**Analytical Note**
SC/TDP/AN/AG/13
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# EU'S COMMON AGRICULTURAL POLICY (CAP): TOOLS PROTECTING EUROPEAN FARMERS

**SYNOPSIS**

The European Union (EU) uses a plethora of policy instruments to protect its agricultural sector and to ensure that European farmers, despite having higher production costs, are still able to continue production for both the European and export markets. This paper provides a snapshot of these instruments and also gives an overview of the new instruments that are increasingly being used resulting from the on-going reforms in the EU's Common Agricultural Policy (CAP).

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This Analytical Note is written by Paul Goodison in collaboration with the Trade for Development Programme (TDP) of the South Centre to contribute to empower the countries of the South with knowledge and tools that would allow them to engage as equals with the North on trade relations and negotiations.

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## TABLE OF CONTENTS

INTRODUCTION ........................................................................................................ 3

I OVERVIEW OF EU'S COMMON AGRICULTURAL POLICY (CAP) TOOLS AND THE REFORMS UNDERWAY ……………………………………………………..………….5

II CAP INSTRUMENTS AND TOOLS AND CAP REFORM TRENDS ……………………….7

II.1 TRADITIONAL MARKET MANAGEMENT TOOLS …………………………………….7

II.2. DIRECT AID PAYMENTS ..……………………………………………..…...…….11

II.3 INVESTMENT SUPPORT TOOLS ………………………..…………………………12

II.4. NEW POLICY INITIATIVES ………………………..………………..……………14

II.5. NATIONAL SUPPORT TO AGRICULTURE ………………………..…………….…18

II.6 TRANSITIONAL MEASURES AND EMERGENCY PROGRAMMES……………………..18

II.7 TRADITIONAL AGRICULTURAL TRADE POLICY TOOLS …………………………....19

## INTRODUCTION

1. The European Union (EU) uses a plethora of policy instruments to protect its agricultural sector and to ensure that European farmers, despite having higher production costs, are still able to continue production for both the European and export markets. This paper provides a snapshot of these instruments and also gives an overview of the new instruments that are increasingly being used resulting from the on-going reforms in the EU's Common Agricultural Policy (CAP).

2. Overall, EU CAP subsidies amount to over €50 billion a year (for both agriculture and rural development measures) plus an additional €10 billion a year in co-financing from member states national budgets.

3. CAP instruments are moving away from traditional market management tools such a minimum price arrangements; intervention buying and storage; export subsidies; set asides; and production quotas , towards various forms of producer support.

4. The centre piece of producer support is now the single payment scheme of direct aid payments to EU farmers. This is complemented by a range of rural development measures designed to enhance the competitiveness of EU food and agricultural production and promote the economic diversification of rural areas. In addition there are a variety of secondary support programmes aimed at promoting 'quality differentiated' European food and agricultural production. These support measures range from public support for Sanitary and Phytosanitary Standards (SPS) and food safety compliance and control systems to support the promotion of quality differentiated products on EU and international markets. These specific measures are further complimented by further policy refinements related to the stricter definition of quality standards, the stricter enforcement of SPS compliance, and efforts to promote at the international level, recognition and protection of EU quality differentiation standards (notably in the from of Geographical Indications).

5. In addition, national supports to agriculture continue, and other emergency programmes and transitional measures are also available.

6. Europe also uses, to varying degrees, a range of traditional trade policy tools: MFN import tariffs; tariff rate quotas (TRQs); seasonal TRQs, minimum import prices; import and export licences.

7. Developing countries negotiating with the EU (either at the WTO or in free trade agreements) should be cognisant of these instrument. Contrary to the common EC assertion, deployment of these various instruments do have trade implications.

8. **Large amounts of financial supports have the same impact as the EU implementing permanent safeguards since these financial and trade-policy supports protect European producers from the commercial consequences of competition with imports. Additionally, they also have the impact of making EU exports artificially competitive, making it easy for EU agricultural exports to displace food and**

**agricultural products produced by local farmers in many ACP and other developing countries.**

9. The key policy tools used by the EU in protecting and keeping its farmers in production summarised in this paper include:

**Traditional Market Management Tools**
- Minimum Price Arrangements
- Processing Aids
- Intervention Buying and Storage
- Withdrawals
- Export Subsidies
- Set-aside
- Production Quotas

**Direct Aid Payments**
- Coupled Direct Aid Payments
- Partially De-coupled Direct Aid Payments
- Fully De-coupled Direct Aid Payments

**Investment Support Tools**
- EU Rural Development Programmes
- Veterinary and Plant Health Measures
- Product Promotion Programmes

**New Policy Initiatives**
- Consolidating and more Rigorously enforcing SPS and Food Safety Regulations
- Consolidating and More Clearly Defining Agricultural Product Quality Requirements
- Strengthening the Functioning of the Food Supply Chains

**National Support to Agriculture**

**Transitional Measures and Emergency Programmes**
- Emergency Programmes
- Transitional Measures

**Traditional Agricultural Trade Policy Tools**
- MFN Import Tariffs
- Tariff Rate Quotas
- Seasonal TRQs
- Entry Price System
- Import Licences
- Export Licences

## I OVERVIEW OF EU'S COMMON AGRICULTURAL POLICY (CAP) TOOLS AND THE REFORMS UNDERWAY

10. The EU has available to it a wide range of policy tools to attain its underlying policy objectives in the food and agricultural sector. It is important to retain an overview of the range of policy tools used, in seeking to determine the impact of the use of individual policy tools in specific sectors or on specific markets. How these various policy tools are deployed has an impact on:

- the area under production of specific agricultural products in the EU or in the case of the livestock sector the number of animals under production;
- prices on EU markets for the agricultural products concerned;
- overall levels of production in the EU of a range of products;
- EU patterns of trade in agricultural products; and
- in some sectors, international price formation.

