

## COMMON AGRICULTURAL POLICY (CAP) – FOR INCREASING EU COMPETITIVENESS IN GLOBAL MARKET

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**Abstract.** *EU is the largest economy in the world. It's the world's largest trading block and largest trader of manufactured goods and services. Despite the good position in global market the situation changes and EU must use all its strengths to keep its prime position in the global trade. The Common Agricultural Policy (CAP) is one of the oldest policies of the European Union and it has developed agricultural sector for more than 50 years. CAP 2007-2013 has been implemented and new CAP period 2014-2020 is already in force. These are more than 130 billion EUR per year that will be used for agricultural and rural development. How does the CAP 2014-2020 will be used to promote common EU market and common offer for global market? How agriculture and food production could increase EU competitiveness in global market? CAP has created economical strengths over past years but to improve and develop EU agriculture it must solve the weaknesses that include also social, political and technological improvements. CAP should be focused on developing common agriculture in Europe with increasing all Europe competitiveness in global markets.*

**Key words:** *agriculture, common agricultural policy, competitiveness, rural development, global trade.*

### INTRODUCTION

The EU still is the largest economy in the world with its 500 million consumers. It's the world's largest trading block and largest trader of manufactured goods and services. Despite the good position in global market the situation changes and EU must use all its strengths to keep its prime position in the global trade. Since 2005 to 2013 EU share in world trade on goods has decreased from 17,9% to 15%. EU and US as well losses their share in world market and developing countries like Russia, India, Brazil although slowly but steady increase its share in the world trade. Special mention if for China that has rapidly increased its share in world trade on goods from 8,5% to 13,7% in last 8 years [2] To strengthen EU economical influence and share in global market a lot of trade agreements have been made.

EU agriculture and food products have good reputation in world market. There are 12 million farms and 25 million people (5% of all EU inhabitants) involved in agricultural production in EU. To support development of EU agriculture there has always been Common agricultural policy (CAP) since 1962 and it's still important role for agriculture and food producing in Europe. Although CAP has promoted export volumes, statistical data shows that only 4,9% of EU-28 export and a small part – 5,9% of EU-28 import has been food and live animals, animal and vegetable oils, waxes and fats [2]. The issue is how to ensure sustainable development for agriculture and rural areas at the time when economical competitiveness in global market has became priority.

There were 12.2 million farms in the EU-28 in 2010, with the vast majority of these (96.9 %) classified as family farms. Across all of the farms in the EU-28, family farms provided 86.2% of the regular agricultural labour force and reared 71.1% of all livestock in 2010. [6]. There were a large number (5.7 million or almost half of all holdings) of very small farms (less than 2 hectares in size) that farmed a small proportion (2.5%) of the total land area used for farming in 2010 and, on the other, a small number (2.7% of all holdings) of very large farms (over 100 hectares) that farmed one-half (50.2%) of the farmland in the EU-28. [7] This is also reflected in the economic size of holdings: there were 5.5 million holdings (44.6 %) which had a standard output below EUR 2 000. Many of farms, smaller than 2 ha, are characterized as semi-subsistence farms – more than 50% of their output is self-consumed [5]. By developing small farms and through increasing a standard output up to and more than EUR 2000, the economical growth for EU would be significant.

Common agricultural policy (CAP) should be focused on developing common agriculture in Europe with increasing all Europe competitiveness in global markets. But instead of that, CAP has been used to increase

benefits and competitiveness for each of the member states instead of building common European market offer for global markets.

EC Agricultural commissioner and representatives of EC and EP point out that the European agriculture meets a lot of challenges but does the CAP 2014-2020 really meet them? Does common policy faces the challenges for each of its regions and creates a common EU region for stronger position in world market?

## METHODS

To analyze potential of CAP 2014-2020 for increasing EU global competitiveness there were 30 interviews done with experts on agriculture and rural development from 27 Member states – Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxemburg, Malta, Netherlands, Poland, Portugal, Romania, Slovenia, Spain, Sweden, United Kingdom.

