

ERASMUS INTENSIVE PROGRAMME

**Organic Agriculture-Innovation for a
Sustainable Agriculture, Food Safety and
Public Health**

Lecture on Agrarian Policy

Mendel
University
of Agriculture
and Forestry
in Brno



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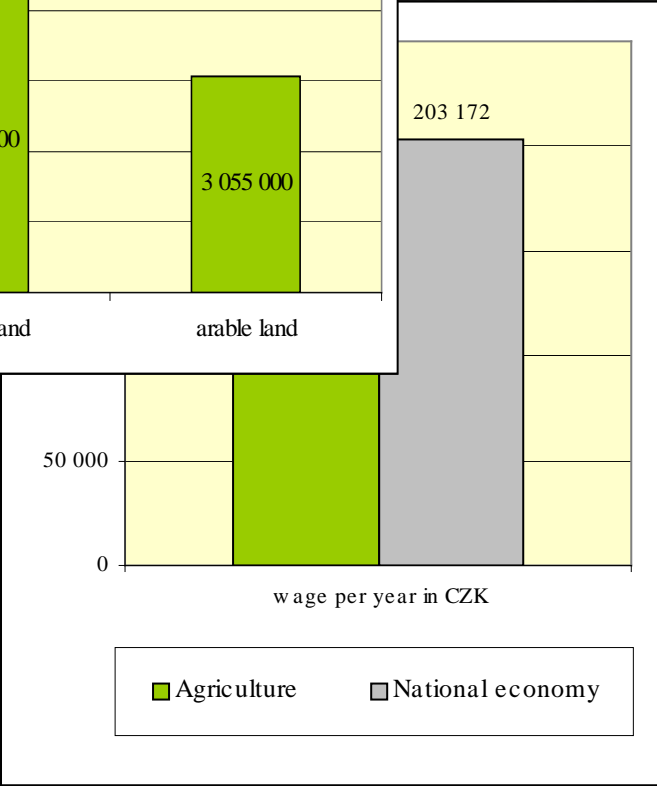
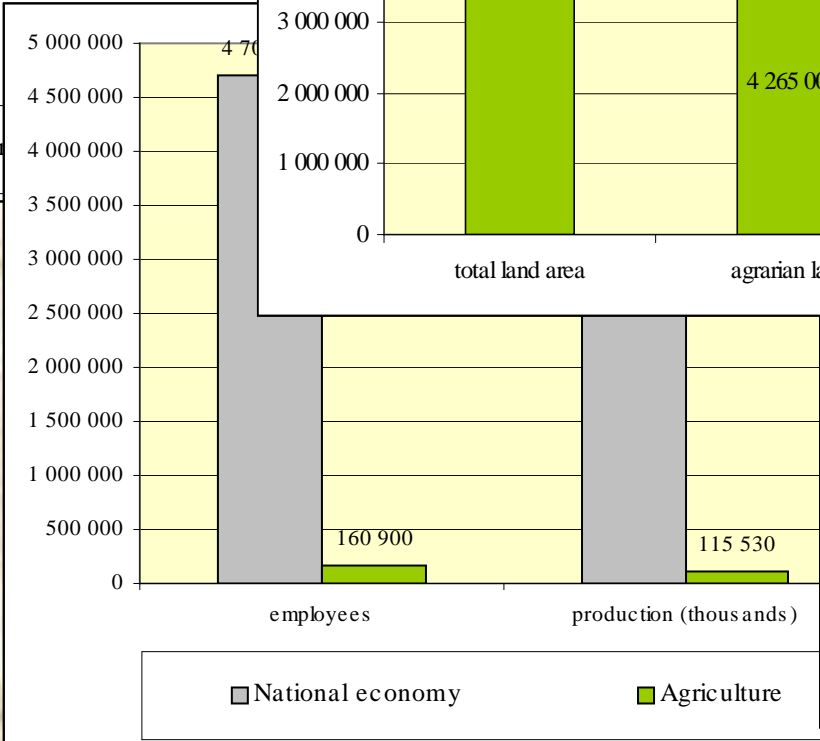
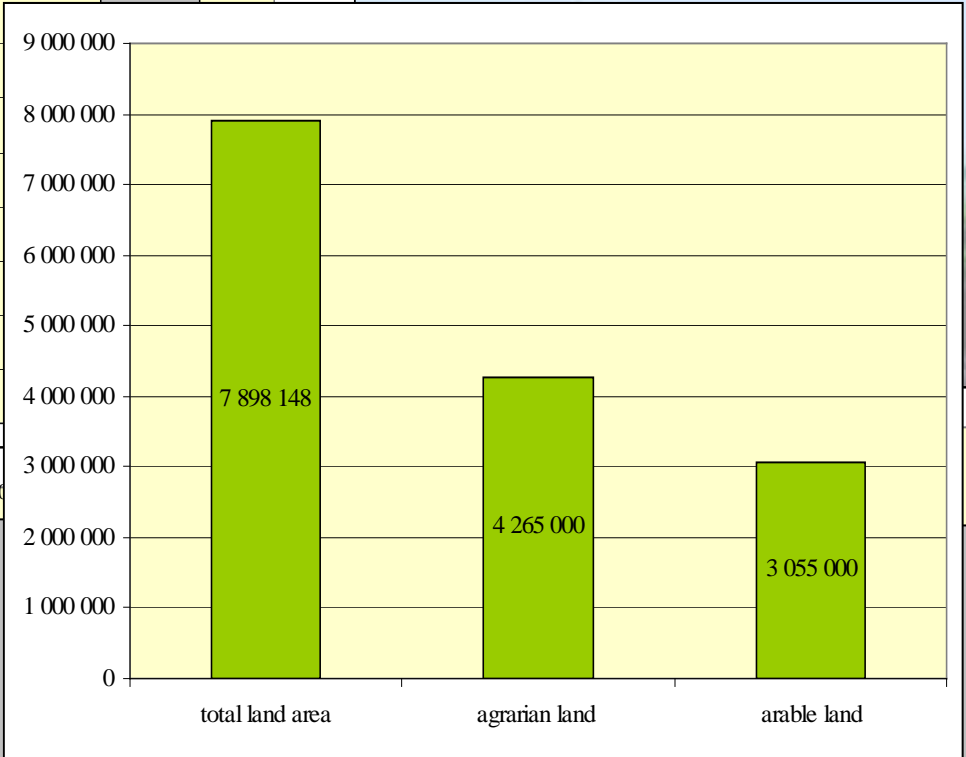
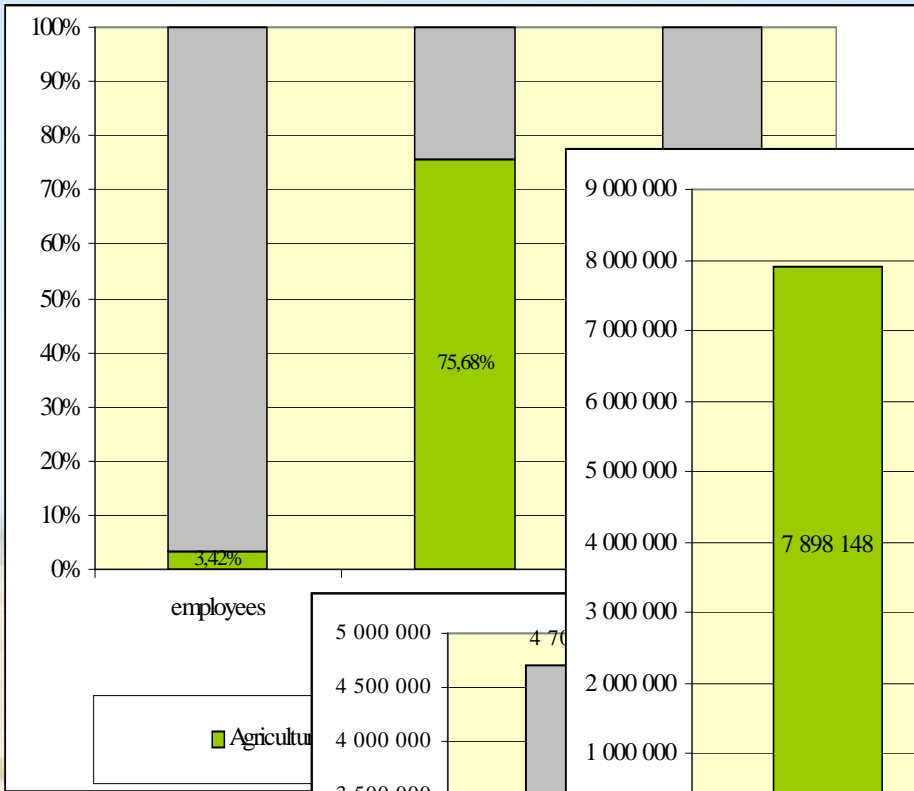
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Agriculture in the Czech Republic

