

## **THE COMMON AGRICULTURAL POLICY (CAP) AFTER 2013**

Statement of opinion of the COUNCIL OF BULGARIAN AGRICULTURE ORGANIZATIONS

Subject: The general framework of the EU's Common Agricultural (CAP) after 2013.

Agriculture is a strategic sector of the economy and has deep traditions in Bulgaria. In 2009 the gross value added generated by the sector of agriculture was estimated at BGN 1,506 million and farming jobs totalled nearly 90,000, excluding the employment in food industry and other sectors of light industry.

Besides food production, the agriculture has also contributed to the development of rural economy, environmental protection and biodiversity conservation.

Given the strong demographic trends worldwide and the current food crisis in terms of growing concerns with regard to the climatic changes it is necessary to adopt a strategic approach to contribute to the development of modern and competitive agriculture, so that Bulgaria, with all its unique products, occupies a solid place not only in the European, but also in the international market.

It takes an active agricultural policy to help preserve and develop agriculture as a viable economic sector in Bulgaria, an active policy ensuring fair income to farmers to enable them have a normal life and invest in future growth of their business.

### **OBJECTIVES OF THE COMMON AGRICULTURAL POLICY:**

The main objectives of the Common Agricultural Policy (CAP) as set out in the Lisbon Treaty include the following:

1. Increasing productivity through technological progress development and optimal utilization of production facilities mainly in the workforce.
2. Provision of decent standard of living to farmers by supporting individual income.
3. Stabilising the market.
4. Ensuring the security of food provisions.
5. Providing consumer friendly prices.

In developing the Common Agricultural Policy (CAP) the specific nature of agricultural activity, the social structure and the social and structural differences between the EU Member states must be taken into account.

### **KEY GUIDELINES OF THE COMMON AGRICULTURAL POLICY (CAP) AFTER 2013**

#### **» FOOD PRODUCTION**

Firstly, the Common Agricultural Policy (CAP) must aim at supporting the production of safe and quality food produce through environmentally friendly practices.

Projections indicate that the global food demand will increase by 50 percent by 2050 due to the population growth. The production of agricultural commodities will continue to grow in difficulty in the future because of processes such as urbanisation and reduction of agricultural land. The shrinking of the world's water resources is also a reason of concern reaching critically low levels. Bulgaria has serious potential – about 8 percent of farmland is still beyond the crop rotation system. In this relation it is necessary to implement an active agricultural policy with adequate financial resources to help develop this potential. A strong policy is required, which shall focus on enhancing the support for competitive export orientated production.

Farmers need to produce food at affordable consumer friendly prices. The Common Agricultural Policy (CAP) being implemented in the EU-15 has played an important role in this regard. Currently the share of food in the average household budget does not exceed 13 percent, while in Bulgaria it stands for 36 percent (NSI data for 2009).

In Bulgaria, farmers struggle serious challenges in the face of the financial crisis forced to make hefty investments for the implementation of EU hygiene standards, the environmental protection and animal welfare requirements. The current distribution of direct aid has placed farmers from the newest EU entrants at a disadvantaged position. An example thereof is the negative external trade balance of agricultural trade following their accession to the EU. Imbalances occur also among individual branches of agriculture. The price pressure caused by the higher subsidies for agricultural products from the EU-15 countries – the old EU Member states – has delayed the sector's growth and will result in reduced production in Bulgaria.

Farmers should receive adequate income from selling their production but also be compensated for the implementation of high hygienic and social standards. In terms of increased competition in the Community market there is a need of a Common Agricultural Policy (CAP) largely aimed at supporting these processes and reducing disparities between newer and older Member states. Solely a Common Agricultural Policy (CAP) imposing common rules will ensure the proper functioning of the common market and prevent competition between Member states.

Bulgaria produces a rich variety of agricultural products and the support provided to farmers within the Common Agricultural Policy (CAP) will enable the preservation of this diversity.

» Ensuring sustainable development

Within the EU Policy Package on Climate Changes, Bulgaria has committed to increase by 2020 the share of energy from renewable energy sources up to 16 percent.

The "green energy" production is the best guarantee for sustainable development, considering environmental legislation effective in the Member states and the requirements of production practices set for farmers.

Moreover, the promotion of the use of renewable energy, according to the Institute of Agriculture Economics, will result in enhanced competitiveness, penetrating to new market niches in the common market, increasing farmers' incomes and creating jobs.

Therefore, the Common Agricultural Policy (CAP) must offer relevant tools and resources for essential support to the development of this sector.

» ADAPTATION TO CLIMATE CHANGES

Agriculture is the sector mostly affected by climate changes. Global climate conditions are the most important factor influencing the industry, though being a way beyond control. Climate changes may cause a crunch in production, reduction of water resources, distribution of untypical diseases on animals and plants, etc. Therefore, the environmental policy is unable for its own sake to respond to the adaptation to climate changes. In this context, there is a need, within the CAP, to adopt a strategic approach ensuring Community-wide sustainable production of food marketable at consumer friendly prices. There is a need for specific measures to ensure food provisions in the future to promote the efficiency of production while protecting the environment.

