

# COMMON AGRICULTURAL POLICY – THE MAIN DRIVER OF SUSTAINABLE RURAL DEVELOPMENT IN EUROPEAN UNION

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## Abstract

Being one of the oldest common policies, common agricultural policy (CAP) has undergone several reforms being remodelled as "the project of a united Europe" was enriched with new meanings. In this context, it should be noted that, in recent years, CAP has been reshaped by a major reform that has set new goals and ways of achieving them under the framework of "Europe 2020" Strategy. Our paper aims to highlight that through the last transformation, CAP has evolved from a policy with a strong degree of interventionism, to a policy that supports rural development, preserving the environment and the competitiveness of European agriculture.

**Keywords:** *Common Agricultural Policy, rural development, competitiveness, agriculture.*

**J.E.L. Classification:** *Q, R, Q1, Q10, Q18, R51.*

## Introduction

**Is the Common Agricultural Policy still necessary in the current EU financing context?**

It must be specified that the term "common policy" reflects one of the defining features of the CAP, namely that for around 90% of the agricultural production, the decision no longer belongs to the Member States, but to the European Union. There are two reasons that led to the emergence of this policy. The first was the need to "streamline" European agricultural product trade and, especially, the desire of exporting countries to secure the placement of their products. The second reason is a certain fear of a situation in which the workforce released from agriculture as a result of mechanisation could not be simultaneously absorbed by the other sectors of the economy, in which case agricultural income would decrease even further when compared to industrial incomes.

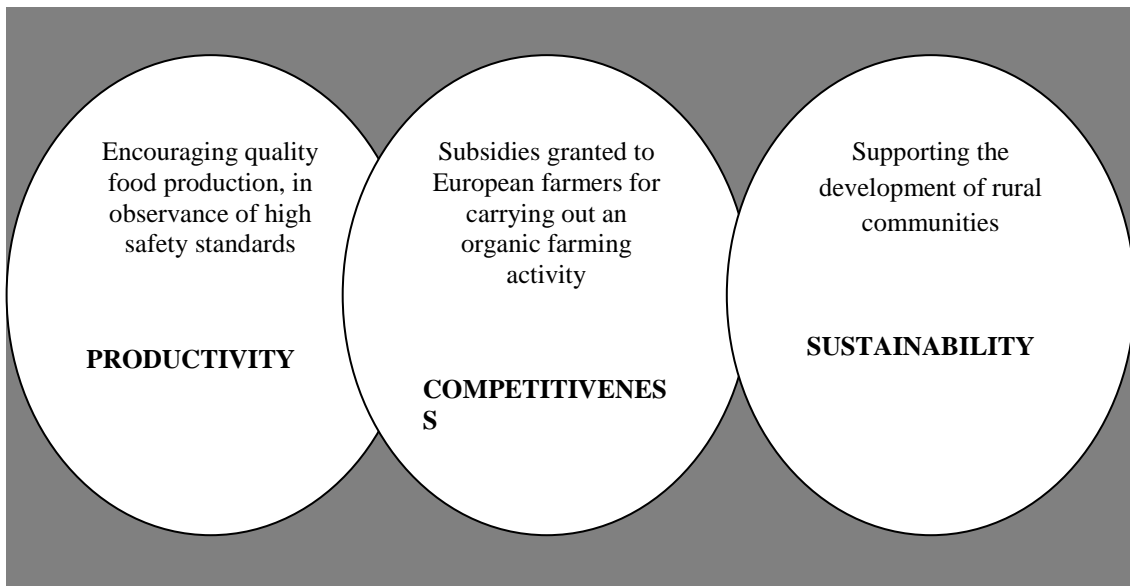
Being one of the most controversial and reformed European policies, the Common Agricultural Policy (CAP) has changed significantly since the 1950s (the year when the foundations of its functioning were laid) up to the present, becoming from a policy that was based on the subsidizing of production and the protection of domestic markets against non-European producers, a policy where subsidies are no longer aimed at stimulating production, favouring instead rural development and environmental protection (see Figure 1).

