

MAIN IMPLICATIONS OF THE COMMON AGRICULTURAL POLICY AND THE 2004 EU ENLARGEMENT

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Hlavné dôsledky Spoločnej poľnohospodárskej politiky a rozšírenie Európskej únie v roku 2004

Abstract: *Over the last thirteen years, a lot has changed in the European agricultural sector, starting from 2004 with the enlargement of 10 countries, the so-called EU-N10 (the Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia). The Common Agricultural Policy (CAP) can be perceived as a big success for the EU-N10 which received over €68 billion in the period 2015-2013 from the CAP funding, which was spent on investments in farms and rural areas. Owing to the development of agricultural market in Europe the EU-N10 have made a great progress in competitiveness towards the Old Member States (EU-15), which would be hardly possible without funding from the CAP that has helped the EU-N10 to raise productivity, encourage more and more young people to become farmers, and to focus on sustainability in the agricultural sector. This paper focuses on (1) CAP expenditure, (2) the main drivers and barriers to CAP success, as well as (3) winners and losers of the CAP within EU-N10.*

Keywords: *Common Agricultural Policy (CAP), New Member States (EU-N10), CAP expenditure.*

JEL Classification: O 13, O 17, O 18

1 Introduction

The European Common Agricultural Policy, which is a cornerstone of European integration, had its 50th anniversary in 2012. Over five decades, this policy has provided European citizens with secure food supply and a living countryside. CAP was established on two fundamental objectives which are still valid: to produce good quality of food at affordable prices and to earn a fair living for farmers. In general, the CAP has gone through three main stages: (1) from food shortage to sufficient food production sometimes even

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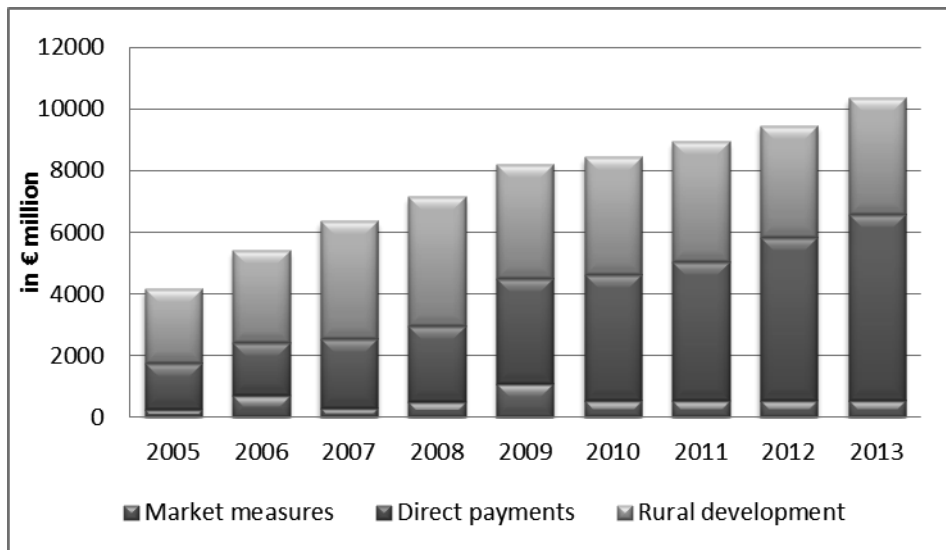
overproduction, (2) it changed and adapted to new challenges related to sustainable development and addressing environmental issues; (3) it expanded the role of farmers in rural regions development beyond only food production (European Commission, [7]). CAP still needs to be reformed and the ongoing CAP simplification is designed to deal with too bureaucratic nature of CAP and its administrative burden.

2 CAP expenditure in the EU-N10 – 2004-2013 period

CAP is a very complex policy and its financial part has always been seen as a controversial issue. Although the share of CAP expenditures in total EU budget has decreased from 73% in 1985 up to 39% in 2015, there are still some critics who claim that CAP expenditures are too high. Therefore, this paper starts from presenting the CAP expenditure in the EU-N10. It is important to know how much was spent on the EU-N10 market measures, direct payments and rural development as a share of GDP per each country.

Figure 1

EU-N10 CAP Expenditure for the period 2005-2013



Source: DG Agriculture and Rural Development, *EU-10 and the CAP – 10 years of success*, 2014, p. 7.

