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## CONTEMPORARY TRENDS OF THE EUROPEAN UNION'S COMMON AGRICULTURAL POLICY

### Abstract

The Common Agricultural Policy (CAP) has long been a central internal EU policy due to the strategic importance of food which production in modern conditions is a complex process influenced by various economic, social and environmental factors, often mutually opposing in their production repercussions. Internally, agriculture is a specific economic sector, more dependable on climate and biochemical changes than any other sector, relating to environmental sustainability, as well as farmers' social and economic security. Through the analysis based on legal acts, budgetary allocations, literature and other secondary sources, this paper aims to elucidate the main conceptual and operational features of the latest trends of the CAP with an overall evaluation of its prospects as a policy.

The Community's agricultural policy has relied on a highly specialized, industrialized, financially supported, standardized and export-oriented model of agriculture and food production, thus achieving high economic effectiveness in terms of obtaining high quantity and value of the food, income of the agricultural producers – with positive social implications, food security and economic independence from third countries. However, this model has generated negative consequences as well, such as soil and water pollution due to excessive chemical substance use, expulsion of small agricultural producers on the account of bigger agricultural holdings, and other aspects of rural development. Subsequently, the latest reform of CAP tends to address these main issues of employment, income resilience, social inclusion, environmental protection, food safety, land sustainability and others by integrating these main focal points in its strategic concept and substantial financial support.

**Keywords:** Common Agricultural Policy, European Union, reform, sustainable food production, financing



## INTRODUCTION

The Common Agricultural Policy (CAP) is an immanent part of the development strategy of the European Union (EU) due to the fact that food is a strategically important product for every country, while its production in modern conditions is a complex process influenced by various economic, social and environmental factors, often mutually opposing in their production repercussions.

Agriculture is a specific economic sector, both in the EU and elsewhere, due to its greater proneness to weather, climate and biochemical changes compared to any other economic sector. This might ultimately reflect on the basic production of agricultural products or the farmers' existence. In the EU, despite the significance of the food production, the farmers' income is around 40% lower than the income in non-agricultural sectors, and there is a time lag between the consumers' demand and the farmers' supply (EC 2017). Additionally, there are numerous professional activities to be undertaken to the end of functional and productive agriculture in the area of food production, industry, transport, trade, information technologies and other activities. The importance of all these jobs in the area of the food sector, where the agriculture is the main activity, imposed a motive and need for the European Communities to support agriculture through a well-designed policy. Therefore, the Communities introduced such policy in 1962, henceforth known and implemented as the Common Agricultural Policy (CAP) which was the first supranational policy which currently falls within EU's exclusive competence. In 2016 when the last recent trend of the CAP was evidenced, before the current reform, all said activities in the EU concerned 44 million jobs, of which 9.7 million referred to the agriculture in the narrower sense (EC 2017).

Consequently, it is necessary for the EU to provide support to all involved subjects in dealing with the challenges in agricultural process, through a designed and institutionally established approach. CAP, throughout its long existence, has both achieved significant results in that process, and faces ongoing evolution which provides the main motives for this policy's scientific analysis. Therefore, the objective of this paper is to analyze the main conceptual and operational features of the latest trends of the CAP with an overall evaluation of its prospects as a policy. This analysis was dominantly based on legal acts, budgetary allocations, literature and other secondary sources.

## I. CONCEPTUAL, INSTITUTIONAL AND OPERATIONAL FRAMEWORK OF THE EU'S COMMON AGRICULTURAL POLICY

### 1. THE CONCEPT OF CAP

The concept of the CAP has two pillars: market policy and structure policy, or as the latter is called today - rural development. The first pillar of CAP or market policy refers to “agricultural products, i.e. to those produced from the soil, cultivation and fishing, as well as the products of the first processing which are in direct relation with these products” (Druesne 2006: 402). The market policy concerns the “production and marketing of a product or a group of products under a special regime called common organization of the market, so that production and trade are regulated by common regulations, determined by the common institutions and applied by all member states” - these common organizations of the market are established to cover the production and marketing of cereals, rice, sugar, wine, milk and milk products, meat, fruits and vegetables, and others (EU Regulation 1308/2013).

