

## FORMER AND FUTURE REFORMS OF COMMON AGRICULTURAL POLICY OF THE EUROPEAN UNION

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### Summary

*The European Union marks fifty years of existence of Common Agricultural Policy. This policy has been reformed since 1962 to date in accordance with the circumstances prevailing in the Union and diverse impacts from the international market. The fact that the European Union has grown from a union of six states into a union of twenty-seven states is sufficient to justify numerous reform interventions within the Common Agricultural Policy. The aim of the present paper is to analyze the former course of development of the most integrated policy of the European Union, as well as the proposals for its future reform. Considering the obtaining of candidacy for membership and forthcoming actualization of the negotiations between the Republic of Serbia and the European Union in every, accordingly, in the segment of agriculture, the authors of the present paper deem important to perceive the current changes in the European agricultural policy.*

**Key words:** *European Union, Common Agricultural Policy, Reforms, Subsidies*

**JEL:** *Q18*

### Introduction

One of the reasons for the union of European Countries and cornerstone of the European integration – Common Agricultural Policy, is marking its fifty years of existence in 2012. Five decades of certainty in supply of European consumers with agricultural and food products are deemed the most valuable contribution by the Common Agricultural Policy. Nevertheless, the care for providing sufficient food quantities that has kept the citizens of the European Union occupied during the sixty years of the twentieth century was replaced by a tendency towards sustainable use of natural resources and cutting down the negative effects of the climate change.

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The current global circumstances are marked by the accumulated issues related to economic and social development and consequences of a direct economic crisis that has affected the European Union as well. For this reason a new reform of the Common Agricultural Policy is necessary, hence, the marking of fifty years of its existence may serve as an ideal occasion to organize numerous debates on its future and make a significant shift in its orientation. In addition to the entities that are directly or indirectly related to the agricultural sector, the Union has estimated that it would be highly advantageous for the future reforms of the Common Agricultural Policy to involve citizens in the discussions as consumers of agricultural-food products. Accordingly, equal participation in the creation of a new Common Agricultural Policy is taken by: the European Commission, other Union institutions related through their work to the agricultural sector, farmers associations, various non-government organizations and representatives of local rural communities.

### **Initial aims of the Common Agricultural Policy of the European Union**

Considering that the European Union was faced with the deficit of agricultural food products after the end of World War 2, it tried to resolve its food self-sufficiency by applying adequate measures of agricultural policy. It is no wonder, therefore, that the policymakers of main principles and aims of the Common Agricultural Policy were preoccupied in the course of fifty years of the past century with finding, first of all, a way to significantly increase the agricultural production within the European “six”. It was impossible to imagine at the time that just a couple of decades later, the key problems in the domain of the agricultural sector will be the growing budget burdens caused by financing of enormous stocks of basic agricultural products.

It is necessary to point out that with the creation, namely, starting of implementation of the Common Agricultural Policy after 1950, an idea was conceived to introduce a multinational cooperation in the domain of agricultural sector in Western Europe, which was actually the first step on the route of development of the Common Agricultural Policy. Encouraged by the success of cooperation within the European Community in the domain of coal and steel, the European Council began negotiations on establishing cooperation and integration in the sphere of agriculture. A debate was launched by presenting proposals of all member countries for the framework of common policy for orienting the development of the agricultural sector. The proposal presented by France that a Common Agricultural Policy needs to protect an increase of production and preservation of economic vitality of family farms with stable prices, not just in the interest of the farmers but also in the interest of consumers, in spite of the numerous disagreements that were clearly exhibited on the line France – Germany received a unanimous support at the Council. This established an initial basis for negotiations which were continued within the Conference on organizing the European market of agricultural products. A Ministerial Conference on food and agriculture was held within the Organization of Economic Co-operation and Development (OECD), with the presence of Great Britain, which was a further shift towards establishing the Common Agricultural Policy.

