

Compensation Payments in EU Agriculture

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1. Introduction

Total spending in the European Union (EU) on the Common Agricultural Policy (CAP) in 2008 was in excess of €2 billion and spending on “direct aids” alone was almost €7 billion, a large share of the total EU budget (Table 1). These payments were initially introduced as “compensation payments” to farms as the EU has lowered import tariffs and price support, and have been reformed since - in the process of which the word “compensation” was dropped. To understand this we need to take a brief historical tour on agricultural policies in the EU.

The CAP was designed in the late 1950s and introduced in the late 1960s. The official objectives as stated in Article 33 (39) of the EC Rome Treaty (1958) are:

1. to increase agricultural productivity by promoting technical progress and ensuring the optimum use of the factors of production, in particular labour;
2. to ensure a fair standard of living for farmers;
3. to stabilize markets;
4. to assure the availability of supplies;
5. to ensure reasonable prices for consumers.

The CAP resulted from the integration of various pre-EU member state policies which were introduced to protect EU farmers’ income and employment from foreign competition and market forces. Figure 1 shows the long term evolution of agricultural protection in Europe and clearly illustrates how protection increased very rapidly in the post-World War II decades. Political economists have explained this growth in protection by the decline in farm incomes compared to rapidly growing incomes in the rest of society as well as the declining opposition of consumers and industry to tariff protection for agricultural commodities (Swinnen 2009). Hence, the main objective of agricultural policies in the EU, and the main determinant of the *level* of agricultural protection was

provision of compensation and support to a sector in (relative) economic decline in order to protect incomes and employment from market forces.

The mechanism of support was through high income tariffs, export subsidies and fixing prices. While this created much stability on the EU market (directly related to objective 3 of the CAP objectives) it created much instability on world markets, and considerable distortions throughout the economy.

Since the integration of agriculture in the GATT/WTO the CAP instruments have undergone major reforms, including the introduction of compensation payments in the 1990s and the move to decoupled payments with the 2003 and 2008 reforms. The reforms in the 1990s and 2000s have substantially reduced the trade distortions of the CAP, in particular through the decoupling of the “single farm payments” (SFP) which are currently applied in the EU-15, and which are to be implemented by the New Member States (NMS) in the coming years.

However, what is important is that the level of these payments are still very much influenced by the initial objective of supporting incomes and employment in agriculture. To understand this, we will briefly review the initial policies and the reforms since the start of the CAP.

2. The History of CAP Policy Instruments and Reforms

When the CAP was designed at the end of the 1950s and initially implemented in the 1960s the essence was a system of government interventions in the market to support a minimum price for farmers. This domestic intervention system was accompanied by trade measures to make it work: variable import tariffs (“levies”) and export subsidies

("refunds") were set to isolate this system from international markets. The system (and the names given to the various instruments) differed between commodities. The most profound interventions occurred in markets of sugar, beef, dairy, wine, cereals and oilseeds. Table 2 gives an overview of the main instruments used for the implementation of the CAP in different agricultural productions.

Intervention prices were set considerably above market prices. For some commodities, such as butter and white sugar, EU prices were four times the price on the world market, but also for other commodities EU prices largely exceeded world market prices. Table 3 gives the differences between the EU price and the world market price for selected commodities in 1967-1968. This price structure resulted in a large increase in agricultural production. Between 1973 and 1988, the volume of agricultural production increased by 2% per annum whereas internal consumption increased only by 5%. This resulted already at the end of the 1970s in a high degree of self sufficiency (Figure 2) and the EU shifted from a net import to a net export position in agricultural and food products. In combination these contributed to rapidly growing budgetary expenditures (for market intervention, storage, export subsidies, etc.) and distortions of international markets. Both resulted in pressures for reforms. These reforms and also the future of the CAP are still dominated by the early outline of the CAP, not only in terms of dealing with the surplus production and the environmental problems caused by intensive farming practices, but also regarding farmers' attitude towards price policy (Fennell 1997).

Reforms of the CAP were proposed soon after its introduction. As early as 1968, Commissioner Mansholt proposed a plan to accelerate structural change in the agricultural sector. The main proposals in the plan were to implement monetary incentives to encourage about half of the farming population to leave the sector by taking early retirement or engage in alternative employment. In addition, he proposed that aid

only should be provided to a farmers that had a sufficient scale or farmers that engaged in a large jointly-managed holding. However, strong opposition from farmers caused governments and the European Council to reject the proposal (Stead 2007).

To deal with the growing surpluses, in the mid 1980s production quota were imposed in the sugar and dairy markets to control supply (and thus the budgetary effects and market distortions), while maintaining high support prices. Extension of this system to the cereals market was considered but the transaction costs (for monitoring, administration and enforcement) of the system were deemed too high to be practical in the cereals market.

With the integration of agriculture in the GATT, pressure from trading partners also grew. Ultimately, a new approach was decided by lowering support prices to reduce market distortions and compensating farmers through “compensation payments” - later referred to as “direct payments” - linked to the area used (for e.g. cereals and oilseeds) or to animals (for beef). This was the most important part of the so-called MacSharry reforms in 1992.

The Agenda 2000 reforms basically represented a deepening and extension of the 1992 reforms (Ahner and Scheele 2000). Price support was reduced further for cereals and beef and the direct payments in these sectors were increased to compensate farmers at least partially for the price cuts. A similar reform with price cuts and the introduction of direct payments was initiated in the milk sector, but only from 2005 onwards. The reform was necessary because of several reasons (Swinnen 2002, Van Meijl and Van Tongeren 2002). First, the enlargement of the EU with ten Eastern European countries, which still had a relatively high share of agricultural in total production and employment, would have unsustainable budget implications if the CAP was not reformed. Second, without

additional reforms the EU would not fulfill the commitments made under the GATT Uruguay Round Agreement on Agriculture (URAA).

The combined result of the MacSharry and Agenda 2000 reforms implied, at least for the sectors concerned, a major shift from support through price and market interventions to farm support through direct payments.

