Ministry of Agriculture and Agrarian Reform

NAPC

National Agricultural Policy Center

Policy Brief No 18

General overview of common agricultural policy (CAP) of the European Union

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November 2006

With the support of

Project GCP/SYR/006/ITA

Food and Agriculture Organization of the United Nations

COOPERAZIONE ITALIANA

Ministry of Agriculture and Agrarian Reform

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1. Historical background about the CAP

The notion of establishing a Common agricultural Policy in Western European goes back to fifteens of the last century, immediately following the Second World War when food security was a serious issue in that period where the war damaged European societies for years and crippled agricultural sector. As a result, supplies couldn't be guaranteed. At that time the ability of Europe to produce its own food was the main priority so, the early CAP reflected the need to maintain and increase food production.

The so-called Spaak report which submitted by the hears of delegations to the six foreign ministers of the six original member states (France, West Germany, Italy, Netherlands, Belgium Luxembourg) in April 1956 suggested a special treatment for agriculture for the following reasons .

- The particular social structure around the family farm (social component)
- The volatility of production
- Low elasticity of demands and differences in yields, input prices and revenues between the different regions

At the Stresa-Conference in July 1958, which laid the basis for the development of the CAP, the ministers of the six original member states stressed the importance of the farming population for social stability. The family farm was recognized unanimously as the way to provide this stability where a special treatment for agricultural activities was justified by the following reasons.

- The farmer produces the most basic goods for human livelihood
- The farmer provides social stability through his hard work and the particular structure of the rural society
- The farmer is, in his production, subject to the volatility of weather conditions

The community dimension added a fourth reason which become very powerful overtime

- The regional disparities which the community was supposed to overcome

In 1960, the CAP mechanisms were adopted by the six founding member states where it came into force in 1962.

2. The definition of the CAP

The CAP**:** is a set of rules, mechanisms, legislations, and practices adopted by the EU to provide a common, unified policy on agriculture, and regulate the production, trade and processing of agricultural productions in the EU and harmonize the economic policies with attention being focused on rural development in order to ensure that EU has a viable agriculture Sector and that consumer has a stable supply of affordable food.

3. The objectives of the CAP

The objectives of the CAP as defined in Article 33 of the Treaty of Rome are:

- To increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilization of the factors of production, in particular labor.
- To ensure a fair standard of living for the agricultural community, in particular by increasing the individual earning of persons engaged in agriculture.

- To stabilize markets of agricultural products.
- To ensure the availability of supplies of agricultural commodities and the raw materials for agricultural industries.
- To ensure that supplies reach consumers at reasonable prices

4. The role of agriculture in the European Union

Since 1958, when the six original member states signed the Treaty of Rome establishing the European Community Figures have differed according to the enlargements of EU and according to the importance of agricultural sector within the entire economy. The employment in agriculture on average in the six original member states was 25%, whereas its contribution to GDP didn’t go beyond 14% (1950). The respective figures for the community of 15 in 1994 are 5.7% and 2.5%. In 2003, in spite of the declining importance of agriculture (accounted for 4% of the GDP and 5-6% of labor force) the CAP captured half of the common budget.

5. The cost of CAP

The CAP has always been a significant part of the EU budget since its inception. In the seventies the CAP accounted for 80% of the common while in 2003 the CAP captured 50% of the budget. This percentage has been decreasing for years in the framework the continuous process of CAP reforming, but it remains a large expenditure today where it represents about 44% of the EU budget (€ billion scheduled spend for 2005).

6. The model of subsidy in the CAP.

Between 1962 and now, the model of subsidy of the CAP has changed where we can differentiate between old CAP (from 1962 until 1992) and new CAP from 1992 till the current days. The model of agricultural policy of the old CAP was coupled as the support given by price policy and market intervention is coupled and proportional to the quantity is produced (the more farmers produced the more subsidy payments they received). This model accompanied the CAP from its early days until the year 1992 (MacSharry Reform) which can be really considered a turning point in the history of subsidizing the CAP where the model started shifting towards a de-coupled model of farm support dependent on direct payments based on historical yields and animal numbers. Following Agenda 2000 and the reforms of 2003 and 2004, the percentage of decoupled payments has become higher where these payments have become almost 75% decoupled from production.

