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**EUROPEAN AGRICULTURE: PROSPECTS FOR DEVELOPMENT
AFTER THE GLOBAL RECESSION**

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***Abstract:** Volatility of market conditions at both macro and micro levels encourages the European states to jointly address problems of economic sectors, particularly agriculture, as well as to implement regional development programs. General principles for agricultural policy of the European Union are fixed in the Common Agricultural Policy (CAP) that has been carried out for 51 years. The Global economic crisis aftermath required a revision of its key components, and these changes will predetermine further support measures for the agricultural sector in the EU till 2020.*

***Key words:** agriculture, crisis, integration, development, Common Agricultural Policy (CAP).*

1. Introduction

It is difficult to overestimate the role of countries and regions integration in the optimization of their economic activity and growth of the society welfare as a whole. The European region is well known for the effectiveness of its integration processes in various fields. For example, the food security of Europe requires the prompt cooperation of agro markets both for member countries and for partners, joint solving problems of improving the economic efficiency of agriculture at the macro level, implementation of agricultural development programs not only of individual states, but also of the European region as a whole. Consolidation of relationship and interaction between subjects and objects of agriculture are especially important today – during recovery from the global economic recession.

2. Main text

There are common principles of agricultural development that have been used in all 28 members of the EU (Croatia officially joined the European Union in July, 2013) for a half-century. They are fixed in the Common Agricultural Policy (CAP) that has been held

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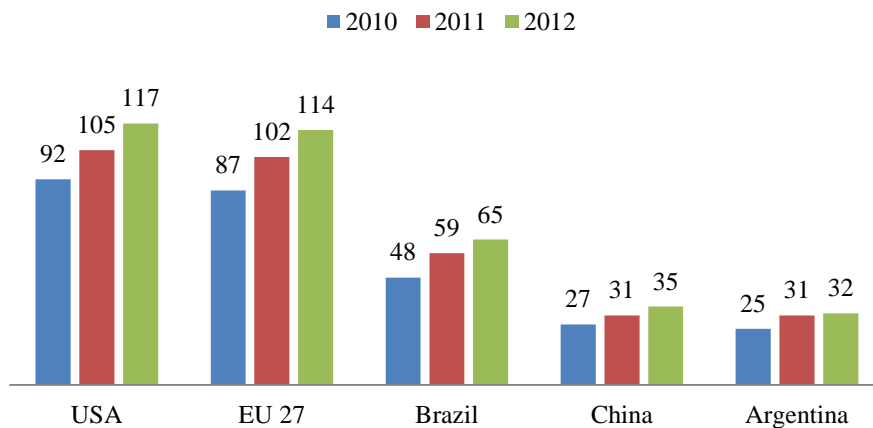
since 1962. During this period the main objective of the Common Agricultural Policy is unchanged – to ensure sustainable development of EU agriculture. However, the share of components in the Common Policy are changing, the policy instruments also develop according to external and internal factors.

Importance of the Common Agricultural Policy in the agribusiness sector is determined by a number of external and internal factors of the European economic development. Thus, in 2012 the EU is the second largest in the world (after the United States – a strategic partner) in terms of the agricultural products export and the first in terms of their imports. The trade balance in agriculture has reached a record high – 12.6 billion euro (Monitoring Agri-trade policy “Agricultural trade in 2012: a good story to tell in a difficult year?”, European Commission, 2013).

The analysis shows that the main "engine" of agro farms in Europe is the increase in demand for agricultural products from foreign markets, mostly from the emerging economies, rather than domestic consumption growth in the region. Furthermore, the relative reduction in price of the euro compared to other currencies around the world also leads to an increase in the nominal trade surplus.

Figure 1 illustrates the position of the key players in the international market of agro-industrial products. The United States are traditionally ahead of the European Union in terms of agricultural exports. It is worth noting that over the past two years the gap between the USA and the EU declined (in 2011 and 2012 the difference is 3 billion euro, while in 2010 - 5 billion euro). The share of export transactions with the United States in the agriculture sector occupies 13% of the total EU agro-export operations.