The relative share of the EU agricultural budget in the total EU budget has declined somewhat (Figure 3). However, table 4 shows that the total amount of support to agriculture has not declined. Moreover, some argue that support to agriculture has increased more than indicated by the numbers in table 4, because compensation through direct payments was based on gross revenue declines, while net incomes have declined much less.¹

Figure 4 also indicates the growth in expenditures on rural development. The Agenda 2000 decisions imply a “considerable overhauling, streamlining, and consolidation” of the EU development policy under the CAP (Ahner and Scheele 2000). More than the increase in budgetary allocations, which remains moderate compared to the other expenditures, the growing importance of rural development seemed to follow from the official reference to it as the ‘second pillar of the CAP’.

There were several reforms prepared and implemented over the two terms when Franz Fischler was Commissioner for Agriculture and Rural Development of the EU, which spanned almost a decade (1996-2004). Some of these reforms, such as the Agenda 2000 package, were important. However, his name is most associated with the reform of 2003, which, at the time, was generally referred to as the “Mid Term Review”, a term

¹ For example, OECD calculations on transfer efficiencies of OECD agricultural policies suggest that the average net income gains from market and price support in OECD countries was only 20% (OECD 1997). This means that, after factor markets etc. have adjusted to the new situation, a gross income decline, of say, €100 is causing a smaller net income decline. Hence compensation based on gross income decline is overcompensating, the extent of which depends on the transfer efficiency of direct payments, which are also less than 100%.

which, in hindsight, does not do justice to the extent and substance of the reform package that was decided in 2003. Those reforms were assessed as “ the most radical reform of the CAP” since its creation (e.g. Olper 2008).

The 2003 Fishler reforms contain the following key elements:

1. The key innovation was the introduction of the Single Farm Payment (SFP) on the basis of historical entitlements (although with some flexibility of application), decoupling a large share of CAP support from production. This reform essentially ensured that farms would continue to receive the amount of payments they received in the past but no longer linked to their production activities, but as a single “decoupled” payment.
2. New instruments called “cross-compliance” and “modulation” were introduced. Cross-compliance requirements are to ensure that SFP is only paid to farmers that abide by a series of regulations relating to environment, animal welfare, plant protection and food safety. Modulation refers to the shift of funds to rural development policies (i.e. from Pillar I to Pillar II) by limiting payments to the largest farms.
3. The reforms introduced changes in several market organizations, in particular in the dairy and rice sectors, by increasing dairy quotas and reducing rice support policies, replacing them by direct support to be integrated in the SFP.

The 2008 “Health Check reform” introduced relatively minor changes expect for a substantial reform in the dairy sector.

3. The WTO and the CAP

Since the conclusion of the URAA in 1992, EU subsidies to agricultural production and exports are constrained by WTO rules. Among others, there are restrictions on the total support to agriculture and on both the amount of export subsidies and the volume of exports that can be subsidized.²

Several observers argue that the implementation of the WTO did not caused directly major trade and policy liberalization in the EU (Josling and Tangermann, 1999; Swinbank, 1999). Yet the URAA is an important factor for the CAP for several reasons. First, the URAA brought the link between the domestic policy aspects of the CAP and its international trade implications to the top of the policy agenda, something which was new in the EU at the time but which has since fundamentally changed CAP decision-making. Second, the URAA provided the key initiatives for the 1992 MacSharry reforms and, given the Eastern enlargement interactions with the WTO, for Agenda 2000 reform.³ Third, the URAA provided a framework for future negotiations. A continuation of reductions in the subsidies under the next negotiation round could cause much more serious implications for the CAP. Many claim that the anticipation of this outcome was a crucial element in the 2003 Fischler reforms (Swinnen, 2008).

² Under the URAA, a considerable amount of support in both the US and the EU was classified as “blue box” or “green box” support. The “green box” is a category of so-called “non or minimally trade distorting” support policies. These green box support policies are not restricted under WTO rules. The “blue box” includes the EU direct payments which were introduced under the MacSharry and Agenda 2000 reforms. See for example, Burrell (2000); Josling and Tangermann (1999); Swinbank (1999) for more extensive discussions and analyses.

³ See Swinnen (2002) for more details.

4. CAP and Adjustment

A key question is whether the CAP payments in the past have been effective in achieving its objectives of ensuring a “fair standard of living” and “stabilizing markets”. When one looks at the short run, the answer on the income question is obviously: yes. Annual payments do increase farms’ incomes – how can they not ? And farm accounts and statistics will show that they can amount to a substantial share of farm net incomes for a given year, depending of course on the location and the specialization of the farms and the market situation of the particular year.

However, this is a very unsatisfactory way of answering this question. One should look at how the CAP payments affect (relative) farm household incomes in the long run. And then the answer is much less obvious.

First, studies generally show that farm incomes (narrowly defined) are still behind average incomes but that farm household incomes are roughly the same (and sometimes higher) than average household incomes in the EU. The reason is that non-farm incomes make up an increasingly larger share of “farm household incomes” with the improved integration of rural areas in the rest of the economy.

Second, the reason why farm household incomes have grown is mostly due to the integration of rural areas and rural (output and factor) markets in the general economy over the past decades. Integration of rural capital markets has reduced the cost of capital, integration of rural labor markets has improved access to non-farm employment opportunities for farm households, and integration of services has improved both incomes and the quality of living in rural areas. Note that none of these factors has much to do with CAP payments.⁴

⁴ The same conclusions and mechanisms apply to other countries, including the USA (see various papers by Bruce Gardner).

Another indicator of the effectiveness of CAP payments in terms of supporting agricultural incomes and employment is to look at the evolution of agricultural employment. The employment effects can also be interpreted as a rough indicator of relative incomes (through revealed preferences: if people had a good income from farming, they would stay in agriculture).

Figures 5 and 6 illustrate the decline in agricultural employment in the EU (we used data from some of the member states because EU total averages are strongly affected/distorted by enlargements). Over the past two decades, despite the CAP, employment in agriculture fell by 35% to 50%. Although one cannot draw definite conclusions from such visual analysis without looking at the counterfactual, the data do confirm that agricultural employment in the EU has declined very strongly over the past decades, despite the large CAP support.

