The Budget and The Cohesion Policies of the EU

PS & INT’L 452
Prof. Birol Yesilada
The EU budget covers a seven-year period and cannot be in deficit.  

The budget is determined by an agreement between all member states.  

The EU budget is financed by own resources and other revenue.  

- Own resources can be defined as revenue accruing automatically to the EU in order to finance its budget without the need for any subsequent decision by national authorities. They comprise:  
  - customs duties, agricultural duties, sugar levies, the VAT-based resource and the GNI-based resource. **Own resources finance the bulk of the EU budget.**  
  - **Own resources cannot exceed 1.24 % GNI of the EU.**  
  - But, there is also a small share of other revenue (e.g. tax and other deductions from staff remunerations, bank interest, contributions from non-member countries to certain Community programs etc.).
How the budget is determined

- The procedure for adopting the budget requires co-decision among the Commission, the Council, and the Parliament.
- Each year the Commission prepares a preliminary draft budget and submits it to the Council in April or early May.
- The budgetary authority composed of the Council and Parliament amends and adopts the draft budget.
- The Council must adopt it by QMV in July and sends it to the Parliament for first reading. Approval requires absolute majority (n=393).
- The final say regarding the original draft lies with the Council thought the Parliament can reject the budget. If this happens a temporary budget spending procedures enters into effect until a compromise is reached on the budget.
Net Contributions

![Bar chart showing net contributions of various countries in billions of euros. Spain and Germany have the highest net contributions, with Spain being a net contributor and Germany a net beneficiary. Other countries such as Greece, Portugal, Ireland, Poland, Belgium, Luxemb., Lithuania, Czech Rep, Latvia, Hungary, Slovakia, Estonia, Slovenia, and Cyprus have lower net contributions, with some being net contributors and others net beneficiaries.](image-url)

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<thead>
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<td>43.77</td>
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<td>41.93</td>
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<td>- CAP expenditure</td>
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<td>- agriculture</td>
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<th>2009</th>
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<td>1. Sustainable Growth</td>
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<td>3. Citizenship, Freedom, Security and Justice</td>
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<td>6. Compensation</td>
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<td>as percent of GNI</td>
<td>1.06%</td>
<td>1.06%</td>
<td>1.05%</td>
<td>1.03%</td>
<td>1.01%</td>
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<td>as percent of GNI</td>
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<td>1.04%</td>
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<td>0.99%</td>
<td>0.95%</td>
<td>0.96%</td>
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<td>0.98%</td>
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<td>Margin Available</td>
<td>0.22%</td>
<td>0.20%</td>
<td>0.29%</td>
<td>0.25%</td>
<td>0.29%</td>
<td>0.28%</td>
<td>0.30%</td>
<td>0.26%</td>
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<tr>
<td>Own resources ceiling as %GNI</td>
<td>1.24%</td>
<td>1.24%</td>
<td>1.24%</td>
<td>1.24%</td>
<td>1.24%</td>
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</table>
The 2007-2013 Budget Key Points

- Preservation and Management of Natural Resources
- The EU as a global partner
- Competitiveness for growth and employment
- Citizenship, freedom, security and justice
- Cohesion for growth and employment
- Administrative
The 2008 Budget

Cohesion and Competitiveness for growth and employment
Direct aids and market related expenditure
Rural development
The EU as a global partner
Citizenship, freedom, security and justice
Total Administrative expenditure
Compensations for Bulgaria and Romania
The 2010 Budget

EU Preliminary draft amending budget 2010

€ 141.3 billion

- Direct aids and market related expenditure: 31%
- Total administrative expenditure: 6%
- Rural development, environment, fisheries: 11%
- The EU as a global partner: 6%
- Citizenship, freedom, security and justice: 1%
- Cohesion & Competitiveness for growth and employment: 45%
The UK Rebate Britain on the outs:

- A specific mechanism for correcting the budgetary imbalance of the United Kingdom (the UK rebate) is also part of the own resources system.
- It was proposed in 1975 to correct the imbalance between the United Kingdom's share in payments to the Community budget and its share in Community expenditure allocated to the Member States. In response to British referendum on membership.
- This mechanism has been modified on several occasions to compensate for changes in the system of EU budget financing, but the basic principles remain the same.
- Reduced 20% starting in 2007- funds to cohesion and regional funds
This imbalance is calculated as the difference between the percentage share of the UK in EU expenditure paid in the Member States ("allocated expenditure") and the UK share in total VAT-based and GNI-based own resources payments. The difference in percentage points is multiplied by the total amount of EU expenditure allocated to the Member States. The UK is reimbursed by 66 % of this budgetary imbalance. The cost of the correction is borne by the other 24 Member States. The distribution of the financing is first calculated on the basis of each country's share in total EU GNI. The financing share of Germany, the Netherlands, Austria and Sweden is, however, restricted to one fourth of its normal value. This cost is redistributed across the remaining 20 Member States. The UK correction in the 2005 budget amounts to around euro 5.1 billion.
Funding for the British Rebate (2004)
What are cohesion policies?

