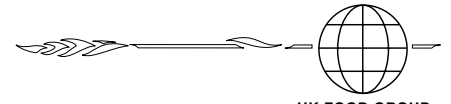


# The Common Agricultural Policy

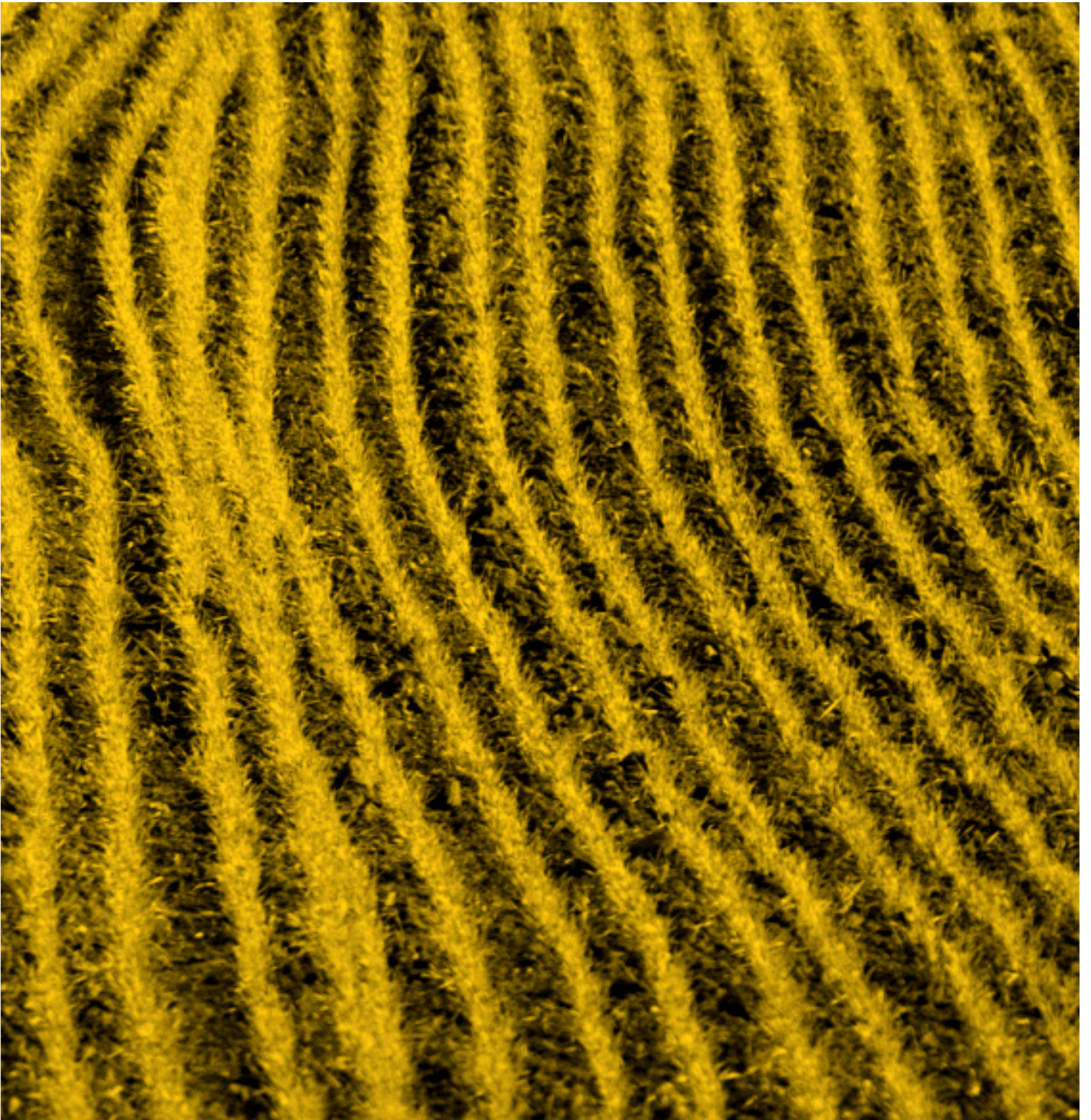
How the CAP operates, the key commodities, competitors and markets for the European Union



UK FOOD GROUP



## Background Briefing 1



## **Introduction**

In order to support its advocacy work on agricultural trade and policy, the UK Food Group and Sustain: the alliance for better food and farming, commissioned the Institute for European Environmental Policy (IEEP) to document the way in which Europe's Common Agricultural Policy (CAP) operates, the agricultural sectors that benefit most from subsidies or protectionist measures, the key produce, markets and competitors for the European Union (EU) and in particular UK agriculture. The briefing also outlines the main impact of the CAP on world trade, developing countries, consumers, farmers, processors and exporters and the environment. The paper is intended as a background briefing to enhance knowledge, and promote informed discussion on the reform of the CAP and the agricultural trade negotiations at the World Trade Organisations.

IEEP were also commissioned to produce a second paper outlining possible reform scenarios for the CAP and their impact on key stakeholders. This will be the subject of a second background briefing to be published later this year.

UK Food Group and Sustain members will be undertaking further work on the impact of the CAP and reform proposals that would lead to a more sustainable and equitable agricultural policy for the European Union.

## **UK Food Group**

The UK Food Group is a network of non-governmental organisations from a broad range of development, farming, consumer and environment organisations, who share a common concern for global food security. Through raising awareness of the impact of globalisation in food and agriculture the UK Food Group seeks to promote sustainable and equitable food security policies. The priority areas of action are trade policies, sustainable agriculture and the regulation of food and agriculture transnational corporations.

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## **Sustain: The alliance for better food and farming**

Sustain represents over 100 national public interest organisations working at international, national, regional and local level. Sustain's aim is to advocate food and agriculture policies and practices that enhance the health and welfare of people and animals, improve the working and living environment, promote equity and enrich society and culture.

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## Key Facts

- Agriculture contributes less than 2 per cent of Gross Domestic Product (GDP) in the EU as a whole, and accounts for around 4.5 per cent of employment.
- More than three-quarters of land in the EU is dominated by agriculture or woodland.
- The EU is the largest single import market for agricultural produce in the world.
- The current cost of the CAP to the world economy is estimated at US\$ 75 billion a year, two-thirds of which is born by the EU.
- The CAP consumes about 45 per cent of the total EU budget – around 43 billion Euro each year.
- Two-thirds of the CAP budget is spent on crops rather than livestock. 'Direct payments' to farmers account for around 65 per cent of the CAP budget. Other support includes fixing guaranteed minimum prices maintained by intervention buying and production quotas and this therefore is mostly funded through higher consumer prices.
- At least one-quarter of the CAP budget is paid to processors, exporters and other organisations rather than the producer.
- France, Denmark and certain other countries emerge as 'winners' in the CAP, having a greater share of expenditure under the CAP than their contribution to the EU budget overall.
- Direct payments are biased in favour of larger farmers, being based on the scale of production.

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## 1. EU agriculture and world trade

### 1.1 Agricultural production in Europe

Today, agriculture is no longer a major economic sector in the European Union. The agricultural sector contributes a limited share of Gross Domestic Product (GDP) in most Member States. In the EU as a whole it is about 1.8 per cent of GDP (Directorate-General for Agriculture, 2001). In the United Kingdom (UK), the figure is particularly low, at around 1 per cent, although the total agro-industrial complex has a much bigger share in national income. Including merchants, wholesalers, food and drink manufacturers, retailers and caterers, the contribution is around 9 per cent or £55 billion to UK GDP (MAFF, 2000a). The agri-food sector (primary production, processing and deliveries to these sectors) has a share of around 6 per cent of total gross value added in the EU as a whole. Agriculture also accounts for only a small and declining proportion of EU employment – currently 4.5 per cent, although the figure varies considerably between regions (European Commission, 2001b). However, agriculture is a dominant user of land in most European countries. More than three-quarters of the territory of the EU is agricultural or wooded land, and farming is a significant feature of Europe's rural areas. For that reason, and because of its much greater economic, political and social significance in the immediate post-war period during the establishment of the European Community (EC), agriculture has a prominent place in EU policies and the CAP still absorbs about 45 per cent of the total EU budget.

The EU is a key producer of food in the world market and it also represents the largest single import market in the world. While a relatively small proportion of total temperate foodstuffs (of the kind mainly produced in the EU) is traded internationally, the EU is a major exporter of several commodities, as well as a powerful importer, giving it considerable leverage in world trade.

The gross production value of EU agriculture in 2000 is estimated at around 265 billion Euro, including crop products (150 billion Euro) and livestock products (115 billion Euro). The major commodities include:

- Milk, which had a share of 17.6 per cent of total production value in 1997, and is the source of a wide diversity of traded products, including butter, cheese and milk powder. About 25 per cent of the total export of dairy products by the EU is to non-EU

countries, including the Russian Federation, the US and Saudi Arabia;

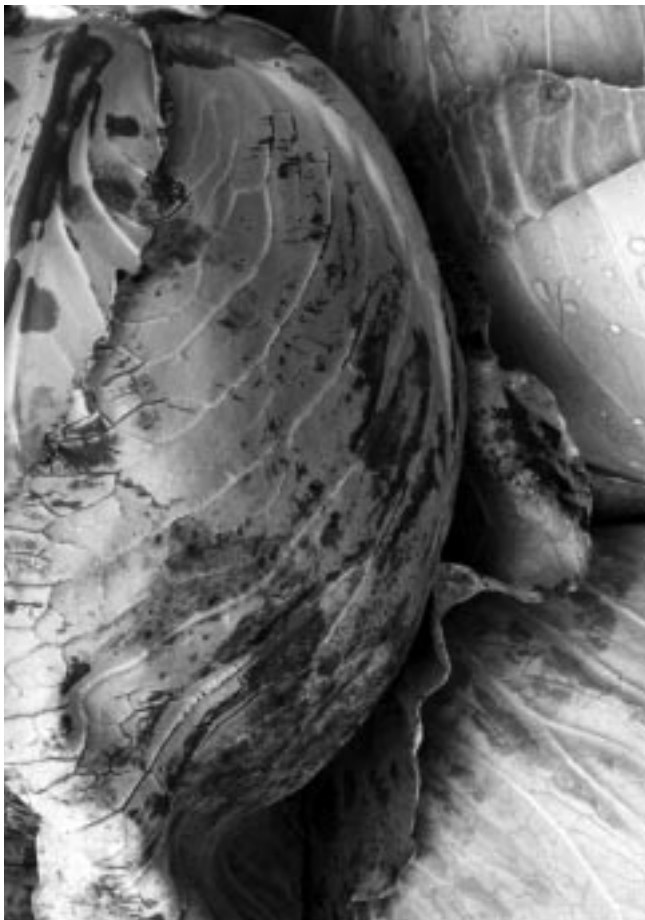
- Cereals, including wheat, barley, rye and maize, with a share of slightly less than 10 per cent by value and representing an important source of domestic livestock feed as well as a significant commodity for export;
- Beef and veal, with a share of about 10 per cent of total agricultural production. The incidence of BSE in the UK and other EU Member States in recent years has resulted in fluctuations in output levels and instability in the domestic market. EU beef production was reduced between 1995 and 1997. Total beef production fell by around 30 per cent in the UK and all exports ceased from 1996, although many have since been reinstated. EU exports of beef to third countries, which are also significant, remained fairly stable until 1997 but have fallen more recently;
- Piguemeat, with a share of 12.2 per cent of agricultural production. The sector has faced some severe disease outbreaks in recent years, including classical swine fever in the Netherlands in 1997 and the foot and mouth disease crisis in several countries in 2001. Intra-EU trade of pigmeat covers around 80 per cent of total EU trade in pigmeat but export to third countries is also significant. More than half of the exports of pigmeat to non-EU countries are to Japan (these are dominated by Denmark);
- Poultry, accounting for about 5.5 per cent of output receives relatively little support under the CAP but production has been growing rapidly in recent years. Exports exceed imports with a self-sufficing ratio of around 110 per cent in 1997;
- Oilseeds and protein crops, which have a relatively minor share of total production value but which are more important in relation to trade, mainly for livestock feed. Historically, the EU has been seen as a significant market for the US and other exporting countries, while domestic production has been heavily supported through the CAP;
- Vegetables, with a share of 9 per cent of total agricultural production but a much less important role in international markets. The movement of vegetables is mainly intra-EU trade. The export of tomatoes to third countries accounts for less than 20 per cent of their total export value, and this is mainly to the USA and the Russian Federation;
- Other products benefiting from CAP support with a considerable share in production value include fruit

(4.1 per cent) and wine (6 per cent). Wine plays a very important role in export markets. The EU accounts for about 60 per cent of world production of wine, and is the leading exporter on the global market. Recently, there has been a growth in imports to the EU from 'newer' exporting countries like Chile, South Africa, the US and Australia;

- Sugar beet has a share of about 2.6 per cent of agricultural production with a self-sufficiency ratio of about 113 per cent for sugar in the EU. Exports exceed imports, primarily of cane from tropical suppliers. Most sugar is used for human consumption but there is a small industrial market as well;
- The EU is also a minor producer and a major importer of certain products of particular trade significance, such as rice, cotton, tobacco, bananas and sugar cane.

