THE EU COMMON AGRICULTURAL POLICY FOR AGRICULTURAL AND RURAL DEVELOPMENT

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The specifics and problems of agricultural industry – dependency on climatic conditions, price fluctuations, market inelasticity, high capital intensity, slow turnover of capital, irreplaceability and immobility of land as the main resource in agricultural production, low labour mobility, etc., have historically forced to implement various protectionism policies in this industry. Agriculture in European Union (EU) countries depends on the EU Common Agricultural Policy (CAP).

Research aim: to investigate the specifics of agricultural industry that led to the implementation of protectionism policies in the world and to characterise the EU CAP, outlining its major features in the future.

Research methods: scientific discussion, analysis and synthesis, as well as logical and constructive methods and statistical data analysis.

Research results: CAP was designed in 1957 with the purpose of protecting and promoting agricultural development; it underwent several reforms, yet its share in the total EU budget was still significant in 2009, accounting for 49%. The funding for the CAP increased twice as much from 1990 to 2009, yet its share in the total EU budget decreased by 13 percentage points.

Key words: agriculture, Common Agricultural Policy.
JEL codes: Q100, Q180.

Introduction

At the early stages of economic development in countries, agriculture played the leading role in national economies. Agricultural products had the dominant position in exchange of goods and in the subsequent exchange of goods and money. In the 16th to 18th centuries, representatives of several schools of economic thought stressed the role of agriculture in a national economy and created a basis for the further evolution of economic thought. According to a doctrine of physiocrats, economics performs in accordance with objective natural laws just like any other science. In his work “Economic Table” („Tableau Economique”) (1758), the founder of physiocracy, Quesnay F., regarded agriculture as the only industry that produces so called pure products. Representative of mercantilism Petey W. contributed to this theory, proving that land itself is not able to produce a product without labour. Founder of the classical school of economics Smith A. used Quesnay’s theory on pure products and proved that not only agriculture, but also other industries can be productive (Brivers, 2001, Krilovs, 2003).

Historically, the objectives of agricultural policies have evolved with society’s attitude towards agriculture. The objective of producing adequate amounts of food at reasonable prices to feed the growing urban population in the industrialising society is of less relevance now in OECD countries (Tongeren, 2008). In Europe, the CAP was designed at the end of the 1950s and initially implemented in the 1960s (Swin-
The Common Agricultural Policy is a complex system of price support, import tariffs, export subsidies, quotas and set asides, and direct payments. When it was originally created, the CAP largely utilised price support measures (Oxford Economics, 2005).

An extensive summary on the problems of historical development for the agricultural industry in various countries of the world was published by Tracy M. (Treisijs, 1996). The development of U.S. agriculture as an industry of economy was studied by McConnell C.R. and Brue S.L. (Mакконнелл, 1993), Fischer S., Dornbusch R., Semalensee R. (Фишер, 1999), and Plēsnums J. (Шпогис, 1999). The aspects of Latvia’s agricultural policy were analysed by Grinovskis E. (1996), Шпогис К., Mihejeva L., Plēsnums J. (Шпогис, 1999), Boruks A. (2003), and Kalniņš A. (2005) as well as researchers from the Latvian State Institute of Agrarian Economics (Еиropas Савиенība un…, 1996, Saktīņa, Varika, …, 2001, Еиropас …, 2005). This policy determined the development of agriculture and rural areas in 27 countries, therefore, a detailed research is necessary for its present situation, historical evolution, and possible future.

**Research object** – Common Agricultural Policy in the EU.

**Research aim:** to investigate the specifics of agricultural industry that led to the implementation of protectionism policies in the world and to characterise the EU CAP, outlining its major features in the future.

**Research tasks:**
- to investigate the specifics and problems of agriculture regarding the development of agricultural protectionism policies;
- to characterise the EU CAP;
- to identify the main features of the EU CAP in the future.

**Research methods:** scientific discussion, analysis and synthesis, as well as logical and constructive methods and statistical data analysis.

1. **Historic and economic needs for agricultural support**

Agricultural economics reveals the short and long term problems in this industry (Figures 1 and 2).

Prices of agricultural products are not stable, as changes in supply caused by natural conditions confront relatively inelastic changes in demand, depending on price fluctuations. In a long term, incomes from agriculture decline if compared to incomes of employees in other industries.

