

HOW DOES THE EUROPEAN UNION MANAGE AGRICULTURE AND FISHERIES?

Second edition

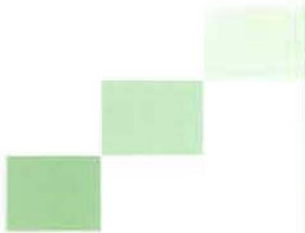
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Europe ...
questions and answers



Europe ...
on the move



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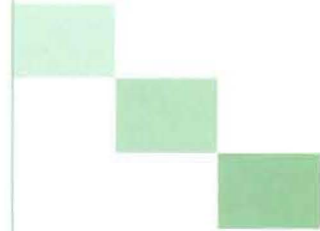
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EUROPE ... QUESTIONS AND ANSWERS

HOW DOES THE EUROPEAN UNION
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<i>The terms 'European Community' and 'European Union' are used in this booklet to refer to the political entity which started life as the European Economic Community (or common market) under the Treaty of Rome in 1957 and subsequently evolved first into the European Community and then the European Union under the Maastricht Treaty of 1992, as amended again recently by the Treaty of Amsterdam (1997).</i>	
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The European Union means many things to many people. Some see it as central to the efforts over the last 50 years to keep the peace in a continent which has often been riven in the past by rivalry and suspicion. Others talk of its political impotence: why, if it is a political union, has it been unable to intervene effectively in former Yugoslavia?

For a great many people, the Union is first and foremost about the single market and the opportunities and benefits for businesses, students, pensioners and holidaymakers.

But there are also those who feel it is increasingly difficult to see the wood for the trees. Looking back, they wonder whether the Union's current activities are actually living up to what its founders dreamed of or whether that vision has become lost somewhere in the tangles of a post-cold war Europe. Should we not be asking whether the Union still has a purpose today?

The Union's institutions are inundated every day with enquiries from people asking such questions. This booklet is one of a series which seeks to give succinct answers to the most frequent of these.

In the end, the Union is about more than just the sum of its parts. The Member States brought it into being to help solve problems that can no longer be dealt with effectively by individual countries acting alone. Far from erecting barriers, the European Union is about opening up opportunities.

1 The common agricultural policy

Why was the common agricultural policy originally set up?

Agriculture has traditionally been one of the main sectors of State concern. This is because of the priority given to achieving two fundamental objectives. First, self-sufficiency in food products for the population and, secondly, fair and regular incomes for farmers, as independent as possible of uncontrollable factors such as climate, soil or disease, partly to counteract the rapid depopulation of the countryside.

These were also the aims of the CAP when it was established by the European Community in 1962. They were mainly secured through the common organisation of markets for the various agricultural products with guaranteed minimum prices. Steps were also taken to store surplus produce so as to maintain reliable food supplies to the consumer at stable prices, even when there were poor harvests.

But the effects of the CAP go well beyond the management of markets for basic agricultural products. Measures adopted complement policies in other fields including the development of regions, the promotion of employment, environmental protection and consumer health, and hence have far reaching implications.

What is the common agricultural policy?

The CAP is first of all a legislative framework. As well as setting out the basic aims outlined above, the legislation defines the principles underlying the CAP. Three principles are at its heart. First, a single market must exist for all agricultural products in the EU, meaning that products can be traded freely between Member States and that custom duties only exist for food imported into the EU. 'Community preference', the second principle, refers to the price advantage given to EU produce over third country imports. Financial solidarity, the third principle, means that Member States are jointly responsible for financing the CAP. A fourth principle was added in 1979, that of co-responsibility, whereby in certain sectors farmers have to contribute to the expenses caused by serious overproduction.

The legal framework also sets out the means necessary to operate the policy. The most important of these are: a dedicated agricultural budget at the Community level, a series of rules organising the markets of various products and a set of measures aimed at stimulating the structural adaptation of farms, the economic development of rural areas and the preservation of the natural environment.

Agricultural expenses are covered by the European Agricultural Guarantee and Guidance Fund (EAGGF). It centrally covers all the expenses of the CAP. It is divided in two sections.