Figure 1 - Top 5 global exporters of agricultural products, in 2012, in billions of euro

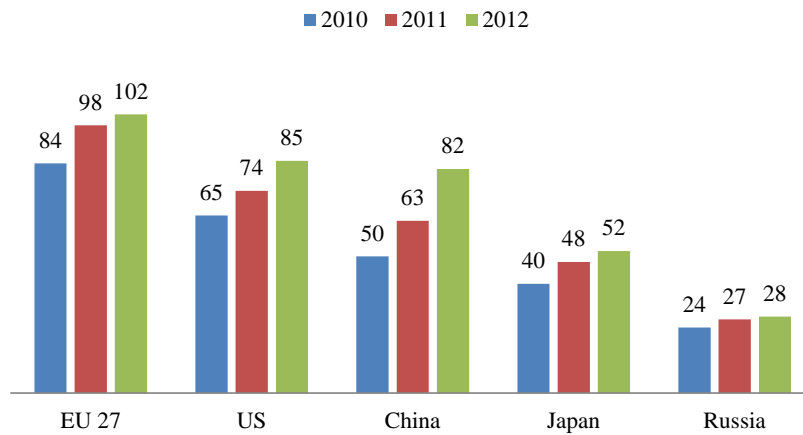


Source: Eurostat, <http://epp.eurostat.ec.europa.eu>, 2013

The European Union is the absolute world leader in the import of agricultural products, this situation is reflected in Figure 2. Second place goes to the United States, and the third – to China. Positions of others market leaders are almost invariable relative to the EU, but China has made a major breakthrough: in 2010 the indicators gap with the EU amounted to €34 billion in 2011 - 35 billion euro, and in 2012 - just 20 billion euro.

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Figure 2 - Top 5 world importers of agricultural products, in 2012, in billions of euro



Source: Eurostat, <http://epp.eurostat.ec.europa.eu>, 2013

After this review there is no doubt that effective regulation of agriculture in the European Union is a strategically significant factor of the region competitive advantage in the international market. It also plays an important role in improving the welfare of the Union and the food security of the region. Integration of individual member countries into a single agricultural system of the European Union is necessary also because in many EU countries agribusiness accounts for a significant share of GDP (for instance, Romania - 5.9%, Bulgaria - 4.2%, Italy - 1.6 %). Table 1 provides the necessary information on the matter.

The share of agricultural products in total imports of the EU-27 makes 8.8%. In some countries the share of the indicator is a half times higher than the regional average values: for example, in Cyprus it is 14.7%, in Latvia - 14.1%, Portugal - 13%). The share of agricultural exports in total exports of all products from the EU in 2011 was 9.3%. In Denmark the figure is higher by almost 2 times - 18%, in Greece - 17.5%, Bulgaria - 16.6%.

As we have mentioned, the main principles of functioning and regulation of the EU agriculture are fixed in the Common Agricultural Policy and it identifies trends in the regional integration for the development of the agriculture sector. In a general sense, today it comprises solving of three key objectives: support for high-quality agricultural production in the EU; development of rural areas; encouraging farmers to care for the environment. Also much attention is paid to improving the welfare of farmers, maintaining an acceptable level of consumer prices, implementation of consumers' interests, etc.