## Figure 1: Major objectives of the Common Agricultural Policy in the European financing context

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Source: Own synthesis based on scientific literature

### **1. The CAP reform – objectives and ways of implementation**

Some critics of the CAP<sup>3</sup> argue that it is a “costly luxury” for the European Union, considering that the support given to the Community agricultural production represents interventionism that stands in the way of achieving the true competitiveness of this sector.

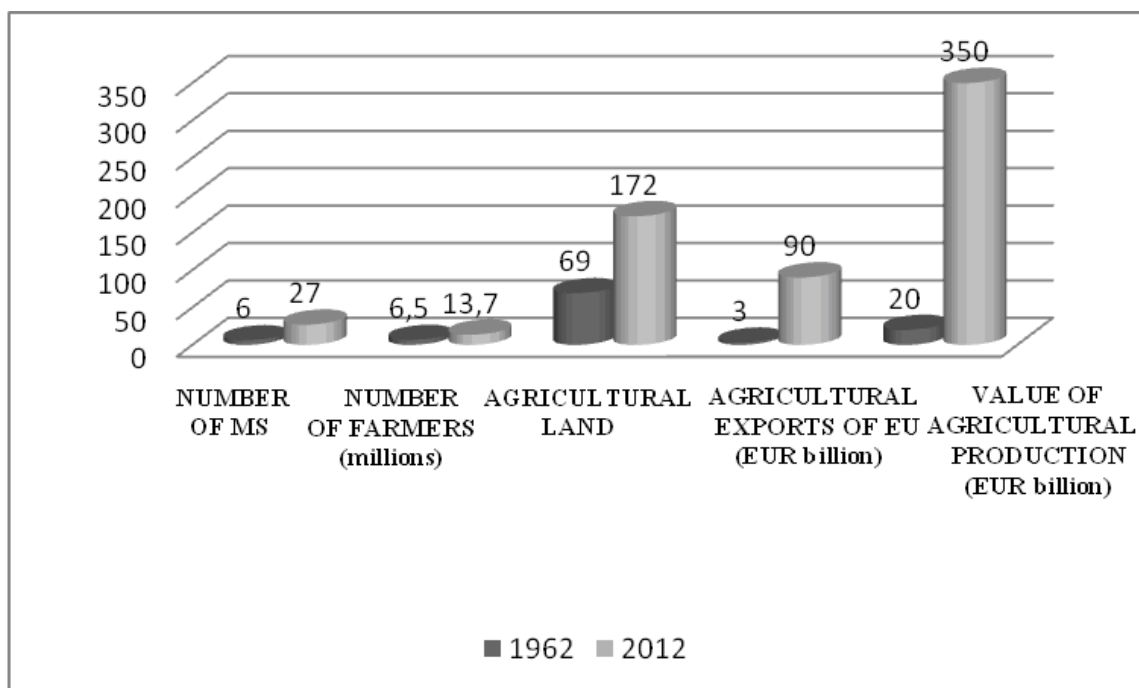
*Under these circumstances, having regard to the difficult economic period faced by the European Union at present, several analysts raised the question: is the CAP actually necessary and, moreover, can it guarantee a sustainable development of the rural areas in the EU (as this policy proposes as its declared objective in its most recent reform)?*

In order to answer this question, it must be specified that the initial objectives of the CAP also included the modernisation of the villages and the increase of the living standard of the rural population. However, the focus on the subsidies and on production reduced the rural environment – with all its social, cultural and economic aspects – to its agricultural-economic dimension. In other words, the CAP placed too much focus on subsidising agriculture and too little focus on stimulating rural development. This is in fact the reason why the 2011 reform attempted to shift the focus towards rural development.

A short assessment of the CAP in facts and figures shows that, although its objectives have not always been attained to a satisfactory degree, there is an ongoing and undoubted progress in terms of the CAP contribution to the increase of the Community agricultural production (see Figure 2).

### **Figure 2: The evolution of the most important figures in the agricultural field at EU level as a whole**

<sup>3</sup> Their opinions were expressed in the Community Report entitled *The CAP in perspective: from market intervention to policy innovation, Agricultural Policy Perspectives*, published in 2011.



Source: European Commission - DG AGRICULTURE, 2012.

