

# History of the Common Agricultural Policy : from the origin to the “mid-term review” in 2003

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## 1. The origin of the European institutions

The first ideas to build a united Europe, under common institutions are not new.

During the 19<sup>th</sup> century, several proposals were made, though they remained dreams and had no practical consequences. However, they significantly contributed to prepare the minds for the following generations.

Just after the social problems which appeared all over Europe in 1848 and sometimes led to significant political changes, like in France, an international congress on peace in the world took place in Paris in 1849.

The famous French poet and writer, Victor HUGO, delivered a speech in which he wished that one day France, Russia, Italy, England, Germany and all the nations of Europe, while conserving their own characteristics, would merge in a superior unity.

After the First World War, the French Minister for foreign Affairs, M. Aristide BRIAND proposed to the Society of Nations, in Geneva, to build a federal European union. Unfortunately, a new human and material disaster, the Second World War, was necessary to transform dreams into reality.

Just after the war, Sir Winston CHURCHILL declared that he hoped to build the “United States of Europe”.

On May 9, 1950, Robert SCHUMAN, French Minister for foreign Affairs, proposed to the other European nations to build together a supra-national organization. Five nations responded positively : the Federal Republic of Germany (the traditional enemy of France), Italy and three small countries geographically situated between France and Germany and which were victims of their rivalry : the Netherlands, Belgium and Luxemburg (the last two having already signed a customs agreement in 1921).

Since the beginning, the political significance of the building of Europe was clear. The first result was the creation of the Coal and Steel European Community, dealing with strategic economic sectors, especially in case of war, as the steel industry can easily be transformed for the production of weapons and coal was, at this time, a very important economic and social sector for the production of energy.

The new nuclear industry was also put under an international control, through EURATOM.

## 2. The origin of the Common Agricultural Policy

After the political stabilization of Europe and the establishment of peace, an idea came to put also under an international authority some economical sectors.

At this time, agriculture was still very important economically and socially (as well as strategically in case of war, by the way) even in the most developed countries. Many trade problems happened in the first half of the 20<sup>th</sup> century, as well as in the 19<sup>th</sup> century.

So, several proposals were defined to build a common agricultural policy, or at least to exchange information on the topic.

Among others, we can cite plans proposed by MM. MANSCHOLT (then Dutch Minister of Agriculture), PFLIMLIN (France), CHARPENTIER (France) and ECCLES (Great-Britain).

Finally, the Treaty of Rome was signed on March 25, 1957 by the six abovementioned countries and an important chapter was devoted to agriculture.

It is important to note that, since the beginning, the economical, social and environmental conditions for the practice of agricultural production were very different between the six founders and their numerous regions. To define a really "common" policy was very difficult. As a matter of fact, it took ten years and many meetings and negotiations (including the famous "agricultural marathons") to see the first truly common implementation of the CAP : the market of cereals became a common market, with common institutional prices, on July 1<sup>st</sup>, 1967.

The main features of the CAP were defined in the conference of Stresa in 1958.

It is very important to be aware that at that time, the six foundries of the European Economic Community, as a whole, were not self-sufficient for the main agricultural products. Hunger was spread during the war, and food was still scarce several years after the war. Agriculture was backwarded, this sector had been neglected during many centuries. A large "reserve of productivity" was noticed.

So, the political leaders of the six founders decided, probably for the first time in history, to invest a big amount of resources in agriculture : to help farmers financially, to promote education in agronomy, to support agricultural research..

## 3. Main features of the CAP up to 1992

In order to increase agricultural production, it is necessary to ensure the farmers that they will get a reasonable income from their work. However, if the costs can be estimated, it is much more difficult to foresee the prices several months after the decision to produce, at least in a free market economy, where agricultural prices are particularly variable.

So, it was decided to guarantee minimum sale prices for the main agricultural products, through the public intervention mechanism.

The prices, notably for cereals, were fixed at high levels in order to ensure farming profitability.

With high internal prices, it was not possible to have open borders and free entrance of imports. So, it was decided to determine "threshold" minimum prices at the borders. This system was mainly discussed with the United States, and it was agreed that oilseeds and oilseeds meals would be imported freely in the EEC, which was unable to produce enough proteins to feed its animals. Thanks to this, the EEC was able to increase both its vegetal and animal productions.