Fruit and vegetable production is concentrated in the Mediterranean part of Europe while cereals, beef, dairy and oilseeds production are more dispersed around the Member States. The greatest intensities of production are in France, Germany and the UK. Pigmeat production is particularly important in Denmark, the Netherlands, northern Germany, Spain, Brittany and the UK. The main production areas for citrus fruit are Spain, Italy and Greece.

Certain products, including potatoes and some kinds of fruit and vegetables lie outside the CAP and are not discussed further here. They account for about 13 per cent of all farm output in the EU.



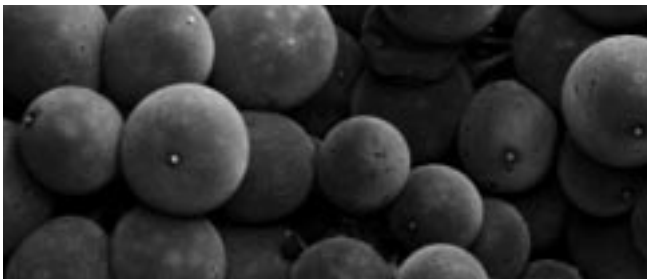
## 1.2 EU imports and exports

There are important variations from year to year and in the course of production and market cycles but the levels of exports of some key commodities – by value and by volume – are shown in the tables below. Animal products are especially significant. Milk product exports include large volumes of butter and milk powder, lower value commodities which depend heavily on the availability of export subsidies under the CAP to enter external markets (fig.1.0-1.1).

To appreciate the relative importance of the EU as a player in global trade markets, we need to look at its relative share of trade (imports and exports) in the principal commodities, as shown below (fig.1.2).

Among the main commodities, EU dairy products dominate export markets, but cereals, meat and wine are also important, as well as particular kinds of fruit and vegetable products including tomatoes, citrus fruits and olive oil. However, it should also be remembered that processed and higher value products, such as spirits, biscuits and confectionery, canned and frozen foods, also make up a significant share of EU exports. In relation to EU imports, cereals and oilseeds are relatively more important than dairy products, but meat is also significant.

To provide more detail on key commodities, the following tables and text look in particular at common wheat, oilseeds, wine, sugar and the key livestock products of dairy, beef, pigmeat and sheepmeat.



<sup>(1)</sup> EU-15, including Canary Islands and the French overseas departments from 1997.

<sup>(2)</sup> Figures are for 1996 and 1997 respectively.

Source: Commission of the European Communities (2001c).

**fig 1.0**

**Exports of agricultural products by the EU (value in million US Dollars)**

Commodities	EU-15	
	1997 <sup>(1)</sup>	1998
Cereals	2,355	1,866
Live animals	750	729
Meat and edible meat offal	4,128	3,674
Dairy produce; eggs; natural honey	5,423	5,002
Edible vegetables, plants, roots and tubers	1,355	1,445
Edible fruit and nuts, peel of citrus fruit or melons	1,681	1,509
Alcoholic beverages <sup>(2)</sup>	10,160	10,595

<sup>(1)</sup> EU-15, including Canary Islands and the French overseas departments from 1997.

Source: Commission of the European Communities (2001c).

**fig 1.1**

**EU exports by product and aggregate (volume in 1,000 tonnes)**

Commodities	EU-15	
	1997 <sup>(1)</sup>	1998
Wheat and wheat flour	14,784	13,324
Fruit and vegetable preparations	1,106	1,141
Cheese	283	175
Milk and other milk products	512	448
Wine (1000 hl)	12,226	12,855
Beef and veal	1,055	773
Pigmeat	1,105	1,267
Sheepmeat and goatmeat	4.1	4.2

<sup>(1)</sup> Exports (excluding intra-EU trade) and excluding processed products.

<sup>(2)</sup> Cereals as grain; processed products excluded.

<sup>(3)</sup> Including salted meat.

<sup>(4)</sup> Excluding salted meat for trade.

Source: Commission of the European Communities (2001c).

**fig 1.2**

**EU-15 and world production and trade in the principal agricultural products (1997)**

	World production 1000t <sup>(1)</sup>	World trade 1000t	per cent of world trade	
			Imported by EU	Exported by EU
Total cereals (except rice) <sup>(2)</sup>	1,523,167	191,483	3.2	10.2
– of which wheat	609,566	101,163	3.5	13.0
Wine	26,423	2,325	27.9	60.6
Total milk	471,794	599	3.0	28.0
Butter	6,607	830	11.1	20.2
Cheese	15,084	1,097	11.6	40.8
Milk powder (skimmed & whole)	6,035	2,522	2.9	30.3
Total meat (except offal)	221,025 <sup>(3)</sup>	11,456 <sup>(4)</sup>	6.6	19.1
– of which beef and veal	56,948 <sup>(3)</sup>	3,931 <sup>(4)</sup>	4.5	13.3
– pigmeat	87,873 <sup>(3)</sup>	1,243 <sup>(4)</sup>	3.0	51.2

### 1.3 Supply balance and markets for key commodities

The following tables are based on EU statistics. They show the position in the late 1990s, including the most recent year available from published sources. However, the full effects of BSE, foot and mouth disease and the Agenda 2000 changes to the CAP will not be evident until data from the beginning of the new century becomes available. Even though the following data is from the same EU documentary source there appears to be some inconsistency between tables covering commodities such as milk and oilseeds (fig 1.3).

#### Common wheat

In 1999 the production of common wheat was up by 7.8 per cent (94.4 million tonnes) in spite of a total rate of set-aside of 10.4 per cent. Little common wheat is imported whereas 15.1 per cent of the usable production is exported (1997/98). Human consumption of common wheat in the EU increased during 1997/98 to reach its highest level over the previous four year period, at 63.5 kg/head. Major export markets for the EU include the Middle East and the Russian Federation. The EU competes with other major exporters, notably the US, Canada, Australia and sells a range of cereals, including malting barley, an important export for the UK. Imports also take place; for example in July 2001, Spain and Portugal were importing bread wheat from the US, while Italy and Austria were purchasing Hungarian wheat.

#### Wine

Wine production in the European Union in the 1998/99 wine year totalled 159 million hl. The European Union accounted for around 62 per cent of world wine production in the 1997/98 wine year, and was the world's largest wine exporter with 12.8 million hl in 1998. For 1998, the main buyers of EU wine were the US (around 3 million hl), Japan (1.9 million hl), Switzerland (1.6 million hl) and Canada (1.1 million hl). Significant wine imports into the EU in 1998 came from Australia (1 million hl), the US (815,626 hl), Chile (780,906 hl), South Africa (760,439 hl) and Bulgaria (609,501 hl). The EU Member States importing most wine in 1998 were the UK with 44 per cent of total imports and Germany with 25 per cent of total imports. Human wine consumption in the more traditional wine drinking countries such as France and Italy is declining but there is growth in others such as the UK (fig 1.4).

#### Sugar

In 1998 the area grown with sugar beet reduced by 2.4 per cent compared to the year before corresponding to 1,993,000 hectares. The average yield in 1998 reached 8.07 tonnes per hectare which was a decrease compared to the previous year but still 8.03 per cent above the average level from 1994 to 1998. The production of sugar (white sugar equivalent) in 1998 totalled 16,382 million tonnes of which 16,076 million tonnes derived from sugar beet, 257,000 tonnes came from cane and 49,000 tonnes from molasses. The chemical industrial use of sugar in 1998 increased by 20 per cent to 312,000 tonnes; human consumption has been stable over the last five year period (fig 1.5).





<sup>(1)</sup> Calculated on intra-import basis.  
Source: Commission of the European Communities (2001c).

**fig 1.3**  
Supply balance - **common wheat** (1,000t)

Common wheat	EU-15			
	1994/95	1995/96	1996/97	1997/98
Usable production	77,081	80,080	91,144	87,558
Imports	1,571	1,467	1,090	1,971
Exports	15,990	12,136	13,229	13,252
Intra-EU trade <sup>(1)</sup>	16,210	16,617	21,947	17,038
Internal use	67,483	70,364	72,647	75,825
Human consumption (after processing)	22,551	22,931	23,518	23,739
Human consumption (kg/head)	60.8	61.7	63.1	63.5
Self-sufficiency (per cent)	114.2	113.8	120.4	115.5

<sup>(1)</sup> EU-12.  
Source: Commission of the European Communities (2001c).

**fig 1.4**  
Supply balance - **wine** (1,000hl)

Total wine	EU-15			
	1994/95 <sup>(1)</sup>	1995/96	1996/97	1997/98
Usable production	155,423	154,696	169,323	156,671
Imports	3,862	6,676	5,725	6,169
Exports	12,498	9,663	13,720	14,187
Intra-EU trade	31,346	29,996	29,296	33,543
Human consumption	124,588	129,781	128,147	126,041
Human consumption (l/head)	35.9	35.2	34.7	33.6
Self-sufficiency (per cent)	112.0	108.0	122.0	116.0

<sup>(1)</sup> Excl. C sugar.  
<sup>(2)</sup> Excl. sugar traded for processing.  
<sup>(3)</sup> Ratio of human consumption to resident population at 1 January.  
Source: Commission of the European Communities (2001c).

**fig 1.5**  
Supply balance - **sugar** (year October/September)

Sugar	EU-15			
	1,000t white sugar			
	1995/96	1996/97	1997/98	1998/99
Total production – of which:	15,859	16,767	17,764	16,382
C sugar production for export	1 581	2,369	3,148	2,021
Usable production <sup>(1)</sup>	14,278	14,398	14,616	16,361
Imports <sup>(2)</sup>	2,200	2,272	2,181	2,316
Exports <sup>(1)(2)</sup>	3,600	3,313	3,720	3,700
Intra-EU trade	(1,684)	(1,871)	(1,679)	(1,700)
Internal use	12,559	12,727	12,708	12,700
– of which animal feed	5	2	2	2
– industrial use	246	250	260	312
– human consumption	12,308	12,475	12,446	12,386
Human consumption (kg/head) <sup>(3)</sup>	33.2	33.5	33.3	33.1
Self-sufficiency (per cent) <sup>(1)</sup>	113.7	113.1	115.0	113.1

**Oilseeds**

In 1998 overall oilseed production in the EU was 15.9 million tonnes (including 1.2 million tonnes of non-food production) which was an increase of 44 per cent and 11 per cent compared to 1996 and 1997, respectively. The European Union is a significant net importer of oilseeds. Soya beans account for most imports and between 1996 and 1998 the proportion of total imports varied between 81 and 86 per cent. Two product categories derive from oilseeds: oil for human consumption, and cake for animal feed. The latter is responsible for the main European imports, as soya beans (mostly from the US) are used as an important protein source in the EU livestock feed sector (fig 1.6).