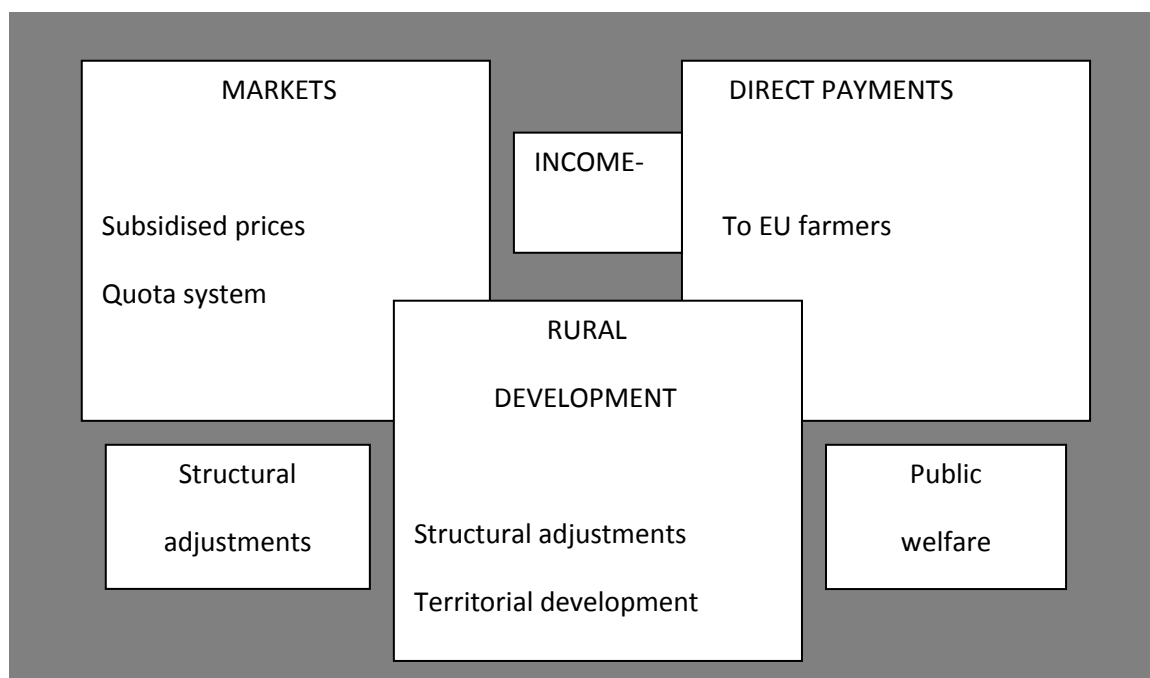
As regards rural development (with the application of the 2<sup>nd</sup> Pillar – modernisation of villages and of agriculture, the development of economic branches alternative to agriculture, the protection of the environment and of the rural landscape, since 1999), it was found that a perfectly unitary European policy was no longer possible. The granting of equal subsidies for agriculture was a simple process, but the modernisation of villages and the development of alternative branches needed different measures, adapted to the specific situation of each Member State. As such, Member States were given more freedom in adopting the programmes for the modernisation of the rural area.

On 12 October 2011, the European Commission adopted a proposal for the reform of the rural development policy with major implications for the future directions of evolution of the CAP<sup>4</sup>. Based on the European Commission's proposal, which provides for common regulations for all the funds operating under a single strategic framework, the 2<sup>nd</sup> Pillar of the CAP must collaborate in a coordinated and complementary manner with both the 1<sup>st</sup> Pillar and with other EU funds (especially the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund and the European Maritime and Fisheries Fund (EMFF)). The funds are managed within a Common Strategic Framework (CSF) at EU level, which is to be transposed into national partnership agreements including common objectives and rules regarding their operation. By establishing common rules for all the funds operating within a common strategic framework, the projects will become easier to access by the beneficiaries and easier to monitor by the local authorities. The Common Agricultural Policy continues to evolve, and its necessity and efficiency are all the more visible as agriculture may represent one of the drivers of EU economic development. The CAP regulations are the framework within which the EU rural area may develop in a harmonised and balanced manner, thus avoiding excessive production, as well as an exclusively extensive method of production. At present, we consider that the three fundamental pillars for the future

<sup>4</sup> European Commission – Proposal of Regulation of the European Parliament and of the Council on the support for rural development, 12.10.2011, Brussels.

of the CAP are: market measures, direct payments and rural development, as shown below in Figure 3.