11. These impacts vary from sector to sector depending on the relative market prices of products and the extent of specialised capital investment requirements in a particular sector.

12. Overall the general policy trend in the EU is towards the reduced use of ***traditional market management tools*** and ***transitional tools such as coupled and partially decoupled direct aid payments***. These traditional market management and transitional tools are being replaced by:

a) increased use of decoupled direct aid payments;
b) an expansion of investment support tools;
c) the development of new, or refocusing of existing policy initiatives, to more effectively achieve underlying policy objectives.

13. The transition in the use of CAP policy tools has been underway since the initiation of the reform process in 1992 and has taken place through successive major waves of reform (2000, 2003), interspersed with sector specific changes (1995, 2005) and mid term reviews (2008).

14. Throughout this time traditional agricultural trade policy tools have been used to 'hold the ring' for the successful implementation of the reform process. Against this background, political rhetoric to the contrary not withstanding, the European Commission remains committed to managed trade arrangements in the food and agricultural sector until such time as the entire process of agricultural reform has been successfully completed. This does not mean no changes to agricultural trade arrangements are taking place. New agricultural market access arrangements are being negotiated continuously, with the trend towards progressive market opening

accelerating. However, while the transition is underway the policy commitment is to 'managed trade', not whole-scale agricultural trade liberalisation.

15. The table below provides a simple description of all the policy tools the EU uses or has used under the CAP. While a transition in the use of policy tools has been underway since 1992, the pace of change varies from sector to sector and is still ongoing. Thus while a clear direction of change is apparent, traditional policy tools are often retained, even though they may only be used in response to exceptional market circumstances.

*The EU's Evolving CAP Tool Box*

| | |
|---|---|
| **Traditional Market Management Tools**<br>• minimum price arrangements;<br>• processing aids;<br>• intervention buying and storage;<br>• withdrawals;<br>• export subsidies;<br>• set aside;<br>• production quotas. | **Direct Aid Payments**<br>• Coupled direct aid payments;<br>• Partially decoupled direct aid payments;<br>• Decoupled direct aid payments |
| **Investments Support Tools**<br>Rural Development Investment - axis 1 (€53 billion 2007-2013).<br><br>• 'restructuring and modernization of the agriculture sector';<br>• improving integration in the agrifood chain';<br>• 'facilitating innovation and access to research and development';<br>• 'encouraging the take-up and diffusion of information and communication technologies';<br>• 'fostering dynamic entrepreneurship';<br>• 'developing new outlets for agricultural …products';<br>• 'improving the environmental performance of farms' .<br><br>Horizontal Programme of support to veterinary and plant health measures;<br><br>Horizontal Programme of Support for the Promotion of products on EU and international markets. | **New Policy Initiatives**<br>• consolidating and more rigorously implementing EU food safety and SPS regulations in trade with third countries;<br>• consolidating and more clearly defining agricultural product quality policy;<br>• improving the functioning of food and agricultural supply chains. |

| National Support to Agriculture | Transitional and Emergency Measures |
| --- | --- |
| • National aid payments to farmers;<br>• Tax breaks;<br>• Subsidised loans. | • dedicated restructuring funds (e.g. the €8 billion sugar sector restructuring fund)<br>• emergency measures in response to sector specific crisis (the October 2008 €600million dairy sector initiative) |
| **Traditional Agricultural Trade Policy Tools**<br>• import tariffs;<br>• tariff rate quotas;<br>• seasonal tariff rate quotas;<br>• the entry price system;<br>• import licences;<br>• export licences. | |

## II CAP INSTRUMENTS AND TOOLS AND CAP REFORM TRENDS

### II.1. Traditional Market Management Tools

**- Minimum price arrangements**

16. Administratively determined price arrangements have been extensively dismantled as part of the CAP reform process. The African, Caribbean and Pacific (ACP) countries for instance, have been most vividly confronted with this process in the sugar sector, where since 2005 administratively determined sugar prices has been reduced by 36%. However this process has been underway in other sectors via successive waves of reform since 1993.

17. As products have been incorporated into the direct aid payment scheme (and since 2006, the single payment scheme) and such payment levels have been increased, the system of administrative price setting has been progressively abandoned. As a consequence internal prices within the EU are increasingly being determined by the play of managed market forces.

18. A ***minimum floor price*** may be maintained (e.g. €150/tonne in the rice sector), but this is set as a 'safety net' price and is designed to no longer have an influence on routine price formation. This means that under normal market circumstances the minimum price no longer determines the market price of the affected commodity (e.g. rice). In this context market prices are determined by the play of managed market forces in the sector concerned.

