UNIVERSITY OF LJUBLJANA
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MASTER'S THESIS

IMPACT OF COMMON AGRICULTURAL POLICY IN THE NEW MEMBER STATES AFTER EU ACCESSION

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AUTHORSHIP STATEMENT

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INTRODUCTION

Over the last decade, a lot has changed in the European agriculture sector, starting from 2004 with the enlargement of 10 countries, so-called the New Member States (the Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia), and concluding with the Common Agricultural Policy (hereinafter: CAP) agreement reform in 2013 for the period 2014-2020. The CAP can be undoubtedly perceived as a big success for the New Member States (hereinafter: EU-N10). Over the last ten years, the EU-N10 received € 68 billion from the CAP funding, which was spent on investments in farms and rural areas. Thanks to developing agricultural market in Europe – agricultural exports of the EU-N10 increased more than three times over the last decade – the EU-N10 switched from being a net importer to a net exporter of agricultural products (DG Agriculture and Rural Development, 2014). Apart from this, the EU-N10 have made a great progress in competitiveness towards the Old Member States (hereinafter: EU-15) what would be hardly possible without funding from the CAP. There is also a general tendency that the number of farms is decreasing, however, those who have stayed in the business are increasingly larger. Nowadays, it is of great importance for farmers to specialise and take advantage of economies of scale and scope rather than produce a little bit of everything. European Commission in its report on 'EU-10 and the CAP – 10 years of success' (DG Agriculture and Rural Development, 2014) points out that the CAP has helped the EU-N10 to raise productivity, encourage more and more young people to become farmers and to focus on sustainability in the agricultural sector.

While all of these CAP achievements are success stories, there is still room for improvement. Nowadays, there is a big debate on the simplification of the CAP and on the CAP reforms as well. Thanks to ten years of experience of the EU-N10, there are some valuable insights that they can share with policymakers in order to improve the functioning of the CAP and make it work more efficiently. Unfortunately, it is hard to tailor the CAP to the specific needs of every member state. Thus, there are those countries that gained the most, so-called 'winners' and those countries that gained the least, so-called 'losers' of the CAP within the EU-N10 (Jámbor & Siróné Váradi, 2014). There are a number of analyses done on the future of the CAP. Nevertheless, there is a need to remember that in the current geopolitical situation such long-term predictions can be misleading. Thus, this master's thesis focuses on the experience of the CAP in the New Member States 10 years after accession in order to make a list of both best practises and things to be improved according to this decade of experience.

The main objectives of this master's thesis are (1) to examine the situation of the agricultural sector in the New Member States ten years after accession and (2) to determine general trends of the CAP over the last decade in the EU-N10. This master's thesis allows the reader to better understand the nature and role of the CAP in the New Member States.

There are a number of burning issues that need to be addressed when assessing the impact of the CAP on the EU-N10. These issues form the core of the research questions, namely:

- What general economic impact does the CAP have on agriculture in the New Member States?
- What are the drivers of the CAP for the New Member States that contribute to positive results vs. those that produce negative results?
- Is the CAP tailored to the needs of every New Member State? Which countries from the EU-N10 are winners/losers of the CAP?
- What are the lessons learnt from CAP experience in the EU-N10? Are they useful to the CAP in general?

This master's thesis is composed of 6 main chapters (numbered from 1 to 6) excluding introduction, conclusion, terminology dictionary, references and appendix. In chapter 1, the focus is put on the Common Agricultural Policy in the EU and its recent reforms in order to find out the foundations of this common policy and to see what kind of problems this policy had to face with and how it has gone about them. All these provide a valuable input for a further discussion on the New Member States and the EU pre-accession programmes and procedures. Then, there is a review of the situation in the EU-N10 after EU accession, with the strong emphasis on the financial part.

Chapter 2 attempts to look at the previous analysis of the New Member States and Common Agricultural Policy. It is of great importance to see how different researchers refer to the CAP in the lights of the EU enlargement in 2004. All these academic papers come to interesting conclusions that are presented and considered in this master's thesis.

In chapter 3, the reader can find a well-structured set of information on how the indicators were calculated. This chapter is fully devoted to the methodology of indicators that were used in this research. Each indicator is described in three steps: (1) name of the indicator (2) formula of the indicator – how it is calculated (3) why this particular indicator was chosen for the need of this master's thesis.

For the purpose of this master research, chapter 4 is to provide a set of drivers of the CAP in the New Member States and thanks to the graphical analyses, this chapter provides an overview of countries that gain the most and the least over the last decade. In chapter 4, the following analyses are applied:

- cross-sectional graphical analysis of different figures and indicators in the New Member States. This master' thesis will look to cross-country differences in CAP variables among the EU-N10, specifically in which country productivity, employment situation and/or demographic situation in rural areas has improved over time. That would allow assessing the general economic impact of the CAP in the EU-N10.

- trend and before/after graphical analyses of different figures that present development of CAP indicators throughout the period of 2004-2014 for the EU-N10. More specifically, this chapter attempts to answer the following questions: Did the size and number of farms in the New Member States increase/decrease during that period? Are the EU-N10 farmers better educated now or a decade ago?

In chapter 5, the master's thesis continues with the confrontation of the possible drivers of the CAP in the New Member States resulting from chapter 4 with potential drivers described in other literature. The outcome of this part is a set of drivers and barriers to CAP success in the New Member States.

Chapter 6 concludes as the final part with SWOT and TOWS analyses. They will be used in order to point out strengths, weaknesses, opportunities and threats that come from this 10-year period of the EU-N10 in the CAP and then to come up with practical solutions on e.g. how to use CAP's strengths in general to overcome its weak points.

1 COMMON AGRICULTURAL POLICY IN THE EU AND ITS RECENT REFORMS

The European Union's Common Agricultural Policy was introduced in 1962. It is a common policy for all the EU Member States. It is managed at European level and funded from the EU annual budget. CAP's general objectives were defined when the Common Market was established in the Treaty of Rome in 1957. Over a decade after World War II, Europe still suffered from severe food shortages, therefore, at that time the main objectives of the CAP were:

- "to increase agricultural productivity by promoting technical progress and ensuring the optimum use of the factors of production, in particular labour;
- to ensure a fair standard of living for farmers;
- to stabilise markets;
- to ensure the availability of supplies;
- to ensure reasonable prices for consumers" (Massot, 2015c, p.2).

Now, 50 years later, according to European Commission (2014a, p.3) EU has to address more challenges: (1) "food security — at the global level, food production will have to double in order to feed a world population of 9 billion people in 2050; (2) climate change and sustainable management of natural resources; (3) looking after the countryside across the EU and keeping the rural economy alive";

In other words, thanks to the latest CAP reform, new objectives have been set, which are: **economic** – to ensure food security and increase competitiveness and distribution of value within the food chain; **environmental** – to enhance sustainable use of natural resources and address climate change issues; **territorial** – to ensure social and economic diversity in rural regions (Massot, 2015c).

Figure 1. The CAP post-2013 Reform objectives

Challenges	Policy objectives	Reform objectives
• Economic • Environmental • Territorial	• Viable food production • Sustainable management of natural resources and climate action • Balanced territorial development	• Enhanced competitiveness • Improved sustainability • Greater effectiveness

Source: DG Agriculture and Rural Development, *Overview of CAP Reform 2014-2020*, 2013a, p. 3.

There are a number of CAP's functions in the EU society, and the first one is certainly to produce food. Farmers are in charge of providing the European market with food of good quality at affordable prices. Thanks to the CAP, consumers can get what they want as farmers are driven by common policy that provides European market with good quality products and at accessible prices. In the majority of EU countries today, the average family needs to spend on food approximately 15% of their monthly income, while in 1962 it was twice such a proportion. Moreover, the EU is also expected to ensure the World food security. It is due to the fact that the EU has a lot of agricultural resources.

Secondly, the CAP is about the countryside. That is why, a great amount of money is spent on Rural Development Programmes, which enables modernisation and development process of rural areas and food production. Apart from this, farmers are those who mainly manage and maintain countryside. Therefore by supporting farmers, the EU supports rural areas. It should not be forgotten that there are numerous jobs that are linked to farming, namely veterinary medicine, building, machinery maintenance and many more. There are some 12 million farmers and 4 million people employed in the food sector what in total gives 7% of all jobs and generates 6% of EU GDP.

Last but not least, the CAP helps farmers to protect the environment. The EU financial assistance goes to farmers in order to help them adjusting farming methods to cope better with the results of a climate change. The EU needs farming that is environmentally

sustainable because there is a need to care about the quality of food and the conditions for future generations. It can be undoubtedly taken for granted that the CAP drives the rural economy to become more productive and innovative.
In the context of this master's thesis, it must be mentioned that the CAP in the EU-N10 was begun to be implemented when these countries joined the EU. Nevertheless, before joining the EU, the New Member States were offered pre-accession funds, which included pre-accession assistance for the agricultural sector, called Special Accession Programme for Agriculture and Rural Development (hereinafter: SAPARD). SAPARD was established in 1999 in order to prepare and familiarise candidate countries to the rules of the CAP. It was also meant to help the EU-N10 farmers financing modernisation of their farms (European Commission, 2014a).

1.1 Early developments of the CAP

This section is devoted to the historical evolution of the CAP with an emphasis on its early developments. Therefore, this part focuses on the problems and issues in agriculture from CAP's beginning and the way how they were tackled by specific economic instruments. In order to have a global picture of the CAP history, there is figure 5 which perfectly illustrates the CAP developments throughout its over 50-year period.

In 1957 when the Rome Treaty introduced the European Economic Community (hereinafter: EEC) among six countries, the CAP was foreseen with the main aims (1) to provide affordable food in the Member States and (2) to create a fair living standard for farmers. There were three principles that underpinned this policy: community preference, market unity and financial solidarity. Establishing of Common Market Organizations (hereinafter: CMOs) for agricultural products was the first move towards setting up the CAP. The rationale behind CMOs was to have a free internal trade within the Community and also to protect the income of Community farmers by imposing trade barriers to countries outside EEC. Therefore, the CMOs used three complementary policy tools: a public intervention system, a guaranteed price, and variable levies. The concept of a **guaranteed price** was that the variable conditions in agriculture (like climate conditions or natural disasters) and the structural instabilities in agricultural markets provoked public intervention that would guarantee the decent condition of living for EEC farmers. As a result, instead of having market-defined prices, the prices were fixed by institutions (Community civil servants and politicians). This system, indeed, was created with an aim of both boosting agricultural production and supporting the agricultural income of farmers. Apart from the guaranteed price, there was also the **intervention price** tool that aimed at keeping the price high. When the price starts to decrease, for instance because of high internal supply, normally that would lead to a price fall. However, when the price reaches a particular level (intervention price level) intervention agencies step in to buy the surplus and store it till the market for the product is balanced again. Moreover, there was also a system of **variable levies** that came into force in order to achieve one of CAP's principles: Community preference. The idea of this tool was to prevent cheap imported products from flooding EEC market. The way how variable levies operated is as follow: if the product was priced below the EEC price level, then the importer had to pay a tariff (which was a difference between world price and Community price and it was paid to the European budget). In addition to this, there was also a system of refunds (similar to export subsidies) that enabled Community producers to sell their products outside the EEC at the world market price without losing money. Finally, in order to cover the financing of the CAP and promote the CAP’s third principle, the European Agricultural Guidance and Guarantee Fund (hereinafter: EAGGF) was established. The guarantee part of EAGGF covered costs of the market system such as intervention and export refund costs while guidance section was in charge of funding structural policies (Cini, 2012).

The CAP was created in 1962 and thanks to the aforementioned measures, farmers started to produce more food. As it was mentioned earlier, the CAP ‘rewarded’ the quantity in line with the rule: the more quantity of a product, the more big farmers benefited from the policy in comparison to small ones. The benefits of price support were mainly ‘reserved’ for the largest EU producers since they produced a lot. The large EU farms were more efficient thanks to making use of economies of scale and scope and, therefore, their production costs were lower. As it could be expected, these measures described above pushed farmers (especially those with large farms) to go for energy-, chemical- and machine-intensive technology. It was based on agrochemical sector that produced pesticides in order to combat insects, herbicides to combat weeds and fertilizers to improve soil fertility. In addition to that, new machinery was created, such as huge harvesters and planting machines in order to boost productivity. This revolution was named in a strange, paradoxical way as a ‘**green revolution’** (Baldwin & Wyplosz, 2013).

The Mansholt Plan (also called as '1980 Agricultural Programme') noted the limits of price and market support policy. His plan also pointed out that the living standard for farmers did not improve since the CAP implementation although the EEC expenditure for the CAP increased. The main objective of his plan was to redistribute the land in a way that small ineffective farms should be redistributed (i.e. sold out) to bigger farms or perspective family farms. Farms were considered effective if they were able to generate an average annual income for their farmers that was comparable to the average income of all the other employed people in a certain region. Those and other actions were taken in order to speed up the structural changes of the EU farm sector, such as: modernising farms, promoting professional education, encouraging farmers to take early retirement and providing assistance to farmers dealing with difficult working conditions (like less-favoured areas or hill farmers). Finally, Mansholt tried to encourage the EEC Member States to limit direct aid to unprofitable farms. Therefore, he was faced with some angry reaction of the Community and, as a result, he was forced to limit the scope of his proposals. In 1972, The Mansholt plan was therefore reduced to three EEC directives that dealt with agricultural holdings modernisation, the training of farmers and suspension of particular agricultural activity (DG AGRI, 2015a).

Then, however, it turned out that increasing only productivity leads to overproduction. This is because storing food surpluses caused the appearance of so-called 'food mountains' (i.e. ‘butter mountains’, ‘wine lakes’). Keeping the surpluses in stores and exporting products with the help of subsidies turned out to be expensive measures that led to the dissatisfaction of consumers and taxpayers. Thus, in order to control overproduction in the milk sector and share the responsibility, the first penalty system was implemented in 1979. These **quantitative restrictions** were introduced in the form of ‘guaranteed ceilings’ for crops (in 1981), milk quotas (in 1984) and Maximum Guaranteed Quantities (MGQ) for cereals in 1987 and other commodities in 1988. However, according to some agricultural economists production quotas should not be treated with a positive insight since they tend to freeze the capacity of production by limiting the competitive advantage. In addition, they also imposed entry barriers for the particular sector. Apart from production quotas, there was a second option: **institutional price cuts**. That helped to restore the market role by adjusting supply and demand. The idea is as follow: when prices decrease, farmers tend not to produce more food. This concept of price cuts was supported by most economists as not only does it give back regulatory power to market but also it allows revenue of farmers to be supported by direct payments by the state. Direct payments have this advantage that they can be better tailored to particular categories of farmers as a form of rewards for their specific practices, i.e. environmental friendly farms (Cini, 2012).

1.2 Recent reforms of the CAP

This subchapter is to provide the reader with the specific and detailed knowledge of the recent CAP reforms starting from the early 1990s; the CAP reforms aimed at reducing market distortions and, if possible, making them more acceptable at the international scale. Major CAP reforms are compressed in a nutshell and are presented in Appendix B.

1.2.1 The 1992 MacSharry reform

The costs of the CAP had been increasing in the mid-1980s and therefore in order to deal with that, Member States had to increase their contribution to the CAP. At that time the CAP faced a reform dilemma: lowering the price of agricultural goods would be exposed to a political roadblock, however buying all the food surpluses was too costly. As it is stated in the European Commission (1994) paper, the 1983 – 1991 period was ‘years of experimentation period with supply controls. Unfortunately, these supply control policies did not address the supply problems correctly and as a result ‘food mountains’ and subsidised exports continued to grow. At the same time, the average agricultural holding incomes continued to drop relatively to the EU-wide average (Baldwin & Wyplosz, 2013).
As a response to numerous concerns, the CAP shifted from support for the market (by setting prices) to producer support (through income support) in 1992 within the MacSharry reform framework. From this time on, the focus was put on the competitiveness of EU agriculture. The main objectives were to (1) stabilise the agricultural market (2) diversify the production (3) stabilise the EU budget expenditure and (4) protect the environment. In

order to meet these objectives, some new measures were implemented, namely early retirement, afforestation, agri-environment programmes and diversification. On the top of them, direct payments came into play as a source of compensation for the decrease in the price support. These direct payments, however, had two significant implications: (1) they were paid to the landowner no matter if the landowner was a farmer or not (The CAP still continues to pay the aid to Queen Elizabeth II although she is not a farmer); (2) the direct payments were only paid if the land was cultivated, that means that the payments were coupled to production in a direct way (Baldwin & Wyplosz, 2013).

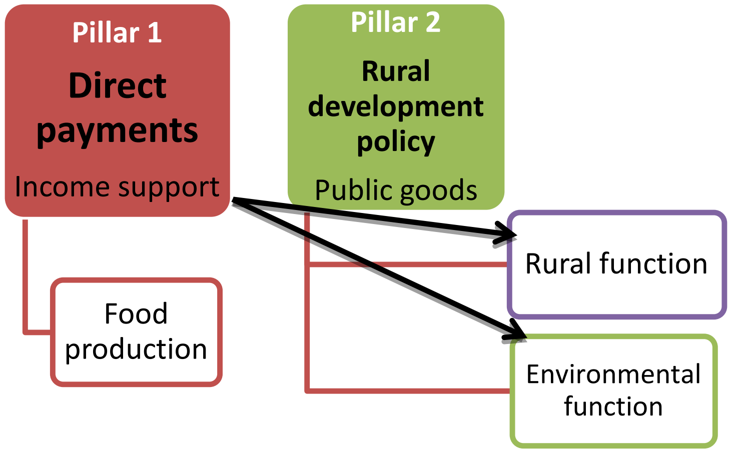
1.2.2 Two major reforms after MacSharry reform

There were two particular CAP reforms after the MacSharry one; they pushed the basic logic of MacSharry reform further on. They involved price cuts that were remunerated by direct payments to EEC landowners. The first one took place at the European Council meeting in Berlin in 1999. The main reason for this reform was to prepare the CAP for the up-coming EU enlargement and to get the CAP ready for 2000-2006 Financial Perspective with the falling budget share. When it comes to the second reform, it began in 2003. The CAP reform 2003 was encouraged by the recent WTO trade talks that were also called as Doha Development Agenda. It should be noted that developing countries did not want to start new WTO talks and the only way to convince them was the promise of the EU members and other rich nations to liberalise agricultural market as a part of Doha Round in November 2001. Then, in 2003, there was an important midterm meeting of ministers in Cancun, Mexico where EU ministers had to think up of CAP reform that would fulfil its liberalisation declaration. In the end, it turned out that this meeting in Cancun was a failure. Nevertheless, the 2003 reform was followed up by specific reforms related to agri-sectors in recent years.

1.2.2.1 'Agenda 2000'

The CAP kept continuing with its reform in order to go further with reform started in 1992. Thus, the next important point in the CAP history was entitled as 'Agenda 2000' aiming at deepening the process of the 1992 reform and rural development. In this period there was a strong emphasis on the sustainability cohesion. 'Agenda 2000' included the following areas of focus: food safety and quality, increased competitiveness mainly through more market orientation, stabilisation of incomes, environmental awareness into agricultural policy, simplification, decentralisation and rural areas development. It was an important agenda also because it set out the new rural development policy that was implemented as a second pillar of the CAP (pillar 1 being income subsidies and other market interventions). This policy was designed to foster rural development by encouraging rural initiatives, supporting young farmers, helping farmers with both diversification and setting up producer groups, or alternatively restructuring their businesses. From this time on, the CAP is divided into two pillars: pillar 1 which is income support and pillar 2 which is rural development (DG AGRI, 2015a).

Figure 2. The two Pillar structure of the CAP



Source: European Communities, *The EU Rural Development Policy 2007-2013 Factsheet* Government, 2006, p. 5.

1.2.2.2 CAP reform 2003

The next stage of the CAP was the 2003 reform that was said to be a 'radical rebuilding of the CAP' or 'towards a CAP based on decoupled aid' (Massot, 2015a). The focus of this reform was put on the policy efficiency issues. This reform was based on significant innovations such as the introduction of the 'cross-compliance', 'decoupling' or 'modulation'.

Hitherto majority of agricultural support has been paid indirectly through prices or directly by area payments and headage. Area payments and headage were considered as the main way of supporting after the CAP reforms in the early 1990s at the time when the majority of the current subsidy schemes were implemented. At present, such support schemes have been criticised since they are thought to be too bureaucratic for farmers. Moreover, they also encourage overproduction of low-quality products and encourage non-sustainable farming in some areas.

Therefore, the CAP 2003 reform came up with three main elements in which two of them are extensions of previous reforms, and one is an entirely new concept. This new concept is called 'decoupling', and the remaining two are modulation and changes to market measures that include cuts in price support.

Both headage and area payments known as direct payments are linked (or coupled) directly to production. As a rule, farmers get payments on the basis of what has been claimed, e.g. numbers of livestock, hectares of crops.

Decoupling changed that system in the following way: farmers continue to get most of this money in the form of Single Farm Payment (hereinafter: SFP) however in this payment scheme, the level of payment will not be influenced by the number of livestock or the area of crop. Farmers started to receive payments under the Single Payment Scheme that was dependent on meeting cross-compliance conditions, which are: (1) respecting existing legislation in environmental protection, plant, public health and animal welfare and (2) cultivating land in Good Agricultural and Environmental Condition (hereinafter: GAEC). As far as the SFP is concerned, it was based on the average of payments that were received under the main subsidy schemes in a historic reference period which is the year 2000, 2001, and 2002.

Modulation applies the money transfer from direct support payments (which also include the new decoupled payment scheme) to a greater scope of **rural development** measures. The majority of these measures were introduced in order to help farmers build a more environmentally and profitably sustainable future. For example, it can be done by financially supporting projects that aim at diversification or by paying farmers to cultivate and promote biodiversity at the same time. Modulation was a mechanism that allowed the reduction of direct payments and the money transfer, so it was a progressive shift of resources from Pillar 1 to Pillar 2. In this reform, the points from previous CAP developments such as market orientation, environment concerns and consumer concerns were strengthened. It was also a pre-accession year of the EU-N10, thus, the CAP Reform 2003 took also into consideration EU enlargement issues

Up until that point, modulation was a subject to be decided on a national level: whether to apply it and if yes what modulation rate shall be applied. This Agreement, however, implies mandatory modulation across the EU at the rate of 3% in 2005, then 4% in 2006 and 5% from 2007 up to 2012. In addition to that, Member States are allowed to provide voluntary modulation.

Regarding **market measures**, price support measures were started to be cut in the early 1990s and those cuts were extended in Agenda 2000 reform. However, the most significant change was the cuts in price support for a dairy sector that were aimed to start in 2004 and at the same time those cuts in price support were planned to be compensated by the introduction of direct payments, so-called dairy premium (Scottish Government, 2013).

In the following years, the reforms were also carried out in the sugar, wine, fruit and vegetables sectors. In line with these reforms, a new rural development policy was prepared for the financial period 2007 – 2013. There was also an ongoing debate on how to reduce the regulatory burden and cut red tape. Therefore, in autumn 2005 the European Commission came out with the proposal on a simplification of the CAP with the primary objective to cut red-tape for administration and farmers as well. It is also important to mention that the EU farming population doubled thanks to the enlargement in 2004 (EU-N10) and 2007 (Bulgaria and Romania joined the EU). Thus, there is a need to have a closer look at the new agricultural reality in the European Union. With the increased number of the Member States, there is an increase in the agricultural potential that well-managed can lead the EU to become a significant and strong player in the World's agricultural industry.

1.2.3 'CAP Health Check 2008'

'CAP Health Check 2008' was the next step taken by the European Commission (hereinafter: EC) in order to modernise, simplify and help farmers to better respond to market signals and deal with new challenges of contemporary World, like the climate change, bio-energy and water management.

