

CAP POLICY DIMENSIONS: A CATALYST FOR COLLABORATION AND SUSTAINABLE CHANGES

ROTARU Mihaela¹

Lucian Blaga University of Sibiu, Romania

Abstract

A great challenge to EU livestock production markets is the growing production price and the farmers' income variability. The public request for traceability and accountability determined the EU agri-food policy to implement new sustainable reform. In this paper the author identified a set of inputs and impacts of CAP sustainable reform on livestock system. International major competitors are assessed to benchmark the competitiveness of EU agri-food industry.

Keywords *sustainability, CAP, livestock production, European Union*

JEL classification: *Q2, Q18*

1. Introduction

EU goal stated in Agenda 2000 was to make EU “the most competitive and dynamic knowledge based economy in the world, capable of sustainable growth with more and better jobs and greater social cohesion” (EC, 2000). The competitiveness is now a reality at European policy legislation level. The Europa 2010 framework continues the idea of improving EU competitiveness by stimulating education and improving research programmes (EC, 2010). In the agenda of its Europe 2020 strategy the European Commission acknowledges that the EU has prospered through export intensification. The EU export market is facing increasing competitive pressure and therefore has to improve the competitiveness of its industries (EC, 2020). In particular, the competitiveness of the EU food industry was

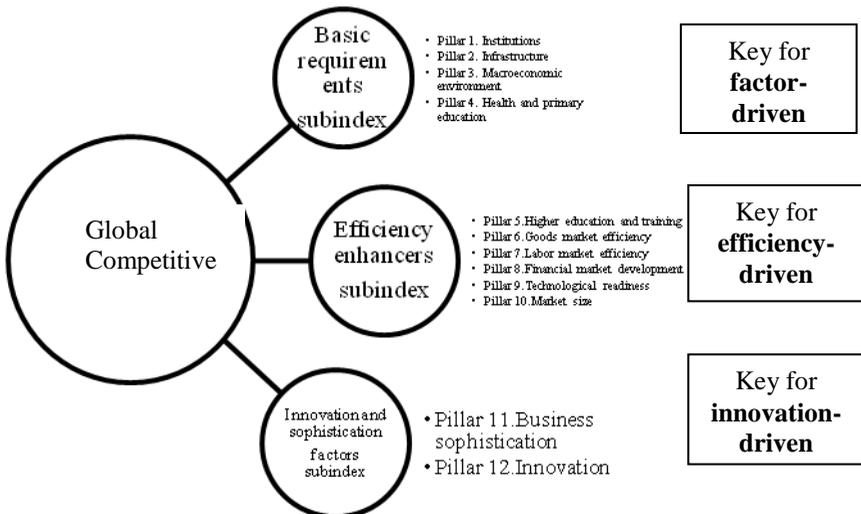
¹ *assistant professor PhD., mihaela.rotaru@ulbsibiu.ro*

identified as a key aspect for a prosperous future, since the sector accounts for 5% of European value-added and 7% of total employment (EC, 2009).

To guarantee a high quality future for the European agri-food sector the EC must take actions to improve the social, environmental and economic sustainability of agriculture. Challenges facing agriculture in the near future are: competitors from emerging countries like Brazil, Russian Federation, India, China and South Africa (BRICS), demographic changes, environmental changes, climate changes, sustainable issues regarding conventional agriculture, consumer patterns changes (trend of vegan and vegetarian consumer is rising). There is a race for competitiveness and the winner will be the one who combine the effect of economic, social and environmental costs and benefits. The sustainable competitiveness must be the goal for policy makers, producers and consumers as well.

The European Commission advocates the notion of ‘sustainable competitiveness’ which incorporates social and environmental considerations, a position also adopted by the World Economic Forum (2012b) which adapted its Global Competitiveness Index (GCI) into a Sustainability-adjusted GCI. Competitiveness is thus taken to incorporate all three pillars of the Lisbon Strategy.