- About 3,4 % of employees of national economy
 - 160,9 thousand employees
- About 75 % of average monthly nominal wage in national economy
 - Average monthly nominal wage in agrarian sector 12 814 CZK
- Agrarian land 4 265 thousand hectares
 - Cca 54 % of total area
- Arable land 3 055 thousand hectares
 - Cca 38 % of total area
- Total agrarian production 115 530 mio. CZK
 - Cca 4 % of GDP



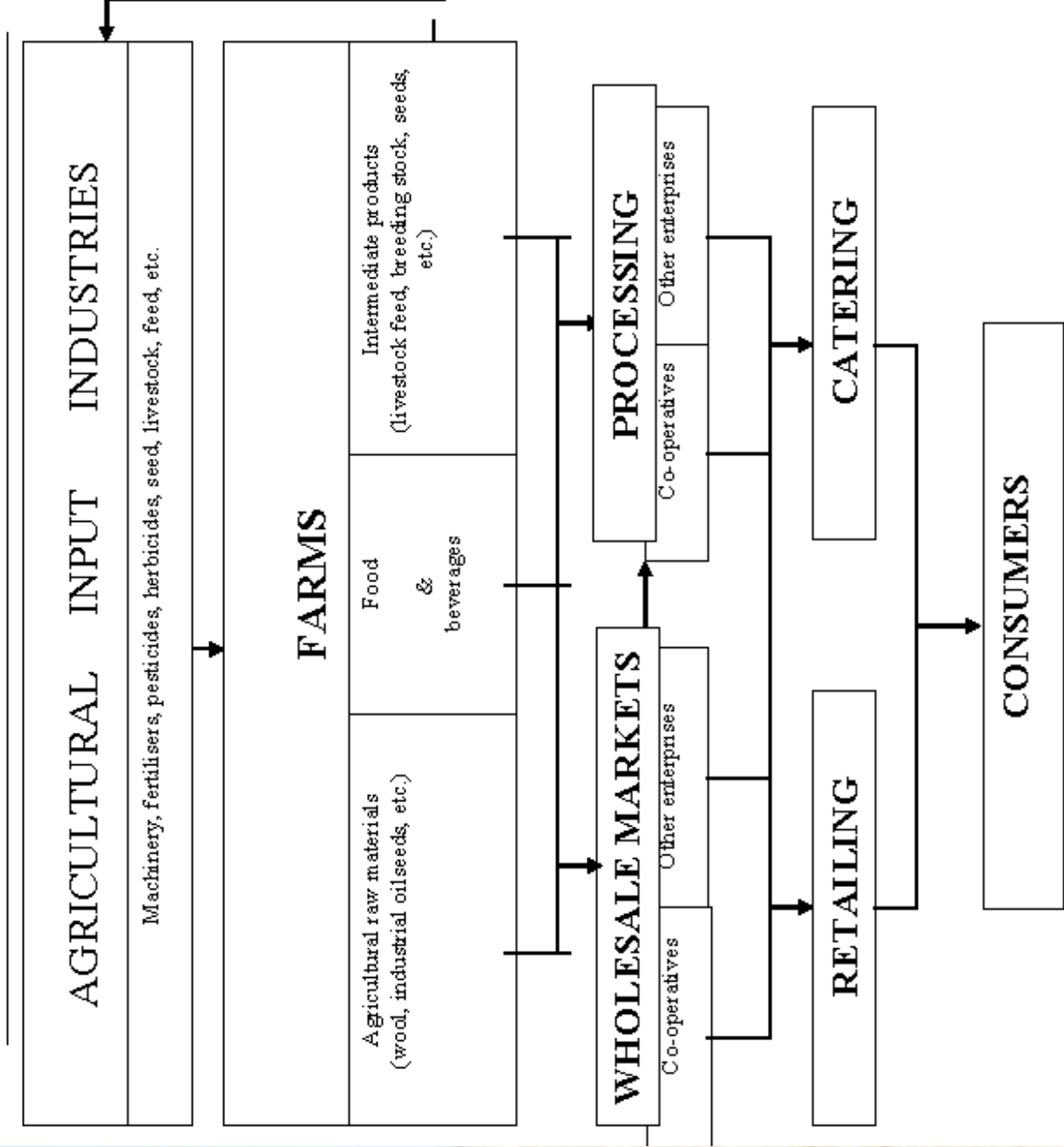
Introduction to the AP

- Definition of the agrarian sector, agrobusiness
- Function of the agrarian sector
- Factors influencing agriculture and agrarian sector
- Main problems to be solved under AP
- Reasons for support in agriculture

The Importance of Agrarian Sector in National Economy

- Production of food products – irreplaceable
 - » Production function
- Countryside maintenance – rural areas (landscape, clean water, human settlements)
 - » Non-production function
- Important player in sustainable development – keeps economic, social and natural balance in the countryside
 - » Non-production function

Figure 1.1 The food chain



Main Factors Influencing Agriculture

- **Biological type of production** (production cycle = biological cycle)
- Very significant **seasonal production** (especially plant production)
- Agricultural production in connection with nature usually
 - great influence of natural conditions and weather
- Very specific **socio-economic structure** of agrarian companies and their distribution/allocation
- Specific character of **prime production factor - land**

Socio-economic Structure

- Profit-oriented agrarian companies

- » All of the production for the market
- » Small share of these companies
- » Majority share on the total output

- Family farms

- » Most of production for the market
- » Part for the family consumption
- » Profit?
- » Income + food for the family

- One man farms

- » Most of production for the for the family consumption
- » Minimum for the market
- » Main income for the family – non-agrarian activities

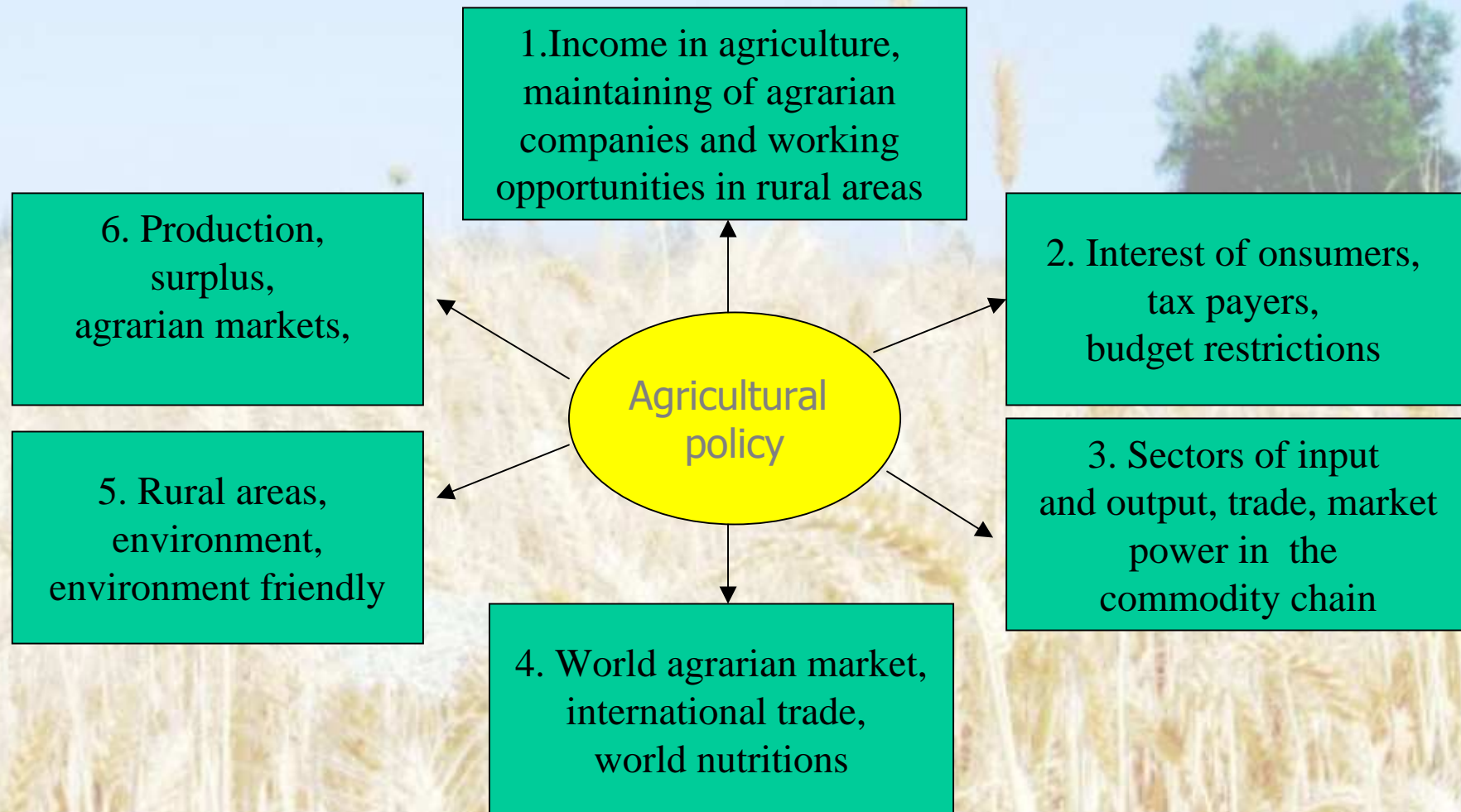
Land

- Prime production factor
- **Limited amount** - its size determined by the area of earth, which is possible to cultivate (arable land)
- **Irreplacable by any other production factor** (by the given level of knowledge and technique)
- **Living organism** and active part of agrarian production process
- Land is **not getting „old“** like other production factors
 - » Possible to improve the productivity of this production factor