- Comprises several policies of the EU
  - Part of the CAP dealing with rural development.
  - Regional policy.
  - Some aspects of social policy
Challenges of Enlargement for the Cohesion Policy of the EU

- First, development disparities are magnified.
- Second, the center of gravity of cohesion policy shifted to eastern Europe.
- And the inequalities that already exist in the Europe of Fifteen didn’t vanish, which represents the third challenge.
1. Development Disparities

- The population and surface area of the Union, with the accession of the twelve States currently negotiating membership, increased by one third, but GDP by a mere 5%.

- A new group of States emerged in the enlarged Union: those with income of less than 40% of the European Union average.
2. The Center of Gravity Issue

- Of the 105 million inhabitants of the new EU states, more than 98 million live in regions whose current GDP is less than 75% of the average of the enlarged Union.
3. Inequalities in the EU

- It is necessary to contribute to the development of the regions most in need, but also to continue providing assistance for the enduring difficulties in the current Member States.

- And it must be kept in mind that structural weaknesses are found not only in the less developed regions, but also in cities, where disparities in income can still be glaring.
Regions at level 2 of the NUTS classification whose GDP (Gross Domestic Product) per inhabitant is less than 75% of the Community average are eligible for funding under the Convergence objective.

**Bulgaria**: the whole territory
**Czech Republic**: Střední Čechy, Jihozápad, Severozápad, Severovýchod, Jihovýchod, Střední Morava, Moravskoslezsko
**Germany**: Brandenburg-Nordost, Mecklenburg-Vorpommern, Chemnitz, Dresden, Dessau, Magdeburg, Thüringen
**Estonia**: the whole territory
**Greece**: Anatoliki Makedonia, Thraki, Thessalia, Ipeiros, Ionia Nisia, Dytiki Ellada, Peloponnisos, Voreio Aigaio, Kriti
**Spain**: Andalucía, Castilla-La Mancha, Extremadura, Galicia
**France**: Guadeloupe, Guyane, Martinique, Réunion
**Hungary**: Közép-Dunántúl, Nyugat-Dunántúl, Dél-Dunántúl, Észak-Magyarország, Észak-Alföld, Dél-Alföld
**Italy**: Calabria, Campania, Puglia, Sicilia
**Latvia**: the whole territory
**Lithuania**: the whole territory
**Malta**: the whole island
**Poland**: the whole territory
**Portugal**: Norte, Centro, Alentejo, Região Autónoma dos Açores
**Romania**: the whole territory
**Slovenia**: the whole territory
**Slovakia**: Západné Slovensko, Stredné Slovensko, Východné Slovensko
**United Kingdom**: Cornwall and Isles of Scilly, West Wales and the Valleys
Eligible Areas In Greece
Eligible Areas in Spain
Eligible Regions in Germany
## Objectives, Structural Funds and instruments

2007-2013

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Structural Funds and instruments</th>
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<tbody>
<tr>
<td>Convergence</td>
<td>ERDF</td>
</tr>
<tr>
<td>Regional Competitiveness and Employment</td>
<td>ERDF</td>
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<tr>
<td>European Territorial Cooperation</td>
<td>ERDF</td>
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Cohesion Policies 2007-2013

### Convergence objective 78.5% (EUR 264bn.)

<table>
<thead>
<tr>
<th>Regional and national programmes</th>
<th>67.34% = 177.8 billion EUR</th>
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<tbody>
<tr>
<td>ERDF</td>
<td>78.5% (EUR 264bn.)</td>
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<tr>
<td>ESF</td>
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<tr>
<td>Regions with a GDP/head &lt;75% of average EU25</td>
<td>innovation;</td>
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<td>environment/risk prevention;</td>
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<td>accessibility;</td>
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<td>infrastructure;</td>
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<td>human resources;</td>
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<td>administrative capacity</td>
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<td>Statistical effect:</td>
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<td>Regions with a GDP/head</td>
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<td>8.38% = 22.14 billion EUR</td>
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<thead>
<tr>
<th>Cohesion Fund</th>
<th>23.86% = 62.99 billion EUR</th>
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<tbody>
<tr>
<td>Member States</td>
<td>8.38% = 22.14 billion EUR</td>
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<tr>
<td>GNI/head &lt;90% EU25 average</td>
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<td></td>
<td>23.86% = 62.99 billion EUR</td>
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| Regional competitiveness and employment objective 17.2% (EUR 57.9 bn) |
|-------------------------------------------------|-----------------------------|
| Regional programmes (ERDF) and national programmes (ESF) | 83.44% = 48.31 billion EUR |
| Member States suggest a list of regions (NUTS I or II) | 16.56% = 9.58 billion EUR |
| • Innovation                                    |                             |
| • environment/risk prevention                   |                             |
| • accessibility                                 |                             |
| • European employment strategy                  |                             |