Figure 1: The Global Competitiveness Index framework

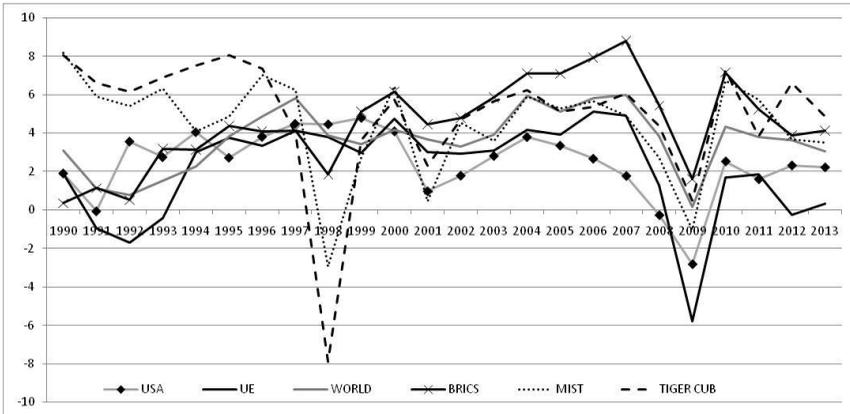


Source: authors' presentation base on Sala-i-Martin et. al, (2013)

2. Global economic trends

World trade economy has change through the past 20 years. The GDP of developing countries' has move faster than and overtake the develop countries. Figure 2 presents presents the annual growth rates of GDP of the United States of America, the European Union, the World, BRICS, Mexico, Indonesia, South Korea and Turkey (MIST) and the Malaysia, the Philippines, Thailand and Indonesia noted as Tiger Cub countries.

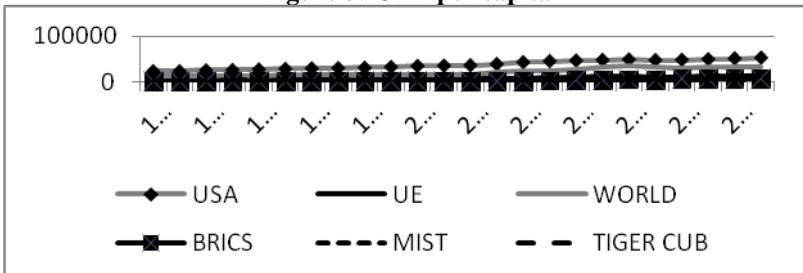
Figure 2: Annual growth rates of GDP



Source: authors' presentation base on World Bank, 2014

There have been two major economic crises over the observed period and these have determined a negative impact on global economies. At the first crises the most affected countries were the Tiger cub and less affected by the second one. The EU countries did not suffer a very deep crisis in the end of 90's. Note however that the second economic crisis has greatly affected the EU economy and USA and MIST economy.

Figure 3: GDP per capita



Source: authors' presentation base on World Bank, 2014

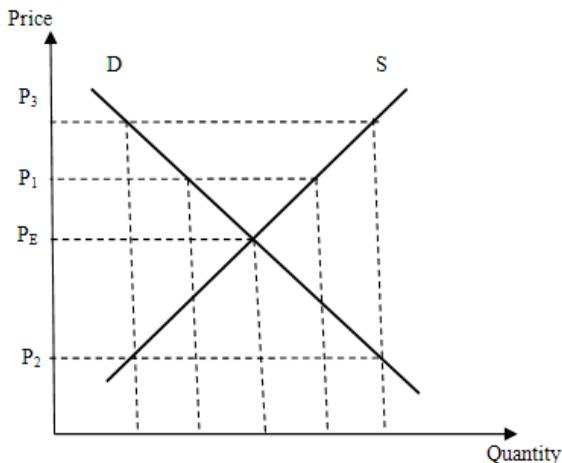
3. EU CAP price system

Political and economic interests have caused the inclusion of agriculture in the European Union policy construction. Applying a common policy was to become the most faithful expression of the principles of operation and the existence of an integrated system. Since July 2013 EU increased the Member State number to 28 adding Croatia. Iceland, Macedonia, Montenegro, Serbia and Turkey are candidates for membership. They will have to implement EU regulation. The EU enlargement process will determine the growth of foreign investment opportunity in the new member states but also the increased competition between the old and new member.