In the full mechanism, it was also foreseen to give subsidies to export on the non-EEC market, in case of surpluses and if the internal prices were higher than the external ones. In case of shortages, the mechanism could be reversed : export taxes could be implemented, in order to avoid too big exports (Argentina presently puts taxes on soybean exports, as the world prices are very high, and very important amounts of money go to the national budget by this way).

Production increased rapidly and after the first enlargement in 1973 (Great-Britain, Ireland and Denmark), the EEC became self-sufficient for the main agricultural products.

Another important tool was used in two basic sectors : sugar and milk, where maximum quantities with guaranteed prices were determined in 1968 and 1984, respectively. This system had the advantages to promote the European production at least to self-sufficiency and to limit the public expenses.

The limitation of expenses was a problem as early as the seventies : the so-called "co-responsibility tax" was implemented in the cereals sector in 1977 (the guaranteed prices are reduced according to the production exceeding the maximum quantities).

In 1988, agricultural "guidelines" were defined in the European budget (maximum expenditures).

The success was rapid and the CAP became a "victim" of this success : overproduction became common, huge stocks of cereals, butter, bovine meat, were under public control, several billion ecus were necessary to support exports, import levies were high for the main agricultural products, creating problems with the trading partners. At the same time, thanks to lower prices and free entrance, million tons of oilseeds and oilmeals were imported (mainly from the United States and South-America), replacing the European cereals in animal feed and creating a "disequilibrium".

During the Uruguay round of negotiations under the GATT (1986-1994), the then 12 members of the EEC (Greece joined in 1981 and Spain and Portugal in 1986) decided a big reform of the CAP in 1992, called the Mac Sharry reform according to the name of the Commissioner for Agriculture at this time.

It was a fundamental reform which still has consequences 15 years later.

Apart from direct market organization, it is important to note that the CAP also played an important role in standardization (the EUROP, and later SEUROP quality system for bovine carcass for example) and the harmonization of different legislations (like veterinary control, for example).

#### 4. The Mac Sharry reform of the CAP in 1992

This reform introduced the decrease of the guaranteed prices within the EEC, which was automatically accompanied by the reduction of import levies and export subsidies.

It also implemented direct payments to farmers, which were theoretically supposed to compensate the income loss due to lower sale prices. The direct payments were based on theoretical yields and cereals, oilseeds and proteaginous crops were linked to define the area of set-aside for each farmer. In the bovine meat sector, premiums were defined per head.

So, at least partially, the support passed from the product to the producer and was decoupled from the real quantities produced, as well as the nature of the products (for “small producers”, the direct payments were the same for cereals, oilseeds and proteaginous crops).

At the same time, accompanying measures were defined :

- support for agri-environmental methods;
- support for reforestation of agricultural land;
- support for the retirement of farmers over 55 who managed very small farms

At the same time, a legal scheme was established for the protection and promotion of origin-labelled products.

One year before the reform, in 1991, the first European legislation about organic farming was published.

So, it appears clearly that during more than thirty years, quantities were the main topic, but quality became more and more important since the beginning of the nineties.

#### 5. Agenda 2000

Agenda 2000, was agreed upon in Berlin in March 1999. It dealt with all the policies of the European Union, including the CAP, in the prospect of a new and important enlargement of the EU, defining goals and financial guidelines for the period 2000-2006. Concerning agriculture, it was only, at the beginning, a reinforcement of the measures of the 1992 reform : lower guaranteed prices, lower import levies and export subsidies, higher direct payments to compensate income losses.

As the policy was defined for seven years, a possibility for adaptation was foreseen after the first half of the period, the so-called “mid-term review” or MTR.

As a matter of fact, it was not a simple “review” leading to small changes, but it was once again an in-depth reform.

## 6. Development of the “second pillar” of the CAP

The first measures dealing with “rural development” were determined in 1972, in three directives :

- 72/159, concerning the financial support for investments in agriculture;
- 72/160 about the structure improvement of farms linked to the retirement of small farmers;
- 72/161 dealing with professional training and education and socio-economic information.