Agrarian Policy

- Summary of activities leading to the statement of goals of the AP, defining, setting and implementing the instruments/measures in order to realise the goals and institutional settlement of objects and subject of AP

Problems to be solved by the AP



Factors influencing the shape of agrarian policy

- **Conditions for agrarian production**
 - » Low population density – expansive and pro-export policy
 - » Hi population density – protective and conservative policy
- **Economic situation and economic policy of the country**
 - » agriculture?
 - » tourism?
 - » High-tech?
 - » Industry?
 - » Services?

The main problems of Agrarian Policy

- **Short-run price fluctuation**
 - » Seasonal character of agrarian production
- **Significant changes of natural conditions**
 - » Fluctuating quality and quantity of production
- **Decreasing share of food on consumers' expenditures**
 - » Growth of income
 - » Decreasing share of agriculture on GDP
 - » Non-elastic demand for food
- **Continuous decrease of farmers' income**
 - » Compare to other sectors
 - » Relative immobility of labor in agrarian sector

Agrarian policy to avoid the traditional production cycle

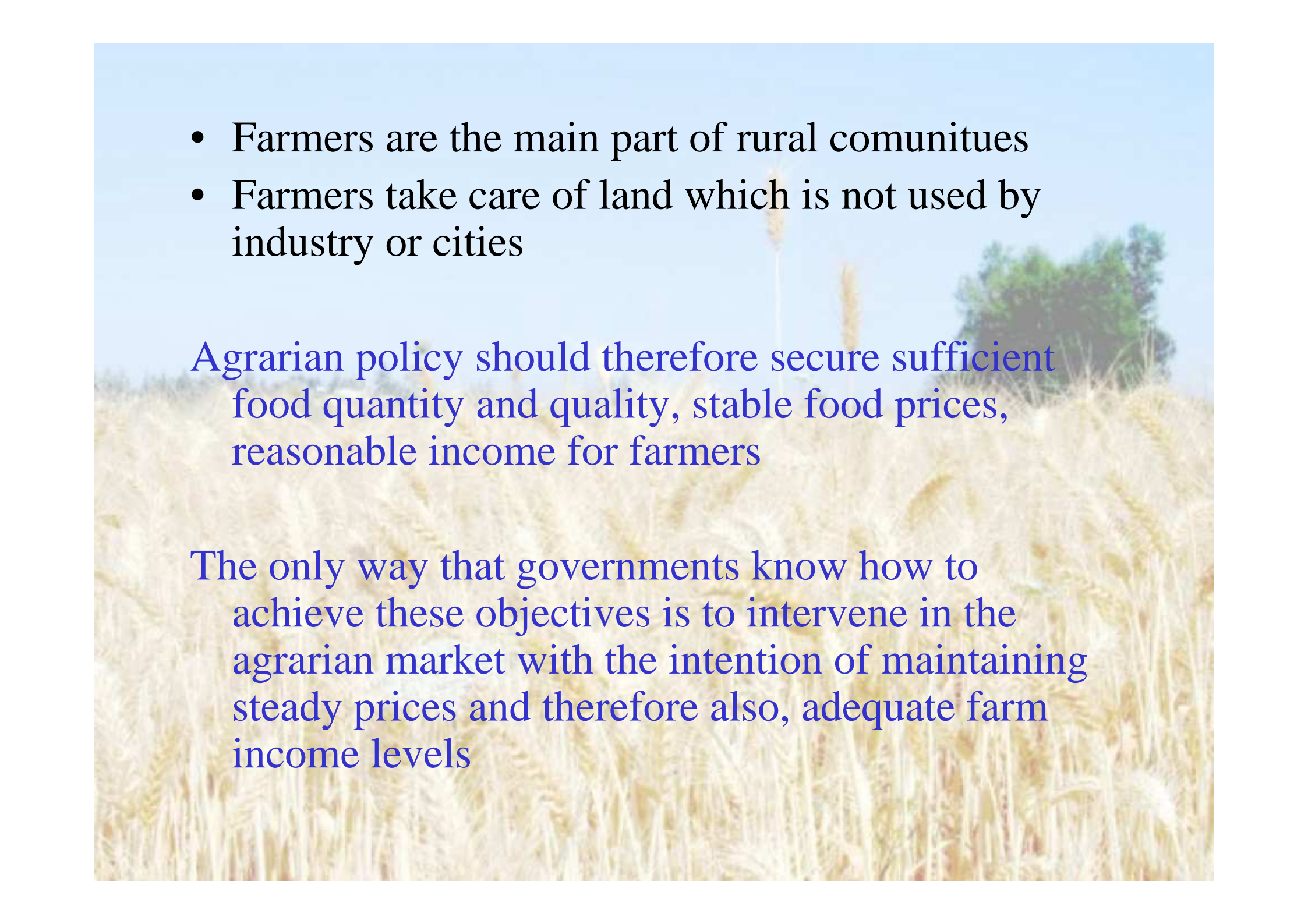


Agrarian policy to avoid price extremes and stabilize prices of agrarian products.

Why to support farmers?



- Demand for food is static
 - » Consumption is constant
 - » Price is decreasing
- Agrarian production is determined by biological and climatic factors
 - » Out of control
 - » Production is volatile independently on the market
- Production of the most important commodity for people – food

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- Farmers are the main part of rural communities
 - Farmers take care of land which is not used by industry or cities

Agrarian policy should therefore secure sufficient food quantity and quality, stable food prices, reasonable income for farmers

The only way that governments know how to achieve these objectives is to intervene in the agrarian market with the intention of maintaining steady prices and therefore also, adequate farm income levels

Agrarian Sector

- Agricultural production, forestry, water management
- Food industry
- Feed industry
- Services for agriculture and food industry (supply, purchase, maintenance, plant and animal breeding, seed growing, research, education, consulting etc.)

Agro-food complex

- Supply of inputs to agriculture and food industry (specialized engineering, chemistry, energetic etc.)

Agro-industry complex

- Food retail and public catering

Agribusiness



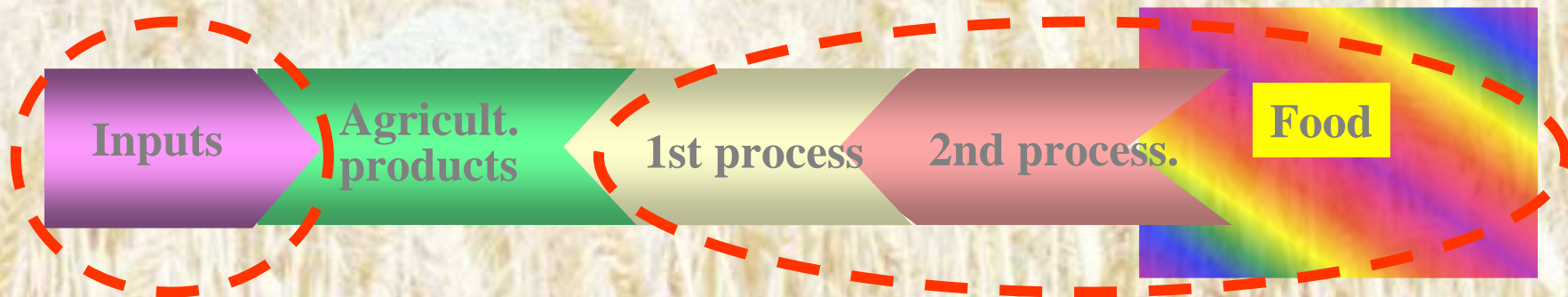
Agriculture in Agribusiness

Efectivity of agribusiness is the basic point of the whole system of production and distribution of food, if the food should be delivered to the consumer in desired quantity, variety and for reasonable price.