7. Instruments (the way that CAP set)

7.1 Price support

There were three main elements for price support:

- A minimum guaranteed price (intervention price), fixed each year, well above world prices. In other words, there were import tariffs imposed on specific goods entering the EU this was meant to raise the imported price to the targeted EU price, ensuring that EU farmers would be able to sell their goods at profit
- Interventionist pricing system: this system set levels which, should the price of a given good fall bellow, the EU would then buy the goods which would increase demand and thus increase the price. in addition, by this system farmers could sell the buying agencies unlimited quantities of production

- Providing direct subsidies to the producers' originally, producers of specific agricultural products. These subsidies helped to increase production by providing an incentive to grow a chosen product. They also helped to increase profits associated with a chosen product.

Price support was very strong for the key sectors (cereals, beef and milk) and weaker for Mediterranean crops (wine, fruits and vegetables) with some exception (olive oil, rice and tobacco)

7.2 Structural policies

Were weak and only accounted for 5% of the agricultural budget, Based on aids to investments on farm restructuring.

7.3 Common market organizations

These organizations were introduced gradually to achieve CAP's objectives and now exist for most EU agricultural products. COMs depend on the product, and take one of the following forms:

- Common rules on the competition.
- Compulsory co-ordinance of the various national market organizations.
- EU market organization.

Common Market Organizations have the following principles

- A unified market which means a free movement of agricultural products within the area of member states.
- Community preference: agricultural products are given preference and a price advantage over of the internal markets from products imported from third world countries.
- Financial solidarity: all CAP expenses and spending are born by the community budget.

8. Financing the CAP

Agricultural expenditure is divided into tow maim areas (the so-called pillars)

- Market and income support (pillar 1).
- Rural development (pillar 2).

The CAP is financed from EAGGF, which was set up in 1962 and separated in two sections in 1964:

- **The Guarantee section**, which finances in particular, expenditure on the Agricultural Markets Organizations (e.g. to buy or store surplus and to encourage agricultural exports) this means funding for pillar 1 measures and the majority of expenditure for rural development comes from this section.
- **The guidance section**, finances a significant part rural of development measures (pillar 2) (e.g. investing in new equipment and technology).

The guarantee section is the more important one and is classified as compulsory expenditure within the Community budget. The Guidance Section is one of the structural funds aimed at promoting regional development and reducing disparities between areas in Europe.

The fund is administered by the commission and the member states, cooperating within the EAGGF committee. The fund committee consists of representatives of the member states and of the Commission.

9. A brief of CAP reforms from 1968 to 1992

The first attempt aimed at reforming the CAP came ten years after its inception in 1968. In its Memorandum on the Reform of agriculture in EEC (commonly known as Mansholt Plan), the commission sought to deal with two problems:

- Emerging surpluses where EU farmers were producing more than the market could bear creating excessive surpluses.
- The falling back of income growth in agriculture compared with the rest of the economy, increasing at the same time EU spending in agriculture exponentially.

In 1968, Sicco Mansholt who was vice-president of the commission and responsible for the CAP at that time proposed a series of measures based on the following principals:

- Farmers would have to become larger and more efficient to cope with the increased competitiveness for European food productions and the world markets and intervention policy would have to become relaxed.
- A rural development policy would have to be put in place in disadvantaged areas for agriculture, where food couldn't be produced efficiently in order to stem rural decline and to preserve communities and environment.

The next change to the CAP occurred in 1972, when structural reforms were introduced. These reforms aimed at modernizing European agriculture, but the problem continued where the supply and demand of agricultural products were not in balance. As a result of the coupled model a crisis emerged during the eighties in terms of:

- Growing production surpluses, agricultural production continued to increase which was met with shrinking demand (second oil shock and world recession in 1979) .this led to huge stocks where newspapers started writing about butter and beef mountains and wine lakes.
- Growing expenditure where around 70% of the community budget went into agricultural subsidy.
- Environmental unsustainability, where agriculture also came under attack because of its negative impact on the environment due to the application of pesticides and fertilizers.
- Trade disputes. Some of these agricultural commodities surpluses were stored within EU, others were exported (with the help of subsidies) .these measures had a high budgetary cost distorted some world markets.

