Common Agricultural Policy – The Opportunities and Threats for Regions of European Union Member States

Ivan Byanov
Department of Economic theory and International economic relations
University of Veliko Tarnovo “St. Cyril and St. Methodius”
Veliko Tarnovo, Bulgaria
iv.bianov@ts.uni-vt.bg, byanov2003@abv.bg

Abstract—The Common Agricultural Policy (CAP) is one of the oldest and accounts for the largest share of the EU budget in recent decades. The EU’s Common Agricultural Policy (CAP), launched in 1962, is a partnership between agriculture and society, and between Europe and its farmers. The main objectives of the CAP are to support farmers and increase agricultural productivity, as well as to preserve rural areas throughout the EU. Thus, it is intended to keep the rural economy alive by creating jobs in agriculture, agri-food industry and related sectors. Each reform of this policy aims to improve the CAP and prepare the agricultural sector for new challenges. This article focuses on the pros and cons of implementing CAPs in the 21st century in Member States (MS), as well as the evolution of CAPs over the years. The author uses a lot of research in this area and data from Eurostat. An analysis of budget expenditures and support of CAP in the 21st century was carried out, a map of a risk management tool in agriculture was drawn. The dynamics of indicators of agricultural productivity is considered. Although few indicators are used, calculations and data are sufficient to draw conclusions at the end.

Keywords—CAP, budget expenditure, labour input in agriculture, EU-15, EU-13, EU-2.

I. INTRODUCTION

The CAP is a common policy for all EU countries and is managed and funded at European level from the resources of the EU’s budget. Farming is complete different business which in the meantime is milestone for food security, affordable prices, competitiveness, Nature dependence, resources’ preservation. All of these specific features are faced with new challenge - Covid-19 and sustainability of agriculture all over the MS despite lockdowns and supply chains disruption. Courage for business is accompanied by parallel processes of fear of failure [1]. Despite the importance of food production, farmers’ income is approximately 40% lower compared to non-agricultural income. One more thing - there is an inevitable time gap between consumer demand and farmers ability to supply – growing more wheat or producing more milk inevitably takes time. So, in one hand farmers should be cost effective, and on the other hand should work in a sustainable and environmentally friendly manner, maintain soils and biodiversity.

The significant role that the public sector plays for EU farmers is derived of business uncertainties and the environmental impact of farming [2]. The CAP finances different schemes for support through two pillars:

- the European agricultural guarantee fund (EAGF) provides direct support and funds market measures;
- the European agricultural fund for rural development (EAFRD) finances rural development.

II. MAIN PART

2.1. Budget expenditure

Agricultural policy is handled by the European Union, unlike sectors such as transport or education. So, all funding for agriculture comes from the European Union budget. This is why agricultural spending is the largest individual part of the European Union’s total expenditure. The cost to European taxpayers of EU agricultural policies is relatively low at just 30 cent per citizen per day [3]. As we mentioned in the beginning European farmers are expected to maintain the highest safety, environmental and animal health standards. This is corresponding to public demands for a sustainable agricultural sector.

At Figure 1 we can see the budget costs annually for 21st century. Actually the amount of CAP spending is increased with almost 18 billion of euro for 19 year period. We can see the different financial instruments for support the agricultural holdings. It’s true that EU citizens don’t suffer from undernutrition or poor food quality but do they need to pay the price of 58,1 billion euro for 2019 year. On the other hand without support the EU farmers hardly would survive. The results in Figure 1 show us that after 2010 the main schemes for support are direct payments (the main part of EAGF) and the EAFRD (the second pillar with different measures according to the MS).

We have to mention that there were few reforms of the CAP which influence the main payment scheme.
The EU and Member States must provide certainty that taxpayer’s money is spent lawfully, and recover undue payments. The “clearance of accounts” [4] system guarantees regular audits of the payments made by member states so that incorrect payments can be identified and remedied. Besides, EU countries are required to make individual inspections and using a dedicated IT system that has been designed to reduce the number of payments made in error.

There is a publicly accessible database of all CAP funding recipients. This data is available only for two years after the payment has been made. Everyone can see where the money has been spent [5]. After this two-year period, the information is removed.

As we can see the Figure 3 shows us the main evolution of the CAP - more funding with relatively concentrated measures for support. Actually the CAP had 5 big reforms and the 6-th is on the way just after 2020 year. With a series of reforms over the last three decades, analysis of the reform trajectory rather than the individual reforms should be the focus. Globalised policy makers takes place in the intersection between international and domestic pressures but does not do away with domestic politics. Processes in the global market environment are interdependent. Changes, necessities and products that are established on the big economies’ market are inevitably sooner or later positioned on that of the smaller countries [6].