- **Traditional supply-oriented approach**



- **Demand-oriented approach**



A photograph of a vast field of golden wheat under a clear blue sky. In the background, a few green trees are visible on the horizon. The text is centered over the image.

Initial Stages of Agrarian Policy in Europe

Economic consequences of support to agriculture in Europe

- Origins of state interventions in Europe
- Strategies of individual european states
- Consequences of these strategies
- Post-war period in Europe

Origins of state interventions in Europe

- Mid-19th century - trade among European countries was nearly free from tariffs and other restrictions
- 70's of 19th century – export expansion of overseas states
- 1st agrarian crisis
- Protectionist policy

Reaction of European countries

- France and Italy
- Germany
- Great Britain
- Denmark and Netherlands
- Others

Some implications of these strategies

- Market protection – France, Germany, Italy
- Liberal model – Great Britain
- Transformation of agriculture (structural changes)
– Netherlands, Denmark

Development in Europe

- 30's of 20th century – world depression:
 - ✓ prices of the production fell
 - ✓ industrial output was drastically cut
 - ✓ unemployment rose⇒ wave of protectionism
- Reaction:
 - Importing countries – increase of tariffs
 - Exporting countries – selling of overproduction for very low prices
 - Tariffs** (however high - an ineffective means of protection)
 - It became necessary to control imports more precisely and directly = a variety of new measures was introduced

Tools used to support agriculture

- Tariff barriers
- Non-tariff measures: milling ratio, import quotas
- State regulatory interventions:
 - state interventions for given prices
 - Direct price support
 - Quotas
 - Directive control over production and distribution (size of farmed areas, price ceilings etc.)

Post-war period

- Food insufficiency
- Complications on the international market
- Food ration (food tickets)

Main target of AP:

- Ensure self-sufficiency in food production
- Solve income disparity of farmers
- Weaken increasing influence of monopoly and oligopoly structure of suppliers and retailers on decreasing prices of agrarian production



Development of CAP in Europe

Common agricultural policy in EU (EC)

- Integration
- CAP evolvement – phases
- Basic principles of CAP – CMO, EAGGF etc.
- Reforme CAP I. – MacSharry reform
- Reforme CAP II. – Agenda 2000
- Recent reforms – 2004

Integration

- process of barriers elimination that complicates the mutual process of exchanges (especially goods) and reciprocal relations
- the selected markets are gradually connected within the process
- creation of the common market

Integration

- **Economic contribution of integration:** increase of production effectivity, process of specialization, comparative advantages, economies of scale, faster technological development, increase of competition, improvement of trade position on global market, movement of production factors etc.
- **Basic instruments to reach the goals:** free market of goods, persons, services, capital, abolition of tariffs and duties and quantitative export/import restrictions, common external duty policy, common agricultural and fishery policy, convergency of legislation of individual countries etc.

Phases of Integration Process in Europe

Period 1

starting point of integration process after the II.WW (1945 – 1950)

Period 2

first sectoral and horizontal integration (1951–1958), 1952 ECSC, 1957
Rome Treaties – EEC, EAURATOM (Founding members: Benelux, France,
Germany, Italy)

Period 3

economic and social development and integration dynamics 1958-1970

Period 4

deepening of integration (1970 – 1985)

1973 – first enlargement – UK, Ireland, Denmark (EU 9)

1981 – second enlargement – Greece (EU 10)



Period 5

revival of dynamic integration and enlargement of European Community

1986 – third enlargement: Portugal, Spain (EU 12)

Period 6

birth of European economic and monetary union, European political union
(1993 – 2004)

1995 – fourth enlargement: Austria, Sweden and Finland (EU 15)

Period 7

further big enlargement

1.5.2004 – fifth enlargement: CR, SR, Poland, Hungary, Slovenia, Lithuania, Latvia, Estonia,
Cyprus, Malta (EU 25)

1.1.2007 – sixth enlargement: Romania, Bulgaria

? – further enlargement: Turkey, Croatia (EU 29?)

First sectoral and horizontal integration in Europe

1951 – European Coal and Steel Community (ESCS; in power 1952)

- Founding members: Benelux, France, Germany, Italy
- Abolition of tariffs and export quantitative restrictions, free movement of labour, cancel state subsidy, unify prices and transport tariffs
- Coal and steel industry belongs under the power of Community, not under the member states

1957 – Rome Treaties (in power 1958)

European Atomic Energy Community (EURATOM)

European Economic Community (EEC) = horizontal integration

- Precondition of foundation of common market of free movement of goods, labours, services and capital
- Founding members: Benelux, France, Germany, Italy

The Development of CAP EU

- Introduction of CAP (1957 – 1967), Roman Agreement 57/58, conference in Stresa (1958) – the principles of CAP
- Full functioning of original form of CAP (1968-1979), 1972 – Mansholt's plan
- First reforms of CAP (1980 – 1989)
- Major changes in original CAP (1989 – 1999), Mac Sharry's reform – CAP I. (1992)
- Agenda 2000 – CAP II. (since 1999)
- Further reforms due to the accession of new member states – EU25 (since 2004)

Introduction of CAP

Main goals:

- Increase the productivity of agriculture
 - » Technical development
 - » Optimal use of production factors
- Ensure good living standard for farmers
 - » Increase of farmers' income
- Stabilize the agrarian markets
- Ensure sufficient amount of food
 - » self-sufficiency
- Ensure sufficient amount of food with reasonable prices to the consumers

Tools: CAP

CAP – Roman Agreement

Principles of common organization of the market:

- Principle of common market
- Principle of mutual preference of member states
- Principle of financial solidarity within common agrarian and structural policy

Processes: Decisions and actions of CAP


- Accepted by Council of Ministers
- On the basis of Commission' proposal
- After consultation with European Parliament

Basic Principles of CAP

Conference in Stresse – July 1958

- **Adjustment of common price system**
 - » Farmers get the same revenues for their production
- **Keep the prices above the level of world prices**
(price support system)
- **Change the structure of agriculture in the Union**
 - » Improve the competitiveness of agriculture, but keep the traditional character of European family farm
- **Create common financial regime for CAP** (all member states contribute into central fund for market support)

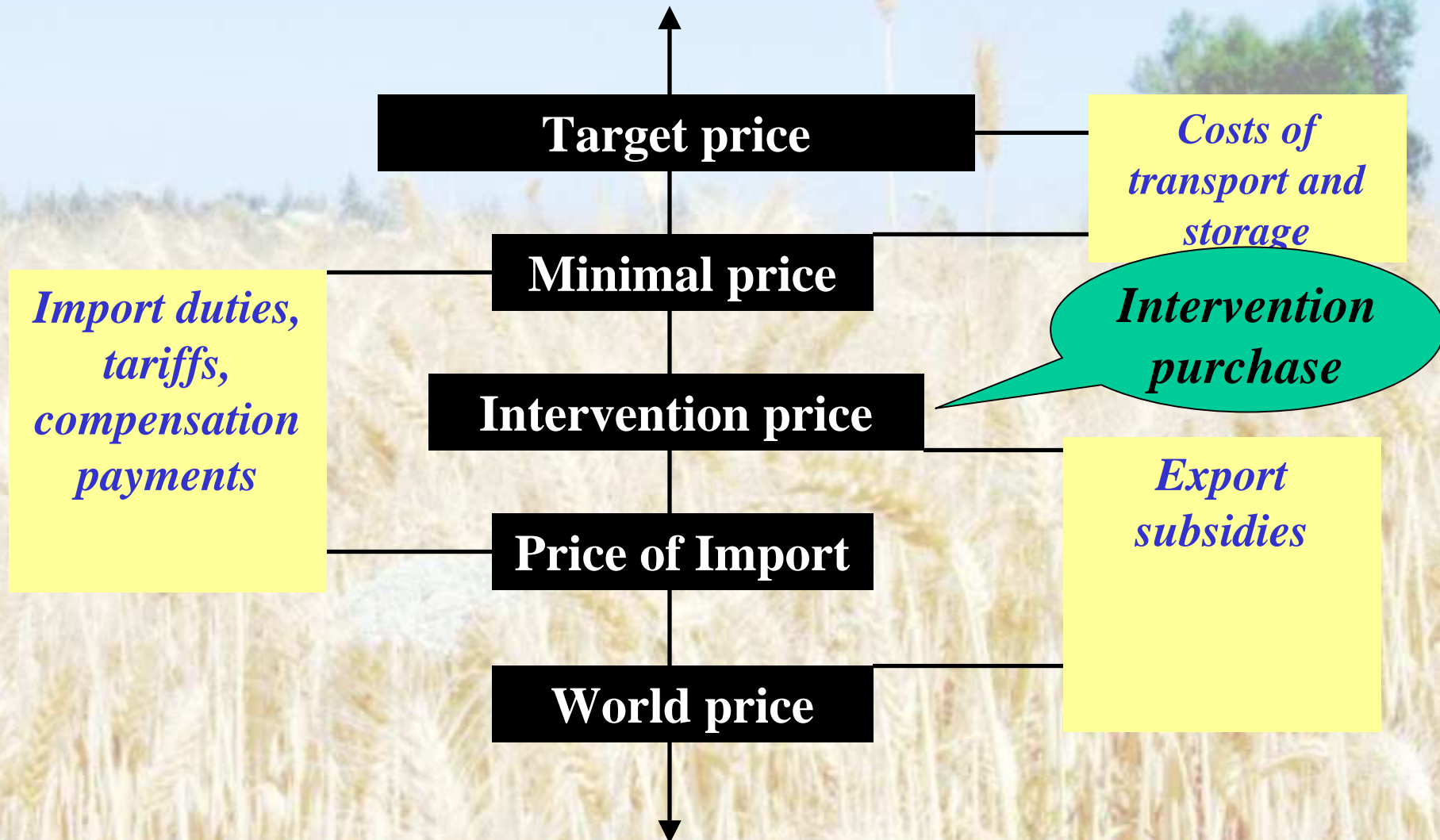
Fixed prices set by institution - stability