Long run studies using much more detailed data and sophisticated statistical techniques largely confirm this conclusion that CAP payments either had no effect or only a minor effect on employment.⁵ In fact, what is interesting is that OECD data show, first, that over the past two decades (1987 – 2007 period) there is no positive relationship between (changes in) agricultural employment and (changes in) agricultural support (captured by the PSE indicator⁶) across the OECD countries (see figures 7a and 7b). Moreover, over this period, there is actually a negative correlation between the change in agricultural support and the change in agricultural employment (see figure 7c) – which is inconsistent with the notion that agricultural support has a significant impact on agricultural employment in the long run.

⁵ See Tweeten (1979) and Barkley (1990) on the large employment reductions in the 1950s through the 1980s in the USA despite massive government subsidies to agriculture; Glauben et al (2006) for Germany; other studies focusing on the nature of the farm subsidies find mixed, but generally small, effects (see e.g. Dewbre and Mishra (2002), Serra et al (2005)).

⁶ The PSE measures which share (in %) of the gross value of agricultural output is due to government support.

The reason why CAP payments have limited impact on relative farm incomes and employment is because of a combination of policy rent dissipation and poor targeting. OECD studies showed that the net income effects for farmers of commodity price supports (the old CAP) were around 20%, meaning that 80% of the payments ended up with non-farm groups, including input supplying companies and landowners (and reduced prices to non-EU consumers and producers). This rent dissipation has improved (i.e. has been reduced) with the shift to area/animal payments and to single farm payments, but only so far, and not as much as the improvement in terms of output market distortions. The main reason is that these payments are still linked to land use and are driving up land prices. For example, with the accession to the EU, land market prices and rents have increased very strongly in the NMS (between 100% and 300% - see figure 8⁷). While the current payments in the EU-15 are decoupled from production, they are not decoupled from land use and, thus, continued dissipation of policy rents from farms to landowners should be expected⁸.

Another factor is that much of the support goes to larger and typically better managed and more dynamic farms, often located in the richer areas of the EU. Notice that the shift from price support to direct payments (either area or SFP) has not changed this outcome, because the payments are based on historical CAP benefits.⁹ Hence, the farms that have the lowest incomes in the EU typically receive least of the CAP payments.

⁷ See Swinnen and Vranken (2009) on the impact of accession on NMS land markets.

⁸ See Salhofer and Schmid (2004) for a formal analysis

⁹ This argument depends on the implementation of the SFP (regional vs historical model) and modulation mitigates this effect somewhat.

Some conclusions from this analysis are as follows. Farm household incomes have caught up with those in the rest of society, but mostly because of other factors than CAP payments, i.e. the integration of rural areas in factor markets and the rest of the economy. Agricultural protection under the CAP (and the direct payments) have not been effective at protecting EU agricultural employment in the long run. However, another interpretation of the same observation is that in a long run perspective CAP payments have not created major distortions in the economy in terms of keeping labor in agriculture that otherwise would have been employed more productively in the rest of the economy.

These observations can be reconciled with each other in a political economy framework forwarded by the Berkeley/Cornell school (in particular by Gordon Rausser and Harry de Gorter and their collaborators). They interpret the joint determination of agricultural support and investments in productivity-increasing investments and activities as a mutually reinforcing decision. As people active in agriculture are hurt from productivity growth in agriculture (with inelastic demand) and in the rest of the economy, continued support for productivity growth (which is efficiency enhancing) needs to be complemented with support for sectors in relative decline (such as agriculture) in order to be politically sustainable.¹⁰

Finally, this brief historical review and the (political) economic analysis points at some crucial elements and fundamental arguments in the discussion on the future of the CAP payments. Many of the reports and studies which focus on the so-called “new objectives” of the CAP seem to ignore (accidentally or deliberately) the fundamental fact

¹⁰ See e.g. Rausser (1992), de Gorter, Nielson and Rausser (1992), and Swinnen and de Gorter (2002). In addition, Foster and Rausser (1993) argue that support instruments such as price supports that benefit the most efficient farms can be an efficient instrument from the perspective of reducing political opposition to growth enhancing investments while inducing the least efficient producers to leave the sector and the most efficient producers to continue. The CAP instruments, including the direct payment and historical SFP system – which are based on historical, i.e. price-support determined, levels of support, are consistent with these arguments (see also Harvey 2004).

that the amount of CAP payments that are currently spent are a direct consequence of the history of the CAP and its reforms. The introduction and size of compensation payments was to compensate farmers for income losses due to the removal of price distortions that existed under the 1970s and 1980s CAP. Since these instruments and the derived payments were introduced with as main objective to support farm incomes, employment, and protect EU farmers against foreign competition, one should first address whether this is no longer an objective – and, if not, why do we need to continue the *level* of payments which has mostly been determined by these objectives.

Stabilizing Markets and Incomes ?

Another important issue is the role that CAP subsidies play in stabilizing markets and incomes. As explained above stabilizing markets was one of the initial formal objectives of the CAP. The dramatic changes (both increases and decreases) in commodity and food markets over the past two years has raised concerns regarding the importance of addressing risk and uncertainty for farmers and other agents active in agricultural and food markets. Many of the reports on the future of the CAP also mention the importance for intervention to provide stability to markets, farm incomes, and to provide a (social) safety net.

The impact on stabilization is more nuanced. It is important first to point out that reducing variability of prices, of incomes, and providing a safety net are not the same objective (they may even be conflicting). The old CAP system of government price interventions reduced price variability on the internal EU market, but at a huge cost in terms of inducing market distortions (both internally and on the world market) and it did not provide a good safety net as most of the benefits went to larger farms and much less support went to farms with low incomes.

The current direct payment system has less or no impact on price variability, but does reduce income variability and reduces risk in farming households by providing a guaranteed source of income.¹¹ In terms of risk reduction and insurance provision, there are a variety of private sector instruments available, and the question is (a) whether direct payments do a better job at providing insurance than market-provided instruments, and (b) why such instruments should be focused on agriculture and not on other sectors of the economy which are also facing problems of variability in markets – for example from energy prices.

In addition, the fact that direct payments provide an income guarantee does not imply that direct payments are an effective instrument to provide a social safety net – at least not under the current implementation. In order to provide a safety net at the EU level, the level of income support should increase when farm incomes fall below a certain threshold level. However, the direct payments are historically determined, based on the previous level of support which, at the farm-level, which has little correlation with the likelihood of the farm household's income to fall below a certain income level. In fact, given the historical distribution of farm support among regions and farms, the opposite is more likely to be the case: the most productive farms in regions where the most subsidized commodities were produced are most likely to have the highest level of payments. If direct payments were to serve as a safety net, they would have to be linked to the level of income.