The experts were asked to evaluate the CAP 2014-2020 and their national Rural Development Programmes (RDPS) 2014-2020 on behalf of developing agriculture and increasing competitiveness of EU agriculture and food products in global market. Experts as farmers themselves and as national representatives of farmers in member states were appropriate group to analyze CAP 2014-2020 as a tool for increasing EU competitiveness in global market.

Interviews were made on March 2014 – March 2015 when drafts of National RDPS 2014-2020 were developed and the first RDPS 2014-2020 were approved by European Commission.

Expert views were grouped in “strengths” and “weaknesses” for SWOT (strengths, weaknesses, opportunities, threats) analyses and evaluated by using PEST (political, economic, social, technological) analyses.

## RESULTS AND DISCUSSION

Common Agricultural policy 2007-2013 has been implemented and new CAP period 2014-2020 is already in force. That means that the new development agenda for rural areas for seven year period in EU is stated.

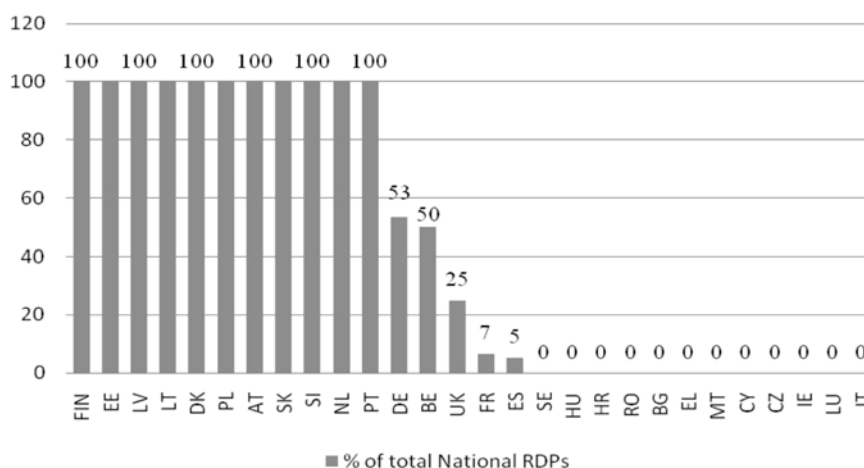
The new policy continues along this reform path, moving from product to producer support and now to a more land – based approach. This is in response to the challenges facing the sector, many of which are driven by factors that are external to agriculture. These have been identified as

- economic (including food security and globalization, a declining rate of productivity growth, price volatility, pressures on production costs due to high input prices and the deteriorating position of farmers in the food supply chain),
- environmental (relating to resource efficiency, soil and water quality and threats to habitats and biodiversity) and
- territorial (where rural areas are faced with demographic, economic and social developments including depopulation and relocation of businesses) [1].

The goal that CAP 2014-2020 strives for is sustainable development and CAP document contains a lot of references for ensuring sustainability in rural areas. CAP 2014-2020 focus on:

- knowledge transfer and innovation in agriculture, forestry and rural areas,
- farm viability,
- the competitiveness of all types of agriculture in all regions and promoting innovative farm technologies and the sustainable management of forests,
- the organisation of the food chain, including the processing and marketing of agricultural products,
- animal welfare,
- risk management in agriculture, restoring, preserving and enhancing ecosystems that are related to agriculture and forestry, to the promotion of resource efficiency and the shift towards a low carbon economy in the agricultural, food and forestry sectors,
- promoting social inclusion, poverty reduction in and the economic development of rural areas [8].

Although the new period for CAP has started on 2014 there are only 17 (out of 118) national RDPS approved by European Commission up to February 13, 2015. Only 11 EU Member states has approved RDPS for 2014-2020, 5 Member states has approved one or several RDPS per country but there are still 12 EU Member states were neither national neither any of regional RDPS are approved.



Source: created by the authors, based on information of European Commission [3],[4].

