 DOES THE COMMON AGRICULTURAL POLICY STILL MAKE SENSE IN THE TWENTY-FIRST CENTURY? CAP AFTER 2013 FROM THE PERSPECTIVE OF POLAND AND HUNGARY

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Abstract. The EU CAP has developed immensely since the 1960’s. However, its current determinants are completely different from those which formed the CAP foundations. This results mainly from the fact that the UE CAP must meet present-day challenges and threats. Moreover, further EU enlargements also significantly influenced performance of this sector of economy. It is important to determine whether the existence of the CAP in the twenty-first century still makes sense and to specify in more detail the CAP reform directions after 2013 from the perspective of Poland and Hungary.

Key words: CAP reform after 2013, food safety, “cross compliance”, climate change, liberalisation of the world agricultural trade, EU enlargements and their impact on the CAP budget, EU budget and the CAP, direct payments (first pillar), RDP (second pillar), modulation

INTRODUCTION

The term “Common Agricultural Policy” (CAP) is automatically associated with the European Union (EU). The reason is that no other international organisation has managed to create uniform and coherent agricultural policy, based on political, economic and social determinants of activities addressed to the agricultural sector from the perspective of measures taken on the international scene. The basis of the common agricultural policy was clearly specified for the first time in the Treaty of Rome of 1957 (Art. 39/33) as follows:
– to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour,
– thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture,
– to ensure that supplies reach consumers at reasonable prices,
– to improve economic aspects of agriculture,
– to stabilise markets,
– to assure competitiveness on external markets.

The initial objectives of the CAP have remained unchanged over the years. However, the weight given to the different objectives had changed drastically and sustainability has become an overall objective of the EU. The crisis of the CAP’s structure is reflecting in constant critical remarks addressed to it, results are mainly from a challenging social and political basis which justifies the support granted to the Community agriculture according to the existing principles. However, there are more and more opinions claiming that the CAP should be fully abolished due to its excessive costs and rare possibilities to carry out changes in its operation. Therefore, the coming years will be surely dedicated to a discussion on the CAP future. It should be even assumed that any discussions on this topic, which will lead to specific legal acts, will be held in the foreseeable future, i.e. in 2010-2011, under the Hungarian and Polish Presidencies of the EU Council. As a result, it is worth considering how the CAP may look like after 2013 from the perspective of economic interests of these countries.

This article does not aim at presenting historical development of the CAP, but it attempts to define key determinants of changes in the CAP as well as the direction to which the Community policy should be changed from the point of view of the economic interests of the “new” EU member states represented by Poland and Hungary.

REASONS JUSTIFYING THE EXISTENCE OF THE COMMON AGRICULTURAL POLICY

At present, the CAP is mainly criticised by opposing political, economic and social foundations of the support granted to the Community agriculture in its present form. It should be noted that the CAP needs new political and social legitimacy, which is not possible without adjusting implementation tools of its objectives to modern economic reality. Arguments supporting the existence of the revised CAP are as follows:
– a need to maintain Europe’s food safety,
– assuring safe food,
– modified role of agriculture in the modern world, resulting from undertaking new roles by this sector of economy – so-called multifunctionality of the agricultural sector,
– a need to undertake activities in order to stabilise agricultural markets faced with increasing food crises,
– Community-unified prevention of modern-day epidemiologic threats.

In addition to threats justifying the existence of the CAP, it is also necessary to decide on how much this policy should be of the Community character in the future, and
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in which areas it should be subject of regulations by activities performed by individual EU member states.

The discussion on factors justifying the existence of the CAP should make a reference to the opinion poll surveys on this topic. In 2006, the European Commission’s Directorate-General for Agriculture and Rural Development ordered a social survey on the knowledge and opinion of EU citizens on the CAP objectives. The results of this study were published in the document entitled: “Europeans, Agriculture and Common Agricultural Policy 2007”, Special Barometer, EC, Brussels. The results of this study are presented in Table 1.

Table 1. Desirable priorities of the EU agricultural policy
Tabela 1. Pożądane priorytety polityki rolniczej UE

<table>
<thead>
<tr>
<th>Priority – Nazwa priorytetu</th>
<th>Percentage of indications Procent wskazań</th>
<th>Percentage of first priority indications Procent wymieniających jako pierwszy priorytet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensuring that agricultural products are healthy and safe</td>
<td>41</td>
<td>12</td>
</tr>
<tr>
<td>Gwarancja że produkty rolne są zdrowe i bezpieczne</td>
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<tr>
<td>Ensuring a fair standard of living for farmers</td>
<td>37</td>
<td>17</td>
</tr>
<tr>
<td>Zapewnienie rolnikom godziwych standardów życia</td>
<td></td>
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<tr>
<td>Ensuring reasonable food prices for consumers</td>
<td>35</td>
<td>9</td>
</tr>
<tr>
<td>Zapewnienie konsumentom racjonalnych cen produktów rolnych</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Promoting respect for the environment</td>
<td>33</td>
<td>9</td>
</tr>
<tr>
<td>Promocja szacunku wobec środowiska</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ensuring that farm animals are treated well</td>
<td>27</td>
<td>3</td>
</tr>
<tr>
<td>Gwarancja że farmy zwierzęce są właściwie traktowane</td>
<td></td>
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</tr>
<tr>
<td>Helping farmers to adapt their production to consumer’s expectations</td>
<td>25</td>
<td>8</td>
</tr>
<tr>
<td>Pomoc rolnikom w przystosowaniu ich produkcji do oczekiwań konsumentów</td>
<td></td>
<td></td>
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<tr>
<td>Enhancing rural areas</td>
<td>25</td>
<td>8</td>
</tr>
<tr>
<td>Wzmocnienie obszarów wiejskich</td>
<td></td>
<td></td>
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<tr>
<td>Favouring methods of organic production</td>
<td>23</td>
<td>4</td>
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<tr>
<td>Wspieranie metod produkcji organicznej</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Encouraging quality production</td>
<td>23</td>
<td>3</td>
</tr>
<tr>
<td>Wzmocnianie jakości produkcji</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improving the competitiveness of European agriculture</td>
<td>20</td>
<td>7</td>
</tr>
<tr>
<td>Poprawa konkurencyjności europejskiego rolnictwa</td>
<td></td>
<td></td>
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<tr>
<td>Stabilising the markets of agricultural products</td>
<td>20</td>
<td>4</td>
</tr>
<tr>
<td>Stabilizowanie rynków produktów rolnych</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Protecting family type farms</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>Ochrona farm rolniczych typu rodzinnego</td>
<td></td>
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<tr>
<td>Ensuring better information about where the food comes from</td>
<td>20</td>
<td>3</td>
</tr>
<tr>
<td>Zapewnienie lepszej informacji skąd pochodzi żywność</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Promoting sustainable agricultural practices</td>
<td>17</td>
<td>3</td>
</tr>
<tr>
<td>Promowanie zrównoważonych praktyk rolnych</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ensuring availability of supplies of agricultural products</td>
<td>14</td>
<td>3</td>
</tr>
<tr>
<td>Zapewnienie dostępności dostaw produktów rolnych</td>
<td></td>
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Source: Wilkin [2009], EU Agriculture... [2008, p. 27].
Źródło: Wilkin [2009], EU Agriculture... [2008, s. 27].

