that:

- at least 95 % of the product's ingredients have been organically produced;
- the product complies with the rules of the official inspection scheme;
- the product bears the name of the producer, the preparer or vendor and the name or code of the inspection body.



# 5. Taking care of the countryside



**Half of the EU's land is farmed. This fact alone highlights the importance of farming for the EU's natural environment. Farming and nature exercise a profound influence over each other. Farming has contributed over the centuries to creating and maintaining a variety of valuable semi-natural habitats. Today these shape the many landscapes throughout the EU and are home to a rich variety of wildlife.**

The links between the richness of the natural environment and farming practices are complex. While many valuable habitats in Europe are maintained by extensive farming, and a wide range of wild species rely on this for their survival, agricultural practices can also have an adverse impact on natural resources. Pollution of soil, water and air, fragmentation of habitats and loss of wildlife can be the result of inappropriate agricultural practices and land use. EU policies, and notably the CAP, are therefore increasingly aimed at heading off the risks of environmental degradation, while encouraging farmers to continue to play a positive role in the upkeep of the countryside and the environment.

Integration of environmental goals into agricultural policy began in the 1980s. Since then the CAP has been



increasingly adapted to sustainability goals. The CAP's objectives include helping agriculture to fulfil its multi-functional role in society: producing safe and healthy food, contributing to sustainable development of rural areas, and protecting and enhancing the status of the farmed environment and its biodiversity. It has also been important for the EU to establish common rules for the approval of genetically-modified organisms (GMOs) in agriculture.



## A cleaner environment

The EU tries to help the environment by:

- offering financial assistance to encourage change by, for example, reducing the numbers of animals per hectare of land, leaving field boundaries uncultivated, creating ponds or other features, or by planting trees and hedges and so going beyond conventional good farming methods;
- helping with the cost of nature conservation;
- insisting that farmers must respect environmental laws (and laws on public, animal and plant health) and look after their land properly if they wish to qualify for direct income payments.

## AGRI-ENVIRONMENT MEASURES

Agri-environment schemes have been supported by the EU since they were introduced in 1992. They encourage farmers to provide environmental services which go beyond following good agricultural practice and basic legal standards. Aids may be paid to farmers who sign up voluntarily to agri-environment commitments for a minimum period of five years. Longer periods may be set for certain types of commitment, depending on their environmental effects. It is obligatory for Member States to offer such agri-environment schemes to farmers. This illustrates the political priority attached to these schemes.

## Genetically-modified organisms and EU agriculture

EU legislation on genetically-modified organisms (GMOs) has been in place since the early 1990s and extended and refined since then. The EU introduced specific legislation designed to protect its citizens' health and the environment (while also creating a unified market for biotechnology). There is an approval process based on a case-by-case assessment of the risks to human health and the environment before any GMO or product consisting of or containing GMOs (such as maize, oilseed rape or micro-organisms) can be released into the environment or placed on the market.

# 6. Keeping consumers confident about food safety



**Developments in the CAP have occurred not only because of changes in farming, but also in response to the demands of society as a whole. These include the increasing concern about food hygiene and safety and animal welfare. Here the CAP and other EU policies have been considerably strengthened since the 1990s.**

## FOOD SAFETY

Europe's consumers want food that is safe and wholesome. The concern of the EU is to make sure that the food we eat is of the same high standard for all its citizens. Work to improve food safety is continuous, but there was a major overhaul in response to headline-hitting food safety scares in the 1990s, for example over

BSE and dioxin-contaminated feed. The purpose was to make sure that EU food safety laws were as comprehensive as possible and that consumers have as much information as possible about potential risks and what is being done to minimise them.

Food safety starts on the farm. EU rules apply from 'farm to fork', whether the food is produced in the EU or is imported from elsewhere in the world.

There are four important elements to the EU's food safety strategy:

- rules on the safety of food and animal feed;
- independent and publicly available scientific advice;
- action to enforce the rules and control the processes;
- recognition of the consumer's right to make choices based on complete information about where food has come from and what it contains.

Food safety does not mean food uniformity. The system for ensuring food safety is common to all EU countries, but it allows for diversity in methods of production and in national tastes.

