

# THE FUTURE OF COMMON AGRICULTURAL POLICY AND THE CHALLENGES OF EUROPE 2020 STRATEGY

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## Abstract

Currently, the Common Agricultural Policy (CAP) faces a series of challenges involving the need for strategic decisions for the long term future of European agriculture and rural areas in the European Union. To be effective in addressing these challenges, the CAP must work within a framework of connected economic policies and sustainable public finances that contribute to accomplish the EU. In this context, it should be noted that the Europe 2020 Strategy revealed a new perspective for the CAP reform, the main development directions being focused on finding the most appropriate solutions to the new economic, social and environmental issues brought on by the international economic crisis, also contributing to the sustainable development of EU agriculture. In what follows, we will briefly review the existing proposals at EU level for future development directions of the CAP.

**Keywords:** *Common Agricultural Policy, sustainable development, Europe 2020 Strategy, international economic crisis*

*JEL Classification: F, K, F15, H53, O13*

## Introduction

Launched in 1962, the Common Agricultural Policy (CAP) represents a link between agriculture and society, between European Union and its farmers. Its main aims are to improve agricultural productivity and to increase the supply in order to provide stable and affordable food resources for consumers and to ensure a fair standard of living for farmers. Since its creation as the main regulatory framework for agriculture and rural development in the EU, the Common Agricultural Policy has always been adapted to better respond the challenges of its time. Currently, the Common Agricultural Policy is built around two pillars. First, the agriculture pillar that includes measures with a view to regulating the agricultural products markets integration. Second, the rural development pillar that comprises structural measures aiming at promoting a uniform development of rural areas, considering the social, economic and environmental issues. At present, the Common Agricultural Policy is facing a complex series of both particular (like the development gap between rural areas across EU) and unforeseen challenges (for example, the negative impact of international economic crisis).

As some analysts have shown (Ackrill, 2000), although it is well known that the CAP is the most expensive EU policy, it has a significant impact not only on European agriculture, but also on the EU's environment and the food industry. The negative effects of the financial and economic crisis on the European economy highlighted the need for reassessing the EU objectives and regulations on rural development and agriculture. Furthermore, the Common

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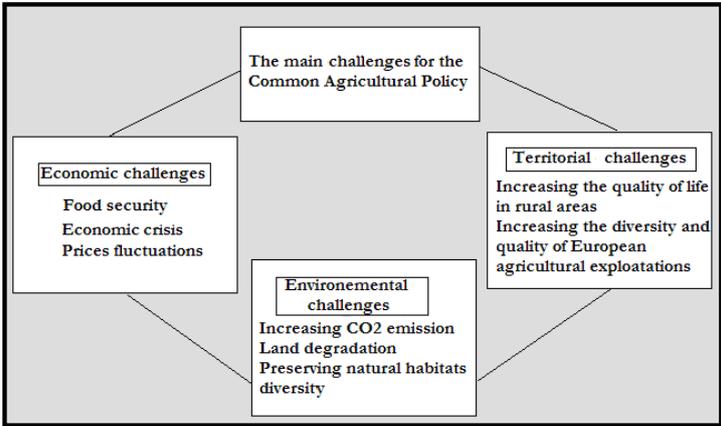
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Agricultural Policy is now facing the challenges brought on by its harmonization with the goals of the Europe 2020 Strategy. As a result, EU has launched a comprehensive reform, in order to modernize this policy and to make it more market-oriented. Hence, in order to achieve this goal, the Europe 2020 Strategy provides a new perspective. Thus, by addressing to the new economic, social, environmental, climate-related and technological challenges of our society, the Common Agricultural Policy may contribute further to developing of an intelligent, sustainable and inclusive growth. Besides, the Common Agricultural Policy must also pay a greater attention to the wealth and diversity of agriculture within the EU-27 Member States.

