

IMPACT OF MANAGEMENT TENDENCIES OF THE COMMON AGRICULTURAL POLICY ON THE EUROPEAN UNION BUDGET

Kotulič R., Dubravská M.*

Abstract: Throughout the existing Common Agricultural Policy of the EU present European agriculture has changed its character beyond recognition. European population over time has lost conception about the way that present modern agro-food complex, which has increased its work during the last 50 years following the unsophisticated subsidy policy oriented on the production, works. An effort of the returning the competitive character to this branch has lead Common Agricultural Policy of the EU to the different reforms which consistent application should lead to the decrease of the disproportions between supply and demand on the agricultural production market.

Key words: CAP EU (Common Agricultural Policy of the European Union), CAP EU Financing.

Introduction

Agricultural policy is the oldest and the most developed one. It is followed by the social, regional and environmental policy. Its biggest problems are: formation of the large production surpluses, protectionism, damage of the environment, competitiveness. In the original version, agricultural policy was conceived to solve the problems of the founding states in the period after the World War II when there was a lack of the foodstuff.

Throughout the existence of the Common Agricultural Policy of the EU, present European agriculture has changed its character unrecognizable. Idea of the yeoman (small farmer) living the nearest way to the nature is very idyllic and it borders with the naive view of the present people of the 21st century.

The issue of agricultural policy is even nowadays very actual. This fact has been confirmed by publication of many interesting scientific studies (Colombo and Glenk, 2014; Kirschke, 2014; Lomba et al., 2014; Meyer et al., 2014; Mouysset, 2014; Peters and Gregory, 2014; Rudow, 2014; Kuzevičová, 2013; Rajcaniova et al., 2013; Rizov et al. 2013).

Description of data and methods applied

The aim of the Scientific Paper is to evaluate trends in the process of the reformatory changes of the Common Agricultural Policy of the EU (CAP EU) and trends in the agricultural funding from the point of view wider context connected with the reformatory periods CAP EU. Scientific Paper contributes to the solution of the partial aims of the projects VEGA 1/0541/11 and KEGA 013PU-4/2011.

* **Rastislav Kotulič, PhD Eng., Mariana Dubravská, PhD Eng.,** University of Prešov, Faculty of Management.

✉ corresponding author: rkotulic@unipo.sk

Base data were gained from the official data of the European Commission, scientific papers, publications and from the internet. From the content aspect Scientific Paper analyses development of the reformatory tendencies of the Common Agricultural Policy EU during the period of its existence and the ways of the CAP EU funding in the last time (Huttmanová et al., 2013; König et al., 2004; Liberko and Širá, 2011; Širá, 2013; Vincúr, 1997).

By the aim realization, different standard scientific research methods were used, e.g. comparative method, analyse and a synthesis. By the evaluation process, standard mathematic-statistical relations and numerical calculations were used.

Results

Basics of the CAP EU were formed in the 50s years of the last century, regarding to its establishment in the EEC Treaty in the articles 32-33 part II. The Treaty of Rome establishing the CAP in 1957 defined the tendency of the governments to provide by grants adequate standard of living, especially by the rise of the individual incomes of the persons working in the agriculture, to stabilize the markets and to provide food supply properly. System of the grants, duties and intervention buying was established by conviction of the individual governments that without their intervention the market with the agricultural commodities would collapse and people would starve.

A cap reform has continued till nowadays and present state of the main goals and principles totally differs from the original policy direction. First reformatory steps were started in the half of the 80s of the 20th century. In that period two main tools were set up: production quotas and guarantee thresholds. Quota was defined as a tool limiting the production to get the better coincidence of the supply and demand. Term maximum guaranteed quantity was first time used with the specification of the guarantee threshold. The tendency was to regulate farmers to the required production and to prevent its crossing.

