THE INFLUENCE OF CAP ON COUNTRIES’ WELFARE: PERSPECTIVE STRATEGY OUTLINE FOR UKRAINE

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The EU acts as one of the most dynamically developing region with effective leadership in the world economy. The object of research is the Common Agricultural Policy and perspective strategy outline for Ukraine. The goal of research is analyzing the influence of the CAP on countries’ welfare, methodological analysis of the efficiency of the EU policy and correlation with the world agricultural market. The main methods implied in the research are such as: complex and system analyses of the AIC regulation, graphanalytical and correlation analyses of export policy optimization of Ukraine, expert analysis of the world agricultural market.

Key words: CAP, agricultural market, countries’ welfare, strategy, Ukraine.

1. Introduction.
All players of the agricultural market are especially interested in their countries’ welfare and follow the strategy outline of the main producers and exporters of agricultural product in the world. Nowadays the Common Agricultural Policy (CAP) of the EU has an effective leadership and a big impact on the world agricultural trade that makes other countries build blocks for reform strategies of their AIC. The fundamental scientific contribution into investigation of general theoretical and special problems of agricultural trade is made by the outstanding scientists and economists such as: K. Anderson, W. Martin, D. Germain, O. Gasquet, J. Giuliani, Y. Mark, P. Sabluk, M. Trasy, L. Striewe and others. Despite their basis, the author of the article thoroughly investigated problems of the influence of the CAP on the AIC of other countries and a perspective strategy of Ukraine while integrating to the EU.

2. The influence of CAP on countries’ welfare.
The EU is the world’s biggest trader, accounting for 20% of global imports and exports. Free trade among its members underpinned the successful launch 50 years ago of the EU. The Union is therefore a leading player in efforts to liberalise world trade for the mutual benefit of rich and poor countries alike.

The Common Agricultural Policy is a system of the EU agricultural subsidies and programmes. The aim of the CAP is to provide farmers with a reasonable standard of living, consumers with quality food at fair prices and to preserve rural heritage. The farmer population is approximately 5% of the total population in the EU (1.7 % in the US). The total value of agricultural production amounted to 128 billion euros (1998). About 49% of this amount was accounted for by political measures: 37 billion euros due to direct payments and 43 billion euros from consumers due to the artificially high price. 80% of European farmers receive a direct payment of 5,000 euros or less, while 2.2 % receive a direct payment above 50,000 euros, totaling 40% percent of all direct subsidies. For example, the average US farmer receives $16,000 in annual subsidies. Two-thirds of farmers receive no direct payments. Of those that do, the average amount amongst the lowest paid 80% was $7000 from 1995-2003 [1].

The policy has evolved to meet society’s changing needs, so that food safety, preservation of the environment, value for money and agriculture as a source of crops to convert to fuel have acquired steadily growing importance. Until 1992 the agriculture expenditure of the European Union represented nearly 61% of the EU’s budget but about 44% of the EU budget (43 billion euros scheduled spending for 2005). By 2013, the share of traditional CAP spending will be (32%), following a decrease in real terms in the current financing period. In contrast, the amounts for the EU’s Regional Policy represented 17% of the EU budget in 1998. They will more than double to reach almost 36% in 2013 [2].

The CAP guarantees a minimum price to producers imposes import tariffs and quotas on certain goods from outside the EU and provides a direct subsidy payment for cultivated land. Reforms of the system are currently underway, including a phased transfer of subsidy to land stewardship rather than specific crop production from 2005 to 2012. Detailed implementation of the scheme varies in different member countries of the EU, but a Single Payment Scheme for direct farm payments is being introduced in the UK. Direct payments are now made:

•  per hectare of farmland that is maintained in ‘Good Agricultural Condition’;
•  in return for specific rural development activities (such as diversification or setting up producer groups);
• for carrying out particular land management activities considered to benefit the environment (For a list of the 18 requirements Statutory Management Requirements, using Scotland as an example).

The most fundamental change of the CAP approach – moving from payments which sometimes encouraged over-production to payments which are more likely to encourage farmers to produce what consumers want and need – came at the beginning of this decade. Since then products not included in the initial reform process have been added. These include wine, fruit and vegetables, bananas, maize and sugar. Reforms in the sugar sector mean the EU is moving from being the world’s second largest exporter to being a net importer [4]. The next steps are:

• to simplify the rules governing agriculture by overhauling the laws which have grown up piecemeal over the last five decades;
• to replace different market organisations and rules for different products with a single common market organisation and a uniform set of rules;
• to work with national governments to cut the red tape farmers face in qualifying for EU support.