In 1983, the commission proposed a fundamental reform. The proposal of 1983, resulted in publishing the green paper (perspectives for the CAP) in 1985 ,its main goals were to settle the continuing problem of overproduction by bringing supply and demand into balance by adjusting the mechanisms of the CAP without questioning the need for support and to analyze alternative solutions for the future of the CAP .in addition, the green paper mentioned food security as an important issue of the CAP ,but it put less emphasis of the claim that agriculture is an essential element of social stability in general. The green paper also stressed the crucial role of agriculture for preserving the nature landscape and the environment but at the same time asked farmers to pay more attention to the environment, for the first time the perspective of agricultural providing raw materials for industry was set out in detail. In 1984, there was the establishment of milk quotas.

In 1988, as a result of this green paper, a package of reforms was agreed on by the European Council. This included “the agricultural expenditure guideline" which limited the percentage that could be spent on the CAP as a percentage of the overall budget.

10. Re MacSharry Reform in 1992

In 1992, under the supervision of agricultural commissioner Ray MacSharry, a series of the CAP reforms were adopted by the EU which were the largest to the present day. These reforms attempted to cut back agricultural prices and make them more competitive in the internal and world markets. In addition, MacSharry Reforms helped setting the stage for the Uruguay Round Agreement on Agriculture (URAA) where these reforms focused on major crops (cereals, oilseeds, and protein crops) and beef by lowering guaranteed (intervention) prices substantially and compensating farmers for lower prices with direct payments.

The main elements of MacSharry Reform are:

- Reducing intervention prices for beef and cereals by 15% and 30% respectively.
- 10% set aside, as an obligation to keep out of cultivation a part of the farm which is the condition to receive support (with an exemption to small cereals farmers who produce less than 92 metric tons)
- European farmers were compensated by direct payments for reducing prices (fixed aids per hectare, partially de-coupled) based on historical yields and animal numbers

In addition to what mentioned above, several rural development measures were introduced, notably to encourage environmental farming.

The important result of MacSharry Reform

The three main points were:

- This reform can be considered the turning point of the history of CAP where it established for the first transitional step toward a de-coupled model of farm support.
- It defined a new set of agro-environmental measures.
- US accepted the reform and it was ratified by the Uruguay Round Agreement.

11. Agenda 2000

In July 1997, the EC proposed for a further reform of the CAP (the so called Agenda 2000) which was decided in March 1999 at the Berlin Summit as a blueprint for future EU policy

11.1 Reasons led to Agenda 2000

- Preparation for the enlargement to include 10 countries to the East on May, 2004, and for the single currency causing budgetary constraints.
- The increasing competitiveness of products from third countries.
- Preparation for the new round of world trade negotiations on 14 November 2001.

11.2 The initial proposal of Agenda 2000

- The enforcement of the competitiveness of agricultural commodities in domestic and world markets (instead of its physical productivity, as in the past)
- Sustaining farmers, through promoting for a fair and decent standard of living, and creating substitute jobs and other sources of income.
- The formation of a new policy for rural development.

- The integration of more environmental and structural consideration into the CAP
- The improvement of food quality and safety (instead of food quantity)
- The simplification of agricultural legislation and the decentralization of its application in order to make rules and regulation clearer, more transparent and easier to access.

11.3 The instruments of Agenda 2000 are:

- Reduced market intervention, increased funding for rural development, and further price reduction.
- Further market orientation through more decoupled direct aids.
- Modulation of direct aids ,which is the possibility to reduce them over time according to some selective criteria
- Cross compliance with environmental standards which makes farmers eligible for direct aids and specific agro-environmental.