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- CAP mainly based on market price support
 - Extremely favorable for farmers
 - Very difficult to pursue any changes, even when the economical environment has been changing

Price support system


- **Target price**
 - » Price set by EU Council at the beginning of fiscal year as production price for the needs of AP
- **Minimal price**
 - » derived from target price as minimal price for farmers from third countries
- **Intervention price**
 - » interventional institutions purchase agrarian surplus for this price
 - » It is below the minimal price
 - » to maintain market price during short-term fluctuation of supply
 - » Production must meet minimal quality requirements to be accepted for intervention purchase
 - » Surplus commodities stored in intervention storage facilities
- **Export subventions**
 - » Granted to the exporters to remove the gap between lower world price and intervention price
 - » $\text{Export price} + \text{export subvention} = \text{intervention price}$
- **Import duties**
 - » For imports as protection against cheap goods from non-member countries
 - » $\text{Import price} = \text{world price} + \text{import duty} = \text{Minimal price}$

Price support system



Price support system across EU

- Uneven among commodities
- Differences of EU price and world price
 - Milk
 - Beef
 - Sugar
 - Cereals
 - Poultry
 - Pork
- Less price support for fruits, vegetables, wine, olive oil..

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- A photograph of a vast field of golden wheat, likely in a rural European setting. The wheat is in full bloom, with tall stalks and heavy heads. In the background, a few green trees are visible against a clear, bright blue sky. The overall scene is bright and sunny, suggesting a clear day.
- Price support concentrated in northern Europe
 - 1996 price support system reached millions of ECU
 - Until 1992 price support system was higher than direct income support for all EU countries

Evaluation of policy instruments

Two ways of evaluation

- Efficiency in terms of the welfare costs (using the concepts of producer and consumer surplus)
- Total welfare effect measured by: producer surplus, consumer surplus, budget costs

Easiness of the application (implementation)

Selection of AP measures

Aim: Increase of farmers income



Measure 1: Price support

Measure 2: Control of Import

Measure 3: Subsidies for investments

Aim: Increase of production

Regulation of agricultural trade



Regulation of supply

- Regulation of **production**
 - set aside
 - quotas
- Regulation of **food supply**
 - Protection of internal market
 - State intervention on the internal market (market stabilisation)

Regulation of agricultural trade

Regulation of demand

- Active usage of **promotion and marketing**
- Support of **consumers** (selected kinds of food)
 - food coupons (meal tickets) for people with lower incomes
 - food aid

Regulation of agricultural trade

Regulation of prices

In order to extend, stabilise or regulate present scope of supply or demand

- Influences the demand as well as supply side
- Most trade distorting effects

Policy instruments

- Subsidies ▶
- Deficiency payments ▶
- Intervention ▶
- Market price support ▶
 - Tariffs in combination with technological change
 - Import quotas
 - Export-Import tariffs
 - Import subsidies
- Domestic quota ▶
 - Supply quota
 - Input quota
- Direct income payments ▶

Subsidies

- Widely used political instruments
- Influence more of the supply side
- Taxes on demand or supply - Indirect taxes (subsidies)
- Taxes on income - Direct taxes

Indirect taxes

- A wedge between suppliers' price and buyers' price of goods or services
- Tax rate:
 - Fixed amount
 - Percentage mark-up = ad valorem tax

Deficiency payments

- Price subsidy on output that increases the amount received by producers while keeping consumer price unchanged
- Paid by government
- DP create smaller welfare loss than export subsidies and/or import tariffs because consumers are not confronted with a distorted price

Intervention

- The possibility for farmers to sell their products at a guaranteed price to a government agency
- Guaranteed bottom price in the market
- In the case of an exporting country intervention has to be accompanied by export subsidies and import tariffs
- Products in intervention stocks have to be sold on the world market using export subsidies

Market price support

Import tariffs

- Create a difference between domestic and world market price
- If import tariff is introduced, the domestic price becomes higher (small country) than the world market price
- Necessary to accompany import tariffs with export subsidies – in order to protect massive imports for P_w and to enable export of surpluses
- Import quotas

Export subsidies

- Create a difference between domestic and world market price
- Applied if government wants to increase producer prices
- When price support in the form of intervention is introduced, export subsidies are needed to lower stocks
- Export subsidies are often used to avoid intervention
- To prevent cheap imports, export subsidies are always accompanied by import tariffs

Domestic quota

Supply quota

- Quantitative restriction on output
- Rising production prices
- Reducing government spending on export subsidies

Input quota

- Quantitative restriction on input
- A non tradeable quota
- A tradeable quota

Direct income payments

- Negative welfare effects can be avoided if direct income support decoupled from production is provided
- Income subsidies per animal or unit of production are welfare distorting
- Income payments by acreage in short term not distorting if for all hectare subsidies are provided independent of its use
- Income subsidies per unit of labour are at least in longer term distorting
- In spite of the fact, that welfare losses are not zero in case of direct income payments, they are smaller than in the case of policy instruments directly influencing prices of outputs and inputs.

Common market organizations

CMO

- Common prices of agrarian products
- Market support to maintain these prices
- Preference of EU goods
 - » Import duties

1962: cereals, sugar, pork, eggs, poultry, fruits, vegetables, wine

1966: milk, beef, rice, olive oil

Similar also for non-food items: tobacco, fiber crops

The main types of CMOs

Intervention in inner market + trade barriers

more than 2/3 of regulated commodities, for some commodities also quotas for maximal purchase with guaranteed price – production restriction

Market protection no intervention

cca 1/4 of production – eggs, poultry, wine, flowers, fruits, vegetables. Sale and price are not guaranteed, import restrictions to maintain the price

Additional premiums

small amount of commodities, (2,5 % of agrarian production), stimuli for high quality production (Triticum Durum, oliv oil), subsidies to farmers' income

Flat-rate subsidies

commodity oriented (cotton, hemp, silk, seeds)
payments per hectare or unit of production, minimum amount of production (1%)

Analysis and first vision of structural policy in agriculture (1968)

Goals

- Modernization of farms, support investments, increase of productivity, reduction of number of farmer – rise of farmer area (7-8x)
- Acceleration of generation exchange and restructuralization of farms
- Support of economic and technological development

Instruments

- Level of farms – investment supports
- Above the level of farms – support of regional development, counselling, education, research

This reform was fully rejected

1973 - Great Britain, Ireland and Denmark joined the Community ⇒ Six became Nine

- Britain provided a substantial export market
 - implementation of tariffs and higher level of common support prices increased the cost of food to consumers
 - inflationary effect on the UK economy
 - as an importer higher cost of food imports
 - budgetary contributions to the Community
- Ireland heavily dependant on the agricultural sector
 - major beneficiary from CAP budget
 - modest but steady agricultural trade surplus
- Denmark also heavily dependant on agricultural sector
 - particularly agricultural sector gained from EC accession
 - unrestricted access to the traditional markets of Britain (50 % of agricultural exports) and Germany

First enlargement ⇒ encouraged each member state to look more closely at the budgetary transfers

Growth of nationalism within the Community

- Pro-CAP members (France, Ireland, the Netherlands and Denmark) - sought to protect national benefits growing from the CAP
 - pushing for higher support prices
 - maintaining the production of surplus commodities

Commission view - due to the productive capacity of European agriculture and the incentives provided by a system of guaranteed prices without limitations on production, specific measures would have to be taken to alter the overall structure of the industry

Mansholt Plan 1972

- more standard relationship between market and price levels (based on economic principles rather than based on political consensus)
- reduce farm population
- remove of land from agricultural use
- increase the size of farm unit
- improve labour and capital productivity

Commission ratified compromise reform plan:

- encouragement of farmers to leave the land
- low interest loans and loan guarantees
- setting up of information and advisory services
- encouragement of producer groups and coops

Southern Enlargement

1981 - Greece joined the EC

- agricultural exports accounting for a quarter of the total exports
- production costs higher than in most member states
- higher prices for many agricultural products contributed to the inflationary pressures

1986 - Spain and Portugal became full members of the Community (transition period ten years)

- Portugal
 - largely stagnant agricultural sector
 - negligible impact on the Community policies or the decision making process
 - inclusion of Portuguese agriculture in the CAP increased the need for structural impact
- Spain
 - significant export potential in certain agricultural products (fruit and vegetables, wine and olive oil)
 - net food importer
 - financial transfers through the adoption of CAP
 - expansion of agricultural trade through the adoption of CAP

Why did we need to reform original CAP in 80.?