First complete CAP reform took time in the first half of the 90s and it was known as a MacSharry reforms (1992). Attempts to reverse unfavorable state in the production in the 80s did not lead to overproduction removal and were considered as insufficient. This reform was characterized by two main facts. The determination of the low prices of the strategical agricultural commodities and subsequent compensation of the impacts of the decrease of the prices on the farmer incomes by the mechanism of the direct payments. Reform, among other things, started to deal with the ecological aspects and with a tendency to avoid the displacement of the rural areas (Šulcová, 2007).

Another extensive reform called „Agenda 2000“(1999) directed policy to the establishment of the sustainable agriculture focused on the economic development of the countryside. Within the production regulation and the prevention of its re-accumulation, it has continued with the reform of the segregation of the support from production. It is called „Decoupling“– gradual segregation from the

production. Reform has considered as a necessary to create a free place for farmers so they can produce as much production as the market actually wants.

In the 2003 „Agenda 2000“ was evaluated and its other revision was proposed. New reform elaborates more in detail basics of the Macsharry reforms and it use to be marked as Fischler reform according to then European commissioner Hanz Fischler (Baldwin and Wyplosz, 2008). This reform contents in contrast with previous reforms some significant modifications (Fojtíková and Lebiezík, 2008). Reactions of the member states about this reform were contradictory, countries counted with continuation of the reform from 1999. Significant mark of the reform was the separation of the payments from production (Decoupling) what has meant implementation of the single payments for the farm (Single Payment Scheme), that has involved payments for the crop and livestock production. System of payments has partly abolished dependence of the grants on the amount of production. But the complete separation was not considered. The aim is to keep production and to not finish the foodstuff production. Introduction of the single payments was counted on firstly from 2005. In the countries which has entered in 2004 transition period was applied.

The main aim of the proposed revision of the CAP was: to cancel the bond between the retirement of the single payments to farmers for the production, to condition direct payments by observing the legislation about the environment, food safety, animal welfare and safety at work, to increase the support of the development of the rural areas by „modulation“ of the direct payments from all farmers with the exception of small ones, to implement new audit system on farms and new measures for the development of the rural areas focused on the improvement of the production quality, food safety and animal welfare (Lukáš and Neumann, 2000).

Control of the CAP EU that would lead to the revision of the European Union budget directed to the CAP, called „Health Check“ has been running from 2008.

Key items of the CAP „Health Check“ are (Kotulič and Dubravská, 2012):

- gradual cancellation of the milk quotas,
- separation support from production,
- help for the sectors with specific problems (arrangement according the Article 68),
- prolongation of the mode of single payments on the area,
- additional financial resources for farmers of the EU-12 countries so they can easier exercise arrangement of the Article 68,
- transfer of the financial resources from the direct support on the development of the rural areas,
- investment support for young farmers,
- cancellation of the requirement that producers on the arable land should left 10% of the land without any production,
- cross fulfilments, intervention mechanism and the other arrangements.

Common Agricultural Policy EU was during 1970-2006 funded by European Agricultural Guidance and Guarantee Fund (EAGGF). Income part of this fund was created from the European budget sources, from the contributions of the farmers for the shared responsibility, from the taxes from the sugar and glucose and from the various variable fees.

Expenditure part of the fund was from the 1964 created by two sections. Regulative section was set for financing of the rural areas within structural changes and warranty section served for covering expenditures of the CAP, especially concerning expenditures on intervention measures (intervention prices, export support, etc.) and on the direct payments. Warranty section covered mainly 90% of the all CAP expenditures.

CAP financing is realized by two funds from 2007. First one is European Agricultural Guarantee Fund (EAGF) which has taken over functions of the warranty section of EAGGF. Second one is European Agricultural Fund for Rural Development (EAFRD) which has taken over functions of the regulative section of the EAGGF.

System of the receiving sources from funds is based on the advance payments of the members' states with the annual account. Financial resources for the final recipients are paid by accredited paying agencies (in Slovak Republic APA, Agricultural Paying Agency). After the financial year member state presents European Commission all documents about the expenditures. These are after the approval paid and European Commission elaborates Final report that is submitted to the Council and Parliament.