11.4 Main elements of Agenda 2000 are:

- The guaranteed beef price was reduced by another 20%, and guaranteed cereals prices were reduced by another 15%.
- Direct payments compensated only half of the lower prices.
- As a condition to receive, direct payments, farmers had to use environmental practices that limit ground and water pollution(cross-compliance)
- Also, to receive direct payments ,farmers producing more than 92 metric tons of grains or oilseeds were required to plan grains or oilseeds on land not designated as set aside
- New regulation and father financing for rural development.
- Postponement of the reform of the milk quota system up to 2005.

12.Mid – term review in June 2003

12.1 Reasons led to 2003 Reform:

- Necessity of a further radical reform of the CAP before the full accession of new member states. As a result, to decide a long term reform as soon as possible to lock the ceilings on agricultural expenditure and to avoid the risk of further budget reductions in the coming years.
- Multilateral negotiations on agriculture of World Trade Organizations (WTO) were fast approaching (Cancun Conference on September 2003) and the proposed reforms, if approved, might provide the EU with more bargaining power at the negotiating table for reducing agricultural subsidy.

The basis for Fischler reform which is also known the Mid-Term Review (MTR) of Agenda 2000 was presented in July 2002. The legislative proposals presented by the Agriculture Commissioner Franzy Fischler on January 2003.

12.2 Main points of 2003 reform are:

- **Decoupling and Single Farm Payments (SFPs)**

Decoupled payments: are fixed payments that are not tied to current production activities, inputs or practices, where no production decision or change in market price can alter the size of the payments owed to eligible producers. This also means that income support will tend to depend less on price distortions.

Decoupling is intended to eliminate surplus over production in order to balance supply and demand leaving farmers income unaffected. Decoupling started on 1 January 2005 for most common market organizations (COMs) with a transitional period for certain crops; applying this period will be up to member state until the beginning of 2007. When member states implement the reform, farmer will receive a SFP based on the average historical payments received in 2000-2002 regardless of their current production.

- **Cross compliance with environmental program**

Single farm payment will be linked to the respect of environmental, food safety, animal and plant health, and animal welfare standards, as well as the requirements to keep all farmland in good agriculture and environmental condition.

- **Modulation** More money will be available to farmers for rural development through reducing direct payments for bigger farms, and transferring the funds into rural developments measures.

This also means shifting income support (known as pillar 1) to rural developments measures (known as pillar 2). This will result in all amounts of direct payments exceeding EUR 5000 a year being reduced 3% in 2005, 4% in 2006 and 5% from 2007 on. Member states are to apply Modulation compulsorily where it is worth mentioning that modulation savings will be about £1.2 billion a year.

- **A strengthened rural development policy With more EU money**

- **Several other revisions of the market policies of the CAP in the areas of grains, dairy, rice, durum wheat ....**

Grains: A minimum of 75% decoupled aid. Monthly storage increments to support rice reduced 50%.

Dairy: reduced intervention prices for butter (25 %), skim milk powder (15%)

Rice: intervention support price reduced by 50%.

Durum wheat: supplemental durum payment reduced in traditional producing areas, phased out for other areas payment included in single farm payment, but countries may choose to retain up to 40% linked to production.

Cotton: a minimum of 65% decoupled payment with 22 million Euros provided for transition to other uses begins in 2006.

13. Continuation of CAP reforms in 2004

In 2004, a further reform in Mediterranean products (cotton, olive oil, tobacco, and hops) took place. These crop reforms started in the beginning of 2005. Decoupled payments of varying amounts are allowed with historical payments to be incorporated into the SFP, the degree of coupling at the discretion of member states.

Cotton: 65% of the subsidies (of the 2000-2002 historical payments) will be decoupled, while 35% will be allowed as a per hectare payment. Funds amount to 22 million euros will be shifted from market support to a transitional restructuring fund that will assist farmers to produce alternative crops.

Tobacco: A minimum of 40% will be decoupled of subsidies from 2006-2009, while 60 % will be coupled of payments with the remaining aid to allow farmers used to improve quality. From 2010 on, the decoupling percentage will become 50% and will go to the SFP, while the other half moving into a restructuring fund to finance more efficient uses of tobacco land.