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The precise comparison of this study with the CAP priorities defined in the Treaty of Rome leads to the following conclusions:

1. Ensuring a fair standard of living for farmers as well as ensuring reasonable food prices for consumers is considered by the Europeans to be two most important CAP objectives. In the future, the majority of farms – in particular family type farms – will face problems with reaching a profitable scale of production. At the same time, most of these farms will play a significant role in implementing many new public functions which the agricultural sector will have in the future. Therefore, providing income support to farmers will remain one of the future CAP’s task.

2. The participants of the study replaced the requirement to ensure that agricultural products are healthy and safe with the safe food priority. This confirms that the awareness and sensitivity of the Europeans to matters related to agricultural productions (livestock treatment, environmental protection, development of ecological production methods) has been increasing.

The results of the presented survey clearly indicate that the EU society strongly favours the continuation of the CAP. Defining the multifunctional character of agriculture, it should be noted that the perception of this sector of economy as a manufacturer of food and raw materials has changed. Functions of the agricultural sector much more often focus on rendering recreational and social services, including: inter alia providing access to natural resources as well as creating and promoting culture while maintaining natural and cultural diversity and forming a factor supporting cohesion of local societies [Wiatrak 2008]. Professor Wilkin isolates the following functions of non-agricultural functions of the agrarian sector [Wilkin 2009]:

- Green – managing earth resources in order to maintain its properties, protect livestock welfare and biodiversity,
- Blue – managing water resources in order to improve water quality and to prevent floods as well as to use water and wind energy,
- Yellow – focusing on maintaining cohesion of rural areas, protecting their good condition, supporting identity of villages and regions, developing agrotourism and hunting,
- White – assuring food safety and healthy food.

It may be surely assumed that the functions of agriculture will move more considerably to a non-agricultural sphere in the future, at the same time they will also become more significant for stabilising economic and social shocks [Piskorz 2009].

Imbalance on the world agricultural markets, resulting from a rapid increase in supply of raw materials as well as food and agricultural products in 2007 and 2008, seems to confirm the importance of the above mentioned functions performed by agriculture and rural areas for the benefit of national economy. Furthermore, it may be assumed that such increase in prices of agricultural products and food in many parts of the world should be even treated as a warning [Daszkowska 2008]. New threats and dangers related to this fact clearly indicate that there is a need to start discussions and actions on this topic under the CAP. Studies clearly indicate that Europe still has an extensive production potential in agriculture, which is far from being exploited, owing not only to natural production reserves, but also to new technologies and effective organisation of the logistic chain. The importance of this potential is paramount when a considerable percentage of human population suffers from chronic poverty as a result of malnutrition or even famine. The scale of the described situation is powerfully illustrated by Figure 1.
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Fig. 1. World areas facing or endangered by food shortages
Source: The Food Insecurity... [2008, p. 18].

Rys. 1. Obszary świata brykające się lub zagrożone brakiem żywności
Źródło: The Food Insecurity... [2008, s. 18].

The scale of the famine problem in the world is strongly demonstrated by figures – according to 2008 estimates, as much as 800 million people suffered from famine [Dokument Rady... 2008]). FAO estimates claim that as much as 848 million people were affected by malnutrition in the years 2003-2005 [World... 2007].

Taking this facts into consideration, it is worth noting that the EU undertook protective actions in 2008 year. The European Commission implemented urgent measures to monitor the prices of the first needed food and – based on obtained data – decided to use EUR 1 billion to stabilise the situation of third world countries [EU Wants... 2008].

A comprehensive insight into the situation leads to the conclusion that the EU agricultural policy will have to provide more consideration in the future to protective actions focused on fighting malnutrition and famine (in particular, as the European Union is currently the largest food importer and the second world exporter of these products), and the fulfilment of this task will not be possible without the existence of stable CAP.