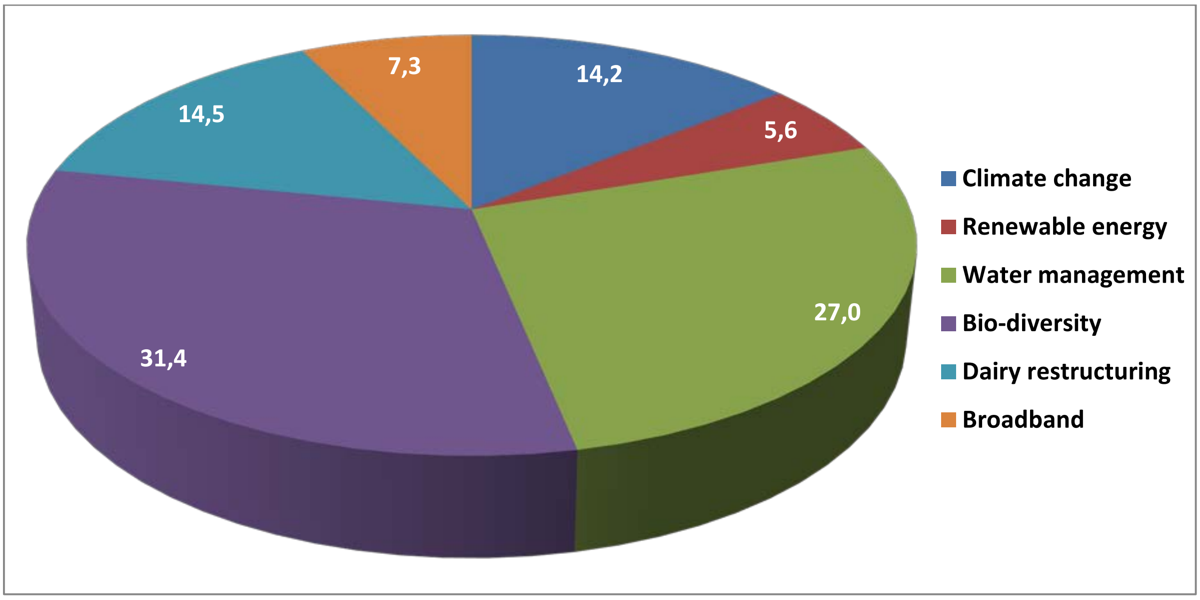
The 'Health Check' was launched by the Council in November 2008, and it revised a list of measures that were applied after the CAP reform 2003. The idea behind CAP Health Check was to enhance complete decoupling of aid through progressive elimination of the remaining payments that were coupled to production thanks to moving them into single farm payment. Moreover, this reform was designed to partially reorient pillar 1 funds to rural development actions by increasing the rate of modulation for direct aid (Massot, 2015a).

Therefore, the 'Health Check' reform implemented adjustments in EU regulations that tackled the following issues:

- End of milk quotas: milk quotas expired by April 2015,
- Decoupling of support: decoupled payments were moved to Single Payment Scheme (hereinafter: SPS),
- Assistance to sectors with special problems: disadvantaged regions, supporting risk management measures,
- Using money that was not spent before: EU countries applying the SPS were allowed to use unspent money from their national quota for some particular measures or to include them into the Rural Development Fund,
- Transferring money from direct aid to rural development,
- Suppressing of the set-aside rule: farmers were not obligated to follow the rule of leaving 10% of their land fallow. It may help them to maximise their production output,
- Cross compliance measure in order to protect environment,
- Intervention mechanisms: farmers should be able to respond to market signals, thus intervention were suppressed for pig meat and set at zero for sorghum and barley,
- Support aid for young farmers to encourage them to invest under rural development will be raised from €55,000 to €70,000 (Cantore, Kennan, & Page, 2011).

Moreover, in line with the 2008 economic crisis, European Commission's response was elaborated in the form of European Economic Recovery Plan (hereinafter: EERP). The EERP was to support innovation, foster structural reforms and build a knowledge-based economy and accelerate the shift to a low-carbon economy (European Commission, 2010). Therefore, the CAP Health Check and the EERP contributed an additional amount of EUR 4.95 billion to the European Agricultural Guarantee Fund (hereinafter: EAGF) total budget for the 2007-2013 period, increasing the total amount from EUR 91 to 96 billion.

Figure 3. Breakdown of CAP € 4.95 Health-Check and EERP additional funds for new challenges (in %)



Source: European Commission, *Overview of the CAP Health Check and the European Economic Recovery Plan Modification of the RDPs*, 2010, p. 3.

1.2.4 'CAP reform Post-2013'

The most recent reform was conducted in 2013 which is called: 'CAP reform Post-2013' due to the fact that it concerns the period from 2014-2020. The main issues of this reform were: greening, redistribution, food chain, more focus on research and innovation, targeting, end of production constraints (e.g. end of milk quotas in 2015) and further simplification of the CAP.

The CAP reform Post-2013 is aimed at the period 2014-2020, but the evolution of this reform has its starting point in 2010 when there was a public debate on the CAP's future and its contribution to 'Europe 2020 strategy'. As a result, the EC published a Communication on 'The CAP towards 2020' that pointed out the key challenges for EU agriculture and rural areas.

The Europe 2020 strategy was designed in order to deliver growth which is:

(1) 'smart' thanks to more effective investments in innovation, education, research and development; (2) 'sustainable' by moving towards a low-carbon economy; (3) 'inclusive' through putting an emphasis on creating jobs and reducing poverty. This strategy is based

on five ambitious objectives in the sphere of employment, education, innovation, climate/energy and poverty reduction (European Commission, 2014b).

As a result of Europe 2020 and the overall CAP objectives, there are three strategic objectives for European Rural Development Policy for the 2014-2020 period:

- “fostering the competitiveness of agriculture;
- ensuring the sustainable management of natural resources, and climate action; and
- achieving a balanced territorial development of rural economies and communities including the creation and maintenance of employment” (DG AGRI, 2015b).

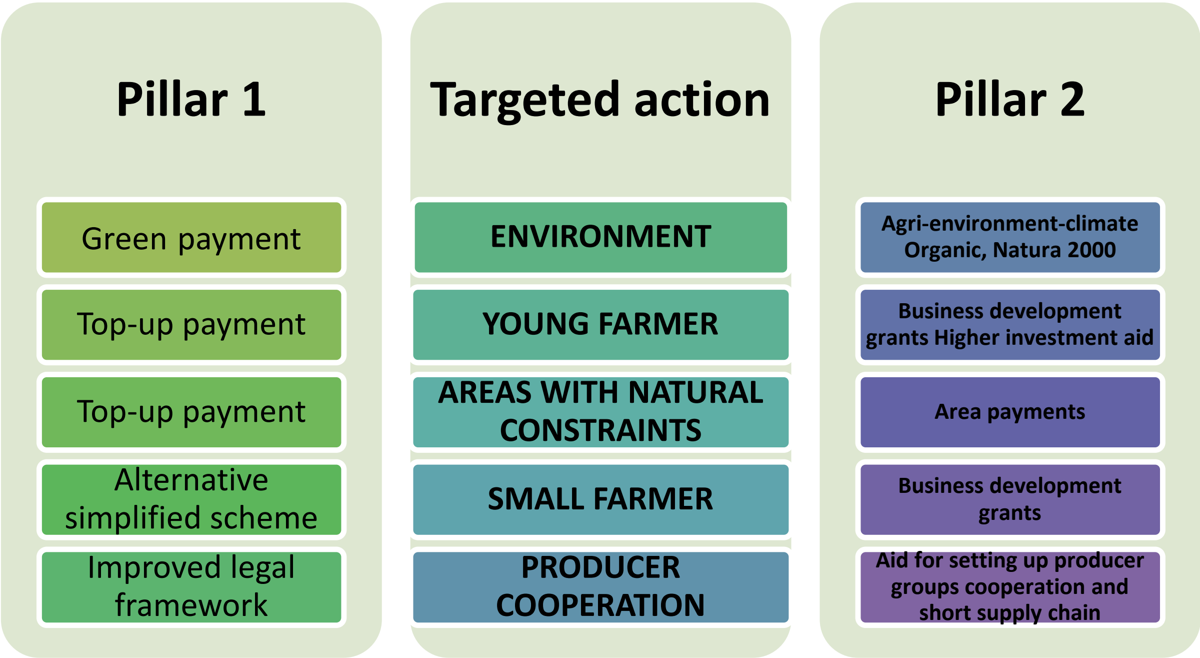
In an essence, the main objective of this reform was to have a ‘fairer, greener and simpler CAP’. The following elements were included in the reform proposal in particular:

- Focusing on greening measures: 30% of direct payments were allocated to three environmental measures as addition to cross-compliance requirements
- Greater convergence of payments by ensuring that levels of payments across the Member States move towards the average of EU by 2019:

  Between the Member States: MS with average payment below 90 % of the EU average (in € per hectare) will see a progressive increase in their envelope (by $1/3$ of the difference between 90 % of the EU average and their current rate). Furthermore, there is the guarantee that every MS will reach a minimum level by 2019.

  Within the Member States: MS that have their allocations based on historical records need to move towards more similar levels of the basic payment per ha. They may choose either regional or national approach. Apart from this, there will be a reduction in the payment for big farms above € 150 000, so the basic payment will be diminished by 5 % and more for amounts above € 150 000.
- Introducing a new scheme for rural development funding: moving from 4 axes structure (see Appendix C) to a bunch of new priorities in order to foster rural development: mainly employment and entrepreneurship.
- New means for farmers to manage risks attached to increased price volatility and to promote the idea of cooperation by helping them to organise themselves in a more competitive food chain that is also balanced.
- New schemes in order to support small and young farmers
- CAP simplification and increase in CAP efficiency mainly by cutting red tape
- More focus on investing in research and innovation (Knops & Swinnen, 2014; Keijzer & Klavert, 2012).

Figure 4. Actions targeted under both CAP Pillars in CAP post 2013



Source: DG Agriculture and Rural Development, *Overview of CAP Reform 2014-2020*, 2013a, p. 9.

In order to summarise post-2013 CAP reform and its approaches to direct payments, market measures and rural development, the below table was constructed.

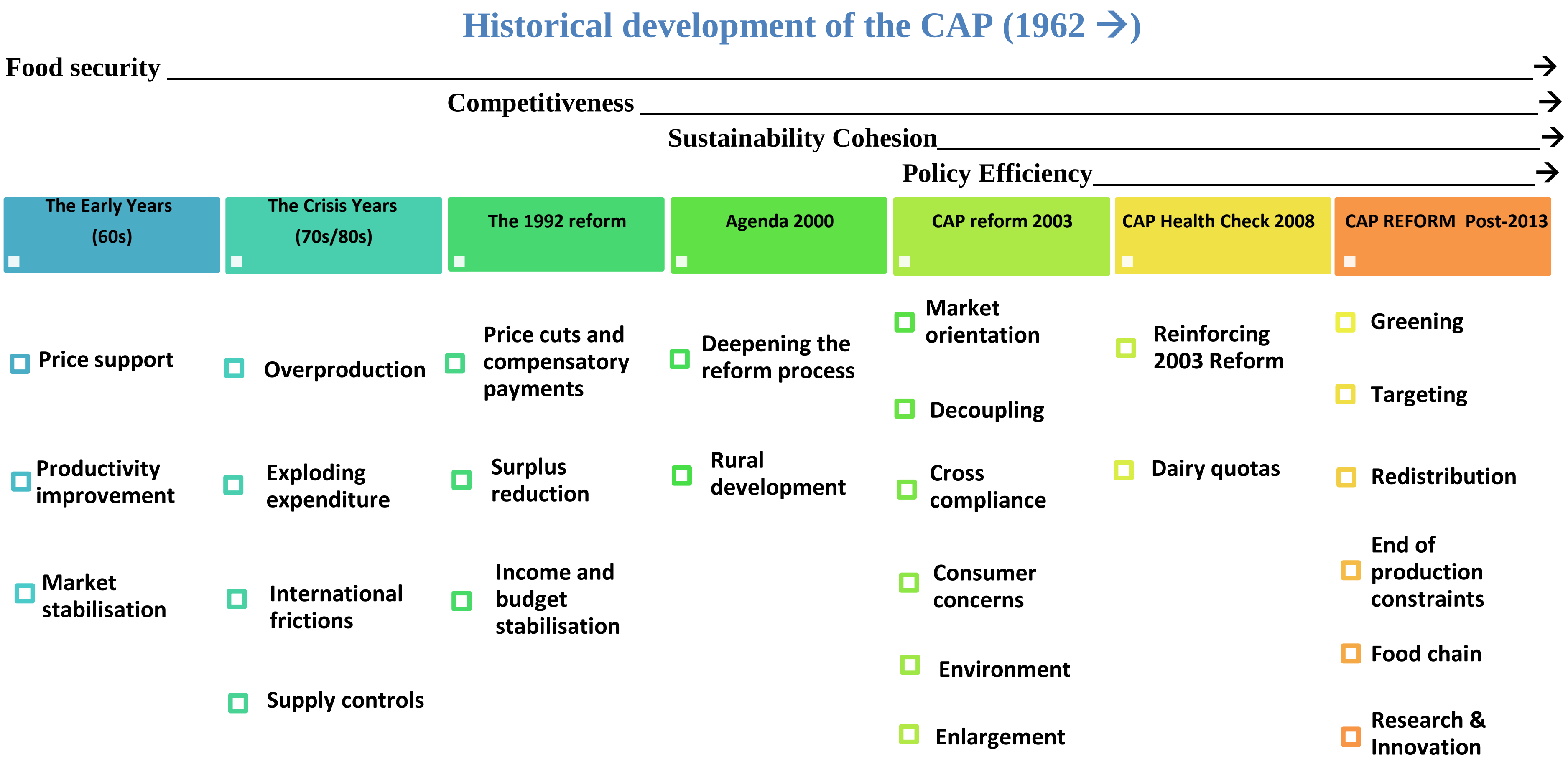
Table 1. Proposed post-2013 CAP changes

Direct payments	Market measures	Rural development
Convergence of direct payments across member states New basic payment to replace the SPS and the Single Area Payment Scheme New 'green' component of direct payments Greater targeting of beneficiaries New rules for coupled payments Changed cross-compliance rules	Confirmation of the ending of milk quotas, of sugar quotas (with one-year delay) and of vine planting band Extension of the market disturbance clause to all commodities under the CMO Measures aiming at improving functioning of the food chain Measures to support quality production	New rural development priorities to replace current axes Better coordination with other EU funds New criteria to allocate Pillar 2 funds across Member States Simplification of supported measures Enhanced risk management toolkit European Innovation Partnership Proposals on monitoring and evaluation

Source: Keijzer, N. & Klavert, H., *A review of stakeholders' views on CAP reform: What they say and what they have achieved*, 2012, p. 4.

Concluding the findings of these two subchapters, over the CAP history there were four main themes following one after another: (1) Food security (2) Competitiveness (3) Sustainability (4) Policy Efficiency. Figure 5 summarises the changing CAP priorities and instruments over time.

Figure 5. Historical development of the CAP



Source: DG AGRI, *The history of the CAP*, 2015.

1.3 CAP budget and expenditure

CAP was initially financed through the EAGGF at the time when it was implemented in 1962. Then in 1964, the EAGGF was divided into two sections:

- The Guarantee Section that was the larger one and it was implemented in order to fund expenditure of market applications and price policies. The EAGGF Guarantee Section financed measures of market intervention in full.
- The Guidance Section was intended in order to help financing operations involving the development of rural areas and structural policy. The EAGGF Guidance Section was based on the co-financing principle.

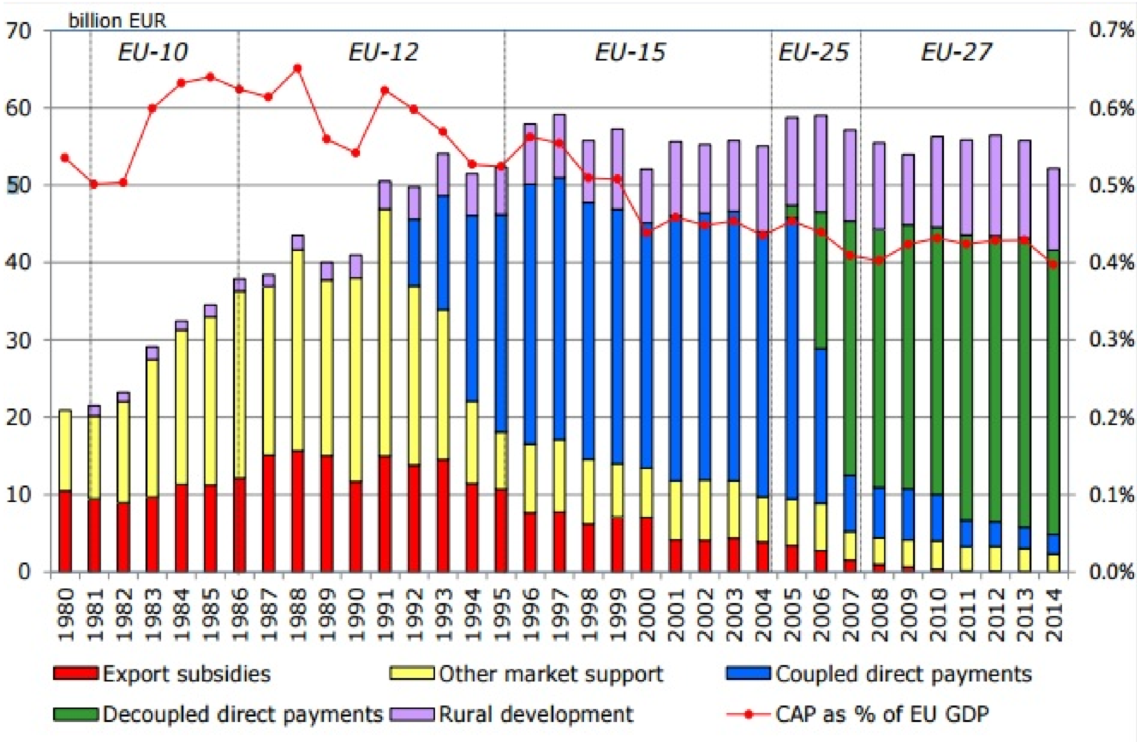
Then in 1988, the funds started to be under strict budgetary discipline by implementing a multiannual agricultural guideline in order to stop the increase in CAP spending. Following, the Maastricht Treaty and the Edinburgh Council, the financial framework was re-organised. The 1988 Interinstitutional Agreement was replaced by budgetary discipline agreement for the period 1993-1999. After that, Agenda 2000 extended the guideline for agriculture under the financial perspective for 2000-2006. In 2006, as a next step, the multiannual financial framework for 2007-2013 was agreed and approved. Two new European agricultural funds were created: the EAGF and the European Agricultural Fund for Rural Development (hereinafter: EAFRD). The EAGF is in charge of financing or co-financing together with the Member States: CMO expenditure, direct support to farms, providing information about and promoting agricultural products on the internal market as well as in third countries, the cost of veterinary measures and collection and use of genetic resources. The EAFRD fund is responsible for rural development (pillar 2) by co-financing measures to improve competitiveness in the agricultural and forestry sectors, measures to improve life quality in rural regions, measures to enhance diversification of the rural economy and local capacity-building and agri-environmental measures. Then, in 2013, the new multiannual framework was implemented for 2014-2020 with regulation on the financing, management and monitoring of the CAP (Massot, 2015b).

As far as CAP expenditure is concerned, it is clearly connected with the reforms path. In the graph below, the evolution of CAP expenditure is presented, and it has the following order along with policy change:

- In the 1980s CAP expenditure dealt mainly with price support through market measures (intervention and export subsidies) that increased by the end of the decade because of agricultural surpluses.
- Thanks to the 1992 CAP reform market price support was diminished and superseded by producer support in the form of direct payments. Rural development measures were also supported by allocating more money to them.

- Agenda 2000 kept continuing reform path and, what is important, the second pillar of the CAP was created that aimed at serving rural development policy.
- Then, the 2003 reform with its decoupling measures influenced the CAP expenditure in a way that most direct payments were decoupled from current production because they were based on the historical receipts of farmers. Spending on Rural development measures continued to increase.
- The 2008 CAP Health Check continued the reform by further reducing market support. Spending on the CAP has been stabilized and in spite of successive EU enlargements total CAP expenditure as a share of GDP actually dropped from 0.65% in the 90s to 0.40% in 2014.

Figure 6. CAP expenditure for the period of 1980-2014



Source: DG Agriculture and Rural Development, *Overview of CAP Reform 2014-2020*, 2013a, p. 4.

As far as CAP budget for 2014-2020 is concerned, the amounts were agreed and included in the new EU multiannual financial framework for 2014-2020, what is outlined in tables 2 and 3.

Table 2. CAP budget 2014-2020 for the EU-28

CAP BUDGET 2014-2020 (EU-28)	**Total 2014-2020 (EUR billion at current prices)**	**% CAP**
MARKET MEASURES (CMO) (a) Assigned revenue (b) Crisis reserve (A) TOTAL CMO [(a) + (b)]	19 002 (4 704) +3 155 17 453	4.3
DIRECT PAYMENTS (DP) (c) Transfers to pillar 2 (d) Transfers to DP (e) NET TRANSFERS [(c) + (d)] (b) Crisis reserve (B) TOTAL DP [(e) + (b)]	298 438 (7 369) +3 359 (4 010) (3 155) 291 273	71.3
TOTAL PILLAR 1 [(A) + (B)]	308 726	75.6
RURAL DEVELOPMENT MEASURES (RD) (e) Net balance in favour of pillar 2 (C) TOTAL PILLAR 2 (RD)	95 577 +4 010 99 587	24.4
TOTAL CAP 2014-2020 [(A)+(B)+(C)]	408 313	100.0

Source: Massot, A., *Financing of the CAP*, 2015b.

Table 3. Multiannual Financial Framework 2014-2020 (in € billion)

	2014-2020 Ceiling (Current Prices)	**2014-2020 Ceiling (2011 Prices)**
Pillar 1	308,726	277,85
Pillar 2	99,587	84,94
Total CAP	408,313	362,79

Source: Massot, A., *Financing of the CAP*, 2015b.

The EC proposed that the amounts for both CAP pillars for the 2014-2020 period should be frozen at the level of 2013 (in nominal terms). In real terms, however, it means that CAP funding will drop in comparison to the current period: the amount for pillar 1 was decreased by 1.8% and for pillar 2, it was cut by 7.6% (in prices from 2011). It gives a sum in total € 362.787 billion for the 2014-2020 period, of which € 277.851 billion is to be spent on Direct Payments and market-related expenditure from Pillar 1 and an amount of € 84.936 billion for Rural Development (which corresponds to Pillar 2) in prices from 2011. Undoubtedly, these amounts from the Multiannual Financial Framework 2014-2020 ensure continued and strong support for ambitious CAP, which represents 37.8% of the entire ceiling for the period 2014-2020.

1.4 CAP in the New Member States

The New Member States have gone through numerous changes and adjustments. The most important periods for the EU-N10 agriculture are: (1) Pre-accession period, (2) 2004-2013 period and (3) 2014-2020 period.

1.4.1 CAP in the EU-N10 – Pre-accession period

Pre-accession agenda of the EU-N10 was to a large extent focused on subsidy reform. At the beginning of the 1990s, in candidate countries (later EU-N10) explicit subsidies amounted to on average 3% of GDP and implicit ones double this number. In line with the prospect of EU accession, it was implied that candidate countries need to comply with the legislation of the EU and its subsidies system. In this way, the candidate countries were obligated to modify, reduce or even eliminate (in some cases) subsidies during the period of pre-accession (1995-2004). As a result, spending on subsidies in candidate countries was reduced by an average of 50%. Four fields were included in the key subsidy reforms: (1) state aid to enterprises, (2) subsidies to agriculture, (3) transport and (4) energy. Concerning the size and economic impact, there were two areas of significant importance: aid to enterprises and agricultural subsidies. As for the farm subsidy reform, it was led by the EU's CAP. Candidate countries had to implement CAP market organisation and adapt already functioning national mechanisms to the EU structural policy. In March 1999, the Berlin European Council signed an agreement on the EU budget for 2000–2006 that included €22 billion to be spent on pre-accession support programmes:

- for infrastructure and institution-building: Poland and Hungary: Assistance for Restructuring their Economies (hereinafter: PHARE)
- for rural development: SAPARD
- and for environmental and transport infrastructure: Instrument for Structural Policies for Pre-Accession (hereinafter: ISPA) (Granados & Koranchelian, 2008).

SAPARD was introduced as assistance in the form of pre-accession measures supporting agriculture and rural development in the candidate countries (later EU-N10). The programme's objectives were set out as follow:

- Contributing to the acquis communautaire implementation regarding the CAP and related policies
- Solving specific problems and priority for the adaptation of sustainable agricultural sector and rural regions in the candidate countries

The SAPARD agency also put three top priorities European Commission (2000):

- Improving market efficiency, quality and health standards

- Creating and maintaining jobs
- Environmental protection

Pre-accession programmes were introduced by the EU prior to the accession of ten New Members in 2004 as tools of the pre-accession strategy. SAPARD was the one that thanks to rural development programming provided specific assistance for small-scale investments linked to agriculture and rural development. Moreover, SAPARD was also a unique programme thanks to its decentralised form, what means that the way of selecting projects, contracting, tendering and basic implementation tasks were in charge of the candidate countries. Thus, SAPARD was the first practical opportunity for the candidate countries to evolve structures and build capacity to administer and manage European agricultural funds as a Member State would do so. It made candidate countries get ready for accession (KPMG Advisory, 2010).