- Increase of production, self sufficiency in key commodities
- Very intensive farming with negative effect on environment
- Increase of surplus, storage in intervention storage facilities, needed subsidies to remove the surplus – very budget demanding
- Decrease of world prices, more export subsidies needed to export the overproduction – budget demanding
- EU is becoming net exporter of agrarian commodities
- High level of subsidies keeps non-efficient structures

The beginning of CAP reform

- Adjustments of supply side of agrarian market
 - » Maximal guaranteed limits of production
 - » Quotas on the market, also quotas for individual member states – sugar, milk, dairy products
- Introduction of liability payments
- Limits for increasing budgeted necessary for agrarian policy

Reform of CAP in 1992 – CAP I.

R. Mac Sharry's reform (Secretary of agriculture)

- Reduction of intervention purchases Introduction of control mechanisms for granted subsidies (set aside, quotas, extensive production)
- Supporting the early retirement
- Focus on environment
- Decrease of intervention prices for cereals, beef, milk
- Alternative income in rural areas – diversification of activities

Decrease in agrarian expenditures

In the new system:

- Target price level lowered almost by 1/3 till 1997
- Set aside
 - Compensation to set 20 % of the land aside for at least 5 years
- Long-term subsidy planning
- Created conditions for fulfilling Uruguay round of GATT :
 - 20% decrease of import duties
 - 36 % decrease of budgeted for export subsidies
 - 21% decrease of supported amount of exports

But also:

- No changes in the main problem of EU – dairy sector, main accent to the cereals
- Mac Sharry's reform was also very costly. Farmers received payments for arable land with no area restriction.
- Payments for arable land and for herd introduced by Sharry are considered as decoupled

Decoupled is kind of support payment into agriculture that does not cause any change in production or traded quantity thus it is not subject of GATT.

During 1992 – 1995 were carried out very significant changes that the CAP till the end of the 90. could be called “new CAP”

Commodity	Price support by	Imports controlled by	Compensation payments
Cereals	Intervention buying for cereals of prescribed quality	Tariffs on imports	Arable area payments
Oilseeds	None	No import barriers	Arable area payments
Protein crops	None	No import barriers	Arable area payments
Linseed, hemp, flax	None	No import barriers	Arable area payments
Sugar	Intervention buying limited by quotas	Import levy	None
Potatoes	No CAP regime	No CAP regime	No CAP regime
Milk and milk products	Intervention prices for butter and skimmed milk powder	Import levy	None
Beef and veal	Intervention buying for limited quantities	Customs duties	Beef special premium scheme Suckler cow premium scheme
Sheepmeat	Basic price and aids to private storage	—	Sheep annual premium scheme

Agenda 2000 – CAP II.

- **External factors:**
- Liberalization of world trade and the pressure for competitiveness
- Enlargement of EU
- Increasing of international demand for food
- The necessity to build agriculture that is able to compete on the world market
- **Internal factors:**
- Requirements for environment protection
- Consumers protection – security and quality of food
- Improving and simplifying of the administrative
- **Accent on multifunctional function of agriculture**

Goals:

- **Prepare CAP for EU enlargement and for next WTO round**
- **Updating the model of European agriculture, accent on the multifunctional agriculture**
- **Keep the budgeted restrictions and priorities**
- **Continue to decrease interventional prices and export subsidies to improve the competitiveness of European agriculture**
- **Decrease the deep differences among the regions –economic development, wealth**

New model of European agriculture

- **Prices of agrarian commodities** – approach the European price level close to the world price level (decrease guaranteed prices by 15-20 %)
- **Agrarian income** – stabilized by direct payments – compensation of price decrease + set aside
- **Development of rural areas – structural programmes** – member states have own plans for rural areas development, production processes with the respect to environment protection, new working opportunities.

Financial framework:

Very strict budgeted restrictions, higher efficiency, control of expenditures for agriculture and rural areas development

Contribution of individual member states

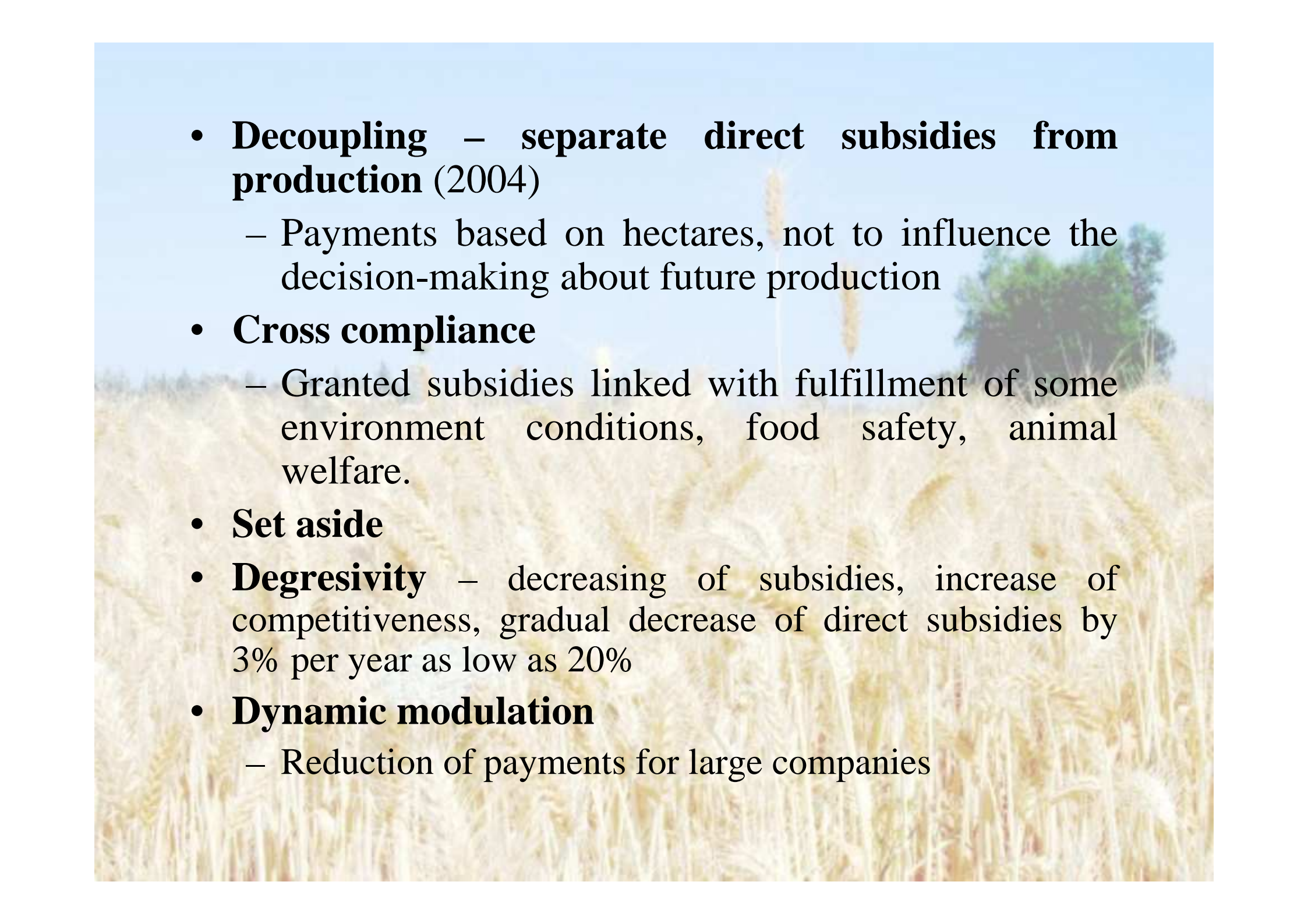
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- **Decoupling – separate direct subsidies from production (2004)**
 - Payments based on hectares, not to influence the decision-making about future production
 - **Cross compliance**
 - Granted subsidies linked with fulfillment of some environment conditions, food safety, animal welfare.
 - **Set aside**
 - **Degresivity** – decreasing of subsidies, increase of competitiveness, gradual decrease of direct subsidies by 3% per year as low as 20%
 - **Dynamic modulation**
 - Reduction of payments for large companies