**Figure 3: The CAP Pillars and their interrelations**



Source: Own synthesis based on scientific literature

As stated in the specialised literature (Datar, 2013), in order for the Member States to successfully meet the general objectives of the CAP, the measures applied under the national rural development strategies must take into account the interrelation between these three areas. While the direct payment system ensures a minimum income level for the farmers in the Community, and the market intervention measures regulate the prices of certain products, the rural development measures contribute to the increase of the welfare of the population and to the enabling of the structural adjustment of farms and agricultural holdings.

Any change operated in one of the abovementioned areas must also take into account the impact on the related areas, minimising the negative consequences and the potential distortion of competitiveness. As such, the CAP may have a decisive contribution to the establishment of national and regional priorities regarding specific issues of the agri-food chain or the situation of agriculture and forestry in terms of the environment or climate or regarding specific issues in the rural areas, such as the peri-urban pressure, unemployment or low demographic density.

Certain analysts (Hannes, 2004) consider that EU enlargement has considerably modified the “rural map” of the Community and, as a result, fifty years since its establishment, the CAP must face more complex challenges and offer solutions that are adaptable to the specificity of each Member States.

Consequently, CAP has been designed and operates as a complex system of Community regulations and financing programmes, so that the EU resources allocated to rural development priorities or to the agricultural sector may provide solutions according to the strengths, weaknesses and possibilities of each Member State.

## **2. The new approach of the agricultural policy regarding rural development**

At present, the Common Agricultural Policy faces a series of challenges that call for the adoption of strategic decisions for the long-term future of agriculture and rural areas in the EU. In order to be effective in facing these challenges, the CAP must operate in the context of healthy economic policies and of sustainable public finances which could contribute to the fulfilment of EU objectives. In this context, it must be noted that in the opinion of certain analysts (Espinosa, 2010), the Europe 2020 Strategy offered a new perspective for the CAP reform, with the main directions for development to focus on finding the most adequate solutions to the new economic, social and environmental problems faced by the EU at present, contributing at the same time to the sustainable development of the agricultural sector in the Community.

In the new European context, reshaped by the international economic crisis, the Common Agricultural Policy faces a series of challenges that have led to a resizing of the objectives and regulations on rural development and agriculture and, on the other hand, as a consequence of its harmonisation with the objectives of the Europe 2020 Strategy. Therefore, an ample CAP reform process was initiated at EU level, resulting in the adoption by the European Commission of the Communication entitled *Agricultural policy after 2013: greener, fairer, more competitive*.

In the specialised literature (Matthews, 2012), it is considered that any significant reduction of agricultural activities in the European Union would have negative effects on economic growth, implicitly leading also to unemployment in the related sectors, especially in the agri-food production chain, which relies on the agricultural sector for obtaining high-quality, competitive and safe raw materials. In fact, it must be mentioned that at present, EU agriculture faces a much more competitive market, as world economy becomes ever more integrated and the trade system becomes more and more liberalised. According to the Community experts' forecasts, this trend will continue in the following years, and this is a challenge for EU agriculture but it also provides opportunities for the exporters of agri-food products. Therefore, it is important to increase the competitiveness and productivity of the EU agricultural sector.