At the same time, the CAP is adapting to new opportunities for farmers to grow crops biofuel for vehicles and biomass for power generation. Growing crops for fuel is not yet generally economically viable, but the CAP provides financial support because these crops serve the interest of society in reducing dependence on fossil fuels and combating climate change. The reforms have also been in the interests of fairer world trade and the EU is prepared to do more in that direction as part of a balanced package of trade reforms worldwide [5]. The reforms the EU has made to the CAP reduce the risk that trade will be distorted by EU subsidies for export of surplus production. The EU offered to eliminate export subsidies altogether by 2013 and halve the average tariff on agricultural imports from 23% to 12%. However, even without these measures, the EU is already the world’s largest importer of food and the biggest market for Third World foodstuffs.

The EU’s trade policy is closely linked to its development policy. The Union has granted duty-free or cut-rate preferential access to its market for most of the imports from developing countries and economies in transition under its general system of preferences (GSP). It goes even further for the 49 poorest countries in the world, all of whose exports enjoy duty free entry to the EU market under a programme launched in 2001 [6]. The EU has developed a new trade and development strategy with its 78 partners in the Africa-Pacific-Caribbean (ACP) group of countries aimed at integrating them into the world economy. It also has a trade agreement with South Africa that will lead to free trade between the two sides, and it is negotiating a free trade deal with the six members of the Gulf Cooperation Council (GCC) – Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

The EU has trade and association agreements with Mexico and Chile in Latin America and has been trying to negotiate a deal to liberalise trade with the Mercosur group – Argentina, Brazil, Paraguay and Uruguay. It does not, however, have specific trade agreements with its major trading partners among the developed countries like the United States and Japan. Trade is handled through the WTO mechanisms, although the EU has many agreements in individual sectors with both countries. Given the size of their bilateral trade (the US takes 24% of EU exports and supplies 18% of its imports), it is not surprising that disputes break out between the two from time to time. While a number of these are settled bilaterally, others end up before the WTO dispute-settlement body. Although these disputes make the headlines, they represent less than 2% of total transatlantic trade.

The WTO framework also applies to trade between the EU and China which joined the world trade body in 2001. China is now the Union’s second biggest trading partner after the United States. The sheer size of the European Union in economic, trade and financial terms makes it a world player. The EU has a web of bilateral and multilateral agreements covering most countries and regions of the globe. The biggest trader and home to the world’s second currency, the EU also spends nearly 600 euros million a month in assistance projects in all five continents. Handling the Union’s external relations is literally a global responsibility.

Increased trade boosts world growth to everybody’s advantage. It brings consumers a wider range of products to choose from. Competition between imports and local products lowers prices and raises quality. Liberalised trade enables the most efficient producers to compete fairly with rivals in other countries, whose governments have to cut import duties used to protect national firms. Some major critics of the CAP reject the idea of protectionism. Free market advocates are among those who disagree with any type of government intervention because, they say, a free market without interference will allocate resources more efficiently. The setting of ‘artificial’ prices inevitably leads to distortions in production, with over-production being the usual result. The creation of Grain Mountains, where huge stores of unwanted grain were bought directly from farmers at prices set by the CAP well in excess of the market is one example. Subsidies allowed many...
small, outdated, or inefficient farms to continue to operate which would not otherwise be viable. A straightforward economic model would suggest that it would be better to allow the market to find its own price levels, and for uneconomic farming to cease. Resources used in farming would then be switched to more productive operations.

Swedish Agriculture Minister Eskil Erlandsson had put forward Sweden’s radical new position to officials drafting the new European agriculture policy, which is due to be launched in 2013. The idea of completely abolishing farm subsidies, leaving a fully market-oriented farming sector, is controversial. Sweden wants export subsidies, intervention subsidies and production subsidies to be phased out completely, leaving only subsidies for environmental protection. The proposed system would closely resemble the system in place in Sweden before the country joined the European Union [7].

Critics also argue that these subsidies are unfair, because the governments of African countries don’t subsidise any farmers. Additionally, most Europeans live in cities, not rural areas. However, their opponents argue that the subsidies are crucial to preserve the rural environment, and that some EU member states would have aided their farmers, anyway, causing the reinstatement of trade customs fees. The latter argument is false, however, due to WTO rules.

British households pay an extra £832 a year in grocery bills due to the huge EU subsidy system that is also depriving tens of thousands of African farmers of their livelihoods, a charity warns. Everyday goods such as bread, milk, sugar and chicken are all more expensive because of the payments made to British and European farmers. At the same time, dumping of subsidised produce in African countries is forcing local producers out of business. Claire Godfrey, trade policy adviser for Oxfam, said: “Not only does the Common Agricultural Policy hit European shoppers in their pockets but strikes a blow against the heart of development in places like Africa. “The CAP lavishes subsidies on the UK’s wealthiest farmers and biggest landowners at the expense of millions of poorest farmers in the developing world. The UK Government must lobby hard within the EU to agree an overhaul of the CAP to put an end to the vicious cycle of overproduction and dumping” [1].

