

THE COMMON AGRICULTURAL POLICY, ITS ROLE IN EUROPEAN INTEGRATION AND INFLUENCE ON THE ENLARGEMENTS OF THE ORGANIZATION (CASE STUDY: GEORGIA)

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Abstract: The article deals with the problematic of the Common Agricultural Policy (CAP) as the crucial political question related with the European Integration. The authors describes and analysis the role of the CAP within the EU policies, its development form the very beginning of the integration its internal structure, rules of organisation, working system and financial aspects. The close concern is given to the question of the long-term sustainability of CAP and the reform for the next financial period (2014-2020). The special part is devoted to the influence of the CAP on the enlargement process with the special impetus to the association of Georgia to the EU.

Keywords: European Union, Common Agricultural Policy, reform, enlargement, association, Georgia

1 Introduction

The Common Agricultural Policy was not included in the first community, European Coal and Steel Community, but already in the second major treaty founding the European Economic Community (ECC), there were already included different provisions for the further development of Common Agricultural Policy (CAP) on European level. The impact of this policy was so important

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that even its development was marked by a huge controversy between the member states, bringing newborn EEC to crisis. But with insistence of de Gaulle and France in particular, the policy was finally developed and since then, being the most influential policy inside the European communities.

The CAP is important because of its big share in the common budget of the European Union (EU), representing almost half of the current budget of the EU. At the beginning, its share in the common budget was bigger, sometimes reaching 80% of it, but year after year the importance of this policy in terms of budget has decreased. Even though, the amount money spend in the policy has not decreased and has even increased, however the common budget of the EU has increased in a faster. Nevertheless, in budgetary terms CAP is still the most important policy of the EU, having a bigger budget share than any other policy of the union.

The CAP is also important in social terms for the population of European rural areas, as there is lack of economic activities besides agriculture in these regions, therefore making local population depending on the agriculture. In open market conditions, most of the European farmers would probably not be able to compete with farmers from other parts of the world and therefore without a real economic alternative in the rural world, most of these people would have found themselves jobless. It would thus lead these people to migrate from to the cities for finding a job. Thus, the CAP plays a very important role for the social peace of the EU, keeping the rural population in the rural environment preventing an important social chaos of huge migration from the countryside to the cities.

Following the previous path, the CAP also plays important role in cultural and environmental terms by keeping the rural areas populated. Culturally most of the European traditions and cultural differences are kept in the rural areas, heaven of various folk traditions. Therefore, the CAP plays a fundamental role in order to keep the cultural inheritance of Europe and its cultural diversity, one of the pillars of European achievements.

The CAP is affecting the development of the external policy of the EU as well, as many of EU's partners are seeking free access to the European market in order to open their domestic markets to the European industries, mainly in the service sector. Thus, CAP leads to a confrontation between the EU and many of its partners. Finally the CAP plays an important role in the enlargements of the organization, because of its financial cost for the Union and for the economic, social and cultural benefits for the new members of the organization.

2 The Common Agricultural Policy of the European Union

The Common Agricultural Policy is the most important policy of the European Union in terms of budget, because for long periods of time most of the EU

budget was expended in this policy. Currently the CAP receives nearly half of the EU budget. So, the money spent in this policy is huge in European Union terms.²

After the Second World War, there was a lack of almost all the essential primary goods in Europe, and the threat of a great famine was real. The economic situation of Europe was precarious and it needed an important effort in order to restore farm production to supply the European population.³

Shortly after the war, there was another important fact that influenced the production of food: the independence of European colonies all over the world. These countries were mainly agricultural suppliers for the European metropolis because their production was much cheaper than in Europe and it became their main economic activity. Independence meant instability in the supply and growth in prices. The governments of European states handled the situation in different ways, but generally they opted for protecting their farmers with subsidies to have a secure, stable, and independent supply of food for securing the living of their citizens.

Some European countries still had an important national sector related to agriculture in which many citizens were working. Importing food from other states such as Argentina, South Africa, or Australia would have solved the problem of the shortage of food in the short term, but it could have also generated other problems. The European farmers needed more money to produce, so they could not compete in a free market with these producers. Importing cheap food would have meant the end of the European farmers, as they could not compete in a free market, with all its social consequences.

Europe was greatly damaged after the war, and there was a problem with housing in the cities even for the urban population. If people from the countryside had to end their economic activity because they could not stand the competition of the international farming producers, they would have moved to the cities to find a new living. The cities were already handling housing problems even for the urban population, so these farmers would have problems finding adequate living conditions, with the consequent social problems. It basically meant the possibility of having many people in cities without the essential living conditions. At the end of the war, and in the following years, there was a competition between two political systems, communism and capitalism, and some important European states, as France and Italy, had an important communist presence in their national politics. Social unrest provoked by the massive movement of farmers from the countryside to the cities could have meant the rise of communist influence in these countries. To secure the states from any internal communist threat, it was important to protect the national farmers. So, the pro-

2 Garzon, I. (2007) *Reforming the Common Agricultural Policy: History of a Paradigm Change. Palgrave Studies in European Union Politics*, p. 43

3 Simms, B. (2013) *Europe: The Struggle for Supremacy, from 1453 to the Present*. United Kingdom: Basic Books, p. 381

tection of the farmers became a necessity for avoiding revolutionary movements inside the European states.⁴

National cultural traditions and the role of the countryside were also important for retaining national identity. The cities then and even now are more homogenous than the countryside, and normally there is an urban society that looks beyond the cultural traditions for more modern cultural activities. As the rural areas are more traditional, they keep the cultural heritage in a more conservative way, keeping the folklore untouched for a long period of time, keeping the roots of the European nations versus the modernization of the cities. As the national state was the main political vehicle in Europe at that time, it was important to keep the source, the traditions, in order to unify the community of citizens and maintain their loyalty to their national state.

