

CHALLENGES OF THE COMMON AGRICULTURAL POLICY IN THE ENLARGED EUROPE

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Abstract

The Common Agricultural Policy (CAP) has its roots in the 1950's, when the western European economies, seriously damaged by the war, could not guarantee the food supplies. Initially, the CAP aimed at increasing agricultural productivity in order to solve the food supply problems. Since then, the CAP faced continuous change and adjustment process. This paper aims at analysing the recent changes of the CAP, their impact on the member states as well as the future challenges of the CAP in the enlarged European Union. The approached subject needed an adequate methodology, which included both statistical analysis methods and sociologic analysis methods. We had a large survey of economic literature on the subject, on the European statistics and debates and we have also analysed the current economic and agricultural situation of the new member countries and the challenges they are facing after their accession in the EU. We noticed that, despite the reform of the CAP in the perspective of enlargement and despite the structural funds for the new member states, these countries face huge problems, especially where the agricultural sector has an important share. Besides that, the CAP faces other challenges too, such as the environment protection, food safety problems or the financial support for agricultural policy. All these problems have been analyzed in the present paper as well as some solution we propose for overwhelming them.

Key words: Common Agricultural Policy, enlargement

INTRODUCTION

Agriculture may be considered, without any mistake, a key sector for an economy, providing the vital food resources for the population. At the European Community level, the importance of this sector was clearly visible after the Second World War when, as a result of the war damages, the food supplies could not be guaranteed any longer. The need to increase agricultural productivity and to support the farmers led, in the 1950s, to a common agricultural policy at the European Economic Community (EEC) level. The Common Agricultural Policy (CAP) was the first and the most developed common policy of the EEC and the large budgetary expenditure for its objectives stress its importance. Although CAP succeeded in reaching its main objective – European food self-sufficiency, it has faced strong criticism and opposition both inside and outside the EEC. The evolution of the EEC economic and agricultural conditions led to several reforms

of CAP, but despite all these, it still needs further improvements. Our analysis is motivated by the present context of another CAP reform (agreed on November 2008 and voted on January 2009) and of EU East enlargement that has imposed an important pressure on CAP. Understanding CAP, its evolution, reforms, challenges and future perspectives is essential especially for our country, which must find its place in the European agriculture and must take advantage of the opportunities CAP offers.

MATERIAL AND METHOD

Due to the specific of our research, the dates and statistics included in this paper have already been processed and are not included in a rough form in the paper. For this reason our paper presents the facts together with their interpretation in the next section. Our methodology included statistical analysis methods and sociologic analysis methods as well as a large survey of economic literature on the subject, on the

European statistics and debates and the analysis of the current economic and agricultural situation of the new member countries and the challenges they are facing after their accession in the EU.

RESULTS AND DISCUSSIONS

The Common Agricultural Policy (CAP) is determined at EU level and operated by the member states, aiming at supporting farmer's incomes and also at encouraging them to produce high quality products demanded by the market, using new and environmentally friendly technologies.

Starting from the 1980s, the CAP succeeded in assuring EU self-sufficiency and also led to important surpluses for the major farm commodities which were exported or stored. Despite the general good results of the CAP, this policy has also determined huge controversies and debates at EEC/EU level, being criticized both in and outside the Community. The major points of discontent were the high budgetary cost, the distortion of the world markets and the environmental sustainability.

During the 1980s, the distortion of the markets because of the intensive production beyond the market absorption power became obvious, as well as the financial imbalances – 80% of the budget for agriculture was allocated to 20% of the European farmers, mainly large and developed, while the small farmers struggled to access the new, expensive technologies. But the most important and visible financial imbalance was the share of the agricultural expenditures in EEC's budget – from 35.7% in the 1965 to 70.8% in 1985 and about 60.7% during 1980-1992. All these problems led to some important reforms of the CAP.