**1. The main challenges for the common agricultural policy future development**

Agriculture is an integral part of the economy and society, having a major role in terms of economic growth and social sustainability at European Community level. Like other economic sectors within the EU, the agricultural sector was affected by the financial and economic crisis by reduction of financial lending, which had direct effects on producers in the Member States and also by increasing demand imbalances created as a result of the EU internal market. Recent analysis (Kyed, Karsten & Kaergard, Niels & Zobbe, Henrik, 2012) show that any significant reduction in EU agricultural activities would have adverse effects on economic growth, leading, consequently, to economic failures and job losses in the related sectors, especially in the agro-food production chains, which are based on primary agricultural sector to achieve high quality materials, to become more competitive and secure. Consequently, we have identified several areas that represent major "challenges" for the future of the EU Common Agricultural Policy, being decisive for the entire reform process.

**Figure 1: The main challenges for the Common Agricultural Policy**



Source: EAGF - *Financial Report*, 2012

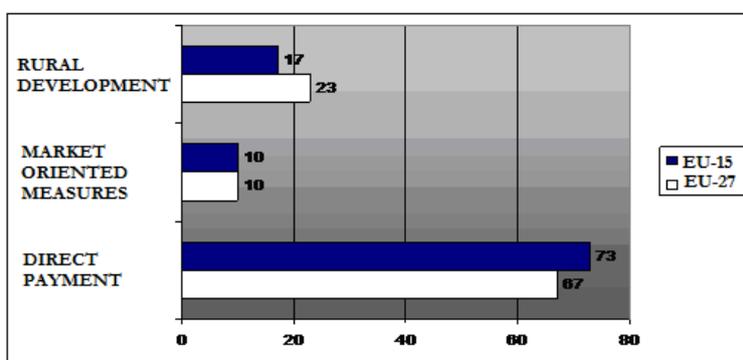
**1.1. Economic challenges**

EU agriculture is currently facing a more competitive international market, as the world economy becomes more integrated, and the trade system is increasingly liberalized. According to some analysts (Fennel, 2007), this trend will continue in the coming years and will represent a major challenge for EU farmers, but also an opportunity for them and for the agro-food products exporters. Therefore, it is extremely important to increase productivity and competitiveness of EU agriculture. As the global food demand is projected to grow continuously in the future, the EU should be able to meet this major requirement. Hence, it is essential for the EU agriculture to constantly maintain and improve the production capacity while respecting EU commitments regarding international trade and policy coherence for agriculture development. In this context, the new direction of Common Agricultural Policy

reform must take into account the fact that, at present, EU agriculture is facing inherent difficulties after the economic crisis which has seriously affected agricultural producers and rural community space, that are directly linked to broader macroeconomic developments which are affecting agricultural production costs.

In this context, it is necessary that the Common Agricultural Policy continues to support the income of EU farmers through direct payments system, providing a “safety net” for European producers in the framework of economic difficulties brought on by the international financial and economic crisis. In 2011, the distribution of Common Agricultural Policy expenditures showed a lower than previous target allocation of funds to rural development. However, it should be noted that once emerging from the economic crisis, the EU funds should be redirected to achieve this objective that can boost the sustainable economic growth and social inclusion, in line with the objectives of Europe 2020 Strategy.

**Graph 1: Distribution of CAP expenditure in 2011 (% of total allocation)**



Source: EAGF - *Financial Report*, 2012

According to the data published in Official Journal of the EU, by the European Commission, the appropriations for Agriculture and Rural Development (Title 05) were calculated based on commitments and payments (see table 1)

**Table 1: Appropriations for agriculture and rural development in 2011-2012(million €)**

Structure/year	2011	2011	2012	2012
	commitments	payments	commitments	payments
Total	57,291.11	54,835.52	58,586.88	55,879.67
-direct aid	39,771.10	39,771.10	40,510.70	40,510.70
-rural development	14,432.15	12,125.18	14,613.14	12,125.18
-market interventions	2,968.41	2,966.24	3,233.31	3,233.96
-others	381.94	135.50	422.45	239.81
minus audit	- 262.5	-262.5	-192.7	-192.7

Source: Official Journal of the EU, 29.02.2012

These data show that, currently, most of the funds under the CAP are still mainly oriented to European agricultural sector and therefore there is a clear need to redistribute them in order to achieve a stronger support for rural development.

