



Reform of the Common Agricultural Policy (CAP)

The original aims of the CAP were to:

1. Increase agricultural productivity/self sufficiency in Europe
2. Maintain agricultural employment in Europe
3. Increase farmers' income in Europe
4. Keep European agricultural market stable
5. Keep food prices in Europe stable and fair

Any country that joined the EU was obliged to implement the policy, which was made and controlled in Brussels. In simple terms the CAP was based upon two principles:

1. That there should be free trade in farm products between all EU (then EC) countries.
2. That members of the EU would, wherever possible, trade with each other rather than with non EU countries.

How did the CAP work?

The aims of the CAP were achieved via five main mechanisms.

1. **Increased agricultural productivity** was encouraged by **investment grants** – modernisation of equipment for example. Such grants encouraged mechanisation (e.g. in sowing and harvesting) and intensification (increasing use of inputs such as fertilisers and pesticides). Both of these helped to increase productivity i.e. the amount of milk, meat or crops which could be obtained from any area of land. It should however be noted that increasing mechanisation directly led to increasing unemployment and this therefore worked against one of the other major aims of the CAP.
2. **Export subsidies** for farm products made exports of agricultural produce artificially cheap.
3. The CAP tried to **protect and increase farmers' income** by the use of **guaranteed prices** and through **intervention buying**. In a free market, if the supply of a particular product exceeds demand, its price falls. Since agricultural productivity was increasing this was a real threat. To overcome this problem, the EU itself agreed to buy any surpluses, thus preventing prices from falling. Farmers were offered a guaranteed price well above the world market price on a range of products including milk, beef and cereals (Table 1). This encouraged intensification and specialisation on those products for which there was a guaranteed price. Surpluses were either stored, exported or destroyed – at great cost to the European consumer.

Table 1. Prices of agricultural products in the EC as a percentage of prices on world markets (1979-1994)

Product	1979	1985	1994
Common wheat	140	117	155
Maize	165	119	140
Barley	186	135	214
Rice	129	188	209
White sugar	133	161	106
Milk	231	253	241
Beef and veal	161	194	208
Pigmeat	123	111	130
Poultry	123	126	118
Sheepmeat	243	193	156

4. Farmers in certain disadvantaged areas e.g. Less Favoured Areas (LFAs) received **direct income supplements**.
5. The CAP also tried to protect European farmers from cheap imports (e.g. butter from New Zealand) by **imposing levies (taxes)** on such imports. This prevented imported products from undercutting EU prices.

What were the effects of the CAP?

The guaranteed prices set, firstly for cereals, and then for many other products, were well above world market prices. This, in combination with the cost of providing investment grants, export subsidies and the cost of storing and disposing of surpluses meant that the CAP took a huge proportion of the entire EU budget. Unfortunately, the level of financial help to individual farmers was related to the volume of their production. In other words, EU support benefited large land owners more than small land owners. In 1991, 80% of financial support went to just 20% of EU farms.

Increasing intensification led to a whole range of environmental problems - overuse of fertilisers and pesticides led to increasing water pollution and, by encouraging farmers to produce as much as they possibly could, the CAP encouraged hedgerow destruction, drainage of wetlands and moorlands and the loss of many other valuable habitats. Although agricultural productivity dramatically increased, European agriculture became increasingly seen as inefficient, expensive and environmentally/socially damaging (Table 2).

Table 2. Harmful effects of the CAP

Measure	Effect
Guaranteed Prices	↑ use of fertilisers → ↑ groundwater contamination by nitrates ↑ eutrophication ↑ use of pesticides → ↑ water pollution ↑ use of purchased feed → ↑ residues on food ↑ overstocking → ↑ wastes ↑ specialisation - milk, beef, cereals → ↑ mechanisation → ↓ employment
Grants & Subsidies	↑ intensification → ↑ mechanisation → ↓ employment ↑ pesticides, fertilisers → ↑ water pollution ↑ concentration → ↑ habitat destruction e.g. draining wet areas, hedgerow removal → ↓ biodiversity and ↑ damage to landscape ↑ overstocking → ↑ overgrazing
Intervention Buying	↑ intensification → ↑ surpluses → ↑ storage costs → ↑ prices to consumer
Import Levies	↑ cost of imports → ↑ disruption of world trade