**Dairy products**

Because of the variety of products derived from milk, it is more difficult to obtain a supply balance of the kind available for other commodities. The table shows output of the main products and trade levels in three key commodities (fig 1.7).

Milk production is the most important segment of EU agriculture in economic terms, particularly in northern Europe. The four biggest Member States and the Netherlands are responsible for three-quarters of output. The EU is the world's largest exporter of milk. In 1998 EU dairy exports were about 15 million tonnes milk equivalent while imports were in excess of 3.6 million tonnes. Major export markets for EU dairy products include the Russian Federation, Asia and Latin America, Japan and North Africa. Exports rely heavily on subsidies, with volumes bound under GATT agreements. Imports into the EU include butter and cheese, particularly for the UK market, with New Zealand a major supplier.



<sup>(1)</sup> Rapeseed, sunflower seed and soya beans.  
<sup>(2)</sup> Based on quantities entering.  
<sup>(3)</sup> Soya beans are not included in the 1996 EU production figure.  
 Source: Commission of the European Communities (2001c).

**fig 1.6**  
**Oilseed** internal and external trade (1,000t)

Oilseed <sup>(1)</sup>	EU-15		
	1996	1997	1998
EU production	11,021 <sup>(3)</sup>	14,336	15,902
Intra-EU trade <sup>(2)</sup>	3,428	4,094	4,072
Imports	17,143	16,057	17,574
– of which rapeseed	568	279	620
– sunflower seed	2,700	1,957	2,193
– soya beans	13,875	13,821	14,761
Exports	507	569	801

<sup>(1)</sup> Figures are for 1997.  
 Source: Commission of the European Communities (2001c).

**fig 1.7**  
**Milk** and milk products - EU market (1998)

Number of dairy cows (1,000 head)		21,506
Production (1,000t)	Cow's milk	120,837
	Cow's milk delivered to dairies	113,403
	Fresh milk and fresh milk products	38,793
	Butter	1,833
	Cheese	6,341
	Skimmed-milk powder	1,081
	Other milk powder	1,015
	Concentrated milk	1,242
	Casein	141
Imports (1,000t)	Butter	71
	Cheese	100
	Skimmed milk powder <sup>(1)</sup>	64
Exports (1,000t)	Butter	222
	Cheese	453
	Skimmed milk powder <sup>(1)</sup>	279
	of which	
	– exports at world market prices	275
	– food aid	4



### **Beef and veal**

There has been an excess of supply over domestic consumption for many years and strong reliance on export subsidies eg for exports to the Russian Federation and the Middle East. In 1998 total EU beef and veal production was down by 3.4 per cent but still accounted for about 14 per cent of world production. The per capita consumption of beef and veal in the EU fell in 1996 with the BSE outbreak and subsequently exports have been substantially affected (fig 1.8).

### **Pigmeat**

In 1998 the world's leading producer of pigmeat was China with output totaling 36.9 million tonnes, followed by the EU with 17.6 million tonnes, which was an 8.2 per cent increase on 1997. Production has been increasing in recent years and consumption has not declined due to food scares, as it has for beef. There is some production surplus but several EU countries, including Denmark are competitive exporters. The level of CAP subsidy in the sector is very low. The most important destinations for EU export in 1998 were Russia (335,000 tonnes), Japan (175,000 tonnes) and Hong Kong/China (145,000 tonnes). In 1998 35 per cent of exports qualified for export refunds due to depressed world prices relative to the EU but this varies – in 1997 for example the figure was only 18 per cent (fig 1.9).

### **Sheepmeat and goatmeat**

Production of sheepmeat in the EU is heavily concentrated in a few Member States, notably the UK, Ireland, Spain, Greece and France. EU production has been steady or slightly declining through the 1990s mainly due to declines in flocks in certain Member States, particularly France. Most trade in sheepmeat is between the EU countries (including exports from the UK and Ireland) but there are significant imports from outside the EU, mainly from New Zealand. These imports traditionally complement the seasonality of lamb production in filling a gap in the market when EU lamb is less readily available. Exports are negligible (fig 2.0).

After China the EU is the world's second largest producer of sheepmeat and goatmeat. The EU is also the second largest consumer after China. EU imports are carried out under WTO tariff-free or reduced-tariff quotas together with additional quantities provided in specific trade agreements. New Zealand is the world's main exporter and is generally close to its EU tariff-free import quota of 226,700 tonnes. Australia is the second largest exporter to the EU but at a much smaller level of around 19,000 tonnes.

There are major imports of several other commodities, including:<sup>7</sup>

- Proteins and animal feed
- Tropical produce
- Fruit and vegetables.

<sup>(1)</sup> Total trade, with the exception of live animals.

<sup>(2)</sup> All trade, including live animals (figures are based on imports).

<sup>(3)</sup> Carcass weight.

Source: Commission of the European Communities (2001c).

**fig 1.8**

Supply balance – **Beef/veal** (1,000t <sup>(3)</sup>)

Beef/veal	EU-15			
	1995	1996	1997	1998
Net production	7,964	7,950	7,889	7,624
Imports <sup>(1)</sup>	377	364	392	353
Exports <sup>(1)</sup>	1,006	965	971	694
Intra-EU trade <sup>(2)</sup>	1,974	1,671	1,811	1,832
Internal use (total)	7,480	6,934	7,114	7,398
Gross consumption (kg/head/year)	20.1	18.6	19.0	19.7
Self-sufficiency (per cent)	108.5	116.2	111.5	103.6

<sup>(1)</sup> carcass weight.

Source: Commission of the European Communities (2001c).

**fig 1.9**

Supply balance – **pigmeat** (1,000t <sup>(1)</sup>)

Pigmeat	EU-15			
	1995	1996	1997	1998
Net production	16,088	16,384	16,279	17,584
Imports	83	95	62	44
Exports	772	861	949	1,034
Intra-EU trade	3,324	3,376	3,574	4,068
Internal use (total)	15,191	15,484	15,175	16,501
Gross consumption (kg/head/year)	41.0	41.7	40.8	44.0
Self-sufficiency (per cent)	106.0	105.7	107.3	106.6

**fig 2.0**

Supply balance – **sheepmeat and goatmeat** (1,000t)

Sheepmeat and goatmeat	EU-15			
	1995	1996	1997	1998
Net production	1,180	1,172	1,130	1,153
Imports <sup>(1)</sup>	238	255	257	256
Exports <sup>(1)</sup>	6	8	3	3
Intra-EU trade <sup>(2)</sup>	225	244	214	214
Internal use (total)	1,412	1,419	1,383	1,406
Gross consumption (kg/head/year)	3.8	3.8	3.7	3.8
Self-sufficiency (per cent)	82.4	81.7	80.8	81.2

<sup>(1)</sup> carcass weight - All trade with the exception of live animals.

<sup>(2)</sup> All trade in carcass weight, with the exception of live animals (figures based on imports).

Source: Commission of the European Communities (2001c).

The major export markets for EU agricultural products are shown in the table below. The importance of Organisation for Economic Cooperation and Development (OECD) member countries is clear, reflecting the high proportion of processed products in this category. Nearly half of US imports from the EU for example consist of 'Beverages', notably wines and spirits. Russia is an important market for EU agricultural commodities, including grains, meat and dairy products and is the recipient of a large volume of

food qualifying for export subsidies. Developing countries also appear on this list and it should be recalled that poorer countries importing relatively small quantities from the EU may nonetheless be affected significantly by the resulting impact on their national markets (fig 2.1).

Source: European Commission 2001c

**fig 2.1**  
**Principal export markets for EU Agricultural Products in 1998**  
– ranked by value

Country	Exports – Millions
	ECU
US	8,034
Russia	4,038
Japan	3,627
Switzerland	3,131
Poland	1,767
Hong Kong	1,321
Saudi Arabia	1,210
Canada	1,172
Norway	1,171
Algeria	1,080
Czech Republic	951
Turkey	889
Egypt	742
Brazil	737
Australia	714
Taiwan	605
United Arab Emirates	602
China	585
Israel	561
Libya	544
Singapore	544
Hungary	524
South Korea	465
Morocco	443
Lebanon	434
Total of 25 countries <sup>(A)</sup>	35,892
Total of third countries <sup>(B)</sup>	51,424
per cent A/B	69.8

#### 1.4. Conclusions

This section has illustrated the relative importance of the EU as a player in world markets for agricultural produce, both as a significant exporter of some key commodities (eg dairy products, cereals, meat and wine) and as a marketplace in its own right. The EU market is supplied mainly by its own domestic producers but also offers major import opportunities to producers of certain commodities from outside the EU (notably cereals, oilseeds and beef, as well as rice, wine, sheepmeat, sugar cane and tropical produce).

#### 2. Overview of the Common Agricultural Policy

The EU's Common Agricultural Policy is one of the longest established elements of common policy in Europe. Its overall aims were enshrined in the original Treaty of Rome and include protection of farm incomes, market stabilisation and ensuring security of supplies to consumers. These aims were pursued through a mix of mechanisms applied to the (then) principal commodities of the Community's producers, notably dairy products, beef and veal, and arable crops. As the Community enlarged, new 'regimes' were added to cover a wider range of outputs (eg sheep and goats, triggered by the accession of the UK and Ireland, and a number of 'southern' products including olive oil and fruit and vegetables, when southern countries joined). At the same time, the CAP has developed a range of 'structural support' policies over the past 30 years, offering farmers help to restructure, modernise or otherwise adjust their enterprises.

Thus, it is important to remember that the CAP is not a single comprehensive or uniform policy, but a sizeable collection of separate regimes or packages of policy instruments applied to different commodities, sectors or issues of concern. It is also a dynamic policy which has evolved significantly in recent years. Box 1 gives a brief list of the main components of the current CAP, as established following the Agenda 2000 reforms last year. Together these instruments cost the EU budget a total of around 43 billion Euro per year.

In summary, the CAP divides into two kinds of support:

- a) Commodity support regimes each targeting specific agricultural outputs (c.90 per cent of the budget);
- b) Broader kinds of support for structural adjustment, diversification and environmental management (c.10 per cent of the budget).

In category a), one finds a variety of regimes which include those offering a high degree of market support as well as those offering only minimal support. Some regimes rely heavily on classic market intervention mechanisms, fixing guaranteed minimum prices within the EU and maintaining these by intervention buying when markets get oversupplied or by applying quotas on production, and applying import tariffs and export subsidies to maintain differentials with world market prices. The classic examples here are dairy products and sugar, although a similar regime also applies to olive oil. However, other regimes now include alternative, less 'trade distorting' policy measures such as direct payments to farmers, paid per head of livestock held or per acre of crops grown in the past. These payments may be the principal form of producer support (as with the oilseed, sheep and goatmeat regime) or they may be part of a 'compensation package' that has resulted from the partial dismantling of former classic market intervention mechanisms (as with beef and veal, and cereal regimes). Arable and beef and veal regimes are now a complex mix of some market intervention and some direct payment, as guaranteed minimum prices have been gradually cut since 1992 and increased levels of compensation have been introduced. The balance of support between market intervention and direct payments also differs between individual commodities. So, for example, EU wheat production is currently relatively unsupported by market intervention and EU wheat prices are little different from world prices, whereas some other grains, oilseeds, protein crops and beef have all remained more heavily supported by these mechanisms. Obviously, the degree to which market intervention mechanisms are used reflects the dynamics of world markets as well as domestic considerations.

With the 'lightweight' regimes, EU funds may be offered simply to promote more effective market organisations to supply goods in a co-ordinated way, rather than being used directly to subsidise or support production itself. This is generally the case with EU fruit and vegetables as a result of reforms to the regime in 1996, which significantly reduced the role of price support in these commodities. In the pigmeat regime, there are provisions for market intervention mechanisms to be applied in extreme circumstances, such that buying pigmeat into storage and offering export subsidies to maintain EU prices can sometimes apply.