The second pillar of CAP – the rural development policy refers to agricultural exploitation and increasing productivity by structure rationalization or modernization while ensuring sustainable management of natural resources. Regarding the rural development, the Community has had only an additional role, aimed at supporting the efforts of Member States and enterprises in these processes (Druesne, 2006: 403). Today, this support is more balanced - the second pillar is in fact complemented by the member state's efforts, such as farmers' social security as well as by the EU Cohesion Policy since most of the rural areas coincide with the less developed regions in the EU.

### 2. OBJECTIVES, INSTITUTIONS AND DECISION-MAKING REGARDING CAP

The CAP is aimed at achieving the following goals:

- “1. Sustainable food production, with a focus on agricultural income, agricultural productivity and price stability;
2. Sustainable management of natural resources and climate change, with a focus on greenhouse gas emissions, biodiversity, soil and water;
3. Balanced territorial development with a focus on rural employment, rural growth and poverty in rural areas” (EU Regulation 1306/2013).

The CAP is conducted mainly by the European Commission which has great executive powers, being a crucial institution in the decision-making process regarding CAP, especially accentuated in the Art. 8 of the EU Regulation 1306/2013. Then, unlike before the Lisbon

Treaty, where the Council made most of the CAP-related decisions, after the adoption of this Treaty, both the Council and the Parliament are co-legislators concerning CAP (Buonnano, Nugent 2021: 159). Additionally, the management boards of the common organizations of the market (of intergovernmental nature) play a consultative role but contribute greatly to the process (EU Regulation 1306/2013).

### 3. CAP MEASURES

Some of the most prominent traditional CAP measures, featuring longer periods of time are the: intervention mechanisms, foreign trade measures and direct payments.

#### 3.1. Intervention mechanisms

The main intervention mechanisms concern the purchase of the farmers' goods by the intervention bodies of the Community when the agricultural products could not be sold in the market. In this mechanism of intervention, the institutions of the Community had exclusive competence in determining agricultural prices in the phase of production and wholesale trade, and the member states could determine the prices of agricultural products in retail and sales to consumers (Druesne, 2006: 425).

#### 3.2. Foreign trade measures

The foreign trade of agricultural products refers to the trade of the EU with other countries while the trade among EU member states is not considered as foreign trade, given the character of CAP.

Within this concept, there have been two main regimes: regime applicable to import and to export.

According to the import-related rules, the dominant measures have been:

- the permit for import referring to the obligation of the economic operator who intends to import an agricultural product from a third country to request an import permit from the administration of the country for which the import is intended. This knowledge of the import serves the common institutions to properly apply the available intervention instruments.
- the import tax that had been established on most of the Community's agricultural production, including cereals, milk and milk products, rice, sugar, olive oil, sheepmeat and others, and operated until 1994, when it was replaced by the establishment of customs tariffs. This measure was intended to ensure that a product from a third country was imported into the territory of the Community at a price level higher than

the world price for that product, as it respected the principle of mutual advantage of the Community's agricultural producers (Druesne, 2006).

Considering the regime applicable to export, the most prominent measure is the export subsidies where the Community grants subsidies to exporters so that they can lower their selling prices on third country markets in order to be competitive on those markets. The sums of money owed to the economic operators are paid by the Member States in whose territories the export formalities are completed, but they are financed from the Community budget (Druesne 2006: 348-439).

### 3.3. Direct payments

Direct payments are the dominant form of support to the farmers since 1992. These are funds given to farmers in the form of basic income support based on the number of hectares of land they use for agricultural purposes. This so-called basic payment is followed by a series of other support schemes aimed at specific objectives or types of agricultural producers. While the rules governing direct payments are adopted at EU level, their implementation is carried out directly by each member state.

