

THE REFORM OF THE COMMON AGRICULTURAL POLICY AFTER 2013 – ADJUSTING THE INSTRUMENTS TO THE STRATEGIC PLAN FOR AGRICULTURE AND RURAL DEVELOPMENT

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Abstract. The article deals with the issue of the reform of the Common Agricultural Policy (CAP) after 2013, especially with its relation with the strategic development plan of the European Union. The first part of the study presents an overview of the objectives of the CAP in the new financial perspective. The objectives are supposed to be a response to emerging new challenges. Then there is a presentation of the reform scenarios considered by the European Commission. They provide for the adjustment of the policy tools to the long-term development plan. This was the starting point for the exegesis of the strategic objective of the CAP. The conclusion states that designing the policy tools focused on the long-term goal of the CAP requires balancing the objectives related to the efficiency of agriculture in the production of market goods with the objectives related to the efficiency of this sector in delivering public goods.

Key words: “Europe 2020” strategy, objectives of the Common Agricultural Policy, Common Agricultural Policy reform, efficiency in resource management in agriculture

INTRODUCTION

The vision of the European Union development presented in the “Europe 2020” Strategy and the elements of strategic analysis comprising the diagnosis of the current state of the European agriculture, identification of the circumstances favouring the development of this sector and recognition of the tasks it faces, which were included in the Communication “The CAP towards 2020...”, were the starting point for the European Commission to define the long-term goal of the Common Agricultural Policy (CAP) in another finan-

cial perspective and to break it down into detailed objectives. The strategic goal indicated by the CAP is to increase the effectiveness of the use of resources in agriculture. In order to achieve the goal the instruments of both pillars of the CAP need to be appropriately adjusted.

The study is an overview of the aims of the reformed CAP developed by the European Commission as part of strategic planning. Then there is a presentation of the optional paths of the CAP evolution proposed by the Commission and the conclusions the Commission drew from the analysis of the consequences of the application of individual variants of the reform. The analysis enabled ex-ante assessment of their effectiveness in the achievement of the assumed goals. The considerations led to conclusions concerning the interpretation of the effectiveness categories with reference to the strategic goal of the CAP.

THE ROLE OF THE CAP IN THE ACHIEVEMENT OF THE “EUROPE 2020” STRATEGY

There are three interrelated priorities underlying the “Europe 2020” strategy: intelligent development (i.e. based on knowledge and innovation), balanced development (i.e. based on effective use of resources, environment-friendly and leading to reinforcement of the competitive position of the economy) and the development favouring social integration (i.e. guaranteeing high employment rate and economic, social and territorial consistency).

According to the assumptions, the actions leading the European Union to the new path of faster and steady increase should be taken both at the EU level and the level of individual member states. The agricultural and rural policy should be used especially to counteract climatic changes, which is part of the project “Resource Efficient Europe”. The aim of the project is to support changes leading to low-emission and resource-efficient society.

According to the European Commission, the transformation to low-emission and more resource-efficient economy, which is resistant to climatic changes, favours retaining biodiversity and contributes to increased global food security, requires structural and technological changes, which may stimulate appropriately adjusted instruments of the economic policy concerning agriculture and rural areas. This means that the CAP tools should be redesigned so that agriculture and rural areas will contribute to realisation of the vision of the development of the European Union specified in the “Europe 2020” strategy.

According to Czyżewski and Kułyk [2011], the imperfections of market allocation and absence of automatic guaranteeing of compensation for supplying socially wanted public goods create a perspective for agricultural policy solutions. The European Commission listed the methods to achieve the priorities of the “Europe 2020” strategy by means of the CAP, which are shown in Table 1. They point to the fact that the Commission treats the CAP as a remedy to the defects of the market mechanisms. Simultaneously, they can see the high potential of the CAP to achieve the priorities of the long-term European Union development plan.