- (i) The first of these, the Guarantee section, covers the common market organisations for the various agricultural products of the EU and the accompanying measures (agri-environment, forestry and early

retirement schemes for farmers). Common market organisations (CMOs) exist for most EU farm products. CMOs stand for a set of rules to eliminate the obstacles to free trade in the agricultural products concerned within the EU, whilst maintaining a common customs barrier with respect to third countries.

- (ii) The second, the Guidance section of the EAGGF, contributes financially to the restructuring and modernisation of agricultural holdings and to protecting and promoting the economic development of less favoured rural areas. This is achieved through a variety of measures, concerning issues as diverse as agriculture in mountainous areas or problems of rural depopulation.



One of the aims of the CAP is to ensure that consumers get better quality products.

The main tools adopted for managing the CAP

The CAP works in a number of ways to help secure the supply and stabilise the prices of agricultural commodities, and to ensure reasonable incomes for farmers.

Intervention measures/means for regulating the domestic market

Target prices are fixed for many of the products covered by a common market organisation. This is the price ministers for agriculture believe to represent a fair return to EU farmers for a given volume of produce of an established quality.

When the market price of a given product falls below the intervention price, set lower than the target price, intervention agencies are triggered into 'buying-in' the products and placing them in public storage. In some cases, calls for tender are published to put the produce in private storage.

The world market/means for regulating external trade

Some exports to third countries are eligible for export refunds, or restitutions, corresponding to the difference between the Community market price and the world price. Produce from third countries is subject to an import levy when entering the EU, in order to ensure that the prices of European farmers remain competitive, and that Community preference is respected.

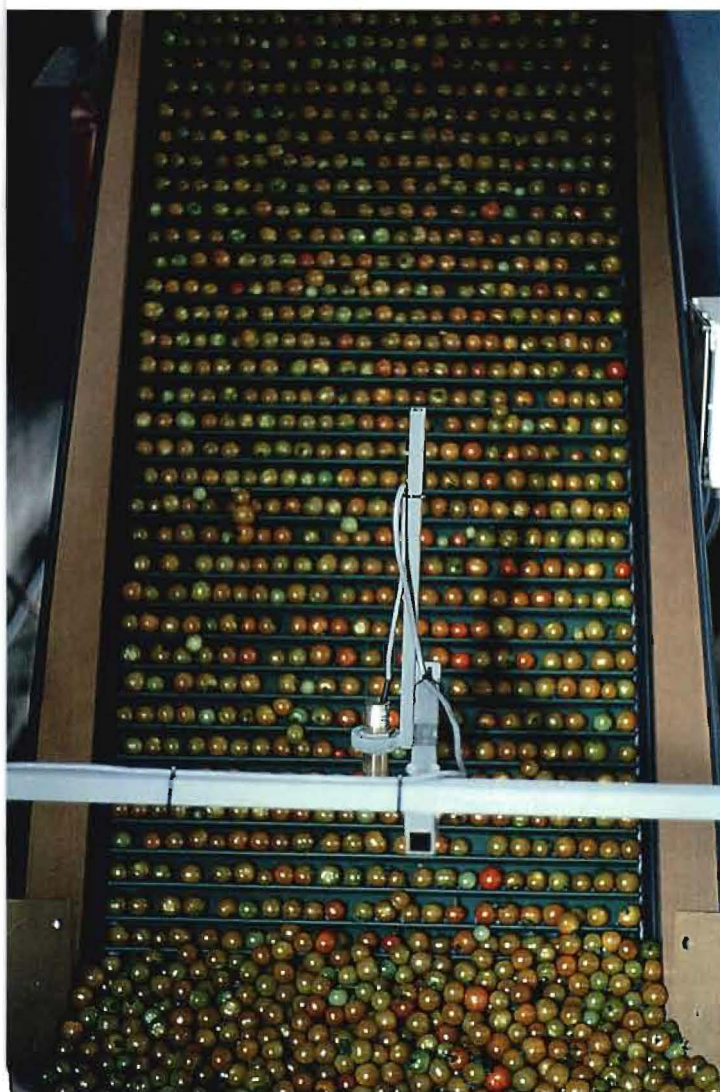
Income support

Farmers receive direct payments, for some of the main products, in order to maintain their income levels. Compensatory allowances, on the other hand, are payments under the socio-structural policy, designed to compensate for natural handicaps inherent in rural areas.