This was followed by the preparation of the proposal of the Roman Treaty on establishing

the European Economic Community and the Euroatom. Although the position of certain West European countries differed significantly on the issue of Common Agricultural Policy, it was agreed at this meeting, nevertheless, that the main element for the introduction of this common policy would be the elimination of trade barriers between the member countries as well as harmonization of instruments of their agricultural policies.

The European Economic Community was formed by signing of the Roman Treaty by France, Germany, Italy, Belgium, The Netherlands and Luxembourg on March 25, 1957. Article 39 of the Roman Treaty defines the initial goals and principles of the Common Agriculture Policy – CAP. Considering the fact that the Community was producing at the time only 80% of its total needs for agricultural-food products, the initial goals of the Common Agricultural Policy were:

1. raising the productivity based on implementation of technical progress and development of agricultural production based on optimum use of all production factors;
2. ensuring fair standard of living for the farmers;
3. securing market stabilization;
4. securing safety in food supply; as well as
5. securing prices of agricultural-food products acceptable to the consumers.

Three principles of the Common Agricultural Policy were defined in order to realize the subject goals. The first principle, formulated as a principle of *market unity*, meant in practice the removal of customs and other barriers to agricultural-food products in the between member countries. *Community preference (predominance)*, defined as the second principle of the Common Agricultural Policy, implies giving priority to the Community in satisfying the need for agricultural-food products in the form of protection from import. The third principle that serves as a foundation of the agricultural policy of the Community is the *financial solidarity*, namely, common financing of all measures and mechanisms of the Common Agricultural Policy by the member countries.

The Common Agricultural Policy, based on the respective principles, began to be implemented in 1962. It provided numerous positive effects already in the first decade of its implementation. Namely, through implementation of the system of guaranteed prices, import protection as well as market interventions, the Common Agricultural Policy facilitated self-sufficiency in the production of certain agricultural products, market stability and income growth of agricultural producers. However, at the same time, certain negative consequences of implementation of Common Agricultural Policy mechanisms began to show up. Financing of sale of surplus of certain agricultural produce and export subsidies led to rapid growth of budget costs. An extremely protected market and protectionist's price policy led the Community to straining of relations with its traditional trade partners, advocates of liberalism. Considering that the level of paid subsidies was directly proportionate to the scope of production, the differences appeared in the level of income between individual categories of agricultural estates. Furthermore, pronounced intensification of production and implementation of chemical inputs caused a growing devastation of natural resources and environmental problems.

## **Former reforms of the Common Agricultural Policy of the European Union**

Due to accumulation of its negative effects, the first attempts of reforming the Common Agricultural Policy ensued already by the end of the 60ies. The initial steps in the reform, embodied in the documents «Memorandum on reform of Common Agricultural Policy (The Mansholt Plan)» from 1968, then «Program on structural policy in agriculture» from 1972 and «Green paper» from 1985, nevertheless, did not result in significant effects. The first radical changes of the European agricultural policy, conceived and realized in the course of the Uruguay Round of international trade negotiations, was actualized in the form of the MacSharry reform from 1992.

The reform of the Common Agricultural Policy Reform from 1992, called that after the European Commissioner for Agriculture at the time Ray MacSharry, was initiated both by internal as well as external pressures. The irrepressible growth of surplus of individual agricultural-food products, difference in the level of income of individual categories of farmers, high budget expenditures, pressures by the international market, as well as extension of the Community with new members have led to a wide-reaching reform of the Common Agricultural Policy. With the price cut of cereals and beef, payment of compensation of farmers for exemption of land from production (set-aside system) as well as compensation for extensification of cattle production, the MacSharry reform made a significant step in the transition from price to direct support of the European agricultural producers. For the first time in the history of the Common Agricultural Policy the so called accompanying measures intended to stimulate rural development. The effects of the MacSharry Reform, however, were not in accordance with the originally set goals. Although reduced, the prices of individual agricultural-food products were still above the world level, in the surplus production sectors they still remained excessive, and thereby the growth of the budget costs continued. An indication of the solution to the above problems, continuous followers of the Common Agricultural Policy, began to be discerned in the outlines of the new reform known as Agenda 2000.