¹¹ And as such, they may have an impact on production as they affect farm decisions in uncertain environments, although the size of the effect is likely to be relatively small (see e.g. Hennessy 1998; Goodwin and Mishra 2006; Sckokai and Moro 2006)

5. The Future

We are at a historic moment in time, both in terms of policy timing and in terms of the challenges that face us. This forces us to raise more fundamental questions regarding the CAP.

Successive reforms of the CAP have been successful in reducing the market distortions caused by the CAP, from the price and market intervention system to the decoupled single farm payments. The question that we are facing now is whether the SFP system, either in its current form or in a modified form is likely to address the key challenges in the future. The most daunting challenges appear to be reducing/ mitigating climate change and producing sufficient, safe and high quality food.

Past reforms have introduced some new official objectives in the CAP. In line with the requirements of EU citizens, the following factors have taken on greater importance, according to the European Commission (2007): improving the quality of Europe's food and guaranteeing food safety (standards); looking after the well-being of rural society; support the multifunctional role of farmers as suppliers of public goods to society and ensuring that the environment is protected; providing better animal health and welfare conditions; doing all this at minimal cost to the EU budget.¹² This additional list of new factors/objectives is reflected in pillar II priorities and the so-called cross-compliance regulations, i.e. the conditions farms have to satisfy in order to receive the payments.

Regarding the future CAP, several task forces and reports have developed an even larger set of adjusted objectives for the CAP. For example, Bureau and Mahé present a list of 13 policy objectives for their future CAP model (see table 5). In contrast, the IEEP report (Baldock et al 2008) presents two main new objectives: (1) to maintain the EU's

¹² As listed in European Commission (2007), "The Common Agricultural Policy explained," Directorate for Agriculture, European Communities, Brussels. Available online: http://ec.europa.eu/agriculture/publi/capexplained/cap_en.pdf

capacity to produce food and maintain a renewable resource base in the longer term, and (2) to provide environmental benefits (including biodiversity, valued landscapes, ...).

Needless to say, the extension of the list of objectives makes the entire exercise of identifying precise objectives and developing targeted instruments not easier – which is recognized by some of the authors of the reports – who then also list the need for simplicity and low transaction costs as additional factors to take into consideration.

In Swinnen (2009) I review the objectives which are most often presented and which seem to be the ones with the most important budgetary and policy implications: food security and environmental benefits. I conclude that EU direct payments generally are not an effective way of dealing with these challenges. Food safety and quality objectives are addressed by other policies and direct payments have a very limited role to play in this.

In terms of providing sufficient quantity of agricultural output, major challenges appear on the horizon. Even without government support for biofuels, demand for agricultural commodities for bio-energy purposes is likely to increase strongly in the long run - as we should expect oil prices to recover in the coming years. Similarly, the growth in food and feed demand from emerging countries, such as India and China, is likely to continue. Both fundamental developments are affected by the current financial and economic crises in the world economy, but in the longer term one should expect them to resume their critical importance. On the production side, productivity trends in the EU and other developed countries face declining growth rates. These fundamental trends will cause an upward pressure on agricultural and food prices.

Furthermore, climate change is likely to have a significant impact on EU agriculture. Although it may actually have a positive effect on aggregate EU output in the medium term, it is likely to imply major relocations and the need to adjust production

systems. Vice versa, EU agriculture continues to contribute importantly to GHG emissions.

From a policy perspective all this has important implications.¹³ One implication is that real agricultural market prices are likely to increase in the future. As a result, there are less arguments for governments to support farm incomes. This in itself has major implications for the use of direct payments since their history and level have been determined by the perceived need and political demand for farm income support.

Direct payments can play some role in reducing income variation and household risk in the future, but they would have to be reformed fundamentally in order to become a real safety net. Moreover, their effectiveness in terms of risk reduction and providing insurance has to be compared with private sector instruments, and their effectiveness in terms of social safety net has to be compared with that of an economy-wide social policy system, which provides a safety net across sectors. In both cases, policy and private sector instruments focused not on agriculture but on the entire economy are likely to be more efficient.

Given the daunting challenges to produce more agricultural commodities for food and non-food purposes in combination with the challenges imposed by climate change and the lagging productivity growth rates in the EU, there is a strong case for support and investments in R&D and technology development and diffusion (a) to improve the lagging productivity of agricultural production, (b) to reduce the pressure of bio-energy on food prices, (c) to reduce the negative aspects of the relationship between agriculture and climate change, (d) to reduce energy-dependency in agricultural production, and (e)

¹³ These are in addition to potential consumer policies, such as advising a less meat-intensive diet.

to pursue these efficiency objectives while taking in account important (additional) environmental constraints and objectives.¹⁴

In this perspective, the EU should consider instead of spending the budget on direct payments to reallocate a substantial part of the CAP budget to stimulate the development and implementation of a series of new and improved (“green”) technologies to stimulate the EU rural/food/bio-economy.¹⁵ It appears that such strategy could have major spill-over effects on the rest of the economy in potentially leading to overall productivity gains and improved environmental conditions.

¹⁴ This issue is becoming more important as agricultural commodity prices are linked stronger to energy prices than they were in the past - because there is now both a supply (cost) and a demand (bio-energy) link between energy and agricultural commodity prices. This increases the demand for farming technologies which are less energy-intensive or energy-related.

¹⁵ Another important policy issue in this framework is whether biotechnology should be part of such EU policy for the future. If political objectives to biotechnology use in the EU agricultural- and bio-economy remain too strong, the need for the search for and investment in alternative technologies is even stronger.

