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NEW APPROACH ABOUT CAP

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*Abstract*

*The paper deals with the new challenges for CAP under world food crisis. For the beginning, we realise a retrospection of CAP during 1992-2008 in order to conclude that CAP is dynamic and it tries to adapt to the economic changes.*

*Environment protection became a constant restriction for CAP. Even that there is a strategic perspective for CAP, the conflicts between European Member States are still great.*

*Nowadays, CAP has to face to internal challenges and to international challenges too. More, some international organizations like U.N.O. and WTO or some powerful international partners like U.S.A. try to influent present CAP.*

*The present world food crisis postponed once again the diminution of the subsidies.*

*In 2009, CAP will benefit by 43 billions Euros. They represent more than 1/3 from common budget for different economic sectors.*

*On the other hand, European Commission considers that it is not necessary and not wished a radical reform of CAP until 2013*

Nowadays, Common Agricultural Policy (CAP) is based on two pylons. The first one is common market organisations and it deals with common measures in order to regulate agricultural integrate markets' functions. The second is rural development and it deals with structural measures in order to support rural zones' harmonized development in connection with: social aspects, activities' diversity, goods' quality and environment protection.

Agriculture support and maintain a durable environment. As a result it has a positive impact in many situations. There are also some situations in which agriculture becomes an enemy for environment.

It's very difficult to realise equilibrium in the same time with the environment protection's restrictions.

In 2003, the reform of CAP eliminated the connection between direct payments and output by adopting conditionality. This means that farmers

receive subventions only if they respect special standards including environment standards too.

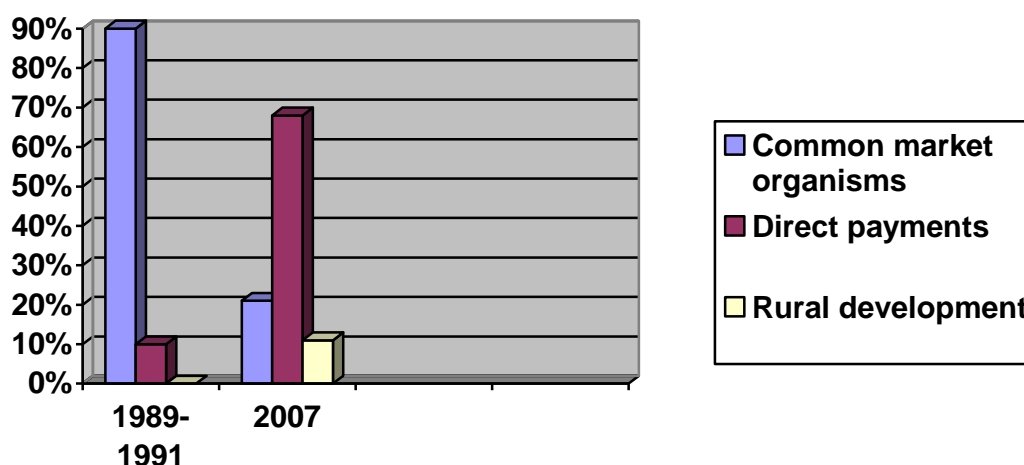


Fig.1. Reforms' impact on the budget FEOGA-G' structure (%)

On the other hand, the Member States have to allocate at least 25% from the budget for rural development to environment improvement and to rural zones. There are some common specific regulations, like that connected with nitrates, which guaranty the statement of severely environment standards.

As other European regulations, CAP is focused on sustainable character of the environment.

Still 1992, CAP was progressive adopted in order to be able to have a better answer to sustainable objectives using a fundamental reforming process. As a result, CAP realise the passing from a policy of prices and output sustaining to a policy of direct support for revenues and to measures of rural development.

PAC reform consolidated some measures in order to support methods of land uses which are environment friendly. These methods are connected with jobs policy and wages policy from first pylon and with rural development policy from the second pylon too.

First pylon contains measures like the following: decoupling, obligatory conditionality and modulation.

Decoupling means that direct payments aren't conditioned by the output. As a result, the intensive agriculture isn't encouraged.

Using conditionality, the direct payments depend on specific standards about agricultural exploitation, including environment standards.

Modulation allows payment transfers from first pylon to the second pylon in order to determine a growth of the budget for agro-environment measures.

There are some measures which support environment protection in the second pylon. These measures are those connected with Nature 2000 program and with support for less developed zones.

More, the eco-conditionality system reduces the level of payments for those farmers who don't respect European standards in agriculture.

On the other hand, there are many voices who want a simplification of CAP's mechanisms.

This process began in March 2007, as a result of the Report of Eco-Conditionality Commission. This report made proposals for control improvement and for a new scheme of penalties. These elements become a part of the specific law procedure during 2008-2009. More, these elements which simplify eco-conditionality scheme will be finding into Health Control too.