Development of the CAP is inevitably doing through reforms which are reflected the social and political needs. Interestingly, the various demands for reform are not all consistent and may actually weaken each other rather than reinforce one another. Clearly there is a reinforcement in the sense that “something needs to be done”, but there is much less common ground on the direction which the reforms should take. In fact, some of the reform ideas point in opposing directions [7]. Actually the society, farmers and policy makers rely on CAP for better food production, environmental friendly production, affordable and competitive prices, rural community sustainability and risk management [8] because of more market oriented measures which are decoupled from production.

Actually Table 1 is presenting the possible risk management in agriculture. This could be a start point for the next reform CAP post-2020. The rapid shifts in this policy could and will disconnect the whole industry and thus will be far away from fulfil the Sustainable Development Goals (especially the SDG 2 - zero hunger). In 2020 the COVID-19 crisis triggered the so called catastrophic risk with additional 750 billion of euro for the next financial period (this is still negotiable because of Poland and Hungary veto on the budget).
The post-2020 CAP is intend to provide environmental benefits and simplification but does it really can meet the targets for the next generation. The pressure on food supply chain and production is increasing constantly and the farmers should produce more food with limited resources at competitive price, so we can sum up the future CAP as intentions of policy makers [9]:

- A needs-based, targeted approach to addressing environmental and climate objectives through the whole CAP in coherence with other EU policies;
- An improved system of conditions ("conditionality") to be met by farmers receiving area- and animal-based CAP payments;
- A complementary set of (voluntary) tools to be offered to farmers to help achieve the CAP environmental and climate objectives.

It should be clear that the future CAP reform is on the way but nobody at the moment could say if it will be better targeted and would it complete the high expectations of farmers, on one hand, and the society of the MS, in other.

2.1.2. Sustainable development of agriculture

Sustainable development is at the heart of many scientific developments worldwide. It has different aspects and finds expression in economics and management [10]. The concept of sustainable development is increasingly becoming more popular and now is implementing as an element of political strategies. Sustainable agricultural production is a key element in the fight against hunger and malnutrition. A concerted effort is needed to create a food production system that is based on sustainable agricultural practices and produces an adequate supply of food. The Common Agricultural Policy is an example, because one of the main purposes is to ensure a fair standard of living for the agricultural community, e.g., through stable income and improvement of the quality of life in rural areas. In his situation the economic sustainability (or socio-economic

TABLE I. MAPPING OF RISK MANAGEMENT INSTRUMENT IN AGRICULTURE

| Mapping of risk management instrument | Normal risk | Marketable risk | Catastrophic risk |
|--------------------------------------|-------------|-----------------|-----------------|
| On farm                              | Financial management |                  |                 |
|                                      | Standarts (hygiene, etc.) |                  |                 |
|                                      | Diversification (including off-farm) |                  |                 |
| Market tools                         | Forward contracting | CAP subsidised Income | CAP subsidised insurance and mutual funds for production risks |
|                                      | Co-operatives | Stabilisation Tool (not risk specific) | CAP market measures |
| Non-subsidised mutual funds          | CAP Basic Payment Scheme |                  |                 |

Source: European commission, EU Agricultural Markets Briefs, No 12, September 2017

In Figure 4 we can see the huge difference in agricultural factor income per AWU between EU-15 and EU-13. This average annual amount is clear enough to prove us the gap in the Community. The depopulation and lack of young entrepreneurs in agriculture is severe problem which the CAP apparently could not resolve. For example, the lowest annual income per AWU is in Romania (4394 €, 2018) while in Czechia the farmers enjoy with 18 373 € for the same year. This two countries are part of EU-13. If we take a look in depth in EU-15 the situation is quite different, i.e. Portugal - 10 921 € and Netherlands - 48 431 €. On average at the EU-28 level we can see the amount of 16 683 € for 2018. The agricultural factor income per AWU is increased with 2 038 € in 2019 to 2005 in EU-15 while in EU-13 the number is 3 135 € for the same years. Of course we should take into account the ultimate low level of this indicator for EU-13 if we present the above mentioned increasing in relative value (8, 98 % in EU-15 and 48, 33 % in EU-13).

