EUROPEAN UNION AGRARIAN POLICY

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Integrovaná zemědělská politika hraje velmi důležitou roli v rámci tzv. evropských politik představujících základní orientaci Evrpské unie v období devadesátých let a na přelomu 20. a 21. století. Autor příspěvku se pokusil charakterizovat její principy a zároveň objasnit příčiny její reformy prováděné v průběhu tohoto desetiletí.

The agrarian policy **lies at the heart of the European Union**. It represents the ***component part of the so called common - or structural EU policies. Its role is*** (according to the Article 33/l of the Treaty about the European Communities) ***based on the existence of the single market with agrarian products and the free movement of people working in the agrarian sector. The another CAP principle is represented by the preference of EU countries agrarian products to products from non-EU countries.***

The so called **Common Agrarian Policy** plays the extraordinary role in the European Union especially due to the fact that it ***represents more than 60 per cent of the EU expenditures.***

The **principal aims** of this policy were determined by the point 39 of the Rome Treaty since March l957 as following:

- ***to raise the productivity in the agriculture through the support of technical development and the rational increase of the production,***
- ***to insure the fair farmers standard of living especially due to the increase of their personal incomes,***
- ***to stabilize markets,***
- ***to ensure the availability of supplies,***
- ***to create conditions for guaranteed supply of the inhabitants by the agricultural products for reasonable prices for the consumers.***

The mentioned aims were further specified by the „Brussels Treaty“ about the creation of the European Communities.The specific importance of the agriculture was underlined in its third part, Chapter II (and once again in Articles 32 - 38 of the „Amsterdam Treaty“ stressing the special rules valid for the common market with agricultural products (Articles 32 - 36) and explaining the functioning of the common agricultural policy (Articles 37 - 38).

Taking the integrated essence of the European Union structural policies into account it is understandable that **the implementation the aims presupposed the necessity to formulate the Common Agrarian Policy (CAP)** implemented through the activities of the common organization for the agrarian market. ***The common rules of the competition,prices control, different forms of subvences and supports for the agriculture, the common rules for the export and import as well as the system of the creation of reserves are the main CAP regulations.***

Nowadays, there are 2O community systems of the market regulation in the European Union. Its bodies issue about 3 000 different Regulations (Nařízení) a year (some of them with a very limited validity for several days). Common prices or target prices are set for the main agricultural products and intervention arangements exist to prevent market prices falling below the target level.

Except of these principal aims also other broader goals are ensured by the common agrarian policy. They are:

- **the increase of farmers incomes** by transfers from non- agrarian sectors and by the stimulation of the industrialization of the countryside enabling the creation of the alternative work places from the inhabitants of villages,
- **the strenghtening of the system of the family farms**,
- **the assurement of the correlation among the structural and prices policy,**
- **the enabling the specialization of farmers** - and the **achievement of the more rapide increase of the agrarian production,**
- **the improvement of the regulation of the market with agrarian products.**

System of Common Agrarian Policy Financing

The special European Guidance and Guarantee Fund (EAGGF) ***for the financing of the agrarian products pricing wa formed in l962. However, the first attempts to regulate the agrarian production and the market in the European Economic Community started to be introduced since l958.***

The first tools of the Common Agrarian Policy (CAP) were adopted aproximately that time. They are represented by:

- ***common competition rules*** (based on the compulsary co-ordination of different national regulatory systems),
- ***introduction of European regulation system*** (comprising about 20 different subsystems regulating individual crops and introducing guaranteed prices)
- ***limitation of the market with agrarian products***.

The indicated system of guaranteed prices financing was implemented since l964 and it was further specified by the Article 34/2 of the Treaty about the European Communities.

It is possible to stress that the CAP financing system is based especiallly on the the so called target price determination (cílová cena P 4) as the average price which could be achieved in the concrete place and through the smallest limited offer. Target prices are a set for the main agricultural products.

Since the target prices are high compared to world prices,a system of protection must be introduced to protect domestic producers.

The another component of the pricing policy is the so called ***threshold price*** (prahová cena P 3). This threshold price differs from the target price as it includes the price of the **transport and stock - in trade of the product**. This price differs every month to take into account cost of the stock- in - trade in individual months since the harvest to the harvest.

A system of variable levies ensures that imports to the European Union cannot be sold below European price levels. If excess supplies exist in the EU, and world prices are below this levels, then export restitutions (or subsidies) may be paid.