Further challenges facing the EU agriculture at the beginning of the twenty-first century, which require coordinated actions at the Community level, include:

− climate change,
− fighting excessive quantity of greenhouse gases,
− production of biofuels,
− changes in demand for food and consumer habits,
− outbreaks of sanitary crises and their impact on the world market
− global financial crisis.
It is estimated that unfavourable climate change was the main reason behind a fall in crops in Australia by approx. 50% [Fisher-Boel 2009], which in turn led to a limitation of production capacities of this large world food producer. Increasing climate change will be responsible for a more and more significant problem of malnutrition, affecting on average 170 million people until 2080, mainly in Africa [Climate... 2008]. Experts believe that the global warming effects will contribute to a fall in agricultural crops and to even more diversification of crops at low geographical latitude. Some of these effects will turn out to be beneficial for northern European regions (e.g. due to extension of cultivation period and improvement in crop quality), and some crops may even be cultivated at northern geographical latitudes. Pointing out the importance of climate change, in 2007 the European Commission issued so-called “Green Paper from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions. Adapting to climate change in Europe – options for EU action” stating that agriculture is the sector of economy which is most exposed to climate change risk and must adapt to changing climate conditions. Adaptation activities therefore require restructuring and innovativeness, and thus funds required, consequently, solidarity between countries, in particular due to the fact that the majority of climate change effects will be adverse, leading to economic losses. Noting the importance of climate change and its impact on the EU agriculture, the EC proposed to discuss in the coming CAP Health Check the possibility of adapting European agriculture to changing climate conditions due to the increasing scale of natural disasters [Green Paper... 2007].

The EU agriculture is considered to have the largest share of all sectors of economy in reducing greenhouse gases. According to estimates, the emissions by the EU-27 agrarian sector amount to approx. 9% of gas emissions, and due to the implementation of new techniques reducing consumption of fossil fuels, gas emissions in this sector of economy constantly decrease. To compare, agriculture worldwide contributes to approx. 17% of increase in gas emissions [EU Agriculture... 2008].

The issue of easing climate change results and greenhouse gas emissions is strongly related to biofuels. Current estimates demonstrate that approx. 11% of EU crops is used for producing biofuels, though the EU sets an objective to increase the biofuels share of renewable energy in total energy consumption to 10% until 2020 [Dokument Rady... 2008]). It is claimed that the production of biofuels will make use of areas with low cultivation potential so that the production of alternative sources of energy does not limit cultivation of current crops. According to the EC forecasts, areas used for this purpose will be increased from 1.9 million ton in 2006 to 8.9 million ton in 2013 [European Union’s... 2007].

In the future, the EU agriculture will have to cope with an increasing challenge in the form of current changes in demand for food and consumer habits. According to the World Bank forecasts, world population will reach 9.5 billion until 2050, and as a result, demand for food will increase as well [Fisher-Boel 2009]. Furthermore, the last 30 years were a period of world economic growth and increasing urbanisation in developing countries. Pursuant to statistical data of the World Economic Outlook of April 2008, the GDP of China placed second behind the U.S. GDP, and the GDP of the following countries recognised as developing economies: India, Russia and Brazil, occupied the fourth, seventh and ninth position respectively. Taking into account that the largest GDP increase took place in countries accounting for 40% of world population in total, it should be assumed that the improvement in the material situation in these countries
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will be accompanied by a change in nutritional habits, which is already visible in China. In 1985, the average annual meat consumption per citizen amounted to approx. 20 kg, while 20 years later – in the first decade of the twenty-first century – it increased to approx. 50 kg (Informal Meeting of Agriculture Ministers, 25-27 May 2008, Maribor-Brno. Slovenian Presidency background paper to reflect on the evaluation of the CAP [Dokument informacyjny... 2008])

A great challenge facing agriculture at the beginning of the twenty-first century are problems related to EU biological security, and modern-day threats in this field comprise epidemiological threats such as BSE, swine fever or bird flu. The scale of threats presented by sanitary crises and their clearly negative effects on agriculture in EU countries are explicitly demonstrated by figures (FAPA report). In the fourth quarter of 2000, epidemic threats, like swine fever, BSE and foot-and-mouth disease led to a drastic drop in demand for meat in the following EU member states: Greece (–50%), Italy (–40%), France (–38%), Spain (–35%), Germany and Portugal (–30%). This is further aggravated by losses in slaughtered animals infected with a virus or exposed to contamination. Facing this epidemiologic threats exceeded capacities of individual countries, and protective actions carried out in an individual mode by each country only destabilise the European market as a whole, due to implemented prohibitions on import of meat and general decline in supply of meat. Effective actions stabilising the situation in the case of epidemiologic threats of this type may be carried out only on the cross-country level. Therefore, as regards combating BSE, the EC implemented the whole range of preventive measures. As of 1st January 2000, the “Purchase for Destruction” scheme aimed at eliminating the surplus of beef meet potentially contaminated by a disease. As of the beginning of 2001, this was replaced by the “Special Purchase Scheme” lasting as long as until the end of 2001. The results of the above mentioned preventive measures undertaken by the EC with the participation of individual member states after the epidemiological period resulted in regaining balance and increasing consumption of beef. A long-term beef consumption upward trend has been observed from 2003. Apart from this type of enterprises, the EC also initiated a wide financial aid support scheme offered to third countries which consists in providing them with 80 million EUR for combating bird flu and 20 million EUR for research [European Model... 2006]. In addition to EU Council regulation [no. 2012/2002), the Solidarity Fund was established whose aim is to “enable the EU to start immediate actions in emergency situations such as: outbreak of natural disasters, serious threat to living conditions, natural environment and economy in a quick and flexible way” [Draft resolution MPE... 2008].