Table 4.4 Expenditure on agriculture 2000 - 2006

Years	Heading 1 - agriculture (EUR million - 1999 prices)	CAP expenditure (excluding rural development and accompanying measures)	Rural development and accompanying measures
2000	40 920	36 620	4 300
2001	42 800	38 480	4 320
2002	43 900	39 570	4 330
2003	43 770	39 430	4 340
2004	42 760	38 410	4 350
2005	41 930	37 570	4 360
2006	41 660	37 290	4 370
		(90%)	(10%)

Source: European Commission, 2000




CAP reform 2004

Long-term perspective for sustainable agriculture

- On 26 June 2003, EU farm ministers adopted a fundamental reform of the CAP
- Vast majority of subsidies will be paid independently from the volume of production
- The rest of production - limited link between subsidy and production under well defined conditions and within clear limits
- **Sustainability**

Sustainability

- **Environmental sustainability**
 - the farmers must use the natural resources in an environmentally compatible way.
- **Economical sustainability**
 - the policy should enable the farms to be economically viable, because farms that are unprofitable cannot ensure that the common farmlands are maintained.
- **Social sustainability**
 - socially sustainable means that agricultural policy must be acceptable both for farmers and for society as a whole.



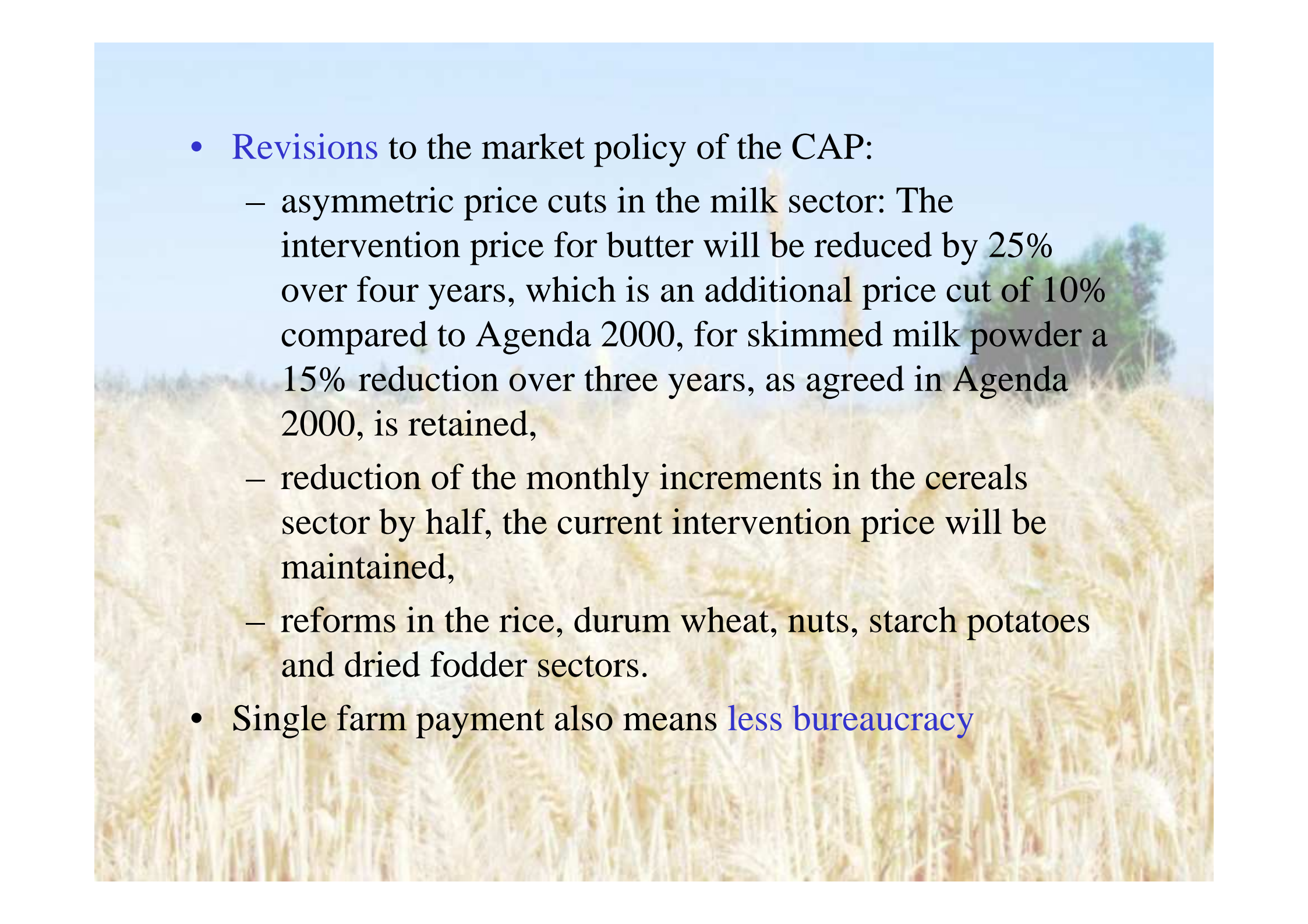
Sustainability - the reason behind the latest agricultural reform with ensuing following aims:

- To make farming **more competitive**.
- To create a more **transparent** and **fairer subsidy system**.
- To promote **quality** and **environmental protection**.
- To provide **more funding** for the **development** of our villages and **rural areas**.

Key elements of the reformed CAP

Market measures

- A single farm payment for EU farmers, independent from production - eliminates the incentive to overproduce.
- This payment will be linked to the respect of environmental, food safety, animal and plant health and animal welfare standards, as well as the requirement to keep all farmland in good agricultural and environmental condition ("cross-compliance").

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- **Revisions** to the market policy of the CAP:
 - asymmetric price cuts in the milk sector: The intervention price for butter will be reduced by 25% over four years, which is an additional price cut of 10% compared to Agenda 2000, for skimmed milk powder a 15% reduction over three years, as agreed in Agenda 2000, is retained,
 - reduction of the monthly increments in the cereals sector by half, the current intervention price will be maintained,
 - reforms in the rice, durum wheat, nuts, starch potatoes and dried fodder sectors.
 - Single farm payment also means **less bureaucracy**

Rural development

- In future **more money available for rural development is planned**: each year a total of approximately €1.2 billion more will be available for European villages and regions.
- Principle of **subsidiarity**: the EU lays down the basic conditions for rural development and the respective Member State and/or region can then decide for itself what it uses the funding for
- **The range of available measures will be further expanded**: there will be more options for promoting quality, new aid for meeting EU standards and new investment grants for young farmers

Review of the milk sector

- The milk quota scheme was **extended** to 2015.
- The guaranteed prices for butter and milk powder were reduced because intervention is intended to be a safety net, not an artificial market. This is also very important in connection with enlargement and our international obligations in the WTO.

Other CAP instruments, which were kept

- Intervention - stabilises internal market prices,
- Export refunds - help to stabilise the markets,
- Compulsory set-aside - stabilises arable crop production.