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Table 1: CAP Budget

Heading	Appropriations 2008		Appropriations 2007		Outturn 2006	
	Commitments	Payments	Commitments	Payments	Commitments	Payments
Administrative expenditure of Agriculture and rural development policy area	130 325 016	130 325 016	125 674 851	125 674 851	109 489 381,55	109 489 381,55
Interventions in agricultural markets	4 032 371 000	4 033 571 000	4 941 694 000	4 938 759 000	8 066 747 919,52	8 066 747 919,52
Direct aids	36 832 000 000	36 832 000 000	37 066 533 000	37 066 533 000	34 051 330 746,02	34 051 330 746,02
Rural development	12 926 551 889	11 379 281 817	9 897 556 092	9 657 686 782	11 931 312 505,15	11 328 848 347,59
Pre-accession measures in the field of agriculture and rural development	85 300 000	385 000 000	48 300 000	265 900 000	299 820 000,—	213 755 071,87
International aspects of Agriculture and rural development policy area	6 230 000	6 230 000	6 161 000	6 161 000	5 817 680,62	6 185 630,64
Audit of agricultural expenditure	-342 500 000	-342 500 000	-86 500 000	-86 500 000	-275 097 022,97	-275 108 092,85
Policy strategy and coordination of Agriculture and rural development policy area	31 450 000	34 060 500	41 174 000	41 149 756	36 557 969,78	37 214 746,82
Administrative support for Agriculture Directorate-General						
Total	53 701 727 905	52 457 968 333	52 040 592 943	52 015 364 389	54 225 979 179,67	53 538 463 751,16

Source: European Commission

Table 2: The main instruments used for the implementation of the CAP - Selected products

	Cereals ¹	Sugar	Dairy ²	Beef/ Veal	Sheep meat	Fresh fruit and Vegetables ²	Processed fruit	Wine ³
Intervention	X	X	X	X	X	X ⁴	X ⁵	X
Storage aid			X	X	X			X
Direct aid	X ⁶		X	X	X	X ⁷	X ⁸	
Import levies and Export refunds	X	X	X	X	X ⁹	X	X ¹⁰	X ¹¹
Co-responsibility levies	X	X	X					
Guarantee threshold	X						X ¹²	
Production quota		X	X					

¹ Except rice

² Arrangements generally applicable only in periods of large-scale marketing

³ Only table wines are subject to the prices and intervention systems

⁴ Intervention only in a "crisis situation". Otherwise, "withdrawal" of surpluses at a low price

⁵ No levies on imports

⁶ For durum wheat produced in certain regions of Italy, Greece and France

⁷ For citrus fruit

⁸ Aid for processing of selected products, in some cases with a quantitative ceiling. The products concerned are various tomato derivatives, dried figs, raisins, a particular type of prune, and preserves in syrup (cherries, peaches and William pears)

⁹ In case of voluntary export restraints, levies may not exceed amounts laid down in the agreements

¹⁰ For a limited number of products

¹¹ Provided that the import price is not lower than the relevant reference price, there are no levies on imports

¹² For aid for processing tomatoes

Source: Rosenblatt 1988

Table 3: Prices for certain agricultural products in the EU compared to the world market price level in 1967/1968^a

	EU Common price ECU/ 100kg (1)	World market price ECU/ 100kg (2) ^c	(1) as a % of (2)
Soft wheat	10.7	5.8	185
Hard wheat ^b	16.1	8.1	200
Husked rice	18.0	15.3	117
Barley	9.1	5.7	160
Maize	9.0	5.6	160
White sugar	22.3	5.1	438
Beef	68.0	38.8	175
Pig meat	56.7	38.6	147
Poultry meat	72.3	55.0	131
Eggs	51.1	38.7	132
Butter	187.4	47.2	397
Olive oil	115.6	69.8	166
Oilseeds	20.2	10.1	200

^a reference price differs for various products

^b including direct production aids

^c wholesale entry price

Source: Fennell 1997

Table 4: Support to EU agriculture (Total and Distribution)

	1986-88	1989-91	1992-94	1995-97	1998-00	2001-03	2004-06
TOTAL SUPPORT (PSE%)*	41	34	37	35	37	35	34
Of which (in %)							
Market Price Support and Payments based on Output	91	85	72	61	64	56	52
Payments based on area planted/ animal numbers	3	7	19	31	29	34	14
Payments based on Input Use	5	7	7	7	7	9	10
Payments based on historical entitlements, input constraints and farm income**	1	1	2	1	0	1	14

* PSE%: Producer Subsidy Equivalent; measures total support to agriculture as a % of the production value

** For 1991-1993 average, this category also includes miscellaneous payments (approx. 2% of total)

Source: OECD

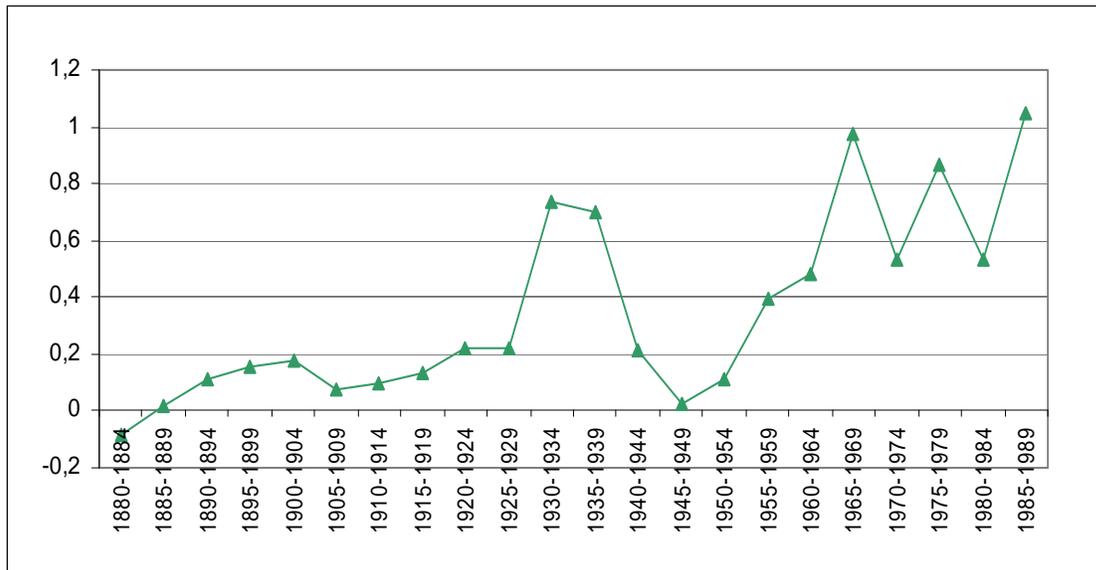
Table 5: List of CAP objectives proposed by Bureau and Mahé (2008)