Table 1. The CAP vs the “Europe 2020” strategy priorities according to the European Commission

Tabela 1. WPR a priorytety Strategii „Europa 2020” według Komisji Europejskiej

Priority	Means to achieve them with the CAP
Intelligent development	– improvement in effective resource management and competitiveness thanks to technological know-how and innovations
	– development of high quality products and products with high value added
	– development of environment-friendly technologies
	– introduction of information and communication technologies
	– professional development investments
Balanced development	– encouraging social innovations in rural areas
	– improvement in practical use of scientific research results
	– retaining the essentials of production of food, feeds and renewable sources of energy
	– ensuring balanced land management
	– providing environmental public goods
	– counteracting loss of biodiversity
	– promoting renewable sources of energy
– supporting plant and animal health	
Development favouring social integration	– improvement in effective resource management through technological development and use of scientific research results
	– reduced emission of greenhouse gases
	– liberating the economic potential of rural areas
	– development of local markets and stimulating employment growth
	– supporting agriculture restructuring and supporting farmers’ income

Source: author’s compilation based on Communication “The CAP towards 2020...”

Źródło: opracowanie własne na podstawie Komunikatu „WPR do 2020 r. ...”

A SWOT ANALYSIS OF THE EUROPEAN AGRICULTURE AND THE AIMS OF THE REFORMED CAP

Before presentation of the variants of adjustment of the CAP instruments to the vision of the European Union development specified in the “Europe 2020” Strategy, the Communication “The CAP towards 2020...” evaluated the current state of European agriculture (its strong and weak points). It also recognised the future phenomena which will determine changes in agriculture, favouring the development of this sector or making the development more difficult. Table 2 presents an ordered form of arrangements concerning this issue (written in the form of a 2×2 matrix according to SWOT analysis).

In supplement to the analysis of the present state the European Commission indicates positive processes taking place in agriculture (rapid growth of efficiency in new member

Table 2. European agriculture SWOT analysis
Tabela 2. Analiza SWOT rolnictwa europejskiego

Present state	
Strengths	Weaknesses
– high quality of supplied products	– low production income
– territorial and environmental balance	– farmers' weak bargaining power in relations with contractors (especially the asymmetry of bargaining power within the food chain)
– diversified farm structure	
– heterogeneity of production systems	
Expected future phenomena	
Opportunities	Threats
– increasing world demand for food	– climatic changes
	– increasing uncertainty and considerable changeability of agricultural markets
	– progressive trade liberalisation

Source: author's compilation based on Communication "The CAP towards 2020..."
Źródło: opracowanie własne na podstawie Komunikatu „WPR do 2020 r. ...”

states) and negative tendencies (increasing costs of production, decreasing share in the generation of value added).

The expected future phenomena indicated in the second part of the matrix, which, according to the Commission, will determine the development of agriculture, are in fact processes, i.e. sequences of phenomena. The circumstances listed in the "threats" quarter and the circumstances identified as "opportunities" after appropriate conversion¹ can be defined as challenges faced by the European agriculture.

Czyżewski and Poczta-Wajda [2011] note similar challenges faced by the agri-food sector, which enforce further evolution of the CAP. In particular, the following elements are included: liberalisation of trade in agri-food products, dynamic growth of demand for food and changes in the consumption structure, increasing instability of agricultural prices and supply fluctuations, increasing costs of production (in consequence of such factors as increasing prices of energy) and changes in the natural environment and climate.

Upon analysis the European Commission indicated the chief goals of the reformed CAP and broke it down into detailed objectives (which were simultaneously the means to achieve superior goals), allowing for the present state of the agricultural sector and expected changes in its surroundings. The three general goals of the reformed CAP which were indicated in the Communication "The CAP towards 2020..." and the detailed objectives distinguished as part of the goals are as follows:

I. Profitable food production:

- 1) Supporting the income of farms and decreasing their changeability,
- 2) Improving the competitiveness of the agricultural sector and increasing its significance as a link of the food chain in generating the value added,

¹ The result of this conversion is the expression "contributing to satisfying the increasing world demand for food".

- 3) Compensating for the difficulties related with production in areas with special natural limitations;
- II. Balanced management of natural resources and pro-climate actions:
 - 1) Guaranteeing balanced production and securing the supply of environmental public goods,
 - 2) Promoting ecological growth through innovations,
 - 3) Mitigation of climate change consequences and adaptation to those changes;
- III. Balanced territorial development:
 - 1) Supporting employment and aiding retention of social structures in rural areas,
 - 2) Improvement of rural management and promotion of activity diversification,
 - 3) Retaining the structural diversity of agricultural systems, improvement of the condition of small farms and development of local markets.