Agricultural factor income per AWU varies considerably between Member States and farm types. It tends to be higher in countries with more mechanised, input-intensive production systems than in countries using more traditional, labour-intensive methods.
productivity increase has gained renewed interest. Productivity growth made availability of food because it’s become less scarce (and hence cheaper) in the 20th Century. Now the big question - is it possible to maintain the trend in 21st century? The European Commission has launched an ambitious program towards - a resource efficient Europe in 2020. As a consequence, the agricultural sector is challenged to achieve more with less. There is a general belief in the progress of technology which could improve resource efficiency. Actually, this is challenging in agriculture, as working with living organisms in outside conditions introduces variability and limits to growth.

To monitor progress made towards higher productivity, which indicates an improved output over input ratio, Total Factor Productivity (TFP) offers an interesting starting point. TFP is the main indicator to measure changes in productivity, as it is considered more encompassing than partial productivity indicators such as labour or land productivity. TFP growth can be defined as the ratio between the change in production volumes over a considered period and the corresponding change in inputs (or factors) used to produce them and hence measures the growth in productivity over a given time span. An increase in TFP reflects a gain in output quantity which is not originating from an increase in input use. TFP reveals the joint effects of many factors including new technologies, efficiency gains, economies of scale, managerial skill, and changes in the organization of production [18].

Productivity in the EU has increased over time, albeit at a slower rate in recent years than in the past. While the growth rate surpassed 1% per year between 1995 and 2005, it slowed down to around 0.8% between 2005 and 2015.

Output growth has been achieved in a context of a shrinking workforce.

The analyses of Figure 6 shows a steady increase of gross value added (GVA) in agriculture up to 180 billion euro in 2018 year. We have to admit that approximately two-third of this value is coming from EU-15 (so called old MS). Meanwhile the EU-13 (new MS) increases it’s GVA with 50 % in 2018 compare to 2003 but is still far behind the EU-15.

2.1.3. Agricultural productivity

This part of the article is dedicated on productivity of the agricultural sector. The main indicators are used such as gross value added, net value added, as well as crop output, animal output and agricultural goods output. Agricultural
In Figure 7 we can see almost the same picture but in the context of net value added (NVA). Here only one-fifth of the NVA was generated from new MS in 2018. We have to take into consideration that the new MS doesn’t have the same agricultural area and animal breeds as the EU-15 and the CAP was implemented only fifteen years against more than half a century. Nevertheless, we should admit that farmers in new MS are more vulnerable for competition and market fluctuations than their colleagues in EU-15.

This is confirmed in the Figure 8, 9 and 10 where crop output, animal output and agricultural goods output are approximately twenty - twenty five per cent of total EU-28 value.

Actually the crop and animal output provide to us clearer picture about structure in production in EU-28. Here is not considered the differences in crop yield and animal breed’s productivity through MS. Nevertheless the last three Figures provide us enough information for confirmation of the enormous gap between EU-15 and EU-13 agriculture development. This disparity is not overcome even with the CAP instruments.

The Common Agricultural Policy (CAP) plays a key role in supporting Europe’s agricultural sector – even more at present due to COVID-19 pandemic that is also putting a strain on the resilience of European farmers. This involves a new growth strategy that aims to transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use.
its supporters and opponents, especially the CAP which is “the richest" part of total EU budget. There are few weak spots at the CAP - the total decreasing of number of agricultural holdings (in some countries there are three times reduction of this figure) such as reduction of labour force input in this business, or even the view that EU agriculture is not green enough and want it with higher ecological standards [23]. The provided figures of this article show huge difference between so called old (EU-15) and new (EU-13) Member states. The decades of support through CAP is ensured more competitive agricultural holdings but this is not enough for sustainable development of rural areas in the EU. The post-2020 CAP should be more bound with other policies of the Community for fulfilment the new challenges including the COVID-19. The agriculture was, is, and will be the cornerstone of EU development because without food security and supply chain persistence there will be highly impossible to develop know how and innovation of any other economic field. Agricultural subsidies should be reduced significantly; and they should support environmental and employment goals and be targeted more towards the less wealthy Member States [24]. Cohesion funds should be shifted from the “richer" to the “poorer" Member States and should be coupled more strongly with climate and employment goals and a pro-active migration policy. The agriculture can’t avoid the recent trend of globalization and deregulation has weakened the role of classical banking institutions and strengthened the role of insurance companies as financial intermediaries [25].