An increasing payment imbalance of international capital and trade movements, known as world financial crisis, will surely influence the discussion on the future EU budget. As a result of advancing liberalisation of trade, the importance of funds incoming to the EU budget as customs revenues constantly declines, and additionally in the periods of poor economic prosperity the GDP of EU member states relatively shrinks, which in turn determined lower transfers to the EU budget. In the periods of the collapse of world economy, Community policies are subject to tough criticism which will have an impact on discussions relating to the future EU budget. A particularly popular argument quoted by critics is pointing out that individual EU policies are expensive, ineffective and unadjusted to the globalisation requirements.
FACTORS DETERMINING CHANGES OF THE CAP AFTER 2013

Existing directions and scope of the CAP reform were predominantly influenced by exogenic determinants of the agrarian sector and changes in natural environment. In the twenty-first century, the key factor, which makes it impossible to leave the CAP in the existing form, is wide globalisation processes demanding from the European agriculture to adopt to new conditions. They comprise:

- accession of new EU member states in 2004 and 2007,
- liberalisation of world trade with agricultural products under auspices of the WTO, and
- budget pressure (this factor may become more significant as financial crises results will become more visible).

EU enlargements in 2004 and 2007 by new 12 member states led to a significant change in economic conditions of the EU agricultural sector. The scale and growth rate of these changes are clearly confirmed by the following macroeconomic data [Csaki 2009]:

<table>
<thead>
<tr>
<th></th>
<th>EU-15</th>
<th>EU-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>arable land</td>
<td>145 million ha</td>
<td>37 million ha</td>
</tr>
<tr>
<td>employees</td>
<td>6.2 million</td>
<td>6.32 million</td>
</tr>
<tr>
<td>entities per 100 ha land</td>
<td>5</td>
<td>6.25</td>
</tr>
<tr>
<td>15% of household income spent on food</td>
<td>15%</td>
<td>24%</td>
</tr>
</tbody>
</table>

Despite the fact that further EU enlargements proved beneficial for all new member states, their results were not equally shared by all new member states. These EU enlargement effects will be described based on transformations which took place in the following sectors of the agricultural sector:

- agricultural production,
- gross value added in agriculture,
- increase in trade volumes.

A strong development trend can be observed in agricultural production. In Hungary, agricultural production amounted in 2003 to 800 EUR /ha, and in 2007 – already to EUR 1200/ha. A similar development trend was observed also in Poland. In 2003, this indicator amounted to approx. 600 EUR /ha, and three years later reached 1300 EUR /ha [Csaki 2009]. This dramatic increase in growth rate observed in agriculture in these two countries should be, to a great extent, explained by the implementation of the EU CAP principles, and in particular by the possibility to benefit from direct payments. An example of Poland and Hungary reflects well differences in generated agricultural gross value added as illustrated on Figure 2.

To explain the above conclusions, it is necessary to take into account the size of the farms. Farms in Poland are largely small holdings (approx. 70% of farms are below 30 ha), and as a result, yield/ha is relatively low with a high share of production cost/unit. At the same time, Hungary is an example of the country with a dominant share of large farms (approx. 60% are over 100 ha), which results in a higher gross value added in agriculture.

Despite the above mentioned significant differences between agricultural sectors in these 2 new EU member states, it should be clearly stated that the accession to the EU helped improve, and even accelerate, growth in the food and agricultural trade balance of Poland and Hungary. The scale of this event is clearly demonstrated on Figure 3.
Fig. 2. Agricultural gross value added at basic price divided by total number of annual working units
Source: Kirschke [2009].

Rys. 2. Dodana wartość brutto w rolnictwie na podstawie cen podstawowych podzielonych przez całkowitą liczbę godzin roboczych
Źródło: Kirschke [2009].

Fig. 3. Food products, agri-food and beverages trade balance (EUR million)
Source: Csaki [2009].

Rys. 3. Bilans handlowy płodów rolnych, produktów spożywczych i napojów (mln Euro)
Źródło: Csaki [2009].

The analysis of the above presented parameters clearly shows that Poland and Hungary are net exporters of food and agricultural products, which indicates large development prospects for the agricultural sector in these countries and a clear competitive advantage of Polish and Hungarian agriculture on the Community market. The accession of new member states to the EU on the example of Poland and Hungary clearly demonstrates:

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– a general positive development trend for farms,
– maintaining initial differences between counties and their impact on growth rate of individual branches
– assistance in setting further development directions for the agrarian sector, meaning that only consolidated farms have a production advantage, while the position of small farmers is less beneficial and they do not have much possibilities to avoid competitive pressure.

Liberalisation of international trade which has been implemented on the WTO forum for many decades failed to include trade with food and agricultural products. A major breakthrough occurred not earlier than during the eighth negotiation round known as the Uruguay Round when, as a result of final settlements on 15 April 1994, a final document was adopted, comprising obligatory provisions relating to agriculture, as specified in the Agreement on the Application of Sanitary and Phytosanitary measures. In 2001, the ninth ongoing negotiation round, dedicated to negotiations liberalising world trade of goods, started – as in the case of the previous round, agriculture remains one of the most sensitive areas. Any proposals relating to changes in conditions of trade with food and agricultural products were partially covered by the document: Revised Draft Modalities for Agriculture, WTO, Document TN/AG/W/Rev.4, 6 December 2008 by C. Falconer, chairman of the Special Session of the WTO Committee on Agriculture [Revised... 2008].

It is vital that legislative proposals contained in this document relate to all thematic blocks regulating European agriculture as published at www.wto.org/english/tratop_e/agric_e/agboxes_e.htm:
– market access (MA),
– domestic support (DS),
– export subsidies (ES).