| “Phasing-in” Regions covered by objective 1 in 2000-06 period and not covered by the convergence objective | 16.56% = 9.58 billion EUR |

<table>
<thead>
<tr>
<th>European territorial co-operation objective 3.94% (EUR 13.2 bn.)</th>
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<tbody>
<tr>
<td>Cross-border and transnational programmes and networking (ERDF)</td>
</tr>
<tr>
<td>Border regions and greater regions of transnational co-operation</td>
</tr>
<tr>
<td>• innovation;</td>
</tr>
<tr>
<td>• environment/risk prevention;</td>
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<tr>
<td>• accessibility</td>
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</tbody>
</table>
Regional Policy

- Probably the most significant of all cohesion policies.

- Relies on structural funds to achieve its goals:
  - European Regional Development Fund (ERDF)
  - European Social Fund (ESF)
  - European Agricultural Guidance Guarantee Fund (EAGGF)
  - Financial Instrument for Fisheries Guidance (FIFG)
Why is Regional Policy Important?

- To reduce economic and social disparities
- The European Union comprises 27 Member States which form a community and internal market of 493 million citizens. At the same time, however, the economic and social disparities among these countries and their 268 regions are great.
- One region in four has a GDP (Gross Domestic Product) per inhabitant under 75% of the average of the European Union of 27.
ERDF or the Structural Funds

- ERDF established in 1975 originally to assist Britain with compensation for the budgetary loss it suffered from participating in the CAP.

- But the history of regional policies go back to the early days of the EEC (the Action Programme of 1962 and the Memorandum on Regional Problems 1965) – all Commission efforts to deal with regional problems of the Community.
Cohesion Fund 2007-20013

- Member States whose GNI (Gross National Income) is lower than 90% of the EU average can benefit from cohesion fund: that is all the regions of the following countries:
  - Bulgaria, Czech Republic, Estonia, Greece, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Portugal, Romania, Slovenia, and Slovakia

- A phasing-out system is granted to Member States which would have been eligible for the Cohesion Fund if the threshold had stayed at 90% of the GNI average of the EU at 15 and not at 25. This only concerns Spain.
Cohesion Policy for 2007-2013,
Total: around 347 billion euros (current prices)
COMMON AGRICULTURAL POLICY
CAP- Budget process IG for now

- SCA prepares agenda and budget
  - SCA is part commission DG on ag, and COREPER agriculture committee
  - Council of Ministers Agriculture and Fisheries configuration take-up draft budget and agenda from Commission
  - QMV in Council of Ministers.
    - I’m not sure about this, but I believe Parliament is either cut out of approval or can only thumbs up or down budget.
EAGGF-European AGricultural Guarantee Fund

- Annual Expenditures of the EU financed through EAGGF which has two parts:
  - The Guarantee section – 88 percent of the budget. For market intervention, export refund, direct aid to farmers, and co-financing of environmental measures, forestation, and early-retirements.
  - The Guidance section – 12 percent of the budget. For the STRUCTURAL FUNDS that finance adjustment programs and rural development.
This is the most controversial of all EU policies.

Once the keystone of European integration, the Common Agricultural Policy (CAP) was created in 1962 to stimulate agricultural production, and to guarantee food supply and farm income in postwar Europe.

Led to serious overproduction and high public intervention stocks and costs in the 1970s and 1980s.
European Agricultural Market

- Three fundamental principles:
  - Market unity
  - Community preference
  - Financial solidarity
CAP aims

- Increasing the agricultural productivity
- Food security in Europe
- Giving a reasonable standard of living to the agricultural population
- Stabilizing markets
- Warranting sustainable food consumption for consumers
- Raising concerns about environmental preservation and land settlement
Brief history

- Rome Treaty (1957): raises concerns about a common agricultural policy
- July 1962, the 30th: setting up of the CAP
- 1992: first reform
- 1999: second reform
- 2003: third reform
- 2008: review
E.U. Budget/ C.A.P.
E.U. Budget/ C.A.P.
Agriculture in the EU Member States
Awareness about CAP