The J30bn a year EU agricultural subsidy regime is one of the biggest iniquities facing farmers in Africa and other developing counties. They cannot export their products because they compete with the lower prices made possible by payments. In addition, European countries dump thousands of tons of subsidised exports in Africa every year so that local producers cannot even compete on a level playing field in their own land. Meanwhile, governments of developing countries come under intense pressure from the World Bank and the International Monetary Fund to scrap their own tariffs and subsidies as part of free trade rules.

World trade talks aimed at reaching agreement on subsidy reform have stalled because of the EU’s intransigence over its CAP. The CAP costs British taxpayers J3.9bn a year and also adds J16 a week - J832 a year - to the average family of four’s food bill. The J1.34bn a year EU sugar regime was ruled illegal by the World Trade Organisation last year and European countries were found guilty of dumping too much subsidised sugar in developing countries undercutting local farmers. But at the moment, proposed reform of the regime will only end up hurting the poorest African and Caribbean farmers who currently have special access to European markets and will be denied any compensation for the losses generated by the changes.

European farmers are guaranteed a price for their sugar three times higher than the world price and there are restrictions on foreign imports - backed up by import tariffs of 324%. Export subsidies, meanwhile, allow surplus EU sugar to be dumped at bargain prices in African countries. Mozambique loses more than J70m a year - equivalent to its entire national budget for agriculture and rural development - because of the trade distortions and South Africa also loses J31m a year. While chicken producers in Europe do not receive direct payments, the grain that feeds the birds is subsidised, substantially reducing the cost of farming.

Kenya, Nigeria and Senegal have been hit by cheap, subsidised imports from Europe while the J30 paid to British farmers for every tonne of wheat they produce inflates the price of breakfast cereals, bread and other goods in Britain. Thousands of tonnes of surplus powdered milk from the EU are dumped in West African countries such as Mali at a cheaper price than local cattle owners can sell at, holding economic growth back. The dairy subsidies have driven farmers in India and Jamaica out of business. Our preference for chicken breasts and legs means that thighs and wings are often frozen and exported to Africa where they are sold for rock-bottom prices. Chicken farmers in Senegal and Ghana used to supply most of the country’s demand - now their market share has shrunk to 11% because subsidised imports are 50% cheaper.

Some argue that nations have an interest in assuring there is sufficient domestic production capability to meet domestic needs in the event of a global supply disruption. Significant dependence on foreign food producers makes a country strategically
vulnerable in the event of war, blockade or embargo. Maintaining adequate domestic capability allows for food self-sufficiency that lessens the risk of supply shocks due to geopolitical events. Agricultural policies may be used to support domestic producers as they gain domestic and international market share. This may be a short term way of encouraging an industry until it is large enough to thrive without aid. Or it may be an ongoing subsidy designed to allow a product to compete with or undercut foreign competition. This may produce a net gain for a government despite the cost of interventions because it allows a country to build up an export industry or reduce imports.

The idea that the European Union should speak with one voice in world affairs is as old as the European integration process itself. But the Union has made less progress in forging a common foreign and security policy over the years than in creating a single market and a single currency. When the EU enlarged in May 2004 and January 2007, the number of farmers in the EU increased first by 55%, and then by a further 53%. Farmers and food processors in the new member countries face particular challenges when competing with agriculture in the rest of the EU and received funding to modernise even prior to enlargement [6]. A special funding package tailored specifically to the needs of these farmers has provided help for early retirement, less favoured areas, environmental protection, a forestation, semi-subsistence farms, producer groups and compliance with EU food, hygiene and animal welfare standards. Some CAP rules are being phased in gradually to allow time for adjustment.

Many economists believe that the CAP is unsustainable in an enlarged EU. The inclusion of additional countries has obliged the EU to take measure to limit CAP expenditure. Poland is the largest new member and has two million smallhold farmers. It is significantly larger than any of the other new members, but taken together the new states represent a significant increase in recipients under the CAP. Even before expansion, the CAP consumed a very large proportion of the EU’s budget, upward of 90% in the late 1980s. Considering that a small proportion of the population and relatively small proportion of the GDP comes from farms, many considered this expense excessive.

Taking into account trade between Poland, the EU member states and the members of EFTA apart from Switzerland (collectively constituting the European Economic Area/EEA) is free and not subject to any duties. In trade with countries from outside the EEA, Poland uses the common EU tariffs. Accession to the EU in 2004 has resulted in general lowering of trade tariffs and duties, but this did not apply to all types of commodities. The accession of Poland to the EU did not have a big impact on the non-EU trade in agricultural products. The number of duties which noted an increase has roughly equaled the decreasing ones (in both cases 37% of import duties), and about 27% remained at their original level. The most notable decreases were noted in the import of e.g. tobacco, wine, spirits, dried fruit, peanuts, honey, juices, spices; the increases related to certain types of fruit (bananas, lemons, grapes, watermelons, apples and pears), as well as milk, butter, cheese and rice.