Regulations on significant reduction of customs tariffs should be considered very dangerous. The scale of this problem is confirmed by the fact that current duties imposed on agricultural products usually do not exceed 100% of CIF (Cost Insurance and Fright) for import. At the same time, the scale of tariff cuts of market protection measures suggested in the recent time would result in customs protection at around 17.5-25% [Rowiński 2008]. The EU approval for the final agreement completing the Doha Round based on these principles would end with macroeconomic policy in the field of tariff measures and would involve a dramatic change in the CAP. A negative long-term consequence of the consent to such low market protection level will be a decline in production of food and agricultural products in moderate climate which is very essential for economy. This would create significant problems for farmers originating from Central Europe, in particular from Poland, Hungary and Romania, due to a large number of small holdings and relatively poor technical equipment.

Increasing force of liberalisation in trade will result in losing the importance of status of the sensitive goods as duties on products classified as sensitive shall be reduced by 1/3, 1/2 or 2/3 as compared to customs rates reduced according to the standard formula. On the other hand, it should be borne in mind that the possibility to use such already limited protection will make it necessary to establish an additional preferential quota in access to the market of goods considered sensitive.
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Provisions of the last version of the Draft Modalities largely limit the possibility to carry out the intervention and protection policy by the EU in its current scope. This results from the fact that support limits for Amber Box category shall be reduced by 80%, and the amount of subsidies paid under Blue Box shall be reduced to 2.5% of agricultural production.

An additional element which will influence the CAP in the future is control performed in order to indicate whether subsidies classified as Green Box in fact do not distort trade conditions, and further, farmer income should be subject to special control. This legislative proposal may involve dangerous effects on the CAP because the Green Box includes, inter alia, direct payments. At present, two forms of payments operate simultaneously in the EU – SAPS (single area payment scheme used temporarily until the end of 2010 in new EU member states, as well as in Bulgaria and Romania until the end of 2011) and SPS – area payment in force in the “old EU”. According to the European Commission, both forms of direct payments satisfy the qualification criteria under Green Box, however, the final result of the WTO control is not known yet.

Agricultural subsidies have been a common instrument to support the Community export and to market surpluses of agricultural products applied by the EU. This category is very large – it comprises namely: crediting and insuring trade transactions, using a whole range of protective measures for state-owned companies and governmental agencies trading with agricultural products. It is commonly believed that the above mentioned tools of protective policy cause unfair competition on world agricultural markets and therefore their application should be banned. This argument seems particularly justified with reference to the agricultural sector which, as commonly known, is particularly prone to destabilisation [Krugman and Obsfeld 2001]. Forming its negotiation position, the EU agreed to liquidate subsidies to its export until 2013 despite the fact that this integration group is in fact the major beneficiary of this form of export subsidies and export subsidies have been subject to constant reduction within the recent years determined by the situation on the world agricultural market [Agra... 2007].

A description of the situation in question, which we are going to be faced with after the implementation of the agreement finalising the Doha Round in its current form, enables us to specify long-term consequences of the approval for this agreement:

1. Permanent loss of competitiveness by the EU agriculture on international markets.
2. Losing the mechanism of regaining balance both on the internal and international markets as a result of abstaining from export subsidies.
3. Increasing loss of the internal market – the result of excessive import from third countries due to the lack of possibilities to use effective protective mechanisms.
4. Destabilisation of the EU market may lead to long-term imbalance of world agricultural sectors (domino effect).
5. Decline in the EU food self-sufficiency followed by potentially increasing dependency on import of basic agricultural products of moderate zone.
6. Problem of increasing unemployment in the EU arising from the fact that the majority of farmers do not have sufficient qualifications to start a job in the sector of services, and industry is labour-saving.

According to the estimates presented by experts, the elimination of export subsidies until 2013, combined with a reduction of duties by over 50%, may result in economic losses for the EU agriculture of approx. 20 billion EUR [Opinia... 2009]). Increasing
processes of world trade liberalisation present threats to the future of the Community agriculture, which faced new challenges, will need additional protection.

At the meeting of the European Council in December 2005, when the Financial Perspective was approved, a decision on the EU budget review was taken. This decision was largely motivated by political factors and made it possible to approve EU financial frameworks for the years 2007-2013. The review shall relate to all EU expenses, which will in turn influence total financing of the Community budget, British rebate (a relief in the contribution to the EU amounting to 2/3 of net contributions by Great Britain negotiated in 1984. The rebate is financed by all EU member states) and other adjusting mechanisms. The review of the EU budget is to a great extent a result of the dispute between richest EU member states – including Great Britain – with France on the form and mechanisms of the CAP financing. Great Britain is of the opinion that the CAP is too expensive, old-fashioned, and thus fully inadequate to reality, and therefore it should be fundamentally reformed (pursuant to the EC data for 2004, only 20% of funds provided under direct payments goes to approx. 80% of beneficiaries [European Commission... 2004]. Great Britain stressed the need to modify the mechanism of CAP payments as well as to make individual changes in CAP principles. Taking into account a direction of ongoing discussions on the EU forum relating to financial matters, it may be stated that the budget review and resulting financial perspective for the years 2014-2020 will involve a review of every EU policy. This suggestion is confirmed by the fact that the EC consulting paper starting a direction on future changes in EU policies is a set of questions and statements relating to threats which the EU will have to cope with in the future. Furthermore, it should be borne in mind that it will not be possible to generate additional funds in the following financial perspective to increase the EU budget in order to finance new projects. In the light of this situation, it should be assumed that opinions in favour of the reduction of CAP expenses will be heard more frequently than before. This results from the fact that the principal source of financing for the Community budget will be funds provided by EU member states which will exceed other sources of inflows to the Community budget such as: duties, agricultural fees and revenues based on VAT. The system of own financial expenses has undergone a real revolution since the establishment of these financial frameworks. In 1988, approx. 11% of EU budget funds was generated by the GDP of member states, 28% – by duties and agricultural fees and 57% – by VAT. It is expected that in 2013 as much as 74% of the EU budget will be based on the GDP of member states, 13% – on tariff measures and agricultural fees on products imported from third countries, and 12% – on VAT (Communication from the European Commission – Reforming budget, changing Europe: Paper on public consultations relating to the budget review in the years 2008-2009 [Komunikat... 2007]).