REFERENCES

[1] V. Hristova, “Entrepreneurial Environment Developments at South Eastern EU Member States“, Filodiritto, International proceedings, 2019, p. 86.
[2] https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/cap-glance_en#title
[3] European commission, DG Agriculture and rural development, The Common Agricultural Policy: Separating fact from fiction, p. 2.
[4] https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/cap/glancing-cap/financial-assurance/clearance-accounts_en
[5] https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/cap/glancing-cap/financial-assurance_en
[6] N. Kostadinova, “The customized conference product in hospitality business", Collection of Proceedings from an international scientific conference devoted to the 55th anniversary of College of tourism “Tourism and innovations”, Nauka i ekonomika: Varna, ISBN 978-954-21-0973-0, 2018, p. 302.
[7] F.M. Johan, and A. Swinnen, “Fisheur reform of the Common Agricultural Policy?”, Center for European Policy Studies, ISBN 92-9079-3044-9, p. 20.
[8] European commission, EU Agricultural Markets Briefs, No 12, Risk management schemes in EU agriculture dealing with risk and volatility, September 2017, p. 5.
[9] European commission, DG Agriculture and Rural Development, The post-2020 Common Agricultural Policy: Environmental benefits and simplification, 2020.
[10] O. Mancheva-Ali, “Management and sustainable practices in tourism”, International scientific conference engineering. Technologies. Education. Security, 2019, Volume 1, pp. 86-88.
[11] D. Varadzhikova, “Cultural sustainability of tourist destinations and globalization processes in tourism Proceedings of Black Sea Tourism”, Forum “Local identity and global tourism”, Slavena, Varna, 2017.
[12] P. Chatzinikolaou, B.D. Manos, & Th. Bournaris, “Classification of rural areas in Europe using social sustainability indicators”. First Congress, June 4-5, 2012, Trento, Italy, 124104, Italian Association of Agricultural and Applied Economics (AIEAA), 2012.
[13] C. Weingaertner, and A. Moberg, “Exploring social sustainability: Learning from perspectives on urban development and companies and products”, Sustain. Dev. 2011, 22, 122-133. Available online: https://www.diva-portal.org/smash/get/diva2:378611/FULLTEXT02.pdf
[14] P. Chmelenkis, and B. Karwat-Wozniak, “Changes in the socio-demographic structure of villagers and employment in individual agriculture”, The new EU agricultural policy – continuation or revolution, Warsaw, 2014, p.119.
[15] P. Petrova, “Society changes Accounting”, Forum on studies of society: conference proceedings: Craiova, 2016 Ed.: Cr. I. Goga, A. M. Niță, Al. Porumbescu, E.Soroscu, I.V.Şerban, București: Pro Universitaria, 2017, p. 302.
[16] N. Dudwick, K. Fock, and D. Sedik, “Land Reform and Farm Restructuring in Transition Countries”, World Bank Working Paper, 2007, No.104, p. 61. DOI: 10.1596/978-0-8213-7088-9.
[17] Monitoring report on progress towards the SDGs in an EU context, Sustainable development in the European Union, Eurostat, 2020, p.57, doi: 10.2785/555257.
[18] European commission, EU Agricultural Markets Briefs, Productivity in EU agriculture - slowly but steadily growing, 2016, No 10, p. 2.
[19] Commission staff working document, Analysis of links between CAP Reform and Green Deal Brussels, 2020.
[20] V. Dimitrova, “Digitization of education in the field of security”, International conference on High Technology for Sustainable Development HiTECH, Technical University of Sofia, 2018, p. 1-3.
[21] N. Byanova, “Effects of the EU Electricity Markets Opening on Competition and Prices”, Economic Studies, 2020, No 6, pp. 35-69.
[22] https://www.euractiv.com/section/agriculture-food/news/lawmakers-agreed-to-delay-post-2020-cap-by-two-years/ European commission
[23] https://ec.europa.eu/food/farm2fork_en
[24] Dr. Margit Schratzenstaller-Altzner, European parliament, The next Multiannual Financial Framework (MFF), its Structure and the Own Resources. IP/18/BUDG/IC/2017_116, p. 5.
[25] St. Stoyanova, “Evolution of social and health market in Bulgaria in Society changes Accounting”, Forum on studies of society: conference proceedings: Craiova, Ed.: Cr. I. Goga, A. M. Niță, Al. Porumbescu, E.Soroscu, I.V.Şerban, București: Pro Universitaria, 2016, pp. 136-142.