Figure 1. **Approved Rural Development Programmes** (data on 01.03.2015)

RDP 2014-2020 are approved for Finland, Estonia, Latvia, Lithuania, Denmark, Poland, Austria, Slovakia, Slovenia, Netherlands and Portugal. There are 8 (out of 15) RDPs approved for Germany, 1 (out of 2) – for Belgium, 1 (out of 4) – for United Kingdom, 2 (out of 30) – for France and 1 (out of 19) – for Spain. All other EU Member states don't have RDP approved by European Commission.

When the second year of period 2014-2020 has started only 35,95% of total EAFRD budget has been approved. That means that the largest part of EU farmers lives in suspense of new regulations and possibilities of their national or regional DRP. On CAP 2014-2020 there are essential changes like greening measures that are still unclear for farmers in all Member states as this is a new compulsory measure that farmers must take into account. Even more, the investment flow has almost stopped in large number of farms by waiting for RDP 2014-2020 activities and financial support.

The situation on CAP 2014-2020 implementation in this moment multiplies uncertainty and insecurity of farmers. Here will be two seasons spent (2014 and 2015) on waiting for final obligations and measures instead of putting clear and ambitious agricultural processing into action.

Expert interviews affirmed that there is a large uncertainty between farmers and even governments because of new CAP 2014-2020 and situation that for the largest part of EU Member states the CAP is not approved. Even on February 2015 DG AGRI was still working on implementation measures for greening when few of the Member states had already approved RDPs with only few options to change anything on approved RDP's document.

Experts indicated on several main strengths for EU agriculture and market but there were more weaknesses identified in this period when there are a lot of issues unsolved in agricultural policy.

As the main strength for EU agriculture was designated high quality and safety for EU food products and EU quality is a strong and positive brand in global markets. Experts point out that the large number of farms could become advantage of EU agriculture targeted support will be for increasing knowledge on agriculture and entrepreneurship for small farmers and productivity for small farms. The produced volume could increase rapidly and together with developing cooperatives that could become an economical growth for EU economy and export markets. Experts are consentaneous that common agricultural policy is important tool for EU agriculture and that has promoted development of larger farms that becomes more conversant and professional with innovative and modern technologies to produce more effective – faster, cheaper and larger volumes.

The weaknesses for EU agriculture has been mentioned high production costs that reduce competitiveness of EU farmers in global market. Different conditions as environmental protection, animal welfare, social requirements, special packaging rules, public information and others serves as a basis for qualitative and safe production but at the same time increases production costs much higher as it is in other countries with lower social un economical conditions.

One more important case that weakens common EU position in global market is that Member States does not work and develop with common goal to ensure the best offer for global demand but they compete for better

conditions and internal market share between themselves within EU. Different history of national agriculture and food production as well as different experience as EU Member states has created unequal situation between EU Member states. CAP 2014-2020 doesn't solve this problem – inequality of agricultural sector between different countries will continue and perhaps even increase because the subsidies (Pillar I) still will be very unequal. The political situation in EU agriculture won't create a common agriculture and offer for global market because there is internal competitiveness between EU member states.

Farmers have realized that global market and changes in that has essential impact on their farming. Farmers are dependent on world market prices for raw materials, minerals, fuel as well as prices of grains, milk, meat and vegetables. It becomes hard to predict the prices for the products that has been grown or produced. Farmers are dependent and vulnerable in global market and common agricultural policy could help to manage uncertainty. As essential weakness for European agriculture was indicated uncertainty with CAP implementation and approval of RDPs 2014-2020.