Who benefits from a common agricultural policy, and what are the gains?

Farmers are the primary beneficiaries of the CAP. From the beginning, one of the main objectives of the policy has been to ensure that farmers can earn a fair and reliable income from the land. Reliability of income is of the utmost importance in a sector prone to losses due to uncontrollable natural factors. To this end, the CAP has attempted to improve the efficiency of Europe's farms in the belief that only a competitive agricultural sector can guarantee

Size grading of vegetables makes it possible to verify compliance with quality standards.



farmers' incomes in the longer term. Improved competitiveness has come from cuts in production costs, the development of new economic activities and the modernisation of production methods.

The benefits of the CAP to the consumer are numerous. The variety of produce available on the market is continuously growing and most products can be found consistently throughout the year. The cost of food products has remained fairly stable, regardless of fluctuations in production and prices are similar in different Member States. Consumers also benefit from the knowledge that every effort is made to ensure that the food they buy, wherever in the EU, meets specified quality and health standards. These standards are constantly being improved and brought up to date. Meanwhile, rules on labelling allow the consumer to make more informed choices. Denominations of origin and geographical indications help the consumer to find high-quality speciality products, produced according to traditionally recognised methods and standards.

Member States gain significant political and economic advantages from having a common policy. In fact, the CAP has avoided the damaging competition which would have otherwise arisen from different national support policies trying to outbid each other. Expenses are shared in meeting the common policies objectives. When problems develop in one Member State, such as natural disasters or debilitating diseases in animals or crops, help is at hand, as need is one of the criteria for the allocation of funds. Advantages also arise from having a single, powerful voice on the international stage representing all the Member States, when negotiating international trade agreements such as in the context of the World Trade Organisation (WTO), or when succeeding in establishing new markets for EU products.

Not least, the CAP also has a social and, increasingly, an environmental role. The needy of the Member States have received approximately ECU 2 000 million worth of food over the past 10 years. Moreover, the EU operates food-aid programmes, bringing help to several developing countries, as well as to many of the countries of the former Soviet Union. Humanitarian aid, including food and other goods, is given on a temporary basis to people who live in countries experiencing the effects of natural catastrophe or other crises. Finally, the CAP helps to maintain and protect Europe's natural heritage and rural environment. Indeed, the farmer has a key role to play in maintaining a living countryside.

How much does the CAP cost?

Agriculture has traditionally absorbed between two thirds and one half of the overall budget of the EU. However, over the past 10 years, improvements have meant that this share has decreased to represent today around 49 % of the total EU budget and is still falling. In 1997, this corresponded to ECU 41.305 million.

EU expenditure on agriculture is strictly monitored. In 1988 a guideline for agricultural expenditure was created. This details the maximum amount that can be spent on agriculture, and the evolution of expenses over several years. An 'alert system' is triggered if the limits are not respected, and the budget is then frozen. However, to date the guideline has always been respected.

EU food surpluses have had one most valuable role — as food and humanitarian aid for countries in distress. Between 1975 and 1987 the Community supplied food aid worth over ECU 4 billion. Since then, in addition to traditional food aid, substantial humanitarian shipments have been sent to the former Eastern bloc, most particularly to Bosnia-Herzegovina.

Food from intervention stocks is also made available to the most needy within the Community. Financed by the Community budget and managed by Member States, close to ECU 1 billion worth of food has been distributed in this way since 1987.

On average each citizen contributes less than ECU 2 per week to finance the CAP. This is equivalent to the cost of a hamburger. This is not a high price to pay in view of the variety of direct and indirect benefits detailed above.

How successful was the original CAP?