The first one was MacSharry reform from 1992, aiming at limiting the production rise by reducing the level of support prices for some major commodities. MacSharry reform also introduced the direct payment system to support the farmers' income. Although this reform has some positive effects – the partial absorption of agricultural surpluses, the raise of farmers' income, the decrease of consumer prices- other challenges occurred – the

imbalances of the financial support among EEC's regions, the World Trade Organisation negotiations, the still existing surpluses in beef, cheese, milk and the perspective of EU enlargement to the East. [1]

In this context, Agenda 2000, proposed by the European Commission in 1997 included other reforms – a. the further reduction of support prices for cereals, beef and (for the first time) dairy products in order to reduce the gap between EU and the world prices and b. the integration of rural development policy as a second pillar of the CAP. [4] Consequently, the CAP currently has two pillars:

- Pillar 1 – that provides direct aid and market interventions to secure food production and farmers' income, being responsible for more than 70% of the total CAP expenditure;

- Pillar 2 – that focuses on rural development, supporting the restructuring of the agricultural sector, the protection of the environment, diversification and innovation in rural areas.

In 2002, the European Commission decided a more radical CAP reform by increasing the support to rural development and decoupling direct payments from production. The “decoupling” process means that the farmers are no longer paid just to produce food. The financial support for the farmers is paid independently of how much they produce, but instead they have to respect environmental, food safety, phytosanitary and animal welfare standards. The direct payments would be reduced for the farmers that do not meet these requirements. By the decoupling process, the farmers are also free to produce what is more profitable, according to what markets want.

The CAP faces today other major challenges – EU enlargement, food safety problems, environmental problems, WTO negotiations. By 2005, the debates concerning the agricultural policy focused on the continuation of the 2003 reforms, as a part of another adjustment process, called “Health Check”. The debates on this new adjustment concluded recently, on the 20th of November 2008 with the political agreement of the EU agricultural ministers, adopted as a

legislative text in January 2009. The Health Check, taking into account the present challenges, aims at modernising and simplifying the CAP and wants to help the farmers to respond better to the market signals. The Health Check was not intended to be a major CAP reform, but an improvement and modernisation of the 2003 reform. The major adjustments refer to improving the Single Payment Scheme, the market conditions and the capacity to deal with new challenges.

The most important measures included in the Health Check are: [3]

- Phasing out milk quotas – the milk quotas will be increased by one percent every year between 2009-2014 and will completely expire in April 2015.

- Decoupling of the support – as we said before, previous reform has partially decoupled the direct payments to the farmers from the level of production. The remaining coupled payments will also be decoupled and moved into the Single Payment Scheme (SPS). The only exceptions are the suckler cow, goat and sheep, where the member states may maintain the current level of coupled support.

- Assistance to sectors with special problems (so called “Article 68 measures”) – the member states have the right to retain by sector 10% of their national budget ceiling for direct payments to be used for environmental measures or for improving the quality of the products from that sector. From now on, this money may be more flexible used, not necessary in the same sector.

- Extending the Single Area Payment Scheme (SAPS) – the countries that are using the SAPS may continue to do so until 2013 and will not be forced to apply the Single Payment Scheme by 2010.

- Additional funding for EU-12 farmers – 90 million euro will be allocated for the new member states in order to support them until the direct payments to the farmers have been completely implemented.

- Using the currently unspent money – unspent money might either be used by the countries applying the Single Payment Scheme for article 68 measures or might be transferred to the Rural Development Fund.

- Shifting money for direct aid to Rural Development – currently, 5% of the payments for the farmers receiving more than 5000 euro in direct aid is transferred to the Rural Development budget. This percent will rise to 10 by 2012, and an additional 4% of the payments above 300.000 euro will be used in the same purpose. Member states may use this money for programs concerning the climatic change, renewable energy, water management, biodiversity, innovation.

- Investment aid for young farmers – these investments will be increased from 55.000 euro to 70.000 euro.

- Abolition of the set-aside – the Health Check abolishes the requirement for arable farmers to leave 10% of their land fallow.

- Cross-compliance – the financial aid for the farmers is conditioned by the fulfilment of the environmental, animal welfare and food quality standards. The Health Check simplifies the cross compliance by withdrawing irrelevant standards.

- Intervention mechanisms – the intervention mechanisms are reformed so as not to affect the farmers’ capacity to respond to market signals.

