CHAPTER 14

COMMON AGRICULTURAL POLICY (CAP)

14.1 Introduction

In this chapter we are going to look at the **Common Agricultural Policy** or **CAP**. The CAP is an **EU wide measure** designed to ensure a stable market in the area of agriculture, ensure a fair standard of living for farmers with reasonable prices to consumers. In basic terms it **aims to increase agricultural productivity and guarantee supplies.** Only certain products are subject to the CAP. They were originally listed in **Annex 1** of the Treaty of Rome, as extended by Regulation 827/68 or certain other goods not listed in the Annex - the so called "**non-Annex 1**" goods.

Annex 1
Treaty of Rome

Reg 827/68
Reg 1234/07

Because there have been a number of regulations over the years dealing with CAP goods, a new regulation 1234/2007 has repealed most of them, including 827/68. One of the aims of the new regulation was to amalgamate all the different rules into one place as well as providing for simplifications to the current CAP system.

In this chapter, we'll still refer to the goods as 'Annex 1' and 'non-Annex 1' goods.

14.2 Annex 1 and non-Annex 1 goods

Goods in **Annex 1** include **live animals**, **dairy produce**, **cereals** and **vegetables** etc

The **non-Annex 1 goods include goods derived from the products listed in Annex 1,** for example, chocolate containing cocoa, spaghetti, biscuits and soups etc.

14.3 Impact of World Prices on Community producers

The CAP ensures that a system of common prices is maintained in the EU, which helps to protect community producers from price fluctuations across the World. These price fluctuations are caused by factors such as soil quality, the weather and water levels etc.

If World prices are lower than Community prices, for instance the price of corn from a farmer in the EU is £10, which would cost £8 if bought from a non-EU farmer, then a **duty will be levied to ensure that the price of this imported product is comparable to Community prices**. This protects EU producers. And if we think about it logically, when it is winter here and agricultural produce may not be so plentiful, it will be summer somewhere around the world where there may be plenty of produce. The **CAP makes sure that we don't have lots of imports flooding in from these third countries that put our own EU farmers at risk of losing their living.**

14.4 Specific and ad valorem duties

We have seen that the aim of the CAP is to put a levy on imported products to safeguard EU producers, but what types of duties might be imposed. The first ones are **specific duties**. We have already seen in an earlier chapter that this means the charge is based on a measure of the imported product, such as the weight of the product.

Illustration 1

Imagine that you are importing chickens. If the amount of duty was based on the number of chickens that you brought in, then every chicken would be subject to the same levy. If you bring in a chicken weighing 2 kilograms and you have also managed to feed up another chicken and this has reached 5 kilograms, clearly, more meat is available on the 5 kilogram chicken! Therefore, the type of specific duty would probably be based on the weight of the product. The heavier the chicken the more duty you pay.

Ad valorem duties can also be imposed, which we have also seen already. We know that these are calculated as a **percentage of the value** of the product. Remember that any of these duties could be applied to an import, as could a combination of them.

14.5 MAX duties

Some processed products, for example biscuits, are subject to the "max duty". Where this is applicable it will be indicated in the tariff. The **importer can effectively choose to calculate his duties in two different ways.** The importer has the option of paying a combination of specific and ad valorem duty, or a usually higher ad valorem duty plus a usually lower specific customs duty dependent on the sugar or flour content of the product. The importer will work out the duty both ways and choose whichever produces the lowest result.

Illustration 2

A product may be liable to duty of 10% plus 67 euros per 100kg. The alternative calculation for the product is based on a higher percentage of 22.4%, plus a lower 8.7 euros per 100kg. The importer will calculate duties in both ways and pick the lower result.

14.6 MIN duties

Some products can be subject to a "MIN charge". Typically this applies to fruit and vegetables. An amount of **duty is shown in the tariff based on the weight of the product.**

Illustration 3

For example, a product is liable to 10 euros per 100kg net of product. The importer will calculate the duty under this method. If we have imported 100kg we will calculate the duty and convert it to sterling. We'll imagine it gives us approximately £6. This is the minimum amount of duty that would be paid on the product. The tariff will also show an ad valorem percentage, for instance, 17.3%. The importer would also calculate the duty based on this percentage.

Let's imagine that the value of the consignment is £45. At 17.3% this would give us duty of £7.79. As the amount of duty based on the percentage is higher than the minimum we have to pay duty of £7.79

However, what would happen if the value of our consignment goes down? Let's imagine it goes down to £30. Calculating the duty on this would give us £5.19, which is less than the minimum that we calculated based on the weight of the product. In this case the minimum amount of £6 will have to be paid by the importer.

$$\frac{100\text{kg}}{100\text{kg}} \times 10€ = 10€ = £6 \text{ minimum}$$

$$£45 \times 17.3\% = £7.79$$

$$£30 \times 17.3\% = £5.19 \text{ therefore } £6 \text{ is due}$$

Essentially these minimums are a way of making sure that if cheap produce is imported into the EU then there is still a protective levy in place to protect EU producers.

14.7 Counterveiling duties

Another type of duty is the counterveiling duty. This charge is similar in some respects to **anti-dumping duty**. This is because it is usually imposed at short notice where protection of EU produced goods is needed. It applies especially to fresh fruit and vegetables coming from certain countries at certain times of the year. The duty could be **ad valorem** or **specific** or a **combination**.