Table 4. SAPARD budget per country

Programme level/Country	Allocated budget: Original (time-proportionate) in € 1,000	Allocated budget: Final in € 1,000	Paid assistance in € 1,000	Paid assistance: No. of beneficiaries	Average assistance received per beneficiary in € 1,000
Czech Republic	117,350	122,488	122,595	1,557	79
Estonia	64,555	68,057	67,742	1,474	46
Hungary	202,408	213,366	213,420	2,616	82
Latvia	116,207	122,381	107,350	1,702	63
Lithuania	157,657	167,218	167,115	866	193
Poland	910,711	945,649	944,955	22,775	41
Slovakia	97,277	102,368	109,733	903	122
Slovenia	39,146	41,429	41,386	563	74
Total	**1,705,311**	**1,782,956**	**1,774,296**	**32,456**	**55**

Source: KPMG Advisory, *Synthesis of SAPARD ex post evaluations*, 2010, p. 65.

The original allocation of SAPARD budget was made for the four-year implementation period, and it amounted to € 1.71 billion. The largest portion of the budget € 911 million which is 53% of total budget was allocated to Poland, then to Hungary (€ 202 million), Lithuania (€ 158 million), the Czech Republic (€ 117 million), Latvia € (116 million), Slovakia (€ 97 million), Estonia (€65 million) and Slovenia (€ 39 million). In total, it was € 1.7 billion allocated throughout eight countries with more than 32 000 beneficiaries that were supported, what means that average paid assistance amounted to € 55 000. As a rule, SAPARD supported agricultural producers and processing companies with funds up to 50%, and the remaining amount (50% or more) had to be covered by the beneficiary.

Table 5. SAPARD financial data per measure

All countries (CZ, EE, HU, LV, LT, PL, SK, SI)		Allocated budget: Original (time-proportionate) in € 1,000	Allocated budget: Original %	Allocated budget: Final in € 1,000	Allocated budget: Final %	Paid assistance in € 1,000	Paid assistance %	Paid assistance No. of beneficiaries	Average assistance received per beneficiary in € 1,000
Measure I	Agri-invesment	394817	23,2%	420548	23,6%	421272	23,7%	17590	24
Measure II	Processing investment	544836	31,9%	532606	29,9%	536243	30,2%	2312	232
Measure III	Vet & plant health	11401	0,7%	8426	0,5%	8427	0,5%	193	44
Measure IV	Agri-environment	24701	1,4%	1673	0,1%	1810	0,1%	48	38
Measure V	Diversification	193992	11,4%	154405	8,7%	140523	7,9%	5082	28
Measure VI	Farm relief								
Measure VII	Producer groups	19860	1,2%	720	0,0%	474	0,0%	2	237
Measure VIII	Village renewal	32195	1,9%	33865	1,9%	35388	2,0%	527	67
Measure IX	Land improvement	33897	2,0%	31546	1,8%	32508	1,8%	415	78
Measure X	Land register								
Measure XI	Vocational training	33812	2,0%	20455	1,1%	8310	0,5%	156	53
Measure XII	Rural infrastructure	359891	21,1%	566322	31,8%	583173	32,9%	5731	102
Measure XIII	Water resources								
Measure XIV	Forestry	20884	1,2%	4663	0,3%	3469	0,2%	285	12
Measure XV	Technical assistance	35025	2,1%	7729	0,4%	2699	0,2%	115	23
TOTAL		**1705311**	**100%**	**1782958**	**100,0%**	**1774296**	**100,0%**	**32456**	**55**

Source: KPMG Advisory, *Synthesis of SAPARD ex post evaluations*, 2010, p. 65.

The distribution of SAPARD funds among the measures was unequal. Initially, the processing investment measure was granted the highest amount of € 545 million, before the agri-investment measure (€ 395 million) and the rural infrastructure one (€ 360 million). During the SAPARD implementation, significant re-allocation of the measures was undertaken. The final version of the budget had a different distribution of the measures. The highest part was spent on the rural infrastructure measure (€ 566 million) while the financial resources for the Measures IV, V, VII, XIV and XV considerably decreased. The budget utilisation was adequate for most of the measures; nevertheless for the Measure IV, VII, XI, XIV and XV were poorly utilised (KPMG Advisory, 2010).

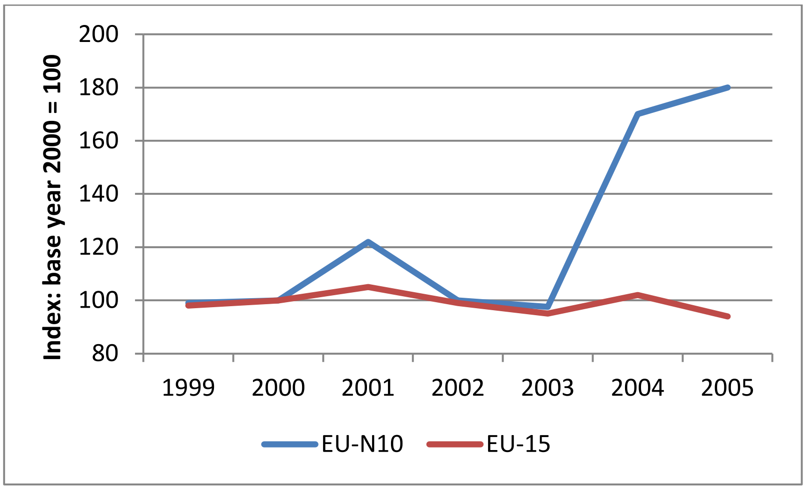
Apart from SAPARD, the Single Area Payment Scheme (hereinafter: SAPS) was implemented in eight member states. This framework concerned the transitional period (2004–2011) and was composed of agricultural land payments per eligible hectare up to a national ceiling that was set out in the accession treaties. Farmers had to meet particular animal, plant, environment, and land quality standards in order to get the payments. If farmers failed to do so, direct payments were reduced or even excluded. Most of the New Member States (excluding Malta and Slovenia) decided to follow the SAPS during the transition. Farmers from the New Member States also received direct payments in the first years of EU accession, albeit the amount of those payments was lower than in the Old Member States. As a rule, direct payments started to be progressively phased in, beginning with 25% of the EU-15 level in 2004 and amounting to 100% in 2013. The New Member

States were also provided with the possibility of topping up these direct payments with their national funds.

The reform process was smooth in most of the New Member States when it comes to the close cooperation between European Commission and local authorities. In most of the cases, member states introduced specific entities to manage the transition process together with the EC. In some member states, the ministry of agriculture was directly in charge of this task, whereas in others (mainly the ones with a higher level of funds), new agencies were established (i.e., in Poland: The Agency for Restructuring and Modernisation of Agriculture).

The reform was more complicated in member states with dominant large-scale collective farms that arose from incomplete reforms of land during the transition years. In the transition period, ex-communist countries gave back expropriated land to the landowners of origin. In countries like Slovakia and Estonia, this issue caused a substantial power increase of large-scale farmers and a decrease in the presence of family farms.

Figure 7. Agricultural income in New and Old Member States



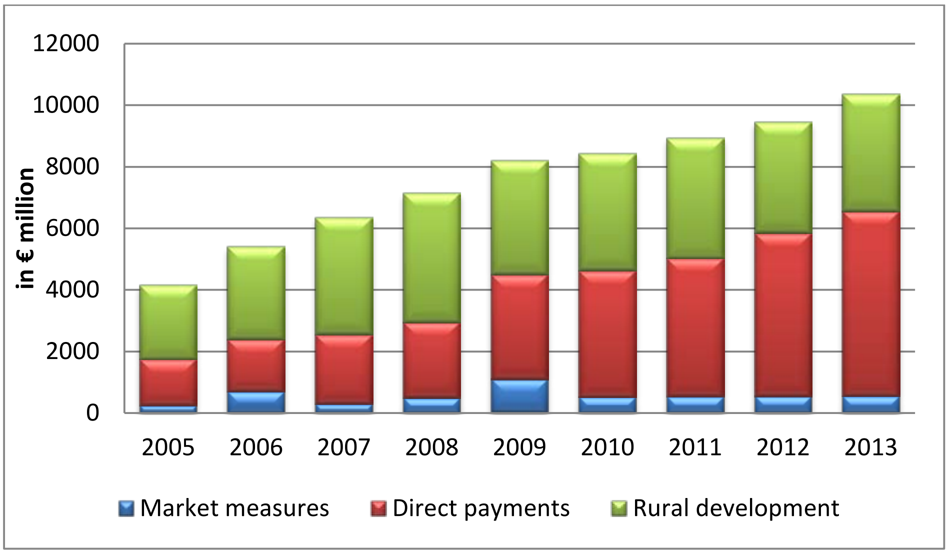
Source: European Commission, *Enlargement, Two Years After: An Economic Evaluation*, 2006, p. 107.

The reform impacted the income of farmers in a very positive way in all New Member States. According to the European Commission (2006), p. 106:
“accession led to a dramatic increase of average real agricultural incomes in EU-10, up in 2004–2005 by more than 70 percent as compared to the average between 1999 and 2003, while agricultural income in the EU-15 stagnated.”

1.4.2 CAP in the EU-N10 – 2004-2013 period

For the purpose of this master’s thesis, it is valuable to know the CAP expenditure in the EU-N10. Therefore, it is important to see how much was spent on the EU-N10 market measures, direct payments and rural development as a share of GDP per each country. In addition to this, this part also comes with detailed information on how the EAFRD contributed to a particular axis.

Figure 8. EU-N10 CAP Expenditure for the period 2005-2013

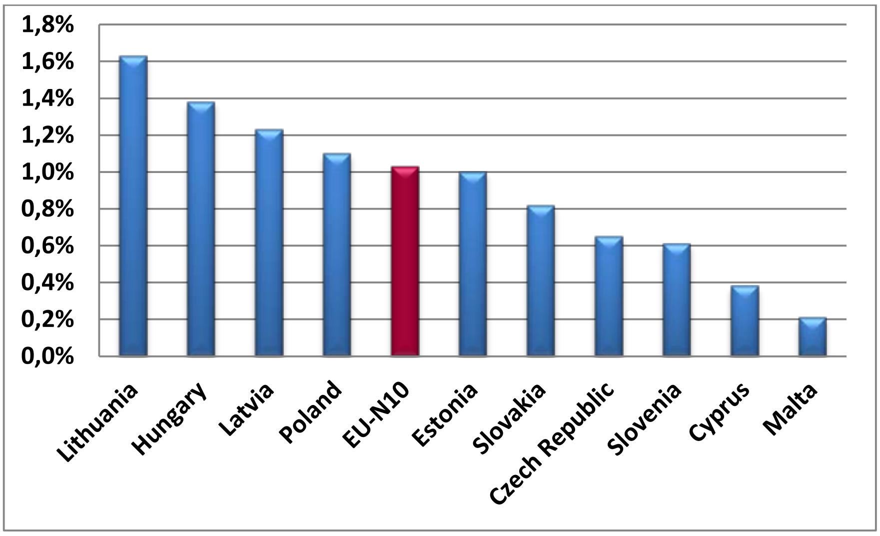


Source: DG Agriculture and Rural Development, *EU-10 and the CAP - 10 years of success*, 2014, p. 7.

In the period of 2005-2013 CAP spending in the New Member States was in total over €68 billion (which represents around 13.4% of total CAP expenditure), the most of which was dedicated to rural development with over €32 billion and then on direct payments that amounted to €31 billion. The least was spent on market measures; it was only €4,5 billion. What is worth mentioning in this place is that the reason behind fast-growing share of direct payments in total CAP expenditure of the EU-N10 is nothing else but a long-term planning of the EC which was implemented as a regulation in which it was stated the direct payment for the New Member States will be equivalent to a level of 25% of those that are received by existing Member States in 2004, and 30% in 2005 and then 35% in 2006. After that the direct payments will be gradually increased year by year in order to ensure that the New Member States receive full support in 2013. Some of the EU-N10 offered some sort of 'direct payments' to their farmers before EU accession, but when joining the EU they could not continue to do that. However, they could provide farmers with so-called 'top-up payments' that was complementing lower EU direct payment in the beginning years. However, as a rule, they could not have been higher than the amount of direct payments received by the existing EU countries. The proposal of such national top-ups would have to be approved by the European Commission (European Commission, 2002).

Apart from that, as it is illustrated in table 2 the new financial perspective for the EU-28 funds for market measures will amount to 4.3% CAP expenditure, direct payment will take the largest part of the CAP spending which is 71.3% and rural development 24.4% (Massot, 2015b).

Figure 9. CAP Expenditure as a share of GDP for the EU-N10 in the period 2005-2013

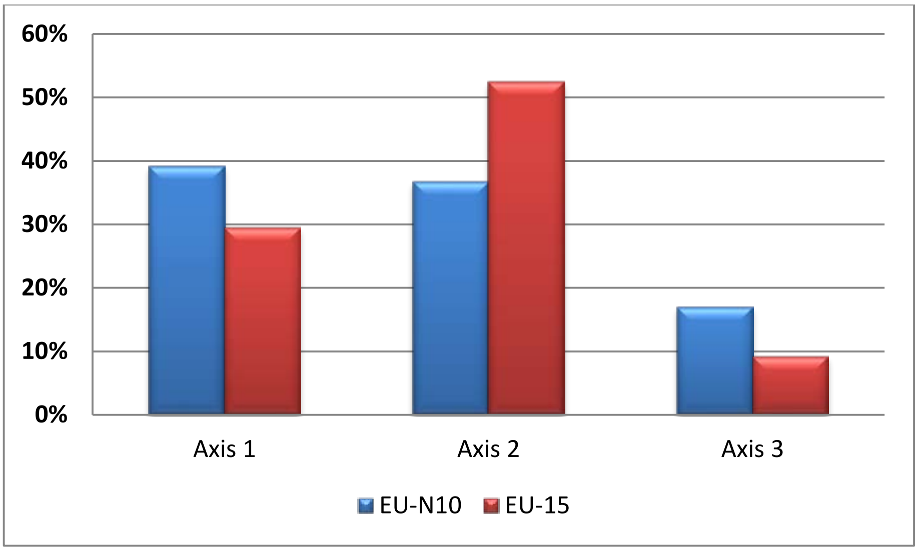


Source: DG Agriculture and Rural Development, *EU-10 and the CAP - 10 years of success*, 2014, p. 7.

According to Agricultural Policy Perspectives Briefs (2011), the way how the CAP should be looked at is, on the one hand, spending on pillar 1 of the CAP amounted to around 30% of the EU budget and on pillar 2 10% in 2013, so it takes a considerable share of the EU budget. On the other hand, when seeing this from public expenditures in the EU, the CAP amounts only to around 1% of total EU public expenditures and 0,49% of EU GDP in 2009. Coming back to the EU-N10 situation, the average of CAP expenditure for all ten countries is around 1% of GDP for the period 2005-2013. Those countries which scored more than 1% tend to treat agriculture as a branch of the total economy with greater importance.

EAFRD funding of rural development has been playing an important part in the EU-N10 agricultural development. Its structure consists of three parts: Axis 1 – responsible for improving the competitiveness of agricultural and forestry sector; Axis 2 – in charge of improving the environment and the countryside; and Axis 3 – that relates to quality of life in rural area and diversification of the rural economy (Cantore et al., 2011). Having analysed ‘EAFRD contribution by Axis’ and ‘Distribution of EAFRD funds within Axis 1’ Axis 2 and Axis 3 for the period 2007 – 2013, the income section continues with an indication on ‘EU-N10 CAP Expenditure’ for 2005-2013 and it concludes with ‘CAP expenditure as a share of GDP’ for the EU-N10 in the period 2005-2013.

Figure 10. EAFRD funding of rural development axes for the EU-N10 and the EU-15 for the period 2007-2013

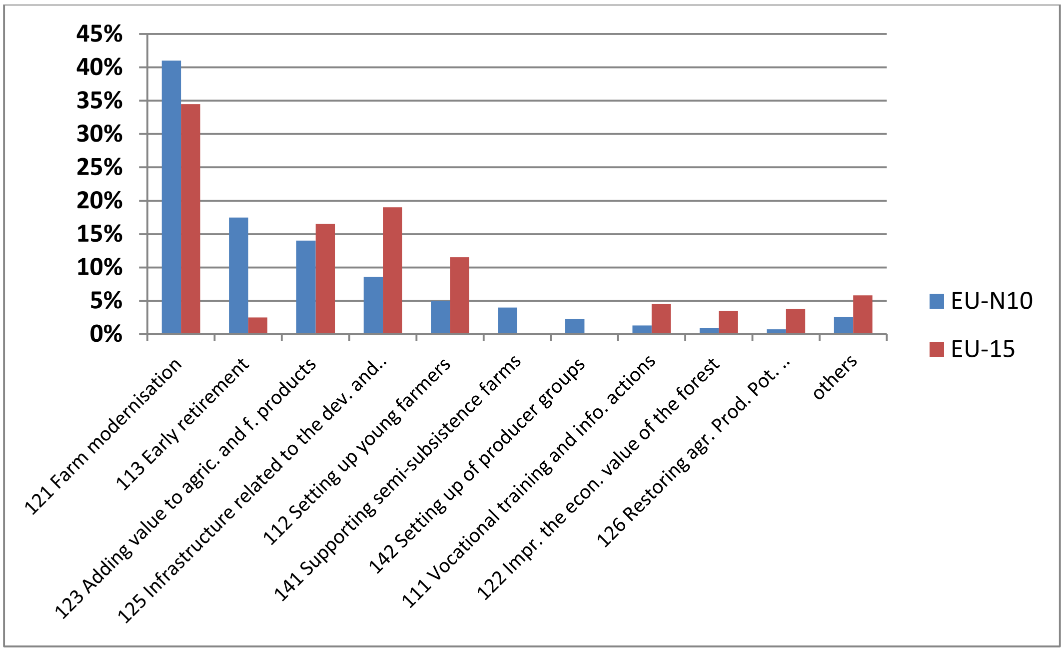


Source: DG Agriculture and Rural Development, *EU-10 and the CAP - 10 years of success*, 2014, p. 6.

This figure clearly shows that the EU-N10 and EU-15 have different priorities. The Old Member States spend the largest amount of Rural Development money on Axis 2 which is 'improving the environment and the countryside' with more than 50% contribution while the New Member States tend to focus more on Axis 1 which is 'improving the competitiveness of agricultural and forestry sector' with around 40% share. This situation cannot be surprising since those two groups of countries are on a different level of development. The EU-15 had been supported by the CAP many years before the EU-N10 joined the EU and the CAP consequently. Thus, the EU-N10 have to catch up with the Old Member States by boosting their agricultural economy and competitiveness through modernisation of holdings in the first place. The least amount of money has been spent on Axis 3 which is 'quality of life in rural areas and diversification of the rural economy' by both groups of countries.

The next three figures provides a clear overview on distribution of EAFRD funds within particular axis. In this way, it can be clearly seen on what the money is spent within particular axis.

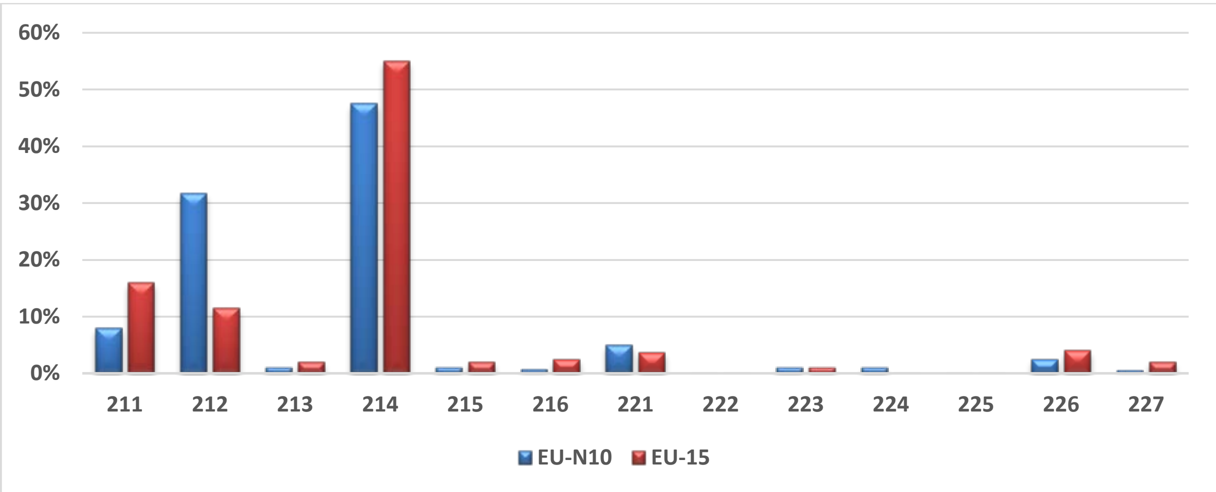
Figure 11. Distribution of EAFRD funds within Axis 1 for the EU-N10 and the EU-15 for the period 2007-2013



Source: DG Agriculture and Rural Development, *EU-10 and the CAP - 10 years of success*, 2014, p. 6.

The largest part of Rural Development for the EU-N10 and EU-15 on Axis 1 went to financial support for modernisation of agricultural holdings. For the New Member States in the second place is money spent on early retirement which is also not surprising because it has allowed to foster the important shift in the EU-N10 in a faster way: generation shift. Thanks to this, EU-N10 agriculture that was mainly divided into small farms and run by the elderly farmer has changed more into market-oriented modern structures that are characterised by bigger farms that are mostly run by younger better-qualified farmers.

Figure 12. Distribution of EAFRD funds within Axis 2 for the EU-N10 and the EU-15 for the period 2007-2013



Source: DG Agriculture and Rural Development, *EU-10 and the CAP - 10 years of success*, 2014, p. 7.

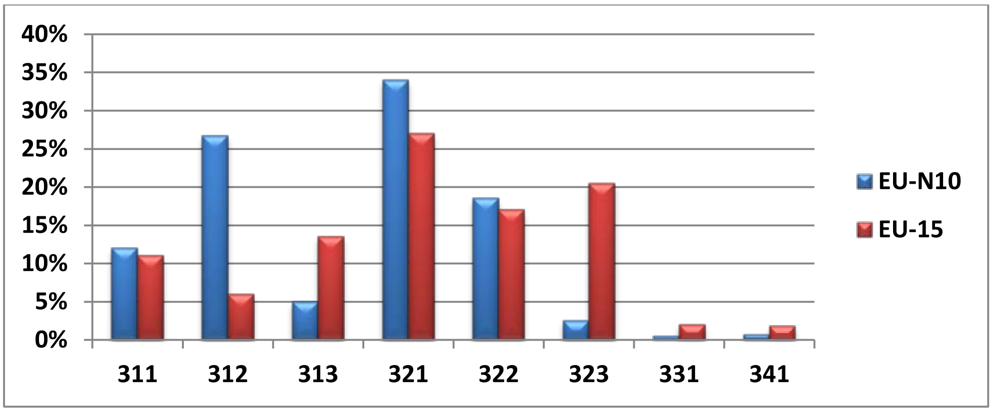
Note. Explanation of digits

211	212	213	214	215	216	221
Natural handicap payments to farmers in mountain areas	Payments to farmers in areas with handicaps, other than mountain areas	Natura 2000 payments and payments linked to Directive 2000/60/EC (WFD)	Agri-environment payments	Animal welfare payments	Non-productive investments	First afforestation of agricultural land
222	223	224	225	226	227	
First establishment of agroforestry systems on agricultural land	First afforestation of non-agricultural land	Natura 2000 payments	Forest-environment payments	Restoring forestry potential and introducing prevention actions	Non-productive investments	

Source: DG Agriculture and Rural Development, *EU-10 and the CAP - 10 years of success*, 2014, p. 7.

Within Axis 2 which is 'improving the environment and the countryside' over 45% was dedicated to agri-environmental payments and around 40% was spent on points 211 and 222 which stand for 211 Natural handicap payments to farmers in mountain areas and 212 Payments to farmers in areas with handicaps, other than mountain areas. In the EU-15, the majority of funds also went to those measures but with different percentage structure.