Because of these reasons most of the European States decided to subsidize their farmers, creating close national markets paid for by the taxes of their citizens, and blocked their national markets from external producers. This policy protected the national farmers but had some negative effects in provoking a distortion in prices and production because free competition meant importing cheaper products and hence cheaper prices for consumers, plus production adapted to demand.

This system was widely accepted in continental Europe and was important especially in France, because of the huge amounts of the economic subsidies, the number of small and middle farmers operating in the country, and the economic crisis after the war that made it impossible for the French government to afford these expensive subsidies. The French politicians thought of the European Communities as a way to make viable the protection of the French farmers. Also, as a consequence of national protection, French agricultural production increased while the French national market could not absorb the whole production, creating a difficult to manage costly overproduction.⁵ Creating a European market for agricultural products instead of close national markets could give access to other markets for French farmers to sell the overproduction not absorbed by the French national market. The economic support of the European Communities in the field of subsidies could also solve the financial problem of the French state. The best way to solve the French problems related to its agricultural sector was integrating this policy into the European Communities. Hence, the French politicians, using the predominant role of France at the beginning of the European Communities, lobbied for the inclusion of this policy in the European integra-

4 Ramiro Troitino, D. (2013) *European Integration: Building Europe*. New York: Nova Publisher, p. 62

5 Ramiro Troitino, D. (2008) *De Gaulle and the European Communities*. Kirch, A., Kerikmäe, T, Talts, M. (ed) *Socio-economic and institutional environment: harmonisation in the EU countries of Baltic Sea Rim: a collection of research articles dedicated to the 10th Anniversary of the Institute for European Studies good*, pp. 139-152

tion, and the CAP was included in the Treaty of Rome, becoming the center of the European Economic Community budget.

At the beginning of the process, the rest of the partners of the European Communities were reluctant to develop the CAP because of its financial cost, but the pressure of the French government led to the conference of Stressa in 1958, and a long process until the CAP started working.⁶

3 The Stressa Conference

The six members of the EEC met from 3 to 12 July in Italy to discuss the introduction of the CAP with Walter Hallstein, president of the European Commission, and Sicco Mansholt, Commissioner with special responsibility for agriculture, and the real architect of the Common Agricultural Policy. They decided to focus the CAP on two main points: a common market for agricultural production and different market organizations for different products to protect the farming industry.

3.1 Common Market with common borders

The integration of the agricultural markets of the members of the EEC meant the unification of their national markets into a single market on the European level substituting for the previous national markets. In order to achieve a common market it was needed to abolish all the internal barriers to the free movement of goods and all the obstacles to the trade of agricultural products inside the organization.

At the same time, the external borders had to be harmonized to have a common border because once the external products reached any member state, they could move freely in the whole European market without restrictions. The main discussion about the common borders was the level of protection needed to make the European producers competitive. So, a high level of protection was decided on, with high taxes, quantity restrictions, and temporal restrictions.

The taxes were focused on prices, forcing international producers to pay high taxes for accessing the European market. It made its products more expensive than the Europeans', artificially increasing the competitiveness of the European farmers in the European market. Quantity restrictions were important for restricting access of international production to the European market. It decreased the offer of farming products and consequently increased the prices paid by the final consumers, the European citizens. The quantity restrictions were calculated according to European production.

⁶ Treat of Rome, 25 March 1957. Available http://ec.europa.eu/economy_finance/emu_history/documents/treaties/rometreaty2.pdf (Accessed 10.05.2013)

Another important tool was the temporal restrictions. Agricultural production is seasonal, and the readiness to harvest is decisively influenced by weather conditions. Other parts of the world, with different weather conditions, have their harvest ready earlier than in Europe, and it gives them a privileged position in the market because they are the first to reach it, so they have dominance over the market and could saturate the offer before the European farmers could even reach the market. The temporal restrictions wanted to avoid this dominance by forbidding the import of these kinds of products until the European production was completed and already in the market, giving the benefit of reaching the market first to the European farmers.

The creation of common borders and common rules meant the common management of them, the European management of the European market, and the institution to deal with it had to be common and hence European Commission was chosen. This policy gave a lot of power to this European institution, but under the close supervision of the European states. This control explains the traditional composition of the DG of the European Commission in charge of agriculture, where traditionally most of the workers and the Commissar in charge are French.⁷

3.2 Market organizations

The complexity of agricultural production made difficult the creation of common rules on the European level because of different weather conditions, different types of production, and different importance of farm products. The solution was the creation of market organizations for different kind of products. Each market organization included different products with common rules and common protection different from the other market organizations that included different production. In practical matters it meant that the CAP was divided in different independent chapters, with different levels of protection, and it explains why continental production, at that time mainly focused in France, still gets higher benefits than other kinds of productions, such as that of the Mediterranean.

The main protection in the market organizations is the guaranty of a fair price for the production of farmers that can allow them a living in good conditions in the countryside through their agricultural activity.⁸

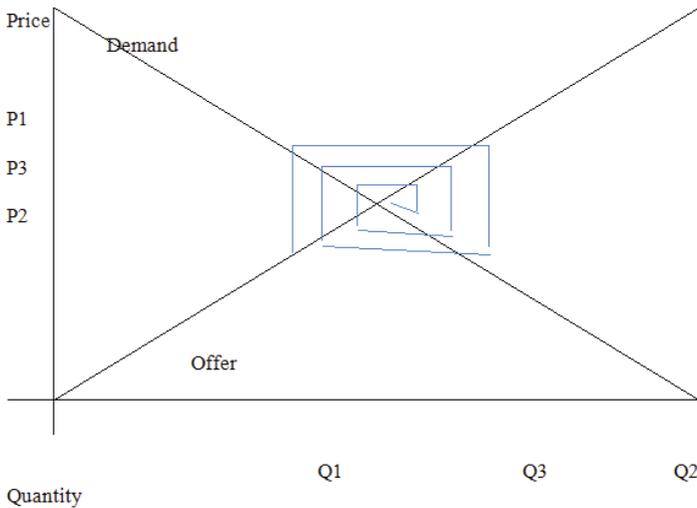
4 Working system of the CAP

The situation of a perfect market that is open to all economic actors, where the economic agents have access to the information of the demand and the offer,

