Notes on the Common Agricultural Policy (CAP)

Origins and main aims of the CAP (born in 1962)

a) to guarantee a better income to EU farmers, in particular small landowners, settlers and wage earners, that is the people of the countryside which were less benefiting from the progressive improvement of living conditions begun with the Marshall Plan and the start of the ECSC and EEC;

b) to orient agricultural companies towards new and more efficient production methods (thanks to the use of new agronomic techniques and the resources made available by modern technologies) in order to ensure EEC citizens the certainty and abundance of food supplies.

The CAP tried to have low prices for consumers and, at the same time, profitable for the producers: it organized an efficient system to protect the community productions, support the producers, build up stocks (giving the possible excess to countries outside the EEC by exports in dumping).

However, all this required: long times, complex rules (threshold price, intervention price, etc.) and huge financial resources. This latter arrived from a structural funds, the FEOGA (French acronym of European Funds for the Orientation and Guarantee of the Agriculture).

The effects of the CAP during the Sixties

a) Excessive growth in production because this last was no longer connected to market needs: the more farmers produced, the more they earned and this quickly led to saturation of the EEC market for the main foodstuffs already in the mid-1960s. This was also helped by new technologies related to fertilizers, hybrid seeds and feed for livestock: so the agrarian production surpluses grew to such an extent that they had no sales outlet and they had to be destroyed at EEC expense with the effect of allocating an increasingly large share of the EEC budget for the protection of European agriculture;

b) The objective of the guarantee prevailed over that of guidance: this favoured the farmers' attitude to take profit by intervention prices and it reduced investments to improve competitiveness. The CAP rewarded both the most capable agricultural entrepreneurs and the less efficient ones: this reduced the incentives to make investments to modernize production facilities and lower production costs. The failure of the Mansholt Plan to reduce CAP costs increased these latter: Mansholt wanted to gradually reduced subsides (in twelve years, form 1968 to 1980) but his plan was rejected because the strong protests af all EEC people working in the countryside: no EEC members government could miss their vote.

c) CAP intervention on prices also involved distributors and the intervention price was based on the needs of farmers who had to face a higher cost of living (e.g. German ones): they did not consider the improvement of the quality of the products to be significant and accentuated both the requests for subsidies from producers (whose actual revenues were reduced by the amount due to distributors), and the increase in the quantity produced without improving the quality / price ratio.

So the CAP allowed people of the countryside to increase their lifestyle but the cost of the CAP significantly increased.

During the Seventies:

a) The end of the Gold Exchange Standard (which provoked the end of the fixed exchange rates of the EEC currencies) and the "oil shock" (which provoked the increased of tall prices and the failure of many factories) strongly modified the EEC economic conjuncture. To maintain the stability of price in the CAP the EEC created the "green coins" (that is coins whose devaluation or revaluation was decided by the EEC and not by the fluctuations of the currencies on financial markets) and the "compensating amounts": the aim was to avoid the creation of "protective currency duties" linked to the devaluation of currencies and entailed the application of "compensatory amounts" (that is "import taxes" and "export subsidies" in the strong currency of EEC countries and vice versa in those weak currency). Thanks to the "uprights" the EEC countries with strong currency could keep their consumer prices low (thus avoiding that the CAP protections carried inflation) and guaranteed their producers high prices (subsidized by the uprights): the relative costs were paid by the EEC countries with weak

currencies. However, the cost of the CAP was not reduced and, at the same time, the distribution of agricultural incomes in the EEC was made less equitable favouring farmers of the Northern countries.

b) The agricultural sector also lost the full support of public opinion, which had previously been very tolerant of the privileges granted to agriculture, which in fact resulted in greater spending on food for consumers and greater contributions by the FEOGA. The reduction of people working in the countryside sector and the increasing of jobless in the industrial sector which was related to the severe economic crisis of the 70s (and the correlated need to find EEC resources to finance the industrial sectors asking for huge funds to restructure) made less and less acceptable the destination of large subsidies to the agricultural sector.

The final result was that in 1979 the European parliament (the first elected by universal suffrage and therefore less tied to the policies of European governments) rejected the Community budget in which 75% of the resources resulted destined for the CAP. The FEOGA resources allocated to guidance (that is to orient farmers towards new products instead of traditional ones which were in excess) were only 5% and 95% was reserved for the guarantee (that is to pay the difference between the intervention price and the price really existing in the market). Besides, above 40% of the subsidies were absorbed by the dairy sector. EEC members governments decided that CAP had to survive but it was evident that a reform was necessary,

During the Eighties

EEC approved new rules to reduce CAP costs and rebalance them:

a) Application of production quotas (in particular for milk): EEC established the maximum production for all producers and if these latter overcame the quotas they did not receive the intervention price for the quantity in excess and, moreover, they receive less subsides (that is their intervention price was reduced) for the production which respected the quotas. So producers were punished if they produced more than the established quotas.

b) Introduction of "budget stabilizers": it was a mechanism that automatically reduced intervention prices in the event of production exceeding the maximum guaranteed quantities for cereals and oleaginous products. So CAP and producers respectively spent and received the same amount of money even if total EEC production increased: this means that producers lost money they used to increase their products (e.g. for fertilizers, seed, etc.);

c) Limitation of compensatory amounts, in particular the gradual abolition of "active" ones: so farmers having weak currencies continued to pay but farmers having best currency received nothing and the cost of the CAP decreased.

d) New Integrated Programs for the Mediterranean (PIM): they reduced the imbalance of subsidies in favour of arable crops and in general of production in Northern Europe and they gave more money to farmers in Southern France, Italy, Greece and Spain.

e) Definition of strict rules concerning the origins of the EEC products: so CDO (Controlled Designation of the Origin, sometimes Guaranteed too), and, after, PDO (Protected Designation of Origin), PGI (Protected Geographical Indication) and, more recently, ‘organic’,

During the Nineties

The main reform was approved in 1992: it was the McSharry Reform:

Objectives: a) increase competition and stimulate quality growth; b) reduce production excesses; c) limit the guarantee of product prices to small producers only; d) distribute the guaranteed production quotas equally among the various EU countries. However, the main aim remained the reduction of the CAP costs.

These were the main tools of the reform:

a) Permanent elimination of compensatory amounts and variable duties on non-EEC imports: this strongly reduced the real protections of EU products face to global competition;

b) Reduction of non-EU export subsidies and compensation linked to the intervention price by reserving them to small producers only (they were inversely proportional to the size of the land) and eliminating any form of contribution for distributors;

c) Obligation for the "non-small ones" producers of the "set a-side" (ie, set-aside set-off with subsidy) for at least 15% of arable land;

d) Reduction of production quotas to limit the supply of sugar, milk, cereals, oilseeds, protein crops and beef.

e) Introduction of the new targets for the countryside: to develop tourism connected to rural production and to protect the environment (first idea of the sustainable development).

In the perspective of the new Millennium some unresolved problems remained:

a) The excess of subsidies provided by the CAP and the allocation of quotas among member countries not adequate to the actual productive capacity and internal needs of the EU countries: technologies in fact continued to increase the yields and productions and, furthermore, some countries increased quantity and quality of some products reducing the sales of other EEC members producers who obviously asked for financial aids.

b) The increasing need to find new aid for farms which had to operate in less and less protected markets while they had to respect the correct management of environmental resources and at the same time they had to face extra-community competition that had less expensive production factors.

c) For the CAP, the prevision of new high costs linked to the entry of Eastern European countries where people working in the countryside represent a percentage more higher than in the Western Europe.