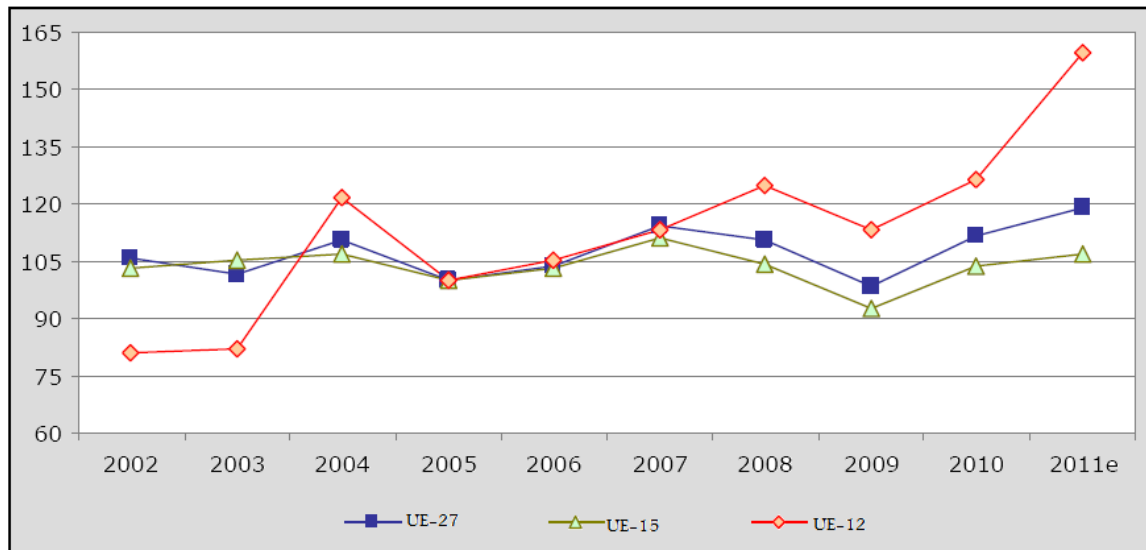
Given that food demand at global level will continue to increase in the future, the European Union should be able to contribute to meeting this demand. As such, it is essential that EU agriculture maintain and improve its production capacity, while keeping the commitments undertaken by the EU with respect to international trade and the consistency of policies favouring development. A "strong" agricultural sector is vital for the food industry<sup>5</sup> to remain an important part of EU economy and trade.

In this context, in our opinion, CAP development directions must also take into account the fact that, at present, EU agriculture faces the inherent difficulties of the aftermath of an economic crisis that has severely affected agricultural producers in the Community and the rural areas, by directly correlating them with the more ample macroeconomic developments that affected the cost of agricultural production. After a decade of stagnation, agricultural income decreased considerably in 2009, (by approximately 40% per work unit), the income per inhabitant in the rural areas being considerably lower (by approximately 50%) compared to urban areas (see Figure 4).

**Figure 4: The evolution of agricultural incomes at European Union level as a whole between 2002 and 2011**

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<sup>5</sup> Food industry represents 13.5% of the total of the employed workforce and 12.2% of the gross added value of the European processing industry.

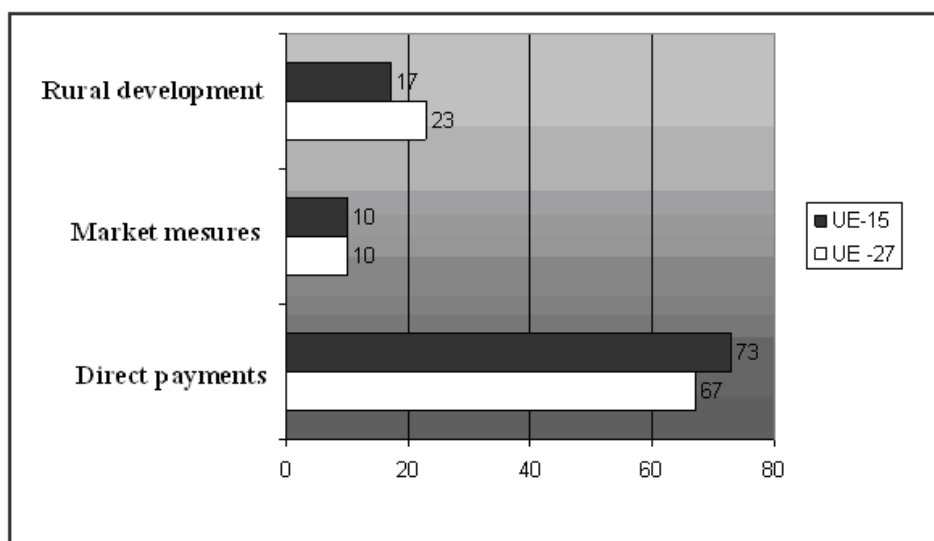


Source: Eurostat – *Economic accounts for agriculture, 2012*

Note: EU-15 designates the old EU Member States, and EU-12 designates the new Member States, including the countries that joined the Union in 2007, Romania and Bulgaria.