Olive oil: A minimum 60% of payments will be decoupled with a base of 2002-03 to determine the aggregate amount of aid. The reference area will apply only to areas planted before May 1st, 1998, and member states may use up to 10% of their national olive oil payments to improve the quality of oils.

Hops: A minimum of 75% will be as decoupled payments, while 25% may be coupled and paid directly to farmers or through producer group.

14. The CAP and the enlargement

On 1 May 2004, the EU enlarged to include Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia. This expansion increased the number of farmers from 7 to 11 million, increased the agricultural land area by 30%, and crop production by 10-20%. As a result, the accession of 10 new members increased the CAP expenditure by 10% in 2006, in comparison with the expected expenditure for the EU-15. The farmers in these new member states have full and immediate access to CAP market measures which helps farmers stabilize and increase their incomes in addition to a rural development package which is specifically adapted to the requirements of the new member states.

The SFP will be phased in the beginning at 25% of the EU-15 level in 2004 and will increase by 5% or more each year until the new members receive 100% of EU payments in 2013. This will require a cut in subsidies to the original states of around 5% to finance payments to the new members.

Topping up these payments to 55% in 2004, 60% in 2005, and 65% in 2006 from the new member states' rural developments funds and national budgets. In addition, simplified direct aid system, will be an option to the new member states to apply or not.

It is worth mentioning that the CAP budget for pillar 1 (market related expenditure and direct payments) is fixed from 2004-2006 and then will be limited to a 1% increase during the period 2007-2013.

It is worth also mentioning for the new member states that market disruptions during the transition from central planning to a market based economy in the 1960s resulted in substantially lower yields compared with the EU-15 during that period which means that farmers in the entrant countries will receive a lower per hectare payment then the EU-15 farmers because SFP for farmers in new member states is based on yields associated with reference period of 1995-99 and the cropped during that period . These SFPs will be varying considerably according to farm size from £ 300 for small farmers in Poland to 40,000 for the large farmers in Hungary and the Czech Republic.

Finally, these reforms were to be implemented on May 2004 for the new entrants rather than having the option of choosing between 2005 and 2007 like EU-15.

15. Developments of CAP in 2005

15.1 Lisbon Strategy:

Is a strategy aims to provide people with a better standard of living in an environmentally and socially sustainable way. It seeks to tackle the EU's urgent need for higher economic growth and job creation and greater competitiveness in world markets. On 2 February 2005, the EC relaunched this Strategy.

15.2 Simplifying the financing of CAP

On 31 May 2005, the EU Agricultural Council signed a new regulation aims at drastically changing the way in which the **CAP** will be financed from 2007 onwards. The new regulation creates two new funds:

- The European Agricultural Guarantee Fund (EAGF)
- The European Agricultural Fund for Rural Development (EAFRD)

These two new funds will be operated under one single management and control system which will take the advantage of the good experience the commission has gained in the filed of EAGGF-guarantee section where it includes reinforced rules for budgetary discipline. In particular, strengthen the respect of financial ceilings in EU legislation.

16.Recent developments of the CAP in 2006

16.1 A proposal for simplifying agricultural state aid and facilitating crisis support

On 20 February 2006, the commission proposed to include compensation for bad weather and animal and plant diseases in the present exemption regulation for state aid in the agriculture sector. In addition, the commission proposed to simplify the present regulation and encourage better risk management. This will accelerate the implementation of the state aid in such situations of crisis for farmers.

From 2010 on, bad weather will be exempted if only the farmer has taken out insurance against such risk. This proposal will be implemented from January 2007.