Adopted by the European Commission at the Berlin summit in 1999, Agenda 2000 represented an action program for a six-year period covering all macroeconomic segments of the European Union, agriculture as well. The priority goals set for the reform of the Common Agricultural Policy within Agenda 2000 are:

1. cutting down the price of agricultural products, in order to meet the requirements of international trade agreements;
2. redistribution of support to agriculture, in order to eliminate obvious differences in the level of income between individual regions and producers;
3. creation of a Common Agricultural Policy that would be acceptable to the citizens, namely, consumers;
4. simplification of measures for managing the agricultural products market, which applies particularly to the new members; as well as
5. creating a model of multifunctional agriculture and securing rural development.

The major turn brought about by the implementation of the Agenda 2000 was defining of a policy of rural development as the “second pillar” of the Common Agricultural Policy (Piccinini and Loseby, 2002). However, this change was just a declarative support by the creators of reforms of rural development. Although the sector of rural development was regulated by norms, the predominant part of the assets was oriented to the “first pillar” of the Common Agricultural Policy, the market support measures.

The unresolved problems from the previous period, pressure by the World Trade Organization and planned “east” extending of the European Union, as well as the changes in preferential consumers inevitably led to further changes in the manner of functioning of the European Agricultural Policy. Nevertheless, one should not forget that the Agenda 2000, as a reform intervention, brought several important novelties. Namely, for the first time the so called environmental principles and sustainable agricultural production appeared as criteria for the use of subsidies. Furthermore, with the Agenda 2000 the term multifunctionality was introduced for the first time in the agricultural policy of the European Union.

Common Agricultural Policy had endured fundamental reform in June 2003, which created long-term perspectives for sustainable agriculture and rural development (Cvijanovic et al, 2011). The reform of the Common Agricultural Policy in 2003, better known under the name Fischler reform (Franz Fischler) was carried out with the goal to continue the changes initiated in the previously implemented reform interventions, in the direction of reduction of measures with distortive impact on the world market. Particular attention within the Fischler reform was paid to the improvement of implementation of the rural development program. Namely, a new policy of rural development for the period 2007 until 2013 was adopted in 2005 as an integral part of the reform packaged. Still, the changes in the mechanism of support to the producers are deemed key changes introduced by the Reform from 2003. In addition to lowering the intervention prices for certain agricultural-food products, a single farm payment scheme was introduced. Policy modifications under the Common Agricultural Policy Health Check agreement of 2008 followed the direction established in 2003 by further decoupling direct payments, increasing the rate at which payments are modulated and allowing Member States to switch from historical to regional flat area payment regimes (Erjavec and Salputra, 2011).

The single payment scheme, considered the most significant element of the Fischler reform, was introduced in 2005. In practice this scheme means that the farmers are paid subsidies, whose amount does not depend on the scope of production. This in essence eliminates the relation between the production and subsidies (support), and provides the European farmers with greater freedom to behave as market-oriented producers. Therefore, it is within the competence of all member countries to subsidize their farmers, besides the established support on the Union level, or to subsidize them partially or with their own funds, and that until 2008. (Kelch and Normile, 2003). The introduction of the scheme is a unique way conceived to upgrade the environmentally and economically sustainable agriculture. Namely, the criteria based on which the farmer’s right to use the payments is determined is upholding the environmental principles, namely, production of safe quality food, providing the welfare and preservation of natural resources. Furthermore,

considering that the support measures that have a negative impact on the stability of the world food market are significantly cut down, it is anticipated that this reform of the Common Agricultural Policy will cause the strengthening of the position of the European Union in the negotiations with the World Trade Organization. As it is obvious from the observed reform course of Mutual Agricultural Policy the essence of changes commencing in 2003 is reflected in transformation of Mutual Agricultural Policy to the Mutual Policy of Sustainable Agricultural and Rural Development (Markovic, 2005). The ultimate objective of creators of that reform is recognized in creation of efficient, and in context of rational utilization of natural resources, sustainable agriculture, together with preservation and improvement of natural resources.