An interesting argument frequently raised during this discussion is criticism relating to a high share of expenditures spent on agriculture in the EU budget – as much as EUR 55 billion is spent on the CAP every year. This constitutes approx. 40% of the EU budget [European Model... 2006]. Supporters of a radical reconstruction of the CAP financing system disregard the fact that expenses on agriculture gradually decrease which is clearly confirmed by the below chart and, additionally, owing to the CAP existence funds spent on agriculture and rural development within national budgets are much lower. Detailed information about EU’s expenses is presented on Figure 4.
Does the common agricultural policy still make sense in the twenty-first century? ...

Therefore, to address this criticism, it is worth raising a question whether the level of agriculture financing will become in fact lower, if national budget increase their financing for agriculture and the volume of subsidies provided by the Community budget drops drastically? Attempting to find an answer to this question – thus assuming abolishing the CAP (considering a situation, in which agriculture is financed exclusively by national budgets) – total expenditures on agriculture by all EU member states would be much higher than today. Furthermore, it should be clearly pointed out that this would lead to negative consequences in the form of increasing dualism in agricultural development among EU member states, reflecting financial possibilities of individual EU countries. At present, it is known that the financing of direct payments will be limited in poorer countries where agriculture plays a significant role – Poland or Hungary. This situation was illustrated on Table 2.

This argument is quoted by the countries which favour a more protectionist character of the CAP and support the idea to maintain expenses on the EU agriculture at their current level. This group is headed by France [Trzaskowski 2005], though bearing in mind that this country will soon become a net payer, it should be assumed that the attitude of this country will change. Certain symptoms of a change in the position of France can be noticed already today, reflected in speeches of leading French politicians, including president Sarkozy [Pawlicki 2008]. The opinion of Germany – largest net payer to the EU budget – will also be very important. Germany is vitally interested in a radical reduction of its expenses, in particular in the light of a difficult economic situation, and it often points out that Germany will no longer finance expenses of rich countries, i.e. France and Great Britain. Supporters of a liberal approach, i.e. Great Britain, Denmark,
Table 2. Impact of co-financing direct payments by national budgets on net positions of individual member states within the CAP (EUR million, 2004 prices, co-financing in 25%)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Belgium – Beglia</td>
<td>269</td>
<td>Great Britain – Wielka Brytania</td>
<td>354</td>
</tr>
<tr>
<td>Denmark – Dania</td>
<td>−41</td>
<td>Czech Republic – Czechy</td>
<td>−103</td>
</tr>
<tr>
<td>Germany – Niemcy</td>
<td>634</td>
<td>Estonia – Estonia</td>
<td>−13</td>
</tr>
<tr>
<td>Greece – Grecja</td>
<td>−239</td>
<td>Cyprus – Cypr</td>
<td>8</td>
</tr>
<tr>
<td>Spain – Hiszpania</td>
<td>−126</td>
<td>Latvia – Lotwa</td>
<td>−21</td>
</tr>
<tr>
<td>France – Francja</td>
<td>−307</td>
<td>Lithuania – Litwa</td>
<td>−68</td>
</tr>
<tr>
<td>Ireland – Irlandia</td>
<td>−186</td>
<td>Hungary – Węgry</td>
<td>−218</td>
</tr>
<tr>
<td>Italy – Włochy</td>
<td>582</td>
<td>Malta – Malta</td>
<td>5</td>
</tr>
<tr>
<td>Luxembourg – Luksemburg</td>
<td>17</td>
<td>Poland – Polska</td>
<td>−468</td>
</tr>
<tr>
<td>Netherlands – Holandia</td>
<td>235</td>
<td>Slovenia – Słowenia</td>
<td>−2</td>
</tr>
<tr>
<td>Austria – Austria</td>
<td>39</td>
<td>Slovakia – Słowacja</td>
<td>−50</td>
</tr>
<tr>
<td>Portugal – Portugalia</td>
<td>6</td>
<td>Bulgaria – Bulgaria</td>
<td>−140</td>
</tr>
<tr>
<td>Finland – Finlandia</td>
<td>19</td>
<td>Romania – Rumunia</td>
<td>−249</td>
</tr>
<tr>
<td>Sweden – Szwecja</td>
<td>63</td>
<td></td>
<td></td>
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</table>

Source: Hardt [2008, p. 47].
Zródeł: Hardt [2008, s. 47].

Sweden or the Netherlands believe that agriculture should be treated in the same way as other sectors of economy, and EU budget funds should be moved to a greater extent to support rural development. The implementation of this project would mean full resignation from subsiding agriculture and from direct payments [A Vision... 2005]. It seems therefore that changes in the CAP are inevitable and this Community policy will have to be adopted to changing economic reality in order to meet threats presented in the above part of the article.

POINT OF VIEW OF POLAND AND HUNGARY ON THE CAP REFORM DIRECTIONS

When discussing about the CAP reform, the focus is usually placed on opinions of individual EU member states on the Community policy aspects such as: future of the direct payments system (first pillar) and rural development (second pillar). This part of the present article shows the point of view presented by Poland and Hungary with respect to the planned CAP reform in these thematic fields.
Does the common agricultural policy still make sense in the twenty-first century? ...

