

The Common agricultural policy

Overview

The Common Agricultural Policy is a system of rules which works by maintaining agricultural product price levels within the EU and by subsidising production. There is common organisation of the market in many areas including cereals, beef, pig meat, eggs, poultry, fruit and vegetables, wine and milk.

Export refunds reduce the price of EU goods to world market levels. The refund is a subsidy to enable exporters of agricultural goods to export at a competitive price. Import levies increase the price of imported goods to EU market levels. Import levies are applied to specified goods imported into the EU. These are designed to raise the World market price up to the EU target price. The target price is chosen as the maximum price desired for those goods in the EU.

Import refunds can be used to encourage the import of goods into the EU. Export levies can be used if the EU price falls below world market level. Import quotas are used as a means of restricting food imports into the EU.

If the internal EU price falls below the intervention level then the EU will buy up goods to raise the price to the intervention level. The intervention price is lower than the target price. The internal market price can only vary in the range between the intervention price and target price.

The EU price has been progressively reduced. In some areas intervention has been removed. Generally, the importance of intervention had decreased under the CAP reforms mentioned below.

The CAP is funded by the European Agricultural Guidance and Guarantee Fund. CAP reform has steadily lowered its share of the EU budget but it still accounts for nearly half EU expenditure

Administration

The Rural Payments Agency (RPA) in England and Wales is the single agency responsible for all CAP schemes. It is necessary to register with the RPA in order to export or import goods for which a licence is required. A licence is necessary to export or import most CAP goods to and from outside the EU. It may be necessary to lodge security in connection with licences.

In order to claim an export refund it is necessary to prove entitlement. The goods must be exported within relevant time limits, be of good quality, in free circulation in the EU and be of EU origin. The level of refund may vary according to destination. In order to claim a refund it is necessary to put goods into customs control. This is to ensure that customs can verify the goods are as declared. There are a number of different customs procedures available.

A licence may be required in respect of import of goods from outside the EU. A licence will not generally be necessary in respect of goods in free circulation within the EU.

Charges on import of goods including import duties, additional duties, countervailing charges, variable charges, compensatory charges and VAT. Goods are within free circulation of the European Union once all charges on them have been paid.

CAP Reform

The Common Agricultural Policy has been very significantly reformed in the last 16 years. The levels of price support have been significantly reduced with corresponding compensation, laterally through the single farm payments. Prices have been reduced significantly under the 1992, 1999 and 2003 revisions

Production quotas and set aside' payments were introduced in an effort to prevent overproduction of some foods (for example, milk, grain, wine) that attracted subsidies in excess of market prices. The need to store and dispose of excess produce was thought to be wasteful of resources and brought the CAP into disrepute.

Under the reforms, direct subsidies are paid to farmers. This was originally intended to encourage farmers to choose to grow those crops attracting subsidies.. Subsidies were generally paid on the area of land growing a particular crop, rather than on the total amount of crop produced.

Reforms implemented from 2005 are phasing out specific subsidies in favour of flat-rate payments based only on the area of land in cultivation, and for adopting environmentally beneficial farming methods. The change is intended to give farmers more freedom to choose for themselves those crops most in demand and reduce the economic incentive to overproduce. See our guide to the Single Farm Payment.

The change in subsidies is intended to be completed by 2011. Individual governments have some freedom to decide how the new scheme will be introduced. The UK government has decided to run a dual system of subsidies, each year transferring a larger proportion of the total payment to the new scheme. Payments under the old scheme were frozen at their levels averaged over 2002-2003 and reduce each subsequent year.

The CAP also aims to harmonise legal rules within the EU. There are common standards in many areas e.g. foods, labeling regulations, disease control and animal welfare regulations.

This Guide is intended as an overview and broad outline of the matters covered in it. Its purpose is to inform and raise awareness. We are happy to offer specific legal advice on particular circumstances.

This Guide should not be relied on as a substitute for comprehensive legal advice with reference to the particular circumstances.

While we have taken due care in the preparation of this publication, we do not accept legal liability as a result of any reliance placed on anything in this Guide. The reader should rely only on specific legal or taxation advice.