Table 1

**SWOT for European agriculture and market**

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>– 12 million farms</li> <li>– Small farms that ensure working places</li> <li>– Increases average size of the farm</li> <li>– Strong farmers' cooperatives</li> <li>– Financial support – subsidies for farmers</li> <li>– Latest equipment and technologies for more productive agriculture</li> <li>– High quality and safety for food products</li> <li>– Knowledge and experience</li> <li>– Large internal market for agricultural production</li> <li>– EU quality is brand in global market</li> </ul>	<ul style="list-style-type: none"> <li>– High production costs</li> <li>– Low competitiveness in global markets</li> <li>– Inequality between member states</li> <li>– Food import from third countries</li> <li>– Aging, lack of young farmers</li> <li>– Influence of global market – unstable prices, international and transatlantic trade agreements</li> <li>– Lack of agricultural education for farmers</li> <li>– Lack of entrepreneurship skills for farmers, especially for small scale farmers</li> <li>– Lack of agricultural work force, especially seasonal workers</li> <li>– Decreases number of small farms. Farming becomes large scale farming.</li> <li>– Internal competitiveness between EU member states</li> <li>– Dependence on external markets - suppliers of raw materials</li> <li>– Complicated implementation of new CAP regulations</li> <li>– Uncertainty of new CAP implementation</li> <li>– Lack of long term CAP</li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>– CAP as tool for building common agriculture in EU, common offer for global market</li> <li>– To develop cooperation and cooperatives for producing best demanded products in global market</li> <li>– To increase common competitiveness of EU agriculture in global market</li> <li>– Long term development policy (20-30 years) for agriculture and rural development in EU</li> <li>– Investments to increase knowledge and experience for famers on agriculture and business</li> <li>– Significant support for young farmers</li> </ul>	<ul style="list-style-type: none"> <li>– Climate changes</li> <li>– International and transatlantic trade agreements where development and competitiveness of internal agriculture is not the priority for EU</li> <li>– Internal competitiveness to have larger share on EU internal market</li> <li>– Lack of investments</li> <li>– Instability of markets and policy</li> <li>– Lack of workforce</li> </ul>

*Source: created by the authors, based on the interviews of 30 field experts from Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxemburg, Malta, Netherlands, Poland, Portugal, Romania, Slovenia, Spain, Sweden, United Kingdom.*

If evaluate strengths and weaknesses by using PEST analyses its shows that the largest part (almost all) of strengths are economical but from weaknesses it is not so clearly. There are political, economical, social and technological improvements to be done in EU agriculture to increase its competitiveness and effectiveness.

Agriculture has a strong link with rural social and economic development. Agricultural business is not only about investments on technologies and increasing market share, it has to take into account different social conditions – availability of employees, education and experience of employees, common social and economic development in region were the farm is located. Investments in technologies are important to increase effectiveness and productivity of farms. Political will and action must be involved to ensure clear conditions for farmers on CAP 2014-2020 implementation.

Opportunities for increasing EU competitiveness in global market are to implement political will and as additional vision for CAP of seven year period develop CAP for next 20-30 years. Long term vision will ensure purposeful improvements in any internal or external challenge. There must be a vision of common agricultural policy with common EU offer for global market. Each Member state must be a part of common EU and the CAP funding must be used to promote socio-economic return for all EU inhabitants.

## CONCLUSIONS

Common Agricultural Policy (CAP) has created economical strengths over past years. To improve and develop EU agriculture it must solve the weaknesses that include also social, political and technological improvements.

CAP should be focused on developing common agriculture in Europe with increasing all Europe competitiveness in global markets.

EU must use all its strengths to keep its prime position in global trade – agriculture and food production has potential if all EU market will cooperate as single supplier instead of 28 internal competitors.

CAP should be concentrated to strengthen EU member states as single and strong region to meet global needs and challenges. Mutual competition between member states weakens EU position in world trade.

CAP budget must be used for increasing knowledge on agriculture and entrepreneurship for small farmers and productivity for small farms.

CAP should support increase of productivity for small semi-subsistence farms that could rapidly increase total volume of production in EU. Increase productivity for small farms together with developing cooperatives could become an economical growth for EU economy and its export markets. Small farms would save jobs and stop rural depopulation.

## ACKNOWLEDGEMENTS

The preparation of the paper was supported by the National Research Programm 5.2. Economic Transformation, Smart Growth, Governance and Legal Framework for the State and Society for Sustainable Development-a New Approach to the Creation of a Sustainable Learning Community, Project EKOSOC\_LV

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