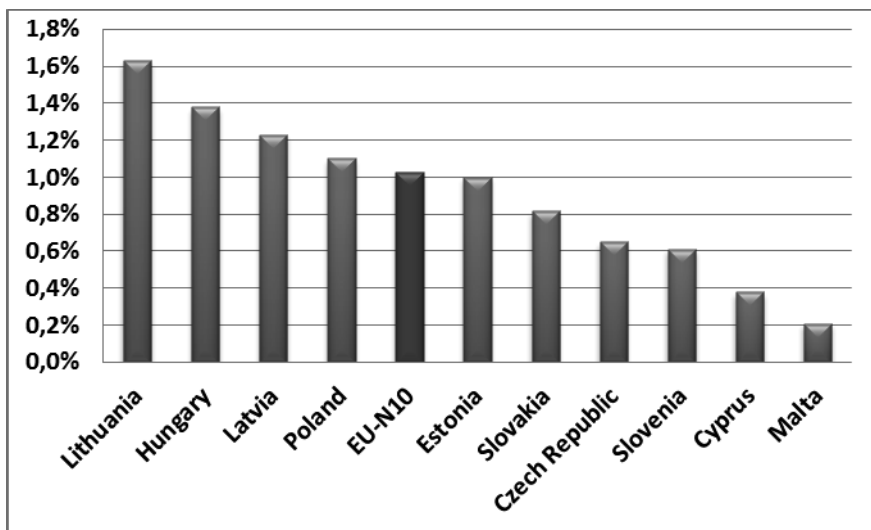
CAP spending in the EU-N10 was in total over €68 billion (which represents around 13.4% of total CAP expenditure) in 2005-2013. The majority of which was devoted to rural development with over €32 billion and then, on direct payments which amounted to €31 billion. The smallest part of CAP expenditure – only €4,5 billion, was dedicated to market measures. The reason behind fast-growing share of direct payments in total CAP expenditure

of the EU-N10 is a long-term planning of the European Commission (EC). It was introduced as a regulation in which it was stated that direct payments for the EU-N10 would be equivalent to a level of 25% of those that are paid to EU-15 in 2004, and 30% in 2005 and then 35% in 2006. After that, the direct payments were gradually increased year by year in order to ensure that the EU-N10 get full support in 2013. Some of the EU-N10 offered some type of ‘direct payments’ to their farmers before joining the EU, but after EU accession they no longer could do that. However, they could provide farmers with so-called ‘top-up payments’ which were complementing lower EU direct payments in the starting years. As a rule, they could not have been higher than the amount of direct payments received by the Old Member States. Such national top-up proposals would have to be approved by the European Commission [6].

Apart from this, the new financial perspective 2014-2020 for all 28 EU countries, indicates that funds for market measures will amount 4.3% of the CAP expenditure, direct payments will be given the largest part of the CAP spending which is 71.3% and the remaining 24.4% for the rural development (Massot, [13]).

Figure 2

CAP Expenditure as a share of GDP for the EU-N10 in the period 2005-2013



Source: DG Agriculture and Rural Development, *EU-10 and the CAP - 10 years of success*, 2014, p. 7.

According to Agricultural Policy Perspectives Briefs (2011), the way how the CAP should be seen is, on the one hand, spending on Pillar 1 (market measures and direct payments) of the CAP amounted to around 30% of the EU budget and on Pillar 2 (rural development) 10% in 2013, so it takes

a considerable share of the EU budget. On the other hand, when looking at this from public expenditures in the EU, the CAP amounts only to around 1% of total EU public spending and 0,49% of EU GDP in 2009. For the EU-N10, the average of CAP expenditure for all ten countries is around 1% of GDP for the period 2005-2013. Those countries which scored more than 1% tend to treat agriculture as a branch of the total economy with more importance.

3 Drivers of CAP success and barriers to CAP success in the EU-N10

The success of the CAP in the EU-N10 depended on its ability to translate increased funding following their accession to the EU in 2004 into the tangible development of the agricultural sector in these countries. There are a number of drivers that have had a positive influence in agri-development in the EU-N10 and helped them to modernise their agricultural holdings in order to not only be able to sustain in the market but also to be competitive in the European Single Market. However, there are numerous potential barriers affecting the agricultural economy of the EU-N10 in a negative way. Due to those barriers, the EU-N10 faced some difficulties when competing in the European Single Market. In addition, those barriers inhibited the EU-N10 development and made them wait longer for convergence of the agricultural economy with the EU-15.