Figure 13. Distribution of EAFRD funds within Axis 3 for the EU-N10 and the EU-15 for the period 2007-2013



Note. Explanation of digits

311	312	313	321	322	323	331	341
Diversification into non-agricultural activities	Business creation and development	Encouragement of tourism activities	Basic services for the economy and rural population	Village renewal and development	Conservation and upgrading of the rural heritage	Training and information	Skills acquisition, animation and implementation of local development strategies

Source: DG Agriculture and Rural Development, *EU-10 and the CAP - 10 years of success*, 2014, p. 7.

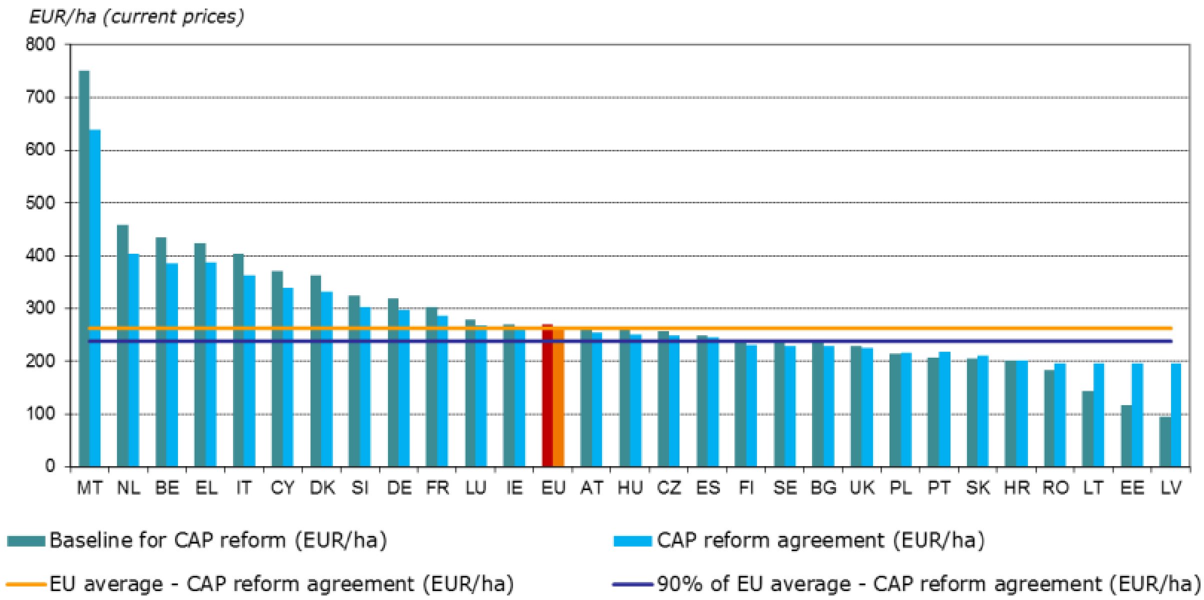
In axis 3, in the EU-N10 the most important goals that money was spent on are: 321 Basic services for the economy and rural population, 312 Support for business creation and development and 322 Village renewal and development. It should be noted that the main difference here between the EU-N10 and the EU-15 is that the New Member States tend to focus more on business creation and development while the EU-15 concentrate more on conservation and upgrading of the rural heritage. The reason why the EU-N10 need to spend more money on business creation is because they are still behind the EU-15 whose economies are developed.

1.4.3 CAP in the EU-N10 – 2014-2020 period

As from January 2014, the EU has started its new seven-year period called Multiannual Financial Framework. This framework also contains the new, re-designed CAP that will focus on five important EU regulations: (1) direct payments, (2) rural development, (3) the single common market organisation, (4) CAP managing and monitoring and (5) transitional rules that apply for year 2014 since due to technical reasons, the new direct payments scheme will apply from 1 January 2015.

Since Direct Payments represent around 70% of total CAP budget it is essential to have a closer look on how they are going to be redistributed within EU member states. As it was described earlier the EU-N10 were somehow at disadvantage position in comparison to the Old Member States that could enjoy much more support from CAP budget. This subchapter presents allocation of direct payments per country in the CAP towards 2020.

Figure 14. Redistribution of direct payments in the CAP towards 2020



Source: DG Agriculture and Rural Development, *The CAP towards 2020 Political agreement,* 2013b, p. 30.

The New Member States complained after enlargement in 2004 due to a significant difference in support received per hectare. Now, with the new CAP programming period, the direct payment scheme provides bigger support to those countries that receive less than 90% of EU average direct payments. New CAP reform also ensures that all countries will receive a minimum amount of € 196 per hectare by 2019, as it is presented by light blue bars in the figure 14. This form of top-up will be financed by countries that receive more than EU average of direct payments per hectare. This redistribution of direct payments across the EU member states is called as external and internal convergence. There are three key issues when analysing the external convergence: (1) direct payments will be a subject of a strict diet in the next multiannual financial framework, (2) the EU-27 will be obligated to finance direct payments for Croatia, (3) external convergence will be financed by countries that exceed EU average (from the EU-N10: it concerns Malta, Cyprus, Slovenia), (Somai, 2014).

2 REVIEW OF LITERATURE ON IMPACT ANALYSIS OF COMMON AGRICULTURAL POLICY

According to Kołoszko-Chomentowska (2014), the level of agricultural income of the family farm was very varied before EU accession. After EU accession, thanks to budgetary subsidies of the EU, the condition of family farm income had improved. In 2009, the family farm income came solely from subsidies in the majority of the EU-N10, what means that without EU support, their financial condition would have been on minus. The EU financing of EU-N10 farms contributed to the growth of the production, and better equipment of farms. Therefore, the EU-N10 have been able to enjoy the improvement and development of their agricultural holdings.

Another paper by Barátha and Fertő (2014) presents the analysis of Total Factor Productivity (TFP) in both the Old and the New Member States. Using Lowe TFP indexes, the analysis implies that the TFP level in the Old Member States was higher than in the New Member States, and that is mainly due to the higher technological level in the Old Member States.

Bojnec, Fertő, Jámbor and Tóth (2014) have analysed the technical efficiency in the EU-N10. Technical efficiency in agriculture is positively connected to agricultural factor endowments, the average size of farm, small-scale farms, farm specialisation, and technological change. Furthermore, foreign direct investments, institutional developments, large-scale privatisation, price liberalisation, and urban-rural income gap are connected to technical efficiency in agriculture in a positive way. Thus, a high level of technical efficiency is a factor that very positively influences the level of living standards in rural areas and in agriculture. The results of the study are as follow:

- The variety in farm structures regarding the farm size and farm specialisation is significant, and that small-scale farm structures are efficient. It is more likely that they will specialise in other outputs than large-scale farms.
- There is a positive connection between technical efficiency and farm size.
- The effect of Foreign Direct Investment (hereinafter: FDI) is equivocal. On the one hand, numerous FDI companies contracted a lot of agri-food firms in the EU-N10 to gain access to their markets. However, the outflows of FDI can be linked to some issues connected to the investment climate in some countries from the EU-N10 that discourage and impede FDI such as infrastructure problems, lack of skilled workers, institutional problems and more.
- Both the improvement in technical efficiency and the rural economy development are considered to influence the level of living standards in rural areas and in agriculture in a very positive way.

According to Csaki and Jambor (2009) from a general viewpoint, the EU accession positively impacted the agricultural sector. It could be seen by higher current prices, higher export and import quantities, a consolidation of production, and most importantly higher income of farmers.

1. There are significant differences among the New Member States because of:

- “Initial conditions
- Pre-accession policies
- Post-accession policies and the way of implementing CAP
- Macro policy and institutional environment” (Csaki & Jambor, 2009, p.40)

2. Albeit all EU-N10 countries are better off thanks to the CAP, it is considered that Poland, Latvia and Lithuania are claimed to be leaders when it comes to utilising the EU opportunities and adjusting to the conditions.
3. Thanks to EU accession, the EU-N10 have become a part of a big and competitive market. On the one hand, this market offers enormous opportunities for the agri-sector. However, EU-N10’ agricultural sectors have limited potentials.
4. Thanks to strong price competition, consumers are those who take advantage out of it while for some producers, the competition pressure is too high to adjust and stay in the market.
5. In general, the consolidated farm structure helped some of the EU-N10 countries (Poland and Slovenia) to adjust more effectively to the needs of one big EU market.
6. Thanks to being a part of EU, the EU-N10 noticed a great increase in subsidies that benefit farmers, so it directly leads to the rise of income of farmers.
7. The CAP seems to be better designed for EU15 countries. Therefore, this system does not totally fit to the EU-N10’ conditions. As a result for the EU-N10, the most pressing issues are poverty and competitiveness of the agricultural sector.

As far as the EU-N10 are concerned, according to Möllers, Csaki, Buchenrieder, Gertrud (2011), there are three issues to be addressed when describing lessons from the CAP reform from the perspective of the New Member States. First of all, current CAP meets the needs of the EU-N10 only to some extent. For instance, rural development policy is not a single model to be taken for granted and implemented in every Member State as it is. It needs to be tailored to the needs of particular rural regions or at least at a country level. What is the most important, there has to be a contribution from local and regional actors that would recognise potential problems and suggest the way to deal with them or show the direction in which way the rural region should develop in order to bring growth and jobs. Furthermore, the second key lesson is that agriculture in the EU-N10 seems not to be ready for the CAP that works to a large extent by the provision of public goods. Thus, EU-N10’ rural regions still need support in order to enhance competitiveness. Last but not least, the study indicates the difficult issues of small farms in the EU-N10. During the structural change process, small farms are touched to a large extent by rural poverty. Apart from this, they very often suffer from barriers to gaining CAP measures. According to Brada (2009), the big farms and big companies in the EU-N10 were the major beneficiaries of the CAP payments.

Another burning issue is direct payments in the EU-N10, as Garzon (2006) noticed, is that there were numerous matters relating to decision on how this problem should be resolved. Initially, direct payments were only designed as a temporary tool to compensate farmers for the price cuts (European Commission, 1997), but they stayed as fixed payments. When designing ‘Agenda 2000’, the Old Member States did not want to introduce direct payments for the New Member States at all. The 2003 reform was designed mainly as a reformative CAP tool in order to manage upcoming challenges in line with EU enlargement of 10 New Member States. After negotiations, it was finally decided that the new EU countries would receive direct payments but gradually, starting with the amount of 25% of direct payments received by the Old Member States and then finishing with the same payments in 2013. In the period 2004-2013 the New Member States (except for Slovenia) received Single Area Payment Scheme and after that period, they have received Single Farm Payments (Ciaian, Kancs, & Pokrivčák, 2013). As the name implies, SAPS subsidies the farms on the hectare basis with an emphasis on what is produced on each hectare while SFP is a fixed set of payments per farm depending on the eligible area.

3 METHODOLOGY OF INDICATORS USED IN THIS RESEARCH

This chapter is fully devoted to the methodology of the indicators used in this research. The main source of data for this research is Eurostat. Nevertheless, there are more sources of data used for the need of this master’s thesis such as OECD, Farm Accountancy Data and DG AGRI. There is a set of factors taken into account for this research and in each factor there is, at least, one indicator used in order to measure the trend or tendency of the phenomenon, e.g. for the agricultural and food prices (factor) the are following indicators are used: consumer food price index and share of food expenditure in the household budget. Apart from this, in this chapter, there is not only the description of each indicator but also the rationale behind its selection and usefulness to this research. In other words, below each factor, there is an explanation why this measurement was taken into account for the debate on the impact of the CAP in the New Member States 10 years after EU accession.

3.1 Structural changes in rural economy (primary sector, population, productivity, employment, farms, education)

This complex issue as structural changes is divided into six components for the need of this research. Structural changes should be considered to be economic conditions that take place when a market changes the way how it operates or functions. The reason why it was taken into consideration for this research and the reason why it is presented as the first factor is that indicators of structural changes are the necessary sets of tools to identify and evaluate the situation in the agricultural and rural environment. It is important to see how primary sector, population, employment, etc. changed over the last decade in the EU-N10. This part is to check if European Commission measures are met, i.e. preventing rural depopulation by helping farmers continue working on farms and create jobs (European Commission, 2014a).

Relative importance of primary sector

The primary sector of the economy is the one responsible for making direct use of natural resources. The primary sector includes agriculture, forestry, fishing and mining. As a rule, the primary sector plays typically the biggest role in less-developed countries while it is usually less important in industrial countries where the secondary or tertiary sector is in the first place. Secondary sector is the sector of the economy that produces manufactured goods whereas tertiary sector focuses on services.

I use two indicators measuring the relative importance of the primary sector in this thesis: ‘share of the primary sector in total GVA’ and ‘share of the primary sector in employment’. The components of the first one can be presented in the following equation:

$$share\ of\ primary\ sector\ in\ total\ GVA\ = \frac{the\ amount\ generated\ by\ primary\ sector}{Gross\ Value\ Added\ (GVA)} \times 100\% \qquad (1)$$

In domestic sphere, GVA is equal to output minus intermediate consumption. To better understand where GVA is placed in the relation to gross domestic product (GDP) the following linked is defined:

$$GVA = GDP - taxes\ on\ products + subsidies\ on\ products \qquad (2)$$

The reason why GVA was selected in this measure rather than GDP was that it excludes taxes on products that differ from country to country, and it includes subsidies on products that in some cases change the profitability of the product, thus it has to be included in the overall calculations.

The second indicator is calculated in the following way:

$$share\ of\ primary\ sector\ in\ employment\ = \frac{no.of\ people\ employeed\ in\ primary\ sector}{total\ employment} \times 100\% \qquad (3)$$

Both indicators were chosen in order to show the trends of the primary sector activity in terms of output and employment in the EU-N10 over the last decade. In addition to the EU-N10, there are also data for the EU-15 and the EU-25 in order to compare the results with more developed EU economies.

Rural population

The rural population is indeed taken by the European Commission as something that needs to be taken care of. In this respect European Commission (2014a) has taken some measures like axis 3.321 Basic services for the economy and rural population (Appendix C) to prevent rural depopulation by supporting family farming and helping in creating jobs.

I use two types of population indicators in my thesis. The first type is a relative indicator, representing the share of the total population living in different categories of regions (urban, intermediate and rural). The components of the first one can be presented in the following equations:

$$share\ of\ population\ living\ in\ rural\ areas\ = \frac{no.of\ people\ living\ in\ rural\ areas}{total\ population} \times 100\% \qquad (4)$$

$$share\ of\ population\ living\ in\ intermediate\ areas\ = \frac{no.of\ people\ living\ in\ intermediate\ areas}{total\ population} \times 100\% \qquad (5)$$

$$share\ of\ population\ living\ in\ urban\ areas\ = \frac{no.of\ people\ living\ in\ urban\ areas}{total\ population} \times 100\% \qquad (6)$$

The second type is an absolute indicator, showing the population in rural areas in the New Member States.

Both indicators were chosen because they provide an overview of the population by type of region and the information if the number of people in rural areas in the New Member States has increased or decreased. It is important to see how the population in rural areas changed over the last years since one of the CAP’s aims is to prevent depopulation in rural areas (Appendix C).

Productivity in agriculture

I use a single indicator measuring productivity in agriculture in this master’s thesis that is Standard output per Annual Work Unit. This indicator can be explained by the equation below.

$$Standard\ output\ per\ AWU = \frac{Standard\ output}{Annual\ Work\ Unit\ (AWU)} \qquad (7)$$

Standard Output (hereinafter: SO) is described in Agriculture and Rural Development Farm Accountancy Data Network. (n.d.) as:

“the average monetary value of the agricultural output at a farm-gate price of each agricultural product (crop or livestock) in a given region. The SO is calculated by the

Member States per hectare or head of livestock, by using basic data for a reference period of 5 successive years."

AWU methodology is presented in the following way:

$$AWU = \frac{no.of\ hours\ worked\ per\ year}{annual\ no.of\ hours\ for\ full\ time\ work} \tag{8}$$

Source: Regulation (EC) No 1166/2008 on farm structure surveys and the survey on agricultural production methods

The indicator was chosen because productivity is the economic driver of the economy, and, in this case, agricultural economy. This indicator shows whether the labour force working on the EU farm is becoming more or less efficient since EU accession. That will provide the complex image of the efficiency of the labour force per country in general (if there is a general trend for all of them).

Employment

I use two employment indicators in my thesis: (1) "Employment rates by types of regions" and (2) "Share of agricultural employment in total employment of EU-N10". The first indicator captures employment rates by different types of regions (predominantly urban, intermediate and predominantly rural) and is calculated in the following way:

$$employment\ in\ rural\ regions\ = \frac{no.of\ people\ employed\ in\ rural\ areas}{total\ employment} \times 100\% \tag{9}$$

$$employment\ in\ intermediate\ regions\ = \frac{no.of\ people\ employed\ in\ intermediate\ areas}{total\ employment} \times 100\% \tag{10}$$

$$employment\ in\ urban\ regions\ = \frac{no.of\ people\ employed\ in\ urban\ areas}{total\ employment} \times 100\% \tag{11}$$

The second indicator is presented by the following equation:

$$share\ of\ agricultural\ employment\ = \frac{agricultural\ employment}{total\ employment} \times 100\% \tag{12}$$

I use both indicators to analyse employment trends in agriculture in the EU-N10 following accession.

Both indicators were chosen because employment in rural areas and agricultural employment are the basic signals for further analysis. For instance, if there is a declining trend of employment in rural areas/agriculture, it may indicate that the agricultural economy is developing. In the past, employment in rural areas was high due to human resource intensive production. Nowadays, thanks to technological advancement, it is expected that there are fewer people working per hectare of production than in the past that should result in a declining employment trend (De Vecchis, 2014).

Farm structure

I use two farm structure indicators in my thesis: (1) Number of agricultural holdings and (2) Economic farm size. The first one presents the number of agricultural holdings for the EU-N10 and EU-15. The second indicator is represented by the following equation:

$$Economic\ farm\ size = \frac{Standard\ output\ (€)}{agricultural\ holding} \tag{13}$$

In this case, "the SO of the agricultural holding is calculated as the sum of the SO of each agricultural product present in the holding multiplied by the relevant number of hectares or heads of livestock of the holding."
(Agriculture and Rural Development Farm Accountancy Data Network, n.d.).

Both indicators were chosen because not only do they provide the overview of the past and the current number and economic size of EU farms but also they help to better identify the tendency that has been drawn in the post-accession period for the EU-N10. In addition, in line with other indicators, those are particularly useful in assessing if the CAP helps the big farms get bigger or preserves small farms in order to have sustainability in the EU farming sector, or maybe both at the same time.

Education and age structure

I use two indicators to measure population structure of farmers in my thesis: (1) Share of farmers by age group and (2) Education level of farm managers. The first indicator presents the percent of farmers within each age group (less than 35 years, from 35 to 44 years, from 45 to 54 years, from 55 to 64 years, 65 years and older). The second one illustrates the percent of farmers with respectively: practical experience only, basic training or full agricultural training.

Both indicators were chosen because they help to discover the dependency of the agricultural training of farmers and their age. Moreover, the second indicator can be also interlinked with the assumption that the higher percentage of younger farmers, the better educated they are or, at least, they are equally educated as older farmers. It is because young people willing to become 'young farmers' (and get the support from the EU for young farmers) have to have an agricultural education (Hennessy, 2014).

3.2 Agricultural income

In addition to understanding structural indicators in agriculture, it is also important to analyse agricultural income. I use three indicators in order to assess the EU-N10 agricultural income and compare it to the EU-15, namely: 'Wages and salaries in agriculture', 'Agricultural income as a share of overall wages and salaries' and 'Agricultural income vs. average wages and salaries'.

The first indicator presents wages and salaries in agriculture in the form of an index with the base year of 2003. In this year, it is much simpler to see the dynamic of this indicator and to compare with two other variables 'the wages and salaries in total economy' and 'GDP per capita' which are also presented in the joint figure with wages and salaries in agriculture. The second indicator shows the percent of agricultural income in the total wages and salaries. The last one illustrates agricultural income (in € per hour) and average wages relatively to salaries in the whole economy (in € per hour).

These indicators were chosen in order to show the general trend of wages and salaries and how far the New Member States are still behind the Old Member States and the EU as a whole. Moreover, it is important to know on average how much money agricultural employees get per hour in comparison to the wages and salaries in the whole economy.

3.3 Agricultural land tenure types and prices

Land tenure types indicator is going to be used in order to show the percent of land tenure by 'farming by owners', 'farming by tenant' and 'shared farming or other'; Utilised Agricultural Area (hereinafter: UAA) applies to all.

I use two indicators to measure land prices: (1) Nominal agricultural land rental price and (2) Nominal agricultural land sales price. The first indicator presents the average price (in € per hectare) for agricultural land rental for a selection of countries (due to data availability). The second indicator provides the information on the average price (in € per hectare) of agricultural land sale for a selection of countries (due to data availability).

The indicators were chosen in order to show the possible impact of the CAP on the value of land. It is assumed that with growing efficiency of labour and advancement of agricultural technology and machinery, the value of land has been increasing since EU accession. Therefore, there is a need to find out if in fact the land price has increased and if yes by how much.

3.4 Agricultural and food prices

I use two indicators to measure food prices: (1) Consumer food price index (2) Share of Food Expenditure in the household budget. The first one shows an index of the consumer food price with the base year of 2003. The second indicator presents the percent of food expenditure in the total household budget.

The indicators were chosen because agricultural and food prices provide a new perspective of the CAP impact since it shows how much consumers paid for the same basket of food in different years throughout the period 2003 – 2013. In addition to that, it also illustrates what is the share of food expenditure in the EU-N10 and EU-15 for the period 2000 until 2012. The results of these analyses may lead to the general conclusion, i.e. with rising income in the EU-N10 the share of food expenditure in the household budget is decreasing.

3.5 Trade in Agricultural Products

I use one indicator to measure trade in agricultural products: EU-N10 agricultural trade with EU-15 and outside of EU. This indicator presents the amount of EU-N10 agricultural trade with EU-15 and outside of EU by showing (in million €): Exports to EU-15, Exports to the Trade Complementarity (outside of EU), Imports from EU-15 and from the Trade Complementarity, and net trade (the difference between total export and total import).

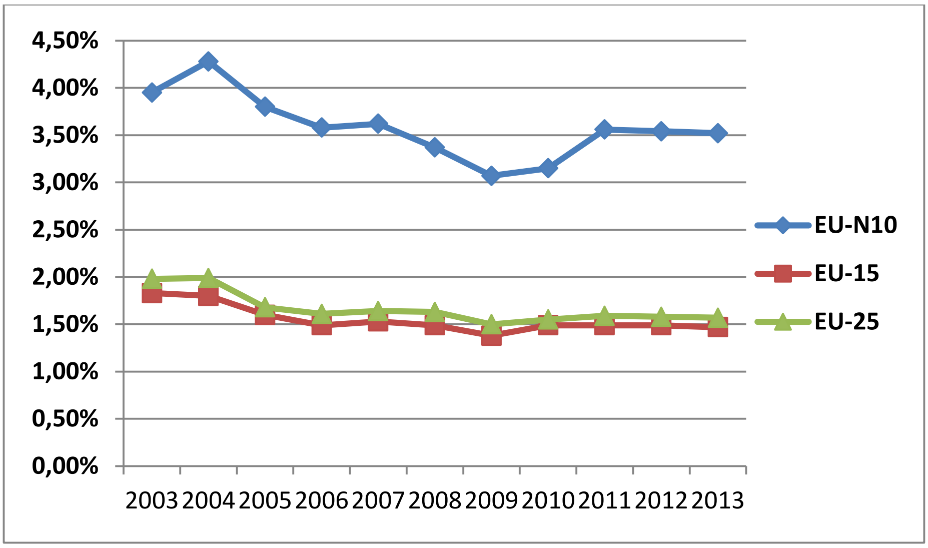
The indicator was chosen because it is crucial to get to know if the EU-N10 is a net importer or exporter and what is the scale of trade with the EU-15 and outside of EU. It will be helpful in the overall image of the CAP impact of the EU-N10 after EU accession.

4 IMPACT ANALYSIS OF THE COMMON AGRICULTURAL POLICY IN THE NEW MEMBER STATES

The chapter presents a comprehensive analysis of different indicators that were described in the previous chapter. The aim of this chapter is to see how the CAP could possibly impact EU-N10 agricultural sector. Therefore, this section is mainly composed of numerous figures and tables in order to get an overview of the development of different trends that happened in EU-N10 agriculture over the analysed period.