Table 1 - Basic statistics of the EU-27 agriculture, 2011

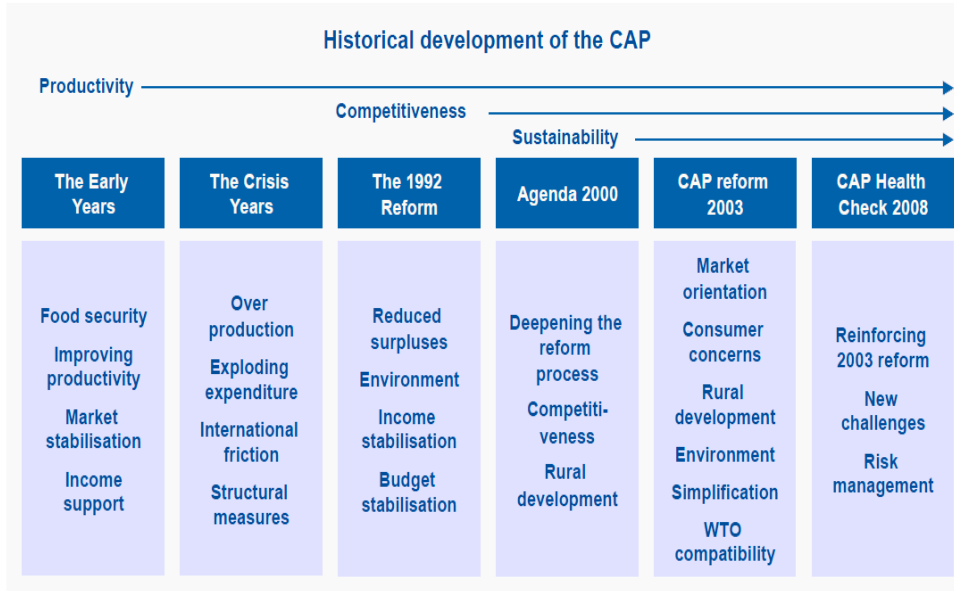
Country	Share of agriculture in the GDP (%)	Share of agriculture in total gross fixed capital formation (%)	EU trade in food and agricultural products		
			Share of imports of food and agricultural products in imports of all products (%)	Share of exports of food and agricultural products in exports of all products (%)	External trade balance in food and agricultural products (Mil Euro)
Belgium	0,5	1,7	8,6	9,2	2891
Bulgaria	4,2	2,2	9,7	16,6	1093
Czech Rep.	0,9	1,8	6	4,2	-1609
Denmark	1,2	3,9	12,4	18	5978
Germany	0,6	1,6	8	5,8	-10778
Estonia	1,9	5,8	9,2	7,4	-282
Ireland	1,1	2,3	13,4	15,6	7702
Greece	2,5	4	13,6	17,5	-1987
Spain	2	1,8	9,2	14,1	6151
France	1,4	2,4	8,2	13,6	15767
Italy	1,6	3,2	9,2	8,1	-6589
Cyprus	1,8	0,4	14,7	17,5	-689
Latvia	1,3	5,8	14,1	14,8	-252
Lithuania	2,9	4,6	11,4	15,4	493
Luxembourg	0,2	1,6	8,7	6,1	-884
Hungary	2,9	4,3	6,2	9	2708
Malta	0,9	1,5	10,4	3	-375
Netherlands	1,3	3,8	11	15,2	25565
Austria	1	3,2	7,5	7,5	-813
Poland	2,4	1,3	8	10,5	2242
Portugal	1,3	2,2	13	9,6	-3419
Romania	5,9	4,5	8,2	9	-422
Slovenia	1,3	3	8,9	5,5	-890
Slovakia	0,8	1,3	6,7	5,2	-892
Finland	0,8	3,2	7,3	3,9	-2197
Sweden	0,4	1,6	7,4	3,2	-5090
UK	0,6	1,6	9,2	5,9	-22952
EU 27	1,2	2,3	8,8	9,3	10471

Source: European Union, Directorate-General for Agriculture and Rural Development “Agriculture in the European Union. Statistical and Economic Information. Report 2012”

Directions of further regulation and stimulation of the European Union agricultural development naturally continues the political course, which was held for 50 years. Let us use Figure 3 to examine, how priorities of the Common Agricultural Policy were changing in different periods.

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Figure 3 - Historical development of the CAP



Source: European Commission, Agricultural Policy Perspectives Briefs, 2011

CAP has three main areas of regulation: product prices, income of producers and rural development. All components are closely interrelated and interdependent. The main trend in the CAP implementation is transition from production support to producer support. Whereas previously governments maintained a certain level of prices for agricultural products, now CAP is focused directly on stimulating the income of farmers.

For over two decades European Union does not have a policy of maintaining a high level of prices. On the contrary, the pricing is carried out by market-based instruments and the states intervene only in case of a serious crisis. Food prices were significantly reduced in 1992 for the first time and this trend continued in the process of reforming the CAP. As a result, the difference between domestic prices for agricultural products in the EU and world level reduced, export-oriented production surplus of the supported products also declined.

Reduction in prices support led to a decline in producers' income. In order to provide farmers the means for development, the EU started implementing so-called "direct payments" since 1994. The benefits are connected with either livestock on the farm, or to the ground. Then the system of "direct payments" has being reformed, plenty of new tools aimed to stimulate competitiveness of agriculture have been created, also the level of support to agriculture has increased. Since 2007 CAP comprises a separate area of measures for rural development: previously all the programs were local and in 2007 it was formed a centralized one that tracks the overall trends and the effectiveness of local development programs implementation.

The global economic recession has had a direct impact on the development of agriculture in Europe. Today the problem of balance between volume of output and price level is relevant. The sharp jump of prices for food products in 2007-2008 resulted in the

deterioration of the economic situation around the world. These events have revealed the need for fundamental research in the field of agricultural regulation.

