

## INFLUENCE OF THE EUROPEAN AGRICULTURAL POLICY ON THE AGRICULTURAL ENTERPRISES DEVELOPMENT



**Igor Kryvetskyi**

*Department of Enterprises Economics  
and information technology,  
Lviv University of Business and Law,  
Lviv, Ukraine*

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**Abstract.** The basic principles of the functioning of the EU agricultural sector are revealed. The priority directions for the functioning of the EU state agricultural support system are described. The principles and objectives of the joint agrarian policy (SAP) of the EU are defined. The process of SAP reform is analyzed in accordance with the priorities of the EU agricultural sector development. The impact of SAP on Poland has been determined. The instability of the dynamics of incomes of agricultural entities in comparison with other sectors of the economy in Poland, Slovakia, Hungary and Romania has been revealed.

**Keywords:** *agrarian sector, common agrarian policy (CAP), agricultural enterprises, European Union (EU), development.*

### Introduction

The development of the agricultural sector and its protection has been considered a priority of European economic policy since the 1960s. The lobbying of interests of agricultural enterprises in the European Union is traditionally carried out today, but with each decade this influence weakens due to a number of structural factors, such as a decrease of rural population, a decreased share of agriculture in the EU economy and a number of joint agricultural policy reforms (SAP) regulates the main activities of the EU institutions in the agricultural sector and is focused on ensuring fair living standards for farmers and supplying safe, organic food of good quality at affordable price ranges. In this regard, in the long run, agricultural products will increasingly be included in free trade agreements, and companies will be forced to adapt to the ever-growing competitive environment.

The features of the CAP were studied both by foreign and domestic scientists, namely: O. Vinsky, T. Gogol, I. Klymenko, I. Ushevych, E. Falkovych, N. Yurkenaitė and others. Despite significant scientific progress in this area, a number of issues related to the impact of CAP on the development of agricultural enterprises remain undisclosed.

**The purpose of the article** is to study the peculiarities of the agricultural enterprises development under the influence of the EU common agrarian policy.

#### Research results

The system of state support for agriculture runs in two priority directions: 1) direct aid to farmers; 2) balancing and maintaining domestic market prices against the background of effective external protection. CAP strategic objectives are realized according to the principles of market unity, financial solidarity, priority of goods from producer countries of the countries and aimed at:

increasing agricultural productivity; ensuring a favorable socio-economic level of farmers; safe supply of agricultural products at moderate prices for end consumers; stabilization of the agrarian market.

The specific conduct of the CAP have changed according to establishment of the EU and the consistent increase in the number of its member countries. In particular, this is displayed in the dynamics of the total cost of the CAP and the share of CAP in the total expenditures by EU (Fig. 1).

Over the past 30 years, the share of CAP expenditures from the EU budget, despite its

consistent expansion, has decreased from 73% in 1985 to 41% in 2016, which is due mainly to the ongoing reform of the CAP and the increased role of other EU policies.

Regarding the priorities of the EU agrarian sector development, there is a shift in emphasis in the process of reforming the CAP [1]:

- the formation of CAP in 1962, which goal is to provide affordable food for EU citizens and a fair standard of living for farmers;
- The CAP expenditures in the 80's was mainly aimed at maintaining prices through market mechanisms (interventions, export subsidies), which volume, by the 1990s, had increased as a result of large surpluses

in the agrarian sector; In 1984, farms became so productive that they produced more products than needed; measures were being developed to meet production levels closer to the needs of the market;

- since 1992 the price support has decreased and the aid to agricultural enterprises has sharply increased in the form of direct payments, support was provided to rural areas and the promotion of environmentally friendly agrarian production;
- the reform process continued, namely, the program in 2000 intensified measures for the socio-economic development of the village;