The single area payment scheme (SAPS) has been operating in Hungary and Poland since 2004. It supports farmers’ income, but does not create any specified incentives or preferences for the production direction. Due to the fact that the SAPS is a simple and transparent system, friendly for farmers, Poland and Hungary supports the possibility to use it until 2013. At the same time, transition to the single payment scheme (SPS), operating in “old EU” countries, will require time-consuming adjustment actions, including in particular designing an expensive and complex IT system, implementing a new direct payments management system, providing training to administrative personnel within the country as well as to advisory staff (increasing red tape). Taking the above mentioned into account, Poland and Hungary are of the opinion that preparing the “whole EU” to transfer to the SPS will result in increasing unfair conditions for operating on the single agricultural market, which will in turn undermine the financial solidarity principle of the CAP. Therefore, Poland and Hungary support the unification of the direct payments scheme within the whole EU in order to guarantee the same competition conditions for all farmers. Poland already stated on many occasions that economic benefits of the “old EU” countries since the 2004 enlargement have been predominantly determined by the possibility to transfer capital (as foreign investments) and to perform free export to the markets of the enlarged EU. Benefits arising from this fact exceed financial expenses. As a result, Poland always strongly points out that the CAP reform may not undermine existing principles of this Community policy, and thus principles of Community preferences and financial solidarity. The Hungarian government presents an approach similar to the one of the Polish government in this respect claiming that an appropriate level of Community preferences must be kept due to the fact that European requirements on food, environmental protection and animal health are more restrictive to those faced by non-European food producers [Forgács 2008]. Hungary is of the opinion that maintaining agricultural activity is a vital factor supporting Europe’s identity, and therefore the CAP should also create favourable conditions to maintain the agricultural sector in a very good condition within the whole Europe. European food producers should benefit from a transparent support policy safeguarding against any necessary changes in the agricultural sector, creating “safety net” [Forgács 2008]. At the same time, the Polish government supports the argument of maintaining all existing forms of support, even if they have not been used at all or on a regular basis for a long time. The argument is to support these instruments in force for the case of rapid critical situations which would create “safety net”.

Poland and Hungary are countries of a strong developed agrarian culture which is why this sector of economy plays an important social and economic role. Taking the above into account, the point of view presented by these countries pointed out on many occasions that the CAP, capable of facing future threats and challenges, must be based on a strong first pillar. Therefore, direct payments should remain one of the key CAP components responsible, in particular, for supporting and stabilising farmer income, compensating expenses related to the obligation to meet high production standards for EU agricultural products – having regards environmental protection, animal welfare and plant health as well as maintaining the production of the agrarian sector in a good agricultural condition in less favoured areas. Therefore, implementing cross compliance principle is a factor increasing legitimacy of direct payments. As a result, direct payments should secure economic stability of agriculture and promote food safety. Poland supports the facilitation of provisions regulating cross compliance to make them stable.
in the long term as well as visible and clear to farmers. Furthermore, they should be based on verified criteria which are not subject to based evaluation [Agricultural... 2009]. The point of view presented by Hungary on cross compliance is fully compliant with Poland’s opinion; however, as regards requirements on good agricultural condition compliant with environmental protection, Hungary stresses in their application the need to assure subsidiarity, i.e. these requirements should be indicative for member states.

However, it should be borne in mind that the role of the EU CAP second pillar will be gaining more importance. This is confirmed e.g. by an ongoing discussion on the CAP future and raising voices of EU member states, clearly indicating that the importance of the Rural Development Plan (RDP) increases. This is mainly due to the increasing role played by the second pillar of the CAP in the process of ongoing structural transformation of rural areas as well as to new challenges facing the Community agriculture, related to the results of the already mentioned climate change, protection of natural diversity and leading a rational water management policy. Taking the above into account, it should be clearly stated that the EU is right to perceive the RDP as a tool used for reducing differences in rural development between EU regions with the participation of the cohesion policy [The future... 2009]. In order to gather more funds from the EU budget, a decision was taken to set up a modulation mechanism, i.e. the scheme consisting in partial reduction of direct payments – funds obtained in this way will support the second pillar. The main argument quoted to support the modulation mechanism is addressing aid to agricultural producers carrying out certain objectives under the rural development plan. New EU member states are exempted from the obligatory modulation mechanism until their full participation in direct payments. Another group exempted from the modulation mechanism are small farms obtaining direct payments in the amount of up to EUR 5 thousand per year. Poland on many occasions raised its concerns regarding the modulation mechanism as an instrument used for financing new challenges. Due to the fact that new EU member states were excluded from it and as a result of abstaining from the redistribution of funds between member states according to the cohesion principle, new member states will not be provided with additional funds to face new challenges which, as demonstrated above, are of global and transnational character. At the same time, proposed solutions make financial capacities strongly dependant on criteria not related to the set objectives (which determine direct payments – e.g. historical level of crops in agriculture and cattle livestock). Paying attention to a universal character of new challenges, Poland proposed to maintain the cohesion criterion as regards supporting new challenges in the case of the redistribution of total funds obtained under the modulation mechanism.

To sum up, the Polish government is aware of the fact that implementing the modulation in its current form and according to the existing principles is related to a certain risk as it may result in the escalation of development differences between member states. Taking into account the conditions in which Polish farms operate as well as the fact that the modulation will comprise farms producing goods for trading, the Polish government objects to increase obligatory modulation. Furthermore, Poland opts for a gradual introduction of the modulation in new member states as it was the case for EU-15. Poland does not support the proposal to increase the modulation amount from the current co-efficient of 5% to 10% due to potential consequences of this proposal to the state budget (funds from the second pillar are co-financed with national budgets) and due to a low share of funds subject to allocation between member states. Should the
modulation level be kept at 5%, Poland will be acting in favour of considering cohesion
criteria when distributing funds among member states. As at today, 80% of funds com-
ing from the reduction of direct payments is transferred to the second pillar actions of
each country. Although disproportions between the first and second pillar of the CAP in
some member states are as high as 90:10, for Poland this ratio is approx. 50:50. As a
result, the Polish government does not believe that it is necessary to further reduce
funds under the first pillar of the CAP [Stanowisko w odniesieniu... 2008]. Similar opin-
ion was presented by Hungary which underlined that progressive modulation is unfavour-
able for large farms, and if applied in its current form, may contribute to its further
downsizing.