#### » PRESERVATION OF NATURAL RESOURCES - SOIL, WATER, BIODIVERSITY

This objective can not be ensured unless the manufacturing base is maintained and expanded, especially in areas afflicted by natural disasters. Therefore, a Common Agricultural Policy (CAP) is much more needed today.

### GENERAL FRAMEWORK FOR THE COMMON AGRICULTURAL POLICY (CAP) AFTER 2013

#### THE TWO PILLARS OF THE COMMON AGRICULTURAL POLICY (CAP) SHOULD BE MAINTAINED

It is necessary to have a strong first pillar, as it enables, on one hand, to maintain farmers' incomes, and, on the other hand, to directly intervene to solve domestic markets' problems.

The second pillar should also play an important role by facilitating investment inflow and introducing scientific achievements in agriculture aimed to enhancing the competitiveness of the sector. It is necessary to provide the proper financial instruments to help achieve these goals, but also to ensure that they are easily accessible, particularly for small and medium farmers.

In terms of both pillars, farmers must be in the center of the policy, as they are not only producers of food, which remains the primary objective, but also contribute significantly to the environmental protection and biodiversity. These are public benefits not accounted for on the market. The implementation of environment friendly production practices is inevitably related to lower yields, which must be made up for. In this respect Bulgaria has significant advantages compared to other EU countries.

#### Direct payments

» Direct payments are an effective tool to achieve the goal of the Common Agricultural Policy (CAP), namely the production of sufficient food at affordable prices for consumers and adequate incomes for farmers. Direct payments have no alternative as they are a fundamental component of farmers' income. Direct payments account for about 60 percent of the average income in the EU-27.

Direct payments will help farmers in new entrant states to develop their potential and increase production efficiency. The production of agricultural commodities should be preserved throughout the EU as it is an integral part of the rural economy. The European Commission's outlooks show an income increase for farmers in the new Member states up to 151.3 percent in 2015 compared to the baseline of 2007, whereas the incomes of farmers from the older EU-15 will stand for 95.1 percent of those in 2007; nonetheless it does not mean income equalization.

It is necessary to work hard on bridging the gap between agricultural producers in individual Member states. Therefore we consider as unacceptable the three options under discussion concerning the harmonization of direct payments, namely:

- First option: a uniform amount per hectare across Europe;
- Second option: a baseline amount to be supplemented by either the national budget, or by a national package enabling greater flexibility of the Member states in the distribution of direct payments. This option is risky due to the disproportionate amounts of funding allotted to individual Member states. Usually the amount is determined on the basis of yields. The levels in the new entrants are still lower than in the EU-15.
- Third option: gradual elimination of direct aid under the first pillar and their gradual replacement with a contractual system supported within the second pillar. We believe that this option would generate uncertainty and will affect production volumes.

However, it is a must to adopt a new system for the distribution of direct payments. The EU needs a common system operating on the basis of uniform criteria, which must prevent any unfair competition between Member states. This method of distribution per unit area places at a disadvantage position even individual sub-sectors; therefore it is necessary to develop economic criteria and use them to distribute objectively direct payments.

## TOOLS FOR MARKET MANAGEMENT

The market liberalization can not ensure stability and security in food production and provision, as it is clear in the current financial crisis. Agricultural production is highly dependent on climatic conditions, which results in broader variations in prices of agricultural commodities in comparison with industrial products.

Market stabilization is one of the key objectives of the Common Agricultural Policy (CAP) as enshrined in the Lisbon Treaty. It is vital for the markets of agricultural commodities to be stable and to limit the prices fluctuation.

Therefore, the Common Agricultural Policy (CAP) must offer tools capable of ensuring security for farmers and implementing long-term investments to improve production efficiency. Direct payments are a part of these instruments, but they must be combined with a safety net to stabilize prices and prevent them from falling below certain levels, intervention, private storage, credit systems for export. Along with these measures, insurance against climatic and economic risks should also be part of the Common Agricultural Policy (CAP) instruments after 2013.

## RURAL DEVELOPMENT

The second pillar of the Common Agricultural Policy (CAP) should continue playing an important role in supporting the modernization of the production base and increasing efficiency. It is necessary to have the support of the new Member states for not cutting it below 50 percent, while developing measures that are more affordable for small and medium producers. They are the backbone of the European model of agriculture and should enjoy support in Bulgaria in order to preserve jobs, especially in rural areas, and slow down the process of depopulation of villages.

## THE CAP BUDGET AFTER 2013

Agriculture is a strategic sector and there is no such policy, thanks to which an economic sector is able to provide so much social wealth, such as ensuring food security, environmental protection, reducing harmful greenhouse emissions.

The ambitious objectives of the Common Agricultural Policy (CAP) can not be achieved, unless it is ensured by the adequate budget. It should be noted that the cost of the Common Agricultural Policy (CAP) on the European level is EUR 100 per capita per year (based on data of the Committee of Professional Agricultural Organizations and the Confederation of Agricultural Cooperatives in the EU). The amount of EU and national funds allocated to science for example far exceed the current budget of the Common Agricultural Policy (CAP).

The future budget of the first and second pillars should be clearly defined and withstand any changes (not reduced) in the period 2014-2020. Bulgaria, as a new member state, is strongly interested to set aside under the first pillar larger funds so as to make up with farmers in the old Member states.