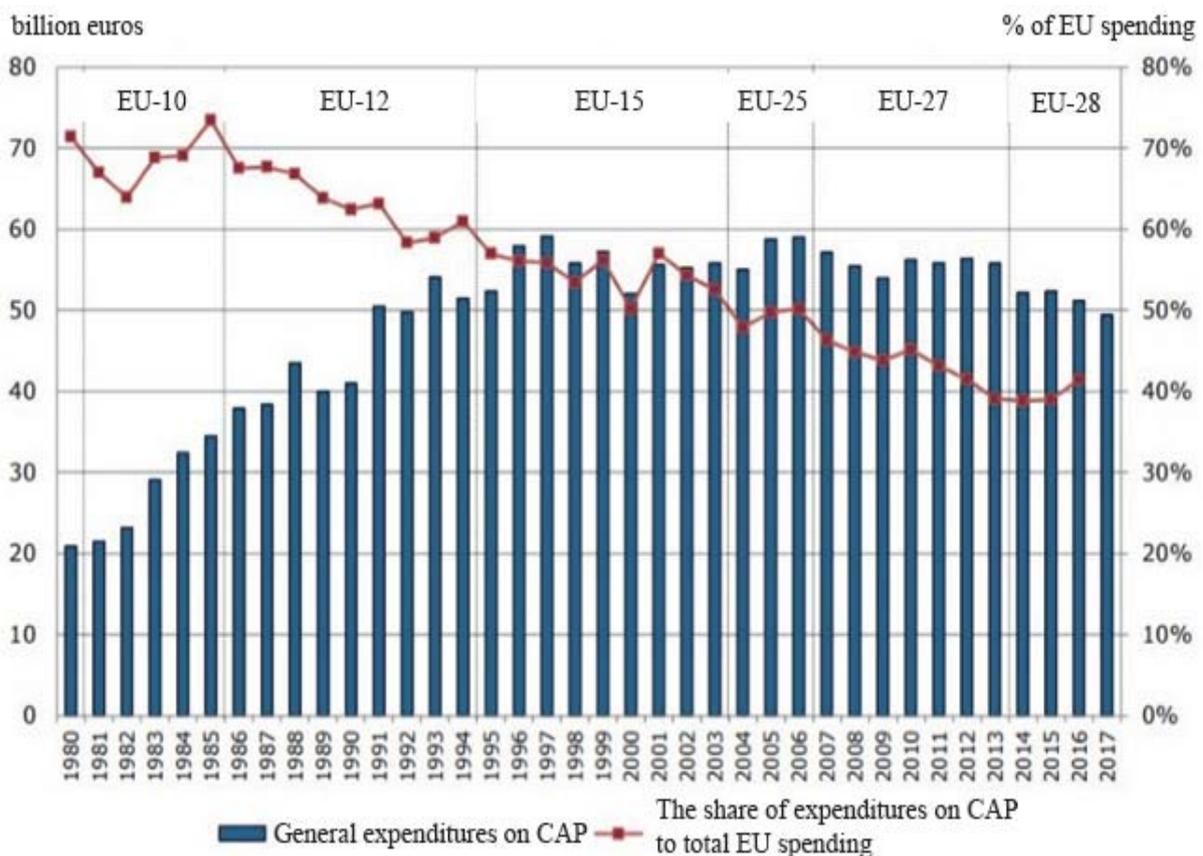


Fig. 1. Costs of CAP to total expenditure of EU budget (in 2011 prices. Source: Formed according to [2; 3])

- in 2003, most direct payments were detached from current agricultural production, rural development intensified; The new CAP reform has cut off the link between subsidies and production (farmers have started to receive income support when they care about farmland and respect food safety standards, the environment, human health and animal);
- since 2008 the emphasis has been on the implementation of measures to support

healthy eating, on the background of which the aid to the agrarian market has decreased;

- Had been reformed in 2013, the CAP is aimed at strengthening the sector's competitiveness, actively promoting innovation in agriculture, supporting jobs, developing rural areas and sending financial assistance to productive land use;

- total expenditures on CAP in GDP share decreased from 0.66% in the 90s to 0.36% in 2017.

SAP aims to provide 22 million farmers, agrarian workers and stable, secure food supplies for 500 million European citizens, assuring 44 million jobs in the EU (20 in agriculture and 24 in the food industry). A common policy for all 28 EU countries rises EU competitiveness and resilience through providing direct payments to stabilize farm incomes, and also finances projects that meet the needs of specific countries for socio-economic development of the countryside, the development of the agro-food sector and related branches. CAP also implements a wide range of market measures, including tools to solve the problems of volatility of prices and other complications. Its budget for 2014-2020 attains 408.31 billion euros, including 308.73 billion euros for direct payments and market measures and 99.58 billion euros for rural development. It is important to note that due to climate diversity, soil fertility, technical and technological provision of agrarian enterprises and the quality of its products, the EU is one of the world's leading producers and exporters of agricultural products [4].