European normative guaranties the authenticity of the goods from ecological agriculture and correct ticketing of them.

The using of word ecological for some food outputs is the absolute attribute only for the goods from ecological agriculture. This offer a guaranty for the consumers about quality and security of ecological goods they will buy.

Still December 2005, the European Commission proposed a revision of the regulation for ecological agriculture for better information of the consumers. More, it proposed a simplified procedure for farmers and enlargement of existing texts applying area.

This process continued with sector reforms like the following: sugar (2006), vegetables and fruits (2007) and wine (2008).

On 24<sup>th</sup> of January 2007, Mariann Fischer Boel, the commissar for agriculture and rural development, declared that it was the moment to line up fruits and vegetables sector to all reforms from other agriculture sectors.

On 12<sup>th</sup> June 2007, the European Council approved the new common structure for fruits and vegetables market which became perfect adaptable to the new CAP.

The main objective of the reform in fruits and vegetables sector is its harmonization with other sectors of the CAP which were reformed still 2003.

During next period, the payments will not depend by the volume of output. They will be transformed into a unique payment for every agricultural farm.

In order to receive this payment, the farmers have to respect some normative about environment protection, food security and lands' administration.

The role of farmers associations will grow. These associations will have more instruments for crises administration and will be forced to stimulate consumption of fruits and vegetables. These measures will be applied still 2008.

As a general framework, the European leaders try to obtain progresses in such domains like the following: environment protection, bio-carburant, genetic modified organisms, food security and animals' health. These elements were essential parts of the "operational program" of European leaders in 2007.

The decisions of the European Commission will be influenced by the WTO's new regulations. One of these is the cut of export subventions until 2013 and it is considered by the E.U. like the beginning of a long row of concessions.

The rural zones (agricultural lands and forests) cover more than 90% from E.U.'s surface. The farmers and other persons who live in rural zones represent more than 60% from E.U.'s inhabitants in 2008.

On the other hand, the European agriculture has a large variety of tips and dimensions of agricultural farms. The average farms' dimension is about 16 hectares for E.U.25 and 11.5 hectares for E.U.27.

But we consider that the farms' dimension isn't representative for economic analysis. As a result, a little horticulture farm from Benelux, for

example, can not be compared with a big sheep farm from Scotland. These two farms are very different in costs, revenues and technical conditions.

Nowadays, 5% from E.U.27 farms have more than 50 hectares. Using E.U.'s criteria, these are big farms, even that they are smaller than in Australia, U.S.A., Russia or Argentina.

The dimension of a farm depends of more elements like: land characteristics, climate, old policies, land propriety legislation and history. Even inside E.U., the farms' dimensions are very hard to be generalised. For example, there are greater farms in East Germany than in West part of the country. More, the Czech farms are greater that E.U.'s average farms' dimensions.

The situation is more different in U.S.A. E.U. has 13 millions farmers and an average farm' s surface of 11.5 hectares. U.S.A. has only 2 millions farmers, but an average farm's surface of 180 hectares.

So, we can conclude that there are more familial farms in E.U.27 which affect efficiency and agricultural output.

Nowadays, the most affected farms are those big from U.K., Germany and Czech Republic. On the other hand, European agricultural reforms will not affect little farms from Italy, Greece, Poland and Romania. That means that every change of CAP determined deficits for someone inside E.U.27.

The system of subventions which reduces agricultural output determined a yearly lost of 125 billiards Euros as a result of greater prices and taxes. More, European food prices are with 20% greater than world average food prices.

On the other hand, lobby groups determined E.U. to eliminate some measures which were focused on the decrease subventions for big farms and on increase payments for little farms. Especially, Germany and France don't agree the reducing of the payments for the big farms.

European Commission proposed to continue the process of CAP's simplification and modernization and to eliminate last restrictions for farmers in order to support them to cover the present greater food demand.

The so-called Health Situation evaluation of CAP will reduce the connection between payments and output and will allow farmers to action under market restrictions evolution.

Some of these measures deal with elimination of obligation to exit arable lands from agricultural circuit, progressive growth of milk quotes before their elimination in 2015 and reducing state's intervention on market. These changes will eliminate restrictions for farmers and allow them to turn to account their maximum potential output.

Another proposal deals with intensification of modulating process in order to reduce direct payments for farmers and to transfer some funds to the budget for rural development.

As a result, the European agriculture will better face to the new challenges and opportunities. We refer to climatic changes, better waters' using and biodiversity protection.

Health Situation evaluation tries to free the farmers as they will be able to cover a greater food demand and to respond efficient to market signals.