## ANIMAL HEALTH AND WELFARE

If food is to be safe, the animals it comes from must be healthy. The need to keep animals healthy through good veterinary practice and to prevent outbreaks of contagious animal diseases, such as foot-and-mouth disease, swine fever, or bird flu is an EU priority. If an outbreak does occur, it is carefully monitored and steps are taken to prevent it spreading. To prevent diseased animals entering the food chain, all animals and animal products must meet strict health requirements before they can be imported into or traded within the EU.

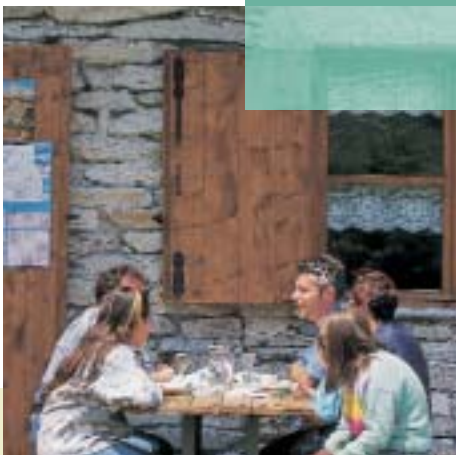
Increasing numbers of European consumers are concerned about the welfare of the animals that provide them with their meat, eggs and dairy products. It is a principle underlying EU policy that animals should not be subjected to avoidable pain or suffering. This is reflected in clear rules on the conditions in which hens, pigs and calves may be reared and in which farm animals can be transported and killed. These rules are regularly updated in the light of new scientific data, and are some of the most rigorous in the world.

Research shows that farm animals are healthier, and produce better food, if they are well treated and able to behave naturally. Physical stress (e.g. from being kept, transported or slaughtered in poor conditions) can adversely affect not only the health of the animal but also the quality of meat.



Ensuring food safety and high welfare standards is not just a matter of regulations. The CAP offers farmers incentives to improve their performance in these areas. Because respecting the standards benefits society as a whole, and yet may impose considerable costs on farmers, financial support is available to help farmers make improvements in these areas.

# 7. Assistance for rural communities



**With over half of the population of the 25 Member States of the EU living in rural areas covering 90 % of the territory, rural development is a vitally important policy area. Farming and forestry are the main land uses in rural areas, and as such play an important role at the heart of rural communities as the basis for a strong social fabric and economic viability and the management of natural resources and the landscape.**

Numerous opinion polls in both EU-15 and new Member States clearly demonstrate that a living and sustainable countryside matters to European citizens.

Landscapes and the countryside are places where people live, work, travel around and find essential resources such as water and soil in which to grow crops and feed livestock. Landscapes therefore reflect the activities of the people who live in them. People have always shaped landscapes according to their needs, whether by building roads, bridges, houses or workplaces. Different agricultural activities produce quite different landscapes such as pasture to feed animals, arable land to grow crops, orchards, olive groves or vineyards.

## **MORE FUNDS FOR RURAL DEVELOPMENT**

The 2003 CAP reform involved a major strengthening of rural development policy by reducing direct payments for bigger farms and transferring the funds into rural development measures.

## **LEADER+**

Another important measure is the bottom-up approach of the public/private partnership initiative known as Leader+, whereby local rural development projects are funded by both the EU and national governments and private bodies. The main emphasis is on providing local communities with the possibility of selecting and funding projects which suit the local environment and can have long term benefits. In addition, the Leader approach encourages the generation of novel ways to provide sustainable rural development which, through sharing with others across the EU, can go far beyond the initial project and can influence and enhance rural development policy.

There are fewer farmers today than in the past, and they do not work alone: they need the services of all kinds of businesses to prepare their own produce and to transform and sell it. An additional source of income is often provided by farm holidays (farm cottages or bed-and-breakfast), or farm shops. These activities only work if farmers can make the surroundings attractive,



## RURAL DEVELOPMENT

Assistance is provided for farmers, and others in rural areas, for such actions as:

- Training in new farming techniques and rural crafts
- Assisting young farmers to set up on farms
- Assisting older farmers to retire
- Using advisory services
- Farm/forestry investments
- Modernising farm buildings and machines
- Assisting farmers to meet demanding EU standards, e.g. environmental, animal welfare, and public health
- Helping establish food processing facilities on the farm so that farmers can earn more income from farm products by adding value to them
- Assistance in marketing farm products
- Improving product quality and marketing of quality products
- Setting up of producer groups in the new Member States
- Support for farming in mountainous areas and other areas with handicaps
- Restoring damaged agricultural and forestry production potential
- Making additional improvements to animal welfare
- Renovating villages and rural facilities
- Encouragement of tourism
- Improving access to basic services for the rural population
- Agri-environment measures to improve the environment
- Compensation for farmers in Natura 2000\* areas
- Afforestation
- Measures to improve forestry management

\* Natura 2000 – the EU network of sites designated by Member States under the birds directive and under the habitats directive.

maintaining and respecting the environment. Farming families and people living and working in the countryside are consumers too and they want the same benefits from the rural environment as society as a whole. For these reasons the scope of rural development policy is much wider than traditional 'agricultural' activities, including measures to protect and improve the environment, schemes to support rural communities and to develop the rural economy as a whole.



# 8. New Member States, new challenges



**Enlargement of the EU to include 10 new Member States (Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia) from 1 May 2004 was a historic milestone in the remaking of Europe after centuries of destructive divisions engendered by war and ideological conflict. Europe as a whole will gain from an assured political stability and security, as well as from the expansion of the internal EU market from 380 to 454 million people. This larger market will also offer new and important opportunities for the development of European agriculture and of the EU's common agricultural policy (CAP).**

Numerically, enlargement's impact on EU agriculture is dramatic. A further 4 million farmers have been added to the EU's existing farming population of 7 million. The new Member States add about 38 million hectares of agricultural land to the 130 million hectares in the old EU of 15, an increase of 30 %, although production in the EU of 25 will only expand by about 10 - 20 % for most products. This confirms that the large agricultural production potential of the new Member States is still far from being used to its full extent.

Farmers in the new Member States have access to the single market in the EU and benefit from its relatively stable prices, plus direct payments (phased in gradually to reach the full EU level) and rural development measures.

Despite the progress in modernising and restructuring the agricultural sector which has occurred in the new Member States (particularly the ex-communist countries) in recent years one of the key challenges has been to improve prosperity in agriculture and rural communities as a whole. The well-publicised differences in prosperity between the EU-15 and new Member States (in 2001, 45 % of the EU-15 level<sup>2</sup>) are even more pronounced in rural areas, because of a combination of lower income and higher unemployment.

<sup>2</sup> GDP per person adjusted to Purchasing Power Parity.



ment levels in these areas compared with urban regions (these disparities are greater in the new Member States than in the EU-15).

This is a challenge that the EU has already begun to take up, by creating new rural development measures designed to address the specific situation of the new Member States. For example, there are many small 'semi-subsistence' farms in these countries, which produce for their own consumption but also market part

of their production. To help the farming family cope with cash-flow problems whilst the farm is being restructured to become commercially viable, income support is available for up to five years. Farm advisory services can be subsidised to help ensure that farmers receive professional support in order to farm in an environmentally sustainable way, to diversify their farming activities, or to upgrade their facilities. There is also a special investment aid to help farmers in the new Member States meet EU standards related to



public health and hygiene, animal welfare and occupational safety.

It is important to point out that the obligations of EU membership applied immediately to farmers in the new Member States. A key example is food safety, which is such an important issue for EU consumers that no drop in standards could be considered.

# 9. The EU – a major world trader in agricultural goods



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The EU has extensive contacts and trading relations with third countries and trading blocks. The EU is a major player in global agricultural trade as the biggest importer and second largest exporter of foodstuffs. The EU plays a leading role in establishing global trade agreements in the World Trade Organisation (WTO). It has also concluded and is in the process of negotiating bilateral trade agreements with individual third countries, free trade agreements with its near neighbours, special arrangements with developing countries, granting preferential access to the EU market, and more extensive relationships with regional groupings such as the South American countries of the Mercosur group<sup>3</sup>. The EU is the only big trading group, among the wealthier nations, which is not only granting preferential access to its markets for imports from developing countries, but is in practice actually importing considerable quantities from those countries.