In 1975 it was decided to grant financial support to the farmers in mountaneous areas and in less-favoured areas.

In 1985, several topics were dealt with in regulation n° 797/85 :

- financial support for investments in farms;
- financial support for the settlement of young farmers;
- accounting;
- farmers associations;
- management and replacement services;
- less-favoured areas;
- agri-environmental measures;
- professional training;
- forestry.

In 1991, the measures, including financial support for agricultural products marketing and processing, were gathered in the regulation n° 2328/91.

After several modifications, the regulation n° 950/97 was published in 1997.

Finally, under the regulation n° 1257/99, the “Rural Development Plan” was defined and the stress put on sustainability from an economical, a social and an environmental point of view.

The total amounts of money devoted to rural development, which concerns rural areas in general and not only agriculture in particular, became more and more important.

## 7. Positive and negative results of the CAP from the beginning to the 2003 MTR

In the treaty of Rome, five goals were defined for the CAP. The first goal was to increase the productivity of production factors, notably the labour force.

It is clear that the target has been reached. Physical yields for vegetal and animal productions increased dramatically. For example, before the CAP, Belgian farmers were happy to harvest 4 tons of wheat per ha, and nowadays, the yields currently reach 10 tons and more. Dairy cows can produce 10 000 liters of milk, which was unthinkable fifty years ago.

The productivity of the labour force increased tremendously thanks to mechanization, motorisation, vegetal and animal selection, larger use of fertilizers and pesticides ... While the production more than doubled, the labour force was divided by 4 or 5.

The second goal was to improve farm profitability and the standard of living of farmers.

Indeed, farm profitability improved, but it did not reach the level of other professional categories (external disparity) and ... it is only the case for the remaining farmers, as many farmers left the sector for other economical sectors or retirement.

Another problem remains unresolved : internal disparity of farm incomes.

Also to be noted : a high level of indebtedness of farmers, who are obliged to invest big amounts of money very often in order to keep working.

Another goal was to ensure food security, from a quantitative point of view, for the population. This goal was also reached, as agricultural production largely increased among the Members States, and as Europe is the biggest importer of agricultural products in the world (which is far from being a "fortress" ...).

Concerning the stabilization of the market, it is also clear that the price system guaranteed a stable economic situation not only for the farmers (which is good for investment), but also for input producers, food processors and, finally, the consumers.

The last goal (but not the least one!) was (and still is) to provide food to the consumers at "reasonable prices".

It is clear that the result is positive. In Belgium for example, the "householder basket" in the fifties was composed by food products for more than 50 %. Nowadays, food expenses represent only 12-13 % of the mean household budget, the expenses being even more important for leisure.

Globally, we can say that the CAP was a real success, as the main goals agreed upon in the Treaty of Rome were reached.

Another positive aspect is the development of the input industry (fertilizers, seeds, chemicals, animal feed, machinery, ...) and of the food processing industry, which is one of the biggest job provider.

However, there are some negative aspects also. The most important being probably the degradation of the environment and biodiversity losses.

Another problem is the large decrease of the number of farmers and the difficulties for young farmers to take over a farm.

Nevertheless, the EU is conscious about this and several measures were decided and reinforced during the last decades.

The budget of the CAP is also a burden. However, its share in the total budget is sharply decreasing.

Trade conflicts happened with several partners because of export subsidies and import levies. However, EU is the biggest importer and big efforts have been done since 1992.

## 8. Conclusion

To define a really “common” agricultural policy among the six founders of the European Economic Community was really very difficult and deserves respect. A common market for agricultural products exists since 40 years.

To keep a common policy for now 27 States is really a challenge. However, the CAP significantly contributed to the economic integration of Europe and to its political unification. To give up such a policy is not only a political mistake, but a political fault.

Of course, the CAP must always be reformed, according to the evolution of the situation from all points of view. However, the CAP significantly contributed to the welfare of the European population.

So, we can say for the future that if the water for the baby’s bath must be changed regularly, please pay attention not to throw away the baby with the water !