Even if it is too soon to evaluate the impact of Health Check reform, there are already voices criticizing the measures concerning the environment, considered insufficient for the present situation. A number of new member countries (Latvia, Estonia, Slovakia) voted against the final deal, with the Czech Republic abstained, feeling that the reform is encouraging more the old member states than the new ones. Nevertheless we must admit the strong pressure of the East enlargement on the CAP. Even if the Central and Eastern European countries received 520 million euro per year during 2000-2006 to prepare for participating at CAP, the agricultural sector of these countries is more fragmented, inefficient and traditional than in the old member countries but also plays a greater economic role and has a bigger share in GDP. In the Central and Eastern European (CEE) countries, the agriculture employs over 20% of the workforce (about 9.5 million people) compared to 6% in the rest of the EU (8.2 million people). The agriculture contribution to the GDP is on average 8% in

the CEE countries, while it reaches only 2.5% in the rest of the EU. Additionally, agriculture, like the entire economy of these countries has suffered a transition process and the property reform has caused great difficulties. The CAP still needs improvement to meet the needs of the new member states. The financial resources for rural development are insufficient and CAP provides more incentives against the restructuring of agricultural activities.

The CAP reform process will never be over, since EU is evolving and so is the international context. The future development of the CAP must focus on the sustainable development, coordination the agricultural production, rural development, environment protection. CAP must also adapt to the globalisation challenges as it continues to attract criticism and create tensions in the EU's relations with its trading partners. In the present context, CAP has the difficult task of helping European agriculture to become internationally competitive without reliance on subsidy and protection. This would solve both the problem of international tensions as well as the internal discontent regarding the cost of this policy - at this moment the CAP costs EU consumers and taxpayers about 100 billion euro each year [2].

The CAP does not meet the standards of the Lisbon Strategy, which wants to increase the European economy competitiveness. The costs of the agricultural policy as well as its distorting trade effects do not help the European Union to reach Lisbon objectives. The distorting trade effects of the CAP strongly affect the developing and poor countries which rely mostly on the agricultural production and exports. In these countries agriculture accounts for 40 per cent of GDP, 35 per cent of exports and 50-70 per cent of total employment.

The future evolution of the CAP must also be coherent with other EU policies, especially with those concerning economic reform, cohesion and enlargement. The future reform of CAP and the perspective of reduction the financial support for farmers are accompanied by the fear that this would cause the decline of the agricultural sector, taking into account its vulnerability. But the

farmers could still manage agricultural risk by using strategies such as:

- diversification of agricultural activities;
- the use of storage, forward contracts and credit markets;
- the use of future and option markets;
- diversification into non-agricultural activities;
- part-time farming.

It has already been noticed that the farmers tend to diversify their production, although the CAP encourages specialisation and also that the majority of the farmers are already working part time. The present forms of financial support do not consider the income of the farmers or that they are working full or part time.

Another fear regarding future CAP reform is related to the impact on food security. Defined by some key features such as food accessibility, stability, affordability and nutrition, food security is normally associated with developing countries with low production, unaffordable imports and distributional deficiencies. Nevertheless the developed countries are also concerned about food security because the reduction of internal production might increase import dependency which is considered a risky strategy. However studies concerning the impact of agricultural liberalisation suggest that this would result in a small decrease in self-sufficiency of agriculture for developed countries from 98% to 93% [2]. Besides, food security is not exactly synonymous with self sufficiency and usually the efforts to assure self-sufficiency have significant costs in terms of efficiency.

CONCLUSIONS

The Common Agricultural Policy is one of the most important common policies at EU level. After succeeding in assuring European food self-sufficiency and under the pressure of its critics, CAP has passed through several reforms that aimed at reflecting both European and international evolutions. Despite the important progress that has been achieved, the CAP still faces important

challenges such as environment protection, food safety problems, WTO negotiation, East enlargement whose problems are not entirely solved. Taking into account the present context and challenges CAP must focus in the future on some key issues:

- promoting sustainable agriculture on a broad scale. The CAP focused too much only on production and farmers' income and the consequences were high budgetary expenditure, high prices, high surpluses as well as the damage of the environment. The CAP should focus from now more on the quality of products and production methods, food safety, social coherence in rural areas, environment and the effects of the agricultural policy on the small-scale farmers outside the European Union.

- re-thinking the budgetary expenditure and re-directing the money from subsidies to sustainable production based on high ecological and quality criteria.

- the total decouple of the financial support from the production as well as quality and environmental criteria as a condition for receiving the money;

- increasing the focus and the financial support for the second pillar of the CAP, the rural development.

Some of these reforms might be difficult to be achieved but they are nevertheless necessary.

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