- **Processing aids**

19. Closely linked to minimum price arrangements, the EC provided *processing aids* to industrial food processors so as not to price EU companies out of overseas markets. This had a major influence in sub-sectors such as canned peaches and processed tomatoes (tomato paste). The move towards the determination of prices through the play of managed market forces has allowed the EU to dismantle the system of *processing aid* support, which is no longer necessary, since processors are no longer required to pay minimum prices to growers[1]. Any remaining price gap between EU and world market prices is now covered by so called non-annex I export refunds, that is export refunds paid on the raw material content of certain specified value added food and drink products.

- **Intervention buying and storage**

20. A system of intervention buying and public storage was required due to the inability to clear EU markets at prevailing prices. The ***intervention buying system*** has been substantively transformed, with the ceiling being established for the volume of production which can be bought under the programme, and intervention prices being lowered. This is designed to create a system which while providing a 'safety net', discourages EU production solely for sale into intervention stocks.

21. However, alongside the reform of the intervention buying system, the EC has expanded ***support to private storage***. This is designed to ensure a move towards more market-based forms of support.

**Evolution of EU Spending on Intervention Buying and Storage (million ECU/€ & as % of total CAP budget, including rural development spending)**

| 1991… | …2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|
| 5,602 | 951 | 1,060 | 1,163 | 928 | 322 | 852 | 757 | -107 | 148 |
| 18.3% | 1.3% | 2.5% | 2.7% | 2.1% | 0.7% | 1.7% | 1.5% | - | 0.27% |

**Source**: Table 3.4.4.' Agriculture in the European Union Statistical and Economic Information' series annual report 2000 to 2009

22. Where a crisis situation emerges on particular markets the ceilings on intervention buying can be relaxed. Thus in the dairy sector, while the CAP 'health check' had lowered the ceiling on intervention buying for butter to 30,000 tonnes and established a ceiling of 109,000 tonnes for the purchase of skimmed milk powder at guaranteed prices, in response to the 2009 crisis in the dairy sector intervention buying was progressively increased beyond these ceilings (reaching 81,000 tonnes of butter and 203,000 tonnes of SMP by July 2009).

[1] Processing aids as an EU-wide tool have been removed. However processing aid, or something very similar, is allowed under some of the programmes of support extended through 'Producer Organisations' in the fruit and vegetable sector, with these being established by the 'Producer Organisations' concerned within the framework of common EU rules.

- **Withdrawals**

23. The system for the financing of ***withdrawals*** of products from the market, which was used extensively in the wine and fruit and vegetable sectors (and occasionally in the beef sector), has been progressively dismantled.

24. In the fruit and vegetable sector, responsibility for withdrawal operations on a more limited scale has been transferred to 'Producer Organisations' and now falls under the budget category 'operational funds for producer organisations (to which €609 million was allocated in the 2010 EU preliminary draft budget).

- **Export subsidies**

25. Export refunds are paid to bridge the gap between EU and world market prices. A commitment exists in the Doha negotiations to reduce the use of export refunds in line with WTO commitments and eliminate export refunds as part of a wider WTO agreement.

26. However, the use of export refunds has increased in some sectors, as a result of certain market circumstances, although this always takes place within the EU's WTO export refund ceilings (which were agreed to in the Uruguay Round).

27. The need for export refunds has been greatly reduced by the basic CAP reform process which has narrowed the gap between EU and world market prices. Nevertheless export refunds continue to be used where market conditions so require.

**Total, 'sugar' and 'pigmeat, eggs & poultry' export refund allocations (2000-2008)**

| | **2000** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** |
|---|---|---|---|---|---|---|---|---|---|
| TOTAL | 5,646.2 | 3,400.6 | 3,432.3 | 3,729.8 | 3,384.2 | 3,051.9 | 2,493.6 | 1,444.7 | 925.4 |
| **Sugar** | | | | | | | | | |
| € millions | 1,438.8 | 1,008.2 | 1,151.6 | 1,277.4 | 988.3 | 1,080.6 | 1,116.9 | 509.3 | 501.3 |
| % of total EU export refunds | 25.5% | 29.6% | 33.6% | 27.4% | 29.2% | 35.4% | 44.8% | 35.3% | 54.2% |
| **Pigs,eggs poultry** | | | | | | | | | |
| € millions | 348.2 | 115.7 | 104.4 | 116.0 | 130.6 | 106.2 | 80.6 | 111.2 | 200.5 |
| % of total EU export refunds | 6.16% | 3.40% | 3.04% | 3.11% | 3.86% | 3.48% | 3.23% | 7.70% | 21.67% |

**Source**: Table 3.4.4.' Agriculture in the European Union Statistical and Economic Information' series annual report 2000 to 2009

- **Set aside**

28. While the system of setting aside land from agricultural production nominally remains in place, the acreage to be 'set aside' from agricultural production has now been set at zero. This production management tool however remains in place[2].