16.2 Strategic guidelines for rural development

Rural areas cover 90% of the territory of the enlarged EU and are home to more than 50% population. In addition, rural development is playing an increasingly important role in helping rural areas to meet the challenges of the 21 century. On 20 February, the Agricultural Council adopted the following six strategic guidelines for rural development:

- Improving the competitiveness of the agricultural and forestry sectors
- Improving the environment and countryside
- Improving the quality of life in rural areas and encouraging diversification
- Building local capacity for employment and diversification
- Translating priority into programs
- Complementarily between community instruments

This will provide a strategic approach and a range of options that could be used by member states in the future of their national rural development programs which will be prepared on the basis of the previous guidelines that will help to:

- Identify the areas where the use of EU support for rural development creates the most value added at EU level
- Make the link with the main EU priorities
- Ensure consistency with other EU policies, in particular cohesion and environment

- Accompany the implementation of the new market oriented CAP and the necessary destructing it will entail in the old and new Member States

16.3 The reform of sugar

EU sugar sector remained largely unchanged for almost 40 years in comparison with the rest of reformed CAP, where the previous regime was untenable. The sugar price was three times world sugar price and sugar export system, rules were against the international trade rules.

On 20 February 2006, EU agriculture ministers adopted a radical reform for sugar sector which will come into force on 1 July. The essence of this reform is 36% cut in the guaranteed minimum sugar price, farmers will be compensated generously, and crucial restructuring fund aims at encouraging the uncompetitive producers to leave this industry.

EU will open its market completely to imports from the world's 49 poorest countries from 2009. EU production is expected to fall by 6-7 million tones to become at a sustainable level and price allowing domestic needs to be met from the European production and imports from the EU's African Caribbean and Pacific partner countries and the Least Developed Countries. EU exports will fall dramatically, allowing the EU to respect its commitments toward WTO. In general, the reform will enhance competitiveness and market orientation of the sector and strengthen the Em's position in the current round of world trade talks. In addition to that, the reform will affect sugar producers in the developing world who have traditionally benefited from the inflated EU price.

16.4 Memorandum of understanding for a dialogue on Agriculture and Rural Development with Russia

The importance of this agreement comes from that Russian position for the European exports where Russia is the second biggest market for EU agricultural. In addition to that, Russia is one of the union's main suppliers for grains and oilseeds. Through the memorandum, both sides commit in a long term-term partnership to improve cooperation on all issues of relevance including production, trade, quality policies for agricultural products and the development of rural communities.

16.5 A proposal for EU financial aid for eggs and poultry sector

On 25 April 2006, EU agriculture ministers approved a proposal offered by the commission to allow the EU budget to share the cost of market support measures in the eggs and poultry sector. This measure came as a result of avian flu crisis and its negative impact on market. The commission proposed to co-finance 50% of market support measures only in cases such as a case of avian flue on a farm or where farmers were prevented from moving their poultry because of restrictions imposed on veterinary orders.

What are the Achievements of CAP's reforms?

- More market orientation
- Less trade distorting CAP
- Continued assistance to farmers in more targeted way taking into account environment, animal welfare, quality of food....etc
- Less concerns of European citizens towards the CAP cost and European environment
- Stable and long term budgetary framework for agricultural support with a new financial discipline mechanism
- Reinforcement policies towards rural development

17. CAP and World Trade Organization (WTO)

The EU is a strong supporter of the World Trade Organization (WTO), which its multilateral trade rules aim at improving the condition for trade in agricultural products. In the negotiations on trade within the WTO, the so-called Doha Development Agenda (DDA), which was launched in the ministerial meeting, held in Doha (Qatar) on 14 November 2001 (although agricultural negotiations actually started in 2000) rests on four points:

- A reduction in agricultural aid that encourages distortions in trade. For example, a substantial reduction in agricultural aids and grants.
- The suppression of export practices that bring about distortions in trade.
- Opening up agricultural markets. This implies a general reduction in customs duties, with exceptions for sensitive farming products for each member state.
- Special and differentiated treatment for developing countries and free access for goods from least developed countries (LDC) according to the initiative (every thing but arms).

Concerning the last point, EU wants to see (definitely from developing countries) concerns such as the protection of the environment and food safety and quality addressed.

As was planned to, 2003 reforms strengthen the EU position on the negotiating table in the WTO trade talks. In addition, the EU major efforts towards more transparent farm policy can be seen through the at least two-thirds of farmers payments aren’t linked to production (rising of this number will be depended on how the 2003 reform will be implemented).

Finally, EU continues to argue for some retention of certain support measures that are linked to production limits.