The EU-N10 has gone through significant **structural changes** during the last ten years. In this subchapter, numerous figures are going to be presented in order to provide the reader with a broad view of the structural changes that has taken place in the New Member States since joining the EU up until now.

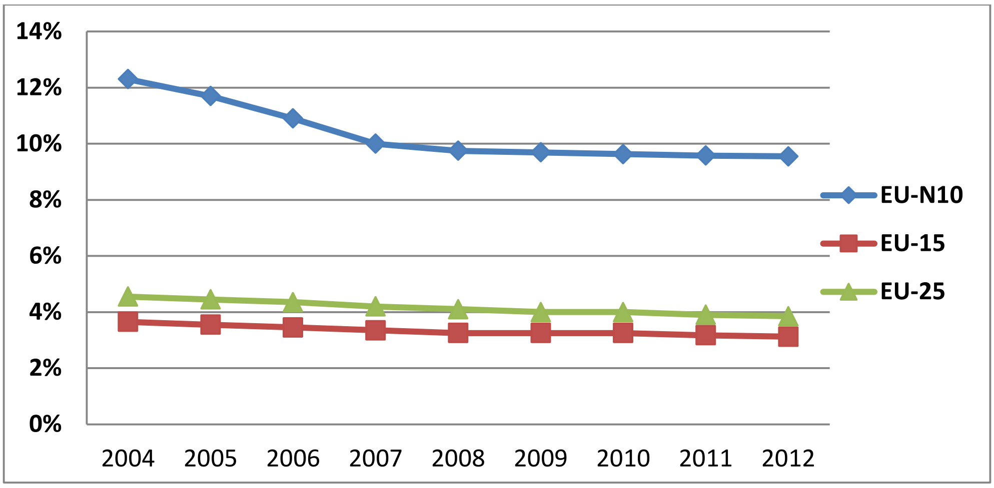
Figure 15. Share of primary sector in total GVA for the EU-N10, the EU-15 and the EU-25 for the period 2003-2013



Source: DG Agriculture and Rural Development, *EU-10 and the CAP - 10 years of success*, 2014, p. 2.

It can be clearly seen from figure 15 that the share of primary sector is decreasing. The primary sector that is linked to economic development has been on a decreasing trend in the last decade. However, two important breaks can be observed: one in 2004 when the accession to the EU took place and another one in 2010 what could be explained as a delayed result of the economic crisis that began in 2008. The relative importance of the primary sector in the EU-N10 almost tripled the one in the EU-15. It means that the New Member States are on the good track with their declining trend of the primary sector; however there is still room for improvement as it can be exampled by the EU-15.

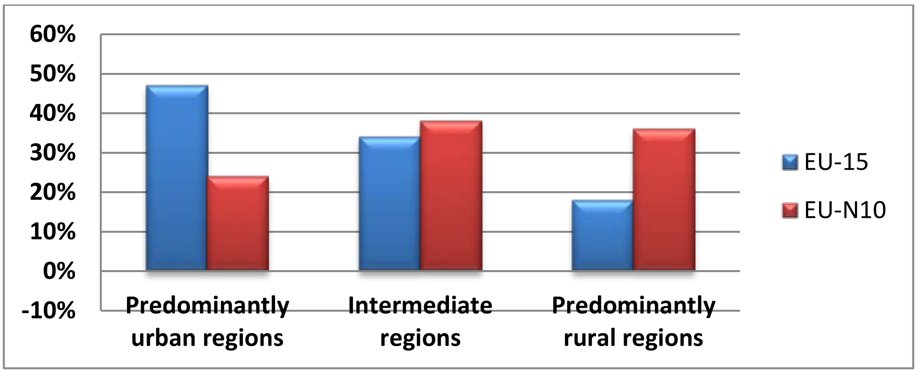
Figure 16. Share of primary sector in employment for the EU-N10, the EU-15 and the EU-25 for the period 2003-2013



Source: DG Agriculture and Rural Development, *EU-10 and the CAP - 10 years of success*, 2014, p. 2.

There is a similar tendency in the share of the primary sector in employment. In this situation, there are no breaks, but there is a similar declining trend of employment in the primary sector. The level of employment in the primary sector reached 9% in the EU-N10 while in the EU-15 it was just 3% in 2012. It shows that the New Member States have been restructuring their economies with the primary sector becoming less important. A decreasing number of people are needed to work on the farm in the EU-N10 mainly thanks to the technological advancement of the agricultural sector.

Figure 17. Population by type of region in the EU-N10 and the EU-15 in 2012

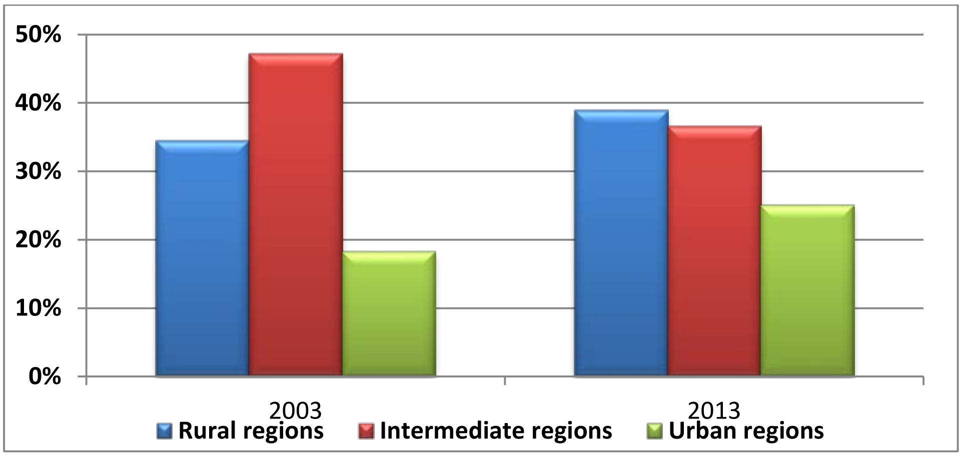


Source: DG Agriculture and Rural Development, *EU-10 and the CAP - 10 years of success*, 2014, p. 2.

The majority of people (around 50%) from the EU-15 are those living in the urban region while it is not a case for the EU-N10. In the New Member States nearly 40% of the population lives in rural regions. It indicates that rural areas in the EU-N10 still play a significant role in the economies of these countries. On the other hand, the share of the population living in urban regions in the New Member States reached 25% in 2012 what can be interpreted that the economy of the EU-N10 is mainly based on the rural economy and the process of further urbanisation slowly leads to the growing importance of urban regions.

According to a report by Gáková and Dijkstra (2010) when countries develop and try to improve the 'bridge' between urban and rural regions, it is more likely that growth will be higher in rural regions.

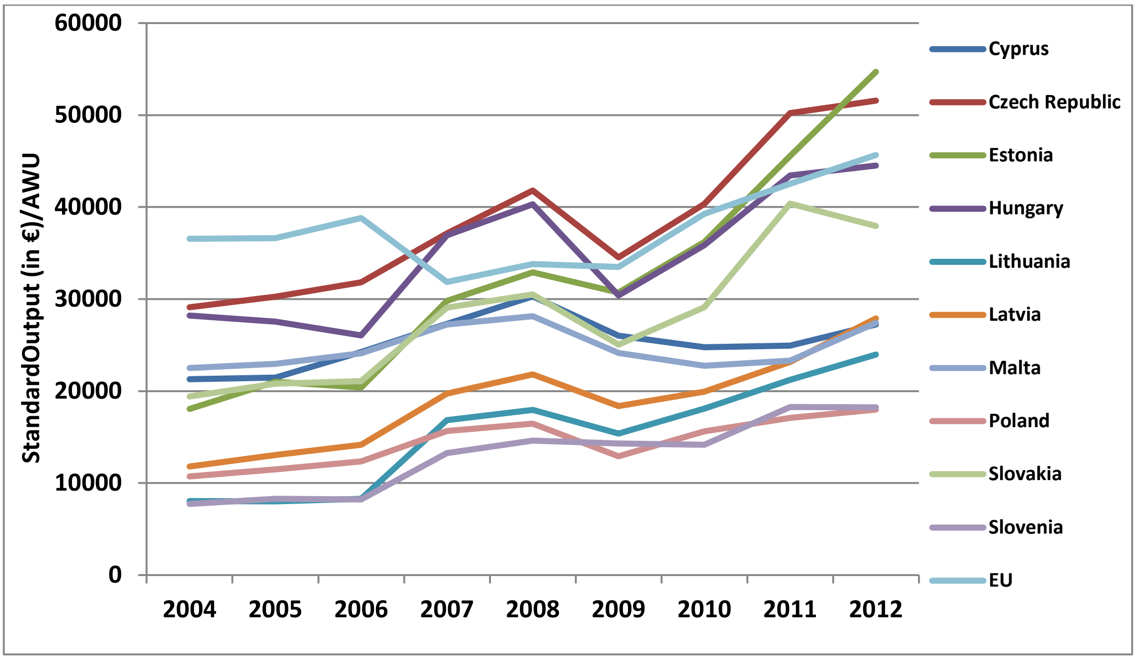
Figure 18. Population by type of region in the New Member States in 2003 and 2013



Source: DG AGRI, *CAP context indicators 2014 updates.*

As it is illustrated in figure 18, the population in rural areas increased in the EU-N10 since 2003 until 2013.This increase might result from a growing number of people that decided to build a house in rural areas and commute to cities to work or in general by the fact that thanks to better infrastructure, living in rural areas does not mean to be an outsider when it comes to transportation.

Figure 19. Standard output per Annual Work Unit in agriculture per country of the EU-N10 in 2004-2012



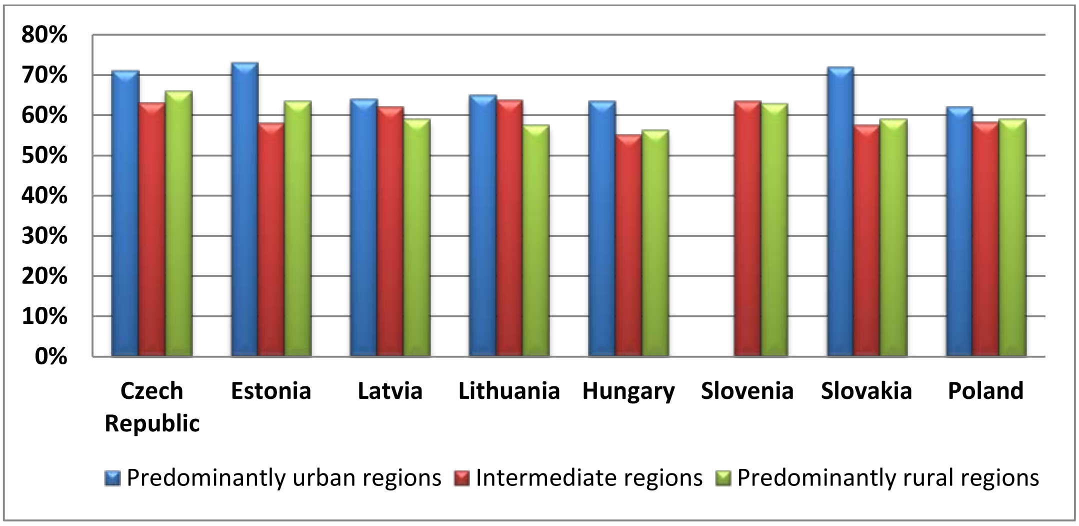
Source: Farm structure statistics. In *Eurostat/Farm Structure Survey*, n.d.

In order to measure labour productivity, the above graph was created. It presents the standard output (in €) per Annual Work Unit (hereinafter: AWU). The labour input is measured by an AWU which corresponds to full-time employment. One AWU is equivalent to the work done by a person that is employed in full-time agricultural work on a farm over a 12-month period. Figure 19 presents the similar tendency as it results from other indicators. Since there is less labour input per hectare needed, the productivity of labour is rising. This phenomenon occurs mainly thanks to the joint change in land cultivation by using modern machinery park in the EU agricultural sector. It is possible thanks to 'modernisation' as one of the main CAP priorities (European Commission, 2014a).

Moreover, according to Rizov (2006) there are three agricultural effects of growing productivism:

- capital-intensive technologies gradually substituting human labour and it leads to increasing productivity and output
- farming activities getting influenced by agro-industrial systems regarding both inputs and outputs,
- more specialised and concentrated production, in fewer and larger units.

Figure 20. Employment rates by type of region for majority of the EU-N10 in 2012



Source: DG Agriculture and Rural Development, *EU-10 and the CAP - 10 years of success*, 2014, p. 3.

In the above figure, there are 8 out of 10 Member States simply because data for Cyprus and Malta are not available. Except for Slovenia where there is no data available for predominantly urban regions, in remaining seven countries from the EU-N10, there is a clear regularity that employment level is higher in urban areas rather than in rural ones what can especially be observed in Estonia and Slovakia. The highest employment in rural regions is in the Czech Republic (66%) and the lowest in Hungary (56%).

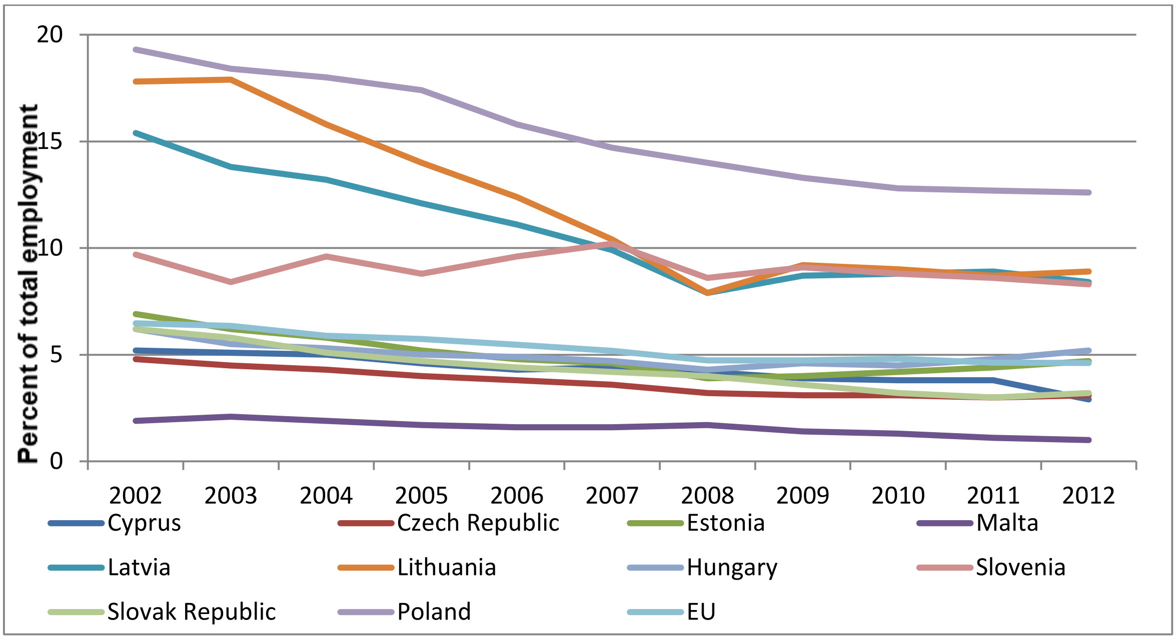
According to Mattas, Midmore, Arfini, Schmitz and Surry (2011) Pillar 2 policies are those that need to be responsible for the creation and maintenance of employment in rural regions. Pillar 2 measures should be stimulated by socially responsible farming systems and this could boost rural employment.

Table 6. Share of agricultural employment in total employment of the EU-N10 for the period 2002-2012 (in%)

	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Cyprus	5,2	5,1	5	4,6	4,3	4,4	4,2	3,9	3,8	3,8	2,9
Czech Republic	4,8	4,5	4,3	4	3,8	3,6	3,2	3,1	3,1	3	3,1
Estonia	6,9	6,2	5,8	5,2	4,8	4,6	3,9	4	4,2	4,4	4,7
Malta	1,9	2,1	1,9	1,7	1,6	1,6	1,7	1,4	1,3	1,1	1
Latvia	15,4	13,8	13,2	12,1	11,1	9,9	7,9	8,7	8,8	8,9	8,4
Lithuania	17,8	17,9	15,8	14	12,4	10,4	7,9	9,2	9	8,7	8,9
Hungary	6,2	5,5	5,3	5	4,9	4,7	4,3	4,6	4,5	4,8	5,2
Slovenia	9,7	8,4	9,6	8,8	9,6	10,2	8,6	9,1	8,8	8,6	8,3
Slovak Republic	6,2	5,8	5,1	4,7	4,4	4,2	4	3,6	3,2	3	3,2
Poland	19,3	18,4	18	17,4	15,8	14,7	14	13,3	12,8	12,7	12,6
EU	6,5	6,4	5,9	5,7	5,5	5,2	4,7	4,7	4,8	4,6	4,6

Source: Employment in agriculture. In *World Bank Database*, n.d.

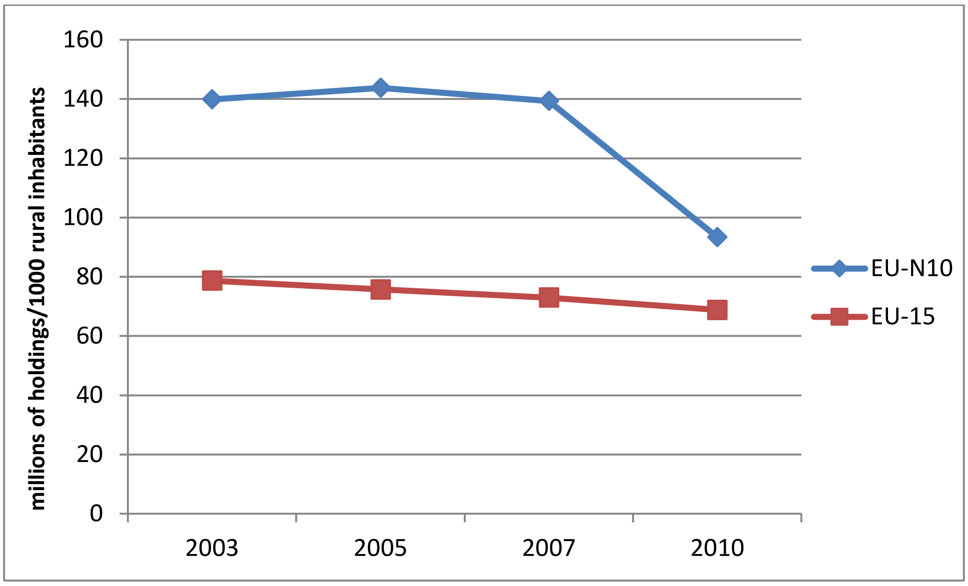
Figure 21. Share of agricultural employment in the EU-N10 for the period 2002-2012



Source: Employment in agriculture. In *World Bank Database,* n.d.

Over the last decade, there is a general, decreasing trend in the EU-N10 countries on the employment in the agricultural sector. It can be perfectly illustrated in the countries like Poland, Slovenia or Slovakia. The reason why there are fewer and fewer people employed in the agricultural sector seems to be obvious; it is thanks to technological development. It should also be noted here that 4.8 million full-time jobs disappeared in EU agriculture in the period 2000-2012 and 70% of them in the EU-N10 (European Commission, 2013).

Figure 22. Number of holdings for the EU-N10 and EU-15 in 2003, 2005, 2007 and 2010

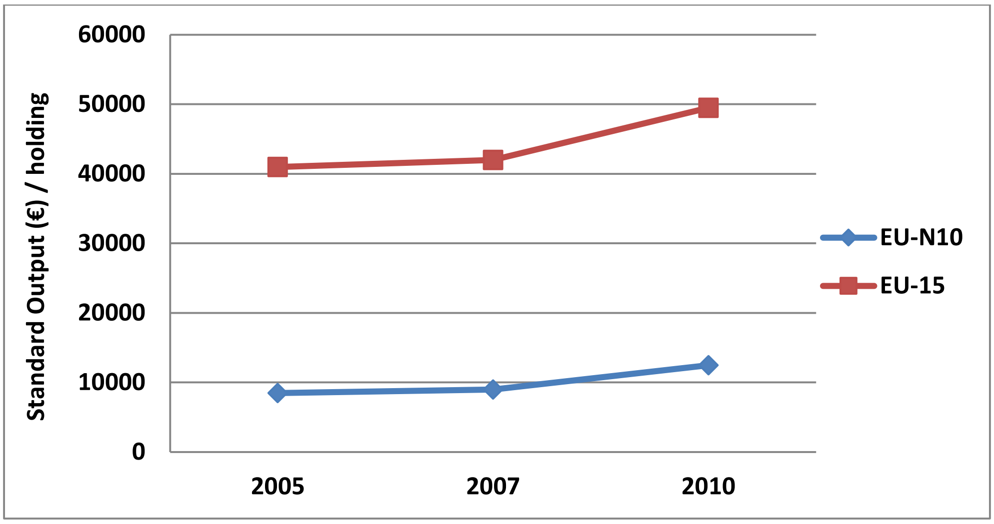


Source: DG Agriculture and Rural Development, *EU-10 and the CAP - 10 years of success*, 2014, p. 3.

As far as the number of holdings is concerned, the difference between 2004 and 2014 in both the EU-N10 and the EU-15 is significant. The above figure shows that there were slightly more farms (around 4 million) in the period after accession (up until 2005), and then the number was falling to 2.5 million. It cannot be said that it is because the interest in agriculture is declining. Although there has been a big interest in the programme for young farmers, the tendency is that small farms are very often not so competitive (unless they produce pure ecological products) and, therefore, are being bought by bigger farms that have better agricultural machinery and lower marginal production costs. Thus, the EU has offered small farmers a wide range of help in the form of courses to strengthen their qualifications by gaining a new profession related to farming e.g. driving license course for trucks, or unrelated to farming, such as gaining new profession of an insurance agent or sales representative. In addition to this, Petrick and Weingarten (2004) presents, even more options for farmers which are:

- to set up a small and medium enterprise (SME) e.g. agricultural cooperatives, co-operations,
- to start working in direct sales and marketing of agricultural products and others,
- to get employment in service work for local authorities, i.e. repairing, adjustment, cleaning, snow plowing,
- to get employed in industrial centres,
- to work in the well-organised rural tourism sector.

Figure 23. Economic farm size for the EU-N10 and EU-15 in 2003, 2007 and 2010

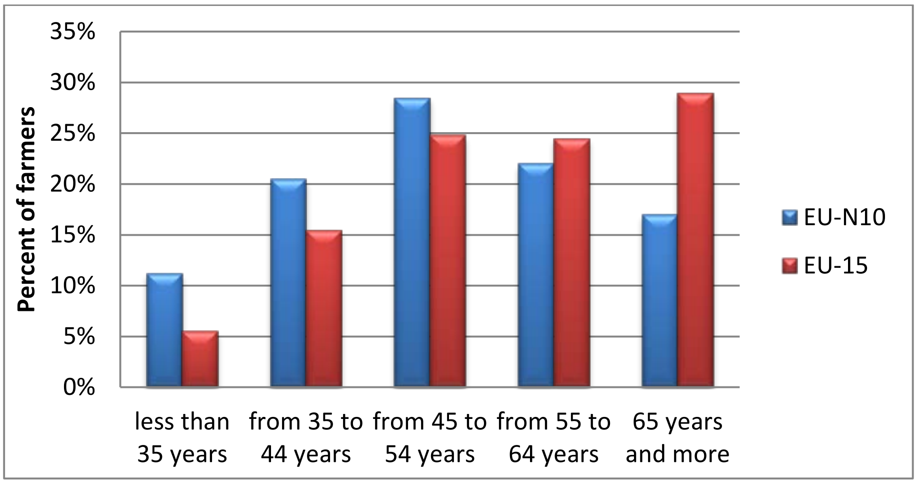


Source: DG Agriculture and Rural Development, *EU-10 and the CAP - 10 years of success*, 2014, p. 3.

Figure 23 presents economic farm size that is expressed in standard output that is agricultural output measured in euros per agricultural holding. This figure indicates that those farms that stay in the market are getting bigger. It is the consequence of selling small farms that are either not productive, or the 'old' farmers need to get rid of their farms in order to be eligible to get structural pensions or earlier retirements (Łuczka-Bakuła & Jabłońksa-Porzuczek, 2006). There is an upward trend in economic farm size in both the EU-N10 and the EU-15. In the New Member States the growth is faster than in the Old

Member States; however, the farms are still significantly smaller than in the EU-15, on average. It shows that the need for growth in the EU-N10 is still very much welcomed.

