

# The food retail market and the Common Agricultural Policy in the Nordic countries and the countries applying for EU membership

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**Abstract:** This paper describes the food retail market in the Nordic countries and in the countries applying for EU membership and analyses the impact of reforms of the Common Agricultural Policy (CAP) in the EU. Three of the Nordic countries (Denmark, Finland and Sweden) are member states of the EU, while Iceland and Norway are not, although Iceland is applying for EU membership, as are Albania, Croatia, Macedonia, Montenegro, Serbia and Turkey. Profound changes have occurred in the agricultural sector in the past years in all these countries. The reforms of the CAP approved in 2003 represent the most radical CAP reforms in the history of the EU. In the paper the resulting changes are discussed, as are the planned world trade reforms currently being negotiated within the World Trade Organization (WTO). Among the issues decided within the WTO are tariff regulations, where there is a wide divergence between the views of developed countries and developing countries. The paper proposes an assessment of the impact of the CAP reform and the WTO negotiations on the Nordic countries and the applicants.

**Keywords:** *Common Agricultural Policy; European Union applicant countries; food retail market; Nordic countries*

**Ágrip:** Í greininni er lýst markaði fyrir matvæli á Norðurlöndunum og í þeim löndum sem hafa sótt um aðild að Evrópusambandinu og greind eru áhrif umbóta á almennu landbúnaðarstefnu Evrópusambandsins. Þrjú Norðurlandanna, Danmörk, Finnland og Svíþjóð eru aðildarríki Evrópusambandsins en Ísland og Noregur eru það ekki. Ísland hefur sótt um aðild eins og Albanía, Króatía, Makedónía, Serbía, Svartfjallaland og Tyrkland. Miklar breytingar hafa orðið á undanförunum árum í landbúnaði innan allra þessara landa. Umbætur á almennu landbúnaðarstefnu Evrópusambandsins voru samþykktar árið 2003 og það eru umfangsmestu breytingar sem hafa verið gerðar á stefnunni í sögu Evrópusambandsins. Í greininni eru þessar breytingar ræddar svo og hinar ráðgerðu umbætur á heimsverslun með matvæli sem eru til umræðu á vettvangi Alþjóða viðskiptastofnunarinnar. Meðal þeirra atriða sem er rætt um innan Alþjóða viðskiptastofnunarinnar eru tollamál og er mikill munur á viðhorfum iðnríkjanna og þróunarlöndanna. Í greininni er lagt mat á áhrif umbóta á almennu landbúnaðarstefnu Evrópusambandsins og áhrif viðræðna innan Alþjóða viðskiptastofnunarinnar á Norðurlönd og umsóknarríkin.

**Lykilord:** *landbúnaðarstefna Evrópusambandsins; matvælamarkaður; Norðurlönd; umsóknarríki Evrópusambandsins*

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## **1. Introduction**

The structure of this paper is as follows: first we will describe the main characteristics of the countries discussed, namely the five Nordic countries and the seven applicants for EU membership. Next, we describe the main characteristics of the food retail market in those countries. Then, we review the reforms of the EU's Common Agricultural Policy (CAP), which started in 2003. We also discuss the negotiations about agriculture within the World Trade Organization (WTO) and their impact on the CAP. We conclude by considering the effect of the CAP reforms for the Nordic countries and the applicants for EU membership.

## **2. The Nordic countries and the seven applicants for EU membership**

The five Nordic countries are Denmark, Finland, Iceland, Norway and Sweden, and the seven applicants for EU membership are Albania, Croatia, Iceland, Macedonia, Montenegro, Serbia and Turkey. Iceland is both a Nordic country and an applicant. Of the seven applicants, five are on the Balkan Peninsula. They all suffered greatly during the decade-long civil wars there. Only Iceland is totally outside this area, in the far north, while Turkey is a neighbour, but located mainly outside Europe. Negotiations regarding EU membership have started with five of the applicants, but not yet with Albania and Serbia ("Glossary: Candidate countries," 2011). It is to be expected that Bosnia-Herzegovina and Kosovo will also apply for EU membership in the future.