By the early 1980s the CAP had achieved the aims it had set itself in 1962. The agricultural production of the Community had increased to the point that markets were stable and supplies were regularly available to consumers at stable prices. In general, the conditions had been created for farmers to obtain a fair standard of living. By the mid-1990s, the EU was becoming the biggest importer and the second biggest exporter of agricultural products in the world.

But success brought with it a number of less desirable side-effects. High guaranteed minimum prices to farmers for their produce acted as an incentive to intensify production. In some areas this led to the overuse of land with negative environmental effects.

Intensive production also meant that major surpluses in certain sectors were emerging. On average the volume of agricultural production was increasing by 2 % per annum, whereas consumption was growing only by 0.5 %. Consequently, the cost of storing the surpluses also grew.

Some of the surpluses were released on to the world market at subsidised prices. As surpluses grew, so did the volume of subsidised exports and with it the pressure on the agricultural budget.

EU prices had traditionally been higher than world prices. This is because when the single prices were created these were set closest to the highest prices existing amongst the founding members most of which, already then, were higher than world prices. The gap continued to grow. Imported products were less competitive on the EU market because of high levies and restricted quantities. In an increasingly open global economy such protectionism was becoming harder to sustain in political terms.

With regard to agricultural incomes, because the system was linked to volumes of production, it was no longer taking adequate account of the vast majority of small and medium-sized family farms. In the early 1990s, it was estimated that the 20 % most productive agricultural holdings in the EU were absorbing approximately 80 % of all agricultural support.

As a consequence of these developments, expenditure levels were growing continuously, and this was increasingly hard to justify. In view of the existence, at the time, of the notorious 'butter mountains' and 'wine lakes', the question also arose as to whether it was acceptable any longer to induce farmers to labour to produce food that was not needed.

How has the CAP adapted to changing priorities and circumstances?

Just as agriculture is a diverse and complex business, so the CAP is a particularly difficult policy to manage. It is the only policy decided entirely at European level, a compromise of 15 different national interests. Moreover, the EU has a single internal market for agricultural products. This market must be managed in order to ensure that no Member State sets national standards which could act as barriers to trade for producers from other members. The CAP is difficult to manage also because of the number and complexity of the measures included in the policy. Yet the intricacies of the policy have not prevented the CAP from adapting to new situations. Since 1962 several reforms have characterised its evolution.

In 1972, certain structural measures were introduced into the CAP to promote the modernisation of agricultural holdings, to help farmers to gain professional qualifications, and to create incentives for young farmers to stay in agriculture. Other measures addressed the special difficulties of farmers in mountainous and less favoured areas, the processing and marketing of agricultural products.

Various changes were introduced in the following years to deal with the growing volumes of surplus produce. These included, in 1979, the co-responsibility levy referred earlier and, in 1984, 'milk quotas', to control the volume of production. During the particularly harsh winters of 1986-87, the programmes for food distributions to the needy of the Community were established.

In 1988, two further changes were introduced. First, measures were set up to improve the control of expenditure on agriculture. We have already mentioned the creation of the agricultural expenditure guideline. Another measure was the 'stabilisers': maximum quantities, fixed for all the main EU products, for which support payments were guaranteed. Secondly, a new approach to structural measures was adopted. This entailed a closer coordination between the Guidance section of the agricultural budget and the other EU budgets for regional and social development. The aim was to create a more effective, global strategy for rural and less favoured areas.



In 1992, the Council of Ministers adopted the most radical reform of the CAP since its creation 30 years earlier. The basic aims were to counteract the less desirable side effects of the policy and to put the CAP at the heart of the Community's rural development efforts. The central element of the package was to cut prices for key products linked to the withdrawal of land from production. Land set aside could be used for non-food production such as bio-fuels, for example. Agricultural prices were brought closer to those on the world market. Farmers received compensation for the decrease in target prices. Compensation was paid in the form of direct income support, calculated on the basis of the average yields in each farming region. Additional financial support was targeted particularly on the most vulnerable categories of farmers and on promoting less intensive methods.

Alongside the changes in the market mechanisms, three new accompanying measures were also created to promote forestry activities, a more environmentally friendly agriculture, with less use of pesticides and fertilisers, and an improved early retirement scheme from agriculture for farmers aged 55 years or over making way for younger farmers.