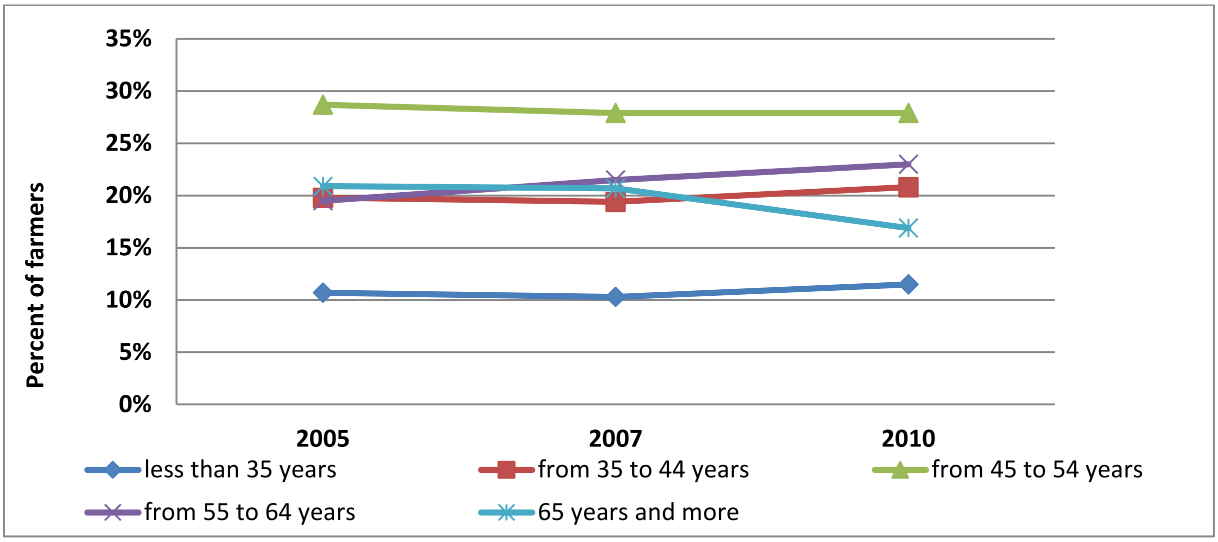
Figure 24. Share of farmers by age group for the EU-N10 and EU-15 in 2010



Source: DG Agriculture and Rural Development, *EU-10 and the CAP - 10 years of success*, 2014, p. 4.

Analysing the above figure, there are a few points to be underlined. First of all, the share of young farmers in the EU-N10 is much higher than the one in the EU-15. The larger group of farmers in the New Member States is the one in age from 35 to 44 years while in the Old Member States it is the group of farmers that are 65-year-old and older. In both the New and the Old Member States the smaller group is the farmers that are 35 years old or younger. In general, the EU-N10 tends to have younger farmers than in the EU-15.

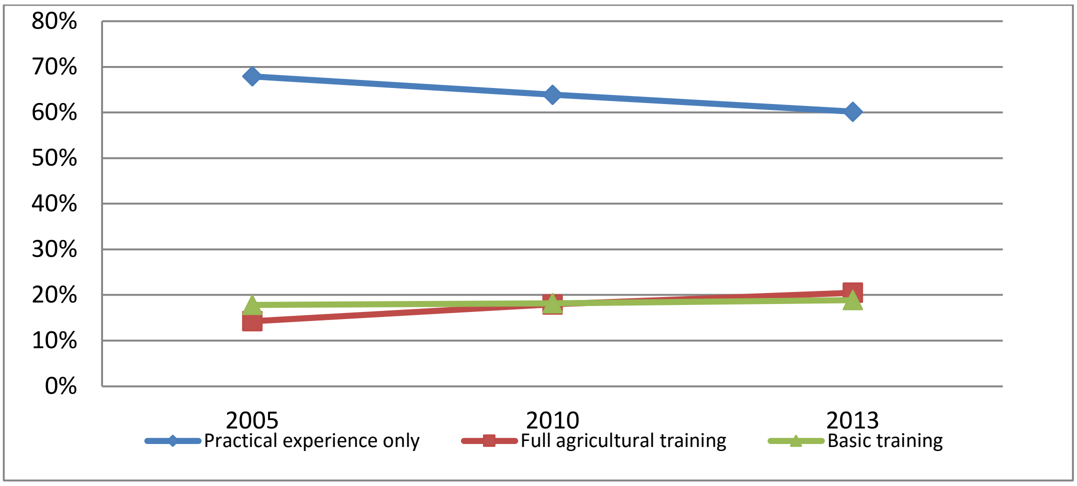
Figure 25. Share of farmers by age group for the EU-N10 in 2005, 2007 and 2010



Source: DG Agriculture and Rural Development, *EU-10 and the CAP - 10 years of success*, 2014, p. 4.

In the above figure, the trend of farmers' age in the EU-N10 is illustrated. This development clearly indicates that (1) there are less old farmers that can be motivated by the accessibility of early retirement funds (2) there are more young farmers what can be enhanced by offering them access to the start-up aid for young farmers (European Parliamentary Research Service, 2015).

Figure 26. Education level of farm managers in the EU-N10 in 2005, 2010 and 2013.

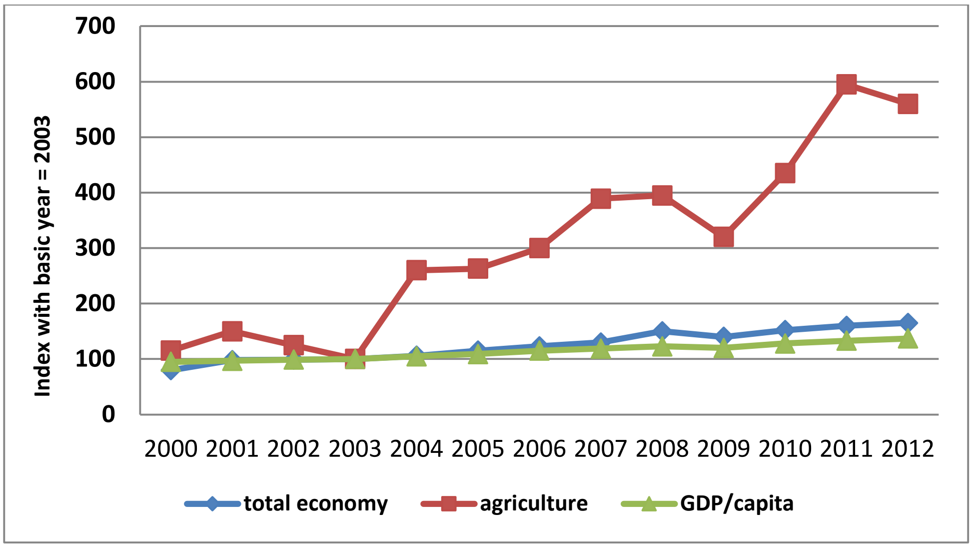


Source: DG Agriculture and Rural Development, *EU-10 and the CAP - 10 years of success*, 2014, p. 4.

The majority of EU-N10 society has practical experience only, however, the trend line is decreasing which means that share of farmers with practical experience only is still the highest however with a downward tendency. Other two groups of farmers with basic training and full agricultural training are characterised by an upward trend, so EU-N10 farming has become a more knowledge-based industry. There are many reasons why the second in the ranking are farmers with full agricultural training (and they used to be on the last spot in 2005 and 2010): (1) due to educational inflation, nowadays for instance Bachelor diploma is worth the same as high school diploma 30 years ago so that is why young people, in particular, tend to put more emphasis on education before embarking on their careers; (2) in order to receive 'young farmer aid' from the CAP funds there are many conditions to be met and one of them is to have a full agricultural training; (3) as it might be guessed and will be shown later on in this master's thesis, nowadays farms are considered as enterprises and farmers are entrepreneurs so in order to cope with numerous challenges of the contemporary World, farmers or future farmers tend to take full agricultural training in order to not only be skilfully or manually ready but also to gain knowledge that would create synergy and bridge it into know-how with strong theoretical ground (European Commission, 2013).

As far as **agricultural income** is concerned, the New Member States apart from the structural changes have also enjoyed an increase in agricultural income by rising the level of wages and salaries. Although the dynamic of growth in agricultural income within the EU-N10 has been very fast comparing to its total economy or the Old Member States, but in the absolute value of wages and salaries in the EU-N10 it is still significantly low. Kosior, K. (2014) notes that the New Member States have financially benefited from the CAP. From 2005 until 2012, average incomes of EU-N10 farmers have grown by approximately 60%. It should be regarded as a great success of the newcomers since they did not receive the full amount of direct payments in that period.

Figure 27. Wages and salaries in agriculture and total economy in the EU-N10 for the period 2000-2012



Source: DG Agriculture and Rural Development, *EU-10 and the CAP - 10 years of success*, 2014, p. 5.

Thanks to having those indicators presented in one chart it is much simpler to notice dynamism of each of them. As it is presented in the figure number 27, EU-N10 wages and salaries in the agricultural sector have grown more than fivefold since 2000 until 2012 what gives an annual rate of increase 21% on average. In comparison to wages and salaries in the whole economy, the annual rate of increase is approximately 6% on average since they grew by 65% starting from 2000 until 2012. What is more, GDP per capita had the lowest rate of increase at the level of 3% on average per year with a growth level of 35% in 2012 comparing to the year 2000. It should be also mentioned here that the GDP per capita in the EU-N10 still remains much lower in comparison to the Old Member States as it is illustrated in Appendix D. It means that income in the agricultural sector has been increasing throughout years, which is definitely a positive effect of the CAP in the EU-N10.

Table 7. Wages and salaries in agriculture and total economy in the EU-15 for the period 2000-2012

	Index data with the basic year = 2003												
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
total economy	94	96	99	100	103	105	108	112	111	112	115	117	121
agriculture	93	103	95	100	105	94	100	117	105	91	115	125	132
GDP/capita	97	99	99	100	102	103	106	109	108	102	104	105	105

Source: Wages and labour costs. In *Eurostat*, n.d.

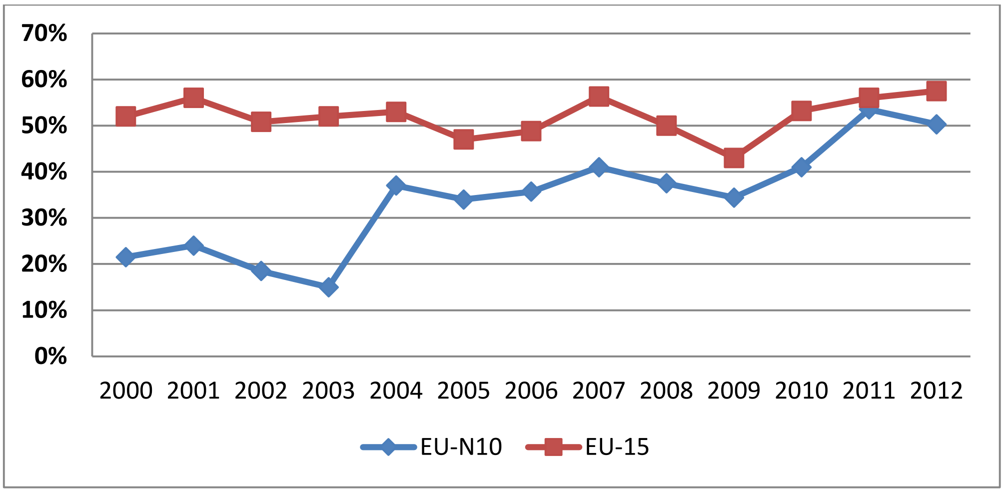
However, as table 7 shows, the EU-15 did not have any significant progress in wages and salaries in agriculture, total economy, and GDP per capita. The index data did not exceed 140 in any indicator, what implies that the growth rate is not that significant as in the EU-N10.

Figure 28. Agricultural income compared to average wages for the EU-N10, the EU-15 and the EU-27 in 2012

Source: DG Agriculture and Rural Development, *EU-10 and the CAP - 10 years of success*, 2014, p. 6.

In the above figure, it is clearly illustrated how far the EU-N10 income in the agricultural sector and also in the whole economy is behind the income in EU-15. Earnings in agriculture in the New Member States are on average €2,9 per hour while in the EU-15 it is €11,7. In the whole economy of the EU-N10, the average level of earnings is €5,6 per hour while in the EU-15 it is €20,4. It undoubtedly shows that there is still room for improvement in the New Member States in the field of earnings in the agricultural sector and the whole economy. It also explains the rationale behind the incentives of people from the New Member States to leave their countries in order to find a 'well-paid' job abroad.

Figure 29. Agricultural income as a % of overall wages and salaries for the EU-N10 and the EU-15 for the period 2000-2012



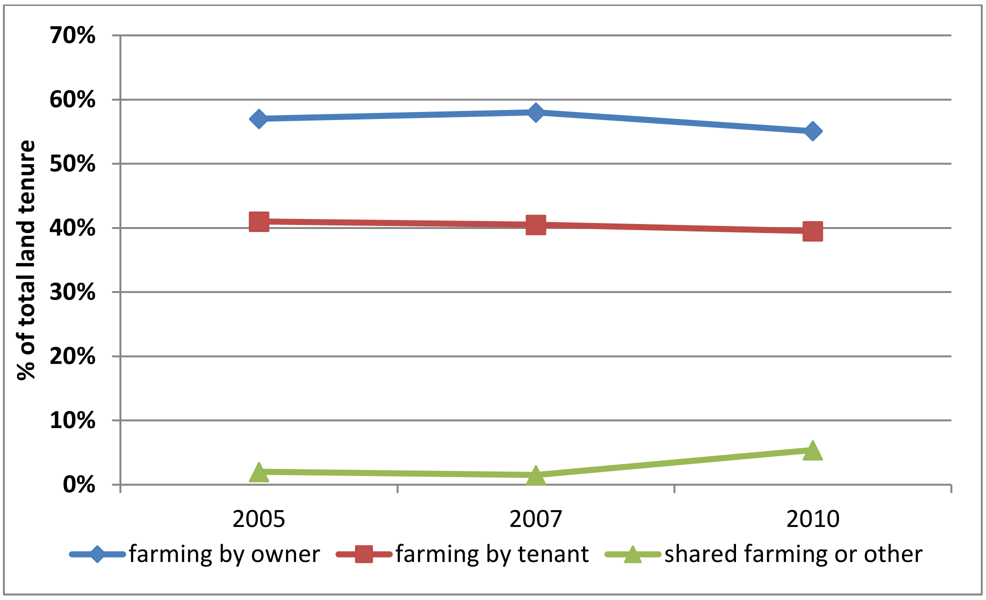
Source: DG Agriculture and Rural Development, *EU-10 and the CAP - 10 years of success*, 2014, p. 5.

Although wages and salaries in both the EU-N10 and the EU-15 are higher now than they used to be it does not change the fact that their level is lower than average wages and salaries in the total economy for those groups of countries. It is well-illustrated in the above figure that indicates that the evolution of wages and salaries in the EU-N10 has a much faster rate of increase from 20% of overall wages and salaries in 2000 to 51% in 2012. For the same period in the EU-15, this number does not exceed 10% points of the rate of growth. In 2011, the mismatch between the EU-N10 and the EU-15 was the lowest, and the numbers were almost equal while in 2000 the difference was around 30% points. It only indicates that the after joining the EU, the New Member States have noticed a significant increase in agricultural income. Nevertheless, when describing the situation in percentage scale and index, it should not be forgotten that there needs to be a comparison presented in absolute values. As it might be guessed, remuneration of agricultural work in the EU-N10 is on a much lower level in absolute values than it is in the Old Member States.

Agricultural land tenure types and prices are next important indicators to be analysed. Therefore, it is important to know what the evolution of the land prices in the EU-N10 was. Therefore, this part is to confirm the assumption that in line with global development in the EU-N10: growing efficiency, technological advancement, growing income; the price for one hectare of land has increased because the agricultural value of land has increased. In the year of EU-N10 accession, European Commission (2004) clearly expected that the purchase prices and rental prices will be increasing because of the improved profitability of agriculture.
Moreover, according to ESPON (2004), the following general effects in the land sector were supposed to take place after EU accession in the EU-N10:

- Limiting regulations on the land purchase had to be liquidated,
- EU-N10 were expected to adopt land legislation that is more favourable to tenant-farmers,
- Land sales and rental prices were supposed to be higher since the EU-N10 had an access to the EU system of direct aid that increased farm incomes,
- The institutional convergence was expected to enlarge the markets for land in the EU-N10 and progressively integrate them into those of the EU-15.

Figure 30. Land tenure types for the EU-N10 in 2005, 2007 and 2010



Source: DG Agriculture and Rural Development, *EU-10 and the CAP - 10 years of success*, 2014, p. 8.

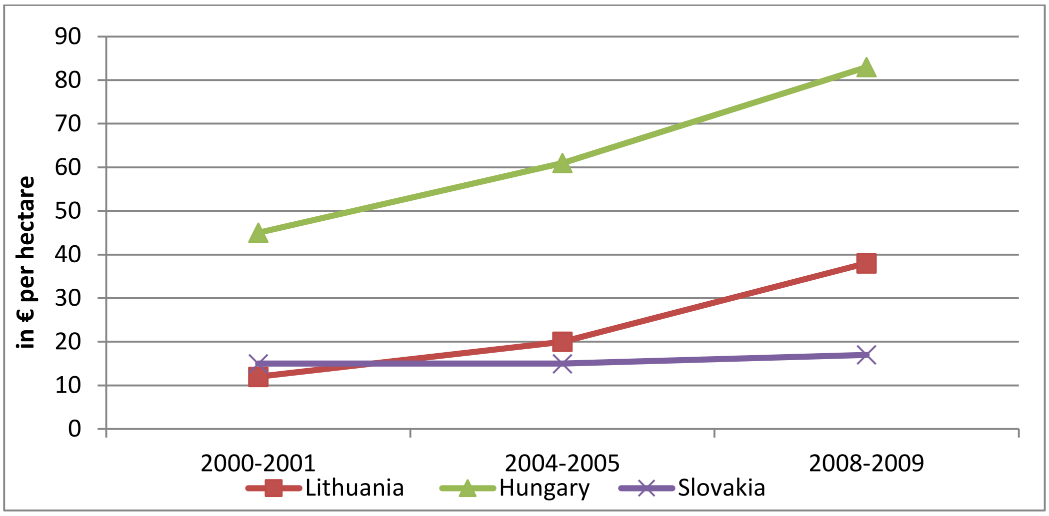
As figure 30 shows around 55% of the land is farmed by their owner in the EU-N10 and around 40% is farmed by tenants in 2010. There is also a growing tendency of shared farming and other that amounted to 5% in 2010. For this reason, the farming by owner has decreased but at the end, it might be also explained by the CAP funds that are becoming more oriented for cooperatives and producer groups.

Table 8. Evolution of Real Agricultural Land Rental Prices - annual for selected EU-N10 (in € per ha)

	on average			**% of change**	
	2000-2001	2004-2005	2008-2009	2004-2005 vs. 2000-2001	2008-2009 vs. 2004-2005
Czech Republic	-	-	44	-	-
Lithuania	12	20	38	71	92
Hungary	45	61	83	36	37
Slovakia	15	15	17	0	17

Source: Swinnen, J., *Possible effects on EU land markets of new CAP direct payments*, 2013, p. 21.

Figure 31. Evolution of Real Agricultural Land Rental Prices - annual for selected EU-N10



Source: Swinnen, J., *Possible effects on EU land markets of new CAP direct payments*, 2013, p. 21.

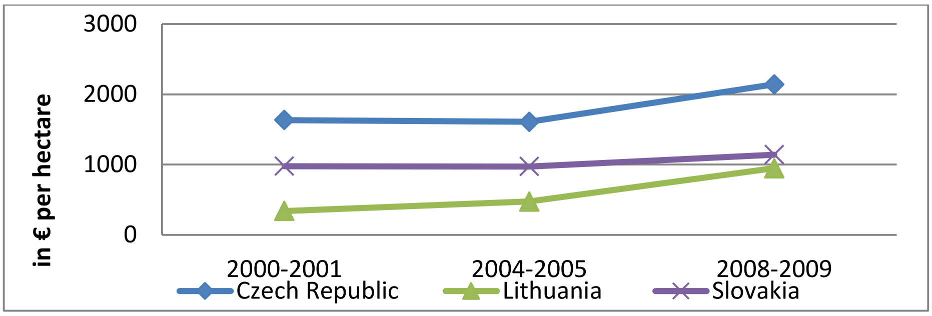
Due to the lack of data for all EU-N10 or inconsistency of data, there are some examples presented in figure 31 and table 8 on agricultural land rental price. The most 'stable' situation on land rental price was observed in Slovakia (€15 per ha in both 2000-2001 and 2004-2005). The highest land rental price was seen in Hungary (€83 per ha in 2008-2009) while the fastest pace of growth was observed in Lithuania (99% in 2008-2009 vs. 2004-2005).

Table 9. Evolution of Real Agricultural Land Sales Prices for selected EU-N10 (in € per ha)

	on average			**% of change**	
	2000-2001	2004-2005	2008-2009	2004-2005 vs. 2000-2001	2008-2009 vs. 2004-2005
Czech Republic	1634	1608	2142	-2	33
Latvia	-	1603	1368	-	-15
Lithuania	339	475	948	40	99
Slovakia	978	973	1142	-1	17

Source: Swinnen, J., *Possible effects on EU land markets of new CAP direct payments*, 2013, p. 21.

Figure 32. Evolution of Real Agricultural Land Sales prices for selected EU-N10



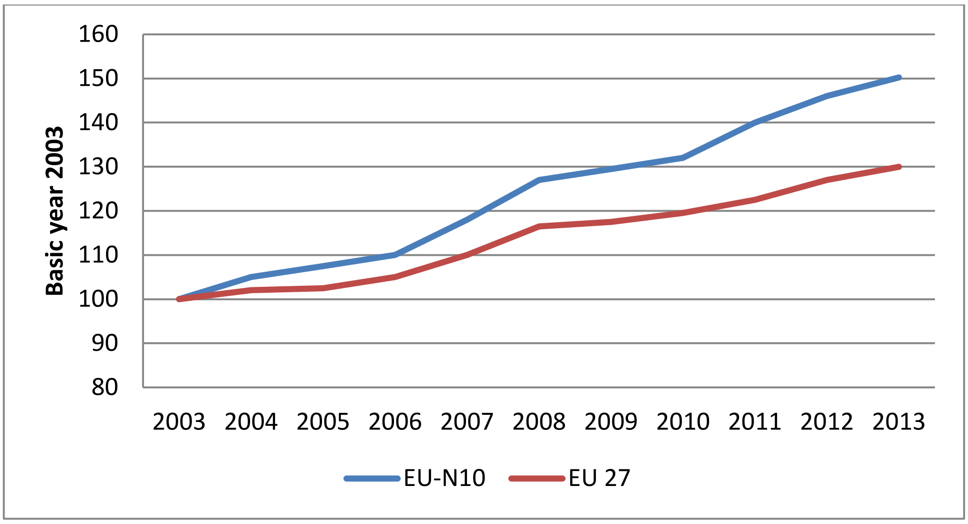
Source: Swinnen, J., *Possible effects on EU land markets of new CAP direct payments*, 2013, p. 21.

As far as the nominal agricultural land sales prices are concerned, in Lithuania prices have increased in the most significant way (by 99% 2008-2009 vs. 2004-2005). While in the same period, in the Czech Republic and Slovakia, the land prices have grown respectively by 33% and 17%. It only proves what was assumed at the beginning of this subchapter that with the growing productivity level and technological advancement, the level of rent and sales prices rises as a consequence. Moreover, thanks to technological progress, the relative value of land has changed and it might have even caused the expansion of agricultural land into "new" areas that were not previously cultivated. Duke and Wu (2014) has called this expansion as the extensive margin effect of adoption.

According to Swinnen, J. (2013), the main drivers of the land and rental sales prices in Slovakia (in the period 2008-2012): are (1) SPS/SAPS (2) Coupled subsidies and (3) Land sale regulations and respectively for Poland: (1) Agricultural commodity prices (2) Agricultural productivity and (3) Macroeconomic developments (economic crisis).