Short term problems in agriculture (Fig. 1) – essential short term price and income fluctuations – arise as a combination of several factors:

- natural conditions cause annual fluctuations of agricultural output as well as demand for agricultural products is inelastic. Therefore, even small changes in the quantity of agricultural output transform into proportionally larger changes in prices of agricultural products and in incomes of farmers. Fig.1 shows that a change in quantity from Q to Q1 causes a proportionally larger change in price (from P to P2). The inelasticity of demand cause a paradoxical situation when years of good yields,
in general, are not beneficial for the agricultural industry, as they cause a decrease in the price of respective kind of agricultural products;

- demand for agricultural products is inelastic, mobility of the main resources used in agriculture (land and labour) is low, and a proportion of fixed costs in total costs is high. Therefore, even small changes in demand (domestic and foreign) for agricultural products cause large changes in prices of agricultural products and in incomes of farmers. In Fig.1, a change from D to D1, with the quantity produced Q remaining stable, causes a significant change from P to P1 if compared to a more elastic demand curve;

- cyclical fluctuations in demand and supply around the equilibrium point are characteristic of several main agricultural products such as fruits, vegetables, pork, poultry, and eggs, as a result of which cyclical price fluctuations arise. High sale prices of agricultural products make the majority of producers increase their output. When larger quantities of agricultural products are simultaneously sold in the market, prices decrease. As a result, the second phase of sale cycle emerges, as the largest part of producers decrease their output of agricultural products, and the reduced supply causes an increase in prices (Фишер, 1999, Макконнелл, 1993, Третис, 1996).

The negative combination of the above-mentioned factors is a basis for long term problems in the agricultural industry in a market economy, which becomes apparent as follows:

- relative decrease in prices of agricultural products compared to prices of other goods and production costs in the course of time;
- decrease in incomes from agriculture compared to incomes in other industries. Fig.2 shows that in a long term, an increase in demand for agricultural products (from D to D1) is smaller than an increase in supply (from S to S1). In a combination with inelastic demand for agricultural products, this change causes a decrease in prices of agricultural products (from P to P1) and a decrease in incomes of farmers from 0PAQ to 0P1BQ1.

**Fig. 1. Graphic illustration of short term problems of farmers**

**Fig. 2. Graphic illustration of long term problems of farmers**

P – price  
Q – quantity  
D – demand  
S – supply

Source: Макконнелл, Брю, 1993
The agricultural industry’s short-term and long-term problems as well as its specifics – dependency on natural and climatic conditions, relatively high capital intensity, slow turnover of capital, irreplaceability and immobility of land as the main resource in agricultural production, low labour mobility, negative impact of agricultural production on environment, and other conditions have historically led to the need to take special protectionism measures to develop this industry.

2. The Common Agricultural Policy – protectionism policy in the EU

Since 1957 when the European Economic Community was established, the Common Agricultural Policy, the multiform conditions of which have to be complied with by any EU member state, including Latvia since May 2004, also exists (Pilvere, 2008). The CAP is intended a means of protecting the income of the European agricultural sector (Tongeren, 2008).

The significance of the CAP is indicated by funding for it from the total EU budget (Fig. 3)

![Fig. 3. Total EU budget and the CAP budget (mln. EUR) and its share (%) in the total EU budget from 1990 to 2009](image)

Although the funding for agriculture increased almost twice as much in absolute figures in the period 1990–2009, yet its increase rate lags behind an increase rate for the total EU budget that expanded 2.5 times. As a result of it, the share of the CAP budget decreased by 13 percentage points.

Rural development support measures an important role plays funding, which is provided for production of energy from biomass of non-agricultural and non-forestry origination, thus contributing to the fact that agricultural raw materials is fully utilized and additional income is generated for farmers.

3. Possible development features of the CAP in the future

Discussions on the CAP’s development in the future still continue, as the latest CAP reform is regarded as unsustainable and incompatible with the further liberalisa-
tion of global trade. As a result of further reforms of the agricultural policy, there could be two categories of employees engaged in agriculture and rural environment preservation in rural areas: rural businessmen and rural administrators. Part of the functions of rural businessmen and administrators are completely opposite. The task of a rural businessman is to set up an intensively-producing legal entity that is oriented towards the market; at the same time, agricultural production has to be in compliance with good practice of administration of “public benefits”. It is anticipated that the functions of a rural administrator could be completely separated from those of a rural businessman in the future. The following transformation tasks are set for the CAP in the future:

- to become a viable policy that considers the needs and desires of the European society;
- to promote a sustainable approach in agriculture, so that quality and harmless agricultural products are available in markets, surrounding environments are protected, and animal welfare is ensured;
- to support the multifunctional role of farmers supplying important goods to society;
- to promote economic growth and creation of new jobs in rural areas;
- to strengthen competitiveness and innovation in the agricultural industry;
- to base further administration on simple and transparent terms (EU Commission, 2008).