Table 1. Financial view of the European Union liabilities in the years 2000-2006 (mil. EUR, in current prices) (European Commission, 2006; European Commission, 2009)

| <i>Liability items / years</i> | <i>2000</i> | <i>2001</i> | <i>2002</i> | <i>2003</i> | <i>2004</i> | <i>2005</i> | <i>2006</i> | <i>Total 00 - 06</i> |
|---------------------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------------|
| Agriculture | 41 738 | 44 530 | 46 587 | 47 378 | 49 305 | 51 439 | 52 618 | 333 595 |
| from that: agriculture (without the development of the countryside) | 37 352 | 40 035 | 41 992 | 42 680 | 42 769 | 44 598 | 44 847 | 294 273 |
| development of the countryside and accompanying measures | 4 386 | 4 495 | 4 595 | 4 698 | 6 536 | 6 841 | 7 771 | 39 322 |
| Structural operations | 32 678 | 32 720 | 33 638 | 33 968 | 41 035 | 42 441 | 44 617 | 261 097 |
| Internal policies | 6 031 | 6 272 | 6 558 | 6 796 | 8 722 | 9 012 | 9 385 | 52 776 |
| External policies | 4 627 | 4 735 | 4 873 | 4 972 | 5 082 | 5 119 | 5 269 | 34 677 |
| Administration | 4 638 | 4 776 | 5 012 | 5 211 | 5 983 | 6 185 | 6 528 | 38 333 |
| Reserves | 906 | 916 | 676 | 434 | 442 | 446 | 458 | 4 278 |
| Pre-accession assistance | 3 174 | 3 240 | 3 328 | 3 386 | 3 455 | 3 472 | 3 566 | 23 621 |
| from that: agriculture | 529 | 540 | 555 | 564 | | | | 2 188 |
| Compensatory payments | | | | | 1 410 | 1 305 | 1 074 | 3 789 |
| Total Liability items | 93 792 | 97 189 | 100 672 | 102 145 | 115 434 | 119 419 | 123 515 | 752 166 |
| Agriculture as a percentage of the total liabilities | 40.39% | 41.75% | 42.26% | 42.34% | 38.27% | 38.44% | 37.18% | 39.92% |

From the point of view of the expenditures, Common Agricultural Policy is the most difficult policy about the financial resources within the European Union. Expenditure costs of the CAP created in the past financially most difficult chapter of the EU Budget. Table 1 elucidates financial difficulty of the CAP by the expenditures of the warranty section of the EAGGF that was at that time linked mainly with the expenditures on the support and the stabilization of the production. Increasing tendency of the expenditures influenced whole rank of factors; the most important is total economic growth of the EU member states as well as the growth of the number of the single member states.

Table 2. Financial view of the European Union liabilities in the years 2007 - 2013 (mil. EUR, in current prices) (European Commission, 2006; European Commission, 2009)

| <i>Liability items/years</i> | <i>2007</i> | <i>2008</i> | <i>2009</i> | <i>2010</i> | <i>2011</i> | <i>2012</i> | <i>2013</i> | <i>Total 07-13</i> |
|---------------------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------------|
| Sustainable development | 53 979 | 57 653 | 59 700 | 61 782 | 63 638 | 66 628 | 69 621 | 433 001 |
| from that: competitiveness for the growth and employment | 8 918 | 10 386 | 11 272 | 12 388 | 12 987 | 14 203 | 15 433 | 85 587 |
| coherence for the growth and employment | 45 061 | 47 267 | 48 428 | 49 394 | 50 651 | 52 425 | 54 188 | 347 414 |
| Natural sources | 55 143 | 59 193 | 59 639 | 60 113 | 60 338 | 60 810 | 61 289 | 416 525 |
| from that: expenditures related with the market and direct payments | 45 759 | 46 217 | 46 679 | 47 146 | 47 617 | 48 093 | 48 574 | 330 085 |
| Citizenship, freedom, safety and justice | 1 273 | 1 362 | 1 523 | 1 693 | 1 889 | 2 105 | 2 376 | 12 221 |
| European Union as a global partner | 6 578 | 7 002 | 7 440 | 7 893 | 8 430 | 8 997 | 9 595 | 55 935 |
| Administration | 7 039 | 7 380 | 7 699 | 8 008 | 8 334 | 8 670 | 9 095 | 56 225 |
| Compensatory payments | 445 | 207 | 210 | | | | | 862 |
| Total Liability items | 124 457 | 132 797 | 136 211 | 139 489 | 142 629 | 147 210 | 151 976 | 974 769 |
| Agriculture as a percentage of the total liabilities | 37.12% | 34.96% | 34.42% | 33.80% | 33.39% | 32.67% | 31.96% | 33.95% |