As results from the assumed goals, according to the Commission, the CAP should act both on the production sector (e.g. compensating for the difficulties related with production in areas with special natural limitations) and the social product division (e.g. supporting farmers' income). Apart from the market mechanism correction (affecting resource allocation, mitigation of the disparity of agricultural income, as compared with the income in other sectors of the economy) it should supplement its activity, managing some market-unregulated areas (especially, stimulate the production of environmental public goods).

REFORM SCENARIOS VS CAP STRATEGIC GOALS ACCORDING TO THE EUROPEAN COMMISSION

The CAP is a policy with high capacity to adapt to new global challenges, which more and more intensely contributes to balanced development of the entire European Union and which enables achievement of the goals of the reformed development strategy [Puślecki, Kmiecik and Walkowski 2010]. The Communication "The CAP towards 2020..." indicates three general scenarios of the CAP reform as alternative variants of adjustment of the applied instruments to the new challenges it faces. The Communication stresses that the individual paths of the reform have different potential to achieve the goals of the "Europe 2020" strategy and the objectives of the reformed CAP, which derive from them. Table 3 shows an outline of the concept of the reform, with reference to the individual CAP instruments and division into the scenarios.

The first scenario of the reform (the adjustment variant) in principle provides for continuation of the current policy with the introduction of only a slight modification of currently applied instruments. The most important changes would concern the direct support system and they would consist in correction of the method of allocation of the means for direct payments to the member states. It would consist in slow convergence towards a flat rate and in introduction of the obligation to switch to the regional model. This would mean a change in the method of support allocation to farms in the countries which have applied other payment models so far.

According to the European Commission, this scenario would ensure relative stability of the solutions currently applied within the CAP with the introduction of limited but sig-

Table 3. The concept of adjustment of the CAP instruments in individual reform scenarios
 Tabela 3. Koncepcja dostosowania instrumentów WPR w poszczególnych scenariuszach reformy

Instruments Reform scenario	Market instruments	Direct support instruments	Instruments supporting rural development
Adjustment variant	<ul style="list-style-type: none"> – improvement and simplification of existing instruments – improvement of farmer cooperation with rules of competitiveness 	<ul style="list-style-type: none"> – correction of allocation rules – extended cross compliance 	<ul style="list-style-type: none"> – using moderately increased budget to increase competitive capacity and innovativeness or environment protection
Integration variant	<ul style="list-style-type: none"> – improvement and simplification of applied instruments – concentration on food chain and increasing farmers' bargaining power 	<ul style="list-style-type: none"> – correction of allocation rules – new structure of direct payments – ecologisation – extended cross compliance – small agricultural producer programme – young farmer programme 	<ul style="list-style-type: none"> – redistribution of means between member states – innovativeness, counteracting climate changes and environment protection as guiding principles – stronger long-term orientation and joint strategic framework with other EU funds
Reorientation variant	<ul style="list-style-type: none"> – in principle lifting (with possibility of application in case of serious crises) 	<ul style="list-style-type: none"> – gradual withdrawal 	<ul style="list-style-type: none"> – considerable budget increase – emphasis on counteracting climate changes and environment protection

Source: author's compilation based on the document of the Commission "Executive summary of the Impact Assessment – Common Agricultural Policy towards 2020"

Źródło: opracowanie własne na podstawie dokumentu Komisji „Streszczenie oceny skutków – Wspólna polityka rolna do roku 2020”

nificant improvements in view of the need to increase the competitiveness of agriculture and environmental effectiveness of the CAP tools. As the Commission states, the variant would introduce more effective and fair protection of farmers from excessive fluctuations of income by means of direct payments. Simultaneously, the Commission points to high likelihood that the variant would cause increased economic pressure on intensification of production in the most fertile regions and decreased importance of agriculture in the generation of the social product as well as the reduced role of this sector in providing employment and stimulation of growth in rural areas. Furthermore, the Commission notes that the variant has a low potential to face the challenges related with the climate and environment changes and thus to support long-term balanced development of agriculture.