### 1.2. Environmental challenges

It is now commonly accepted that the industrial food model stated in the last fifty years in the European Union is one of the factors that have contributed to environmental

degradation and the exacerbation of climate change that led to repeated natural disasters. On the one hand, natural resources such as water, land, forests were considered inexhaustible and they were heavily exploited and therefore irreversibly damaged. On the other hand, the excessive use (especially in food processing industries) of products derived from fossil fuels (such as fertilizers, pesticides and plastics) has affected the natural equilibrium of eco-systems. As a result, Common Agricultural Policy reform aimed to redirect funding (mainly in the framework of direct payment system) to support sustainable agriculture. Currently, although the greenhouse emissions from EU agricultural sector decreased by 20% since 1990, it is widely recognized that further efforts are necessary to be undertaken, in order to meet the ambitious EU's agenda on energy and climate change.

According to the Europe 2020 Strategy, a major objective is to protect the natural resources and to preserve the environment. In this context, some analysts (Winter, M. & Fry, C. & Carruthers, S. P., 2008) stated that the Common Agricultural Policy might decisively contribute to this approach, by introducing measures to provide economic sustainability and long-term food security, while ensuring environmental protection of rural areas. Among the measures assigned to achieve this goal, the most important ones are those aimed at reducing production costs and consumption. Another "tool" that may contribute to achieve this goal is to provide farmers support for using production technologies with low carbon consumption and for using crop rotation system. It is important to promote carbon reduction measures related to production efficiency, including energy efficiency improvements, such as bio-mass and energy sources based on innovative renewable technologies. With regard to the sustainable management of natural resources, because the agriculture is "the first victim" of climate change in the form of growing occurrence of weather disasters, the European farmers must not only improve their production methods and reduce carbon CO<sub>2</sub> emissions, but also adapt their working methods. Therefore, in accordance with Europe 2020 Strategy goals, it is vital to encourage organic farming and funding support for those European farmers who intend to adopt "green technologies" in the production process. This objective is explicitly stated by the Common Agricultural Policy which, according to the Strategic Guidelines for Rural Development for 2014-2020, emphasizes the environmental and countryside protection, as a priority at EU level. Moreover, the funds allocated to this priority aim at protecting natural resources and landscapes in rural areas of the EU, particularly in the field of biodiversity, preservation of high natural systems and eco-systems. Environmental services and green agricultural practices - such as forest conservation, organic agriculture and crop rotation - are supported by these funding programs.

### **1.3. Territorial challenges**

At present, an increasing number of rural areas are supported by non-agricultural factors, due to the diversification of their socio-economic structure. However, in a large part of the EU, agriculture remains an essential driving factor for rural development. The vitality and potential of many rural areas continue to be closely related to the presence of a competitive and dynamic agricultural sector, attractive for young farmers. This situation is mainly characteristic of predominantly rural areas, where the primary sector comprises approximately 5% of the added value and 16% of the occupied workforce. It has also to be noted that agriculture plays an important role in rural areas by generating associated economic activities, related to agricultural products processing, tourism and trade. Also, in many EU regions, agriculture forms the basis of local traditions and social identity.

Having regard to the three types of challenges outlined above, it was agreed at EU level that the CAP reform objectives should follow the directions mentioned below, in order to be brought into line with the objectives of the Europe 2020 Strategy: to encourage the transfer of knowledge and innovation in agriculture, forestry and rural areas; to increase the competitiveness of all agricultural sectors and to increase the viability of agricultural

exploitation to promote the organisation of food chains and risk management in agriculture; to restore, preserve and strengthen the ecosystems that depend on agriculture and forestry; to promote the efficient use of resources and to support the shift to low-carbon economic activities which could adapt to climate change in the agricultural, food and forestry sectors and to promote social inclusion, poverty reduction and economic development in the rural areas.

**Figure 2: Budgetary implication of the CAP reform**

<b>Strategic aims</b>	<b>Funding (billion EUR)</b>
<i>First Pillar – Direct payments and market expenditure</i>	317.2
<i>Second Pillar – Rural Development</i>	101.2
<i>Total (first and second pillar)</i>	<b>418.4</b>
<i>Food safety</i>	2.5
<i>Funds for disadvantaged persons</i>	2.8
<i>European Fund for Globalization Adjustment</i>	3.9
<i>Research &amp; Innovation in the field of food safety, bio-economy and sustainable agriculture</i>	up to 2.8
<i>Total additional funds</i>	<b>no more than 17.1</b>
<i>Total budget proposed for 2014-2020</i>	<b>no more than 435.5</b>

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

In accordance with the Common Agricultural Policy reform proposal, in the post-2013 period, a significant part of the EU budget must continue to be allocated to agriculture, which is a economic sector of strategic importance. As such, in order to carry out the main CAP activities, the proposal is to allocate EUR 317.2 billion for the first pillar and EUR 101.2 billion for the second pillar, in the period 2014-2020.