The decrease in tariffs varies depending on the country group. For example: with regard to highly developed countries which enjoyed the most favoured nation status (MFN) in Poland before 2004 (e.g. the United States, Australia or Japan) the average tariff value was at 5.2%. After the accession, it decreased to around 2.6%. With regard to many countries, the EU (which includes Poland) extends preferential trade tariffs [2]. On the other hand, the European Commission can, in case of dumping or illegal trade subsidies, place restrictions – both of tariff (like anti-dumping duties) and non-tariff (import quotas from any given country) character. Examples of commodities subject to restrictions: textiles and clothing (from China, Belarus, Montenegro, North Korea).

3. Perspective strategy outline for Ukraine.

Although not candidates to join the European Union, Ukraine, Moldova and the republics of the Caucasus and central Asia, are building individual relationships with the EU. These are based on a series of partnership and cooperation agreements on agricultural trade. To make sure that its eastward enlargement did not create new dividing lines between the Union and its direct neighbours to the east and south, it created its European Neighbourhood Policy (ENP) in 2004. This includes all the Mediterranean and east European countries plus the Caucasus, but not Russia. The ENP seeks to create privileged economic and political relationships between the Union and each neighbouring country. Technical assistance will be handled by a new fund known as the European Neighbourhood and Partnership Instrument. It will replace earlier separate sources of funding. The new fund will provide a total of 12 billion euros in the 2007-2013 period – a rise of 32% in real terms over. Ukraine is treated as near neighbour by the European Union. The aim here is to create a Euro-Ukrainian free-trade area by 2008 [8]. This would include the EU-27 states and Ukraine, and positively influence on the country’s AIC.

Prospects for the improving of agricultural sec-
tor of Ukraine and cooperating with the EU will largely be determined by the governments’ willingness to adopt a number of basic policy measures, aimed at: relaxation of flexible bureaucratic procedures inherited from the command-administrative regime; introduction of hard budget constraints of agrocompanies (to be implemented in conjunction with a comprehensive program of old debt restructuring and a tangible threat of bankruptcy proceedings for companies that default on new debt); developments of competitive factor markets; liberalisation of external trade; effective restructuring of agroenterprises; development of alternative employment opportunities in rural areas to allow shedding of agricultural labour as a prequisite for productivity improvement; speedy resolution of the impasse in the maintenance and development of rural social infrastructure, through allocation of necessary budgets to local governments.

According to the model of agripolicy of Ukraine it is necessary to attract direct foreign investment into agricultural sector and grant long-term preferential credits for traders to improve agricultural production and export of Ukraine. It will influence on the total agricultural supply, quality and domestic consumption – three main factors that make impact on forming of agricultural goods delivery. It is proved that for optimization effective agripolicy it is worth returning VAT to exporters in time, improving customs-tariff regulation to protect agricultural business in Ukraine. The model of agripolicy stipulates creating mechanisms of financing the new sales markets of agricultural product, certification of its quality and advertisement of agitrading companies.

Finally, agrocompanies restructuring in Ukraine must proceed on a wider scale, with genuine enterprise privatization and improvement in corporate governance. The management of large agrocompanies has changed little, with some rewards for efficient use of capital and higher labour productivity. Furthermore, the governments must develop effective strategies to remove the debt burden as part of the process of agrocompanies restructuring, and introduction of hard budget constraints for the future.

Hence, the continuation of agroenterprises and agro-processing privatization, improvement of corporate governance, and facilitation of private investment and credit to agitrading companies and agroprocessors should be the main components of the policy framework for improving agriculture of Ukraine. It will create a supportive policy and an institutional environment for market reforms in the rural economy, and strengthen ability of Ukraine to achieve positive results as a prerequisite for real restructuring of agricultural sector.


Comparative analysis of European and other countries suggests that genuine macro-economic and political reforms, combined with overall economic recovery, are the driving forces for reform and economy recovery in the agricultural sector. Countries in the advanced stages of overall economic reforms, with healthy GDP growth, also show respectable agricultural performance. General economic recovery is closely correlated with market-oriented policy and institutional reforms.

The executive body for the policy scheme of Ukraine must have a clear legal mandate, with well defined responsibilities and control mechanisms. All proposed policy schemes must have an explicit legal base and the financial instruments must be legally secured. Normally, a whole set of legislative acts and implementation resolutions should be developed and approved. The efficiency of agricultural policy of Ukraine in the world market is determined through the ratio of export price of agricultural goods and getting profit from export activity.

References

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