Next two indicators are focused on **agricultural food prices** and their evolution over the last ten years. It helps to answer the question on how much and in which way the CAP relatively impacted pricing in the food industry, seeing this from a consumer perspective.
With the old CAP scheme, farmers received support through high product prices. Purchase prices in the EU were even up to twice world market prices. Then, CAP reforms switched from market price support to direct payment support: in the first place, by coupled payments and later by decoupled payments. It means that the stimulus to EU agri-production has been significantly diminished. Therefore, the impact of the CAP is recently limited, however, thanks to high tariff protection for some agri-products (like beef, potatoes, poultry meat and tomatoes), the food prices in the EU are higher than without those tariffs (Matthews, 2015).

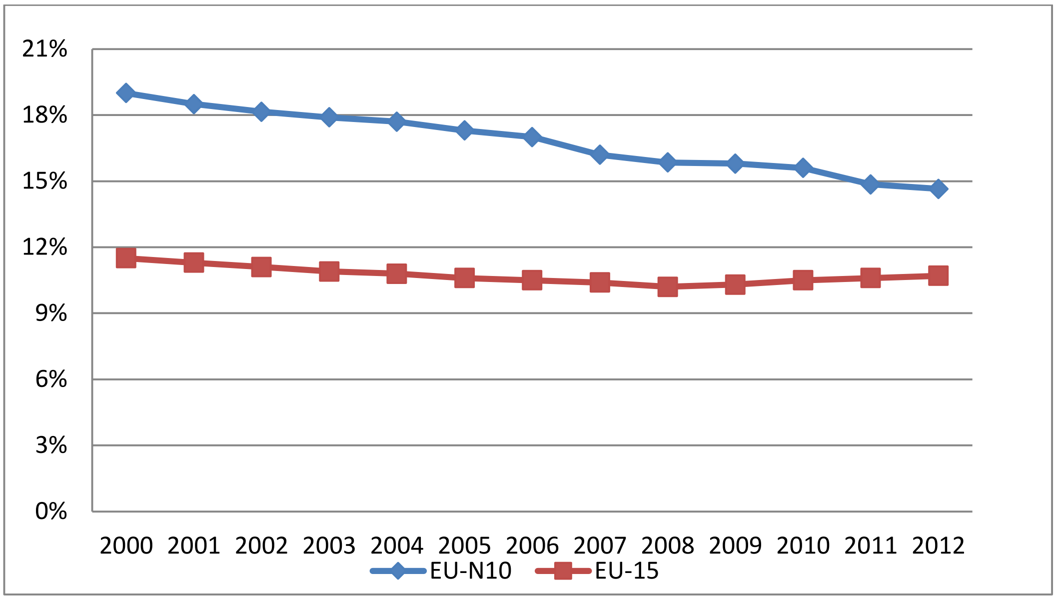
Figure 33. Consumer food index for the EU-N10 and the EU-27 for the period 2003-2013



Source: DG Agriculture and Rural Development, *EU-10 and the CAP - 10 years of success*, 2014, p. 8.

Consumer food prices in the EU-N10 have grown by 50% since 2003 while in the EU-15 the prices have increased only by 30%. The reason why they increased is not only CAP impact but also different factors that cause the price increase such as inflation to a great extent, rising costs of transportation, human resources, etc.

Figure 34. Share of Food Expenditure in the household budget for the EU-N10 and the EU-15 for the period 2000-2012



Source: DG Agriculture and Rural Development, *EU-10 and the CAP - 10 years of success*, 2014, p. 9.

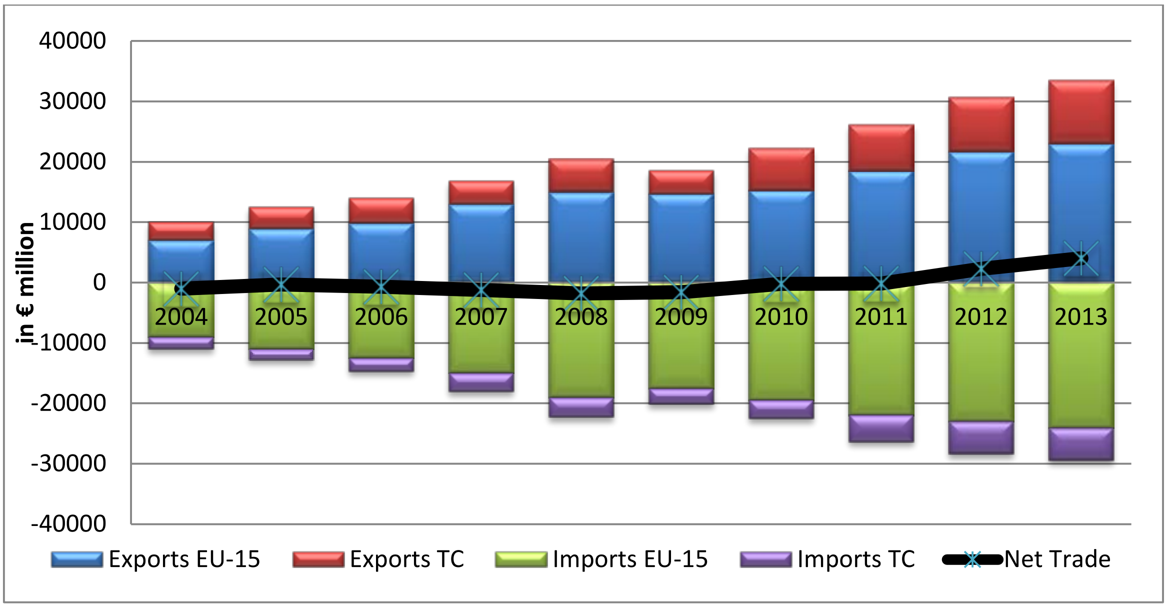
The share of food expenditure in the total household budget has been declining in the EU-N10 throughout the period 2000 and 2012, and this trend started before EU accession. For the EU-15, the situation is rather stable, and the results are placed between 10% and 12% level. For the EU-N10, it means that they have become wealthier society thanks to spending a larger share of their household budget on non-food related items. Increasing food price on the one hand and rising incomes, on the other hand, have still allowed for the declining ratio for a share of food expenditure in the household budget. It shows that the rising income has more than compensated the growing trend of agricultural food prices.

Trade in Agricultural Products

Trade in agricultural products is the last indicator to be analysed, but as equally important as previous ones. Below, there is one complex chart, figure 35, that represents the situation in EU-N10 trade. One of the four pillars that the EU has been built on is free movement of goods, and therefore, this is an important section describing in what way EU-N10 trade situation has evolved. As it can be imagined since EU accession, the EU-N10 have gained the access to the EU Single Market which has strengthened the trade within the EU. From the economic perspective, implementation of the CAP has been generally successful. Undoubtedly, better access to EU markets contributed to increased competition that has transformed the structure of agricultural production (Baun, Kouba, & Marek, 2009).

It should also be noted that over the last twenty years export refunds (which is a designed a subsidy to compensate the mismatch of higher prices on European market and lower on the world market) have been progressivelly reduced. Since the mid-2013, no actor from the agricultural sector has taken advantage from these refunds, with the exception since 2014 where export subsidies were granted as an extraordinary measure due to market crisis (European Commission, 2015).

Figure 35. EU-N10 agri-trade with EU-15 and outside of EU for the period 2004-2013



Note. TC stands for Third Countries

Source: DG Agriculture and Rural Development, *EU-10 and the CAP - 10 years of success*, 2014, p. 8.

Over the last decade, EU-N10 trade has raised its export significantly what has led the New Member States to become a net exporter from being a net importer in the past. There are a few valuable insights that this chart presents: (1) over that period, total EU-N10 exports that include both the EU-15 and outside of EU, have grown more than three times; (2) agricultural exports to countries outside the EU have risen significantly; (3) as it was mentioned earlier EU-N10 trade balance has changed from - €1.7 billion in 2004 to + €5.1 what made the EU-N10 switched from being a net importer to become a net exporter.

5 DRIVERS OF CAP SUCCESS AND BARRIERS TO CAP SUCCESS IN THE NEW MEMBER STATES

The success of the CAP in the New Member States depended on its ability to translate increased funding following the accession of the New Member States to the EU in 2004 into the tangible development of the agricultural sector in the EU-N10. There are a number of drivers that positively influenced agri-development in the EU-N10 and helped them to modernise their agricultural holdings in order to not only be able to sustain in the market but also to be competitive in the European Single Market. However, numerous potential barriers affect the agricultural economy of the EU-N10 in a negative way. Due to those barriers, the EU-N10 faced some difficulties when competing in the European market. In addition, those barriers inhibited the development of the EU-N10 and made them wait longer for getting closer to the agricultural economy of the EU-15.

Taking into consideration the impact analysis of the CAP in the New Member States, there are three main drivers of CAP success in the EU-N10 to be noted: (1) growing productivity (2) farm specialisation (3) educated farm managers.

Thanks to growing productivity in the New Member States, the agricultural sector in EU-N10 can faster catch up with the EU-15 where the agricultural economy is on a developed level. In addition to this, farm specialisation in the EU-N10 is a driver that helps the farmers to obtain economies of scale and scope in production. Moreover, there are more and more farm managers with agricultural education in the EU-N10, what positively influences the agri-sector since a combination of their agricultural degrees and know-how help them to respond better to the changing nature of the agri-sector specificity.

On the other hand, based on the impact analysis, there are some barriers to CAP success in the EU-N10: (1) Land Prices (2) Diversity of rural economy and agricultural sector in the EU-N10. Growing land prices might be results of increasing income and productivity in the agricultural sector. Nevertheless, it has become to be harder and harder for farmers to enlarge their farms since the prices of land rental or sales have risen dramatically. Another significant barrier to CAP success in the EU-N10 is that the EU-N10 are not one agricultural body but ten different bodies with their history, transition periods, natural resources and conditions. According to Csaki and Jambor (2009, p.40), there are four major differences among EU-N10: (1) “Initial conditions, (2) Pre-accession policies, (3) Post-accession policies and the way of implementing CAP, (4) Macro policy and institutional environment.” Therefore, it is hard to tailor a common policy for diverse countries regarding agriculture.

An overview of crucial factors on how to develop the rural sector of the economy is presented in ECORYS Nederland BV (2010). According to this study, the most significant drivers are:

1) Natural resources and environmental quality

For numerous rural regions, this driver is perceived to be of significant importance especially for the rural tourism where the beauty of nature is on top of visitors’ needs. Therefore, as long as the environmental quality is well maintained, there is a demand for rural tourism in such a region. Moreover, natural resources are considered as those that provide the ground for industrial activity, i.e. fishing, mining, water extraction and bottling. Indeed, the whole economy is based on natural resources, but the point is to sell them in a processed form, so they are sold as high value-added products. In this way, the economy of a particular country multiplies its profit by selling ‘ready to use’ products instead of resources. That is why it is of great value to manage natural resources well to receive the most out of them.

2) The sectoral structure of the economy

Sectoral structure of the economy in rural areas cannot be overestimated when discussing rural development. Here, 'diversification' is a key word which means: stop focusing exclusively on agriculture and start developing other sectors of the economy in rural areas. For instance, as mentioned above in point 1, milking cows is what farmers do (it is primary structure of the economy), so next to dairy farms there can be processing companies that help to boost rural economy by employing local people, and developing infrastructure.

3) Quality of life and cultural capital

The quality of life and cultural capital in terms of tradition and heritage have always been believed to be things of the rural regions. Obviously in the industrial era, people tended to move from villages to towns or cities in order to find a job. Nowadays, there are two major problems associated with rural regions: (1) as it is illustrated in figure 18, the population in rural areas has increased however it seems that those are people who work in cities and commute from rural regions, so they have nothing to do with agricultural sector in the EU-N10; (2) a significant share of people staying in rural areas are elderly people. It happens very often that young people choose urban areas when searching for a job and older people, who are not economically active part of the population tend to move to rural areas for 'silent retirement'. Therefore, this master's thesis welcomes the initiatives that have been taken by the EU in order to make a difference in rural regions, such as young farmer aids in order to fight against an ageing sector, funding courses and helping farmers to requalify or gain new professions, funds for starting own business, in this case mainly for agri-tourism and many others.

4) Infrastructure and accessibility

Infrastructure is undoubtedly an important driver for the growth of the rural economy. It is particularly seen in those regions that did not have sufficient infrastructure before joining the EU, and now they can enjoy having roads, railway or even airport infrastructure. In this case, EU funding has contributed to financing a number of infrastructural projects that have helped in developing rural economy by providing new jobs and setting up new businesses.

On the opposite side, the biggest barriers to growth and development in rural areas according to ECORYS Nederland BV (2010) study are:

1) Demographic evolutions and migration

It is noted that since EU accession, the New Member States have experienced an alarming emigration process, especially from the rural regions. Almost every person that has emigrated chose Western European countries as their destination. There is also migration inside the country, from rural to urban areas, especially young people tend to move to towns and cities in order to find a job.

2) Infrastructure and accessibility

Lack of infrastructure can be a drag on development. Regions that do not have a proper infrastructure may experience stagnation or even recession. That is why it is important to direct EU funding to infrastructure in order to prepare the 'ground' for development.

3) The sectoral structure of the economy

In the case of the very limited (i.e. only to the key sectors of agriculture, food and drink, tourism, construction) sectoral structure of the economy, the basis for growth is difficult. The rural economy in the EU-N10 must be diversified in order to compete not only with EU-15 but also outside of EU. It is also related to the problem of young people leaving abroad for education or jobs and not returning. Therefore, there may be a lack of skilled workers in local rural regions.

In addition to ECORYS Nederland BV (2010) study, according to Imeri and Gálová (2014) one crucial element that can be perceived as a driver of CAP success in the EU-N10 is certainly better access to capital. It means that EU farms have benefited from higher subsidies and from banks that have been in favour of providing farms with preferential loans.

Moreover, Csaki and Jambor (2009) points out interesting findings that can act as drivers or barriers in the New Member States. The ability to utilise the EU opportunities and to quickly adjust to conditions can act as drivers. However, there are some countries that poorly manage that issue and therefore for them it might be a barrier to CAP success. Furthermore, thanks to strong price competition on European agricultural market, some farms have to develop in order to stay in the market and be competitive. On the other hand, there are those farms that are forced to exit the market since they cannot deal with market (price) pressure. Last but not least, a consolidated farm structure was a factor that helped some of the EU-N10 to better adjust to EU agri-market needs.

6 MAIN FINDINGS OF THE 10-YEAR PERIOD OF THE CAP IN THE NEW MEMBER STATES

This chapter is fully devoted to both CAP's achievements and issues that need to be improved and worked. Therefore, its first part presents two groups of countries: those that managed to gain the most out of the CAP and those that gained from the CAP the least within the EU-N10 countries. Then, in the second part of this chapter, there is a discussion on CAP's strengths, weaknesses, opportunities and threats for the EU-N10. It concludes with the implications and practical recommendations to the CAP in general.

6.1 Winners/Losers of the CAP within New Member States

To begin with, Fritz, T. (2011) shows that there is a farm-size division of the CAP within the EU-N10. Therefore, before presenting countries that gained the most and the least from the CAP, it is good to know if the CAP is better tailored for big-, medium- or small-size farms. According to Fritz, T. (2011) the biggest amounts of the CAP funds are taken by large export-oriented food companies that are widely present outside the EU. Moreover, beside those companies, there are big food traders and supermarket chains. In addition to that, agrochemical industry is also one of the largest CAP profiteers, but in an indirect way. Large farms in order to make production more efficient need to increase the agricultural inputs such as chemical substances.

Apart from this, the OECD in its report Moreddu (2011) indicates that 74% of the overall support is received by the 25% largest farms in the EU while only 3% of total support went to the 25% smallest farms in 2007. Taking into account only direct payment it turns out that 85% of direct payment were allocated to about 18% of farms in the EU in 2009. Moreover, approximately 3.4 out of 7.8 million beneficiaries received direct payments in the amount less than €500 per agricultural holding.

In line with the research Hubbard (2009) the New Member States have strengthened the importance of small farms in the European Union. In this study, it is noticed that the New Member States have on average larger numbers of farms with relatively lower sizes than in the EU-15. The average size of Romanian, Bulgarian and the EU-N10 agricultural holdings is less than 6 hectares, whereas in the EU-15 it is 22 hectares. In addition to this, there is a study of Gorton and Fredriksson (2010) that provides the reader with interesting findings that in 5 out of the EU-N10 most agricultural holdings produce mainly for self-consumption. In this group of countries, there are: Slovakia where 93% of farms produce for self-consumption, and then Hungary (83%), Latvia (72%), Slovenia (61%) and Lithuania (53%). It is also worth mentioning that countries like Estonia, Cyprus, Poland, Malta and the Czech Republic also have a high percentage of self-consumption oriented farms ranging from 30% up to 50%. Moreover, this publication shows three main roles of semi-subsistence farming: (1) “as a buffer against poverty” (2) “as a basis for farm diversification and multifunctionality” (3) “as a provider of environmental benefits”.

In addition to this, according to Davidova, Fredriksson, Gorton, Mishev and Petrovici (2012), subsistence production is characterised by different roots in the EU-N10 since in those countries agriculture used to be collectivised. Then in the late 1980s, there was a land reform that changed the situation in terms of land ownership and, as a result, there was a distribution of land plots to the former employees or members of collective farms or cooperatives. In this way, there were millions of small farms created which produced mainly for their consumption and that brought high industrial unemployment.

There is also an interesting paper prepared by ECORYS and Idea Consult (2005) for DG AGRI that urges the European Commission to enhance and facilitate the transition in the New Member States by stimulating and supporting semi-subsistence farms to make use of restructuring by setting up producer groups or helping them move into the market.

Coming back to concrete examples of countries that are winners and losers of the CAP, in the article of Jámbor and Siróné Váradi (2014), there is an analysis of the agri-food sector in the New Member States. According to its findings, those who gained the most from the CAP so-called 'winners' are Poland, Estonia and Lithuania whereas those who gained the least, so-called losers, are Slovakia, Latvia and Hungary. It should also be noted that in this study Malta and Cyprus were omitted due to their marginal importance in the agri-food sector compared to the rest of the New Member States.

There were three areas taken into consideration: (1) **agricultural performance** that assessed Gross Production Value/UAA, Cereal Yield, Milk Yield, Farm Income and Agri-Food Trade Balance; (2) **agri-environmental performance** that considered Greenhouse gas emission, Organic crop area, Phosphorous, Nitrogen, Meadows and pastures; (3) **rural performance** that measured Rural population, Rural employment, Urban-rural GDP gap, Motorways, Early school leavers. As this research shows the New Member States have a different approach to agriculture and the agricultural sector in these countries is at various levels of development as well as is prioritised differently. At the starting point, Poland had the biggest agricultural area with a great number of people employed in agricultural sector whereas Slovenia had the largest capital endowment. Another aspect which also had an influence is farm structures. The only countries that benefited from land privatisation were Poland and Slovenia, and the others may still face post-transition phenomena. The reason is simple, their small farms are too small, and the farmers are very often inexperienced and inefficient to sustain on the market while their collective farms that survived are inefficient due to lack of particular affiliation and poor quality management. The next important factor was the successful way of using the EU pre-accession funds like SAPARD, ISPA and PHARE. They have helped to modernise the agricultural holdings what foster competitiveness and production improvement. Moreover, it was also important to have a look at annual GDP growth that was the highest in Estonia and Poland while in Hungary it was the lowest. Last but not least, it was important in the long-term to keep track on the chosen agricultural policy what was the case for instance in Poland. Changing the agricultural policy was not in favour of the long-run growth in the agricultural sector, and here Hungary might be an example.

Another topical study Csaki and Jambor (2009) points out winners of the CAP from two different angles. Poland, Latvia and Lithuania are seen to be better-off when it comes to the ability to utilise the EU opportunities and to adjust to the common European conditions. The second angle presents two countries (Poland and Slovenia) that thanks to a consolidated farm structure are perceived to be leaders in the efficiency of adjusting to the common EU market.

6.2 Lessons learnt from CAP experience in the EU-N10 and their implications for the CAP in general

The very last part but definitely not the least one regarding the importance of this research is lessons learnt from CAP experience.

Table 10. SWOT analysis of the CAP in the EU-N10 and its implications for the CAP in general

	Helpful to achieving the objective	**Harmful** to achieving the objective
Internal (attributes of the system)	***Strengths*** • Common policy for every EU MS and enhanced trade by the EU Single Market • Pillar 2 Rural Development Programme • Supports modernization and restructuring • Emphasis on innovation and environmental concerns	***Weaknesses*** • Not tailored to individual needs of each MS • Inequality between EU-N10 and EU-15 • Too much bureaucracy • Weak waste management • Helps rich people get richer • High capital-intensive Policy
External (attributes of the environment)	***Opportunities*** • Growing number of well-educated people • Increasing importance of other sectors than primary • Natural resources and environmental quality • Growing investment in infrastructure • Climate & Environmental problems	***Threats*** • Declining number of EU population and ageing society problem • Increasing price of land tenure • Migration of people from rural to urban regions and from East to West • Unstable geopolitical situation • Low quality of broadband or even its lack

The above SWOT analysis presents CAP strengths, weaknesses, opportunities and threats. In order to introduce the rationale behind the particular phrases the description of them is as follow:

Strengths of the CAP:

- Pillar 2 Rural Development Programme:

As mentioned in CAP reform section, it is important not only to focus on the agricultural sector of the economy but also on the regions themselves. Therefore, the second pillar was created which has helped in boosting development in Rural Areas and contributed to the growth of overall EU economy.

- Common policy for every EU Member State and enhanced trade by the EU Single Market:

It is important that the EU can take care of the agricultural sector as a whole and therefore in doing this altogether the EU Member States can experience the synergy effects. Thus, reforming this policy should be an ongoing process with the long-term perspective. It is also very much needed and inevitable for the CAP success to cooperate with other policy areas like financial markets or climate change (Tangermann & Von Cramon-Taubadel, 2013).

This common policy is also enhanced mainly by one of the fundamental pillars of the EU which is free movement of goods and, in this case, EU internal market for agricultural goods. Apart from this, Majkovič, Bojnec and Turk (2007) on Slovenian example explains how to develop an efficiency in agri-food sector in order to be more internationally competitive in the agri-food exports: (1) the industry and firm levels need to be restructured and the quality of products needs to be improved mainly by new investment; (2) ownership changes in domestic food-processing companies fostered by insider-based privatisation are truly needed in the way of development. It is also stated in this paper that thanks to joining the EU, Slovenia [and the other New Member States] could faster develop their economies and become the net exporter.

- Supports modernization and restructuring:

Thanks to a number of EU funding schemes and programmes the EU agricultural actors can be stimulated to invest more. The investment brings development not only in agricultural sector per se but also in rural regions. It can also increase the efficiency and productivity what positively influences income.

- Emphasis on innovation and environmental concerns:

Since the quality of life has increased and people live longer on average, there is a need to keep the environment clean and safe. Since CAP's first objective was reached, which is food security, now it is time to be environmentally-conscious. Thanks to investing more and more money into research and innovation, there are innovative solutions that help to better take care of the environment. In the recent CAP reform, there is a strong emphasis on greening measures.

Weaknesses of the CAP:

- Not tailored to individual needs of each MS and Inequality between EU-N10 and EU-15:

The article of Zaharia, Tudorescu and Zaharia (n.d.) presents the EU-N10 when joining the EU as a set of opportunities and threats for the New Member States (on the example of Poland) that for the CAP are its strengths and weaknesses. The main cost of the CAP in the EU-N10 is its huge costs of adaptation and modernisation of the agricultural sector. It has to be done in order to meet the conditions and requirements for operation in the European Union and at the same time to minimise the gap in development level between e.g. Polish agriculture and the more developed and modernised agricultural sector in the Old Member States. There is also a saying that there are two ‘Polands’ (urban and rural), but in reality, there are even more than two since the countryside is also divided. It is the case for the EU-N10 and, therefore, there is still an enormous disparity between New and Old Member States.

There are many examples to show the mismatch between the Member States like the one in article EU enlargement: A driver of or obstacle to CAP reforms? by Henning (2008, p. 52):

“Poland and Slovenia are ‘preference outliers’ with respect to farm support, favouring support clearly above the level provided by the current CAP. Hungary, Estonia, Slovakia and the Czech Republic are ‘preference outliers’ with respect to multifunctionality, i.e. they strongly prefer a productivist approach to agricultural policy.”

In addition to that, in line with the paper of Kosior, K. (2005) there are two group of countries within the EU-N10: countries that are more protectionist like Poland, Slovenia and Hungary and countries that are more liberal on agricultural issues like Slovakia and the Baltic states. In this paper, there was also stated that due to the differences in the level of development in economy and agriculture between the New and Old Member States, the CAP reforms are thought to be more complex to conduct.