QE3 Have you ever heard or read about the European Union’s Common Agriculture and rural development Policy, the “CAP”, or not?
- % EU27

- Yes, but you don’t know really what it is: 34%
- Yes, and you know precisely what it is: 9%
- DK: 4%
- No: 53%
Priorities for EU agricultural policy

- Ensuring reasonable food prices for consumers: Total 43%, First 11%
- Ensuring that agricultural products are healthy and safe: Total 42%, First 10%
- Ensuring a fair standard of living for farmers: Total 40%, First 19%
- Promoting respect for the environment: Total 33%, First 4%
- Enhancing rural areas by stimulating their economic growth and creating new jobs: Total 30%, First 9%
- Helping farmers to adapt their production to consumers' expectations: Total 29%, First 8%
- Ensuring that farm animals are well treated: Total 25%, First 2%
- Favouring methods of organic production: Total 24%, First 4%
- Protecting family-type farms: Total 24%, First 3%
- Stabilising the markets of agricultural products: Total 23%, First 4%
- Improving the competitiveness of European agriculture: Total 21%, First 7%
- Promoting sustainable agricultural practices: Total 21%, First 4%
- Encouraging quality production: Total 21%, First 2%
- Ensuring that you have enough information about where the food comes from and how the food was produced and processed: Total 19%, First 3%
- Ensuring availability of supplies of agricultural products: Total 18%, First 3%
QE7. In your opinion, which should be the 2 main responsibilities of farmers in our society?

- Supplying the population with healthy and safe food: 56% (2007 EU27), 55% (2006 EU25)
- Protecting the environment: 30% (2007 EU27), 29% (2006 EU25)
- Supplying the population with a diversity of quality products: 24% (2007 EU27), 22% (2006 EU25)
- Ensuring the welfare of farm animals: 19% (2007 EU27), 21% (2006 EU25)
- Maintaining economic activity and employment in rural areas: 16% (2007 EU27), 14% (2006 EU25)
- Favouring and improving life in the countryside: 15% (2007 EU27), 15% (2006 EU25)
- Ensuring the food self-sufficiency of the EU: 14% (2007 EU27), 12% (2006 EU25)
- Supplying alternative energy sources such as bio fuel and non food agricultural products: 8% (2007 EU27), 9% (2006 EU25)
- DK: 4% (2007 EU27), 6% (2006 EU25)
QA16. For each of the following areas, please tell me if you believe that more decision-making should take place at a European level or on the contrary that less decision-making should take place at a European level?

% EU

Fighting terrorism  (=)  12  81  (+1)
Promoting democracy and peace in the world  (-1)  11  81  (+4)
Fighting organised crime  (-1)  15  78  (+3)
Cooperation in the field of research and innovation  (=)  13  78  (+4)
protecting the environment  (-2)  16  77  (+5)
Securing energy supply  (-3)  15  76  (+7)
Managing major health issues  (+1)  20  72  (+2)
Equal treatment of men and women  (-3)  17  72  (+7)
Ensuring food safety  (-2)  21  70  (+4)
Ensuring economic growth  (-6)  22  70  (+10)
Supporting agriculture  (-4)  26  64  (+7)
Protecting social rights  (-5)  27  64  (+9)
Fighting unemployment  (-6)  31  60  (+9)

Numbers in brackets: percentage points evolution since EB 65.1 February-March 2006
CAP funding

- Each member-state gives a proportional contribution to the community budget
- European agricultural expenditures are less than half community expenditures
- In 2003, European budget was about 97 billions euros and agricultural expenditures about 46 billions.
Who does what?

- The Council of Ministers adopts basis acts of the CAP;
- EAGGF (European Agricultural Guidance and Guarantee Fund) finance the market sustainability;
- The European Court of Justice pays attention to applications of treaties and community law.
Two kinds of aids

- The indirect one: warranted prices which insure a minimum price for the farmers by paying the difference between the market price and the warranted price if the market one is lower.
- The direct one: aids proportional to farms’ area.
Assistance is provided for farmers and others in rural areas, for such actions as:

- Training in new farming techniques and rural crafts;
- Assisting young farmers to set up on farms;
- Assisting older farmers to retire;
- Modernising farm buildings and machines;
- Assisting farmers to meet demanding EU standards, e.g. environmental, animal welfare and public health;
- Helping establish food processing facilities on the farm so that farmers can earn more income from farm products by adding value to them;
- Improving product quality and marketing of quality products;
- Setting up of producer groups in the new Member States;
- Support for farming in mountainous areas and other areas with handicaps;
- Renovating villages and rural facilities;
- Encouragement of tourism;
- Protection and conservation of rural heritage;
- Agri-environment measures to improve the environment;
- Development strategies put in place by local action groups.
Reform 1992

- Re-orientation of support policy: warranted prices come closer to international rates
- First concern about environmental policy

![Diagram showing farm expenditure by type of expenditure from 1992 to 2005. The categories include Export Subsidies, Market Intervention, Direct Payments, and Rural Development.](image-url)
Reform 1999.