- **Production quotas.**

29. ***Production quotas*** to limit the overall level of EU production have been used in the arable sector, to regulate milk production and in the sugar and sweeteners sector.

30. With the merging of the cereals, oilseeds and protein crop payment systems as part of the first round of CAP reforms in 1992, production quotas were dismantled in the arable sector at an early stage.

31. Production quotas however remain an important feature of the EU's dairy and sugar regimes.

32. A commitment was made as part of the CAP 'health check' to progressively phase out milk production quotas, initially through a gradual expansion of national production quotas. This is designed to achieve a 'soft landing' when production quotas are finally abolished in 2015.

33. A debate has now also begun about the dismantling of national production quotas in the sugar sector, with EC officials suggesting EU sugar beet farmers need to be thinking about a future without production quotas.

34. This dismantling of national sugar production quotas would be likely to have profound effects, for instance, on ACP sugar exporters. It would end the distinction between 'quota sugar' and 'out-of-quota sugar', which allows the operation of the twin pricing system and would increase pressure to reduce the EU reference prices for sugar, a development, which depending on world market sugar prices could exert a further downward pressure on prices paid for ACP raw sugar exports. It would also potentially have profound implications for the EU sugar export regime and even the level of EU sugar imports. Currently out-of-quota sugar can not be placed for sale on the EU market if it is to be used for food purposes within the EU. If production quotas are abolished however, no distinction between quota sugar and out-of-quota sugar will be possible, so it will no longer be possible to limit the sale of domestically produced sugar within the EU.

[2] The scope for 'setting aside' land from agricultural production remains a part of the CAP tool box. The EU simply is not using it at the moment. This practice of suspending the use of a tool, while retaining the right to use the policy tool should market circumstances so demand, applies not only to the 'set aside' tool but is a common feature of EU policy. Thus during the 2008 price surge import, tariffs for some products were set at zero, but the bound tariff remained in place. Similarly export refunds for some products were set at zero, but the tool remained in place and was reactivated when prices fell back from the very high levels which had previously prevailed.

## II.2. Direct Aid Payments

**- Coupled Direct Aid payments**

35. Direct financial payments to farmers to encourage production were greatly expanded in parallel with moves away from price support. The initial step in the CAP reform process was to de-link support payments from the level of production taking place. In some sectors this however left in place a range of production related premiums which farmers could claim.

36. Initially these production aids were ***product-specific*** and linked to the ***volume of production***. As the reform process progressed the link to production was first replaced by product-specific ***area payments*** (or animal numbers).

**- Partially De-Coupled Direct Aid Payments**

37. As the process of reform further evolved, product-specific ***area payments*** (or animal numbers) were phased out (although certain particular types of premiums remained in place), with payments being based on calculations of traditional entitlement, decoupled from the production of specific commodities. Where both types of payments coexisted this was referred to as partial de-coupling.

**- Fully De-Coupled Direct Aid Payments**

38. Where payments to farmers are not related to the production of specific commodities or the area under production, and farmers are allowed to produce what they like on the land available (even choosing not to produce so long as the land is kept in good agricultural condition) this is known as **decoupling**.

39. This ***decoupling*** of support from specific products, production and area farmed, has given rise ultimately to what is known as the ***Single Payment Scheme***. This single payment is made to farmers who are then free to produce any of a wide range of products which fall within the scope of the Single Payment Scheme.

40. The single payment scheme provides an income to farmers which implicitly covers certain basic costs of production, regardless of the particular agricultural commodity produced (or even when nothing is produced).

***Evolution of the Total CAP Budget and Direct Aid Payments 2000 – 2008 (Million Euro)***

| | Total CAP Budget | Total Direct Aids | Decoupled direct aid | Other Direct Aid | Add. Direct aid |
|---|---|---|---|---|---|
| 2000 | 40,467 | 25,529 | | | |
| 2001 | 42,083 | 27,430 | | | |
| 2002 | 43,214 | 28,801 | | | |
| 2003 | 44,461 | 29,692 | | | |
| 2004 | 44,761 | 29,825 | | | |
| 2005 | 48,928 | 33,701 | | | |
| 2006 | 49,865 | 34,051 | | | |
| 2007* | 54,521 | 37,064 | 30,369 | 6,261 | 434 |
| 2008* | 55,081 | 37,569 | 31,415 | 5,620 | 534 |

* Includes EU budget for rural development expenditures which have been taken out into a separate rural development fund[3]
**Source**: Table 3.4.4.' Agriculture in the European Union Statistical and Economic Information' series annual report 2000 to 2009

## II.3. Investment Support Tools

### - EU Rural Development Programmes

41. Over the 2007-13 period, EU's rural development programmes are to receive €96.3 billion in public financing from the EU budget. In addition, other funds are also being mobilised from national budgets and via co-financing with private sector bodies and associations[4].

42. EU rural development programmes take place under four axes.

- axis 1: measures aimed at improving the competitiveness of farming, agro-processing and forestry sector enterprises, with an emphasis on shifting patterns of production towards serving high quality, high value "luxury purchase" components of EU and global markets;
- axis 2: measures aimed at improving the environment and the countryside;
- axis 3: measures aimed at improving the quality of life in rural areas and promoting the diversification of the rural economy;
- axis 4: measures aimed at mobilizing local participation in the design and implementation of innovative programmes for the development of local rural areas, within the framework of the wider rural development policy objectives, through an expansion of the LEADER programme[5].