The aim of CAP reforms

The CAP clearly needed to change and in 1992 the MacSharry package (after Ray MacSharry – EU Farm Commissioner, 1989-1992) negotiated a complex package of reforms, some of which have been implemented and some of which are still being negotiated. Perhaps the most important reform concerned reduction of **price support**. The guaranteed prices which the EU would pay for cereals, beef and milk were reduced and became much closer to the real world market price. This was clearly intended to reduce surpluses and has achieved that. At the same time of course this has also reduced the amount of money paid to farmers and in order to compensate them for this decrease in income, direct payments, known as arable area payments have been offered. One of the reasons that many of the MacSharry reforms have taken so long to implement, is that the whole topic of EU agriculture has been complicated by ongoing negotiations on world trade. In 1993, the **GATT (General Agreement on Tariffs and Trade)** meant that the CAP must fall into line with the new rules of international trade. In other words, the members of the EU could no longer protect their agriculture from world trade and European farmers would, as never before, be in competition with world-wide food producers. Furthermore, GATT encouraged **decoupling** of financial aid from food production. In other words, in the future, farmers will be paid to protect landscapes and habitats, undertake positive environmental improvements such as planting deciduous woodlands or maintaining meadows etc. rather than simply for producing food, which in any case, was surplus in Europe.

Besides the reduction of price support, the reforms reduced agricultural quotas – new lower limits were set for milk production, beef production and sheep stocking sizes.

In order to reduce the harmful effect of agriculture on the environment they encouraged more non-food uses of land and new environmental regulations were introduced. In simple terms, there were nine major aims:

1. Decrease use of artificial fertilisers and pesticides
2. Increase organic production
3. Encourage extensive forms of agriculture
4. Maintain ‘environmental goods’ in the form of woodlands, wetlands and heathlands, for example
5. Decrease stock intensities of sheep and cattle
6. Maintain abandoned farmland and woodland
7. Encourage breeding of endangered and local breeds
8. Encourage long term set-aside of land
9. Increase public access to recreational use of the countryside

These regulations have mainly been put into practice in designated areas such as **environmentally sensitive areas (ESAs)**, a term which, however, means different things in different European countries. In the UK, ESAs have become mainly concerned with the conservation of traditional farming practices which help to maintain valuable landscapes and historic features; in Germany and Spain there has been great emphasis on maintaining endangered breeds. Similarly, the level of support for organic farming varies greatly between EU member states – financial incentives are available for new and existing farmers in Germany whilst in the UK payments are only available for existing land owners who convert their land to organic production. However, the UK has developed a number of other initiatives designed to deliver environmental goods – for example, habitat schemes, moorland protection schemes and countryside studentship schemes. Although set-aside had been voluntarily introduced in 1988, in 1992 farmers who owned more than 20 hectares were forced to set aside 15% of their land, that is, take it out of agricultural production in order to continue to claim arable area payments. Much set-aside land has been used for forestry schemes under the farm woodland management scheme - leisure uses such as caravan sites or conservation purposes such as nature trails.

To summarise, the CAP reforms have attempted to make European agriculture more environmentally friendly; diversification, extensification

and dispersal have replaced specialisation, intensification and concentration. At the same time, European agriculture is increasingly having to face competition from world markets.

Consequences of reforms on land use

The consequences of the reforms depends largely on how they are implemented and what the EU finally decide are the most important objectives (Table 3).

Table 3. Consequences of reforms on land use

Policy	Consequence
Free market, free trade – allows market forces to decide what is grown where	Will concentrate intensive agriculture in north-west regions of the EU. Economically marginal land would be abandoned
Regional development – support concentrated in particular regions to offset social, economic and productivity disadvantages	More even development but the problem of surplus agricultural land remains
Environmental protection	Extensification and continued diversification

No matter what policy is followed, it seems certain that as the EU agriculture becomes exposed to world competition, agricultural employment will continue to fall and diversification to non agricultural uses such as forests, nature conservation and leisure uses will continue. The most productive agricultural areas will probably continue to be farmed intensively. More marginal areas, particularly those near urban areas, may well become more **pluriactive** – i.e. food production will be just one of the activities of the farm. Activities such as bed and breakfast, farm trails etc. will increase. In contrast, remote hill farmers will increasingly be paid to maintain what are now regarded as traditional landscapes and ways of life, maintaining valuable habitats, animal and plant communities.