We can see decreasing tendency from the point of view of expenditures on the agriculture to the total EU budget (more Table 1, 2). This decreasing tendency can be justified that by running time other policies were gradually transferred on the EU (in the 70s of the 20th century from the point of view of the financial provision CAP was the only fully transferred policy on the Union).

Within the period 2007-2013 single budget chapters of the EU were renamed so that single titles of the chapters were in accordance with revised Lisbon strategy which priority item is increasing EU competitiveness and regions convergence (chapter „Sustainable development“).

Originally separate chapter „Agriculture“ that consumed most financial resources is included in the period 2007-2013 in the second chapter called „Natural sources“ in which more than 75% of expenditures are linked with agriculture market and direct payments. These modified budget chapters present an effort of the EU in decreasing of the total expenditures on the CAP and reorientation on the knowledge-based economy, development, research of the new technologies and

environment protection. On the base of the historical facts objectively decrease of the resources for the farmers and increased support for the chapter „Sustainable development“(with two important subchapters called „Competitiveness for the growth and employment“and „Coherence for the growth and employment“) is being happened.

As the convergence is the main aim of the programming period 2007-2013, financial resources from the EU structural funds and Cohesion Fund are directed to the projects focused mainly on the support of the employment growth, to the development of the society based on the knowledge and on the environment protection.

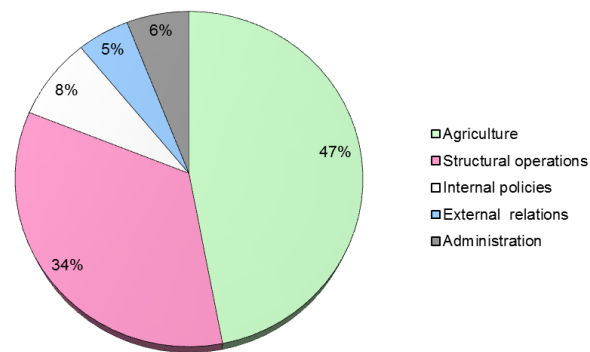


Figure 1. Gross comparison of the expenditures for the main chapters of the EU budget in the period 2000-2007

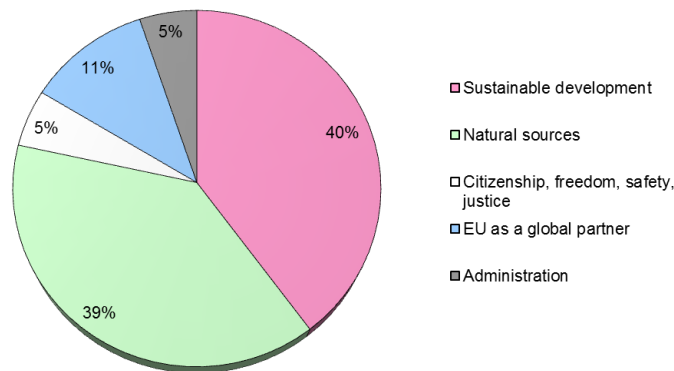


Figure 2. Gross comparison of the expected expenditures for the main chapters EU budget in the period 2007-2013