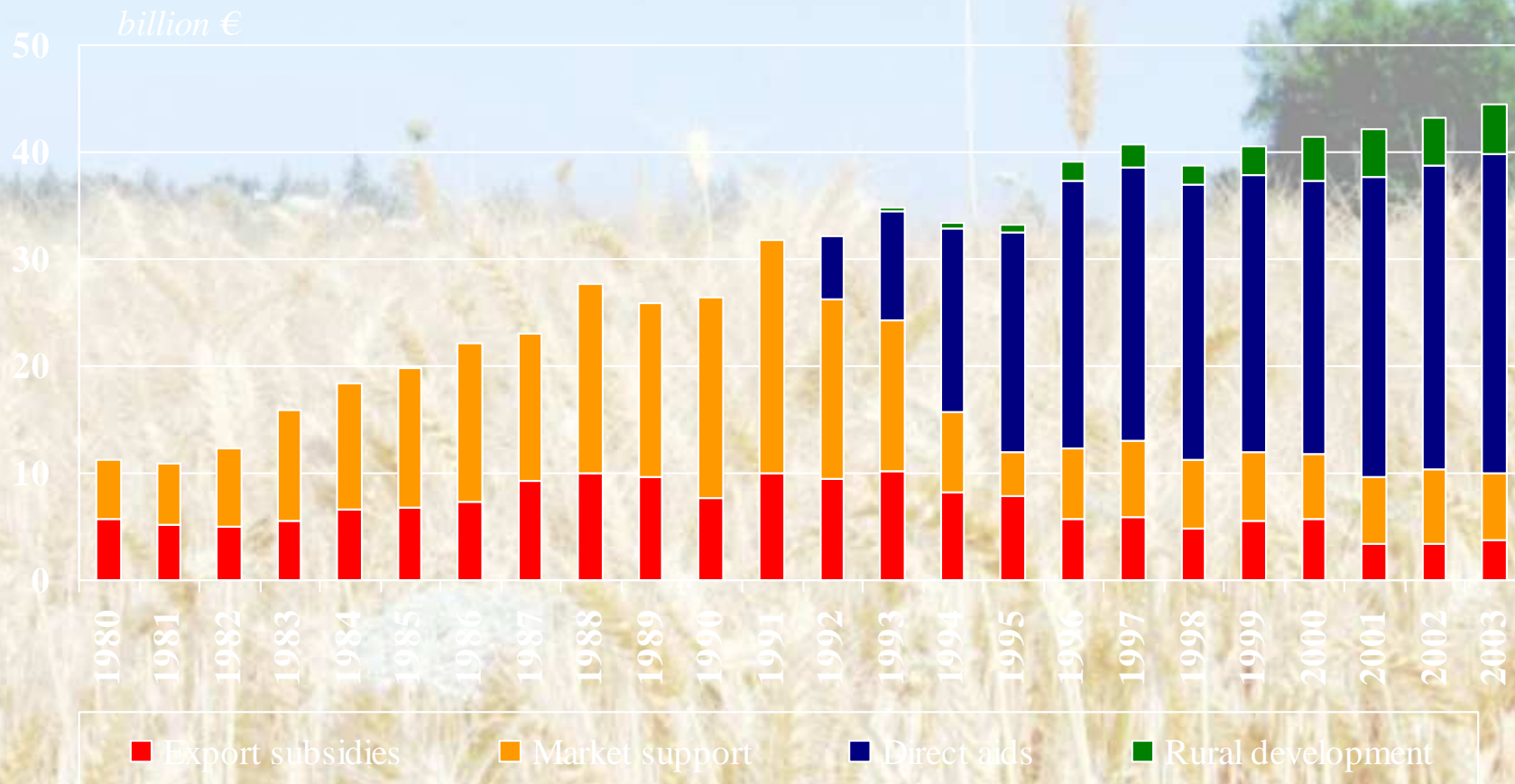
Implementation of the reform

- **Cross compliance** - one of the new key elements in the CAP reform, makes the future SFP dependant on the farmers respecting public health, animal health, environmental and animal welfare, EU norms and good agricultural practice.
- **Single Farm Payment** - the payment will no longer be linked to production (decoupling), allowing the farmers to have their incomes ensured and steering their production towards the needs of the markets and the demands of the consumers.

Payments will only be paid in full rate if the above cross-compliance provisions are respected.

- **Decoupled payments** = major share of European support to agriculture is moved from the trade distorting classification under WTO rules (Amber Box) towards the minimal or non-trade distorting category (Green Box).

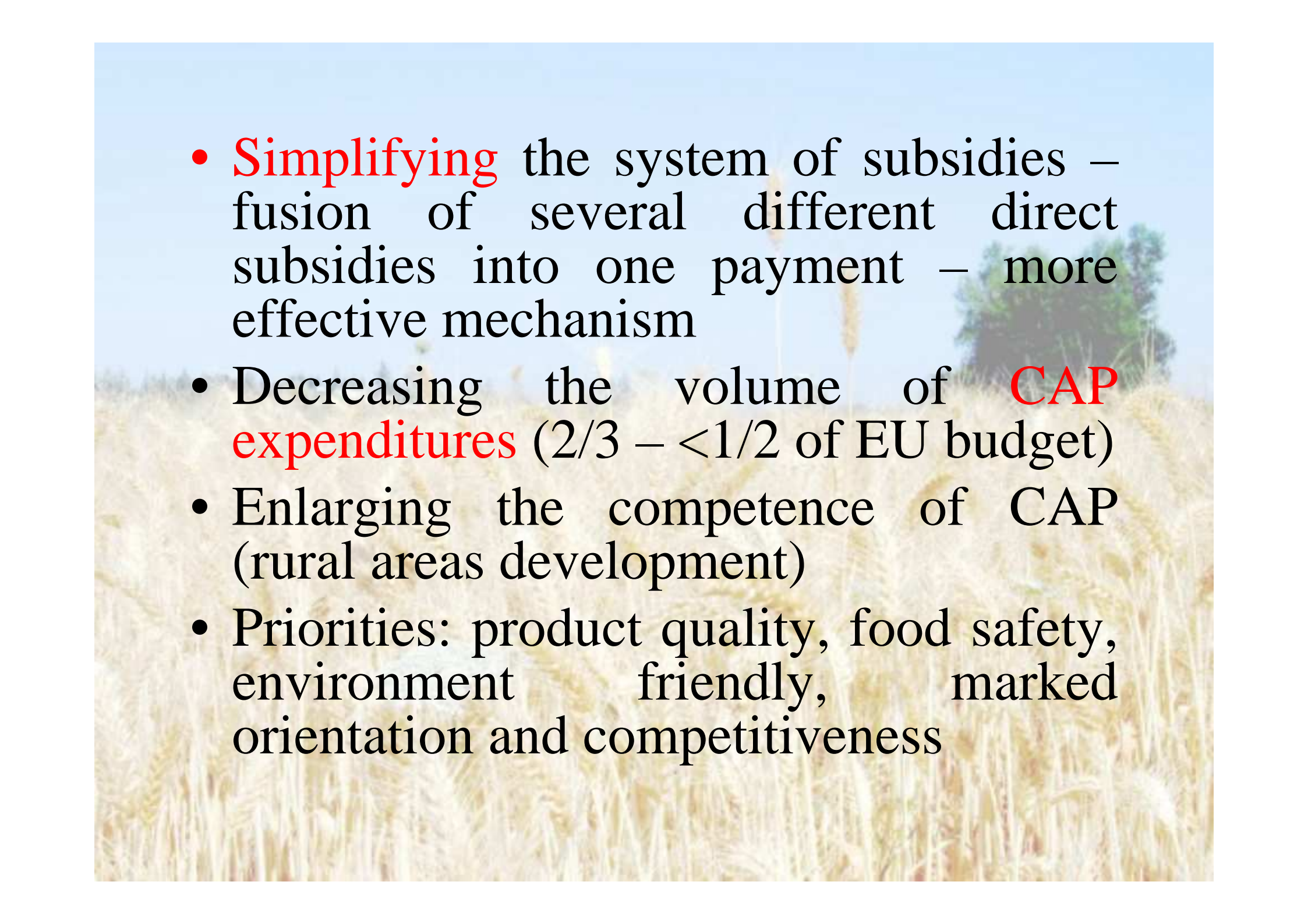
The evolution of CAP expenditure



CAP in 21.century

Goal:

- Not only support of agriculture but also
- Existence of rural areas in the long run with
- Environmental, economic and social sustainability

- 
- **Simplifying** the system of subsidies – fusion of several different direct subsidies into one payment – more effective mechanism
 - Decreasing the volume of **CAP expenditures** ($2/3 - <1/2$ of EU budget)
 - Enlarging the competence of CAP (rural areas development)
 - Priorities: product quality, food safety, environment friendly, market orientation and competitiveness

CAP in 21st century – high quality of products

- Arrangements for support of safety foods and hygiene, rules for labelling the food products, care for animals health and welfare, plants and pesticide control, additives, strict monitoring and control system
- **Specific arrangements**
 - Identifiable system of beef regulations, especially labelling the meat, incl. backward information about the origine of the meat and the processing of the meat
 - Financial support for farmers under the condition of Rural development policy to increase the quality of the farm products
 - Special support for transformation into organic agruculture

Product Quality

- Logo **Protected Designations of Origin (PDO)**
- Logo **Protected Geographical Indications (PGI)**
- Logo **Traditional Speciality Guaranteed (TSG)**



Organic farming

- Organic farming is production without the use of synthetic pesticides, herbicides, chemical fertilizers, hormones and antibiotics, GMOs, keeping high standard of good living conditions for animals, remains the structure of soil and its fertility.
- Logo EU „**Organic farming**“ is used by farmers who volunteer in this type of production

No less than 95% of the product was made in the system of organic farming;

The products meets the regulation and administration for organic farming and it is labeled with the name of producer, processor or retailer and has the code of control authority.