These funds will be supplemented by additional financing for research and innovation, food safety, and funds intended for disadvantaged persons; also, a fund of EUR 3.9 billion is to be provided for crisis situations in the agricultural sector and an amount of EUR 2.8 billion is to be allocated to the European Globalization Adjustment Fund, bringing the total budget to EUR 435.5 billion in the period 2014-2020. Pursuant to the new regulations, the distribution of the support for rural development will be based on objective criteria, with less developed areas continuing to benefit from higher co-financing rates, that will also be applied to certain measures such as those related to the transfer of knowledge, producer groups, cooperation and the Leader Axis. In what follows, we will outline the main instruments to be used within the CAP reform in order to face the abovementioned challenges and, at the same time, to better answer to the development priorities.

As it may be noted in the figure 2, in the next financial exercise most of Community revenues will be guided to direct aids, granting support both to young farmers, and to disadvantaged persons. This is explained by the fact that, as opposed to the previous years, when the CAP measures mainly reacted to endogenous challenges, from excess production

crises to food safety-related crises, and proved to be useful for the EU both internally and internationally, currently, in the post-crisis period, most challenges are caused by factors that are external to agriculture, which impose a more complex reaction.

## **2. Key elements of CAP reform in the perspective of the 2020 Europe Strategy**

In order to better emphasize the EU agricultural potential, the CAP must support farmer income in a fairer, simpler and better targeted way. For these purposes, only productive farmers will benefit from direct payments for income support. Also, direct payments must be distributed more fairly among farmers, regions and Member States. Price volatility represents a “threat” for the long-term competitiveness of the EU agricultural sector. In order to counterbalance this risk, the CAP proposes the so-called “safety-nets” for the agricultural sectors that are most exposed to crises and to encourage the establishment of insurance systems and mutual funds.

In order to strengthen the environmental sustainability of the agricultural sector and to address the efforts of farmers, the CAP must redirect the direct payments system to economic practices that enable the optimal use of natural resources. These practices are environmentally-effective and simple to implement and they include: crop diversification, maintenance of permanent pastures, protection of green areas and of natural parks. In order to create a competitive agriculture, it is necessary to double the budget allocated to agronomic research and innovation, and to find solutions for putting its results into practice, by means of a new partnership for innovation. Such funds will contribute to encourage the transfer of knowledge and technical assistance for farmers, as well as to the support of research projects that are relevant for the agricultural environment, ensuring a closer cooperation between the agricultural sector and the scientific community.

In our opinion, in order to achieve the objectives of Europe 2020 Strategy, the CAP must ensure *a more competitive and balanced food production system*, by strengthening the farmers’ position. As some analysts consider (Spoerer, 2010), this goal may be achieved through a better support for producer organisations, inter-professional organisations and for the development of the “short networks” between producers and consumers (the decrease of the number of intermediaries). In order to encourage *agro-environmental development*, the CAP reform must take into account the specificity of each territory, encouraging national, regional and local agro-environmental initiatives. To this end, the protection of ecosystems, their restoration and climate action, as well as the optimal use of resources are priorities of the rural development policy.

At present, within the EU, two thirds of the farmers are over 55 years old. In order to support job creation and encourage young generations to get involved in the agricultural sector, the European Commission proposes the creation of a new “setting-up support”, directed at farmers under 40 year old, during the first five years of their project. Also, in order to promote employment and entrepreneurship, the European Commission proposes a series of measures for boosting economic activity in the rural areas and for encouraging local development initiatives. For example, a “start-up set” will be created in order to support micro-enterprise projects, with a five-year financing of up to EUR 70,000.