According to the assumptions of the second option (the integration variant) the criteria of allocation of the means for direct support to the member states would have to be changed. It would also be necessary to make the application of the regional model

widespread (like in the adjustment variant), increase the role of direct payments in compensating farmers for providing public goods, redistribute the means of the second pillar to the member states and to provide better coordination of the rural development policy with the EU policies in other branches.

As the Commission assesses, the variant would mean stronger support of balanced development of agriculture and rural areas, especially more balanced, effective and fair distribution of aid within direct payments. The reorientation of direct payments (channeling the aid stream only to active farmers, stronger support to small farmers, farmers in regions with natural limitations, particularly endangered sectors and new entities on the market) and promoting basic environmental practices by means of the ecological component are supposed to ensure higher effectiveness of this instrument as a tool supporting farmers' income and its higher effectiveness in the stimulation of production of public goods.

The third path of the reform (the reorientation variant) provides for considerable limitation of the possibility to apply intervention instruments, gradual withdrawal of direct payments, reorientation of the support to compensate pro-environment actions and the costs of business activity in the areas with particular natural limitations and concentration of the second pillar tools on the purposes of environment protection and counteraction of climate changes.

As the Commission states, the reform of the CAP according to the reorientation variant would accelerate structural adjustments in agriculture. However, they would entail considerable social costs (reduced income in less cost-effective areas and in the least profitable sectors) and environmental costs (production concentration). Besides, due to the limitation of the range of market intervention the agricultural sector would be exposed to higher risk. This would aggravate difficulties maintaining the viability of rural areas.

The solutions proposed by the European Commission in the package of bills of regulations concerning the form of the CAP 2013 are in accordance with the integration scenario. According to the Commission, it gives a possibility to keep the biggest balance in gradual adjustment of the CAP to the strategic goals of the European Union. In particular, it provides strong bases to ensure long-term profitability of food production and guarantees maintenance of balanced agriculture in the entire European Union. At the same time, it brings up vital international issues (such as climate change) and increases solidarity between the member states. According to the Commission, the achievement of these goals is less likely with the adjustment variant and the least likely with the reorientation variant.

INTERPRETATION OF THE CAP LONG-TERM GOAL

The primary goal of the CAP is to increase the living standard of the European Union residents. The assumption is that the CAP brings more benefit to the European community than the loss of welfare resulting from the decrease in the European residents' income, which is necessary to finance it. The general goal of the CAP in the new financial perspective, i.e. increased effectiveness of resource management in agriculture, which is consistent with the "Europe 2020" strategy, is subordinated to that superior goal.

In general, effectiveness is the effect – outlay ratio. Thus, the formal formula of the general CAP goal looks as follows:

$$\frac{\text{effect}}{\text{outlay}} \uparrow$$

The effect of agricultural activity is broadly understood, i.e. it does not boil down only to the production of food and agricultural products, which are raw materials for the industry (the non-commercial function of agriculture)². However, like in every business activity, factors of production are the outlay in agricultural activity:

$$\frac{\text{effect}}{\text{outlay}} = \frac{\text{private goods} + \text{public goods}}{\text{factors of production}}$$

This approach to the effects of the agricultural activity means that it is possible to achieve the effect increase not only due to higher supply of private goods and/or improvement in their quality but also through increased production and/or improvement in the quality of public goods. The aims indicated in the Communication “The CAP towards 2020...” prove the fact that the instruments of the reformed CAP are supposed to stimulate both categories of the effects of agricultural activity.

The analysis of the proposed direction of the CAP reform in the light of its influence in the involvement of factors of production leads to the conclusion that it is supposed to counteract the abandonment of agricultural activity (a drop in the involvement of the “land” factor), which is the threat especially in the areas with particular natural limitations, and a drop in employment in agriculture (a drop in the involvement of the “work” factor). It is supposed chiefly to support investment enterprises within the second pillar and to increase the involvement of the “capital” factor:

$$(\text{land} \rightarrow) \wedge (\text{work} \rightarrow) \wedge (\text{capital} \uparrow)^3$$

The assumed general goal, i.e. increased effectiveness of resource management in agriculture, can be achieved when the rate of effect growth measured with the value of produced goods (private and public) is greater than the rate of growth of involvement of factors of production.