There are three main drivers of CAP success in the EU-N10 to be considered: (1) growing productivity (2) farm specialisation, and (3) educated farm managers. Thanks to the growing productivity, the agricultural sector in the EU-N10 can converge faster towards the EU-15 where the agricultural economy is on a much higher level. Apart from this, farm specialization mentioned by Bojniec, Fertő, Jámbor, and Tóth [1] is a driver that helps the farmers to gain economies of scale and scope in the field of production. In addition to this, there are more and more farm managers with agricultural education in the EU-N10, what may positively influence the agri-sector. Thanks to a combination of their agricultural degrees and know-how, farm managers can act better to the changing nature of the agri-sector specificity.

On the other hand, there are also potential barriers to CAP success in the EU-N10: (1) Land Prices and (2) Diversity of rural economy and agricultural sector in the EU-N10. Increasing land prices might be a result of increasing income and productivity in the agricultural sector. Nevertheless, it has become to be much more difficult for farmers to enlarge their farms since the prices of land rental or sales have risen dramatically (Swinnen, [15]). Moreover, the EU-N10 do not act as one agricultural body but like ten different countries with their history, transition periods, natural resources, and conditions. Csaki and Jambor ([12], p.40) claim that there are four major differences among EU-N10: (1) "Initial conditions, (2) Pre-accession policies, (3) Post-accession

policies and the way of implementing CAP, (4) Macro policy and institutional environment.” That is why it is difficult to tailor a common policy for diverse countries in terms of agriculture.

There is an overview of crucial factors on how to develop the rural sector of the economy presented in ECORYS Nederland BV [5], in which the most significant drivers are:

1) Natural resources and environmental quality

For a number of rural regions, this driver is perceived to be of significant importance especially for the rural tourism, where the beauty of nature is on top of visitors’ needs. As long as the environmental quality is well-maintained, there is a demand for rural tourism in such regions. Moreover, natural resources are believed to provide the ground for industrial activity, i.e. fishing, mining, water extraction, and bottling. Indeed, the whole economy is based on natural resources, but the point is to sell them in a processed form to get the highest price since they are high value-added products. In such a way, the economy of a particular country multiplies its profit by selling ‘ready to use’ products instead of resources.

2) The sectoral structure of the economy

Sectoral structure of the economy in rural areas cannot be overestimated in the debate of rural development. Here, ‘diversification’ is a key word which basically means: stop focusing exclusively on agriculture and start developing other sectors of the economy in rural regions. For instance, as mentioned above, milking cows is what farmers do (it is primary structure of the economy); so, next to dairy farms there can be processing companies that help to boost the economy of rural areas by employing local people, and developing infrastructure.

3) Quality of life and cultural capital

The quality of life and cultural capital regarding tradition and heritage have always been considered to be things of the rural regions. In the industrial era, people tended to move from villages to towns in order to find a job. Nowadays, there are two major issues associated with rural regions: (1) although the population in rural areas has increased it seems that those are people who work in cities and commute from rural areas, so they have nothing to do with agricultural sector in the EU-N10; (2) a large share of people staying in rural areas are elderly people. It happens very often that young generation choose urban areas when searching for a job and older people, who are not economically active part of the population tend to move to rural regions for ‘silent retirement’. Therefore, there have been initiatives taken by the EU to make a difference in rural regions, such as young farmer aids in order to

'fight' against an ageing sector, funding courses and helping farmers to re-qualify or gain new professions, funds for starting own business, in this case mainly for agri-tourism and others.

4) Infrastructure and accessibility

Infrastructure is perceived to be an important driver for the growth of the rural economy, especially in those regions that did not have sufficient infrastructure before joining the EU, and now they can enjoy having roads, railway or even airport infrastructure. In such a case, EU funding has contributed to financing numerous infrastructural projects that have helped in developing rural economy by providing new jobs and setting up new businesses.

On the contrary, the biggest barriers to growth and development in rural regions according to ECORYS Nederland BV [5] study are:

1) Demographic evolutions and migration

Since EU accession, the EU-N10 have experienced an alarming emigration process, especially from the rural areas. Almost every person who has emigrated chose Western European countries as their destination. There is also migration inside the country, from rural to urban regions, especially young people tend to move to towns or cities in order to find a job.

2) Infrastructure and accessibility

Lack of infrastructure may be a drag on development. Regions that do not have proper infrastructure may experience stagnation or even recession. Therefore, it is crucial to direct EU funding to infrastructure in order to prepare the 'ground' for development.