What are the prospects for European agriculture?

1997 has been a year of stocktaking. The impact of the 1992 reforms has been evaluated, and decisions regarding the agricultural policy for the next century are being taken. By and large, the 1992 reform has proven successful. The share of agriculture in the Community budget has continued to decrease. A substantial reduction in surplus stocks has occurred in most sectors. Farmers are learning to gear their production more to consumer requirements, preparing for a more open market. New environmentally friendly forms of agricultural production have been introduced. Agricultural incomes have grown by an average 4.5 % per year between 1992 and 1996, although there have been variations according to Member State and sector.

However, without further reforms in the future, the positive effects of the 1992 reforms are expected to diminish as production begins again to outstrip consumption due to improved efficiency. In the summer of 1997, the European Commission presented the 'Agenda 2000': its budgetary perspective and policy priorities for the beginning of next century. Amongst these, there are proposals for reforming the CAP in the light of the evaluation of past experiences, international trends, enlargement towards central and eastern Europe and the budgetary constraints affecting Member States in preparation for the single currency.

Which are the priorities for the future?

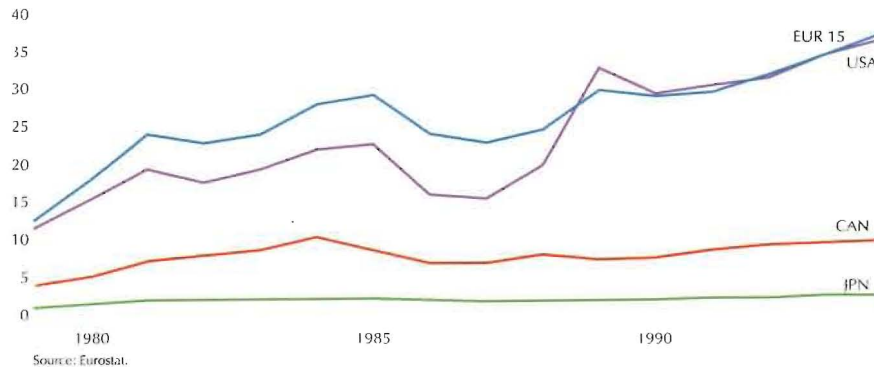
The proposals continue along the path chosen in 1992, shifting the CAP to become more market oriented in order to enhance the economic potential of the sector and to provide sustainable employment. The Member States of the EU have much to contribute to both domestic and world food markets, but unless the products are competitive they will be left behind by producers from other regions of the world. Moreover, competitive prices must go hand-in-hand with the highest quality and safety standards.

Clearly, ensuring a fair standard of living for the agricultural community and contributing to the stability of farm incomes remain key objectives of the CAP. Farmers will be helped to exploit all opportunities in rural areas, both with regard to the most suitable type of farming and in the pursuit of complementary or alternative sources of income and employment for themselves and their families.

Agro-environmental measures will gain an increasingly important position. More environmental objectives will be integrated into the CAP. Farmers will be offered new opportunities in organic farming and will continue to be compensated for their role as stewards of the countryside and the natural habitat.

The EU's trade relations on the international market

Exports of agrifood products, ECU 1 000 million



The EU is one of the main players on international agricultural markets. In fact, agriculture represents approximately 8 % of total EU exports, and the EU's share of world exports in agriculture is approximately 14.5 %.

The EU pays great attention to world trends in the sector when making choices for the future of the CAP. Currently, experts forecast that world demand for food will increase and that the international trade in agricultural products will expand. To take full advantage of this, the farmers of the EU will need to be more competitive. Under current WTO agreements the EU has already pledged to reduce export subsidies. Since the first negotiations, however, the USA has introduced a new farm bill to liberalise markets in agricultural products, combined with a system of payments linked to the protection of the environment. When the next round of negotiations begins in 1999 the EU could find itself under pressure to move further in this direction.