During 2006-2008, the food prices grew more than inflation rate inside E.U. We can speak about a food crisis in 2008. As a result, the European Commission presented a new set of CAP reforms in May 2008.

This new project of CAP is considered not enough by U.K., because it tries to find a middle way. For the beginning, the project didn't want to be rejected by Germany and France which benefit of great subventions for their farmers. On the other hand, the project tried to simulate a support for free agricultural market mechanisms.

The present world food crisis postponed once again the diminution of the subsidies.

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The same European Commission adopted a communication about strategically possible reactions in order to reduce the effects of global prices growth for foods. This document was discussed at European Council between 19<sup>th</sup> -20<sup>th</sup> of June 2008. It analyses structural and cyclic factors and proposes a strategy based on three elements which includes:

- short-time measures in order to evaluate "health situation" of CAP and to monitor retail trade;
- initiatives for agricultural goods supply improvement and for food security insurance, including promoting of future generations of bio-carburant;
- initiatives to support global effort for elimination of the prices' growth impact on poor inhabitants.

Mr. Jose Manuel Barroso, the President of European Commission declared that E.U. action quickly and efficient at a response to the foods prices' growth. He considers that E.U. has to face with a problem which has many causes and which produces multiple effects. The solution is to action on many fronts. As a result, European Commission asks Member States to fight against this global challenge using a unitary European reaction. On the other hand, E.U. will cooperate with its international partners, U.N.O. and G8.

European Commission analyses the causes of the important foods prices' growths inside E.U.<sup>27</sup> and across European borders. This growth comes after stagnation and a decrease of foods' prices during last 30 years.

Recent statistical data evident a decline of the goods' prices comparing with the beginning of 2008.

One of the structural causes which determined the foods prices' growth was a great growth of the demand for base foods and for foods with a high level of technology especially in the big emergent economies.

Other causes of the same phenomena are the general growth of world population and global climatic changes.

On the other hand, the costs of the energy grew up and they influenced goods' prices. The price of nitric fertilizers, for example, grew with 350% during 1999-2008. The costs of transport grew too.

The global agricultural output reduced with direct impact on agricultural stocks. This evolution is supported by dollar depreciation and by export restrictions in a lot of countries which are traditional suppliers on world agricultural market.

Speculations amplified agricultural prices' volatility.

Prices' growth for basic agricultural goods determined the growth of inflation across E.U.<sup>27</sup>. A short period, the effects of prices' growth were limited

by the Euro's appreciation, by decreasing of the rare materials percentage into production costs and by the relative little percentage of foods expenditures in total expenditures of the ménages.

But the impact was great in some Member States especially on those families with low revenues. On the other hand, the vegetal farmers obtained advantages from agricultural prices' growth, but animal farmers reduced their revenues.

Actual strategy of the European Commission is based on three components:

- on short-time: evaluation of "health situation" of CAP and monitoring trade in order to review common market according with principles of loyal competition;
- on long-term: improvement of agricultural supply, insurance of food security, development of agricultural researches and knowledge's dissemination especially in developing countries;
- a better international reaction to the foods crisis under U.N.O. and G8.; promoting a free trade policy and offering a preferential regime to poorest countries on European market; greater financial support for long term project in developing countries in order to develop their agriculture.

In June 2008, Brussels Summit discussed about Lisbon Treaty and the growth of foods and combustibles' prices. The European farmers ask Brussels' authorities measures which are able to stop foods prices' growth and to adapt European agricultural policy to present conditions, in order to develop agricultural output and to cover global foods demand.

Maybe, the European subvention system contributed to present crisis because it stimulates uncultivated lands and the decrease of agricultural output. U.K., for example, wishes a specific payment for every hectare and a using of the lands according with markets changes.

France, which has E.U.27's presidency still July 2008, considers that CAP has to be changed. French politicians consider that E.U. has to pay a specific payment for every tone of cereals output.

Belgian farmers protested against the growth of the energy and rare materials prices in June 2008, in order to obtain greater sale prices for agricultural output.



At international level, at the Roma Summit of F.A.O. (5<sup>th</sup> of June 2008), some countries asked for abandon of CAP because it causes poverty. E.U.27 doesn't agree this proposal but it is favourable to a growth of agricultural output.

On the other hand, FAO's forecasts talk about a 100% growth of global foods demand for the next 30 years.

Even that all FAO's member states agreed the necessity of growing agricultural output, there are more disparities connected with the practical methods for this growth. U.S.A., for example, proposes genetic modified organisms, but E.U.27 doesn't wish such a way.

As a final conclusion, we consider that CAP has to be able to adapt to the new global challenges, to monitor active this situation and to change its strategy as often as it is necessary.

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