7 Schmitt, H. A. (1981) *The Path to European Union: From the Marshall Plan to the Common Market*. Westport: Greenwood Publishing Group, p.153

8 *Europedia*. The common market organisations of the CAP. Available http://europedia.moussis.eu/books/Book_2/6/21/04/?all=1 (Accessed 10.05.2013)

and is not dominated by a single company or group under monopoly rule, leads us to an equilibrium point where the demand coincides with the offer, and prices and quantities are the consequence of this equilibrium. It means that the economic agents included in the offer will produce a specific quantity for a specific price, and the demand will consume a specific quantity for a specific price. So, if we increase the price, the suppliers will produce a bigger quantity, but at the same time the demand, with higher prices, will consume less. That means a distortion between the demand and the offer. The offer will sell the production that has not been consumed by the demand at lower prices. Once the over production is sold out at this lower price, the offer will reduce the quantity of their production because they will lose money producing so much at a reduced price. Then, with less quantity in the market, the demand will pay more for it, increasing prices. That means that with higher prices the offer will produce more, and again prices will drop. In the conditions of a perfect market this operation will continue until the wishes of the demand and the offer meet and prices and quantities will be stable at an equilibrium point.



Spider's web patterns

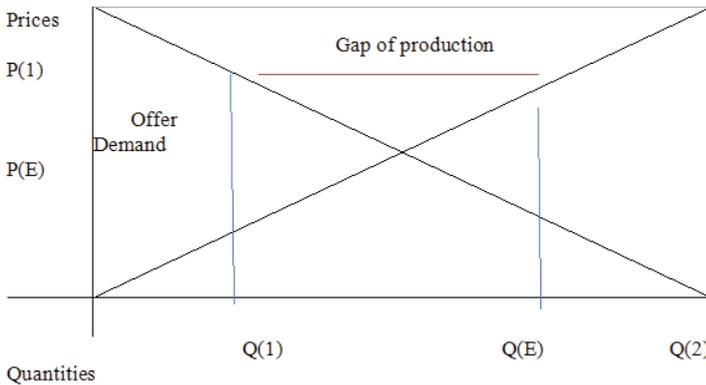
The CAP works in altering the natural equilibrium between the offer and the demand, creating an artificial price and interfering in the normal relations between producers and consumers.

As we have seen, the offer and the demand will have a common point where they will meet their wishes in terms of prices. The demand of the consumers

decreases with the quantity at some point because they are not able to consume an unlimited quantity. For example, we can eat 20 strawberries, and if the prices go down, we can eat 25, but if the prices goes down further we will not be able to eat 200 strawberries. Also there is a limit to the quantity produced because of technology and of the capacity of land to produce agricultural goods.

The CAP paid each year a guaranteed price (P_1) higher than the equilibrium price (P_E) for the produce because at this equilibrium price the farmers could not earn enough money and they would stop their farming activity. It meant that with this price (P_1), the consumers bought a certain quantity (Q_1), but the farmers produced a higher quantity (Q_2). Normally the producers have to decrease the prices in order to sell their overproduction, but as the agricultural market in Europe had an artificial higher price sustained by the European Union, this natural correction did not happen.

The producers sold at the price of (P_1), and produced (Q_2); the consumers bought at this price the quantity of (Q_1), and the difference between the quantity produced (Q_2) and the quantity consume (Q_1) could not be absorbed by the market, and hence had to be bought by the European Union.



Working system of the CAP

This system had the positive effect of keeping artificially high prices for agricultural production, increasing it, and providing a high and constant income for European farmers, solving the problems discussed before,⁹ but it also had some negative consequences as:

1. Budget. This policy was very expensive; most of the money of the European Union went to the CAP in order to keep the high prices in the market. The protection of European farmers was done at a huge financial cost. It also generated tensions between the institutions about the control of these funds, especially

9 Knudsen, A. L. (2009) *Farmers on Welfare: The Making of Europe's Common Agricultural Policy*. Ithaca: Cornell University Press, p. 172

between the Council and the Parliament. The main institution controlling these funds was the Council, where the member states are represented, because this policy was very important for their internal situation and they wanted to keep it under their control. On the other hand, the European Parliament argued that this was a Communitarian policy, so it had to be under the control of the institution that represents the common interest of Europeans, the European Parliament.¹⁰

2. It generated tensions inside the European institutions, especially inside the European Parliament, where the members of the Parliament often voted according to their nationality instead of their political ideology. The examples are numerous, such as French members of the Parliament, communist, socialist, center, or conservative, voting together against any reform of the CAP because the main beneficiary of these funds is France. The problem here was that the European Parliament represents the interest of the whole community, of all Europeans, but in the case of the CAP, it changed its role becoming a Parliament divided according to the nationality of its members.

3. Consumers had to pay a higher price for agricultural products than in normal conditions. In a free market they will pay PE, but under the European circumstances there were paying P1. So it meant that consumers were supporting farmers each time they bought any agricultural product.

4. Overproduction: The system generated an overproduction that the market could not absorb, and each time this overproduction was bigger because new technologies made it possible to produce more with a cheaper or even price. As the guaranty price was fixed and the production grew, the expenditure grew equally, increasing the financial cost of the CAP. Another fact that increased the financial cost was the necessity to storage the production bought by the European Union.