For a more detailed description of this policy, we will analyze its impact on the closest neighbor of Ukraine - the EU member state, Poland. Poland occupies 312 700 km<sup>2</sup>, among which 51.2% of the total area is rural; about 30% of the territory of Poland is covered with forests. The total population is about 38 million, of which more than 12.5 million live mainly in rural areas. The agrarian sector is characterized by relatively small areas - at 10.1 hectares, which is considerably lower than the EU-28 average value (16.1 hectares). Over the period 2014-2020, around € 32 billion of investment is expected in agriculture and rural areas of Poland through the CAP. Within 2014-2017, EUR 8.7 billion were allocated by the EU and EUR 4.9 billion additional at the national level for measures to promote rural development in Poland. [5, p. 1-2].

The rural development program for 2014-2020 for Poland focuses on the following priorities: promotion of competitiveness and productivity in the agri-food sector; ensure the sustainable management of natural resources; promote the development of rural economies throughout the country through the development of local infrastructure,

investment in education, culture, provision of adequate public services, and the creation and assurance of jobs vacancies.

Within 2007-2013, more than 25.1 billion euros were invested into agriculture and rural areas of Poland, in order to stabilize farm incomes, modernizing and increasing their sustainability, and ensuring the supply of safe, affordable and quality food for their citizens, of which about 17.4 billion euro of public funds (13.4 billion euros from the EU, the rest in the form of national funds) was invested through rural development programs of various measures supporting agricultural and production, promoting the socio-economic development of rural areas of Poland, preserving their cultural heritage. It should be noted that in recent years, direct payments have become a key security for Polish farmers and agribusinesses.

Only in 2014 about 1.3 million farms received about 3 billion euros of direct payments, of which almost 344 thousand got less around 5 thousand euros. In 2015, the EU has allocated more than EUR 219 million for market measures in Poland, focusing mainly on the production of vegetables and fruits, as well as milk and dairy products. Through the CAP, the EU also supports agricultural producers in promoting their better organization of activities and sales of products more effectively, strengthening their positions in the food supply chain. [5, p. 2-4].

Through these development funds, the following projects are implemented, where have been planned [5, p. 5-7]:

- to involve more than 39,000 young farmers to works (the total public investment exceeds 766 million euros);
- get modernizing more than 58 thousand farms, through investments of over 2.5 billion euros;
- to provide support to farmers affected by floods and other natural and climatic disasters, helping them to continue their agricultural activities;
- to invest more than 1.6 billion euros in services for the rural population, and 580 million euros - to rejuvenate about 3.7 villages.

Rural development funds also contributed to the development of a more sustainable agricultural model:

- near 138 thousand holdings (resulting for about 2.8 million hectares) have pledged to

use more environmentally friendly agricultural technologies;  
 - 925 thousand farms (8.6 million hectares) got support to continue their activities in less-favored areas.

The analysis of the income dynamics of agricultural enterprises revealed their apparent instability in relation to other fields of the economy. (Fig. 2).

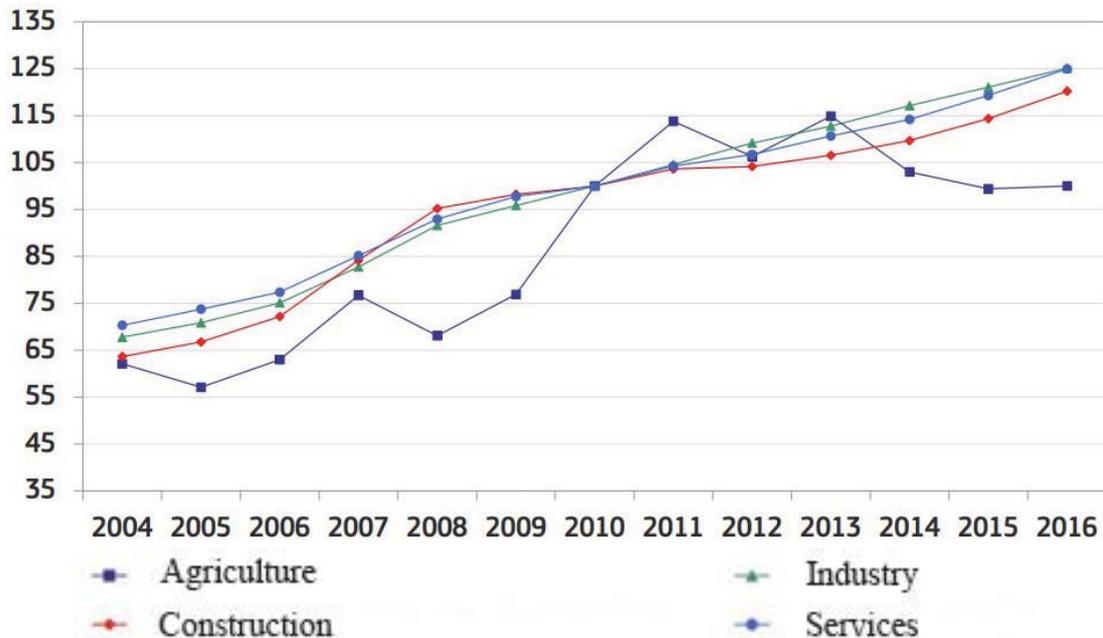


Fig. 2. Dynamics of incomes of agricultural enterprises in comparison with other sectors of the Polish economy.

