Special Article

The EU's Agricultural Policy Instruments

The basic objectives of the EU Common Agricultural Policy (CAP) are to increase agricultural productivity, ensure a fair standard of living for agricultural workers, stabilized markets, guarantee regular supplies of agricultural products, and ensure reasonable prices to consumers.

The current system is result of a reform package implemented in 1993/94, the EU's commitments in the Uruguay Round Agreement on Agriculture (URAA), and the beginnings of EU Agenda 2000. The 1992 reforms reduced support prices, implemented a system of direct compensation payments, and introduced new supply control measures. Changes implemented in 1995 as part of the EU's URAA commitments include the conversion of variable import levies to tariffs.

The EU's Agenda 2000, finalized in March 1999, builds on the 1992 reforms with further reductions in support prices for certain commodities, while partially compensating producers for the price declines through direct payments.

The principal policy instruments now in effect are:

Price support: The CAP is a price management system that supports the income of EU farmers in two ways. First, authorities buy the surplus supply of products when market prices threaten to fall below agreed minimum (intervention) prices. Second, the CAP applies tariffs at the borders of the EU so that imports of most price-supported commodities cannot be sold into the EU below the desired internal market price set by EU authorities. Methods used in managing agricultural prices in the EU include *intervention prices* and *export subsidies*.

Intervention price: A market floor price (intervention price) triggers market intervention mechanisms to support market prices. Farmers are able to sell their products to the intervention authorities at the annually adjusted intervention price. Products must meet minimum quality requirements to be accepted into intervention. The surplus commodities are then put into EU storage facilities.

Export subsidies (restitutions): When world market prices are below the EU market price, exporters are paid a subsidy to enable them to export competitively to the world market. If world market prices are above EU internal market prices, an export tax may be imposed to prevent the outflow of EU product. Such taxes are usually adjusted weekly or biweekly in line with fluctuation of world market prices. EU commitments under the URAA set limits on the value and quantity of export subsidies.

Prices for major commodities such as grains, dairy products, beef and veal, and sugar are dependent on the price support system. Other mechanisms, such as subsidies to assist with storage of surpluses, and consumer subsidies paid to encourage domestic consumption of products like butter and skim milk powder, supplement these basic underpinnings of the CAP to strengthen domestic prices. Some items, most often fruits and vegetables, are withdrawn from the market by producer organizations when market prices fall to specified withdrawal prices.

Direct payments (compensation payments): In addition to price support mechanisms, payments may be made directly to producers to help support their incomes. Compensatory payments were instituted as part of the 1992 reform package to compensate grain and oilseed producers for price support cuts. The payments, although established on a per-ton basis, are made to farmers as a per-hectare payment, based on average historical yield in the region where they farm.

Supply control: The 1992 reforms also instituted a system of supply control through a mandatory paid set-aside program. To be eligible for compensatory payments, producers of grains, oilseeds, or protein crops must remove a specified percentage of their area from production. Farmers are paid a set-aside payment for area removed from production under this program. Producers with an area planted to these crops sufficient to produce no more than 92 tons of grain per year are classified as small producers and exempted from the set-aside requirement. Supply control measures are also in effect for the dairy and sugar sectors.

Agenda 2000 reforms will continue to shift the EU away from price supports toward direct payments to producers. Key provisions of Agenda 2000 are:

- a 15-percent reduction in support prices of grains, phased in over 2 years, to be partially offset by increases in direct payments;
- a 10-percent minimum set-aside for crop land for 2000-06; and
- a 20-percent reduction in support price for beef, to be phased in over 3 years and offset by direct payments.

For more details on Agenda 2000, see *AO* May 1999 and October 1999.

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