3) The sectoral structure of the economy

In case of the very limited (i.e. only to the key sectors of agriculture, food and drink, tourism, construction) sectoral structure of the economy, the basis for growth is complicated. The rural economy in the EU-N10 must be diversified to compete not only with EU but also outside of EU. It is also related to the problem of young generation going abroad for education or jobs and not returning. Thus, there may be a lack of skilled workers in local rural areas.

In addition to this study, according to Imeri and Gálová [11], one important element that can be perceived as a driver of CAP success in the EU-N10 is certainly better access to capital. The EU farms have benefited from higher subsidies and from banks, which have been in favour of providing farms with preferential loans. Apart from this, Csaki and Jambor [2] stress interesting findings that can act as drivers or barriers in the EU-N10. The ability to

utilise the EU opportunities and to adjust quickly to conditions can act as drivers. On the other hand, there are some countries that are not successful in managing that issue; therefore for them it might be a barrier to CAP success. Moreover, thanks to increased price competition on European Single Market for agricultural goods, some farms have to develop in order to stay in the market and be competitive. However, as a result some farmers are forced to exit the market since they cannot deal with market (price) pressure. In addition to this, a consolidated farm structure was a factor that helped some of the EU-N10 to adjust better to EU agri-market needs.

4 Winners and Losers of the CAP within EU-N10

This part presents two groups of countries: those that managed to gain the most out of the CAP and those that gained from the CAP the least within the EU-N10 countries.

Fritz, T. [8] indicates that there is a farm-size division of the CAP within the EU-N10. Before presenting countries which gained the most and the least from the CAP, it is good to know if the CAP is better tailored for big-, medium- or small-sized farms. According to Fritz, T. [8] the largest amounts of the CAP funds are taken by large export-oriented food companies that are widely present outside the EU. Furthermore, besides those companies, there are some big food traders and supermarket chains. Moreover, agrochemical industry is also one of the biggest CAP profiteers, but in an indirect way. Large farms need to increase the agricultural inputs such as chemical substances in order to make production more efficient.

In addition to this, the OECD in its report presented by Moreddu [14] states that 74% of the overall support is received by the 25% largest farms in the EU while only 3% of total support went to the 25% smallest farms in 2007. Taking into consideration only direct payments, it turns out that 85% of direct payments were allocated to about 18% of farms in the EU in 2009. What is more, approximately 3.4 out of 7.8 million beneficiaries received direct payments in the amount less than €500 per agricultural holding.

According to the research of Hubbard [10], the EU-N10 have strengthened the importance of small farms in the European Union. They have on average more farms with relatively lower sizes than in the EU-15. The average size of EU-N10 plus Romanian and Bulgarian agricultural holdings is less than 6 hectares, whereas in the EU-15 it is 22 hectares.

Moreover, there is a study of Gorton and Fredriksson [9] that provides interesting findings that in five out of the EU-N10 most agricultural holdings produce mainly for self-consumption. In this group, there are following countries: Slovakia where 93% of farms produce for self-consumption, and

then Hungary (83%), Latvia (72%), Slovenia (61%) and Lithuania (53%). Countries like Estonia, Cyprus, Poland, Malta and the Czech Republic also have a high percentage of self-consumption oriented farms ranging between 30% and 50%. Moreover, these authors show three main roles of semi-subsistence farming: (1) “as a buffer against poverty”, (2) “as a basis for farm diversification and multifunctionality”, and (3) “as a provider of environmental benefits”. Apart from this, according to Davidova, Fredriksson, Gorton, Mishev and Petrovici [3], subsistence production is characterised by different roots in the EU-N10 since in those countries agriculture used to be collectivised. Then, in the late 1980s, there was a land reform that has changed the situation in terms of land ownership and, as a result, there was a distribution of land plots to the former employees or members of collective farms or cooperatives. As a result, there were millions of small farms created which produced mainly for their consumption and that brought high industrial unemployment.

ECORYS and Idea Consult [4] urges the European Commission to enhance and facilitate the transition in the EU-N10 by stimulating and supporting semi-subsistence farms to make use of restructuring by setting up producer groups or helping them move into the market.