During the last period 2014-2020, the EU allocated 42 billion EUR per year referring to direct payments, which is around 72% of the total budget related to the CAP or 27% of the total EU budget (Tropea 2016: 1). These direct payments at EU level, represent more than 25% of the gross added value of the EU agriculture, rising in some member states to more than 50%. (Tropea 2016: 1). The majority of farmers in the EU use these direct payments. In 2015, the average direct payment was 266 EUR/ha but with significant variations in the paid sums per hectare among member states and depending on the circumstances; and the aspiration for the next period was to reduce such variations (Silvis, Voskuilen 2018: 3). Just illustratively, the average support granted per hectare amounted 255 EUR/ha in 2021 where the direct payments/ha ranged from 722 in Malta to 174 EU/ha in Latvia (EC 2023b: 6). Hence, both the average amount, which represents a substantial sum for social stability of farmers, and the variations are relatively stagnant.

There are two types of direct payments: compulsory schemes and voluntary schemes.

The compulsory schemes cover all member states of the EU and contain the following types of direct payments:

1. basic payment which is a support to farmers based on the number of hectares of land they use for agricultural purposes;
2. greening payment which is a monetary compensation for farmers if they comply with mandatory practices that are favorable to climate conditions and the environment (specifically soil and biodiversity); and
3. young farmers scheme, dedicated to farmers under 40 (Tropea 2016: 9-24).

The voluntary schemes represent a choice of the member states and are mainly consisted of the following possible additional payments: coupling of the support for agriculture (by

the EU and member states); for areas with natural limitations (mountainous areas, etc.); and redistributive payment, where the member states can direct national funds to the first 30 hectares of farmers subject to EU support. In addition, there is a Simplified Scheme for Small Agricultural Producers, which is a voluntary payment scheme for member states, since about 66% of the 10.8 million total EU farm population has farms that are less than 5 ha (Tropea 2016: 24-26).

#### 4. FINANCING OF THE CAP

The EU supports farmers through several types of measures and several funds within its budget. In 2019, at the moment of conceptualization of the new programming period, the EU supported farmers with 57.98 billion EUR, out of which 41.43 billion EUR were earmarked for direct support, 2.37 billion EUR for market measures and 14.37 billion EUR for rural development (EC 2023c).

The CAP is financed by two main funds as part of the EU budget: the European Agricultural Guarantee Fund (EAGF), which provides direct support and funding for market measures, and the European Agricultural Fund for Rural Development (EAFRD), which finances rural development. The latter aims to “increase the competitiveness of agriculture, to encourage sustainable management of natural resources and climate change and balanced development of rural areas” (EU Regulation 1305/2013) and it is complemented by two more funds from the budget of the EU, which mainly concern the EU Cohesion Policy. The CAP is also financed by public funds from the national/regional budgets, as well as by private means (Brief 5 2013).

#### 5. CAP'S EFFECTS, RESULTS AND WEAKNESSES

Generally, it is notorious that the primary objectives of the CAP have been largely achieved. The increase in agricultural productivity has been significant - in 1962, the Community produced only 80% of food consumption, and in 1999, 120% which also affected the security of supply, i.e. the political goal was achieved through the economic goals (Duresne, 2006: 408). A significant aspect of the CAP was the income of farmers, which was permanently increased, since the introduction of this policy, especially in the latest period - compared to 2013, the EU farm income per worker was 56% higher in 2021, far outpacing inflation during the same period (9.4%) (EC 2023a: 2). However, it must be noted that in this last period since 2013 until 2021, the upward trend in farm income per worker can be attributed in some part to the decreased number of farm workers. Anyhow, the other reason for increased farmers' income is faster growth of the production value than the growth of costs (EC 2023a: 2) which would imply effectiveness of the policy. The current system of food production has managed to maintain historically low prices for food products and ensure a stable and abundant supply of these products in the trade network (Schutter 2019: 19).