1. To foster the economic performance and the competitiveness of the farm and food policy chain;
2. To provide a buffer against extreme market or natural conditions and exceptional price falls; and to assist in the development of self-sustained schemes to reduce income volatility;
3. To ensure the availability of food supplies and to contribute to food security;
4. To ensure that food products reach consumers at competitive prices;
5. To meet consumer demand for safety and high quality food;
6. To preserve the natural resources of rural areas and to control pollution, with specific attention to environmentally sensitive and high-value portions of rural territories, to biodiversity and to ecosystems (note that the idea of considering organic farming according to its social benefits should be more explicitly mentioned);
7. To encourage a degree of farming activity in areas with natural handicaps.
8. To ensure that fiscal resources devoted to agriculture and rural programs are effective and the CAP is consistent with EU priorities and with other EU policies;
9. To harmonize effectiveness of support with equity among individuals and with cohesion across regions and member states;
10. To require methods and processes of food production to be consistent with European values and ethics;
11. To ensure a fair standard of living and to expand earning opportunities for rural populations;
12. To ensure that the poorest and most deprived sections of the population have guaranteed access to food;
13. To preserve the European heritage of food variety;
14. To preserve the rural heritage of EU member states.

Source: Bureau and Mahé (2008)

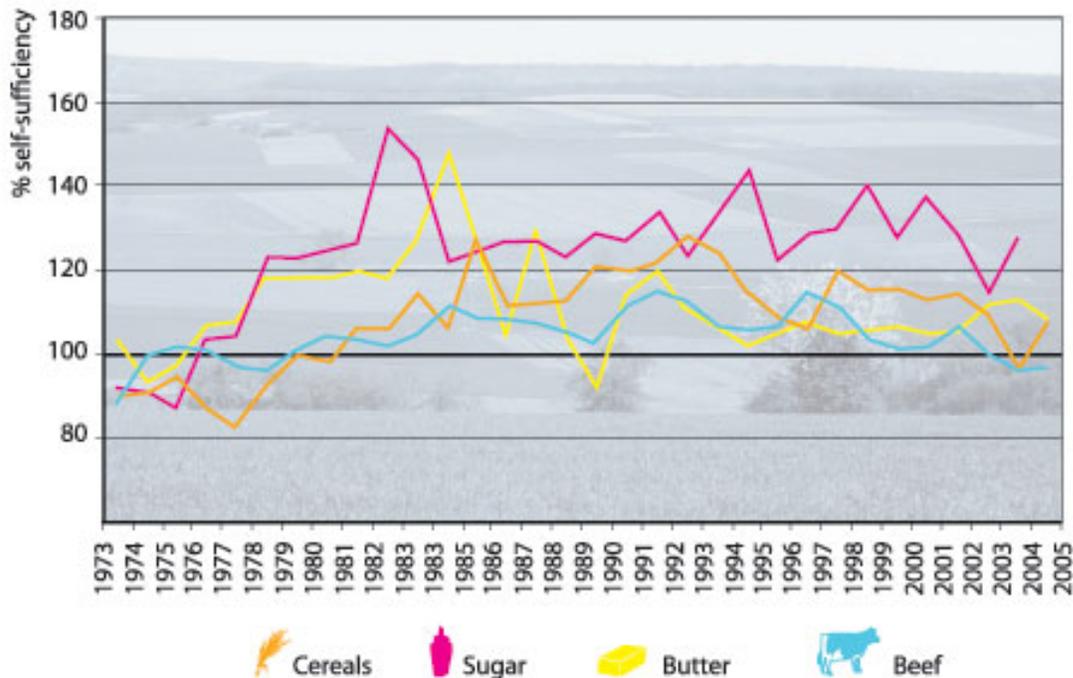
Figure 1: The Growth of Agricultural Protection in Europe

Average Nominal Rate of Protection for Belgium, the Netherlands, Germany, France and UK, 1880-1989 (5-yearly)



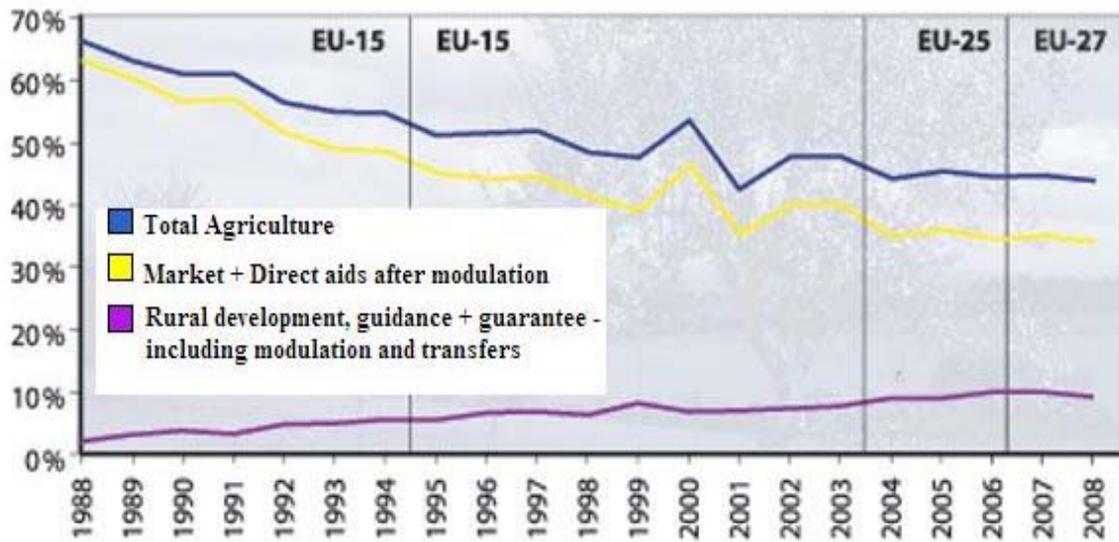
Source: Swinnen (2008)