5. Distortion of the international market: The EU bought the difference between what was produced and what was consumed in the market, but could not store it for long because agricultural production has a limited period of life for consuming. There is a point at which the production is out of date and cannot be consumed with security, and then has to become waste. Before this point was reached, the European Union needed to sell it, but the European market could not absorb it, and the international market had lower prices. The EU needed to sell the agricultural production under the international price in order to lose less money. As an example, the European Union buys wheat at a price of 8 euros, and needs to keep it at a cost of 1 euro; it means a cost of 9 euros. The international price of wheat is 7 euros, and the EU needs to sell its overproduction at a price of 6 euros, losing 3 euros. If the EU would not sell its wheat, it will lose 9 euros. This

¹⁰ Ramiro Troitino, D. (2013) *European Integration: Building Europe*. New York: Nova Publisher, p. 121

action saved money to Europe but made a distortion in the international market forcing the international producers to reduce their prices with the consequent decrease in their profit. If we add the fact that the USA had a similar system, the international agricultural market had artificially low prices. At the same time that the EU closed its market to international producers, it decreased the price in the international market with the consequent discontent of the countries which produced agricultural goods. The EU tried to reach the markets of these states in financial services and high tech in an open competition, but at the same time closed the European market for the production of these same countries. It created problems because these states wanted to have access to the EU market as a compensation to opening their own markets to EU companies. Currently the system has been reformed, and also there are higher prices in the international market because of the growing demand of China and India, reducing this problem. But in case of a drop in price in the international market, the problem will rise again.

6. Anglo-Saxon model: Some members of the European Union opted for a different model, importing cheap agricultural products instead of protecting their own farmers. The UK, because of historical reasons, imported most of its food from the countries of the British Commonwealth, previous members of the British Empire, as Canada, Australia, or South Africa. It meant that there were fewer farmers in the UK, so less money of the CAP went to this country. At the same time, the UK paid more money to the EU via VAT because its imports were higher, so there was a distortion between the money the UK paid and the money it received from Europe. The problem was partially solved with the British Rebate¹¹ where the UK got a reduction in their net contribution to the EU, but is currently creating tensions between the EU and the UK because the situation has changed. The British have developed their own agricultural sector under the umbrella of the CAP, and the distortion between what they pay and what they get is smaller, and at the same time the importance of the CAP in the general budget of the EU is gradually decreasing. It means that the UK gets money from the EU via other policies, decreasing the distortion mentioned above.

7. Another important problem is that the CAP originally was created to protect farmers, but it was very difficult to define what a farmer was. If the EU just took into consideration the production, whoever owned land and produced was a farmer, so big landowners were considered farmers. As an example, one of the main landowners of the UK is the British Monarchy, currently represented by Queen Elizabeth II. The Queen receives substantial quantities of money from the CAP when obviously she is not a farmer. This situation is similar in other countries of Europe, as in Spain, where the house of Alba, a noble family that owns large amounts of land, also gets important funds from the CAP. The problem also

11 Ramiro Troitino, D. (2009) Margaret Thatcher and the EU. *Proceedings of the Institute for European Studies*, No 6. pp. 124-150

expands to the part time producers of agricultural products. These are people who have another job as their main activity but at the same time own land and produce, and hence get paid by the CAP, as we can see in the case of Denmark. Here the problem is to define the concept of farmer and who can get support from the CAP. The EU wants to implement a modulation in the payments to farmers, where the amount of money paid decreases as the quantity increases, hence protecting mainly small and mid-sized farmers. But it will damage the big agricultural companies that own big extensions of land. So more thoughts about this problem are needed and the current reform is still addressing this problem.

8. Environmental damage: The system encouraged increasing production and had negative consequences on the environment because more land was used even when the productivity of it was low, and the existing land also wanted to have bigger production. It created the necessity of increasing the productivity of the land, aggregating the use of chemicals, and higher necessities for water, resulting in a negative effect on the European environment. It also was a contradiction, because the European Union was funding the protection of the environment and included this target in other policies, but at the same time the CAP encouraged overproduction and damaged the European environment.¹²

9. Corruption: As the CAP was the main policy of the EU in monetary terms and its size was big, it was difficult to control, and fraud was bigger than in other policies. As a consequence some part of the money spent in the CAP was wasted. There are many examples, such as the fraud committed by some Italian producers with olive production. The market organization of olives is organized in a way that farmers get paid by each olive tree they have, not by the production. As it is very difficult to count these trees, the European Commission took pictures of the fields from airplanes, and later counted these trees from the pictures. They discovered that some Italians had olive trees made of cardboard that from the air looked like real trees. These farmers got payments for these fake trees. But this is just one example, and the corruption here is not a matter of just one country because it is possible to find similar examples all over Europe.

5 Solutions

The situation of the CAP is not sustainable in the long term, so it needs to be reformed, and the European Commission is working on that. The main reform is concerned with the guaranty price paid by the EU, or direct payment. If the protection of the EU is not linked to prices, farmers will decrease their production, decreasing the negative effects of the working system of the CAP. But if the EU wants to protect its farmers, it needs to subsidize them in a different way. There many proposals here, some of them already working, as payments linked to rural development, or using agricultural land for forest, with farmers reducing

12 Carlarne, C. P. (2010) *Climate Change Law and Policy: EU and US Approaches*. Oxford: Oxford University Press, p. 177

the amount of land cultivated and getting paid for it. It mainly means that farmers will get paid just for being farmers, no matter how much they produce, how much they work. It is a strange solution, because it pays money for just being a farmer, but on the other hand, farmers are farmers because it's their job, and they want to work, and produce, not just sit at home and get a payment. So, in the long term, more ideas are needed in order to reform the current system of the CAP to reduce its negative effects and at the same time protect European farmers.