In the paper prepared by Kiss J. (2011), the differences between the New and Old Member States are seen from different angles. The New Member States ‘have added’ 55 million hectares to EU agricultural economy that was an increase of 40% for total EU agricultural land. Albeit this enormous potential, the productivity, however, rose only from 10 to 20% on average for most products. What is more, the number of farmers in the EU-15 was 6 million while the New Member States added around 7 million farmers so that a total number of farmers in the EU was around 13 million.

Lastly, according to Gorton, Hubbard and Hubbard (2009) there are four key reasons why the Common Agricultural Policy is not tailored in an effective way to the New Member States: (1) there are different socio-economic conditions in rural areas of the EU-N10 and EU-15; (2) there are differences in farm structures when it comes to size and organisational type; (3) lack of appropriate resources balance between Pillar 1 and Pillar 2; (4) difficulties in implementing adequate rural development measures in the EU-N10 resulting for instance in the fact that in SAPARD agri-environmental and non-farm measures had to be omitted in many cases.

- Too much bureaucracy:

DG Agriculture and Rural Development. (2011) in its ‘Study on administrative burden reduction associated with the implementation of certain Rural Development measures’ clearly indicates that there is too much administrative burden in the CAP and simplifying certain procedures and measures could improve CAP efficiency.

- Weak waste management:

Since the CAP reached its first objective that was ‘food security’ it started the period of overproduction and, therefore, i.e. there were milk quotas introduced. The surpluses were mainly wasted while there is still hunger in the World, which might be addressed by a proper EU ‘food waste’ management.

- Helps rich people get richer:

As it was indicated earlier, the farms are getting bigger and bigger because small farms are being sold since they are not sustainable anymore. There is a strong need to keep the small farms alive and to find their place in the CAP so that they can play a significant role in the overall economy.

- High capital-intensive Policy:

It covers around 40% of total EU budget and, therefore, it is entirely funded by the EU. There is also too much red tape and if this problem was well-managed, that could bring additional money to i.e. farmers that would contribute to growth and jobs in the EU.

Opportunities for the CAP:

- Growing number of well-educated people:

There are more and more people who are well-educated and thanks to the knowledge that they have they might implement the radical new thinking in agricultural industry which can boost EU agricultural economy to be more efficient and competitive

- Increasing importance of other sectors than primary:

The EU-N10 has got better and better in decreasing the share of primary sector in agriculture. Therefore, there is less demand for people working on production because they are replaced by machinery thanks to high value-added products and technological advancement. There is a need to make use of well-educated people to make a difference by creating new jobs that will be sustainable in the long-term and could bring an increase in the employment rate.

- Natural resources and environmental quality:

In general, the EU-N10 rural regions have a lot of agricultural lands and the quality of the environment is of increasing importance to them. That is why there is a growing number of agri-touristic holdings because people tend to avoid crowded places during their leaves from work. There is also an increasing importance of renewable energy, and its production contributes to farm income. In some cases, there are regions that thanks to renewable energy mix can generate on-farm jobs that relate to biogas, solar thermal and wind sectors (Alterra – Stichting DLO, 2011).

- Growing investment in infrastructure:

It is one of the main drivers in rural economy in particular, so growing investment in infrastructure encourages not only domestic investors but also foreign investors. In addition, it also makes the life easier for local communities. Coming back to the previous example on renewable energy, it can also help to develop regional technical infrastructure (Alterra – Stichting DLO, 2011).

Threats for the CAP:

- Declining number of EU population and ageing society problem:

The EU population has been decreasing and nowadays the EU needs to face the problem of ageing society. CAP as every other policy cannot sustain without people and the CAP especially is the policy that needs people that work in agricultural sector in order to sustain EU agricultural competitiveness. Therefore, it is important to come up with clear strategy that can encourage families to have more children.

- Increasing price of land tenure:

As it was shown in land prices subchapter, the price of land tenure has been increasing since EU accession. The growing price of land tenure influences the profitability of EU agriculture in a negative way. For instance, some of the EU food production is shifted to South America, like soy which is imported from there and used in Europe as the feed for animals like e.g. pigs or chickens. Griffiths H. (2010) implies that the EU countries imported 15.4 million tonnes of soybeans, around 30 million tonnes of soy meal and approximately 0.7 million tonnes of soy oil in 2007-2008.

- Migration of people from rural to urban regions and from East to West:

There are more jobs in urban rather than rural regions and more well-payed jobs in Western rather than Eastern Europe. That is why people tend to migrate in order to either gain more or even make a living

- Unstable geopolitical situation:

In the concrete example: as the recent Russian food embargo shows it is a real challenge to the EU unity in order to help those countries that are particularly touched by the negative consequences of imposing embargo European Commission. (2014c). There needs to be a proper understanding of the complex problem, and thus, there might be a decision to ‘open’ a reserve fund for those farms that are harmed the most. In this sense, every sanction has its negative consequences and therefore there are certain costs to be dealt with and in the case of the EU where there is EU market: banning EU food is banning food of all Member States.

- Low quality of broadband or even its lack:

As it was described in drivers and barriers to CAP success, the EU-N10 has mainly the low quality of broadband.

After pointing out CAP’s strengths, weaknesses, opportunities and threats there is a need to come up with some ideas on how the CAP might be further developing and improving policy. Therefore, TOWS framework analysis is to be used. Below, in table 11 TOWS analysis is presented. External boxes present selected highlights from SWOT analysis, and internal boxes present TOWS analysis that is conducted in order to answer the following questions: how to use strengths to maximise opportunities, how to use strengths to minimise threats, how to minimise weaknesses by taking advantage of opportunities and how to minimise weaknesses and avoid threats.

Table 11. TOWS analysis of the CAP in the EU-N10 and its implications for the CAP in general

TOWS	STRENGTHS – S 1. Pillar 2 Rural Development Programme 2. Supports modernization and restructuring 3. Emphasis on innovation and environmental concerns	WEAKNESSES – W 1. Not tailored to individual needs of each MS 2. Inequality between EU-N10 and EU-15 3. Too much bureaucracy 4. Helps rich people get richer
OPPORTUNITIES – O 1. Growing number of well-educated people 2. Increasing importance of other sectors than primary 3. Natural resources and environmental quality	SO STRATEGIES 1. Promoting and fostering development in rural areas by activation of young people (S1,S2,S3 O1,O2,O3) 2. Offering more money on processing in rural areas (S1,S2,S3 O1,O2,O3)	WO STRATEGIES 1. Ongoing simplification of the CAP (W3,W4 O1,O2) 2. Implementing progressive support for different CAP actors (W2,W4 O1,O2)
THREATS – T 1. Declining number of EU population and ageing society problem 2. Migration of people from rural to urban regions and from East to West 3. Unstable geopolitical situation	ST STRATEGIES 1. Offering help for farmers touched by unstable geo-political situation (S1 T3) 2. Employing people with loyalty agreement (S2,S3 T2)	WT STRATEGIES 1. CAP cooperation with family policy (W4 T1) 2. Strengthening EU export of agricultural products by negotiating tariffs (W3 T2,T3)

Starting with SO strategies, so-called ‘maxi-maxi’ strategies are those that use strengths to maximise opportunities. Both strategies are prepared in line with all three strengths and three opportunities selected from SWOT analysis. The first one which is ‘Promoting and fostering development in rural areas by activation of young people’ intends to attract young people to stay in rural areas by offering them possibilities of working not only in the agricultural sector but also in the non-agricultural sector. The main objective is to foster development in rural areas. In line with financial aids for young farmers, there should also be some aids or preferential loans to set up companies and start-ups in rural regions by young people. In addition to that, already existing companies should also have an incentive to relocate and come to rural regions by being encouraged by some form of financial aids, preferential loans or tax exemptions. In this way, instead of migrating (to go abroad but also domestically to urban areas) from rural regions, there will be more and more young people willing to work in rural regions. The second strategy seems to be pretty similar since its objective is also to revive rural regions but in this case, it needs to be done by offering more money on processing in rural areas. It should be conducted for the whole society; the aim should be not only to produce food but also to prepare the final products. In this way, there could be more employees needed to process the farm goods to produce the end product. The EU should enhance such local production initiatives

Next strategies are ST ones that are called 'Maxi-Mini' since they focus on how to use strengths to minimise threats. In this case, two strategies seem to be dealing with the majority of threats using all strengths. The first one uses 'Pillar 2 Rural Development Programme' in order to minimise the results of 'Unstable geopolitical situation'. This strategy has its aim to help farmers touched by the outcome of the unstable geopolitical situation by offering them aids or other forms of help. EU economy with its four main pillars acts as one body, and for instance when Russia announced an embargo on the EU agricultural goods, it was implemented in all the EU countries. It means that without the EU, some of the countries would not have been touched by the Russian embargo. Nevertheless, there is a need to remember that acting together more can be achieved that is why the EU needs to cope with this problem and cooperate in order to minimise farmers' loss. That could be done by offering them financial aids, preferential loans or finding them a new market for their products by intensifying negotiation with countries outside the EU. The second strategy aims at supporting modernization and restructuring, and putting an emphasis on innovation, simply by recruiting employees with loyalty agreement. It is crucial that money invested by the company in order to educate and train its employees is spent in a way that will bring returns in the future. It happens very often that having finished all required courses and training employees leave the company in order to get better paid jobs in Western Europe by using qualifications gained at a previous job.

As far as WO Strategies are concerned, they are also called 'Mini-Maxi' strategies. The first one is to simplify the CAP as a response to its weaknesses like too much bureaucracy and the fact that the CAP helps rich farmers get richer. Therefore, the CAP needs to use its opportunities such as growing number of well-educated people or increasing importance of other sectors than primary in order to deal with its challenges. Due to bureaucratic nature of the CAP, it happens very often that only big farms that employ specialists can actively participate in programmes offered by the CAP and apply for different types of aids. The procedures should be clear and manageable for every EU farmer. CAP's aids should also be easily accessible and what is the most important all farmers should be informed about these aids well in advance, so they apply for them in due time. The second strategy is devoted to a problem of inequality between EU-N10 and EU-15 and partially to the fact that the CAP indirectly supports richer. The opportunities remain the same as in the first strategy, and the plan is to implement progressive support for different CAP actors. It basically means that the CAP should equal the changes for its every actor, meaning that those who are smaller need to be provided with extra-care. This is because in most of the cases they cannot even sustain alone. Therefore, it might be a good solution to help them setting up some co-operations or cooperatives or maybe reduce some administrative procedures. While big farms should be encouraged to help smaller ones not by buying them but by diversifying their production and buying their products to produce e.g. slow food.

Last but not least, WT Strategies that are called 'Mini-Mini' are aimed at minimising weaknesses and avoid threats. As the CAP indirectly supports richer, and there is a declining number of EU population and ageing society, those who are poorer are in the majority and their situation can be enhanced by the proper policy to increase rural population. However, there has to be a clear cooperation within different policies; mainly CAP with family policy. It is clear that the main obstacles that young people face today are job insecurity and low salaries. These conditions are not in favour of having children. Another important measure to be implemented is to strengthen EU export of agricultural products by negotiating tariffs on agricultural commodities. With the good quality of EU food and the current trend of slow-food; European food market seems to be competitive and, therefore, the EU-exports should be encouraged by better tariffs. As it was also mentioned earlier in this master's thesis, it could also mitigate the unstable geopolitical situation. For instance, in the case when the embargo is introduced on the EU food in a particular country, the EU can try to simply transfer agri-exports to other countries.

CONCLUSION

This master's thesis has analysed the impact of the Common Agricultural Policy in the New Member States after EU accession and its social and economic effects. The CAP has led to an increase of EU-N10 exports mainly to other EU countries but also outside of EU. Thanks to a number of CAP subsidies and aids, a lot has been changed not only in the agricultural sector but also in related sectors of EU economy. It cannot be overestimated that the CAP contributed to rural development in a large scale, mainly thanks to Rural Development Programme empowered by the Pillar 2 of the CAP. Therefore, the CAP is expected to have positive effects on both social and economic situations in rural regions. The CAP may enjoy some drivers that contribute to positive results. The main drivers of the CAP are growing productivity, farm specialisation, natural resources and environmental quality, the sectoral structure of the economy, better access to capital and consolidated farm structure. Unfortunately, there are also barriers to growth in rural areas in the EU-N10: increasing land prices, diversity of rural economy in EU-N10, demographic evolutions and migration, infrastructure and accessibility; and increasing price competition. After a decade of the enlargement of the EU-N10, it can also be assessed which countries gained the most from the CAP and which countries were not so successful. The group of countries that is regarded as winners of the CAP is as follow: Poland, Estonia and Lithuania whereas the group of so-called losers of the CAP is: Slovakia, Latvia and Hungary. That shows that the CAP is not tailored to the needs of individual Member States, but it is a set of measures implemented in the Member States. That leads to a final part that is lessons learnt from CAP experience in the EU-N10. As every policy, the CAP also has some things that can be improved. Those are the main ones: the need of CAP simplification, better focus on small farms, encouraging young people, in particular, to stay in rural areas by putting more emphasis on entrepreneurship in rural regions, and last but not least, helping those farmers who are in need and, in particular, those who are touched by geopolitical implications.

Albeit there is still a gap in agricultural development between the Old and the New Member States, this analysis has shown that the EU-N10 are on their way to catch-up with EU-15. Undoubtedly, after the thorough analysis that was presented in this research and has helped to look at the CAP in the EU-N10 from different perspectives; it can be certainly said that the CAP has brought a lot in the rural regions development of the EU-N10. Although there are losers or winners of the CAP, it must be emphasised that all countries have benefited from the CAP within the EU-N10 group. Obviously, some countries have gained a lot and those that gained the least, but all in all the CAP has had a positive impact of the EU-N10. The direction and pace of development have been consequent what impacted the economy of each New Member State in a positive way.

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APPENDIXES

TABLE OF APPENDIXES

Appendix A: Terminology dictionary

CMO – stands for a Common Market Organisation and it is a group of measures that enables the EU to monitor and manage the markets of agricultural products. It happens directly or indirectly through producer organisations supported by operational programmes. The aim of CMO is to stabilise markets and also to make sure that farmers do not suffer from unduly low prices and to maintain the security of supply of food at reasonable prices for consumers. Up until 2007, the EU managed 21 CMOs which together amounted to around 90% of the output of farms. In order to make it simpler, the EU has merged these 21 CMOs into one single set, which is single CMO.

Complementary national direct payments (CNDPs)
Due to the phasing-in of direct payments after their accession to the European Union, member states that joined the EU in 2004 or later were allowed to grant an additional national aid in certain sectors after authorisation by the Commission. Since 2013, complementary national direct payments have been replaced by transitional national aid (except for Bulgaria, Croatia and Romania)

Cross-compliance - is a mechanism that links direct payments to compliance by farmers with basic standards concerning the environment, food safety, animal and plant health and animal welfare, as well as the requirement of maintaining land in good agricultural and environmental condition. Since 2005, all farmers receiving direct payments are subject to compulsory cross-compliance.

Decoupling – as first was introduced through the 2003 CAP reform, decoupling simply means the withdrawal of the connection between receiving a direct payment and the production of a particular product. Before this reform, farmers could only receive a direct payment if they produced the specific product related to the direct payment. In general, decoupling was aimed at moving the agricultural sector more towards the free market so farmers can have more freedom in production that relates to the market demand.

Direct payments - were introduced by the 1992 CAP reform. Before this reform, CAP-supported prices: for instance the prices of products sold by farmers in the market. The 1992 reform cut the level of price support and introduced direct payments in order to prevent an adequate fall in the incomes of farmers. At present, direct payments are paid to farmers to support their incomes and to ‘reward’ them for the fact that they produce public goods. Direct payments are mainly provided as an income support, and they are decoupled from production. Farmers need to respond to market signals so they can maximise their profits because they produce goods that are demanded in the market.

Europe 2020 - is a ten-year strategy proposed by the EC in 2010. Europe 2020 is designed for the advancement of the EU economy, and it aims at "smart, sustainable and inclusive growth" with more efficient coordination of European and national policy. This strategy came into play after Lisbon strategy for the period 2000-2010. There are five targets to be achieved by 2020 in the fields of: (1) climate/energy, (2) education, (3) employment, (4) poverty reduction and social inclusion, (5) research and development. Europe 2020 targets are systematically monitored through the European Semester – the annual EU's cycle of economic and budgetary coordination.

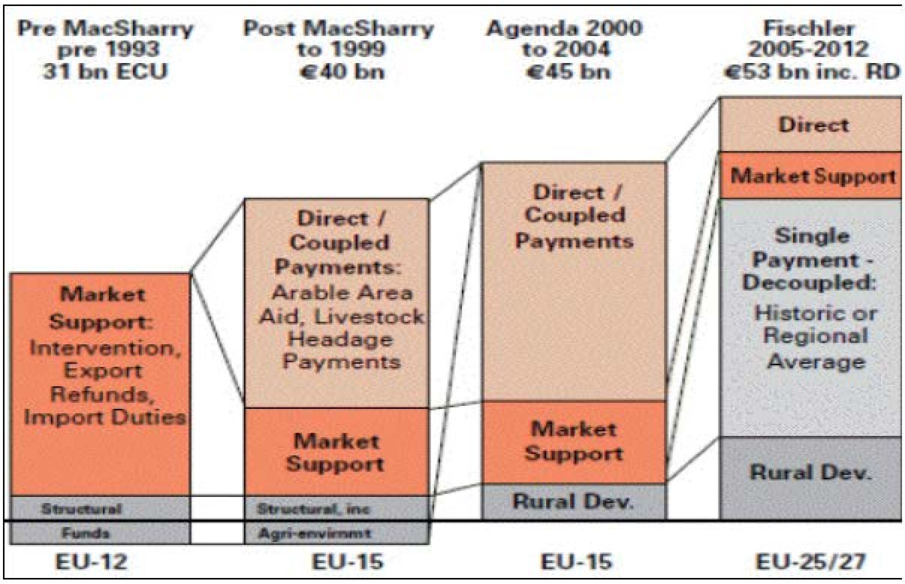
Modulation – was introduced in the 2003 CAP reform and modified in the CAP health check 2009. Thanks to this tool, it was possible to reduce direct payments and transfer them to pillar 2 (European Agricultural Fund for Rural Development). Modulation did not appear in the CAP 2013 reform, however, there are similar tools like modulation that currently exist under capping, degressivity, and transfers between pillars.

SAPARD – stands for Special Accession Programme for Agriculture and Rural Development and it was introduced in 1999 by the Council of the EU in order to help Central and Eastern European countries tackle the structural adjustment issues in their agri-sectors and rural areas. It also aimed at the implementation of the acquis communautaire related to CAP and its legislation.

SPS – stands for Single Payment Scheme and the 2003 CAP reform introduced it. This scheme allows farmers to receive a decoupled single payment. Before the reform, a farmer could get numerous specific direct payments, related to a specific production line of crop and livestock. The 2003 CAP reform put all these particular direct payments into one single payment and decoupled it from the crops and animal production. The 2013 reform has continued the approach and transformed single payment scheme into a basic payment scheme.

Appendix B: Changes in CAP support within post 1990s reforms

Figure 1. Changes in CAP support within post 1990s reforms



Source: Cantore, N., Kennan, J., & Page, S. *CAP reform and development*, 2011, p. 6.

Appendix C: Axes of the CAP

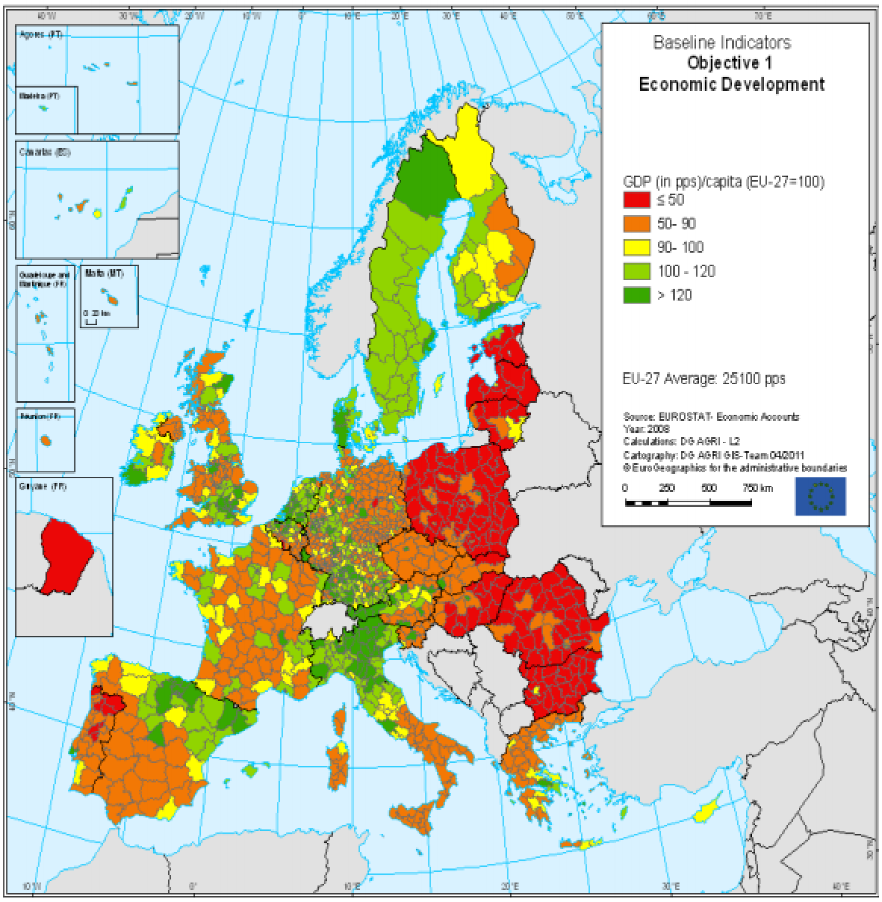
Table 1. Axes of the CAP

Axes		Measures	
Total Axis 1			
Improving the competitiveness of the agricultural and forestry sector	1	111	Vocational training and information actions
		112	Setting up of young farmers
		113	Early retirement
		114	Use of advisory services
		115	Setting up of management, relief and advisory services
		121	Modernisation of agricultural holdings
		122	Improvement of the economic value of forests
		123	Adding value to agricultural and forestry products
		124	Cooperation for development of new products, processes and technologies in the agriculture and food sector and the forestry sector
		125	Infrastructure related to the development and adaptation of agriculture and forestry
		126	Restoring agricultural production potential damaged by natural disasters and introducing appropriate prevention actions
		131	Meeting standards based on Community legislation
		132	Participation of farmers in food quality schemes
		133	Information and promotion activities
		141	Semi-subsistence farming
		142	Producer groups
		143	Provision of farm advisory and extension services in Bulgaria and Romania
		144	Holdings undergoing restructuring due to a reform of a common market organisation
Total Axis 2			
Improving the environement and the countryside through land management	2	211	Natural handicap payments to farmers in mountain areas
		212	Payments to farmers in areas with handicaps, other than mountain areas
		213	Natura 2000 payments and payments linked to Directive 2000/60/EC (WFD)
		214	Agri-environment payments
		215	Animal welfare payments
		216	Non-productive investments
		221	First afforestation of agricultural land
		222	First establishment of agroforestry systems on agricultural land
		223	First afforestation of non-agricultural land
		224	Natura 2000 payments
		225	Forest-environment payments
		226	Restoring forestry potential and introducing prevention actions
		227	Non-productive investments
Total Axis 3			
Improving the quality of life in rural areas and encouraging diversification of economic activity	3	311	Diversification into non-agricultural activities
		312	Business creation and development
		313	Encouragement of tourism activities
		321	Basic services for the economy and rural population
		322	Village renewal and development
		323	Conservation and upgrading of the rural heritage
		331	Training and information
		341	Skills acquisition, animation and implementation of local development strategies
Total Axis 4			
Leader	4	411	Implementing local development strategies. Competitiveness
		412	Implementing local development strategies. Environment/land management
		413	Implementing local development strategies. Quality of life/diversification
		421	Implementing cooperation projects
		431	Running the local action group, acquiring skills and animating the territory as referred to in Article 59

Source: DG AGRI. *Financial plans per Member State, programming period 2007-2013*, 2013.

Appendix D: Map of GDP per capita in the EU by NUTS3 level, 2008

Figure 2. Map of GDP per capita in the EU by NUTS3 level, 2008



Source: European Commission, *A view on employment, growth and innovation in rural areas*, 2012, p. 122.