The following step towards modernization and higher degree of market targeting of Mutual Agricultural Policy has been realized during CAP Health Check in 2008. On the 20<sup>th</sup> of November 2007, Ministers of Agriculture of European Union reached political agreement on universal review of European agricultural policy. That reform included the following:

1. abolition of set aside system;
2. gradual increase of milk quotes up to their complete abolition in 2015;
3. conversion of market intervention to genuine safety net;
4. decrease of direct support and allocation of funds to EAGDF.

All above mentioned measures will lead towards better facing of European agriculture with challenges connected to climate changes, better management of water resources, preservation of biodiversity and green energy production.

### **Current Common Agricultural Policy of the European Union**

Since the beginning of its implementation the Common Agricultural Policy of the European Union passed through several complex reforms. The share of the Common Agricultural Policy in the budget of the European Union, under the influence of internal and external pressures, was reduced by almost 70%, the percentage in the seventies of the past century to 34% in the period 2007 until 2013. The cost reduction of the Common Agricultural Policy is a result in part by the last great expansion of the European Union, namely, the admission of twelve new countries since 2004.

After the last great reform in 2003 the Common Agricultural Policy is presently founded on two main pillars:

1. 1<sup>st</sup> Pillar – direct payment and market intervention. After the reform of the Common Agricultural Policy conducted in 2003 significant changes took place in the direct payments segment. There is a tendency to gradually eliminate payments related to production and have production free subsidies take up their place. The new model of subsidizing inevitably led to extensification and significant changes in the structure of production because the producers are not stimulated any more in a system of direct payments to realize a greater scope of production. Contrary to the previously established



system of incentive, the system of direct payment is based on the requirements of *cross-compliance*. *Cross-compliance* means that the extent of payment, namely, incentive to the producers depends on the extent to which the producers uphold the rules related to environmental protection, safety of food and welfare of the domestic animals.

A lot of credit for the exceptionally good position of the European Union on the world food market goes to the complex system of market interventions, as an integral part of the Common Agricultural Policy. The support to the producers' income is realized through the implementation of various types of intervention buy offs, withdrawal of the products from the market, but also by implementation of foreign trade regulations. The market interventions system also includes the measures of support of certain agricultural-food products.

2. 2<sup>nd</sup> Pillar – rural development policy. This pillar of the Common Agricultural Policy and assets from the fund intended for rural development provide the support to structural enhancement and implementation of new technologies ensuing that the living and working conditions in the rural areas of the European Union meet the requirements of the population. Considering that half of the population of the Union lives in rural areas, this segment of the Common Agricultural Policy is deemed extremely important. The three axes of rural development policy include (Visek, 2007):

- Axis 1. Measures for strengthening competitiveness of agriculture and forestry;
- Axis 2. Measures for protection of environment as well as the rural areas; and
- Axis 3. Measures for improvement of quality of life in rural areas as well as measures for stimulating diversification of economy.

In addition to the three axes mentioned above, the Common Agricultural Policy also contains a horizontal axis, that is, LEADER (Liason Entre Actions de Developpement de l'Economie Rurale – Links between actions of rural development). Since its introduction in 2007 the LEADER approach has shown good results in the area of rural development, and the key to success of this approach lies in great part in its pragmatism. Namely, LEADER is a type of a “tool” in the policy of rural development that provides answers to the questions “how” to do something, and not “what” to do. Considering that this is an approach for links between actions of rural development, LEADER can apply, in fact, to any one of the three axes of rural development.

The financing of the agricultural policy of the European Union is one of the key issues related to functioning and reform of this policy. The Interinstitutional Agreement on Financing the Common Agricultural Policy adopted in May 2006, pertaining to the period from 2007 until 2013 is currently in force. According to this Agreement, the current financial framework consists of six chapters (Živadinović, Milovanović, 2010):

- sustainable development;
- natural resources: agriculture, rural development, environment and fishing industry;
- freedom, security and justice;
- EU as a global player;

- Administration; and
- compensation (for newest expansions of the European Union).