As shown by the chart above, the trend of incomes in agriculture was mainly an upward trend between 2002 and 2008, both in the older and in the newer Member States, but the onset of the international economic crisis led to their dramatic decrease in 2009, followed by a redress in 2010 – 2011. In this context, it must also be underlined that the Common Agricultural Policy contributed to the support of the incomes of EU farmers, through the direct payment system, representing a real support for European farmers affected by the collapse of the demand as a result of the effects of the international economic crisis. Between 2007 and 2010, the distribution of expenditure under the CAP supported this trend, which led to less funds being allocated to the rural development objective (see Figure 5). However, it has to be noted that once the “acute” phase of the crisis has been overcome, EU funds will have to be redirected with priority towards this latter objective, which may constitute a pillar for sustainable and socially inclusive growth, in accordance with the objectives of the Europe 2020 Strategy.

**Figure 5: The distribution of expenditure under the Common Agricultural Policy in the period 2007-2011 (in % of the total funds allocated)**



According to the data provided in the most recent Report of the European Agricultural Guarantee Fund<sup>6</sup>, published in 2012, in the EU budget, 83% of commitment funds are allocated to veterinary and phytosanitary measures under the policy area *Health and consumer protection*, and the rest is equally divided between expenditure for political strategy and coordination under the policy area *Agriculture and Rural Development* and for the fisheries market products, under the development area *Maritime Affairs and Fisheries*. According to the same Report, in the *Agriculture and Rural Development area*, the expenditure related to market measures amounted to EUR 3,334.1 million, and the expenditure related to direct support amounted to EUR 40,178 million. These Community statistics indicate that, at present, a large portion of the funds under the CAP are still mainly oriented towards the European agricultural sector, with a need to their being redirected towards a stronger support of the 2<sup>nd</sup> Pillar – Rural Development.

### **3. Financing of the competitive development of the European rural sector through the CAP: developments, trends**

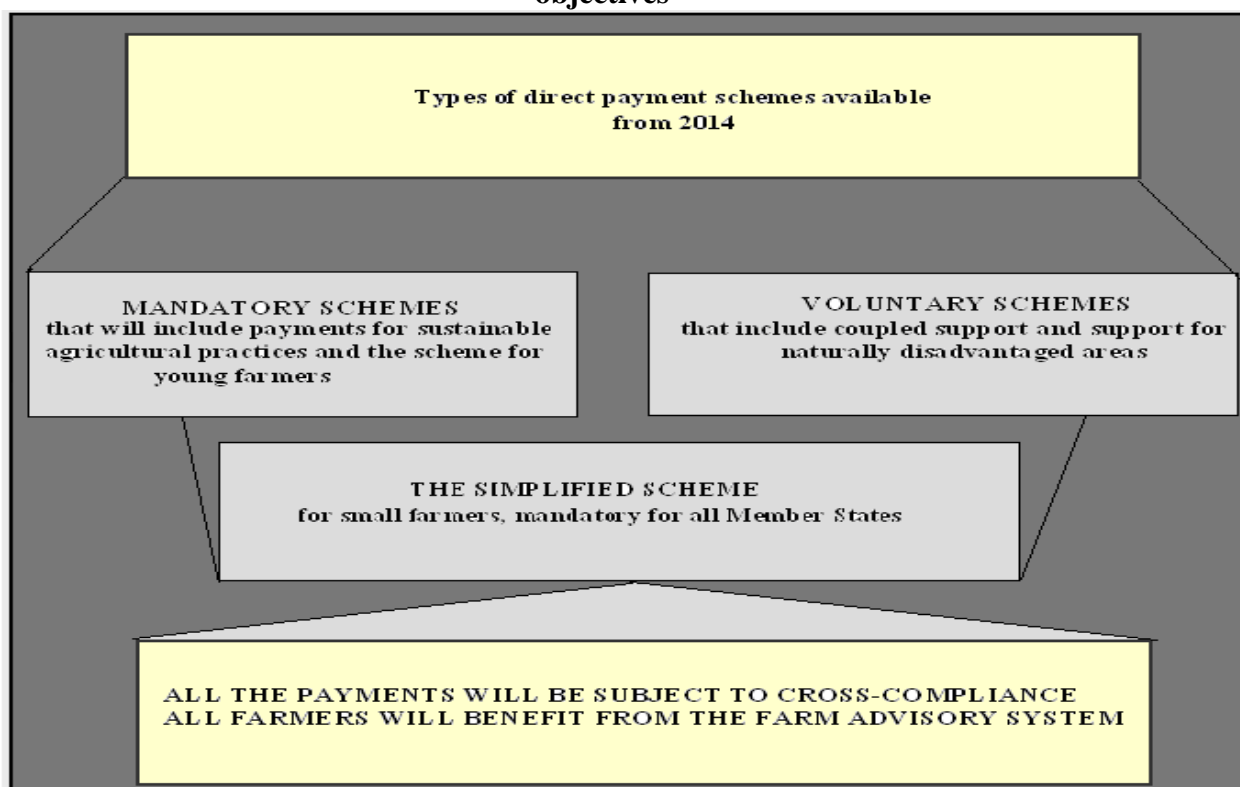
At present, in the specialised literature (Sassi, 2009), it is believed that an increasing number of rural areas have begun to be supported by factors outside agriculture, due to the diversification of their socio-economic structure.