[3] From 2007, as part of an overall review of EU budget classification, rural development expenditures were classified as a separate budget item. This in part reflects an expansion of non-agriculture related rural development expenditures. However, it should be noted that agriculture and food sector related expenditures still constitute a major item under the rural development budget. Taking EU budget allocations and member states co-financing together, some €53 billion is being deployed in support of measures to enhance the competitiveness of EU food and agriculture sector enterprises between 2007 and 2013.
To ensure consistency of treatment of market management and rural development spending from 2000 to 2008, the rural development spending financed under the EU budget, which has been recorded as a separate budget item since 2007, has been added to the total of CAP related expenditures (this however does not include member states co-financing of rural development activities from their own national budgets).
[4] This is part of a wider process of reclassification of EU budget items. Of course it brings the added advantage to the EU, of making agriculture-related spending appear smaller than it actually is when it is formally presented in public.
[5] A summary of the strategic guidelines for the design of rural development programmes over the 2007-13 period can be found in the European Commission press release (IP/05/845-05/07/05) at:
http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/845&format=HTML&aged=0&language=EN&guiLanguage=en

43. In terms of support to the food and agricultural sector the main axis of support is *axis, 1,* the explicit aim of which is to ***improve the competitiveness of agricultural and forestry enterprises in the EU***.

44. For the period 2007-2013, total public support to these axis 1 measures, from both EU and national resources, amounts to over **€53 billion**.

45. Axis 1 funding is used to 'pump prime' necessary restructuring and diversification processes in EU rural areas, with support being focused on promoting 'quality rather than bulk production'.

46. Axis 1 funding is seen as crucial in ensuring the competitiveness of the EU's agro-food sector.

**Total EU budget Rural Developments Allocations 2000 – 2010 (€ billions)**

| 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|
| 4.36 | 4.35 | 4.71 | 6.48 | 6.85 | 7.72 | 12.4 | 12.9 | 13.6 | 14.4 |

**Source**: Table 3.4.4.' Agriculture in the European Union Statistical and Economic Information' series annual report 2000 to 2006

- **Veterinary and Plant Health Measures**

47. Since 2000 dedicated programmes of support to the implementation of veterinary and plant health measures have been financed, with some €2.745 billion being disbursed under these programmes between 2000 and 2008.

48. The aim of these programmes is both to strengthen national and EU-wide enforcement capacities in the fields of animal and plant health (the main body of support) **and** support EU farmers in defraying part of the costs of compliance with new and stricter EU food safety and SPS standards.

49. This horizontal measure was introduced not only in response to high profile food safety scares but also in response to EU member states' concerns about the impact of stricter food safety and SPS requirements on the competitiveness of EU agricultural production.

- **Product Promotion Programmes**

50. Since 2000, some €378.7 million in EU assistance has been allocated to the co-financing of programmes for the promotion of agricultural products on EU and international markets. These programmes are co-financed with producer organisations or marketing associations across a wide range of sectors.

51. An explicit aim of this EU measure is to increase consumer awareness of 'quality' differentiated EU products and to support their marketing both within the EU and in target markets internationally. These programmes are thus directly linked to the underlying objective of supporting the transition to 'quality' differentiated food and agricultural production in the EU.

52. It is anticipated that financing for 'promotion and information measures' will be greatly expanded in the coming period. This is in part in anticipation of the eventual abolition of export refunds as part of a wider WTO agreement.

**EU budget allocations for '*Veterinary and Plant Health Measures*' and '*Promotion and Information Measures*' (€ millions)**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|
| Vet and plant health | 102.5 | 565.5 | 222.5 | 316.9 | 360.3 | 240.9 | 268.6 | 260.3 | 407.8 |
| Promotion | 58.7 | 48.9 | 20.3 | 31.3 | 33.4 | 37.0 | 45.3 | 50.6 | 53.2 |

**Source**: Table 3.4.4.' Agriculture in the European Union Statistical and Economic Information' series annual report 2000 to 2009

## II.4. New Policy Initiatives

- **Consolidating and More Rigorously Enforcing SPS and Food Safety Regulations**

53. While food safety has been a feature of EU policy for many decades, since the mid-1990s it has been increasingly rigorously defined. Currently this more rigorous policy is being more strictly applied in trade with third countries[6]. This can profoundly impact on trade flows, with the most notable example to date in this regard being the disruption of Brazil's beef exports, arising from the more rigorous enforcement of national controls verifying compliance with EU's Sanitary and Phytosanitary Standards (SPS) and food safety standards. This resulted in a major reduction (-71%) in the number of Brazilian producers certified to export beef to the EU and a significant decline (-60%) in Brazilian beef exports to the EU market (from 364,000 tonnes in 2007 to 149,000 tonnes in 2009[7]). This occurred in a context where Brazil was the major source of imported beef into the EU. This action, taken on SPS and food safety grounds, saw an immediate increase in EU beef market prices to the benefit of EU beef producers.