<sup>3</sup>Mercosur was created by Argentina, Brazil, Paraguay and Uruguay in March 1991.



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## The EU's contribution to world agricultural trade

The EU is a significant net importer of agricultural products, while being a net exporter of processed food-stuffs.

The EU has made major efforts to redirect its farm policy towards more transparent and non trade-distorting instruments – principally by divorcing about two-thirds of payments to farmers from levels of production.

The EU is also by far the largest market for agricultural exports from developing countries and led the way, among the wealthier nations, in granting duty and quota free access to products originating in least developed countries.

## COMMITTED TO MULTILATERAL TRADE RULES

The EU is clear that the growing trade between all countries, whether developed or less so, must be conducted under multilateral trade rules for the benefit of all countries, in particular developing countries. This is why the EU is a strong supporter of the WTO and has always played an active role in the WTO discussions and negotiations on trade in agriculture. The EU is committed to the 'Doha Development Agenda' (DDA)<sup>4</sup>, negotiations which aim at further liberalising trade whilst enhancing development. As regards agriculture the agreement reached in August 2004 paved the way for further negotiations that could deliver a considerably bigger farm trade liberalisation than the previous trade nego-

tiations (the 'Uruguay Round'). The agreement locks in the EU's CAP reform. It should bring a substantial cut in trade-distorting agricultural support, the elimination of trade-distorting export competition practices and contribute to a significant opening of agriculture markets whilst allowing for special treatment for sensitive products. All developing countries will benefit from special treatment, allowing them to liberalise less over a longer period.



<sup>4</sup>Launched in November 2001 in Doha, Qatar.

## THE SECOND LARGEST GLOBAL EXPORTER – AND THE BIGGEST IMPORTER

European agriculture is a major player in the world's agricultural markets. The ability of EU agriculture to produce large quantities of agricultural products, and the diversity and quality of those products, means that the EU has become a major exporter of many food-stuffs (the second biggest exporter globally with agricultural exports worth EUR 61.088 billion in 2002).

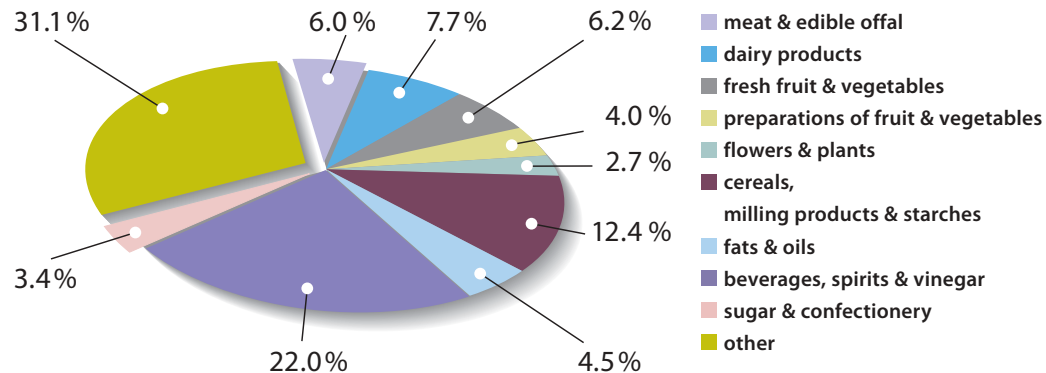
But it is not all one-way traffic. The EU is also the biggest importer of agricultural products in the world. In 2002, EU imports of agricultural products were valued at EUR 61.274 billion.

The EU's net export position has declined in every single sector since 1990.