The European Union has introduced some important changes for the CAP that will start working in the period 2014-2020 in order to reform this policy and avoid some of the problems already mentioned:

- There will be a cap to the money received by each agricultural holding of 300,000 euro. To calculate this cap or "capping", the EU executive proposes that wages be deducted from employees reported in the previous year as well as taxes and Social Security contributions. The member state will recover this money and invest it in innovation and research, as the Commissioner for Agriculture, Dacian Ciolos,¹³ has explained. This measure will affect mainly the big landowners in order to focus more intensively on the real target of this policy, the European farmers.
- The reform maintains the two pillars of the CAP, for agriculture and livestock, and rural development. The first is financed by Community funds and includes an important reform linked to the historical rights, abolishing them gradually. The historical standards were included in the CAP to protect the farmers of Western Europe from the negative consequences of the enlargement to Central and Eastern Europe. This reform will be negative for countries like Spain and France, because in 2019 it establishes a uniform payment per hectare across the European Union. As the European Union was growing, and more agricultural states joined the organization, the historical standards were included to maintain the level of incomes of farmers from the older member states. It meant that the farmers of states that are already members of the European Union were getting more money than the farmers of new member states, breaking the principle of solidarity in the European Union. This situation will be finished in 2019, and will be a more fair system to the rest of the member states. Moreover, farmers will be rewarded with an additional payment to those who make environmental efforts, including monetary payments. It is expected to lead to a more sustainable agricultural system because it could act as an extra motivation for European farmers to go ahead with actions as reduction of greenhouse gases or more efficiency

¹³ European Commission. Member of the European Commission. Available http://ec.europa.eu/commission_2010-2014/ciolos/ (Accessed 21.04.2013)

in the use of energy. The new targets of the CAP are the creation of jobs, food security, and promoting the use of renewable energy.¹⁴

- The second pillar, rural development, is co-financed by member states or regions. The reform will almost equalize the scheme, but introduces new priorities related to aid. It will include actions improving competitiveness, promoting and organizing food chain risks, conservation and enhancement of ecosystems, and the promotion of resource efficiency.
- The different market organizations that have different payments for different productions, protecting the continental production more; the distinctiveness of French production will disappear in the next reform of the CAP, providing French farmers a flat payment for most products, thus equalizing them and the other European farmers, without special protection to French farmers or to any kind of production.

The new CAP intends to keep the traditional ratios for most co-payments, but may increase them if the farmers bet on innovation, cooperation, the creation of producer groups, or small grants to young farmers.

Another reform, based on the report of the Agriculture Committee of the Parliament, has also called for spending cuts in bureaucratic and administrative expenditures linked to agricultural policies in member states, because an important amount of money did not reach the final target, the farmers. Now the states should reduce these bureaucratic expenditures to make the system more efficient. The reform includes measures to fight against price volatility in agricultural products; the new reform proposes a global system of notification of agricultural reserves and a special budget item in case of crisis.¹⁵

About the new budget, the CAP receives most of its funds from EU coffers, accounting for more than 40% of the EU budget. In 2012 this represented an expenditure of 57 billion euro. It will keep to similar levels in the next years. The budget of the future Common Agricultural Policy (CAP) reserves 3,500 million euro to deal with crises like the one of the summer 2011 of cucumbers affected by the outbreak of *E. coli*. This is an important new tool of the CAP and will be used in case of a crisis affecting a particular agricultural sector when the trust of consumers is lost with consequent economic harm for producers.¹⁶

14 European Commission (1997) Energy for the Future: Renewable Sources of Energy. Available http://europa.eu/documents/comm/white_papers/pdf/com97_599_en.pdf (Accessed 13.05.2013)

15 European Commission. Agriculture and Rural Development. Available <http://ec.europa.eu/agriculture/cap-post-2013/> (Accessed 14.05.2013)

16 European Commission. Member of the European Commission. Available http://ec.europa.eu/commission_2010-2014/ciolos/headlines/news/2011/06/20110630_en.htm (Accessed 11.05.2013)

The EU budget 2011 – The figures (CA: commitment appropriations – PA: payments appropriations):

| Heading | Billion € | | % of total budget | % change from 2010 | |
|---|--------------|--------------|-------------------|--------------------|-------|
| | CA | PA | | CA | PA |
| 1. Sustainable Growth | 64.5 | 53.3 | 45.5 | +0.4 | +11.7 |
| 1a. Competitiveness for growth and employment | 13.5 | 11.6 | 9.5 | -9.0 | +2.5 |
| 1b. Cohesion for growth and employment | 51.0 | 41.7 | 36.0 | +3.2 | +14.5 |
| 2. Preservation and management of natural resources | 58.7 | 56.4 | 41.3 | -1.4 | -3.0 |
| of which Direct aids & market related expenditure | 42.9 | 42.8 | 30.2 | -2.1 | -2.1 |
| of which Rural development, environment & fisheries | 15.7 | 13.5 | 11.1 | +0.7 | -5.6 |
| 3. Citizenship, freedom, security and justice | 1.8 | 1.5 | 1.3 | +8.0 | +3.4 |
| 3a. Freedom, security and justice | 1.1 | 0.8 | 0.8 | +13.2 | +10.1 |
| 3b. Citizenship | 0.7 | 0.6 | 0.5 | +0.3 | -3.9 |
| 4. EU as a global player | 8.8 | 7.2 | 6.2 | +7.5 | -7.1 |
| 5. Administration | 8.2 | 8.2 | 5.7 | +3.4 | +3.3 |
| of which for the Commission | 3.3 | 3.3 | 2.3 | -8.2 | -8.3 |
| Total | 141.9 | 126.5 | 100 | | |
| In % of EU-27 GNI | 1.13 | 1.01 | | | |