18.The benefits of the CAP

Since its inception, CAP has played a crucial role within the entire European society achieving its goals coincidently with the European Community needs. CAP has fulfilled its role in food and fiber production through maintaining the countryside, conserving nature and making a key contribution to the vitality of rural areas. Consequently, EU has ensured that its agricultural sector has been viable, sustainable, and competitive economic sector.

The **CAP** has recently developed and become more sophisticated not only achieving European Community needs but also responding requirements of EU citizens. So the following factors have taken on a greater importance:

- Improving the quality of Europe’s food
- Guaranteeing food safety
- Ensuring the protection of environment for future generations
- Providing better animal health and welfare conditions
- Achieving these purposes with the support of taxpayers, i.e. ordinary citizens in order to minimize the to EU budget.

The most important thing has been done is creating a large single market in agricultural goods in the EU which has enabled the EU to become a major world player in agriculture and food (the first largest agricultural exporter in the world)

19 Problems of CAP

Anti-development

- The so-called Fortress Europe; where the West spends high amounts on agriculture subsidies every year. The OECD's countries total agricultural subsidies amount to more than the GDP of the whole of Africa.
- CAP increases Third World poverty by putting Third World farmers out of the business by creating oversupply of agricultural products preventing the third world from exporting its agricultural goods to the West. According to the Human Development Report 2003, the average dairy cow in the EU received $ 913 in subsidies, compared with an average of $8 per person in sub-Saharan African.

Rural environment: the CAP has recently appeared as social tool offering subsidies toward land set aside out of cultivation and for rural landscape. These changes have switched money away from payments for planting specific crops aiming at encouraging alternative non-production land use and giving farmers more freedom in choosing crops. This means that European people are willing to pay farmers a subsidy simply to maintain the landscape.

Artificially high food prices: CAP price intervention causes artificially high food prices throughout the EU. As a result, European consumers pay a regressive consumption tax. For instance, European sugar costs more than three times the global market price. This subsidy is estimated to cost each EU citizen on average £ 16 per week although intervention costs and subsidy decreasing.

Equity among member states: Some countries in the EU have larger agricultural sectors than the others. France is the largest beneficiary of the CAP receiving about 25%of the entire budget. Spain, Germany and Italy also receive a large amount of money from the CAP account for 15%, 14%, and 12% respectively. Other nations, like Ireland and Greece receive a much higher percentage of subsidies 4%and 6% related to their gross outputs. It is worth mentioning, that the member states differ in their national preferences on agricultural support (although it increased significantly). France reflects the position of countries who are in favor of high levels of agricultural support. Conversely, UK and some other countries represent the position in favor of agricultural trade liberalization. The third case is a bit neutral towards more liberal position and well observed in Germany. The 10 new member states (including Poland which is a large agricultural state ranking third in terms of its farm land which accounts for 11% while France 17% and Spain 15%) are receiving only a fraction of the CAP (25% in 2004). This amount will slowly increase until 2013 when they will be getting the same rate as the older member states.

Equity among members' farmers: Estimates throughout the entire EU, illustrate that 80% of total **CAP** subsidy go to 20% of farmers while the lowest 40% of farmers receive merely 8% of these funds.

State intervention: The argument that has been offered by the opponent is a free market without interference will allocate resources much more efficiently. A straightforward economic model would suggest that it would be better to allow the market to find its own price levels, and for uneconomic farming to cease.

Sustainability: Many economists believe that the CAP is unsustainable in an enlarge **EU.** The inclusion of ten additional countries on May 1, 2004 has obliged the EU to take measure to limit **CAP** expenditure.

20-Conclusion

The CAP has exited in EU for more than 40 years as one of the most important policies. It was created in a time when the impact of the Second World War was still affecting the agricultural sector where food supplies were not guaranteed.

Through the years, the CAP's goals have changed from maintaining steady supplies to maintaining environment, animal welfare, rural development...etc. Also, it has had many reforms that have aimed to satisfy European citizens who have complained a lot from its cost and to be compatible with the rules of the World Trade Organization. Even though, many still believe that more structural reforms to the CAP need to be made targeting the high cost and other problems with the CAP.

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