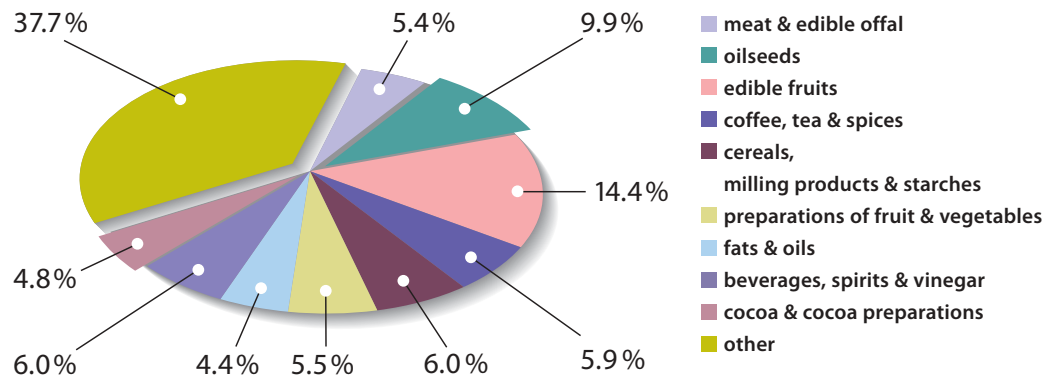


## MAIN AGRICULTURAL EXPORTS AND IMPORTS

Main EU agricultural exports (% share by value – 2002)

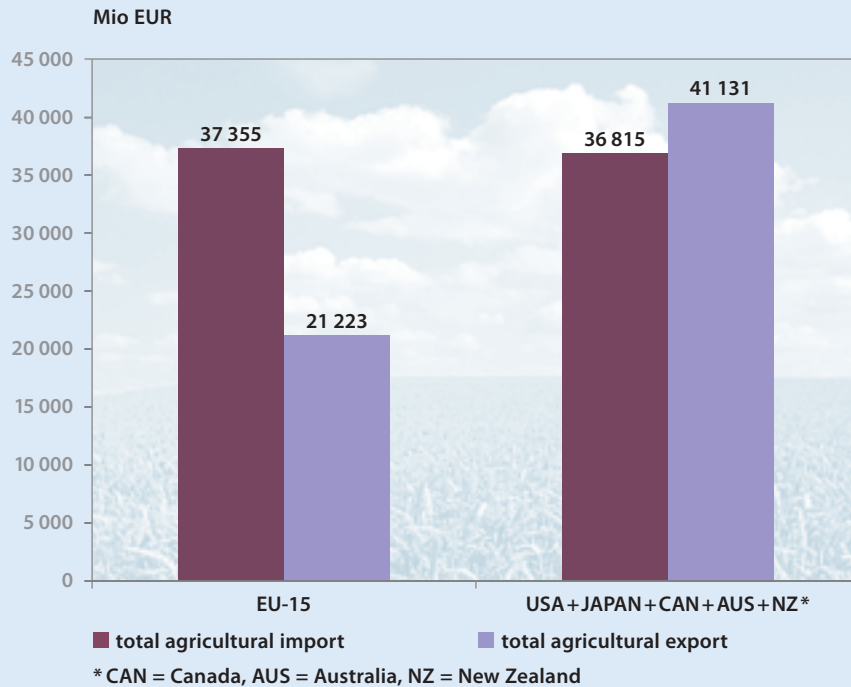


Main EU agricultural imports (% share by value – 2002)



Source for both graphs: European Commission

## MAJOR WORLD TRADERS AND DEVELOPING COUNTRIES (Average 2000-2002)



Source: Eurostat; UN Comtrade

## TRADE WITH DEVELOPING COUNTRIES

The EU's record of importing agricultural products from developing and least developed countries is already impressive and is greater than the USA, Japan, Australia, and New Zealand together.

The EU can thus clearly demonstrate that it is not a 'fortress'. It is a world leader working towards a gradual improvement in trade liberalisation, using multi-lateral and regional/bilateral means.



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# 10. How much the CAP costs



**The CAP has existed for more than 40 years as one of the most important pan-European policies. It is not surprising therefore that the CAP budget has represented a large proportion of the overall EU budget and expenditure. This situation has now changed as CAP expenditure has been limited and as other EU-level policies have been developed. But there are several myths about the cost of the CAP that need to be dispelled.**

## THE CAP HAS A SEEMINGLY HIGH COST

During the first years of the EU's existence the CAP represented a significant proportion of budget expenditure, over two-thirds on occasions. Stricter budgetary discipline, the growth of EU activities in other policy areas and a series of reforms to the CAP have resulted in that proportion falling. The CAP costs about EUR 50 billion per year. This represents less than 50% of the total EU budget. Less than 1% of GDP is spent on the 5.5% of the population who farm (in the EU of 15

countries, before the 2004 enlargement). Not only is the share of CAP in EU GDP small and declining (from 0.54% of GDP in the early 1990s to 0.43% in 2004, going towards 0.33% by 2013), but this share is also declining much faster than EU public expenditure (three times faster during the decade 1993-2003).