## Box 1: The Common Agricultural Policy in Brief

### A. 'First Pillar' (generally commodity-related) Measures (wholly EU-funded)

1. The establishment and maintenance of a single internal market for agricultural products, involving the removal of barriers to trade between Member States.
2. Major support regimes using supported (guaranteed minimum) market prices, often with intervention buying or private storage mechanisms, for major agricultural outputs, for main commodities -
  - beef and veal, dairy products,
  - arable crops – wheat, barley, oats, maize, oilseeds, protein crops, rice
  - sugar beet, sheep and goats, olives, wine, cotton, starch potatoes, tobaccoand the establishment of common import tariffs/export refunds in relation to trade in each of these commodities outside the EU, so as to maintain prices inside the EU.
3. Modifications to these regimes in recent decades –
  - a) supply controls to limit output (eg production quotas on milk since 1984, also in sugar beet and starch potatoes), and compulsory 'set-aside' of a fixed proportion of producers' arable land which must not be used to grow food crops (introduced in 1992, currently fixed at 10 per cent of all cropland)
  - b) direct payments per head or per hectare mainly to compensate producers for cuts in guaranteed prices (eg in beef and arable sectors, introduced in 1992) or simply to support producers (sheep and goats)
  - c) quotas and/or area ceilings to limit overall expenditure on direct payments (eg in sheep, beef and arable sectors, introduced in 1992, as well as in wine, introduced in 1998)
  - d) maximum stocking density limits on producers' eligibility for livestock direct payments, as well as a separate headage payment for more extensive production under the beef regime (introduced in 1992), to encourage more extensive (ie less productive) farming, thus also to control supply.
4. More 'lightweight regimes' involving emergency buying into storage and some other market support, including support for producer groups, etc, for certain other products (eg pigs, poultry, fruit and vegetables). NB Pigmeat can attract export refunds when world prices are low.
5. Regime adjustment mechanisms: 'outgoers' schemes (eg dairy) or aids for 'grubbing up' for different commodities in surplus (eg olives, wine, apples) – some introduced only for short periods, others more continuous.

### B. 'Second Pillar' – Structural and Rural Development Measures (part-funded by EU, part by MS)

A second and increasingly significant aspect of the CAP is focused on broader structural, environmental and rural development aspects of agriculture and the countryside. This has included farm structures policies, the 1992 accompanying measures under the CAP, and most recently, the newly christened 'second pillar' of the CAP: the Rural Development Regulation 1257/1999. These policies include:

- a) aids for farming in marginal areas (paid per hectare of land farmed);
- b) agri-environment schemes to promote environmental land management (paid per hectare)
- c) aid for farm investment/modernisation and farm diversification, marketing and processing (generally capital grants, as are most of items d-i)
- d) assistance for farm forestry – both afforestation and certain forms of management
- e) early retirement aids, aid for young farmers
- f) vocational training for farmers and foresters
- g) aids for improved water management, land reparation and land improvement
- h) support for farm-related tourism and craft activities
- i) a range of other rural development provisions.

### C. Horizontal Measures

Introduced in 2000, the 'Common Rules' Regulation 1259/1999 applies horizontally across both pillars of the CAP. It enables Member States to use 'modulation' (capping direct payments) to switch funding from commodity support to certain elements of the 'second pillar'; and it requires Member States to meet 'environmental protection requirements' in relation to commodity regimes, including the option of introducing environmental cross-compliance (environmental conditions) on direct payments. To date, the UK and France have applied modulation and Germany and Portugal plan to apply it from 2002/3, while a number of Member States have applied cross-compliance but mainly to reinforce the existing provisions of environmental legislation rather than to set new standards.

### D. Indirect Measures

The CAP also has direct influence on national policies for agriculture. For example, there are EU rules to control 'state aids' to agriculture – support offered by national governments to particular groups of producers, usually due to 'special circumstances' affecting a sector (eg disease, particular hardship, etc.). Some Member States make extensive use of state aid, which amounts to billions of Euro per annum.



### 3. Distributional impact of the CAP

The distributional effects of the CAP are many and various. Some significant effects are as follows.

- The redistribution of resources from society at large directly to the agriculture sector, notably because of the 43 billion Euro of EU budgetary resources devoted to the CAP each year as well as national contributions to the 'second pillar'. Some of these resources underpin the supply of 'public goods' (eg environmental and social goods and services) by farmers to society but opinions differ greatly as to what proportion this represents.
- The costs attributable to consumers (often initially to food processors and retailers) arising from the CAP market intervention regimes – including higher market prices than would prevail without them, and restricted access to lower priced imports. Impacts on consumers are discussed briefly in section 11 below.
- The redistribution of resources between Member States – this arises because some countries receive a larger share of expenditure under the CAP budget than they contribute to the EU budget as a whole. Certain countries with a large share of output of more heavily subsidised commodities emerge as winners, including France and Denmark. Because many 'southern' commodities, such as fruit and vegetables are relatively lightly subsidised, there is generally held to be a 'northern' bias in the CAP. Nonetheless, certain southern products including olive oil, tobacco, rice and cotton receive a very high level of support per unit of output.
- Differential impacts on different types of farm – this arises mainly from the uneven level of support between different commodities, as shown in the budget below. For example the traditionally high cereal prices in the EU have benefited arable producers but have raised the cost of this feed source to livestock farmers. However, the related arable import tariffs have probably encouraged EU livestock farmers to use a higher proportion of home-produced feed than they would have if there had been free access for lower cost feedgrain producers from elsewhere – most notably the US.
- The distribution of direct support (direct payments) under the CAP is skewed heavily in favour of larger farmers because it is based to a large degree on the scale of production – either farms' present capacity or output (in land area or livestock numbers) or their output in the relatively recent past. Thus the more is produced, the more aid is received. Evidence of this is discussed below.
- The CAP also influences the distribution of resources

within the food chain. Some forms of support (eg olive oil subsidy, export subsidies) are paid directly to processors rather than individual farmers, and the heavy use of export subsidies in particular creates economic opportunities for large commercial exporting companies, wherever internal prices are high, for example, for butter. However, reliable information on the scale and impact of CAP benefits for the agribusiness sector is difficult to find.

- The CAP and associated EU trade policy also create distributional effects between EU Member States and trading partners, including a large number of developing countries. Some of these are discussed briefly in section 9 below.

The next section discusses the impacts of the CAP budget in more detail.



#### 4. The CAP budget

The overall 2001 EU budget totals 96 billion Euro in appropriations from the Member States and 93 billion Euro earmarked for payments. The 'appropriations for agricultural expenditure' total is 43 billion Euro. Of this, 38 billion Euro is allocated for 'first pillar' measures, with the largest share of this (42 per cent) for particular arable crops. 'Second pillar' measures account for only about 4.5 billion Euro, just over 10 per cent of the total (fig 2.2).

Source: European Commission (2001a).

**fig 2.2**  
**Common Agricultural Policy - Budget 2001**

EAGGF Guarantee Section	Amount (million Euro)	per cent
Arable (cereals, oilseeds, protein crops)	18,026.0	41.6
Sugar	1,726.0	4.0
Olive oil	2,473.0	5.7
Dried fodder and grain legumes	384.0	0.9
Fibre plants and silkworms	855.0	2.0
Fruit and vegetables	1,654.0	3.9
Vine products	1,153.0	2.6
Tobacco	1,000.0	2.3
Other plant products	324.0	0.7
<b>Plant products – Total</b>	<b>27,595.0</b>	<b>63.7</b>
Milk and milk products	2,345.0	5.4
Beef/veal	6,007.0	13.9
Sheep and goats	1,620.0	3.7
Pigmeat, eggs and poultrymeat	170.0	0.4
Other	16.7	0.0
<b>Animal products – Total</b>	<b>10,158.7</b>	<b>23.5</b>
Ancillary expenditure	1,049.0	2.4
<b>First Pillar - Total</b>	<b>38,802.7</b>	<b>89.6</b>
Rural development	4,495.0	10.4
<b>Second Pillar - Total</b>	<b>4,495.0</b>	<b>10.4</b>
<b>CAP – Total</b>	<b>43,297.7</b>	<b>100.0</b>



This is not a complete account of CAP related expenditure since it excludes the contributions required from Member States to co-finance measures under the 'second pillar', which vary from 25 per cent to 75 per cent of the total expenditure on each measure, according to regional circumstances. In those Member States adopting 'modulation', further national funds will be used to match the sums generated by capping 'first pillar' aids and redirecting these monies into 'second pillar' measures. It also under-represents total spending within the EU on agricultural support because it does not include the 'state aids' provided by Member State governments on top of CAP support. In some countries, such as France and Italy, these have been offered on a substantial scale to particular regions or sectors.

Two-thirds of the CAP budget is spent on crops, rather than the livestock sectors, although this reflects the method of support applied to different sectors. For example, direct payments are fundamental to the cereals support system but dairy prices are maintained by a variety of methods, including import tariffs, intervention purchase quotas and export refunds. Direct payments and export refunds give rise to budgetary costs, but import tariffs and quotas do not.

CAP expenditure on the 'second pillar' is projected to rise slightly but is planned to reach no more than 10.5 per cent of the CAP budget by 2006.

A proportion of the CAP budget doesn't take the form of direct payments to farmers, but includes refunds to exporters (14 per cent) and payments to government agencies and private sector companies which buy commodities from the market and store them, disposing of them later in order to maintain prices in weak periods (4 per cent). These and related payments account for:

- 16 per cent of arable support
- nearly 40 per cent of beef support
- 100 per cent of dairy support (ie the only items of direct spending, under this regime)
- 100 per cent of olive oil support (as with dairy).

Intervention payments in the dairy sector include sizeable 'consumption aid', around 1.2 billion Euro in 1998. This provides subsidies for farmers using milk powder to feed veal calves and for food manufacturers using EU butter instead of other fats in products such as biscuits. In total, at least one-quarter of the CAP budget is paid to

processors, exporters and other organisations rather than direct to the producer (fig 2.3).

Nevertheless, the single largest component of the budget is now 'direct payments' to farmers, around 65 per cent of the total in 1999. These include headage payments for beef cattle, sheep and goats and area payments for cereals, oilseeds, protein crops and set-aside. As these payments reflect production levels either now, or in the recent past, the pattern of their distribution reflects the relative productivity of farms throughout the EU as well as the greater level of support offered to arable producers as opposed to livestock producers.



<sup>(1)</sup> Grants are offered for grubbing up vineyards in areas of excess production. In addition aid is paid to wine manufacturers to encourage them to use grape must, in place of sucrose, to increase the alcoholic strength of certain wine products. Aid is also offered for the use of grape must for other purposes than winemaking.

<sup>(2)</sup> Various distillation aids are paid to producers and manufacturers. These include aid for distillation of by-products, which is compulsory for every producer in order to eliminate the least valuable portion of production. Distillation aid generally funds the conversion of wine into alcohol for industrial use.