**Table 1.** Distribution of budget assets of the European Union for the period 2007 – 2013.

Purpose	Budget share (in %)
Sustainable development	44.6
Natural resources: agriculture, rural development, environment, fishing industry	42.5
Fundamental freedoms, security and justice	1.3
EU as a global player	5.7
Administration, etc.	5.9

Source: European Commission Directorate-General for Budget (2010): *The European Union budget at a glance*, Publications Office of the European Union

The importance of agriculture and thereby of the Common Agricultural Policy may be seen in the structure of the European budget. The share of expenditures for the Common Agricultural Policy, which include agriculture, rural development, environment and fishing industry, is second on the list of priorities and amounts to as much as 42.5% of the total European Union budget.

Distribution of assets, presented in Table 2 shows that the expenditures from 2007 until 2013 for the 1<sup>st</sup> pillar of the Common Agricultural Policy are three times greater than the expenditures for the 2<sup>nd</sup> pillar in the same period.

**Table 2.** Budget of the Common Agricultural Policy during the period 2007 until 2013.

Budget purpose	Budget of the Common Agricultural Policy (in billion EUR)
1 <sup>st</sup> Pillar – direct payments and market interventions	293.105
2 <sup>nd</sup> Pillar – rural development	69.750

Source: House of Lords, European Union Committee (2008): *The Future of the Common Agricultural Policy*, 7<sup>th</sup> report of Session 2007-08, Published by the Authority of the House of Lords, London: The Stationery Office Limited

Although the European Union is advocating the reduction of budget expenditures for agriculture through several of its last reforms, they can still be estimated as relatively high. Namely, out of a total of 141.5 billion EUR of budget assets in 2010, as much as 59.5 billion EUR (42% of the total Union budget) was earmarked for preservation and management of natural resources. This item also includes the costs of rural development, environment and fishing industry, but also for market support and direct payments. The same trend continued in 2011. From a total of 141.9 billion EUR in the budget, 58.7 billion EUR, namely 41% of the budget assets were earmarked for the costs related to the market, direct payments, rural development, environment and fishing industry. The budget draft for 2012 is 147.2 billion EUR, and the assets intended for agriculture and rural development amount to 40.8% of that amount.



### **The future of the Common Agricultural Policy of the European Union**

As the leading world importer of food and the most significant market for sales of agricultural products from the developing countries, the European Union has recently reformed its support system with view to reduction of distorsive effects in the world market. Within the Doha round of multilateral trade negotiations the European Union proposed the elimination of all import subsidies until 2013, as well as significant reduction of import duties on agricultural products.

In spite of the reforms carried out in the several past years, significant reform undertakings are expected only after expiration of the existing funds, namely, in the course of 2013. In the attempt to reconcile the global trends in food production and expectations of domestic consumers the European Union presented several proposals for the future reform of the Common Agricultural Policy. Overcoming of the world food crisis has determined the global attempts to double the food production by 2050 (FAO, 2010) and to take more care of preservation of biodiversity, soil and quality of water resources in agricultural production. The European consumers, on the other hand, expect the Common Agricultural Policy to enable the farmers not just to produce foods, but also that the priorities in such production are preservation of natural resources, securing the welfare of the domestic animals, as well as establishing of economic and social sustainability of rural communities. Due to everything stated above the new Common Agricultural Policy should be conceived so as to enable a sustainable development of agriculture based on innovations, research and dissemination of know-how so as to put the European farmers in a situation to adequately respond to the demands of the future.

The three essentials goals of the Common Agricultural Policy today are: secure supply of food to the European market, preservation of natural resources and balancing the territorial development. In other words, European Union should use strong Mutual Agricultural Policy to provide for smart, inclusive and complete development in rural regions (EC, 2010). The new instruments should make the Common Agricultural Policy of the European Union “greener, more equitable, efficient and effective”.