It is believed that the greatest change in the CAP could occur in 2014 when the new EU budget period starts. Several European level documents, which could affect the future of the CAP, are available already in 2011.

**Europe 2020 strategy**

On the 3rd March 2010 the strategy “Europe2020” was published. The strategy is aiming for three priorities:

- smart growth: developing an economy based on knowledge and innovation;
- sustainable growth: promoting a more resource efficient, greener and more competitive economy;
- inclusive growth: fostering a high-employment economy delivering social and territorial cohesion.

The strategy takes the global challenges, e.g. climate and resource challenges, into account. It acknowledges that the expansion of the world population from 6 to 9 billion will intensify global competition for natural resources and put pressure on the environment (EU Commission, 2010a).

**EU Sustainable Development Strategy**

The EU Sustainable Development Strategy (SDS) was adopted by the European Council in June 2006. It is an overarching strategy for all EU policies which sets out how we can meet the needs of present generations without compromising the ability of future generations to meet their needs. The SDS deals in an integrated way with economic, environmental and social issues. The main body of the EU SDS is built around seven key challenges, with corresponding operational objectives and tar-
gets as well as associated actions and measures. In addition, a number of key objectives and policy guiding principles serve as a basis for the Strategy. The EU SDS identifies the following seven key challenges for the EU (EU Commission, 2005):

- climate change and clean energy;
- sustainable transport;
- sustainable consumption and production;
- conservation and management of natural resources;
- public health;
- social inclusion, demography and migration;
- global poverty.

**FAO: Climate change and food security: a framework document (2007)**

The FAO takes a broad view on the multiple effects that global warming and climate change are likely to have both on food systems and on food security. Global warming and climate change are acknowledged of being a reality. Strategies are suggested for mitigation and adaptation for climate change concerning the food sector.

OECD has published *“Rural Policy reviews”* for 10 areas, including England, Scotland, The Netherlands, Spain, Italy, Finland and Germany. OECD has also developed a new rural paradigm which (Wakeford, 2010):

- thrives for competitiveness of rural areas instead of farm income;
- takes a holistic approach to include various sectors of rural economies instead of an sector based approach;
- sees investments as the main tool, not subsidies;
- acknowledges multilevel-governance as key actors instead of national governments or farmers.

At the moment the further development of the CAP is discussed. In the communication “The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future” three main challenges are identified (EU Commission, 2010b):

- food security;
- environment and climate change;
- territorial balance.

To tackle these three challenges, three objectives of the future CAP are identified:

- viable food production;
- sustainable management of natural resources and climate action;
- balanced territorial development.

It can be predicted that the future evolving role for agricultural sustainability and the surrounding environment will play Green energy productions facilities’ development. This is particularly important for Latvia, in order to achieve this objective – to increase the proportion of renewable energy in Latvian total energy mix and promote the national energy supply long-term security.
Conclusions

1. The agricultural industry has certain specifics, short and long term problems arise in this industry, which historically created a need for a protectionism mechanism.

2. The significance of the CAP is indicated by the funding for agriculture from the total EU budget that increased almost twice as much in the period 1990-2009 in absolute figures, yet its increase rate lags behind an increase rate for the total EU budget that expanded 2.5 times. The share of the CAP budget decreased by 13 percentage points in the analysed period.

3. As a result of the CAP Reform 2003, the objective of the agricultural policy is to ensure incomes for farmers, which is based on the support instruments of market policy and structural measures. The rural development policy has to provide public benefits for the whole society.

4. Three objectives are identified for the CAP in the future - viable food production, sustainable management of natural resources and climate action, and balanced territorial development.

References


**BENDROJI ŽEMĖS ŪKIO POLITIKA ŽEMĖS ŪKIO REGIONŲ PLĖTRAI**

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Raktiniai žodžiai: žemės ūkis, Bendroji žemės ūkio politika.

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