However, in a large part of the EU, agriculture remains an essential driving force for rural development. The vitality and potential of many rural areas continue to be closely related to the existence of a competitive and dynamic agricultural sector, which is attractive for young farmers. This is characteristic especially for the predominantly rural areas, where the main sector comprises approximately 5% of the added value and 16% of the employed workforce. It also has to be noted that agriculture plays an important part in the rural areas due to the generation of related economic activities, in connection with the processing of products, tourism and trade (see Figure 6).

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<sup>6</sup> European Commission - *5th Financial Report from the Commission to the European Parliament and the Council on the European Agricultural Guarantee Fund*, Brussels, 2012.

**Figure 6: Key-elements of the CAP reform in the context of the Europe 2020 Strategy objectives**



**Source:** European Commission – *The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future*, Brussels 2010

**Note:** With the CAP reform, production support has been gradually eliminated and has been integrated in the single payment scheme, namely in the direct payment system available at present to European farmers. Certain types of support have however remained related to production, being called “coupled” support. Nevertheless, most aid is “decoupled” and granted within an income support scheme, without being related to production.

In accordance with the CAP reform proposal, in the post-2013 period, a significant part of the EU budget must continue to be allocated to agriculture, which is of strategic importance. As such, it is proposed that EUR 317.2 billion be allocated to the 1<sup>st</sup> Pillar and EUR 101.2 billion to the 2<sup>nd</sup> Pillar in 2014-2020, for the performance of the main activities under the CAP.

These funds will be supplemented by additional financing for research and innovation, food safety, and funds for the disadvantaged persons; there is also a fund of EUR 3.9 billion provided for emergency situations in the agricultural sector, while EUR 2.8 billion will be allocated to the European Globalisation Adjustment Fund, bringing the total budget to EUR 435.5 billion in the period 2014-2020.

### **Conclusions**

As shown by the current development trends of the Community financing framework for the Common Agricultural Policy, the distribution of support for rural development will be based on objective criteria, with the less developed regions to continue to benefit from higher rates which will also be applied to measures such as those concerning the transfer of knowledge, producer groups and interregional cooperation across the EU.



Therefore, in order to answer the question referred to at the beginning of our analysis, it may be considered that the CAP is necessary for ensuring an upward trend of the economic development in the “rural Europe,” as agriculture will continue to occupy an important position in the future development of the EU, not only in terms of ensuring food security, preserving the environment and fostering the rural environment, but also in the face of new challenges, such as climate change, providing at the same time a fair living standard for farmers. At present, the rural areas in the EU cannot be considered to be uniform territorial entities. Many of them enjoy a relatively favourable situation in the EU, especially having regard to their physical proximity to the large urban centres, an advantage that they directly benefit from. Since in the current CAP vision for sustainable rural development agriculture is no longer the only “driver” of economic development for the rural areas, the rural development policy needs to be strongly oriented towards the growth of employment in activities carried out outside farms or in non-agricultural activities, taking however into account the need to involve farmers in the multi-sectoral local development strategies, and the efforts of Member States will have to be directed also towards non-agricultural investments and towards innovation and diversification activities, in order to create a prosperous rural economy.

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