The weaknesses of the Common Agricultural Policy lie in several areas:

Environment. Europe loses 970 million tons of soil each year due to moderate or severe soil erosion. Nitrogen-based pesticides and fertilizers take their toll on plant and insect life which creates losses in biodiversity, threatening the chain of interactions in the environment, including the negative impact on the pollination of many agricultural crops, thus jeopardizing future yields, while creating a decrease in gross domestic product globally of 3% per year (Schutter 2019: 15). The EU-wide use of nitrogen- and phosphate-based fertilizers, which are the main cause of eutrophication increased by 6% between 2012 and 2015 (Schutter 2019: 19).

The health of the European population. Agriculture is responsible for 90% of ammonia emissions, which is a great factor in air pollution. Antimicrobial resistance and exposure to endocrine-disrupting chemicals through food itself, food packaging, and agricultural contamination of water sources also create health problems. Pesticide concentrations in surface water exceed the quality standards in several Member States (Schutter 2019: 15). Food systems also affect the public health since unhealthy diet is a major risk factor leading to various diseases and increased mortality in Europe, affecting more intensively the poorer social strata. Additionally, chronic diseases, often based on unhealthy diet, account for 70-80% of healthcare costs in the EU (Schutter 2019: 19).

Socioeconomic aspects. Both globally and in the EU, there is a rapid concentration of the production and trade systems of food in a small number of entities and a large imbalance of forces in these activities and branches (Schutter 2019: 19). Additionally, larger farms' higher costs per hectare are compensated by higher production, resulting in greater overall profitability (EC 2023a: 2). In that context, the survival of part of the agricultural holdings, especially the small ones, is in question - between 2003 and 2013, every fourth farmer in the European Union has left agriculture (Schutter 2019:15) and this trend continued similarly in the ensuing period (EC 2023a: 2). Before the latest reform, only 3% of the agricultural holdings had 52% of the agricultural areas in the EU, and 20% of the farmers received 80% of the total funds resulting from the CAP. Rural conditions are also worsening due to the aging of the agricultural population – in 2013, almost half of the total agricultural population was over 55 years old, and a quarter was over 65 years old (Schutter 2019: 17). These circumstances lead to the motives for the reform of the agricultural policy model of the EU.



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## II. THE CURRENT REFORM OF THE CAP

### 1. MOTIVES FOR THE REFORM OF 2018

The initial Community system of price support for agricultural products from the 1960's has been replaced by the direct payments to farmers. The Commission, taking neo-liberal approach, has favoured larger farms because they are more competitive on world markets, but strong pressures from many EU member states led to alternate the former policies, since the large farms did not prevail in many countries, especially after the EU enlargements, where the new members, i.e. countries of Central and Eastern Europe were with prevalingly small and medium – sized farms (averages of 11 acres in Romania, 28 in Poland), but small holdings are also found in Western Europe, where the average is 37 acres in Italy (Buonanno, Nugent 2021: 164). Another motive comes from the need to pay more attention to environmental care in agricultural production as important for the healthy life of the population. The next motive is that the Europeans wish to ensure the continuation of the small and medium – sized family owned farms as a viable alternative to factory farming, especially considering that “farmers should not be driven out of business by circumstances beyond their control such as the costs of adopting green practices or complying with Europe’s high standards for humane animal husbandry and food quality and safety” (Buonanno, Nugent 2021: 167).

### 2. OBJECTIVES OF THE REFORM

The new CAP reform makes a shift away from subsidizing production to supporting environmental objectives and rural development (Hix, Bjorn 2022: 253). The reform 2021-2027 has created an agricultural policy that is now highly attuned to environmental, climate change, land sustainability, food safety and animal welfare issues. Currently, CAP refers to its two aspects – the direct payments and rural development, while set on integration of the CAP Strategic plans containing nine objectives of economic, environmental and social nature.

“The economic general objective is to foster a smart, resilient and diversified agricultural sector ensuing food security. The economic specific objectives are to:

- support viable farm income and resilience across the Union to enhance food security,
- enhance market orientation and increase competitiveness including greater focus on research, technology and digitalization,
- improve the farmers’ position in the value chain.