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The citizen will, therefore, benefit from a better managed natural environment. Diversified economies in rural areas will provide access to rural recreational activities. With regard to food itself, quality will become the key word: quality of produce and quality of choice.

Finally, the Commission intends to improve the way in which the CAP is managed and implemented. Simplification of EU agricultural legislation, greater transparency and increased cooperation with the regions will help to ensure that the CAP remains efficient and effective in the years to come.

2 The common fisheries policy

Why does Europe need a common fisheries policy?

The common fisheries policy (CFP) covers a host of legal, political, economic, social and environmental factors affecting both the fishing industry and the process of European integration. Among the most important of these considerations is the difficulty in sharing out a resource which can be highly mobile and can disregard national boundaries, and which is frequently being over-

fished. The sector, if it is to survive, will need to be subject to enforceable common rules, even at international level, where effective pressure can be brought to bear on transgressors. The CFP aims to protect stocks from overfishing, guarantee fishermen their livelihoods and ensure consumers and the processing industry regular supplies of fish at reasonable prices.



At the same time the European Union is importing sea products from non-member countries, partially as a consequence of the general freeing-up of trade worldwide. By negotiating as a unified whole the Community can conclude the best possible agreements with its fisheries trading partners, including those in the Third World, far better than individual Member States would be likely to.

How does the CFP work?

Direct management of the fisheries revolves around the setting of total allowable catches each year (called TACs) for a number of stocks of the species which are critical to the Community's fleets.

At the end of the year, the Council of the European Union sets the following year's TACs based on scientific advice on the state of stocks. Each TAC is then divided up among the Member States in the form of quotas using a formula that is set from one year to the next. The Member States themselves are responsible for seeing that their quotas are not exceeded.

Other measures, including issuing licences, help reinforce the quotas for allowable catches by imposing restrictions on the gear and vessels deployed. In addition, there are specific measures to protect undersized fish by banning the use of nets with small-sized meshes and fishing in areas that are particularly sensitive as breeding grounds.

All these measures are still not enough on their own. The problem of overfishing needs to be tackled at the point where it originates: the existence of excess fishing capacity. In order to

International law, through the 1982 law of the sea, agreed that coastal States should have the right to extend their fishing zones to 200 nautical miles, largely in response to the hunt for ever-dwindling stocks. These exclusive economic zones (EEZs) had radical implications for the fishing industry across the world; for the Community, in which EEZs overlap very considerably, it meant new rules had to be designed so that all could have an equitable share. The rules devised form part of the CFP.

In 1957 Member State governments gave the Community the right to set in place common rules for Europe's fishing industry, although it was not until 1983 that a Community-wide system for conserving and managing the various fish stocks was established under an agreement that each country's share of fish stocks would be allocated according to historic fishing patterns, while allowing each country's 12-mile coastal strips to be reserved for local vessels. The accession of Spain and Portugal in 1986 brought new challenges; the number of Community fishermen doubled overnight and consumption increased by half again. Greater account must now also be taken of a range of new issues, notably relating to the Baltic, on account of the accession of Finland and Sweden in 1995.

guarantee a future for fishing communities in the Community, the catch capacity of our fishing fleets must be reduced to a level compatible with the available fishing stocks, and there has to be social and financial support for fishermen and their communities during the adjustment period.

Agreements with other coastal nations, which provide vital access to fishing grounds for the Community's distant water fleet and help the search for new stocks, form a central element of the CFP.

Marketing measures which resemble those of the CAP are designed to stabilise the market and guarantee a steady supply of quality products.