[6] For a more detailed analysis of the impact of EU standards on developing countries, see 'European Food Safety Regulations and Developiong Countries', DIIS, Working paper 2009:09 at: http://www.acp-eu-trade.org/library/files/Morten_EN_010109_DIIS_European_Food_Safety_Regulation_web.pdf

[7] These figures were drawn from a European Commission briefing and were cited in a written answer on 24th April 2010 to a Parliamentary Question tabled by Brian O'Shea to the Irish Minister of Agriculture, Fisheries and Food, Bre,nden Smith. Reference to these two sources can be found in the agritrade article entitled 'Review of Situation in the EU beef market', which can be found in the June 2010 Monthlmy Agricultural News Update at: http://agritrade.cta.int/en/content/view/full/5038

- **Consolidating and More Clearly Defining Agricultural Product Quality Requirements**

54. The EU's growing policy emphasis on quality differentiated production requires:

a) a clear articulation of these quality standards;
b) the establishment of formal regulatory requirements;
c) the extension of application and recognition of these quality standards to the international level.

55. This saw the formal launch in October 2008 of an EC consultation process on an EU agricultural product quality policy and subsequently, the issuing of a formal communication on 'agricultural product quality policy' in May 2009. Specific proposals tabled included:

- extending labelling to include identification of the place where a product was produced;
- creating a register of all geographical indications (GIs), while preserving the specificities of the different systems currently in use;
- improving the functioning of the single market under various labelling schemes, particularly 'organic' labelling;
- improving international protection of GIs and international recognition of EU quality schemes in non-EU countries;
- promoting the development of 'international standards for marketing standards and 'organic' products';
- the development of 'good practice' guidelines for private certification schemes so as to reduce consumer confusion and red tape for farmers.

56. One of the primary aims of EU policy in the coming period will be to more **effectively communicate the value of quality production to EU and global consumers**, so that they are willing **to pay more for products meeting these 'quality' standards**. This is seen as a means of differentiating EU products from similar imported products, prices of which may be substantially lower than those required by EU producers. The Commission takes the view that '*in the long run, the success of the European Union's agri-food sector will be built to a large extent on high-quality production*'.

57. Against this background on 10 December 2010 the EC adopted a package of measures aimed at consolidating 'a comprehensive policy on certification schemes, value adding items for agricultural qualities and product standards'. According to Agriculture Commissioner Ciolos 'it's a first step on the path of building on a stronger and more dynamic farming sector', in the context of the pressures farmers face from 'the economic downturn, concentration of retailer bargaining power and global competition'. The package of measures consists of:

- a proposal for a new 'Agricultural Product Quality Schemes Regulation';
- a proposal to streamline adoption of marketing standards by the Commission';

- new guidelines on best practices for voluntary certification schemes and on the labelling of products using geographical indications as ingredients, based on the findings of a 2010 study of existing certification schemes'.

Specific changes introduced through the 'quality package' proposals relate to:

- streamlining of the registration process for geographical indications and traditional specialities;
- ensuring the proper use of premium terms (such as 'free range' for chicken) showing high value quality production;
- facilitating modification of 'marketing standards and rules on origin labelling';
- establishing 'voluntary best practice guidelines …for certification schemes';
- introduction of 'voluntary labelling guidelines …for food products with protected designations of origin or protected geographical indications as ingredients'.

- **Strengthening the Functioning of the Food Supply Chains**

58. The dismantling of administratively determined prices, which insulated the process of EU price formation from global price trends, has revealed inequalities in the distribution of commercial power along food supply chains. Put simply, when prices were determined administratively by the EU, inequalities in power relationships within the supply chain did not result in any downward pressure on producer prices, since prices were set administratively at high levels designed to sustain production across the EU. With the dismantling of the systems of guaranteed prices, prices offered farmers for their products are now more a function of commercial negotiations, where inequalities in power relationships can come into play, by lowering prices paid to farmers.

59. Against this background, in an era of heightened price instability, it is feared that these inequalities in the distribution of commercial power along the supply chain could lead to price falls being disproportionately passed on to farmers. It is feared that such a development could undermine the production base across a range of agricultural sectors in the EU (of most notable concern is the dairy sector). These concerns were thrown into focus by the sharp price declines which followed on from the financial crisis and the global economic downturn, particularly as this affected the EU dairy sector.

60. Given this context, the EU launched a review of the functioning of the food supply chain in the EU, which in October 2009 gave rise to a formal communication. The initial review suggested a need for 'concrete actions to improve (the) functioning of the food supply chain in the EU' and improve 'commercial relationships between actors of the chain' to the ultimate benefit of all concerned. Particular importance was attached to boosting 'farmers bargaining power in the supply chain'. More specifically the EC communication proposed to:

- 'promote sustainable and market-based relationships between stakeholders in the food supply chain', by identifying 'unfair contractual practices stemming from asymmetries in bargaining power', monitoring 'potential abuses', and where deemed necessary, drafting 'standard contracts with stakeholders from the different sectors';

- 'increase transparency in the food supply chain' by establishing a 'European food prices monitoring tool', improving 'oversight of agricultural commodity derivatives markets' so as to 'contain volatility and speculation', and establishing 'price comparison services' at the national level to allow consumers to compare prices of different retailers;

- 'foster the integration of the internal market for food and the competitiveness of all sectors of the food supply chain' by removing measures which 'impede cross-border trade' within the EU.