Source: Formed according to [5; 6]

A similar trend is observed in Slovakia, Hungary and Romania (Fig. 3; 4; 5).

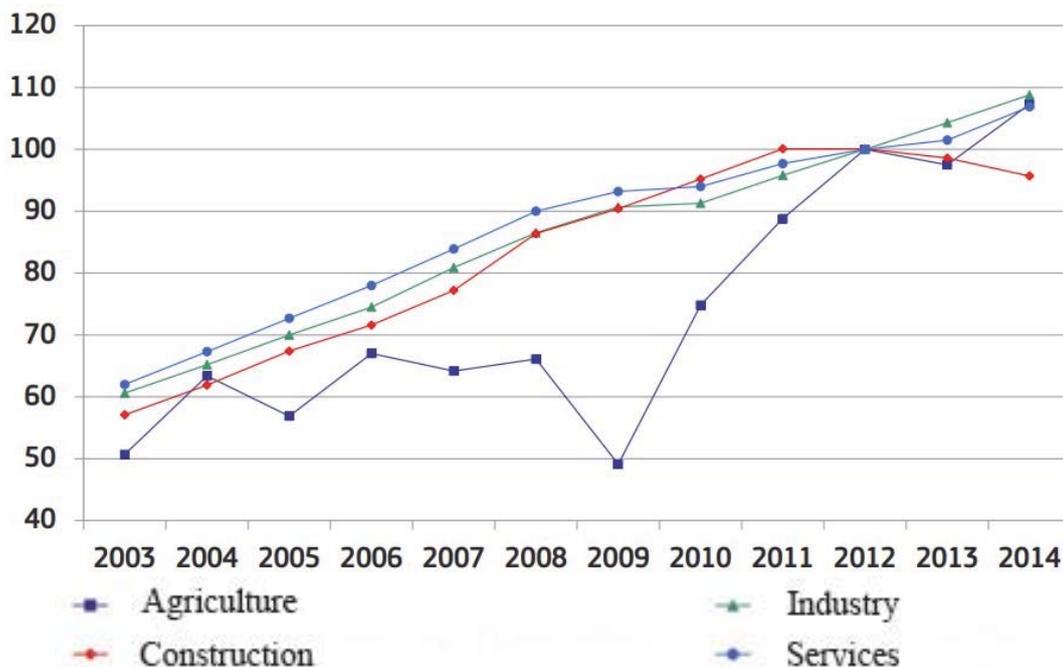


Fig. 3. Dynamics of incomes of agricultural enterprises in comparison with other sectors of the Slovakian economy.

Source: Formed according to [6; 7]