MacSharry reforms have started new tendency in the development of the expenditures on the Common Agricultural Policy. These have started to decrease in proportion to the Gross National Product (GNP) from the 1992. Real expenditures on the CAP have henceforth increased. The primary reason of the expenditures growth is further EU spreading, in the 1986 by Spain and Portugal, in the 1995 by Austria, Finland and Sweden. In the medium-time horizon, it is not possible to suppose the change in the tendency as in the last time 12 countries have joined the EU and all of them are authorized to get direct payments according to the determined schemes (Kotulič and Dubravská, 2012).

Conclusion

CAP EU reform is an important step to the market mechanism as it put the prices of the main commodities on the level of the world prices. The main aim of the reform should be a support of the competitive, market oriented and sustainable agriculture.

Effective and competitive agriculture would support viability of the rural economy and would stay an important part of the rural activities. Production support decreasing would have an effect in a lower workforce in agriculture. The result of this process would be reduction of the European agricultural production and used resources.

By mentioned it is possible to state that problems of the agrarian market would in the higher and lower rate repeat, therefore also process of the present CAP EU reform has not been finished and it will need gradually implementation of the other measures focused on the removal of the animosities towards the market mechanism formed by former exaggerated subsidy policy focused on the intensive production.

Supported by the Scientific Grant Agency of the Ministry of Education (Project VEGA No. 1/0115/15 on the topic: Analysis of determinants and factors affecting the efficiency and competitiveness of entities working the soil in the Slovak Republic; Project KEGA No. 032PU-4/2013 on the topic: E-learning application by training of the economic subjects of the study program Management and new accredited study programs at the Faculty of Management University of Presov in Presov); Project KEGA No. 032PU-4/2014 on the topic: Preparation of educational materials for the first level of study programme Environmental Management and follow-up study programme Environmental Management.

References

- Agenda 2000, 1999, *For a stronger and wider Union*, [Available at: <http://aei.pitt.edu/3137/01/000033.PDF>; Access on: 10.01.2009].
- Baldwin R., Wyplosz Ch., 2008, *Ekonomie evropské integrace*, Praha, Grada Publishing.
- European Commission, 2006, *Souhrnný rozpočet Evropské unie pro rozpočtový rok 2006*, [Available at: http://ec.europa.eu/budget/library/publicationsbudget_in_fig/syntchif_2006_cs.pdf, Access on: 10.01.2010].