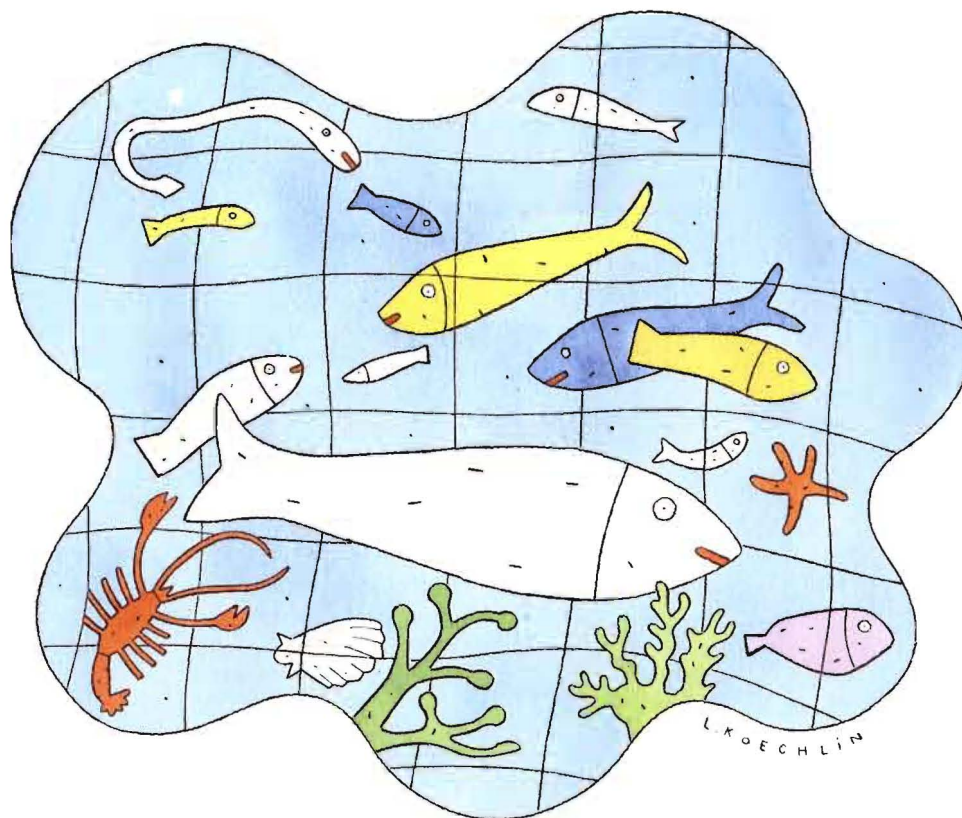
The Union also grants aid to promote a modern, competitive fishing fleet (withdrawing, replacing and modernising existing vessels), to develop aquaculture — an increasingly important source both of fish and of jobs — and to assist coastal regions affected by the worldwide crisis in the fishing industry. Money is available for basic infrastructure to help these areas attract new businesses and to cover the costs of training for the unemployed and people in danger of losing their jobs.

These measures are central to the way the CFP has been managed and controlled for some time, and they have become a model for other governments facing similar challenges.

What can be done to improve conservation of fish stocks?

Conserving existing stocks and improving the balance between fleet capacity and the fishing opportunities are the foremost challenges facing Europe's fishing industry, both decision-makers at national and European levels and the fishermen themselves. Member States and the Community, working in conjunction, have set out rules and regulations with this in mind, but ultimately it is up to the fishermen themselves to comply with the rules reducing catches of undersized fish, regulating mesh sizes, allowing certain vessels in certain areas, and so on. The Community has devised a strategy combining the deployment of inspection vessels, fixed-wing aircraft and helicopters with checks on land, principally at the dockside. Greater use is being made of modern technology as a result of the recently adopted decision on systematic monitoring by satellite.

The national authorities have a sovereign right to carry out inspections in the territories and exclusive economic zones in which they exercise policing and enforcement powers. The European Commission supervises these inspections by the Member States and can, if necessary, act directly in international waters. The Union therefore has an essential role to play in improving enforcement in international waters. Its experience with satellite monitoring will have a key role to play in this connection.



All the same, it is clear that overfishing continues and careful thought is being given as to how best to improve the CFP, both in the short term and, crucially, in the long term. Regarding the former, better monitoring is obviously important, and so computerised databases are being set up, allowing cross-checks to be made on catches landed, catches declared and sales made. Community boats in foreign waters and

foreign boats in Community waters will be subject to these same controls. In the long term much consideration is also being given to ways of achieving greater synergy between conservation and the Community's structural policies, and measures to enable fishermen to plan more effectively for the future.

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