Source: Commission of the European Communities (2000b).

fig 2.3

**Breakdown of the CAP budget (million Euro)**

	1997	1998	1999
<b>Milk and milk products</b>	<b>2,984.9</b>	<b>2,596.7</b>	<b>2,510.1</b>
- export refunds	1,753.3	1,426.7	1,439.4
- intervention, including storage	1,231.6	1,170.0	1,080.5
<b>Arable crops</b>	<b>17,414.1</b>	<b>17,945.2</b>	<b>17,865.9</b>
- export refunds	532.3	478.9	883.1
- storage	71.5	1,083.9	712.7
- direct aid per hectare	14,617.6	15,134.2	14,623.9
- other unspecified market support	300.8	280.0	362.4
<b>Products of the vine-growing sector</b>	<b>1,030.1</b>	<b>700.0</b>	<b>614.6</b>
- export refunds	59.7	41.2	27.4
- aid for grubbing up and grape must <sup>(1)</sup>	699.6	65.9	360.5
- private storage	49.1	54.9	41.2
- aid for distillation of wine <sup>(2)</sup>	221.7	247.0	187.1
<b>Beef/veal</b>	<b>6,580.4</b>	<b>5,160.6</b>	<b>4,578.6</b>
- export refunds	1,498.9	774.5	594.9
- direct payments and storage	5,081.5	4,386.1	4,008.6
<b>Sheepmeat and goatmeat</b>	<b>1,424.9</b>	<b>1,534.6</b>	<b>1,894.3</b>
- export refunds	- 0.1	-	-
- direct payments	1,425.0	1,534.6	1,915.5
<b>Pigmeat, eggs and poultrymeat</b>	<b>557.5</b>	<b>327.9</b>	<b>432.8</b>
- export refunds for pigmeat	72.2	74.5	275.0
- private storage for pigmeat	0.2	-	45.9
- exceptional market-support measures (storage, export refunds)	407.0	163.8	6.0
<b>Export refunds on certain goods obtained by processing agricultural products</b>	<b>565.9</b>	<b>553.1</b>	<b>573.4</b>
<b>Food aid</b>	<b>328.7</b>	<b>333.7</b>	<b>390.5</b>

### **The export refunds administration system**

Export refunds are payable on the basic agricultural commodities as well as the ingredients (cereals, milk, sugar, rice and eggs) contained in processed products (eg chocolate, biscuits and alcoholic drinks), for all the regimes which support EU prices at levels above world prices. However, each regime has its own regulations fixed by the European Commission. The following is a brief overview of how the export refund administration system works for four different regimes, namely milk, sugar, beef and wheat.

Initially, traders have to register and obtain an export licence from the Intervention Board in order to benefit from export refunds. At the moment, there is a general 60 Euro limit (de minimis) for all agricultural commodities in the EU, below which traders do not need an export licence before exporting products eligible for refunds. This limit is not set annually but for each application. The export licence gives a trader the right and the obligation to sell the commodity outside the EU. Furthermore, vertical limits (de minimis rules), relating to quantity rather than value, for different agricultural commodities exist and are listed as CN codes in the annexes to EC Regulation 1291/2000. For milk and beef products the limits are 150 kg and 250 kg, respectively (fig 2.4).

The system works as follows: the trader fills in an application form which goes through a customs procedure. The trader is now allowed to export the products while the application is handed over to the Intervention Board. This body ensures that the application is correct and calculates the exact export refund. (The process is illustrated in fig 2.4). The trader will not get paid until documentation for the current export is produced. For each agricultural commodity there is a fixed price set by the EU Commission and the prices for the different agricultural commodities are exactly the same in all EU member countries. In the dairy sector, the main companies applying for export refunds include a broad range of businesses, from big companies like Unilever and Nestlé to small dairy companies.

There is no minimum limit for which export refunds can be granted. However, some EU member countries have introduced administration fees due to an overload of the system, for instance in Denmark a minimum of DDK 200 (£17) has been introduced because 50 per cent of the applications were on or under this amount, and this resulted in administration overload, followed by delays in payment. In the UK there is no such administration fee.

The sugar export refunds system works the same way as described above. However, the export of sugar in its 'natural state' (white sugar) within the permitted quota (A and B) takes place mainly under a weekly tendering procedure, where traders can apply for export refunds. For a specific amount of sugar, traders bid for refunds that are adjudicated by the EU Commission under the Sugar Management Committee – which decides who will get the refunds. As with the milk system there are minimum levels for licences, currently 2,000 kg for white sugar. Additional, other limits exist for processed sugar of 250 kg (isoglucose), 150 kg (invert sugar) and 150 kg (artificial honey). Any C quota sugar has to be exported without refunds.

A trader trying to sell C sugar inside the EU will get fined. Agreements with certain Less Developed Countries (LDCs) enable limited quantities of raw sugar, typically sugar cane, to be imported without tariffs, refined and thereafter exported with refunds as white sugar.

The application procedure for cereal exports is similar to that described previously, with a tendering system similar to that for sugar. Limits for cereals vary depending on whether the export is grain or a processed product. The whole grain limit is 5,000 kg, whereas that for cereal products derived from the milling industry in general is 500 kg. A refund is paid for cereals in free circulation within the EU which are distilled for the production of Scotch whisky or Irish whiskey. This refund reflects the quantities expected to be exported to non-EU countries.

### **Intervention expenditure**

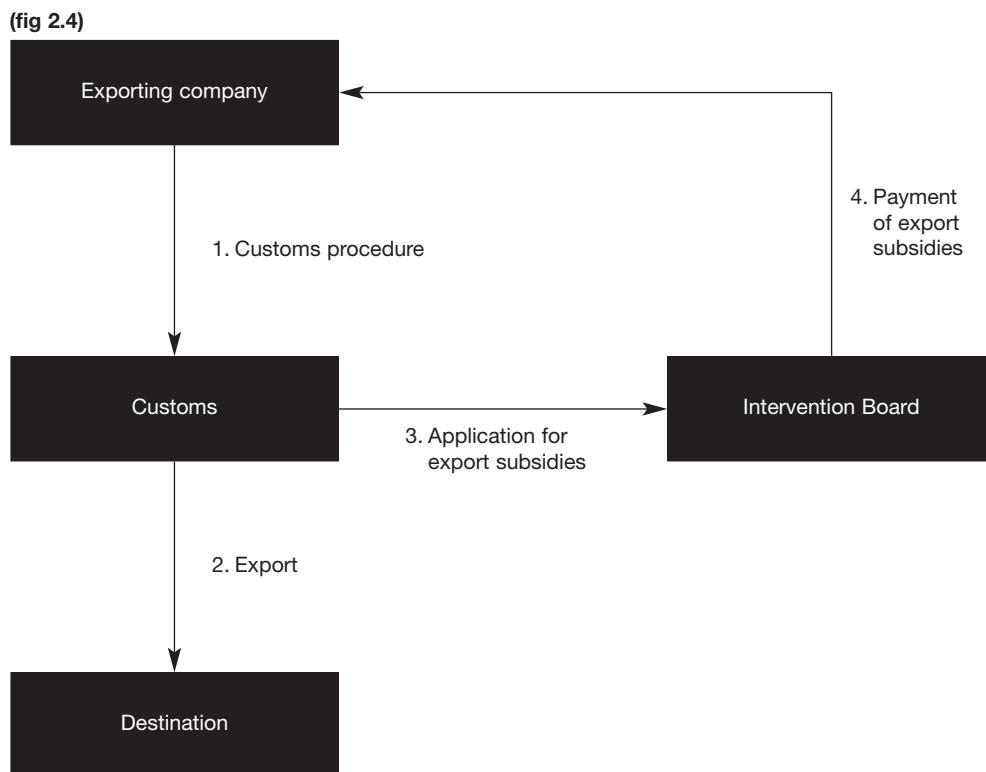
Intervention expenditure on storage covers both private and public storage costs ie the two systems work in parallel. Under private storage the EU pays traders or other companies to buy commodities and store them for a period, to maintain market prices. This is not used as heavily as it was in the 1980s but is still significant for several commodities. Under (public) intervention, producers and traders can sell their products to EU intervention buyers at the guaranteed minimum price provided they meet certain quality standards. Technically, the commodities are usually stored at private places but the system is defined as public storage. There are examples from the 1980s where large farmers and others took advantage of the private storage arrangement, building storage facilities which were paid off after short time from private storage receipts, following which they could use the buildings as machinery sheds or for other business uses.

**5. Who does the CAP benefit?**

The immediate recipients of expenditure from the CAP budget do not necessarily equate to those who benefit financially from the CAP. Most notably, for those regimes which still rely mainly upon guaranteed minimum market prices (eg dairy and sugar), the budget involves no direct payments to farmers, yet farmers benefit significantly from the increased market prices that result from application of the policy. In the absence of price supports, the farm gate prices for these products are likely to have been significantly lower, over a period of years. For example it has recently been estimated that liberalisation in the EU dairy sector would result in a 25 per cent drop in the EU market prices for milk.

Thus in relation to production sectors which benefit from the CAP it is necessary to consider the relative strength of support offered by the different regimes, including market supports, direct payments and other aids.

Generally speaking, the dairy, sugar and olive sectors are heavily supported, as well as the arable sectors (cereals and oilseeds), beef and veal and sheepmeat. Pig production and wine are supported to a lesser extent, as are poultry, eggs and fruit and vegetables. Of the minor products, some are quite heavily supported, largely on cultural/socioeconomic grounds (eg tobacco, bananas, cotton). A widely accepted measure of support levels is the OECD Producer Support Estimate (PSE). This is shown for a range of different commodities in fig 2.5.



Source: OECD 2000

**fig 2.5**  
**OECD estimates of EU Producer Support Estimate by commodity**

		1997-99
Wheat	Euro mn	11,893
	Percentage PSE	53
Maize	Euro mn	2,539
	Percentage PSE	40
Other grains	Euro mn	8,936
	Percentage PSE	65
Rice	Euro mn	174
	Percentage PSE	23
Oilseeds	Euro mn	2,927
	Percentage PSE	47
Sugar (refined equivalent)	Euro mn	2,629
	Percentage PSE	51
Milk	Euro mn	20,162
	Percentage PSE	54
Beef and Veal	Euro mn	18,688
	Percentage PSE	58
Sheepmeat	Euro mn	3,376
	Percentage PSE	53
Pigmeat	Euro mn	1,828
	Percentage PSE	11
Poultry	Euro mn	1,625
	Percentage PSE	23
Eggs	Euro mn	349
	Percentage PSE	9
Other commodities	Euro mn	30,837
	Percentage PSE	38
All commodities	Euro mn	105,467
	Percentage PSE	44

The OECD (2000) estimated that the Producer Support Equivalent in the EU totalled 107 billion Euro in 1999, equivalent to 49 per cent of the total value of the EU's agricultural output. In their 2001 report the OECD state that farmers' gross receipts were estimated to be 62 per cent higher than if valued at world market prices and without support, and prices received by agricultural producers in the EU were on average 37 per cent higher than border prices in 2000.

When products are supported by market intervention (guaranteed prices), farmers and exporters benefit and 'consumers' (in this case, often food processors,

distributors and retailers in the first instance) pay through higher food prices. When products or specific actions are supported by direct payments, farmers benefit and taxpayers pay, through general taxation.

Thus as various mainstream CAP regimes have been reformed over the past 15 years, there has been a significant shift away from the shouldering of support costs by consumers, towards more payment by taxpayers. This has particularly affected the arable and beef sectors as well as the development of the suite of 'second pillar' measures. However, it has not affected dairy and sugar, which remain supported by market measures in addition to tariffs, and it



has not affected the lesser (market) regimes applied to pigs and poultry.

There is some analysis available of the distribution of CAP direct payments to holdings of different sizes. As would be expected for payments linked largely to areas farmed (arable), volumes produced (olives), or number of stock kept (beef, sheep) payments tend to go mainly to larger farms. Recent work by the Australian Bureau of Agriculture and Resource Economics (ABARE) is particularly relevant. The ABARE analysis has been carried out focusing on the size group of farms that receive support. Size classification is based on standard gross margins per farm. There are five groups: Extra small <4,800 Euro/farm, small = 4,800-9,600 Euro, medium small = 9,600-19,200 Euro, medium large = 19,200-160,000 Euro, large = 160,000-400,000 Euro, and extra large > 400,000 Euro.

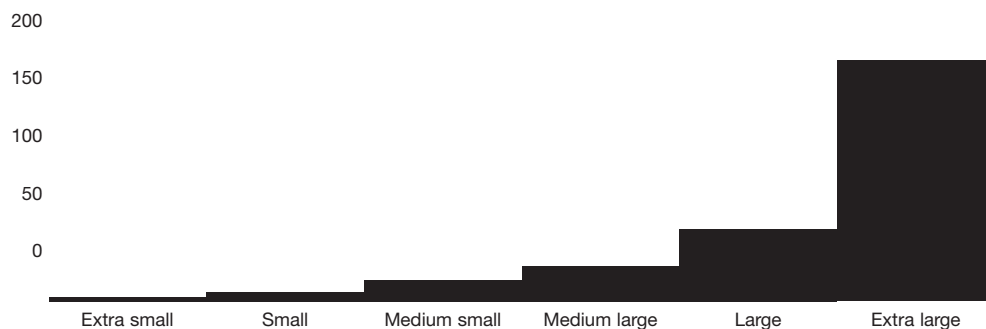
Based on figures from 1996, EU farms with the highest gross margins earn the highest income. Not surprisingly, there is a strong link between farm size and farm income in the EU. On average, the EU farms with the highest gross margins have the largest farm area and receive the greatest CAP support. This is illustrated in the figures below (fig 2.6-2.8).