Focusing on concrete examples of countries that are winners and losers of the CAP, in the article of Jámboř and Siróné Váradi [12], there is an analysis of the agri-food sector in the EU-N10. According to its findings, the ‘winners’ – those who gained the most from the CAP are Poland, Estonia and Lithuania whereas those who gained the least, so-called ‘losers’, are Slovakia, Latvia and Hungary. It should be noted that in this study Malta and Cyprus were omitted because of their marginal importance in the agri-food sector compared to the rest of the EU-N10. There were three areas taken into account: (1) agricultural performance that assessed Gross Production Value/UAA, Cereal Yield, Milk Yield, Farm Income and Agri-Food Trade Balance; (2) agri-environmental performance that considered Greenhouse gas emission, Organic crop area, Phosphorous, Nitrogen, Meadows and pastures; (3) rural performance that measured Rural population, Rural employment, Urban-rural GDP gap, Motorways, Early school leavers. As this research shows, the EU-N10 have a different approach to agriculture and the agricultural sector in these countries is at various levels of development as well as is prioritised differently. In the beginning, Poland had the biggest agricultural area with a number of people employed in the agricultural sector while Slovenia had the largest capital endowment. The next aspect which had an influence is farm structures, and the only countries that have benefited from land privatisation were Poland and Slovenia, while the others may still face post-transition phenomena. The reason is that their small farms are too small, and the farmers are very often

inexperienced and inefficient to sustain on the market while their collective farms that survived are not efficient due to lack of particular affiliation and poor quality management. Another important factor was the successful way of using the EU pre-accession funds like SAPARD, ISPA and PHARE. They have helped to modernise farms so they contributed to foster competitiveness and increase production as well as make it more efficient. Apart from this, it was also crucial to have a look at annual GDP growth that was the highest in Estonia and Poland while in Hungary it was the lowest. Last but not least, it was significant in the long-term to keep track on the selected agricultural policy what was the case for instance in Poland. Hungary. However, it has changed the agricultural policy, which turned out to be not in favour of the long-run growth in the agricultural sector.

A topical study of Csaki and Jambor [2] points out winners of the CAP from two different perspectives. Poland, Latvia and Lithuania are perceived to be better-off when it comes to the ability to utilise the EU opportunities and to adjust to the common European conditions. The second perspective presents two countries, namely Poland and Slovenia that owing to a consolidated farm structure are perceived to be leaders in the efficiency of adjusting to the common EU market.

As a final step, this paper presents main findings of CAP presence in the EU-N10 countries and the main implications that can be taken as contribution for the future CAP reforms or its simplification.

Figure 3

SWOT analysis of the CAP in the EU-N10 and its implications for the CAP in general

	Helpful to achieving the objective	Harmful to achieving the objective
Internal (attributes of the system)	Strengths <ul style="list-style-type: none"> • II Pillar Rural Development Programme • Common policy for every EU MS • Enhanced trade by the EU Single Market • Supports modernization and restructuring • Emphasis on innovation and environmental issues 	Weaknesses <ul style="list-style-type: none"> • Disparities between EU-N10 and EU-15 • Too bureaucratic • Weak waste management • Helps rich farmers get richer • High capital-intensive Policy

External (attributes of the environment)	Opportunities <ul style="list-style-type: none"> • Increasing number of well-educated people • Growing importance of other sectors than primary • Natural resources and environmental quality • Growing investment in infrastructure 	Threats <ul style="list-style-type: none"> • Ageing of EU society and declining number of EU population and ageing society problem • Increasing land rental and tenure prices • Migration of people from rural to urban regions and from East to West • Unstable geo-political situation • Low quality of broadband or even its lack
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Source: own composition.

5 Conclusion

The CAP may indeed enjoy some drivers that contribute to positive results and the main drivers of the CAP are growing productivity, farm specialisation, natural resources and environmental quality, the sectoral structure of the economy, better access to capital and consolidated farm structure. However, there are also some barriers to growth in rural regions in the EU-N10: increasing land prices, diversity of rural economy in EU-N10, demographic evolutions and migration, infrastructure and accessibility, and an increasing price competition. After more than a decade of the EU-N10 enlargement, it can also be assessed which countries have gained the most from the CAP and which countries have not been so successful. The group of countries that is considered to be winners of the CAP is as follows: Poland, Estonia, and Lithuania whereas the group of so-called losers of the CAP is: Slovakia, Latvia and Hungary. That indicates that the CAP is not tailored to the needs of individual Member States, but it is a set of measures implemented in the Member States. Although there are losers or winners of the CAP, it must be underlined that all countries have benefited from the CAP within the EU-N10 group.

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