Pursuant to EU strategy established for the period until 2020, substantial changes in structure of both columns of Mutual Agricultural Policy are expected. Substantial changes which will provide for inclusive, sustainable and smart development of rural Europe should be realized in the following manner. In the framework of the first column the “greening” measures are expected as well as redistribution of budget funds in a manner which will provide for uniform regional development. Measures of second column of Mutual Agricultural Policy should be directed to the increase of competitiveness, innovation and much more than now response to the challenges connected to the preservation of environment and climate changes. The following strategic goals of Mutual Agricultural Policy after 2013 are imposed as necessary (EC, 2010b):

- safe procurement of EU markets with food;
- production of healthy safe food with respect of ecological principles; and

- employment growth and preservation of human environment in rural areas of the EU.

Pursuant to the above-mentioned goals future Mutual Agricultural Policy should be sustainable, more simple and efficient. Such policy should provide for uniform development of all regions and higher level of respect for needs and expectation of EU citizens.

The above mentioned alterations of Mutual Agricultural Policy should also be because of increased demands of taxpayers for more efficient utilization of budget funds. European Committee propose for the period from 2014 until 2020, the distribution of EUR 281.8 billion for the first, and EUR 89.9 billion for the second column of Mutual Agricultural Policy. Moreover, the supplement of EUR 15.2 billion is projected for the special purposes (EC, 2011).

Higher efficiency level of Mutual Agricultural Policy in the period after 2013 will be provided for by introduction of new monitoring and evaluation system. Starting from Brussels Conference in 2011, until this date, the discussions on preparation of basis for implementation of supervision system for realization of measures included to the first and second column of Mutual Agricultural Policy were carried out on several occasions. Thereby, in the course of this system implementation the idea is to include to the process of monitoring and evaluation, besides the institutions, the farmers and all other relevant participants in rural regions.

Key changes in Mutual Agricultural Policy after 2013 are the following:

- reduction of risks at the support level between the old and the new members,
- establishment of Single Farm Payment in all member countries until 2028,
- reduction of support to farmers who receive more than EUR 150.000 from European budget (reductions are scheduled from 2014, and that 20% for the amounts of EUR 150.000 to 200.000, 40% for the amounts of EUR 200.000 to 250.000, and 70% for amounts of EUR 250.000 to 300.000),
- 30% of support will be conditioned by ecology care,
- Up to 30<sup>th</sup> September 2015, the current system of limitation for sugar production will become null and void,
- Higher subventions for young farmers.

A growth of demand for agricultural-food products is expected in the following decades in the world market. On the other hand, the consumers in the European Union are changing their preferences and growingly opt for high quality food products, and demand a broader range of products that allows choice. Considering that the European Union is one of the leading food exports in the world market and that the agricultural sector is a significant segment of the European economy, the reform of the agricultural policy should enable strengthening of agriculture and raising its level of competitiveness.

The promotion of energy efficiency, preservation of land quality, production of biomass and renewable sources of energy, in other words promotion of innovations, should

enable the new Common Agricultural Policy of the European Union to stimulate positive, and reduce the negative impacts on the environment by agriculture.

The fact that agriculture is a predominant activity in rural areas of the European Union imposes the need to provide room in the scope of activities of the Common Agricultural Policy that will motivate young people directly economically to remain in the rural areas. Considering that people are the key potential of any, accordingly also the rural development, emphasis is placed on the importance of strengthening the human capital in rural environments. Providing incentive to young farmers to remain in the village has a direct positive effect on realizing a balanced territorial development, namely, reducing the difference between the rural and urban areas of the European Union. In that context the European Committee propose for the future reconstruction of Mutual Agricultural Policy to implement, starting from 2014 the system where the subvention amount for farmers under age of 40 will be higher for 25% compared to subventions for older farmers. For the commencement of new activity or structural changes of existing activity, the Committee for young farmers created multi form support: staring from subsidized interest rate and bonus for investments, up to grace period for standard implementation.