## COMPARED TO OTHER PUBLIC EXPENDITURE IT IS REASONABLE

And the CAP's cost should be seen in context. The total amount is, for example, less than half the welfare spending in Germany. On average each citizen contributes around 2 euros a week to finance the CAP or roughly the cost of a kilo of apples or one or two loaves of bread. This is hardly a high price to pay for a healthy supply of food and a living countryside. And what this money is spent on has been changing. Less for export subsidies, less for market support (intervention stocks and the like) more direct aid to producers and more to rural development and the countryside.

## BUDGETARY CONTROL

The CAP operates within a set of strict parameters. Budgetary limits are established to control expenditure in any one year and over periods of years. The spending limits for the old EU of 15 Member States have been adjusted to take account of the costs of enlargement for the period to 2006. However, the limits

envisaged for CAP market measures and direct aids for the period 2007-2013 allow for no increase in real terms and will effectively become tighter each year as the direct aid payments payable in the 10 new Member States are increased progressively during this period towards the full aid levels already applicable in the other 15 Member States. At the same time the CAP has

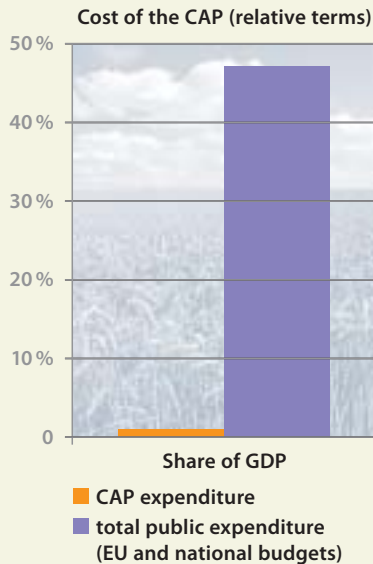
been reformed (three times in 10 years), partly with the aim of better targeting and control of expenditure. CAP expenditure has been frozen (in real terms) until 2013. Spending will be strictly controlled – a new financial discipline control mechanism is being introduced to ensure that the expenditure ceiling is not broken.

### THE COST OF THE CAP IN PERSPECTIVE

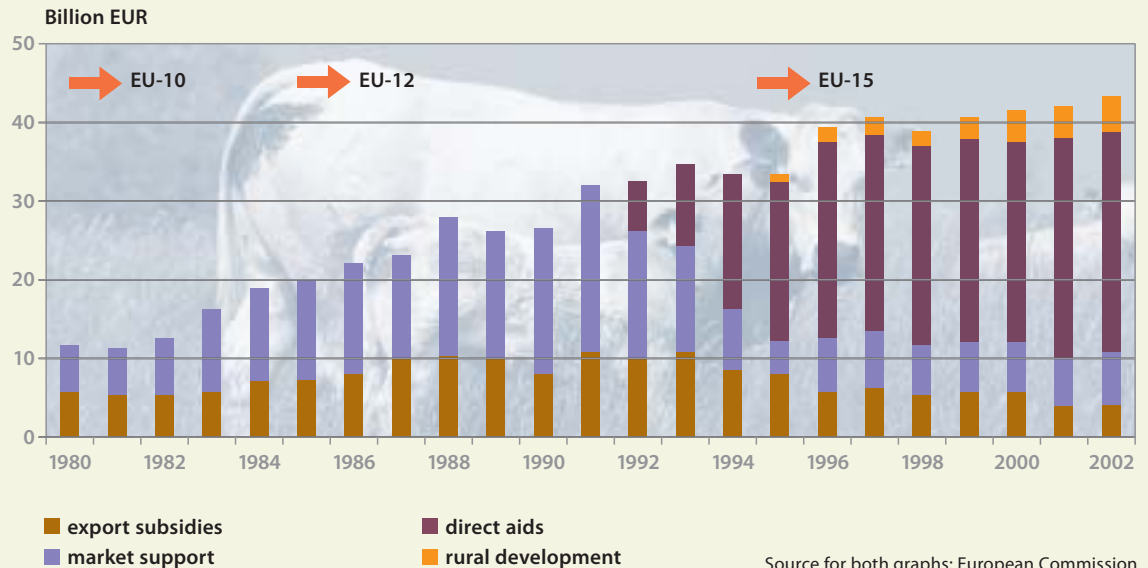
CAP costs indicate a clear trend:

- a declining share in EU GDP (from 0.54 % to 0.43 % to 0.33 %)
- a declining share in the EU budget
- a declining share in total EU public expenditure
- a significant shift in the manner of support

#### The cost of the CAP in perspective



#### The evolution of CAP expenditure



# 11. Meeting people's concerns



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Many people do not understand why farmers are paid to farm. Originally the aim was to ensure that food was available at all times and at stable prices and that farmers had fair and regular incomes, independent of climatic ups and downs. The CAP has evolved and now, more than ever, takes the concerns of all European society into account. In addition the EU has increased efforts to include citizens in policy formation, and to keep them in touch with the CAP.



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Citizens in present-day affluent Europe need no longer be troubled by anxieties about safe and secure food supplies. They can take it for granted that adequate supplies of what they want will be available. Their concerns are now much more focused on food production methods and whether sufficient attention is being paid to market requirements, the environment, food safety, food quality and animal welfare.

And citizens are much more closely involved in decision-making. This comes in a variety of ways:

- formal and informal consultations via conferences, civil society dialogue and advisory committees;
- video and internet consultations;

- surveys and information campaigns;
- decentralised decision-making at regional and local levels on the design and implementation of agricultural policy (especially the rural development element). In addition, the European Parliament will have new powers in the CAP decision-making process, through the convention, making available another source of influence on the process.

Citizens need to be aware that the CAP is not devised and run by 'Brussels'. It is put together by negotiation among the 25 EU Member States. And it is operated on the ground by the Member States. The role of the European Commission is to ensure that it is run efficiently and fairly.

The steep reductions in the real cost of the CAP are a clear demonstration of the ability of the CAP to respond to citizens' wishes. The CAP is adapted to what suits each Member State the best, thus responding to society's wishes in a targeted way.



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# 12.

## The CAP – promoting sustainable agriculture in a global environment



The EU's role in agriculture has always been to help in:

- ensuring a stable supply of affordable and safe food for its population;
- providing a reasonable standard of living for EU farmers, while allowing the agriculture industry to modernise and develop;
- ensuring that farming could continue in all regions of the EU.

As the CAP has developed and become more sophisticated, in line with the requirements of EU citizens, the following factors have taken on a greater importance:

- looking after the well-being of rural society;
- improving the quality of Europe's food;
- guaranteeing food safety;
- ensuring that the environment is protected for future generations;
- providing better animal health and welfare conditions;
- doing all this at minimal cost to the EU budget (which is funded mainly by taxpayers, i.e. ordinary citizens).

## How can I find out more about the CAP?

### European Commission website:

#### Agriculture and rural development

[http://europa.eu.int/comm/agriculture/index\\_en.htm](http://europa.eu.int/comm/agriculture/index_en.htm)

### Postal address:

European Commission  
DG Agriculture  
Internal and External Communication  
200 Rue de la Loi  
B-1049 Brussels  
Belgium

### Email:

[agri-library@cec.eu.int](mailto:agri-library@cec.eu.int)

The EU has a particular model of agriculture that responds to the requirements of civil society – in terms of their expectations on food production, food safety, environmental standards and conservation of the rural environment, relations with the developing world (agricultural trade) and value for money for their taxes. The CAP is the vehicle that delivers this. It has been a long march from support for over-production to a market-oriented, environmentally-friendly system. But this ‘green evolution’ will continue.

Today's CAP is a policy choice of our society. Few can imagine what the EU's countryside and food heritage would be like without it. The support of consumers, taxpayers and society is needed to prevent the risk of land abandonment, degradation of the rural environment, loss of employment and even the decline of the social fabric of many of our rural areas. In addition, the CAP and other EU policies have led to the creation of a large single market in agricultural goods in the EU and have helped the EU to become a major world player in agriculture and food terms.



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