The described pricing system was typical for the first years of the European Economic Community existence when its member countries imported plenty of agrarian products both from colonies and semi- colonies and from other European countries. However, ***the European Communities as well as the European union were changed into a great exporter of agrarian products*** since approximately the end of the l970s.

That is why the so called **intervention price** (intervenční cena P2) lower per 7 per cent or 8 per cent in the comparison with the target price has been introduced.These intervention prices exist to prevent market prices failing below the target level.The surplus output at the target price is removed from the market and placed in intervention - i.e. stockpiled.

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The EU Agency responsible for the agrarian policy coordination has the duty to purchase all offered domestic agrarian products if their producers accept the intervention price.

The European Guidance and Guarantee Fund is composed of **two relatively autonomous sections:**

- **the guidance section** (with the share about 5 per cent on the common means of finances),
- **the guarantee section** responsible for subventions and further supports as the component part of the short- term policy.

The financial means invested by the Guidance section are used for the support of the long- term structural changes in the agriculture .

The Guarantee section uses approximately 95 per cent of means of the Fund given to producers in the form of subventions distributed according to approved rules.

The most frequent subvences paied by the Guarantee section are following:

- ***the guaranteed minimum prices for approximately of 70 per cent EU agrarian production*** - cereals, milk and milk products, beef, mutton and lamb meat,
- ***subvences as the protection agains the competion from non- EU countries*** (cereals, wine, pork meat, chicken, eggs) representing approximately 2l per cent of the global agrarian production,
- ***direct subvences of the majority of other products*** (approximately 2 per cent of the global production),
- ***area support determined either per 1 hectar of the area*** or for the volume of the production (hops, flax, cotton seeds) representing nearly 1 per cent of the global production.

The mentioned forms of subventions cover approximately 94 per cent of the global European Union countries agricultural production. The rest 6 per cent are selected for the functioning of the market (which concerns, for example, potatoes).

Why the Agriculture is Supported ?

As it was indicated there is a great discussion around the effectivenes and the efficiency of the European Union agrarian production. The followers of the CAP stress its following benefits:

- large increases in production and trade,
- greater security in supplies,
- the fact that agricultural have risen more slowly than consumer prices in general.

On the other hand, the Union has to take into account the fact that ***agricultural prices, in the long run, fall in real terms because of low income elasticities of demand. This leads to a relatively decline of the role of agriculture in the member countries.***

The another important factor is represented by the fact ***that agricultural prices, in the short- term, are very unstable. Supply is variable, and the price elasticity of demand is low.***

Large price movements mean that ***farmers are discouraged from investment and that the forward planning is difficult.***

The problem of escalating expenditure

Critics of thre Common Agrarian Policy argue that the indicated present systém results in:

- High food prices in the EU,
- Escalating expenditure which has brought the EU to near-bankruptcy.

The escalating expenditure has resulted from:

- rising production which had led to chronic surpluses at the target prices,
- payment of export subsidies to „dump“ the surplus production on the world market (European prices are two-three times the levels of world prices),
- fluctuations in European currencies which necessitated the payment of monetary compensation amounts till 1999 when EURO was introduced.

The principal problems of the Common Agrarian Policy are connected especially with the huge amount of financial means paid by the Guarantee section. This fact is possible to illustrate by the concrete figures:

- The Guarantee section paid out 3.9 billion ECU in l973.
- This section paid out 26.5 billion ECU in l990.
- The CAP system accelerated the deepening of differences between the bigfgest farmers on the one hand and many smaller farmers on the other. As it was announced, only about 20 per cent of farmers profited by nearly 8O per cent of common CAP expenditures in l990.
- The fact that more than 60 per cent of all financial means invested from the structural funds were used by the agriculture represented the source of ever growing criticism inside the European Communities. That is why the necessity to reform CAP was discussed also during discussion leading to the creation of the European Union.