Figure 2: Self sufficiency in the EU - selected products



Source: European Commission (2007)

Figure 3: EU Agricultural Budget as a percentage of the total EU budget



Source: European Commission

Figure 4: Distribution of the EU Agricultural Budget (1991-2006)

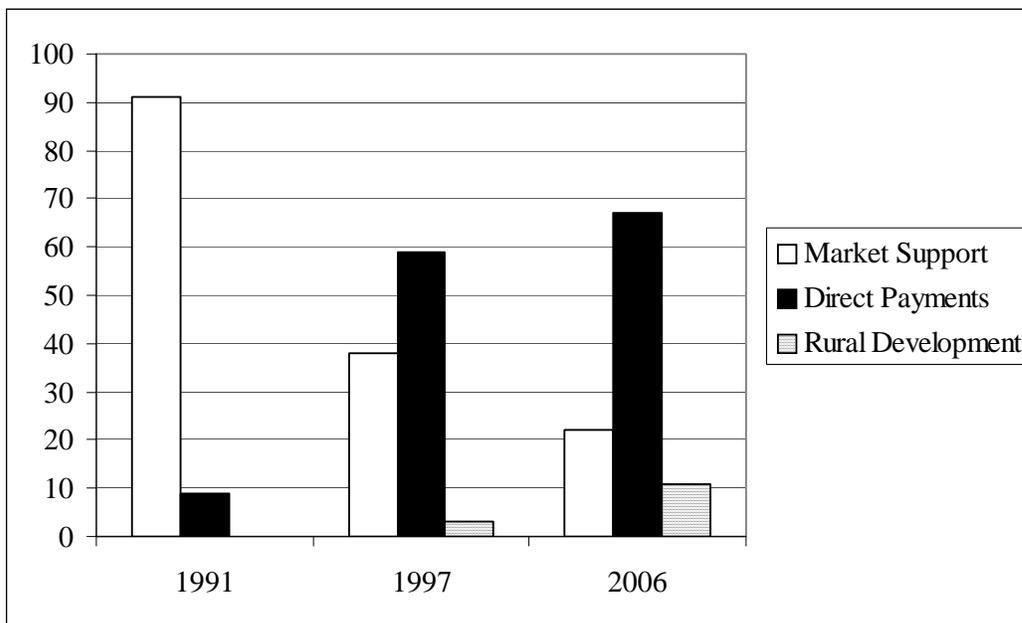
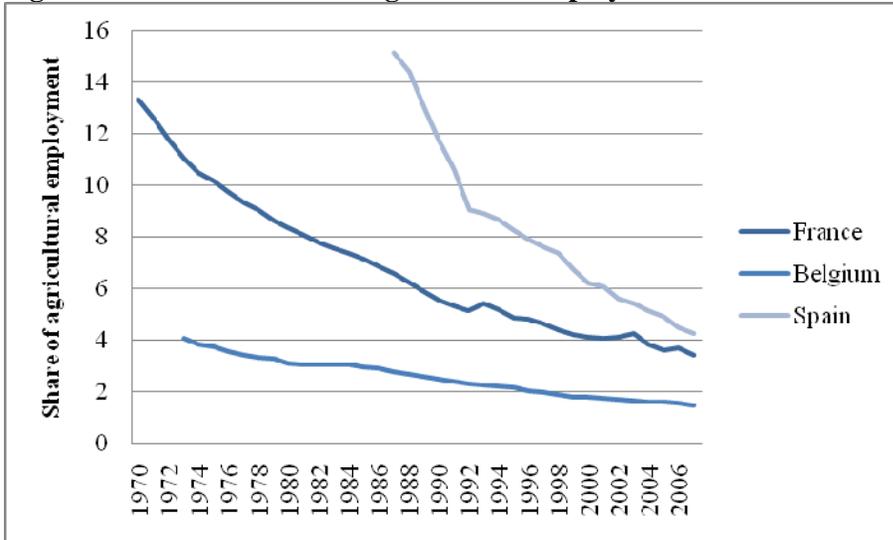
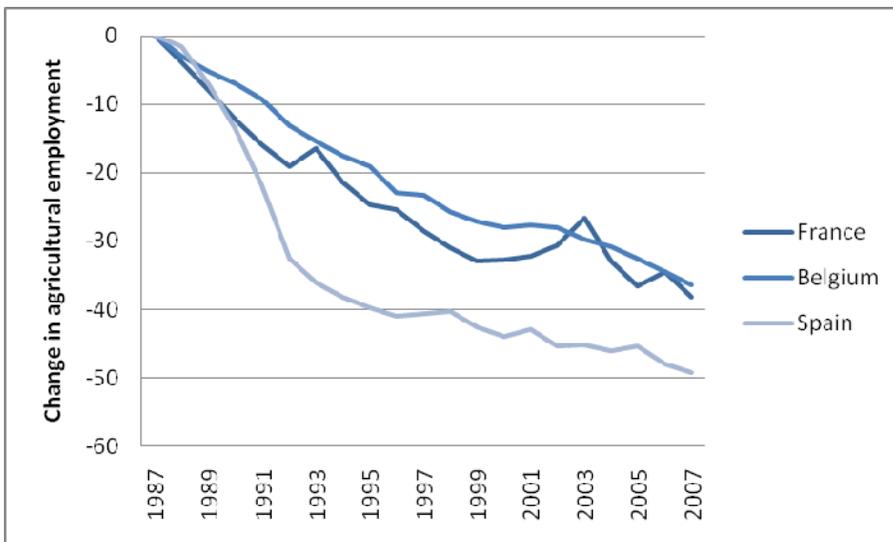