Due to the appearance of the challenges stressed in the above part of the article, it is
indispensable to strengthen the second pillar. This request is justified also because
it is necessary to undertake innovative actions to cope with new challenges relating to
natural environment and efficiency. A complex support offered by the RDP is strongly
pointed out in the opinion presented by Hungary. This country believes that main objec-
tives faced by the second pillar of the CAP are: modernising and improving competence
of the agrarian sector [Forgács 2008]. Formulating this opinion, Hungary demonstrated
that it understands the importance of this sector of economy in “filling gaps” in eco-
nomic development of EU member states as regards rural development, water man-
agement and creating new jobs not only in agriculture. Poland believes that this is particu-
larly important bearing in mind challenges of the twenty-first century such as water
resources management, protection of biodiversity and rational implementation of ex-
penses spent on these objectives. It should be namely taken into account that increasing
modernisation and diversification of agriculture will require larger labour resources to
be released which will automatically support the increasing importance of the rural
development process under the second pillar of the CAP, and the support granted under
the first pillar of the CAP will be gradually diminished, though, taking into account lack
of rational solutions from the point of view of “new EU member states”, Poland and
Hungary still believe that the CAP reform must be based on the strong first pillar while
solutions and mechanisms under the second pillar must be reformulated in order to
better meet economic requirements of agriculture in these countries.

CONCLUSIONS

1. Main arguments justifying the existence of the EU CAP in the twenty-first cen-
tury are: Europe’s food safety, care for the production of healthy food, undertaking
activities to stabilise agricultural markets, securing rural quality life, as well as to coor-
dinate activities in the light of faced epidemiological threats.

2. The importance of the agrarian sector will increase due to the fact that the world
population is on the constant increase, consumer habits change and the number of re-
gions of the world endangered by malnutrition or even famine expands.

3. In the twenty-first century, agriculture has to face global threats such as: increas-
ing climate changes, combating greenhouse gas emission or production of biofuels.

4. Due to the above external factors and internal conditions such as: EU enlarge-
ments, liberalisation of world trade with agricultural products under the auspices of the
WTO and budget pressure, it is obvious that the EU CAP must undergo further tran-

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formation so that agriculture could fulfil its functions in a rapidly changing political and economic reality.

5. Poland and Hungary are “new” EU member states and due to political and economic circumstances which agriculture is faced with in economies of these countries, the planned EU CAP reform direction and a new financial perspective for the years 2014-2020 do not fully comply with economic interests of these two countries.

6. Poland and Hungary are of the opinion that the future EU CAP must be based on a strong first pillar so that the agrarian sector could successfully cope with future threats and challenges.

7. At present, both Poland and Hungary express their scepticism on the directions of work on future modulation. This is mainly due to the fact that these both countries of Central Europe believe that implementing the modulation according to the planned principles will lead to the widening of development gaps between EU member states.

8. According to Poland and Hungary, future EU CAP should meet the following requirements:

– remaining a Community policy – both as regards budget and applied instruments,
– be freed from anachronous past events – matter of eliminating direct payments based on the “historical model”,
– be simple and stable in some period of time,
– strengthening cohesion and solidarity within the Community.

REFERENCES

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Streszczenie. WPR UE w XXI wieku pełni w Europie następujące ważne funkcje: zapewnia produkcję zdrowej i bezpiecznej żywności, stabilizuje sytuację na rynkach żywnościowych i jest narzędziem koordynacji działań w przypadku pojawienia się zagrożeń epidemiologicznych, stanowi w przeważającej mierze źródło dochodów ludności wiejskiej. Znaczenie sektora rolnego będzie w przyszłości rosto z uwagi na fakt utrzymania się ciągłego przyrostu naturalnego w świecie i wszystkich konsekwencji z tym związanych. Dodatkowo, w XXI wieku, sektor rolny musi stawić czoło nowym globalnym wyzwaniom, jak zmiany klimatyczne czy efekt cieplarniany. Polska i Węgry są nowymi krajami członkowskimi UE, w których rolnictwo odgrywa ważną rolę gospodarczo-społeczną i dlatego też planowany kierunek reformy WPR w okresie 2013-2020 nie odpowiada do końca ekonomicznemu interesowi tych państw. Kraje te stoją na stanowisku, że I filar powinien w dalszym ciągu odgrywać kluczową rolę we WPR UE, tak by rolnictwo mogło skutecznie reagować na pojawiające się współcześnie zagrożenia i wyzwania. Zarówno Polska, jak i Węgry, wyrażają sceptycyzm w przypadku kierunku prac nad przyszłym pakietem, w którym rolnictwo będzie powiększająca się już pomiędzy „starymi” a „nowymi” krajami członkowskimi UE. Reasumując, Polska i Węgry stoją na stanowisku, że przyszła WPR UE powinna być modernizowana, spełniając jednocześnie następujące wymogi: powinna pozostać polityką wspólnotową, powinna zostać uwolniona od anachronizmów przeszłości, czyli zaprzestać ustalania wielkości płatności bezpośrednich od modelu historycznego. Poza tym jest konieczne, aby WPR UE była polityką stabilną w czasie, wyrażała solidarność i umacniała spójność Europy.