In some analyses (Lowe, P. & Buller, H., 2011) it is considered, in order to avoid useless administrative formalities, the simplification of several CAP mechanisms, namely the cross-compliance rules and the control systems, without entailing a loss of effectiveness. Moreover, the support granted to small farmers will also be simplified, with the establishment of a lump sum payment of EUR 500-1,000 per farmer per year. Land transfer from small farmers who cease their activity to other holdings that want to restructure their farms, will be encouraged.

**Figure 3: SWOT analysis of the contribution of CAP to the achievement of the Europe 2020 Strategy objective**

<p><b>STRENGTHS</b></p> <p><i>Policies to support the rural development, the increasing quality of life in rural areas and agricultural economy</i></p> <p><i>The GAL approach, as stated by LEADER experience</i></p> <p><i>Strategies and programs for diversification of the rural economy</i></p>
<p><b>WEAKNESSES</b></p> <p><i>CAP failed to sufficiently reduce the development gap and disparities related to quality of life between rural areas</i></p>
<p><b>THREATS</b></p> <p><i>Lack of information infrastructure enabling the rural population to benefit from the full support of the CAP</i></p> <p><i>Aging population in rural areas</i></p> <p><i>Rural depopulation</i></p> <p><i>Natural disaster threats that endanger EU agriculture</i></p>
<p><b>OPPORTUNITIES</b></p> <p><i>New approaches, technologies and innovations that may boost rural development</i></p> <p><i>Policies that encourage the development of human capital in rural areas</i></p> <p><i>The new structure of direct payments for farmers</i></p>

### **Conclusions**

The alignment of CAP objectives to those of the Europe 2020 Strategy complies with the subsidiarity principle, in the context in which this policy represents an area of competences shared between the EU and the Member States. Through the action of synchronising with the EU development objectives in the perspective of the years 2020s, the new reformed Common Agricultural Policy will enable the promotion of innovation, the increase of both economic and environmental competitiveness of the agricultural sector, the fight against climate change and the maintenance of employment and growth.

By maintaining the current two-pillar structure of the agricultural policy development instruments, Member States are given more discretion, in order to be able to better adapt Community solutions to their local particularities. Through all these elements, the future evolution of the CAP may essentially contribute to the preservation of a modern and competitive agriculture in the EU, capable of coping with climate change and international competition and meeting the expectations of EU citizens, at the same time.

Rural areas cannot be considered uniform territorial entities. Many of them currently enjoy a relatively favourable situation in the EU, especially with respect to their physical proximity to the large urban centres, which is a direct advantage. Other European territories are still exposed to the risk of facing an industrial recession related to certain circumstances that mainly result from the closing-down of a large enterprise. Some areas also face a series of geographically-related constraints that currently prevent them from accessing a fair share of the resources needed for the increase of competitiveness. Therefore, the development

challenges are bigger when attempting to establish or maintain a solid basis of employment in remote or peripheral areas.

Employment development in rural areas is closely related to the development of the regional economy's production structure. Since in view of a sustainable rural development, agriculture no longer represents the sole economic development "engine" for rural regions, the rural development policy needs to strongly and directly target the increase of employment in case of non-farm or non-agricultural activities, still taking into account, however, the need to involve farmers in the multi-sectoral development strategies. In this context, both specialization, and diversification may be successful strategies. As shown by the experience with the LEADER European programme, which supported the establishment of micro-enterprises and small and medium-sized enterprises (SMEs), as well as the access to information and communication technology (ITC), the actors having the necessary capacity (the knowledge, skills and ability) are the essential and decisive factor for job creation and the support of a sustainable rural development.

The central CAP objective in the perspective of the 2020s must be the increase of the competitiveness, sustainability and stability of agricultural production in the European Union, in order to guarantee healthy and qualitative food for the citizens in the member countries, in order to protect the environment and to develop the rural areas. The Common Agricultural Policy, especially through the second pillar, dedicated to rural development, has the needed instruments to contribute to the achievement of the objectives of the Europe 2020 Strategy, but the SWOT analysis (see figure 3) of this policy shows there is still room for future improvement in some of its areas.

The current reform process of this policy, which is a flexible and permanently evolving one, may contribute to the remedy of the "weaknesses" of this Community policy, since it intends, as shown in the Communication from the Commission, "The CAP towards 2020", to remodel the economic policy options meant to answer to the future challenges which EU agriculture and rural areas will face.

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