The environment and climate general objective is to bolster environmental care and climate action and to contribute to the environmental and climate-related objectives of the Union. The environment and climate specific objectives are to:

- contribute to climate change mitigation and adaptation, as well as sustainable energy,
- foster sustainable development and efficient management of natural resources such as water, soil and air,
- contribute to the protection of biodiversity, enhance eco-system services and preserve habitats and landscapes.

The social general objective is to strengthen the socio-economic fabric of rural areas. The social specific objectives are to:

- attract young farmers and facilitate business development in rural areas,
- promote employment, growth, social inclusion and local development in rural areas, including bio-economy and sustainable forestry,
- improve the response of EU agriculture to societal demands on food and health, including safe, nutritious and sustainable food, food waste, as well as animal welfare“ (Buonanno, Nugent, 2021: 165).

The cross-cutting objective is to modernize the sector by fostering and sharing of knowledge, innovation and digitalization in agriculture and rural areas, and encouraging their update.

### 3. FUNDING CAP IN THE PERIOD OF REFORM

While in the 1980, around 70% of the EU budget was dedicated to agricultural objectives (HBS 2019: 13), recently CAP takes up a bit more than 33%, due to the need it to cover more common tasks of the European Union. However, CAP perpetually represents one of the two largest internal EU policies, since it still, alongside with the Cohesion Policy, takes up 2/3 of the EU Budget for the last 3 programming periods.

The funding of CAP for 2021-2027 is still realized through the two funds respective to the two pillars. EAGF, i.e. the first pillar, in this period has an allocation of 291.1 billion EUR, out of which 270 billion EUR are allocated for income support schemes, and 21 billion EUR are dedicated to support agricultural markets (EC, 2023d). Specifically, 40% of the CAP's Budget in the period 2021-2017 is earmarked for climate action because since 2003 direct payments to farmers have been increasingly tied to other policies, particularly food security, food safety, land sustainability, environment and climate change (Buonanno, Nugent 2021: 161-166). The second pillar, i.e. EAFRD in the period 2021-2027 has an allocation of 95.5 billion EUR (EC 2023d).

### III. CONCLUDING REMARKS

The agricultural policy of the Community in its entire existence has relied on a highly specialized, industrialized, financially supported, standardized and export-oriented model of agriculture and food production. The focus of this model was turned to technological, market and industrial changes, based on the capacities of large companies, with comprehensive supply chains that reached a large number of consumers. The CAP has achieved high effectiveness in the economic sphere, primarily in the domain of the physical volume of production, so that from a former importer of food for the needs of the countries of the Community, it has transformed itself into its exporter, increasing the productivity of production, raising the income of agricultural producers and providing cheap food for the population of the Community. With that, the political goal of food security was achieved, that is, in providing food for the needs of the population of the member states, not to be dependent from third countries.

However, this model has systematically generated negative consequences and created hidden costs, which to a certain extent in the past period, but also in the future, could call into question the effects of the CAP and negatively affect agricultural development. It is the use of chemical substances in the production of food that pollute the soil and water, the health consequences arising from the chemical substances both during the cultivation of agricultural land and during the consumption of food as well as the social consequences that reduce the quality of life in rural areas. Therefore, the prevailing solutions of the CAP failed to harmonize the different aspects (economic, social, environmental) of agricultural development, so that they often acted in opposition to each other.

The latest reform of the EU's CAP is in that context. It conceptually sets, legally regulates and financially supports the goals that should become prominent features of this policy - environmental protection and climate change action, food safety, animal welfare, land sustainability, viable support to small and medium - sized family owned farms and rural development promoting employment, social inclusion and local development in rural areas. Special support is being produced towards modernizing the sector by fostering and sharing of knowledge, innovation and digitalization both in agriculture and in rural areas. These are the assumptions for further favorable development of the agriculture and rural areas in the EU.

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