The non-commercial functions of agriculture are usually related with its productive functions. This phenomenon is defined as the inseparability of the two types of functions [Wilkin 2010]. Thus, on the one hand, the production of private goods in agriculture is inseparably linked with the production of public goods. However, on the other hand, the

² This approach is compatible with the multifunctional agriculture concept, which is the theoretical basis for the proposal of the European Commission concerning the form of the CAP after 2013. See [Sadłowski 2011].

³ Increased capital involvement with the constant work involvement would mean increased technical equipment of work. Thus, the work efficiency would increase, i.e. the product per work outlay unit:

$$(\text{work} \rightarrow) \wedge (\text{capital} \uparrow) \Rightarrow \frac{\text{capital}}{\text{work}} \uparrow \Rightarrow \frac{\text{product}}{\text{work}} \uparrow$$

excessive intensification of agricultural activity leads to a higher increase in the negative rather than positive external effects accompanying the activity. This means that only in a certain range of the increase in the effectiveness of agriculture in the production of market goods there are more positive external effects than negative ones. When it exceeds a certain limit, the net effect is negative, so the benefits resulting from the positive external effects do not compensate for the loss resulting from the intensification of negative external effects. The instruments of agricultural policy are supposed to ensure maximisation of welfare, which is measured with the joint production of private and public goods, by such actions as the introduction of mechanisms weakening the market pressure on boosting economic effectiveness through intensified production and the application of mechanisms stimulating the production of public goods.

CONCLUSIONS

The general goals of the reformed CAP were specified and broken down into detailed objectives in the Communication “The CAP towards 2020...”, allowing for the vision of the development of the European Union outlined in the “Europe 2020” Strategy.

All the three scenarios of the CAP reform presented by the European Commission were designed so that its instruments could be adjusted to the “Europe 2020” Strategy, especially as far as the issue of effective resource management is concerned. However, as the Commission assessed, the instruments adjusted according to the integration variant guarantee the highest effectiveness in the achievement of strategic goals. The variant assumes simplification of market instruments, moderate use of direct payments as the instrument supporting farmers’ income, developing the mechanisms stimulating the production of public goods and establishing joint strategic framework of the fund for support of rural development and other EU funds.

The long-term goal of the CAP is to make favourable changes in the relation between the effects of agricultural activity (which consist of private goods and public goods) and the outlay (the factors of production involved in the activity). The adjustment of the CAP tools to its strategic goal requires balance between the goals that refer to the effectiveness of agriculture in the production of market goods and the goals that refer to the effectiveness of this sector in the production of public goods. Then it is necessary to adopt the institutional solutions which guarantee bases for the growth of effectiveness of farms in the production of market goods and simultaneously to apply the mechanisms favouring the increase in the effectiveness of agriculture in the production of public goods.

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REFORMA WSPÓLNEJ POLITYKI ROLNEJ PO 2013 ROKU – DOSTOSOWANIE INSTRUMENTARIUM DO STRATEGICZNEGO PLANU ROZWOJU ROLNICTWA I OBSZARÓW WIEJSKICH

Streszczenie. W artykule podjęto tematykę reformy Wspólnej polityki rolnej (WPR) po 2013 r., w szczególności jej związku ze strategicznym planem rozwoju Unii Europejskiej. W pierwszej części pracy dokonano przeglądu celów WPR w nowej perspektywie finansowej, które mają stanowić odpowiedź na pojawiające się przed nią nowe wyzwania. Następnie przedstawiono rozważane przez Komisję Europejską scenariusze reformy WPR, przewidujące dostosowanie narzędzi tej polityki do celów określonych w długookresowym planie rozwoju. Stanowiło to punkt wyjścia dla egzegezy strategicznego celu WPR. W konkluzji stwierdzono, że zaprojektowanie instrumentarium podporządkowanego długookresowemu celowi WPR wymaga wyważenia celów odnoszących się do efektywności rolnictwa w produkcji dóbr rynkowych z celami odnoszącymi się do efektywności tego sektora w dostarczaniu dóbr publicznych.

Słowa kluczowe: strategia rozwoju Unii Europejskiej, cele Wspólnej polityki rolnej, reforma Wspólnej polityki rolnej, efektywność wykorzystania zasobów w rolnictwie

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