### **New concept of Common Agricultural Policy**

The new concept of the Common Agricultural Policy was the subject of public debate held on April 12 until June 11, 2010. The respondents were divided into three groups: the general public, namely, the citizens of the European Union, institutions and experts. In addition to the subject participants, the European Network for Rural Development took an active part in the debate. Considering that the year 2013 is considered the turning point in the history of the Common Agricultural Policy, the public debate searched for the answers to several main questions (EC, 2010a):

- Why does the European Union need a Common Agricultural Policy;
- What are the society's objectives from Common Agricultural Policy;
- Why should the Common Agricultural Policy be reformed; and
- What tools are needed for the new Common Agricultural Policy.

*Why does the European Union need the Common Agricultural Policy* – the majority of respondents in the debate agreed that the previous reforms oriented the Common Agricultural Policy in a good direction. The representatives of the general public particularly pointed out the need to do more, so that this common policy would provide equality to all participants in the food chain, from the producer to the consumer. Furthermore, the need was emphasized to create equality, both for the producers, as well as the consumers in all member countries. The respondents from all three groups agreed that the future Common Agricultural Policy should achieve diversification of the farming system across Europe, particularly in less developed areas.

*What do citizens expect from the Common Agricultural Policy* – all the respondents in the public debate agreed that the purpose of existence of a Common Agricultural Policy lies in providing:

- safe, healthy food choice at affordable prices;
- sustainable use of the land;
- sustainable rural development; and
- security of supply to the European Union market.

A significant number of respondents emphasized the role of the Common Agricultural Policy in resolving the issue of unemployment in certain rural areas of the European Union. Furthermore, the significance of production of high quality food at affordable prices for the consumer was also stressed.

*Why the Common Agricultural Policy should be reformed* – the participants in the debate agreed that the future reforms must be carried out because of:

- preventing instability in the food market;
- the need to address the increasing global demand;
- restructuring the payment system and simplifying administrative procedures;
- the need to stress the importance of some non-market items, such as environment, quality and health standards and sustainability in the Common Agricultural Policy;
- adequate response to the effects of climate change;
- strengthening the competitiveness of European agriculture;
- ensuring better coordination with other policies of the European Union in order to provide rural development.

In this segment of public debate, in addition to the above reasons for the reform of the Common Agricultural Policy, some other, not less important issues surfaced issues that require the reform of this policy. These are, first of all, inequality in the implementation of measures of Common Agricultural Policy, as well as problems in functioning of the production chain and supply of the market with food in all twenty-seven member countries of the Union. The several decades' long issue of lack of equity in the economic position of small and large farmers caused a heated debate between the producers. The need was particularly pointed out to reduce the negative impact by the future reform of the Common Agricultural Policy on the position of the developing countries in the world food market.

*What tools are needed by the Common Agricultural Policy in the future* – the opinions on the instruments of the Common Agricultural Policy were divided within the debate. Namely, on one side the respondents argued that the former system of support of agricultural need not be changed radically, whereas opinion was heard from the other side of the need to introduce only a system of payments that will depend on upholding the principle of sustainable development of agriculture, namely, rational use of natural resources. Nevertheless, the respondents agreed on the issue which instruments would preferably be used in the future. As most important instruments of the new Common Agricultural Policy were pointed out: instruments for market

stabilization, programs of education, strategies of local economic development, strengthening of producers associations.

Although the public debate raised a great number of questions on the future of the Common Agricultural Policy ranging from climate changes and preservation of biodiversity to the new model of payment and impact on the world market, it is, nevertheless, possible to systematize the conclusions of the debate to a certain extent. Namely, the future of the Common Agricultural Policy of the European Union should be marked by the following priorities:

- total, not partial (and formal) reforms with strengthening of cooperation with other common, both internal as well as external European policies;
- ensuring food security of the Union;
- continue to strengthen the competitiveness of the European agriculture through innovations and promotion of research;
- transform market intervention into a modern crisis management tool;
- preserve biodiversity;
- sustainable rural development;
- redefine the structure of two support pillars of the Common Agricultural Policy and clarify their relationship;
- provide adequate resources for financing rural development;
- implement fairer measures in order to enable fairer position to small farmers, less developed regions and new Union members;
- create fair competition conditions between the domestic and imported products;
- avoid discrimination of developing countries in the world market and contribute in the fight against hunger and poverty.