New economic conditions specified by the Global financial crisis required adaptation of CAP measures. In October 2011 the European Commission was presented a package of proposals to reform the system. In two years of negotiations, in June 2013, the European Parliament, the European Council of Ministers and the European Commission signed an agreement on the reform of CAP. The block of new provisions for measures aimed to ensure food security in the region in terms of market stress, to prevent new threats, to stimulate competition and achieving greater economic efficiency of CAP as a whole. The new CAP covers the period 2013 – 2020.

According to the Memorandum of the European Commission, proposals for modernization of CAP after 2013 comprise of the following blocks:

1. Direct payments.

In order to make a "fairer" policy for agricultural producers support there are new principles of "direct payments" adopted: finance will be distributed not only between the EU Member States, but also within them. A separate fee will be paid to farmers producing environmentally friendly products (Greening payment, 30% of the total package of "direct payments" per country). The remaining 70% of the state envelope will be used within the new Basic Payment Scheme, which provides payments to young farmers, support to lagging areas, small farms, etc.

2. Market management mechanisms.

This block provides a policy of quotas in respect of certain categories of goods. In particular, the changes will affect sugar, wine, dairy products.

The purpose of the amendments to the rules of the Single Common Market Organization (CMO) is to improve the competitiveness of the EU agriculture in the light of increased competition on world markets. Also new amendments concerning the quality of products, systems responding to general market violations are introduced. Much attention is paid to the formation and development of an effective network in sales and deliveries of farm products for all the sectors of agriculture.

3. Rural development.

In the future, the EU Member States should form a multi-faceted program of local development in rural areas, on the basis of those measures which are possible to be implemented in the European Region. These programs will be co-financed from the support package, determined separately for each country by the International Monetary Fund. About 30% of funds provided by the European Union for the development of rural areas of the country will be required to spend on certain supranational level measures, for example, the fight against climate change.

Local programs supported by the EU should comprise the following aspects:

- innovation;
- knowledge – “a knowledge-based agriculture”;
- farm restructuring / investment / modernization;
- young farmers (start-up grants up to 70 000 euro, advisory services etc.);

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- small farmers (start-up aid up to 15 000 euro per small farm);
- risk management toolkit;
- producer groups/organizations;
- agri-environment – climate payments;
- organic farming;
- mountain areas;
- other areas facing natural & other specific constraints;
- co-operation (possibilities to support technological, environmental, commercial cooperation);
- non-agricultural activities;
- basic services and village renewal;
- LEADER: “greater emphasis on awareness-raising and other preparatory support for strategies; promoting flexibility for operating with other funds in local areas” (European Commission Memo “CAP reform – an explanation of the main elements”, 26 June 2013).

4. Horizontal regulation.

This block includes measures that enhance efficiency of CAP. They include provision of consulting services to farmers, formation of the "crisis reserve" (every year it will be created in the amount of 400 million euro), transparency, monitoring the results of CAP.

5. Further elements.

This block is primarily associated with the organization of all conditions for implementation of the new CAP aspects.

Conclusion

Thus, Common Agricultural Policy is a powerful tool for efficient development of all aspects of the agricultural sector in the European Union: production, logistics, rural areas, small farms, innovation, "green" projects. The tools used in the CAP vary depending on the macro-and micro conditions. The latest reform policies are adopted for implementation in June 2013, they cover the period 2013-2020. The new program pays more attention to stimulating the growth of the EU agricultural market under the circumstances of the world markets instability. CAP is of great importance not only for development of the regional agribusiness, but also for ensuring the global food security as a whole. The European Union takes first place in world imports of Agricultural Products and the second – in world exports.

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EVROPSKA POLJOPRIVREDA: IZGLEDI ZA RAZVOJ NAKON GLOBALNE RECESIJE

***Rezime:** Nepredvidivost tržišnih uslova na makro i mikro nivou podsiće evropske države da zajednički rešavaju probleme privrednih sektora, posebno poljoprivrede, kao i da sprovede regionalne razvojne programe. Opšti principi agrarne politike EU definisane su u Zajedničkoj poljoprivrednoj politici koja se sprovodi 51 godinu. Globalna ekonomska kriza zahteva reviziju ključnih komponenti, a ove promene će predodrediti dalje mere podrške poljoprivrednom sektoru u EU do 2020. godine.*

***Ključne reči:** poljoprivreda, kriza, integracija, razvoj, Zajednička poljoprivredna politika*