61. In addition it has been recognised that some review of competition policy rules with specific reference to the development of producers' organisations in particular sectors may also be necessary. Indeed, this has been a subject of intense debate.

62. Against this background on December 9th 2010 the EC tabled proposals on 'contractual relations in the milk and milk product sector'. The proposal provides for 'written contracts between milk producers and processors, the possibility to negotiate contract terms collectively via producer organisations', so as to 'balance the bargaining power of milk producers relative to major processors'. 'Specific EU rules for inter-branch organisations and measures for enhancing transparency in the market' are also proposed. The aim of these written contracts is to encourage all dairy chain stakeholders to:

∗ 'be more aware of the state of the market';
∗ 'respond better to signs of changes in the market';
∗ 'keep wholesale and retail prices more in line with prices paid to farmers';
∗ 'adapt supply to demand';
∗ 'end unfair commercial practices'.

63. Overall the proposals are designed to address the 'important imbalances in the supply chain' identified by the High Level Experts' Group on Milk. These measures proposed are seen as temporary, designed to support adaptation processes in the context of the abolition of production quotas in the dairy sector. These measures if adopted would remain in place until 2020, with two intermediate reviews in 2014 and 2016.

64. This policy area is likely to receive considerable attention moving forward, since it offers a low-cost option for averting crisis situations in specific farming sectors. Such low-cost options are likely to be favoured in an era of fiscal constraint.

## II.5. National Support to Agriculture

65. The level of national expenditures on agriculture varies considerably from country to country and at the EU level from year to year. These national supports are provided over and above the EU CAP budget, and in addition to the EU financed Rural Development expenditures.

66. These national expenditures in support of agriculture are governed by common EU rules and are subject to close scrutiny.

67. The largest national expenditures in support of agriculture take place in France, Germany, Italy, Finland and more recently Poland, with theses countries accounting for between 52% and 65% of total reported EU national expenditures on agriculture.

68. Increasingly these national measures are expanded in response to particular crisis situations or in response to specific national concerns.

69. Thus, due to the dairy crisis in October 2008, the EC relaxed the rules on national expenditures to allow member states governments to make one-off payments of up to €15,000 per farmer up to the end of 2010.

70. Up to the end of April 2010, 9 EU member states governments had taken advantage of this scheme, at a total cost of €1,080 million.

71. This constitutes a further area of support for EU farmers which can be deployed in response to sharp declines in prices, which could undermine the basis of agricultural production in particular sectors of the EU farming economy.

## II.6. Transitional Measures and Emergency programmes

- **Emergency Programmes**

72. The EU has implemented special financial measures for sectors facing severe difficulties.

73. The most recent in this regard was the July 2010 programme of measures specifically to assist EU milk producers. This saw some €300 million in additional support provided directly to EU milk producers, with a further additional €300 million being spent on market support measures. These additional EU level expenditures were equivalent to 12% of the direct aid payments made to EU dairy farmers.

74. In addition, the rules governing national aids to farmers were relaxed to allow one-off payments of up to €15,000 per farmer from national financial resources (total expenditures by April 2010 € 1,102.39 million).

***Temporary Programmes of Assistance (Uptake of €15,000 per farmer Grants) – total cost € millions***

| Country | France | Netherlands | Belgium | Lithuania | Italy | Hungary | UK | Bulgaria | Austria | Finland |
|---|---|---|---|---|---|---|---|---|---|---|
| Amount | €700 | €2.8 | €2.73 | €2.9 | €320 | €18.2 | €22.3 | €10.26 | €1.2 | €22.0 |

- **Transitional Measures**

75. In addition to the basic systems outlined above, the EU has also financed special transitional measures, most notably in the sugar sector.

76. This included additional restructuring payments for farmers of €62.5 per tonne of beet production quota given up (with this subsequently being increased to €300 per tonne to 'incentivise' quota withdrawal) and the mobilisation of some €8 billion in restructuring support for sugar processing companies (raised through a special restructuring levy on remaining sugar producers).

## II.7. Traditional Agricultural Trade Policy Tools

- **MFN import tariffs,**

77. The use of import tariffs is still commonplace. Tariffs are still largely in place for ***cereals, prepared cereal products, rice, fruit and vegetables (including bananas), dairy products, meat products*** and ***sugar***. Within these product categories, tariff levels can vary from product to product. In some instances, duties have been set at zero in response to high world market prices.

78. The EU trades with only 10 WTO members on MFN terms (Australia, Canada, Chinese Taipei, Hong Kong, China, Japan, Korea, New Zealand, Singapore and the United States). These 10 countries account for 43.9% of the EU's total merchandise imports in 2009. For most countries, a variety of preferential trade arrangements are in place, although preferences are much more limited in the food and agricultural sector than for non-agricultural products.