Source: *European Commission*¹⁷

Professional associations have complained bitterly about the reform because it does not count the productivity of the land for payments, being based only on hectares. The system will not be fair to many farmers according to ASAJA¹⁸ because the only important fact will be having land, not the way it is used, or the benefits for the society in terms of production. The more land you have, even when it is not productive at all, the more money will you get from the CAP, without any link to the operational system, or the quality of farming, or the quality of a good job from a good farmer. It also creates a problem with innovation and investments in the farming sector because there is not real benefit in producing either more or less. The areas that already had invested more money in their development are the ones that will suffer more with this reform, again France and Spain, and the main beneficiaries will be Central and Eastern member states, because of the extension of land there and the lower investment ratio. So, as we see, the reform will be positive for some member states and negative for others. Other complaints are related to milk and livestock because the payments for these products have been abolished, with consequent economic harm for the

17 European Commission. Financial Programming and Budget. Available http://ec.europa.eu/budget/figures/2011/2011_en.cfm (Accessed 07.05.2013)

18 ASAJA. Castilla y Leon. Available <http://www.asajacyl.com/> (Accessed 07.05.2013)

breeders. This is similar to another controversial decision, the end of payments to sugar producers, a clear sign for the international market with many benefits for European consumers also, but with unpredictable consequences for European producers.

6 The influence of the Common Agricultural Policy in the enlargements of the organization

The CAP has been a central point in the negotiations for further enlargements of the European Communities and the European Union. The first enlargement of the Community was United Kingdom, Denmark and Ireland and the CAP was crucial in the negotiations and in the further behavior of these countries inside the Union. First of all the enlargement could not be a reality until the CAP was already approved and was working inside the Community. The reason of the French government, that rejected twice the British application, was the fear of UK influencing the development of the policy during the preliminary discussion, as the British farming sector was very different than the French. Once the policy was working the enlargement was accepted because the British did not have any other option than accepting the whole European policies, including the CAP or withdraw their application for joining the Community. So it can be said without any doubt that the CAP was the main reason for keeping UK out of the European Communities.¹⁹

The following enlargement of the European organization was Greece, and the CAP did not play a major role as the Greek farming sector was Mediterranean, and hence its competition with the other member states was small as they most spread agriculture was the continental production. Southern parts of Italy and France had their own Mediterranean production but the Greek production was not so high and hence there was enough market for all their products. But the CAP played a major role in the crisis generated by the Greek leader, Andreas Papandreu. When he took office he complained about the unbalance situation of the Greek economy in the organization because the industrial production mainly came from other European states and the benefits for the Greek agriculture were small as the protection of the Mediterranean production was very reduced comparing with the Continental production. The situation was tense and could just be solved with the creation of a Mediterranean Fund. Then the internal organization of the CAP was a fundamental fact for the creation of the concept of internal cohesion between the member states of the European Union.

The enlargement to Spain and Portugal was much more problematic from the point of view of the CAP, as Spain was a big agricultural producer and its production was not just Mediterranean but also Continental and more competitive than other European states. It meant a problem in terms of market access in

¹⁹ Ramiro Troitino, D. (2013) *European Integration: Building Europe*. New York: Nova Publisher, p. 35

the field of the Mediterranean production, because the Continental production was completely out of the market rules as its production was protected by a minimum price from the Communities. The harvest in Spain was ready because of climate reasons before than the French harvest and hence the Spanish products could access the European market before with more competitive prices and cope the demand, with the subsequent loses for the French producers. At the same time the Spanish government was indirectly subsidizing exports with a reduction of taxes for those products exported to the external market. It meant that the Spanish had more quality, better prices and reached the market before the other Mediterranean producers inside the EU.²⁰

The CAP was the a very important chapter in the package of the negotiations between the European Communities and Spain, and the difficulty for reaching an agreement meant a big delay in the Spanish wish of joining the European organization soon. It took several years and the most complicate Treaty of accession ever to reach an agreement that still did not satisfied all the parts involved.

Soon after the enlargement was approved and the Spanish Mediterranean production was already enjoying the conditions of the European market, the French farmers blocked for several years the border between Spain and France in order to avoid the Spanish production reaching the market before the French production was in conditions to compete. It meant big economical loses for the Spanish farmers as long queues of tracks transporting farm products were stopped in the Pyreneans Mountains and logically the products were out of date.

This situation lasted for some years until the French state was forced to stop the blockade by the Communitarian authorities as it was a clear obstacle for the free movement of goods.

The CAP also influenced the enlargement to Sweden, Finland and Austria, as these countries had developed their own national protection for their farmers and their financial support was higher than the Communitarian. It forced the national authorities of these countries to downgrade their support in a gradual way, trying to avoid any collapse. Also the situation in the north of Sweden and Finland was an important issue in the negotiations for the enlargement, as the cattle production there, mainly focus on reindeer was not included in the CAP. Hence a special fund focus on less populated areas was created in order to protect the way of life of the people living in Lapland.

Finally the enlargement to Central and Eastern Europe was the most problematic for the European Union, as many countries joined the organization and their agricultural sector was important in continental production. As this kind of production gets most of the financial support of the CAP, there was not enough

20 Ramiro Troitino, D. (2004) *La visión de la prensa seminal española del la Comunidad Europea desde la muerte de Franco hasta el gobierno de Felipe Gonzalez.* Universidad de Salamanca. p. 321

money to subsidize all the farmers of Europe in the same level, and hence a reform was needed. There were mainly three options:

1. Downgrade the financial support for all the European farmers and share the money available between all. But it was not acceptable for the farmers of France, Germany and Spain, the main receivers of funds from the CAP.
2. Create different speeds of integration in different areas, keeping the new member states out of the CAP. But the new members did not accept it because it meant a discrimination against their farmers and the collapse of their farming sectors incapable of competing with the other European farmers.
3. Creation of a hybrid system with two different levels of protection for the European farmers. The system proposed was based on historical production, or historical rights, of the previous members of the Union. According to it, they would keep their living standards and the level of protection they enjoyed before the enlargement. The new members would have protection for their levels of production in the previous years before the enlargement.

