



## **EconoMag**

**The Show that demystifies Economics**

### **The European CAP©**

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Last time on Economag, we saw some of the many subsidies and benefits that the European Union grants to countries, both within and outside of Europe. We briefly mentioned one that is quite famous in France, called the CAP, or Common Agricultural Policy. This is a protocol that was first introduced in 1962, and has changed a lot since then.

First, what is the CAP? What does it do? Originally, it was created to increase the productivity of agriculture, to increase the standards of living for farmers, to ensure reasonable prices for the consumers, and to stabilize agricultural markets. Since then, other objectives have been added, such as environmental conservation, and the improvement of rural development.

The CAP uses a wide variety of tools to try to achieve these objectives. The first one we'll examine is the use of subsidies and benefits for producers, which can take the form of help in the production of agricultural products, but also in the training of farmers and the installation of farms and farm equipment. It can also take the form of direct investments.

The second tool is a tax barrier. Even though the EU is a free market inside the borders, this is not the case outside its confines, and there are taxes on many farm products (wheat, animals, etc.). The EU has compensation taxes as well. All these tools are put in place to ensure the strength of the European Union's agricultural economy, a strategy that has worked so far, as the EU has reached a level of self-sufficiency in this realm.

So who pays for all this, and how much does it cost? The CAP's total expenditure made up around 43% of the EU's budget, or a whopping 55 and a half billion euros. That percentage has actually shrunk, as it is down from 71% of the budget in 1984.

France has always been an important agricultural economy, due to its size and its level of modernization. It's for these reasons and others that in 2013, it was the country to benefit the most from the CAP, receiving 17.38% of funds, followed by Spain and Germany with around 12% each. Poland joined the EU in 2004 (along with nine other countries). It's a country of 2 million smallholder farmers, who now directly benefit from the CAP. Their addition demanded a significant budget increase for the policy. Even

though Poland only received 6% of CAP funds, the country is on track to catch up, and break into the top 5 receivers.

The CAP has always received negative responses, firstly from the now infamous and controversial UK rebate, negotiated by Margaret Thatcher back in 1984. Britain then thought it gave too much money to the EU and did not get enough back, and at the time, the EU budget was clearly dominated by the CAP at a high of nearly 80%. This also sparked the now famous cry, "I want my money back!"

Economists have provided some other negative feedback. Many think that the CAP is unsustainable in an EU that has been growing consistently since 2003. The CAP has always represented a very large proportion of the EU's budget, for a not too significantly positive effect. As of 2005, agriculture made up 1.6% of the EU's GDP, and employed only 5.4% of the population.

The CAP is even criticized in France, the country benefitting the most from the policy. The criticism here is mainly that the bigger farms receive the most benefits, and smaller producers don't see much help. Larger farms are also often already getting other subsidies from agro-corporations, like Avril Sofiprotéol. In the long term, these practices will edge out many more smallholder farmers from the market.

The CAP has certainly been beneficial in some ways, but it's increasingly questioned, especially in the current economic crisis and with the expansion of the EU. It was reformed just last year, but the results won't be as significant as expected, even with new measures to fight climate change. Will another reform of the CAP make it better able to respond to the economic, environmental, and territorial challenges ahead?

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