After the discussion in the European Parliament and the European Council, passing of the regulations and documents is expected by the end of 2013. The new reform of the Common Agricultural Policy based on defined rules will begin to be implemented from January 1, 2014.

### **Conclusion**

The Common Agricultural Policy of the European Union is one of the most integrated, albeit not the most expensive European common policy. Considering the extremely high budget costs it is producing, financing of the agricultural policy of the European Union is one of the key issues related to the functioning and reforms of this policy. The fact that the critical position regarding the “cosmetic” character of the former reforms of the Common Agricultural Policy is actually a correct position may also be confirmed by looking at the structure of the European Union budget. Namely, in spite of the tendency of reduction of budget costs for the domain of agriculture and rural development, the Union allocated 42% of its budget for these needs in 2011. Furthermore, the draft of the European budget for 2012 foresees allocation of 40.8% for the same purpose.

During the half century of existence, the Common Agricultural Policy of the European Union was reformed on several occasions. The purpose and the essence of the reform interventions was harmonized, first of all, with the requirements of the Union, its consumers and farmers, but also with the demands set before the Union by the World Trade Organization. The long road from the Common Agricultural Policy (CAP) to the Common Agricultural and Rural Policy of Europe (CARPE) embodied in the MacSharry Reform and Agenda 2000 marked the first decades of its existence. In the past ten years, starting from Fischler Reform to the latest public debates on its future, the European agricultural policy is faced with new challenges. In accordance with the current strategic goals of the European Union it should become “greener, more equitable and efficient”. In line with the goals of development strategy of the European Union by 2020 the Common Agricultural Policy during the subject period, should reform so as to provide a sustainable economic and environmental development of agriculture and balanced rural development in all regions of the Union.

The agricultural policy of the European Union until 2014 and its recent reforms is created so as to ensure a production of safe and healthy food with economic strengthening of rural areas and care for environmental protection. Furthermore, the reduction of the budget expenses for agriculture and rural development is the main characteristic of the Common Agricultural Policy during the period 2007 until 2013. The status of the candidate country for EU membership and negotiations awaiting Serbia impose the need to harmonize the national agricultural policy with the Common Agricultural Policy of the European Union. The actual differences between the current agricultural policy of Serbia and the Common Agricultural Policy of the European Union will make the process of adjustment and harmonization extremely complex. In view of the fact that the process of evolution of the Common Agricultural Policy of the European Union is continuous and that reforms will ensue in the following years, the entities participating in creating the agricultural policy of Serbia should be acquainted fully with the trends of development of the European agricultural policy and make adequate efforts for maximum adjustment of our agricultural policy with the development trends.

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## DOSADAŠNJE I BUDUĆE REFORME ZAJEDNIČKE AGRARNE POLITIKE EVROPSKE UNIJE

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### Rezime

*Ove godine Evropska unija obeležava pedeset godina postojanja Zajedničke agrarne politike. Od 1962. godine do danas ova politika je reformisana shodno okolnostima unutar Unije i različitim uticajima sa međunarodnog tržišta. Sama činjenica da je od svog osnivanja do danas Evropska unija od zajednice šest država prerasla u zajednicu dvadesetsedam država dovoljna je da opravda brojne reformske zahvate u okviru Zajedničke agrarne politike. Cilj ovog rada je da analizira dosadašnji tok razvoja ove najintegrisanije politike Evropske unije, kao i predloge za njeno buduće reformisanje. S obzirom na dobijanje kandidature za članstvo i predstojeću konkretizaciju pregovora Republike Srbije sa Evropskom unijom u svim, pa i u segmentu poljoprivrede, autori ovog rada smatraju kao važno sagledavanje aktuelnih promena u evropskoj poljoprivrednoj politici.*

**Ključne reči:** *Evropska unija, Zajednička agrarna politika, reforme, subvencije*

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