Finally the third option was adopted, but with controversial issues related to the calculation of the levels of production. The new member states had a higher production during the communist times, and with the collapse of the communist regimes came also a significant drop in the agricultural production. The European Union selected the last period for the calculations against the will of the Central and Eastern Europeans to select the previous period. Nevertheless, the current system of historical rights is under reform and soon will be changed for a full integration of the CAP for all the European farmers, with the same rights and duties and no discrimination because of the nationality.²¹ The CAP would probably be an important issue in any further enlargement of the organization as it has been in the past, but its importance will decrease as the CAP is currently under reform in order to reduce its financial cost and open the European market to the world farm producers.

7 Georgia's agricultural sector

Despite change of the government in October 2013, Georgia has a strong European orientation and the ultimate goal has continuously been identified as joining the European Union. Therefore, if Georgia one day is set to join the EU, its agro-sector will have an important role in the negotiations. As mentioned above Common Agricultural Policy has always been one of the central points

21 Ruano, L. (2003) The Common Agricultural Policy and the European Union's Enlargement to Eastern and Central Europe: A Comparison with the Spanish Case. European University Institute Working Papers. Available http://www.eui.eu/RSCAS/WP-Texts/03_03.pdf (Accessed 14.05.2013)

in the accession negotiation process and certainly expected to be an important discussion topic in Georgia's possible pre-accession negotiations.

When it comes to Georgia, agriculture has traditionally been very important for country's economy and it was central reasons for the country to be one of the richest in the Soviet Union. Georgia produced main part of several agricultural products in the Soviet Union, providing 98% of citrus fruits consumed by the USSR, 90% of tea, 60% of wine, big part of fruits and vegetables, etc. Country's economy was typical colonial economy having production directed only to Soviet Union market. That is also one of the reasons why country suffered so much during the last period of the USSR and after the collapse of it, as its GDP per capita dropped by almost 80% during the period of 1988-1994.²²

Development of the agro-sector has been a priority of new government, due to its traditional importance for country's economy, employment of the big part of the population and keeping this population in the rural areas. And as already mentioned strong agriculture will mean its more important role in EU pre-accession negotiations. In these regards, Georgia has several advantages. First of all, small size of the country, and therefore agricultural production, means less competition for the EU farmers and therefore fewer problems in negotiations. Secondly, as illustrated above, enlargement to Central and Eastern Europe was also problematic due to new members having continental agricultural production. In this regard, Georgia's similarities with Mediterranean climate and production should be considered as a positive aspect, as country will not compete in continental production, but will do so in Mediterranean one, where there is less pressure and more possibilities. Some of the goods from Mediterranean production are still imported by the EU, which means Georgia could possibly use the demand and export to the EU. Natural conditions will allow Georgia to produce some Mediterranean products fast enough to provide the market. Thirdly, even if the production is small in size, it could still contribute to the stable supply of the goods to the EU, therefore, less dependent on the suppliers from outside the union. Finally, one of the problems after enlargement has been an exodus of the population. Having strong agro-sector would mean keeping big part of Georgia's population living in rural areas and being employed.

On the other side, the negative aspects could be the fact that in some agricultural sectors, producers are farmers with small farms, which is not the priority for the CAP, as explained above. Therefore it is vital that Georgia has medium or big size farms, which would make investment environment better, innovative system to be implemented easier and faster, production sustainable, etc. Environmental issues could also be a problem, as more needs to be done to have sustainable agricultural system and farmers being able to benefit from the rewards for implementing such systems, as discussed above.

22 Jandieri, G. (2009) Economic Reforms in Georgia. *Brenthurst Discussion paper no 7*

However, still one of the main problems of Georgian agro-sector is the low level of its competitiveness and productivity, as it is far less developed than those of the leading countries on the world and European markets. Being competitive and especially having high productivity is essential for the farmers, as it will allow them to invest in modern technologies, build a sustainable system and further improve the productivity.

Nevertheless, natural resources allow country to develop several productions that could be competitive and productive, one of such productions could be Georgian hazelnut.²³ It is mostly a Mediterranean product and is also being produced by some EU members, as Spain and Italy. The same time several factors support this production:

1. Production of hazelnuts in Georgian has a long tradition and therefore experience
2. Natural conditions in the country allow growing the product on 1500-1800 meters above the sea level, which is very important for broadening the production
3. Georgian hazelnut is ecologically compatible product, as well as with strong immunity and resistance against plant diseases
4. Market possibilities are high within the EU, still importing the product.²⁴

Georgian hazelnut production could be one of the strategic, priority areas for the country to try and develop competitive export production in agriculture, which the country has struggled to develop since its independence in 1991. But the production needs to be correctly modernized and managed, in order to develop competitive export production.²⁵

One of the main producers of hazelnut for the year 2011 in the world was Turkey, which had biggest (data for the year 2011) area harvested (400000 hectares) in the world, as well as the highest production a year (430000 tones)²⁶, the following countries are Italy, USA, Azerbaijan, etc. (table 1).

Table 1. Area harvested and production quantity for the year 2011

| Country | Area harvested | Production quantity |
|----------------|-----------------------|----------------------------|
| Turkey | 400000 hectares | 430000 tones |
| Italy | 70492 hectares | 128940 tones |
| Azerbaijan | 23242 hectares | 32922 tones |

23 Kharaisvili, E. (2011) Problems of Competition and Competitiveness in Georgian Agro-sector. Tbilisi: Universali

24 ibid

25 Aslanishvili, N. (2008) Georgia and the Rest of the World: According to UNCTAD Trade and Development Index, Tendencies, Review, p 72

26 FAOSTAT - Food and Agriculture Organization of the United Nations statistical database (2012)

| | | |
|---------|----------------|-------------|
| Iran | 21022 hectares | 21440 tones |
| Georgia | 15500 hectares | 31100 tones |
| Spain | 14062 hectares | 17579 tones |
| USA | 11938 hectares | 34927 tones |
| China | 11000 hectares | 22000 tones |

Source: FAOSTAT.