- Berlin : Agenda 2000
  - Strengthened support to rural development (second pillar)
  - Creation of a financial framework in order to ensure next enlargement success
  - CAP and WTO compatibility
  - Establishment of agro-environmental measures
Reform 2003, Agenda 2000

- Luxembourg agreement
  - De-linking principle: farmer support not linked to production of specific cereals— but to farmers.
    - National policy to maintain production capacity
    - Reduced payments to bigger farms
  - Progressive decrease of exports restitution
    - Milk products support reduced by up to 25%
    - 50% reduction in monthly adjustment to cereals
  - Conditionality principle: respect of good environmental conditions and animal welfare
  - Emphasis on rural development
Reforms and ACP

Reforms to CAP have significance to ACP associated economies.
- ACP countries are inside the E.U. Ag market.
- Reduction in price supports or outside tariffs mean reduced income to developing countries.
- Especially sugar, cotton, bananas, fruits.
  - This also effects EuroMed partners and Turkey.

Reforms in part a response to challenges in WTO brought by Australia, India and Brazil.
Health Check 2008

- Phase out milk quotas by 2015
- Abolish requirement of arable land maintenance
- Require de-coupling by all member states (except baby cows, goats, sheeps.) I see a bad future for this.
- Shifting more funds from direct support to rural development
- Reduce price supports for energy crops
- Reduce or remove interventions on a number of cereals
How does US farm support compare with EU support?

- The main OECD indicator is Producer support estimate (PSE), which is for 2000 is $49 billion in the US and $90 billion in the EU. OECD also gives "per full time farmer" data: $20,000 in the US and $14,000 in the EU.

- The cost per capita to US citizens (Total Support Estimate, TSE) of US farm policy is $338/capita/year. Cost per capita of the EU farm policy is $276/capita/year. Total Support Estimate includes some measures like marketing assistance and all types of food aid, which are used to a great extent in the US to benefit farmers, but are excluded from the PSE calculation of farm support.

- The EU and US farm sectors produce almost the same farm-gate value: around $190 billion in 2000. The main differences between the EU and the US are:
  - amount of land: EU has only 134 million ha or one-third of the farmland (which is three-times as productive) as the US, which has 425 million ha under farm activity.
  - number of farms: the agriculture sector in the EU supports over 7 million arms-three-and-a-half times the 2 million farms in the US.
<table>
<thead>
<tr>
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<th>US</th>
<th>EU</th>
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<tbody>
<tr>
<td>Production (farm gate value)(^{oecd})</td>
<td>$190 billion</td>
<td>$197 billion</td>
</tr>
<tr>
<td>Number of farms (&quot;holdings&quot;; 1996)(^{es})</td>
<td>2,058,000 farms</td>
<td>7,370,000 farms</td>
</tr>
<tr>
<td>Farmland (&quot;UAA&quot; 1997)(^{es})</td>
<td>425 million ha</td>
<td>134 million ha</td>
</tr>
<tr>
<td>Average size of holding</td>
<td>207 ha</td>
<td>18 ha</td>
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<tr>
<td><strong>Total Support Estimate (2000)(^{oecd})</strong></td>
<td>$92.3 billion</td>
<td>$103.5 billion</td>
</tr>
<tr>
<td>TSE per capita(^{oecd})</td>
<td>$338</td>
<td>$276</td>
</tr>
<tr>
<td>TSE as % GDP(^{oecd})</td>
<td>0.92 %</td>
<td>1.32 %</td>
</tr>
<tr>
<td><strong>Producer Support Estimate (2000)(^{oecd})</strong></td>
<td>$49.0 billion</td>
<td>$90.2 billion</td>
</tr>
<tr>
<td>PSE / full time farmer equivalent(^{oecd})</td>
<td>$20,000 /farmer</td>
<td>$14,000 /farmer</td>
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\(^{oecd}\) = OECD figures for 2000; \(^{es}\) = Eurostat figures
Big change under Lisbon- CAP moves to Co-decision (community procedure)

- The CAP budget becomes more Supranational as it moves to co-decision procedure from special Commission- Council of Ministers arrangement.