14.8 Safeguard charges

The final type of charge that may be imposed is a safeguard. These can also be imposed at short notice on individual consignments and it is **usually imposed where the value of the consignment is low** and therefore presents a risk to EU producers. Safeguard charges could be based as a **percentage** of the value of the goods or could be a **specific** charge based on weight, volume, etc, or could be a **combination** of the two.

14.9 CAP licensing

Now we have had a look at duties that can apply in the agricultural sector, we need to look at other measures designed to protect our EU producers. One of these is CAP licensing. **Many agricultural products cannot be imported without a licence**. The Rural Payments Agency or RPA issues these licenses. Some licences may have **quantitative restrictions attached to them.**

Illustration 4

For example, if you want to import 200 kilograms of sausages this might be the maximum number you can import. Usually security is required for the number you are going to import and this will be stated in the relevant legislation. Let's say that you need to provide 20€ per hundred kilograms. If you don't import the total on your licence, your security will be lost. Some licences are only valid for a specified period of time. We'll imagine this licence only lasts for 150 days.

14.10 Electronic licences

Licences are electronic and paper licences will only be issued if the importer needs to import into another member state. These electronic licences will be transmitted direct to Customs CHIEF system. To use the licence the importer imports his products, e.g. 150 kilos of sausages, completes his C88 declaration and in box 44 of the C88, he puts his RPA registration number and licence number. **The registration and licence number will then be keyed into CHIEF and the electronic licence will automatically draw down the quantity** of sausages that have been imported. These amounts are called '**attributions'**.

14.11 Exporting CAP products

Exports are covered in Regulations 612/09 and 376/2008. Under the '**New Export Scheme'** which is covered in a separate chapter, most exports are now declared electronically. Reg^{n} 612/09 Reg^{n} 376/2008

Illustration 5

Imagine that we are exporting cheese from the UK. As well as completing our electronic export declaration on a C88, we need to check if there are any other procedures that need to be complied with. The first thing we need to check is whether our products need an **export licence**. These again are controlled and issued by the RPA and are electronic.

Some agricultural goods may be liable to **export levies** at the time of export or other **CAP charges**, and other goods may qualify for **export refunds** where they leave the customs territory within 60 days of completion of the export declaration. The RPA holds details of export refunds that are available. If CAP charges are due then security in the form of a guarantee is usually required.

Advance Fixing Certificates or **AFCs** are part of the licensing system. They are an optional way in which an exporter can fix the rates of CAP levies applicable on export, or the rate of any CAP refund that applies, in advance. This is done by application for an AFC licence. The licence will show the rates that are set.

The AFC can be used instead of export licences and **security** will be asked for at the time of granting. When goods are exported, the quantity is recorded on the reverse of the AFC. These recordings are like those on our import licences and are again referred to as '**attributions'**. AFCs can be used where goods are exported from other member states. To prove that the goods were exported a '**T5' copy of the C88** must be presented as well as the normal export documents. Security will only be released for the quantity of goods exported from the other member state on receipt of that stamped T5 by the customs office of export.

14.12 Simplified export procedures

We'll now look at simplified procedures available to an exporter of agricultural goods. One of these is the **Local Clearance Procedure** or **LCP**. The idea behind LCP is that Customs carry out control checks on exported goods inland. They do this by approving an exporter's premises. If Customs want to examine or sample goods this will usually be done at the approved premises as opposed to the export port or airport.

Export refunds can be paid as soon as the export declaration has been made, provided a guarantee has been given. Some refunds can be paid before the export formalities have been completed; this is called '**pre-financing'.**

This is where goods are placed in a customs warehouse which has been approved for pre-financing. Whilst in the warehouse only usual forms of handling can be carried out on the goods as the goods are liable to normal customs warehousing rules. The usual **time limit for goods to remain in the warehouse before being exported is six months.**

Example 1

You need to fill in the missing word in each blank.

The ……………… duty is calculated as a measure of goods, for example, the weight of a product.

………………… duties are based on a percentage of the value of the goods.

Some duties are subject to a ……….. The importer can choose whichever calculation produces the lowest result.

…………………….. duties are like anti-dumping duties and are imposed at short notice

The …………. ……………….. …………… governs the issue of CAP import licences.

……………… ……………….. …………………… allow an exporter to fix the amount of export refund in advance.

Example 2

The Tariff shows the following for a product:

18.9%
MIN 20 €/100kg net
(1.5€/£1)

You import 300 kg and the value of the consignment is £200.

You need to calculate the duty due on the consignment.

Answer 1

The specific duty is calculated as a measure of goods, for example, the weight of a product.

Ad valorem duties are based on a percentage of the value of the goods.

Some duties are subject to a MAX. The importer can choose whichever calculation produces the lowest result.

Counterveiling duties are like anti dumping duties and are imposed at short notice.

The Rural Payments Agency governs the issue of CAP import licences.

Advance Fixing Certificates allow an exporter to fix the amount of export refund in advance.

Answer 2

The correct answer is £40.00.

18.9% x £200 = £37.80.

We need to check that this is above the minimum based on the weight of the product.

20€ x 3 = 60€. 60€ / 1.5 = £40.00.

This is the minimum duty, which is more than we arrived at using the percentage.