Hazelnut production has developed in Georgia during recent years, as natural environment, required labor and market price makes it better choice over other productions²⁷. Mostly production is concentrated in west Georgia, in 2006 95.6% of whole Georgian production was from west of the country, especially Samegrelo region, however, during recent years, production has been developing in east of the country as well²⁸. The statistical data from ten-year period of 2011-2002 shows that area harvested is generally increasing, as does the production (table 2).

Table 2. Area harvested and production quantity in Georgia for the period 2011–2002

| Year | Area harvested | Production quantity |
|------|----------------|---------------------|
| 2011 | 15500 hectares | 31100 tones |
| 2010 | 15000 hectares | 28800 tones |
| 2009 | 12000 hectares | 21800 tones |
| 2008 | 10000 hectares | 18700 tones |
| 2007 | 12000 hectares | 21200 tones |
| 2006 | 13000 hectares | 23500 tones |
| 2005 | 10000 hectares | 16393 tones |
| 2004 | 4600 hectares | 8327 tones |
| 2003 | 5500 hectares | 14820 tones |
| 2002 | 4915 hectares | 13901 tones |

Source: FAOSTAT²⁹

Competiveness for Georgia's hazelnut production would mean its ability to sell produced goods in competition environment for a long period of time and be profitable. Analyzing Georgian hazelnut production shows there is no rapid growth indicated in competitiveness index of the production, however the data suggest that hazelnut production deserves more attention and should be listed among priority fields of competitive production of Georgia.³⁰

27 GHN news agency (2010). Georgia biggest export for 2009 was hazelnut. Available <http://www.ghn.ge/news-6544.html> (Accessed 08.05.2013)

28 National Statistics Office of Georgia. Available <http://www.geostat.ge/index.php?action=0&lang=eng> (Accessed 08.05.2013)

29 FAOSTAT - Food and Agriculture Organization of the United Nations statistical database (2012)

30 Kharaihvili, E. (2011) Problems of Competition and Competitiveness in Georgian Agro-sector.

Analyzing of Georgian market's microenvironment shows that market of the production is developing in three directions:

- Distribution companies
- Factories
- Farmers

For development of hazelnut business, important is to have integrated horizontal and vertical production system, where production of the good, its processing and realization will be united.

Here, important is to underline that currently farmers own 95% of harvested area and mostly these farmers are small size ones.³¹ This is, as already discussed an obstacle, as the priority should be to have medium and big size of farmers. In the regions of Samegrelo and Guria, there are several functioning integrated small-size companies. In Georgia as whole, there are up to 100 medium and small-size hazelnut processing factories. During last years, several 50-100 hectare farms were built, including GEL 6 million investments from company Ferrero, that owns up to 1200 hectare land in the region of Samegrelo as well as increasing activities from local company Dorani, that also owns lands where hazelnut is cultivated in the region of Kakheti, in east Georgia.³²

From the three directions mentioned above, distribution/realization is still more developed than other two, but increasing number of investments, farms and factories, suggests the development of those two directions as well. For the development of these two directions it is also essential to have a good system of bank loans and taxation policy in the field, which needs fundamental improvements in the country.

Despite several problems, the production can still be considered profitable and strategic, as for example for the year 2009, export production of hazelnut in Georgia amounted in GEL 83.6 million, while that of wine amounted in GEL 64.8 million and that of mineral waters – GEL 59.3 million.³³

Based on the mentioned above, Georgian hazelnut production should be considered as possible competitive export production in the country, as it has necessary natural and economic resources. If the production is prioritized, improved and brought to a necessary standards, by working on improving each chain of the production mentioned above, the country could develop competitive export production.

Tbilisi: Universali

31 *ibid*

32 Association of Professionals on Land and Realty (2012). Available <http://www.aplr.org/?lang=geo> (Accessed 08.05.2013)

33 Civil Georgia (2013) Georgia's Foreign Trade in 2012. Available <http://www.civil.ge/eng/article.php?id=25680> (Accessed 08.05.2013)

8 Conclusions

The enlargement of the EU to the Caucasus region and to Georgia will also mean the enlargement of its most important policy, the Common Agricultural Policy, integrating the Georgian agricultural sector in a wider European perspective. The CAP is certainly going to play an important role in the relations between Georgia and the European Union, as well as in general, further development of Georgia.

As Georgian agricultural production is mainly based on Mediterranean production, because of the climate and other natural conditions in the country, it is not going to create major problems inside the EU, as most of the financial support has been traditionally focusing on continental production. The main benefit for the Georgian agricultural sector will be access without restrictions to the European market, selling its production on European market before other Mediterranean producers outside the EU can do so. The EU will also benefit from the enlargement to Georgia, as the country will increase the Mediterranean production of the union in general, that is still under the real demand. Therefore, it will increase the independence of the EU in the agricultural sector.

As the EU is trying to reform internally in order to reduce the impact on environment from the CAP, its negative effect on international trade or problems of overproduction, the main idea will be eliminating small farmers. The Georgian agricultural sector is widely represented by small farmers, therefore, they will disappear with the enlargement as a consequence of the current structure of the CAP. On the other hand, these measures will have a positive effect on the agricultural sector of Georgia in general, as it will have an access to new funds in order to modernize, increasing its productivity, as well as reducing its negative impact on environment.