It appears that only 17 per cent of all farms, ie those in the two largest categories received 50 per cent of the agricultural support provided by CAP payments, illustrated in the figures below. On a full time equivalent basis the two largest groups of farms earned a higher average income in 1996 than the average worker in the EU.

Large farms account for a very substantial proportion of total output in several sectors. According to Eurostat (2001) there were 6,989,100 farm holdings in the EU15 (1997 figures). Slightly over 3 per cent or around 226,300 of these farm holdings were of 100 hectares or larger. The farm holdings in the 100 hectare or more category control 53.2 million hectares out of the total 128.7 million hectares. Their overall share of total agricultural production is estimated at about 50-70 per cent (Consumers in Europe Group, 2000) (fig 2.9-3.0).

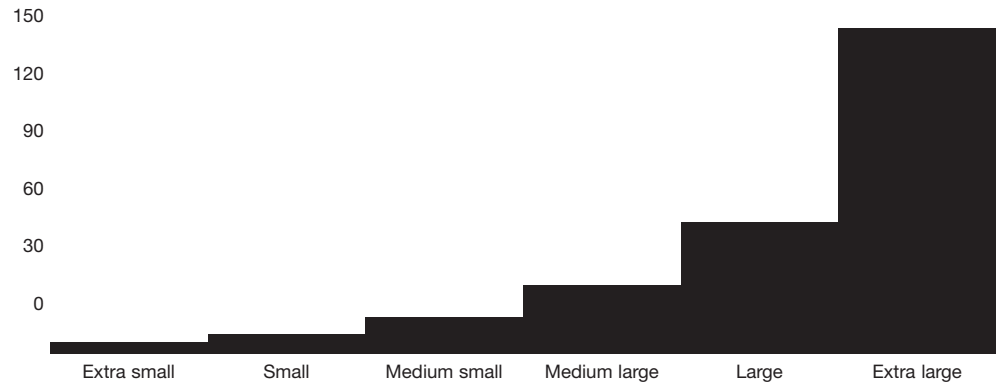
Source: European Commission (2001a).

**fig 2.6**  
**EU 1996, average farm income** (1,000 Euro per farm)



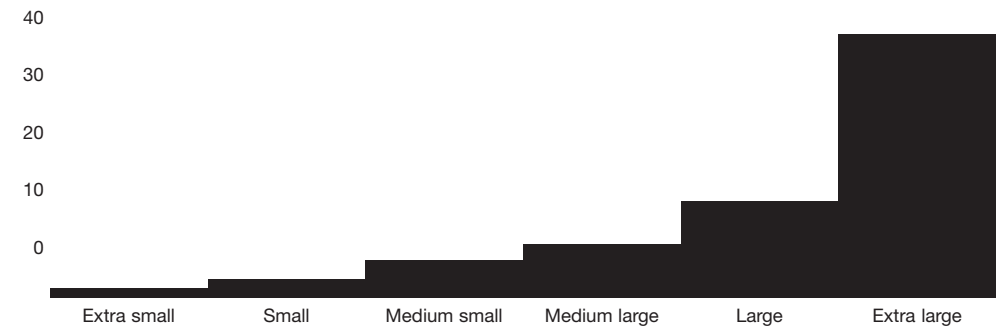
Source: European Commission (2001a).

**fig 2.7**  
**EU 1996, average farm size (ha)**



Source: European Commission (2001a).

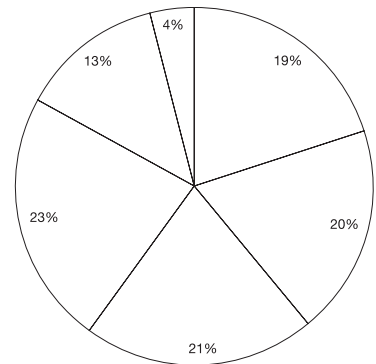
**fig 2.8**  
**EU 1996, average support (1,000 Euro per farm)**



Source: ABARE (2000).

**fig 2.9**  
**Number of farms**

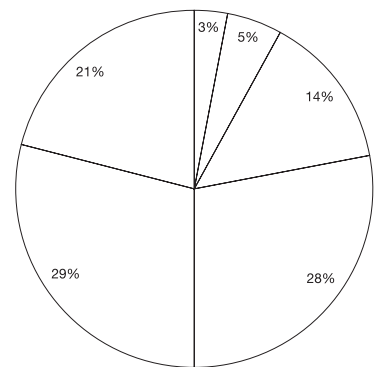
4% Extra large  
13% Large  
19% Small  
20% Extra small  
21% Medium small  
23% Medium large



Source: ABARE (2000)

**fig 3.0**  
**Share of support**

3% Extra small  
5% Small  
14% Medium small  
21% Extra large  
28% Medium large  
29% Large



**6. Focus on UK agriculture – main products and competitors in domestic, EU and world markets**

Agriculture in the UK has traditionally been one of the more productive and efficient farm sectors within the EU, with average farm sizes generally significantly higher and agricultural employment significantly lower than elsewhere. However this varies between commodities. East Anglian grain production is generally regarded as particularly competitive relative to the rest of Europe, while UK dairy, beef and pigmeat production are today somewhat overshadowed by other Member States including the Netherlands, Germany, France and Denmark.

The UK is 81 per cent self-sufficient in temperate foodstuffs (MAFF, 2000b) and the value of UK agricultural production in 1999 was around £13.7 billion.

In overview, the UK’s main outputs include cereals, dairy products, sheepmeat and beef, as well as pigmeat. Thus to examine markets and competitors in more detail, we focus on the following key commodities: pigs, sheep, dairy products, wheat and beef:

- For pigs, the UK produced just over a million tonnes of pigmeat in 1999, worth £782 million. It imported 209,000 tonnes from the rest of the EU and only 3,000 tonnes from outside the EU. It exported 193,000 tonnes to other EU countries and 32,000 tonnes further afield. The main competitors for UK producers both at home and in export markets are thus those elsewhere in the EU –

particularly Denmark and the Netherlands, both for domestic markets and abroad (although pig exports are much less important for the UK than these countries). UK slaughter weights for pigs tend to be lower than those of the main global exporters (eg including US hogs), so they often fill different market niches.

- For sheep, the UK produced 401,000 tonnes of sheepmeat in 1999, worth £1,007 million. The UK consumes 6.6 kg/head on average, each year. It imported 12,000 tonnes from the rest of the EU and 119,000 tonnes from the rest of the world, predominantly New Zealand. Thus the main competitor on UK markets is New Zealand and to a much lesser extent, the Republic of Ireland. While some southern Member States (Spain and Greece) are also important sheep producers, these are reared mainly for domestic and external markets and/or for milk production. There is a seasonality issue – New Zealand would claim it is not largely in direct competition with UK producers since its exports are available at a different time of year so it may help to safeguard the year-round UK market. However, this relationship is probably being eroded by changes in supply and demand, over time. Sheep production in the UK is largely for consumption in the UK and the rest of northern Europe, particularly France. In 1999 the UK exported 143,000 tonnes of sheepmeat to the rest of the EU and only 1,000 tonnes to the rest of the world. In recent years the UK established an important and growing export market of light lambs to southern Europe (Italy, Spain), where their products are in competition with

Irish, Spanish and Greek producers. Exports to the Middle East have also become more important.

- For dairy products, the UK is a major producer of butter, milk powder and basic (commodity) cheeses both for domestic markets and for export, as well as liquid milk for domestic consumption and industrial use (particularly the confectionery industry). In 1999, UK farms produced 14.3 billion litres of milk worth around £2.7 billion. Of this, around 6.8 billion litres is consumed as fresh milk while 7.1 billion litres is processed into a variety of products of which cheese and whole milk powder are the main uses. The UK produced 144,000 tonnes of butter, 378,000 tonnes of cheese, 277,000 tonnes of cream, 178,000 tonnes of condensed milk and 103,000 tonnes of whole milk powder as well as 102,000 tonnes of skimmed milk powder, in 1999. Looking at imports and exports, for selected products:

- the UK imported 221,000 tonnes of cheese from the rest of the EU but only 41,000 tonnes from further afield, while it exported 46,000 tonnes to the EU and 13,000 tonnes to the rest of the world;
- the UK imported 64,000 tonnes of butter from the EU and 48,000 tonnes from further afield while exporting 51,000 tonnes to the EU and only 5,000 tonnes elsewhere;
- the UK imported 18,000 tonnes of milk powder (full and skimmed) only from the EU, but it exported 53,000 tonnes to the EU and 100,000 tonnes to the rest of the world.

From this we can see that the main competitors for dairy produce markets in the UK are other EU countries for higher value products like cheese but they include non-EU producers for butter and cheddar cheese, while the UK's competitors in export markets will include both other EU countries such as France, Eire and the Netherlands as well as Australia, New Zealand, eastern Europe and the USA.

- For wheat, the UK produced 15.1 million tonnes, in 1999 worth approximately £1.54 billion, in the form of £1.057 billion in sales and £422 million in subsidies. Most production remains of feed wheat (soft wheat), which is in competition with a range of the global soft wheat producers eg US, France, Germany, Canada. The main markets for UK producers include both domestic and export, usually through the main grain trading organisations such as Dalgety and Cargill. A small but growing proportion of UK produced wheat is hard wheat suitable for bread making and this again is sold both at home and abroad, although international hard wheat

markets are dominated by Canada and the US. In 1999, the UK imported 573,000 tonnes of wheat from other EU countries and 570,000 tonnes from the rest of the world. It exported 2,750,000 tonnes to the rest of the EU and 250,000 tonnes to the rest of the world. The main domestic uses for wheat were flour milling (37 per cent) and animal feed (41 per cent).

- UK production of beef in 1999 was around 680,000 tonnes, worth £1,996 million. UK imports totalled 113,000 tonnes from the rest of the EU, mainly from Ireland, then the Netherlands, while imports from outside the EU, mainly Brazil, totalled 61,000 tonnes. Exports were negligible in 1999 due to the impact of BSE – only 9,000 tonnes, and only to other EU countries. About 917,000 tonnes were consumed domestically (MLC 2000).

#### **7. Products which benefit most from the CAP's WTO compliant tariffs and quota restrictions**

During the Uruguay Round Agreement on Agriculture (URAA) efforts were made to make agricultural support mechanisms less trade distorting and more transparent by removal of support mechanisms and their conversion into import tariffs with Tariff Rate Quotas (TRQs) or equivalent value. However various factors have prevented increased transparency and market access from being achieved. These factors include lack of standardisation in tariff expression (some are expressed in specific terms and some in ad valorem terms); Tariff Rate Quotas within which imports are subject to lower tariffs; and under-filling for most TRQs.

When trying to compare tariff levels for different products one of the biggest problems is presented by the lack of standardisation. In the EU approximately 44 per cent of agricultural tariffs lines have specific tariffs (eg. Euro/tonne) rather than ad valorem tariffs (a percentage of total value), making levels of protection hard to compare across products. Comparison is also made more difficult by the use of TRQs, as in-quota tariff rates and quota size in relation to import size have a dramatic effect on the true level of protection offered by the tariffs. In the EU 28 per cent of tariff lines have TRQ allocations, so this is obviously a significant influential variable. (Gibson et al. 2001) Some aggregated data is given in the table to illustrate the importance of TRQs on calculating levels of protection.

