2. The EU Common Agricultural Policy and its importance to the Dutch agricultural sector - a note[1]

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2.1 The CAP's main features and impact

With the Common Agricultural Policy (CAP), the European Union (EU) aims at 1) increasing agricultural productivity; 2) ensuring farmers a fair standard of living; 3) stabilising markets; 4) ensuring stability of supplies; and 5) ensuring reasonable consumer prices (Treaty of Rome). To reach these policy objectives, the EU applies in principle two types of policy instruments. These are, firstly, measures directed to the organisation of the market and, secondly, structural measures. Until the 1980s the CAP was dominated by price support in the form of guaranteed prices, intervention buying, border protection and export subsidies. Due to increasing market surpluses a milk quota system was introduced in 1984, next to the sugar quota regime the only production control measure at that moment. This changed in the 1990s when as part of the MacSharry reform the cereals and oilseeds production became subject of set-aside programmes. Direct payments, coupled to area and headages, were introduced to offset at least partially the decline in prices under the MacSharry reform. In Agenda 2000 the Commission enforced its policy to reduce price support of products and increase compensatory direct payments.

The EU structural policy focuses on the improvement of infrastructure, farm structure (modernisation) and farming intensity, and is therefore more directed towards production factors than towards agricultural products. In general, the impact of structural measures is due only at longer term. Over time, structural measures have been adjusted in order to improve their efficiency. At the moment, the agricultural structure policies are integrated with rural development policies, including measures like early retirement scheme, afforestation and environmental-friendly methods of production. Since 1999 the Commission has made rural development a second pillar of the CAP, expanding programmes aimed at stimulating modernisation of agricultural sector and (to a limited extent) at increasing non-agricultural employment in the rural areas of the Union.

In table 1 relevant policy measures in CAP are presented, together with the major advantages and disadvantages.

[1] This note has been presented and discussed at the expert meeting in Warsaw, 16-17 July 2002.

Table 1 Economic impacts of CAP on sector and markets

Instrument	Advantages	Disadvantages
Price policy	Stable prices Stimulates production and increases income	Domestic prices higher than world market prices (reduces demand); Market surpluses; High budget costs; Third countries complaints (as it distorts trade)
Production quota and set-aside	Control on production levels; high prices remain for produce under quota regime	Fixes agricultural structure; Limits regional specialisation; Creates quota rents; High administrative costs
Direct payments	Income support, which distorts trade much less than price support; if payments are linked to environmental conditions (cross compliance), this policy may reduce environmental damages related to agricultural practices	Restricts restructuring of agricultural sector and limits regional specialisation; Increases land prices; Budget outlays (tax payer pays instead of consumer pays); High administrative costs
Structural and rural development policy	Encourages modernisation (interest subsidies, extension, etc.) Enhances labour outflow from sector (early retirement scheme); Encourages afforestation of agricultural land (afforestation measures); Reduces environmental damages related to agricultural practices	

2.2 Importance of the CAP for Dutch agriculture

The CAP market and price support measures including direct payments are the major instruments for supporting agriculture in the EU. Generally speaking, the CAP market organisations can be divided in two main categories. The core or basic products (cereals, sugar beet, milk, beef, wine, olive oil, oilseeds) for which protection is offered at the border and internal market support measures exist (intervention buying, guaranteed prices, etc.) is one category. Products that are subject to so-called 'light' market organisations (fruits and vegetables, pig and poultry meat, eggs) for which protection exist at the border but not on the internal market, is a second category. Next to these two groups, one can identify products that are not subject to EU market organisations (potatoes, ornamental plants, forage). In table 2, the share of production value in the EU-15 and the Netherlands subject to each of these three categories is shown.

Table 2 Share of products in the agricultural production value in the three product categories identified (%)

Product category	EU-15	The Netherlands
Core products of CAP	59.2	27.4
Products subject to light market organisation	20.6	30.1
Products not subject to EU market organisations	20.2	42.5

Source: own calculations based on European Commission, Eurostat, and Situation in Agriculture, Brussels 2001

Only 27% (of which 17%-points milk) of the Dutch agricultural produce is subject to a core CAP market organisation. This is much less than the EU-average of almost 60%. More than 70% of the Dutch agricultural production receives no market support at all or is subject to market organisations that include less protection than the core products of the CAP. The conclusion is that the importance of CAP market organisations to the Netherlands is rather limited compared to the picture for the whole EU-15.