Indicative price is theoretically considered to be a fair price for producers. This price allows CAP objectives to be achieved. It is called indicative price for grain production, sugar, olive oil, milk, sunflower and rapeseed, intervention price for cattle, calves and wine and base price for pork, fruit and vegetables and target price for tobacco.

If the price falls to Q_1 (figure 4) due to a calamity production year, the price rises to P_1 . As a market signal, a high price stimulates the production and supply increases next year to Q_2 .

Figure 4: The intensity of agricultural markets



Demand for agricultural products is relatively weak elastic. Excess supply causes price reduction P_2 resulting decline in production in Q_3 by considering the low price. Supply deficit increase prices, continuing the process by the same logic. Price volatility creates, therefore, uncertainty for producers and consumers. Thus public intervention is justified to regulate the markets.

The question whether farmers react on the basis of adaptive expectations or market reality feel and act according to the principle of rational expectations. The first version, similar in nature inflationary price increases implies that producers are deceived market signals and fall into place "illusion prices". Instead rational expectations mean that farmers make decisions on the spur production and monetary variables feel real market prospects. Here, however, must take into account the action in the agricultural production of natural factors, exogenous maintained regardless of technical progress a high risk of uncontrolled variation in production.

4. Evaluating the CAP's impacts on implementing sustainable reform on livestock system

A huge increase in the demand of animal products are expected in the next decades (Delgado, 2001). Food and water security will be one of the priorities for humankind in the 21st century. For livestock production systems will be strategic, on one hand, to improve crops and forage efficiency, especially water supplies and soil management. On the other hand it should be pursue the management of genetic improvement by requiring breeders to use the animal with genetic potential that withstand the stress of increasing temperature climate change. Better information is needed. The biophysical and social vulnerability regarding, and this must be integrated with agriculture and livestock components.

Concerns about the negative effects of intensive/ conventional agriculture versus a sustainable agricultural policy were presented by many researchers (Papadopoulos, 2004, Papadopoulos et al., 2015, Sundrum, 2001, Parra-López et al., 2007).

Table 1: Inputs and impact of CAP in a specific region

INPUTS				
POLICY PRE-CONDITIONS	ECONOMIC PRE-CONDITIONS	PHYSICAL PRE-CONDITIONS	SOCIAL PRE-CONDITIONS	GLOBALISATION
CAP – market regulation - price intervention mechanism -environmental measures -rural development measures	Rural development programmes Transfer policy Local economic support	-Soil -Climate -Accessibility -Topography -Technology	Population -natural growth -education -age structure -gender structure -migration	-trade regulation -migration -standards

Table 2: Processes and impact of CAP in a specific region

PROCESSES				
-Agricultural input use -Farm structural change	GDP by sector Employment rate Labor productivity Cost strategy Market oriented processes	-Sustainable agricultural land use -Reduction of negative impact -More value added per unit of environmental impact	HUMAN RESOURCES IMPROVEMENT -Skill level -Gender structure -Participation on innovation - Agricultural employment	-Agricultural production and marketing -Attitudes and norms regarding the respect of animal welfare and meat consumption -greening of the economy (biogas from manure)

Table 3: Outcomes and impact of CAP in a specific region

OUTCOMES EUROPE 2020			
SOCIAL ECONOMIC IMPACT	SUSTAINABILITY IMPACT		
General impact -unemployment rate -income distribution -education -R&D Agricultural impact -GDP in agriculture -Farm income -Farm restructuring -Farm pluri-activities	Smart growth	Sustainable growth	Inclusive growth
	Supporting innovation and skills development Green technology Social innovation development	Increasing resource efficiency Provide environmental public goods Reducing emissions Developing bio energy Enhancing carbon sequestration Sustainable land management Biodiversity loss reduce	Diversifying rural economies Development of local market and jobs Opportunity to restructure agricultural companies

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