The obscure nature of information and administration in the areas of tariffs and tariff quotas leads to another

phenomenon that obscures true levels of protection. This phenomenon is known as 'quota under-filling', and is when available TRQs remain unused. The average global (TRQ) quota-fill rate in 1995 was 66 per cent and in 1998 had fallen to 62 per cent. This shortfall arises partly from the lack of transparency in TRQ administration. Since the URAA, developing countries in particular have had little success at accessing the TRQs opened up during the agreement. Traders from developing countries surveyed by the Food and Agriculture Organisation (FAO) (1999) reported a lack of information about export opportunities under this market access measure. Confusion was widespread regarding TRQs allocation and administration. This failure to fill TRQs is of crucial importance to any attempt to assess levels of protection, as the difference between potential market access and actual achieved market access may be very significant. Detailed figures of quota fill rates for specific products were difficult to find. Any true measure of protection must take into account these important quota-related variables. However, simple aggregate figures are given below (fig 3.1).

Given the complexity of trying to assess specific protection levels from import tariffs and TRQs, and the lack of detailed standardised data, we feel it would be misleading to try to give categorical statements about which products are most protected by this specific support mechanism. A spokesperson from the World Trade Organisation (WTO) has informed the researchers of this report that they are currently compiling a more detailed comprehensive analysis of more recent figures. These figures will give a more accurate idea of true levels of protection, taking into account the different influential variables mentioned above. Until such time as these figures are available this report gives more detailed information concerning general levels of protection as compiled in PSE and Consumer Support Estimate (CSE) indexes and a general overview of the use of tariffication in the EU.

Source: WTO 2000

**fig 3.1**  
**In-quota and out-of-quota tariff rates and estimated maximum TRQ rents for selected agricultural produce within the EU, 1996**

	In-quota ad-valorem tariff per cent	Out-of-quota ad-valorem tariff per cent	Maximum quota rents (US\$billion)	Quota fill ration per cent	Quota as a per cent of total imports
Wheat	0	87	0.0	21	2
Grains	35	162	0.4	74	26
Sugar	0	147	2.4	100	87
Dairy	24	91	1.1	99	80
Meats	19	128	2.3	100	73
Fruit & Vegetables	11	51	0.0	78	20



Products typically regarded as having high levels of protection from import tariffs in the EU include dairy products, rice, tobacco, feed grains and beef. Some arable sectors remain disproportionately supported at present (eg protein crops) but Agenda 2000 set the process in train by which arable supports would be progressively harmonised over time, to remove this effect. For the past few years, wheat has been traded within the EU at prices not much different to world market prices. Most Favoured Nation, reduced or zero tariffs are currently granted to (among others) exports of lamb and dairy produce from New Zealand; to sugar cane exports from LDCs; and to bananas from former colonies in the West Indies. The EBA agreement concluded recently by the EU claims to remove tariffs for all imported produce from the world's poorest countries (fig 3.2).

A clearer picture of relative protection from tariffs and TRQs can be gained by calculating from these figures an average level of tariff protection for each sector, by taking into account the proportion of each commodity imported at lower 'in-quota' rates under special trading agreements. These give results as follows:

- Wheat 85.3 per cent
- Grains 129 per cent
- Sugar 19.1 per cent
- Dairy 28.3 per cent
- Meats 48.4 per cent
- Fruit and Vegetables 43 per cent

According to these figures the highest levels of protection are given to grains, wheat, meats and fruit and vegetables (in that order). But the picture of protection that these figures gives us is a complicated one as while the combined tariff on, say, sugar might be quite low, the out-of-quota tariff is so high that the TRQ effectively acts as an absolute quota and therefore acts to seriously restrict potential market access to any new importers.

Another tariff mechanism that is particularly damaging for developing countries, is tariff escalation, whereby tariffs increase in relation to the extent to which raw materials are processed. If a higher tariff is applied to a product at each stage of processing this limits how much exporting countries can gain by doing the processing themselves. Under the URAA, tariff escalation was reduced and tariff escalation in the EU is now lower in the agricultural sector than other sectors, with the average tariff rate for finished goods being lower than that for semi-processed goods. This is potentially beneficial for developing countries as it gives them greater market access for finished goods, but tariffs on semi-processed and finished goods are often two or three times more than those for raw materials. (IMF and World Bank 2001). Again detailed, standardised, and thus comparable, information on tariff escalation for specific product lines has proved difficult to obtain.

From Gibson et al, 2001, pp 25.

\*Megatariffs (as defined by ERS):  
Extremely high tariffs that effectively  
cut off imports other than the minimum  
access amounts under TRQs.

**fig 3.2**  
**Mean and Median tariffs and number of Megatariffs\* for agricultural products in EU**  
**expressed as per cent of product value**

	Mean	Median	Megatariff
All commodities	30	13	141
Grains	53	63	2
Grain products	48	45	2
Feed	47	11	9
Starches	24	20	-
Oilseeds	0	0	-
Vegetable oils	13	6	1
Fats & oils	10	3	1
Live animals	30	22	-
Meat: fresh or frozen other meat	70	74	29
Meat: fresh beef, pork or poultry	41	27	6
Meat: frozen beef, pork or poultry	66	38	24
Meat: prepared	43	26	7
Dairy	87	70	41
Eggs	22	24	-
Fruit: fresh	21	12	1
Fruit: frozen	20	21	-
Fruit: preparations	21	21	-
Fruit juice	37	22	3
Vegetables: fresh	16	10	2
Vegetables: frozen	14	15	-
Vegetables: frozen or prepared (other)	18	12	1
Vegetables: dried & fresh roots and tubers	38	16	-
Vegetables: dried	2	0	-
Vegetables: preparations	21	14	2
Vegetable: juice	16	16	-
Nuts	5	4	-
Nuts & fruit: dried, fresh and prepared	16	17	-
Sugar beet	349	349	2
Sugar cane	56	56	-
Sweeteners	59	57	8
Tobacco: unmanufactured	14	11	-
Tobacco: products	38	34	-
Coffee	6	8	-
Coffee: other	10	12	-
Tea and tea extracts	2	0	-
Cocoa beans & products	17	15	-
Spices	2	0	-

### 8. How does the CAP impact upon world prices?

These impacts are variable, depending on the regimes examined and the scale of the EU's presence in the world market. Heavily protected regimes which generate surpluses for export will tend to depress world market prices through the export subsidy system both in the short term and through their effects upon price expectations. The table below identifies those major temperate commodities where the EU has a share of more than 10 per cent of world trade, either in imports or exports (fig 3.3).

The table shows the importance of the EU in a number of export markets, particularly for wine and livestock products. Generally the overall effect of the CAP will be to depress world price levels in these sectors because of the domestic support in place, reinforced by import tariffs and, in some sectors, by export subsidies as well. In the case of butter for example where EU internal prices are around double those on the world market, dumping by the EU will be a major factor in keeping world price levels low.

However, where price differentials are much smaller, as they have been for wheat in recent years, the impact on world prices will be smaller. Even the less trade distorting elements of the CAP can have impacts on world prices. For example, the direct payments on cereals, beef, oilseeds, olives and sheepmeat will help to bolster the competitiveness of EU farmers and allow them to adapt to lower market prices than otherwise would be possible. The scales of such effects are difficult to measure.

Various attempts have been made to determine the effects of the CAP on world prices. Some of these attempts have used economic modelling to predict what effect removal of market-distorting CAP measures would have and use these results to show how the CAP is currently influencing world economy. One such economic modelling study was undertaken by Borrell and Hubbard (Economic Affairs, June 2000). They used the Global Trade Analysis Project (GTAP) database and standard economic model. In the model all EU barriers to trade and direct subsidies are eliminated, thus removing all CAP support to farmers and lowering the

**fig 3.3**  
**Major Commodities for which the EU has more than 10 per cent of world trade (1997)**

Source: European Commission 2001c

Commodity	EU Share of Trade		
	<sup>(1)</sup> Imported by EU	<sup>(2)</sup> Exported by EU	<sup>(3)</sup> EU net share of world trade
Cereals (except rice)	(3.2)	10.2	(7.0)
– of which wheat	(3.5)	13.2	(9.5)
Oilseeds	39.6	(1.8)	-37.8
– of which soya	39.4	(0.7)	-39.3
Wine	27.9	60.6	32.7
Sugar	(5.3)	18.8	13.5
Total Milk	(3.0)	28.0	25.0
– of which butter	11.1	20.2	(9.1)
– Cheese	11.6	40.8	29.2
– Milk powder	(2.9)	30.3	27.4
Beef and veal	(6.6)	19.1	12.5
Pigmeat	(3.0)	51.2	48.2
Poultrymeat	(3.7)	20.4	16.7
Eggs	(2.7)	29.5	26.8



prices they receive and EU consumers pay. Their model predicts that as a result consumption would rise, production fall, imports and exports would be affected, and it considers how producers and consumers in other countries would react. They conclude that CAP has had profound effects on not only agriculture but also other industries of the EU and other countries. They estimate that the current cost of CAP to the world economy, through resource misallocations and missed opportunities for trade, is US\$75 billion a year, two-thirds of which they estimate is born by the EU.

The model used by Borrell and Hubbard is a simplified one and the results and conclusions they give are very generalised; they do however give a slightly more in depth study of the effects of CAP on the world sugar market. Borrell and Hubbard's model predicts that if the CAP mechanisms to protect sugar prices were removed world prices could rise by 18-22 per cent; which suggests that the CAP is currently depressing world sugar price levels by this amount.

Some sectors comprise a variety of highly differentiated markets. Wine is a case in point. Whereas CAP subsidies may be a significant element in the price of some of the cheapest low quality wines they will be largely irrelevant to the price of fine wines where other factors are far more important.

Overall, the CAP should have less impact on world prices now than it used to because of the shift from 'amber' to 'blue box' support mechanisms for some key commodities and the reduction of surpluses, but there is serious debate as to just how trade neutral 'blue box' mechanisms really are. The use of 'blue box' mechanisms such as direct aids has been referred to by some critics as 'pick-pocketing instead of mugging', because it is largely transparency that is decreased under such a system, as opposed to 'amber' box supports, not trade distortion. There are even some (eg Jacques Berthelot) who believe that green and blue box support measures are more trade distorting than those of amber and red boxes that are usually considered so. Their argument is that a global agreement to use green and blue box mechanisms would be even more trade distorting as developing countries cannot afford to use domestic support payments and so would be at a disadvantage. What is certain however is that the CAP does exert a downward pressure on the prices of several major commodities.

## 9. Impact of the CAP on developing country markets

OECD economists believe that agricultural protection still harms developing countries. The farm policies of OECD countries – even after the reforms under the URAA have been taken into account – have been estimated to cause annual welfare losses of \$19.8 billion for developing countries. This is more than three times the losses that developing countries incur due to OECD countries' import restrictions on textiles and clothing. However, at a more detailed level the extent to which the CAP affects developing markets depends on the type of economy of the developing country. The CAP has various effects on developing country markets, which are summarised in the table below (fig 3.4).

The general opinion of many developing countries as well as the free trade oriented international organisations, including the OECD, is that the CAP has a negative effect on developing country markets. This is partly because of the general destabilising effect the CAP has on world markets generally, because a significant proportion of producers are protected from world price fluctuations; this means that the effect of any fluctuation is effectively magnified for those producers that do not benefit from protection. Magnified fluctuations of world prices are of particular concern to developing countries with low food security and no social/economic safety nets for producers. Another source of negative influence on developing countries is the highly restricted access to the EU for certain temperate products which are grown in Europe and the combined impact of domestic support and export subsidies which increase the availability of low priced EU products on the world market. This can depress prices for importing countries. There are a number of very low income developing countries with limited agricultural capacity at present which benefit from these low cost imports, and there are many others which are concerned about the competitive pressure on their own farmers. On the other hand, the export oriented developing countries seeking to maintain or expand their own sales are affected by unfair competition from subsidised European products. In general developing countries do not use export subsidies as a policy tool.