Preconditions of Necessary Common Agrarian Policy Reform Implementation in l980s

There was a **growing criticism of the Common Agrarian Policy and its financing** inside the European Communities member countries **especially since the end of l970s**. It became more and more serious factor of the domestic and international policy **first of all in countries which agriculture has a relatively small share in the global subsidies** (first of all in the United Kingdom dependent traditionally on the import of agrarian products and paying a relatively high subsidies into the EC agrarian budget). The **another source of criticism was caused by the complex and expensive administration of the agrarian market regulation.**

Taking these facts into account several steps aiming at the ***step- by-step transformation of the Common Agrarian Policy were made since the end of l970s:***

- The so called **co-responsibility levy** as the tax on producers in the dairy sector was **introduced in the l970.**
- **Dairy quotas** (and where production exceeded the quota also an additional levy which makes exceess production unprofitable) were **introduced in l984**.
- **Further cuts in national milk quotas** were agreed **in l986.**
- **Measures extending the controls on milk production to other major products were adopted in l988**. A ceiling was established on total spending on agriculture bythe European Commission and the Set-aside scheme was introduced. Farmers started to be paid to withdraw land from production.
- **Restrictive price policies started to be imposed** whereby the annual prices increases involved a reduction in the real price **in the end of l980s.**

Reform of Common Agricultural Policy in l992 - l993

The European Commission formulated the principles of CAP reform in its document since July l992. Even though a greater number of changes were proposed and then implemented the Common Agricultural Policy principles were not changed. It means:

- united prices determined by the EU Council,
- principle of solidarity expressed in the common agricultural policy financing from the EU budget,
- principle of EU countries agriculture protection against the unrequired competition from non-EU countries by different import levies, import quotas, etc.,
- principle of co- responsibility expressed by different obligations to restrict or to reconstruct the agricultural production in the interest of the whole Community.

The pressure for the reform implementation arose for three following reasons:

1. **The Uruguay Round of trade liberalisation under the auspicies of the General Agreement on Tariffs and Trade (GATT) sought to extend free trade in areas such as agriculture.** Some non- European countries demanded drastic reductions in agricultural support schemes as the escalating competition between the European Communities and North America raised world output and depressed woeld food prices.
2. **Growing surpluses in the agriculture of the EC countries threatened to** significantly **increase the level of expenditure under the Common Agricultural Policy.**

3. The desire of European Communities to increase structural funds to promote economic integration meant that **agricultural spending had to be reduced if the overall budget ceiling of the Community was not to be breached.**

Due to the growing pressure from several member countries **the Euroepan Commission produced reform proposals for the CAP in l99l. The main features of this proposals were:**

- ***A switch from production subsidies through pricing to income support targeted on small farmers.***
- ***A more aggressive „set aside“ policy to take cereals - producing land out of production.***
- ***Greater controls on production,including cuts in milk output.***

Intensive negotiations were led on the basis of mentioned proposals. **In May l992 three following main decisions were adopted:**

1. ***A cut of 29 per cent in cereals prices over four years*** (designed to meet the cuts in domestic subsidies demanded by GATT).The aim of this decision was to eliminate surplus production and to reduce the need to pay export subsidies to dump excess output on the world market on such a way.
2. ***A cut of l5 per cent in beef prices and further cuts in the dairy quotas .***
3. ***The smallest farmers were required to set aside l5 per cent of their arable land to qualify for compensation for the price cuts.***

The older farmers are encouraged - on the basis of mentioned criteria, among others - to become pensioners by the pension surplus supports,every year compensations independent from the area of fields, a year compensation for l hectar of uncultivated soil.

The another important feature of this policy is the transformation of fields into forests - once again with the compensations for farmers.

The reform resulted in the fact that basic features of the CAP intact- guaranteed prices, export subsidies and Communities preference remained. However, the support for farmers has been shifted to some extent from consumers (higher prices) to taxpayers (via income support payments). All farmers started to be compensated for price cuts. A reduction in agricultural expenditure in the short - run was achieved. More support was concentrated towards the most marginal producers, towards vulnerable rural communities and towards developing alternative forms of enterprise for those leaving agriculture. Consumers started to benefit from lower food prices with meat prices falling by up to twenty per cent.

Cuts in agricultural subsidies by the EU countries would reduce output and the subsidised export of surplus agricultural output. Thus world food prices would rise which would benefit a number of agricultural products exporting countries creating the so called Cairns Group.

Under the so called the Blair Home Agreement of November l992 concluded between the United States of America and the European Union the EU has undertaken to:

- Cut the volume of subsidised exports by 2l per cent over six years.
- Cut the value of export subsidies by 36 per cent and reduce internal supports by 2O per cent.
- Remove the variable levies and replace them with a fixed levy which will be reduced subsequnetly by 36 per cent over six years.
- Permit increased quotas for imports to the European market.

Concluding it is possible to stress that the Common Agrarian Policy reform plays a very imporant role in the European Union co-ordinated policy and it contributes greatly to the development of the European integration process.

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