- **Tariff rate quotas (TRQs)**

79. TRQs are the principal vehicle through which the EU manages access to the EU's agricultural markets under most trade agreements. These grant tariff concessions on specific volumes of exports of specified commodities to the EU.

- **Seasonal TRQs**

80. Some TRQs apply only at certain times of the year. Within these time periods, import duties are being subject to reduction or suspension. Outside of these time period imports are subjected to the standard MFN or GSP duties. The system of seasonal TRQs is mainly used in the fruit and vegetables sector.

- **Entry price system**

81. In some sectors imports take place on the basis of a minimum **entry price system**. Under this system actual tariffs applied are set with reference to these minimum

import price levels, with the tariff being designed to take the price up to the minimum import price level (e.g. in the fruit and vegetables sector). There are often complaints from EU producers about abuses of the entry price system (non-payment of the relevant duties by the importers) and pressure is mounting for its reform or replacement by a more effective system.

- **Import licences**

82. Import licensing remains central to the EU's managed trade regime, particularly for the management of TRQs. Import licences can also be used to regulate who is allowed to import, based on food safety and SPS grounds (e.g. in the dairy sector). Providing preferential access to import licences can also be used to pursue certain policy objectives (e.g. preferences extended to traditional refiners in importing ACP preferential sugar).

83. Up until 12 June 2008, the EU had in place licensing requirements for some 500 agricultural products (at the eight digit level). Reforms introduced at this time reduced the number of agricultural products requiring import licences to 65, some 4% of total agricultural tariff lines at the eight digit level (down from 30%).

- **Export licences.**

84. Export licences form an integral part of the EU market management regime, particularly in the use of export refunds. While the use of export licences is routine in many sectors, their use can be controversial (e.g. the issuing of export licences for a further 500,000 tonnes of out of quota sugar in January 2010 – see box for summary details).

**The EU Use of Import and Export Licences**

On June 12th 2008 the EC announced the modification of its import and export licensing system in the food and agricultural sector. Prior to this decision, licensing requirements existed for imports of some 500 products (at the eight digit level). The decisions removed the requirement for import licences on 435 of these 500 products (leaving 65 subject to import licences arrangements). For exports in the future, only 43 products will be subject to export licences. In the cereals sector alone the June 12th EC decision will reduce the number of products subject to export licences to 21 from the current level of 133. According to the European Commission as a result of this reform "*operators will no longer have to apply for licences and deposit costly securities… thereby saving time and reducing costs*".

These leaves 108 product subject to either import or export licence arrangements out of a total of 1650 eight digit tariff lines falling under the CAP (6.5% of the affected tariff lines, down from over 40% of agricultural tariff lines prior to this decision). Thus at the time of the initialling of the interim Economic Partnership Agreements (EPAs) with the African, Pacific and Caribbean (ACP) countries in 2007, the EU itself made use of import and export licences to regulate trade in over 40% of agricultural tariff lines falling within the scope of the CAP.

It should be borne in mind that this modification to the EU's import and export licence regime is a product of a system of agricultural reform in the EU initiated in 1992 and involving both a series of major waves of reform (1992, 2000, 2003) and an ongoing process of sector based reforms (e.g. 1995 rice, 2005 sugar, 2007 bananas). This reform is the product of the adoption of a single regime for the common organisation of the market adopted in 2007, 15 years after the initiation of internal reforms. It is being achieved within a system which now spends over €50 billion per annum in EU funds on agriculture and rural development measures and around €10 billion a year in co-financing from member states national budgets. This is a level of public expenditure in nominal terms around twice the level prevailing prior to the initiation of reforms in 1992.

According to the EU "*the use of licences allows for a detailed monitoring of trade in often sensitive product areas and facilitates the anticipation of trade developments. It also makes it possible to manage CAP measures such as tariff quotas and export refunds. Import licenses will also continue to apply to some products that are imported under preferential trade terms*".

For more details of the reform of the EU's import and export licensing scheme see *IP/08/922*, June 12th 2008

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/922&format=HTML&aged=0&language=EN&guiLanguage=en

**The Experience of the Use of EU Export Licences in the Sugar Sector in 2010**

In response to EU sugar industry pressure, following an exceptionally good sugar beet harvest, on 27 January 2010 the EC announced its intention of issuing export licences for the export of a further 500,000 tonnes of out-of-quota sugar in the 2009/10 marketing year (to July 31st 2010). According to the then Agriculture Commissioner Marianne Fischer Boel, the world market price situation was such as to allow the EU to export sugar without any need for export subsidies. This it was argued, allowed the EU to export out-of-quota sugar without export subsidies or cross-subsidisation, thereby allowing the EU to respect its WTO commitments.

This, however, provoked bitter criticism from Brazil, particularly since almost immediately, the world market price began to fall, losing around 50% of its value in a six-month period

**READERSHIP SURVEY QUESTIONNAIRE**
**South Centre Analytical Note**

**EU'S COMMON AGRICULTURAL POLICY (CAP): TOOLS PROTECTING EUROPEAN FARMERS**

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**Chemin du Champ d'Anier 17**
**Case postale 228, 1211 Geneva 19**
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**Telephone: (41 22) 791 8050**
**Fax: (41 22) 798 8531**
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