The variations between developing countries and fluctuations in their markets and economic circumstances make it difficult to generalise about this group as a whole. The interests of Brazil are very different from those in many

Source: The Catholic Institute for International Relations (1998).

**fig 3.4**  
**Types of CAP effect on developing countries**

Type of effect	Positive features	Negative features	Implications for development policy
Increased world supply	Lowers import costs for importers (and may increase supply of food aid)	Lowers export prices for exporters  Disincentive to agricultural development of importers and exporters	May undermine agricultural development policies, but also reduces food costs
Artificially high EU prices	Artificially high prices for developing countries able to export (eg because of Lomé Protocols)	Exports may be viable only if high prices continue	May support export diversification, but new exports may be unsustainable
Over-subsidised prices of exports	Lowers import costs for importers	May undermine domestic agriculture and disrupt legitimate trade	May undermine agricultural development policies
Increased world price instability		Increases food insecurity and complicates agricultural development planning	Disrupts long-term agricultural development

sub-Saharan African countries for example. The relative impact of the CAP upon developing countries depends critically upon their current and future strategies for economic development. For countries that have decided to build up their export markets and particularly to supply commodities that are currently produced within the EU, the policy will act against their interests. It will undercut their exporting sectors and increase the vulnerability of world markets in which they trade via the effects of restricted supplies (relative to those which would exist without the CAP) and sporadic 'export dumping'. However, among those countries following this development strategy there will be some who currently benefit from preferential trading arrangements with the EU and who are therefore more

positively affected by the policy, since it gives them some of the benefits of a guaranteed market opportunity and supported market prices that are given to domestic producers in the EU.

For countries who are seeking primarily to build up their self-sufficiency in food production, the CAP may be neutral or negative in its effects upon their development. By denying easy access to significant export markets the policy may act as a disincentive for domestic producers to focus on 'cash crops for export' and thus give greater impetus to production to meet domestic demands. On the other hand, where EU export dumping or food aid policies involve supplying such countries with cheap food imports

that can act as substitutes and therefore competitors to domestic production, the CAP effect is potentially seriously damaging. Further detail of impacts of this kind can be inferred from the variety of papers submitted to the WTO in advance of the latest round of trade talks, which outline the views of different DC groupings on trade issues. Most of these are available on the WTO website.

There is a growing body of Non-Governmental Organisations (NGOs) both in developing countries and within the EU which are critical of the implications of increased trade in agricultural products and wary of the ambitions of many developing countries to increase their exports. Such exports may distort national development and generate social and environmental problems even if they contribute positively to the balance of trade.

#### 10. Impact of the CAP on the environment

A great deal has been analysed and written about the impacts of the CAP upon the environment which will not be repeated here. The sources of this information include environmental and farming organisations, academics, government agencies and departments, and the EC itself. In practice much of this literature points to the undeniable scale of environmental change associated with contemporary agriculture, particularly intensive production, without necessarily analysing the specific role of CAP policies. Many changes would have occurred without the CAP.

In overview, the findings of recent studies and reports indicate the following main points.

- A widespread view among both NGOs and academics is that by supporting market prices, CAP measures have accelerated existing trends in technological development and adoption on farms, leading to enlargement, specialisation, intensification, where these changes have been economically favourable to producers. Arable crop production and intensive cattle production (both beef and dairy) are the most frequently cited examples, but sugar, wine, olives, cotton and fruit and vegetables have also been mentioned in this context. Alongside this, some have also highlighted the role of measures under the CAP and related EU structural funds in promoting capitalisation on farms as well as enabling farm enlargement and modernisation to the detriment of the environment, to a greater degree than would have happened without this grant aid. The effects of such aid appear particularly marked in the cohesion countries.
- Views about the role of the CAP in relation to marginal farming are more varied. Certain commentators from all three interest groups, as well as some research literature, tend to the view that support has slowed the decline of farming in marginal areas, and that this has been further helped by specific Less Favoured Area (LFA) support, to the general benefit of the environment. Others hold that because most aid was production-linked rather than socially targeted this has not prevented a continuing decline in the numbers of farmers and farm workers although they have maintained and sometimes increased production in these areas. From this perspective these policies have had some detrimental effects on the environment.
- In some areas, differential changes have been strongly linked to the effects of particular CAP instruments. Examples include arable set-aside and headage based sheep premia fueling expansion in the number of sheep during the 1980s leading to overgrazing in the UK, Ireland and Greece on a large scale (and some more local scale effects in Italy). Irrigated crop premia have promoted the replacement of dryland or traditional extensive cropping/olive/dehesa systems in Spain. Support for forage maize has increased the area of this crop, at the expense of grass, accelerating an existing trend in many countries.
- In other areas, particularly where CAP instruments are widely acknowledged to have little impact, negative environmental effects have been linked to the opening up of competition within the EU and the effect of EU policies in relation to international trade. Examples include recent horticultural intensification in Spain and an increased tendency to rear cattle indoors on imported soya/oilseeds rather than grazing on grass, in the Netherlands. However, other countries report opposite trends in relation to these sectors in some respects, so the picture is somewhat unclear. The sectors which have exhibited perhaps the greatest intensification and concentration in recent years – namely pigs, poultry and horticulture – have been those which receive relatively little market support from the CAP.
- On the other hand there are agreed to be distinctive environmental benefits associated with the CAP although the policy's precise role in supporting the more sustainable forms of agriculture is subject to debate. By

supporting production in certain sectors at a much higher level than on the world market the CAP has helped to maintain a range of cultural landscapes and land management practices which otherwise might have been heavily modified or have disappeared altogether. These are particularly associated with pastoral agriculture – beef and dairy production, sheep and goats – all sectors where PSE rates are high. Environmentally deleterious changes have occurred in these sectors, including large-scale farm amalgamation and pervasive intensification, especially on dairy farms, but in the absence of support, many of the negative trends could have been more pronounced.

- Another benefit of the CAP has been the recent incorporation of support for agri-environment measures, including schemes to maintain existing lower input systems and encourage organic conversion. This policy absorbs a small proportion of the CAP budget but is nevertheless on a much larger scale than in the US for example. Agri-environment schemes are open to criticism on several grounds including a mismatch between the distribution of payments and the incidence of environmental priorities (see Court of Auditors 2000 for a critique, which also extends to the CAP as a whole). Nonetheless, some environmental benefits have been demonstrated already and there is potential to extend these in future.
- In the reforms made of the CAP in 2000, new steps have been taken to ‘green’ the policy. Some of these have the potential to address several of the negative impacts cited above, but it is too early to make a judgement about their likely effectiveness. The most important elements are as follows:
  - The introduction of an obligation to Member States to ensure ‘environmental protection’ in respect of all those regimes which offer direct payments to producers. Member States must report progress on this to the Commission by April 2002. In response a number of countries are known to be applying new environmental conditions to the payments, mainly to reinforce the effectiveness of existing environmental legislation.
  - A definition of ‘Usual Good Farming Practice’ within the Rural Development Programmes under Reg. 1257/1999 which becomes a condition for LFA support in future as well as reference level for agri-environmental aids.
  - A shift from headage to area payments for LFA aids to reduce any incentive for overstocking.

## 11. Impact of the CAP on the consumer

Very little empirical analysis is available concerning the detailed effects of the CAP on consumers. In general, much of what has been written on this theme asserts from the basic principles of economic market theory that the CAP involves a significant cost to consumers. As a protectionist policy, the CAP raises the prices of supported commodities above the levels that they would achieve without such support and limits access to certain imported commodities. The OECD has developed a methodology for measuring the scale of theoretical Consumer Support to agriculture. This is known as Consumer Support Estimate, or CSE. In recent years this has been calculated to be around 60 billion Euro per annum for the EU – 61.7 billion in 1999 (OECD 2000).

Closer examination of the CSE for the years 1997-1999 shows that two commodities in particular dominate the calculation. Of a total PSE of Euro 57.5 billion in 1997-99 (equivalent to 31 per cent), 16.7 billion was accounted for by milk products (53 per cent) and 11.9 billion by beef and veal (a 46 per cent CSE). Sugar also achieves a high percentage CSE because of the high price on the EU market.

Calculations of this kind about costs to consumers generally involve the assumption that if CAP market supports were removed, the prices of the relevant products to EU consumers would fall to levels similar to the prices of goods on world markets. Hence it is implied that the majority of this saving would accrue to consumers in the EU.

In reality, there are a number of reasons why these estimates may overstate the apparent cost of the policy to consumers, as the end-users of agricultural products:

- Without EU support and export dumping, world prices would be expected to rise, slightly reducing the differential between EU supported prices and unsupported prices;
- Food is increasingly sold to consumers in a highly processed form, and it is often food processors and manufacturers, a group dominated by large multinational companies, who actually buy raw agricultural commodities and who would therefore be the immediate beneficiaries of falling agricultural prices. The extent to which these price cuts were passed on to end consumers could vary greatly between different commodities and is likely to be less for the products subject to the greatest degree of processing (eg sugar

used in confectionery, milk products used in ready meals, biscuits, etc). These commodities are also some of those which are currently most protected by the CAP.

- Retailers also have a role in modifying the impact of commodity prices on those imposed in their own shops.

A detailed study by the National Consumer Council (NCC) in 1988 attempted to set out the reasoning behind five stated impacts of the CAP on consumers, namely that it:

- Overcharges consumers for food
- Reduces consumer choice
- Has an adverse effect upon food quality
- Has an impact upon nutrition
- Harms consumers indirectly by contributing to environmental damage.

The first and last points have already been discussed above and in an earlier section of this paper. Thus the remaining text briefly considers the evidence on the remaining points about choice, quality and nutrition.

On choice, the CAP may indirectly influence consumer choice in the EU because it changes the relative prices of different products and raw materials and thus influences what processors and retailers choose to offer on their shelves. Subsidising EU products relative to those available elsewhere encourages higher levels of EU production and thus EU consumers are more likely to buy domestically produced products. The structure of import tariffs also tends to limit access to a wider variety of imported produce. However, the impact of this factor needs to be considered alongside other, possibly more significant effects upon choice. These include greater international sourcing of food by supermarkets competing for higher value market niches and all-year continuity of supplies, and marked downturns in consumer confidence in certain EU products as a result of food scares.

On quality, the argument is that by setting intervention standards for EU products, the Community has established low common standards for food bought into intervention and producers tend to look to this rather than higher standards, in their production activities. The NCC study reports the view of processors and traders that this had indeed occurred in several sectors including cereals, fruit and vegetables, in 1988. However, it could be argued that changes in supply chains since 1988, including the much

increased importance of supermarket specification in determining product quality for the majority of sales within the UK and an increasing share in the EU, may have decreased this impact over time.

On nutrition, the argument is more complex. It is widely accepted that low income families tend to have poorer nutrition than affluent families and that the former group is much more price-sensitive in relation to food choices. For those CAP regimes which are responsible for generating significant surpluses, the practice of subsidised surplus disposal often targets particularly low income groups or groups in need (eg hospital patients, those on benefit, etc). Thus it is argued that offering low-cost butter supplies to low income consumers is a practice which is bad for their nutrition, since butter is a high fat food. Against this case can now be set the following considerations:

- the scale of provision of these kinds of subsidised foods has reduced significantly under CAP reforms since 1992;
- as with the prices argument, consumers buy an increasing proportion of processed foods in which ingredient choices are likely to be influenced by many more factors than this one.

In conclusion, therefore, there is reason to believe that CAP effects on food choice, quality and nutrition are likely to be relatively weak today, by comparison with non-CAP effects. However, more detailed empirical research would be required to address these issues properly.

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This background briefing documents the way in which Europe's Common Agricultural Policy operates, the agricultural sectors that benefit most from subsidies or protectionist measures, the key produce, markets and competitors for European Union and in particular UK agriculture. The briefing also outlines the main impact of the CAP on world trade, developing countries, consumers, farmers, processors and exporters and the environment.

**Background Briefing 1**

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