Criticisms of the reforms

1. Paying farmers not to produce food is expensive. The CAP still contains 50% of the entire EU annual budget (£55 billion). This cost is met by the taxpayer. Furthermore, arable area payments are guaranteed to any new landowner and this has inflated land prices, hence mortgage debts and made many farmers completely dependent upon ‘compensation’. High land prices discourage diversification into environmentally positive but less profitable uses such as forestry. The cost of arable area payments will rocket if they are made available to central East European countries if and when they join the EU.
2. The range of payments available to farmers is extremely confusing and does not always encourage the desired outcome. Farmers may, for example, receive greater payment for simply setting aside arable land than for actively managing the area for wildlife.
3. Subsidies for non-food and biofuel crops are insufficient to persuade many farmers to attempt these activities.
4. The system of compensation payments may encourage fraud - landowners awarded compensation for crops (and therefore for forgone profit) which they never intended to plant.
5. The reform quotas are incompatible with the free trade principle of GATT.

Practice Question

1. The table shows the changes in the distribution of wheat, oil seed rape, sheep and beef cattle in EU countries 1974-1988.

	Percentage of agricultural land occupied by crop				Stock number per hectare			
	Wheat		Oil seed rape		Sheep		Beef Cattle	
	1974	1988	1974	1988	1974	1988	1974	1988
UK	6.7	10.2	0.2	1.9	110	138.8	80.1	64.0
France	12.0	14.7	1.2	6.2	31.8	33.2	73.0	68.4
Germany	12.0	14.6	0.7	3.3	7.7	11.9	107.1	128.3
Italy	12.2	6.3	0.1	2.7	48.3	66.4	48.7	51.6
Netherlands	6.1	5.7	0.7	0.3	31.6	66.4	222	223.6
Belgium	12.8	14.1	0.1	0.3	5.0	8.2	184.7	216.1
Luxembourg	8.2	6.2	0.1	3.2	3.1	5.6	157.7	165.9
Ireland	1.1	1.1	0	0.1	59.9	76.2	130.6	97.8
Denmark	3.7	10.8	1.8	9.1	1.8	2.6	99.3	82.3

(a) Using the information in the table together with your own knowledge, explain the following terms:

- (i) agricultural specialisation (2 marks)
- (ii) intensification (2 marks)
- (iii) carrying capacity (2 marks)

2. (a) Maintain/enhance conservation/landscape/historical features/traditional management techniques; credit valid example e.g. maintain wetlands/heather moorland;

(b) Not main objective; May encourage reduced stocking densities/extensive techniques therefore will reduce production;

2. The table shows the extent of Stage IV ESAs in England.

Name	Date first designated	Total area designated (hectares)
STAGE IV ESAs		
Cotswold Hills	1994	84,669
Dartmoor	1994	100,777
Blackdown Hills	1994	39,325
Essex Coast	1994	27,006
Shropshire Hills	1994	38,514
Upper Thames Tributaries	1994	27,700
STAGE IV TOTAL AREA		317,991

- (a) What is the purpose of an ESA? (2 marks)
- (b) To what extent may ESAs reduce agricultural surpluses? (2 marks)

Answers

Semicolons indicate marking points.

- 1. (a) (i) A country becomes agriculturally specialised when it devotes an increasing percentage of land area to a particular crop/activity; e.g. Denmark/Germany specialised in wheat and oil seed rape;
- (ii) Increased outputs/stocking density per hectare; e.g. UK/Italy - sheep, Germany - sheep/beef cattle;
- (iii) Maximum population which can be maintained **sustainably**; i.e. without permanently damaging the environment;

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