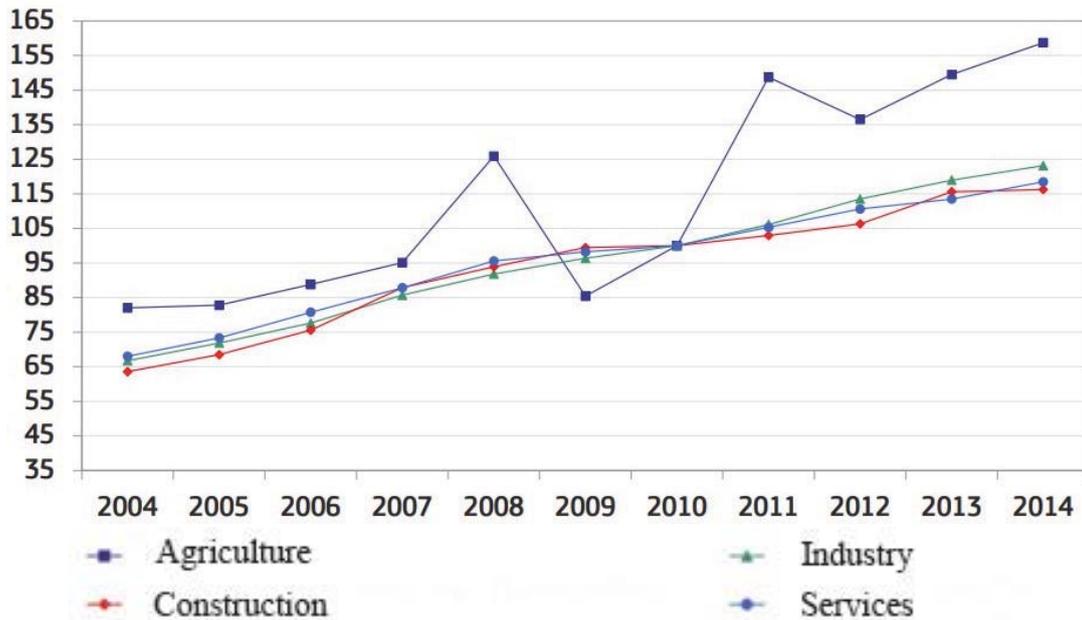


Fig. 4. Dynamics of incomes of agricultural enterprises in comparison with other fields of the Hungarian economy.

Source: Formed according to [6; 8]

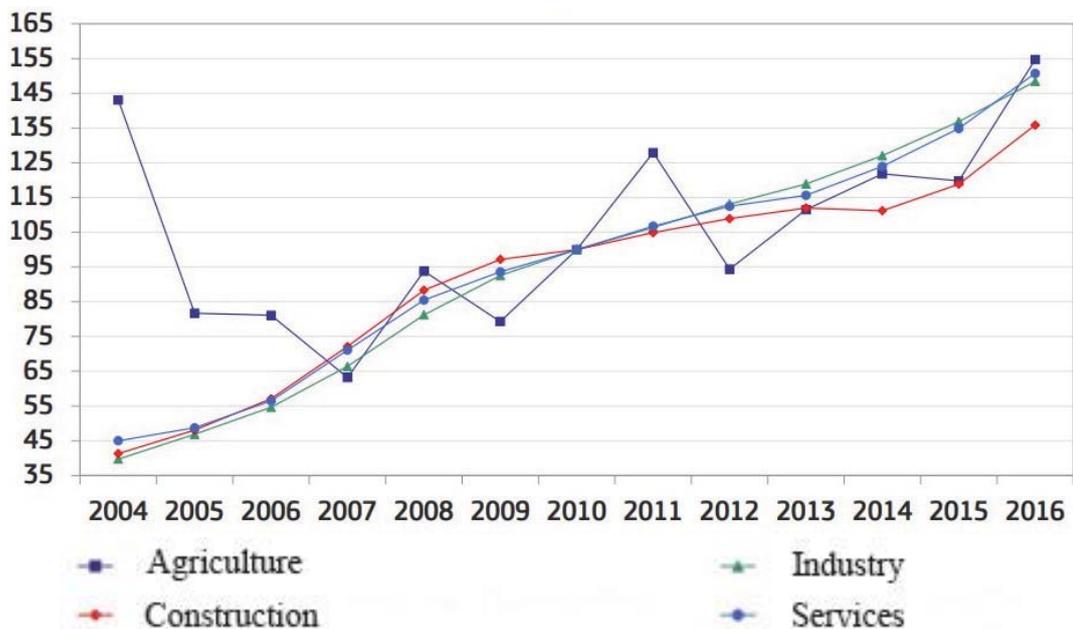


Fig. 5. Dynamics of incomes of agricultural enterprises in comparison with other fields of the Romanian economy. Formed according to [6; 9]

Such tendencies are related to the influence of a certain number of specific external factors inherent to agricultural sector of the economy. By tracking the priorities that should be solved by the forthcoming CAP, the European Commission creates a basis for discussing a more flexible approach to policy implementation in order to achieve more effective results.

**Conclusion**

The EU's CAP has changed dramatically over the past decades to help agricultural business persons resist external challenges and respond to changing market needs. It covers a wide range of various trends, including food quality, trade and promotion of agricultural products. The EU provides

financial support to its businesses and encourages sustainable and environmentally friendly methods, as well as investments in rural development.

We consider especially important the positive experience of CAP, which applies to all valid EU-28 members. Taking into account its above outlined basic principles and norms of functioning will help the state and domestic agrarian enterprises to adapt more quickly to a complicated European competitive environment, ensuring the sustainable development of environmentally clean and safe agriculture of Ukraine.

I believe that a **promising direction for further research** might be spread of agricultural innovation in the context of European integration processes.

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