Figure 5: Evolution share of agricultural employment



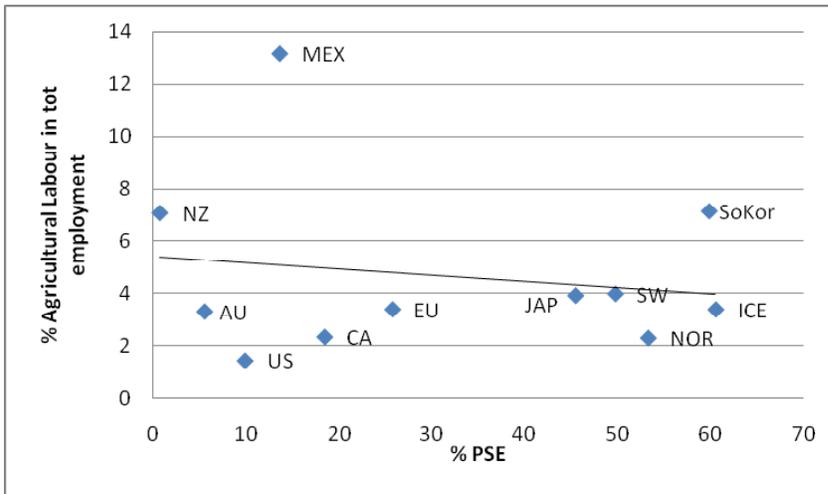
Source: ILO, Eurostat

Figure 6: Change in agricultural employment (%)



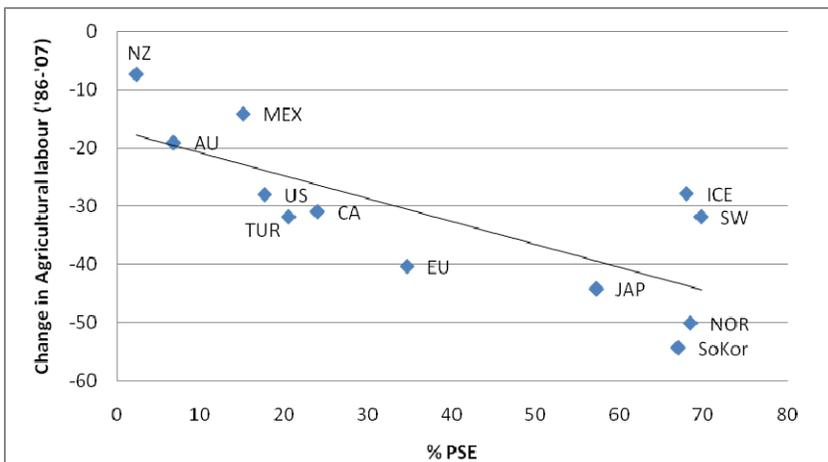
Source: ILO, Eurostat

Figure 7a: Share of agricultural labour in total employment and % PSE in 2007



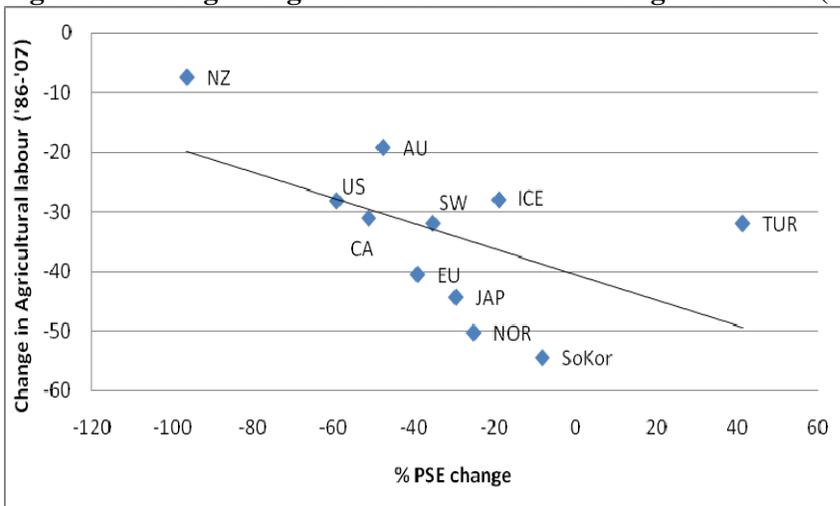
Source: ILO, national statistics

Figure 7b: Change in agricultural labour and % PSE ('87-'07)



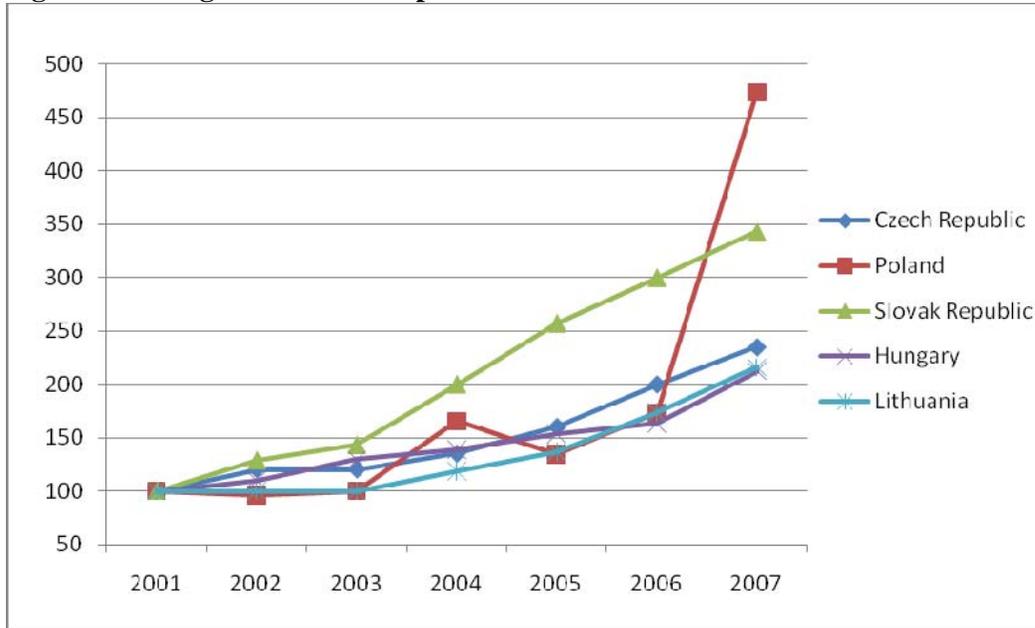
Source: ILO, national statistics

Figure 7c: Change in agricultural labour and Change in % PSE ('87-'07)



Source: ILO, national statistics

Figure 8: Change in land rental prices in the NMS



Source: Swinnen and Vranken (2008)