- European Commission, 2009, *Souhrnný rozpočet Evropské unie pro rozpočtový rok 2009*, [Available at: http://ec.europa.eu/budget/library/publications/budget_in_fig/syntchif_2009_cs.pdf, Access on: 10.01.2010].
- Fojtíková L., Lebiecz M., 2008, *Společné politiky EU*, Praha, C.H. Beck.
- Colombo S., Glenk K., 2014, *Social preferences for agricultural policy instruments: joint consideration of non-attendance to attributes and to alternatives in modelling discrete choice data*, "Journal of Environmental Planning and Management", 57(2).
- Huttmanová E., Adamišín P., Chovancová J., 2013, *Assessment of the current state of environment in the Slovak republic with the use of green growth indicators*, [in:] *International Multidisciplinary Scientific GeoConference Surveying Geology and Mining Ecology Management, SGEM*, Sofia, STEF92 Technology.
- Kirschke D., Koester U., Häger A., 2014, *Does the European common agricultural policy offer value for money?*, "Wirtschaftsdienst", 94(4).
- König P., Lacina L. et al., 2004, *Rozpočet a politiky Evropské unie*, Praha, C.H. Beck.
- Kotulič R., Dubravská M., 2012, *Koncepcia Spoločnej poľnohospodárskej politiky a jej dopad na rozpočet Európskej únie*, [in:] *Zborník recenzovaných príspevkov z medzinárodnej vedeckej konferencie MVD 2012*, Nitra, FEM SPU v Nitre.
- Kuzevičová Ž., Gergelová M., Naščáková J., Kuzevič Š., 2013, *Proposal of methodology for determining of potential residual biomass for agriculture and forestry in Slovak Republic*, "Acta Montanistica Slovaca", 18(1).
- Liberko I., Širá E., 2011, *Competitiveness of Slovak wood processing industry*, "Intercathedra", 27(3).
- Lomba A., Guerra C., Alonso J., Honrado J.P., Jongman R., McCracken, D., 2014, *Mapping and monitoring High Nature Value farmlands: Challenges in European landscapes*, "Journal of Environmental Management", 143.
- Lukáš Z., Neumann P., 2000, *Společná zemědělská politika EU- Regionální a strukturální politika EU*, Praha, Vysoká škola Ekonomická v Praze.
- Meyer C., Matzdorf B., Müller K., Schleyer C., 2014, *Cross Compliance as payment for public goods? Understanding EU and US agricultural policies*, "Ecological Economics", 107.
- Mouysset L., 2014, *Agricultural public policy: Green or sustainable?* "Ecological Economics", 102.
- Peters R., Gregory M., 2014, *Networking, Small Farms and EU Rural Development Policy*, "EuroChoices", 13(1).
- Rajcaniova M., Drabik D., Ciaian P., 2013, *How policies affect international biofuel price linkages*, "Energy Policy", 59.
- Rizov M., Pokrivcak J., Ciaian P., 2013, *CAP Subsidies and Productivity of the EU Farms*, "Journal of Agricultural Economics", 64(3).
- Rudow K., 2014, *Less Favoured Area payments- impacts on the environment, A German perspective*, "Agricultural Economics (Czech Republic)", 60(6).
- Širá E., 2013, *Analysis of Slovak agricultural position from the perspective of selected indicators and Slovak regions*, "Polish Journal of Management Studies", 8.
- Šulcová Z., 2007, *Spoločná poľnohospodárska politika EU – vybrané problémy* (Magister thesis), Brno, Masarykova univerzita.
- Vincúr P. et al., 1997, *Hospodárska politika*, Bratislava, EU Bratislava.

WPLYW ZAŁOŻEŃ WSPÓLNEJ POLITYKI ROLNEJ W OBSZARZE ZARZĄDZANIA NA BUDŻET UNII EUROPEJSKIEJ

Streszczenie: Dzięki istniejącej Wspólnej Polityce Rolnej UE współczesne rolnictwo europejskie zmieniło swój charakter nie do poznania. Ludność europejska z upływem czasu zatraciła koncepcję działania nowoczesnego kompleksu rolno-spożywczego, który zwiększył swoją produktywność w ciągu ostatnich 50 lat podążając niewyszukaną polityką dotacji, zorientowaną na produkcję. Wysiłek związany z odzyskaniem charakteru konkurencyjnego rolnictwa wymusił na wspólnej polityce rolnej UE przeprowadzenie różnych reform, których konsekwentne stosowanie powinno doprowadzić do zmniejszenia dysproporcji między podażą i popytem na rynku produkcji rolnej.

Słowa kluczowe: WPR UE (Wspólna Polityka Rolna Unii Europejskiej), finansowanie WPR UE.

共同農業政策的管理傾向對歐盟預算的影響

摘要：在整個歐盟目前歐洲農業的現有的共同農業政策已經改變了面目全非的性格。歐洲的人口隨著時間的推移已經失去了受孕有關呈現現代農業食品複雜的方式，在過去50年以下為本的生產不成熟的補貼政策，加大了工作，工作。競爭字符回到這個分支的努力已導致歐盟共同農業政策的改革不同而一致的應用程序應該導致供給和需求之間的比例失調的農業生產市場上的下降

關鍵詞：履約歐盟（歐盟的共同農業政策），歐盟履約融資