Table 1 contains some fundamental information on the countries discussed and, for comparison, the U.S. and China. Four characteristics are shown, all as of the year 2010: population in millions, gross domestic product (GDP) based on purchasing power parity (PPP) per

*Table 1. Main characteristics of countries in 2010.*

	Population (millions)	GDP per capita at PPP (\$1,000)	Unemployment (%)	Total taxes (as % of GDP)
Denmark	5.5	36.8	4.2	50.0
Finland	5.4	34.8	7.9	43.6
Iceland	0.3	36.7	8.6	40.4
Norway	4.8	52.2	3.7	43.6
Sweden	9.3	37.8	8.3	49.7
EU-27	501.1	29.7	9.5	40.9
Albania	2.9	7.4	12.3	22.9
Croatia	4.4	17.6	17.6	26.6
Macedonia	2.1	9.4	31.7	29.3
Montenegro	0.6	10.4	14.7	28.0
Serbia	9.9	10.8	17.2	34.1
Turkey	72.6	13.4	12.4	32.5
USA	310.8	47.1	9.6	28.2
China	1,347.7	7.5	4.3	17.0

capita in current international dollars, unemployment as a percentage of the total workforce, and total taxes as a percentage of GDP (“Gross domestic product based on purchasing power parity [PPP] per capita,” 2011 and “Total population,” 2011).

Many differences emerge in Table 1. The five Nordic countries are quite similar, although Iceland is by far the smallest, with a population of only just over 300,000. Denmark, Finland and Norway have similar populations, of about five million, while Sweden has by far the largest population, at nine million. Living standards in the Nordic countries are very high, and by far the best in Norway. Unemployment is similar in three countries, Finland, Iceland and Sweden, at approximately 8%, but much lower in Denmark and Norway, at only 4%. However, general government total expenditure is high in the Nordic countries, and the tax burden as a proportion of GDP is very high — among the highest in the world at 40–50% of GDP.

A comparison of the EU, which now comprises 27 countries with a combined population of 500 million, reveals that living standards are somewhat lower than in the Nordic countries, with the average income at approximately USD 30,000 per capita. Unemployment on average is 9.5%, and general government total expenditure about 40% of GDP. It should be kept in mind, however, that conditions vary greatly in the individual EU member states. Agriculture is somewhat important to the EU, but does not represent a high proportion of GDP.

The lower half of Table 1 shows the significant differences within Europe if we look at the applicant states in southern Europe. The population is similar in some of the countries, ranging from 2 to 4 million in Albania, Croatia and Macedonia. Montenegro has a much smaller population, with only 600,000 inhabitants, while Serbia has 10 million and Turkey holds a place of its own with a population of about 73 million. Living standards are much lower than in the Nordic countries, and also in comparison with EU countries. GDP per capita is only just over USD 7,000 in Albania, and approximately USD 10,000 in most of the other countries, apart from Croatia. This is only about half of the EU average. It is therefore clear that the countries applying for EU membership, apart from Iceland, are very poor. Unemployment is considerable in the countries of southern Europe, from 10% to just over 30% in Macedonia, which is abnormally high. The share of the general government sector in the economy is much smaller in these southern countries than in the Nordic countries or the EU member states, with taxes at approximately 30% of GDP.

A comparison with the United States and China shows that living standards in the U.S. are on average very good, ranking among the best in the world, while China remains a poor country, although very populous. Unemployment, however, is low in China. The share of the general government sector in the U.S. is slightly under 30% of GDP, and in China even less, or only 17%. There is, therefore, a very uneven distribution of wealth in these countries, and agriculture is of varying importance.

Table 2 and Table 3 show the distribution of some of the information in Table 1 among the EU countries, the Nordic countries and the applicants for EU membership.

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*Table 2. Population in millions of the 27 EU countries, the Nordic countries (in bold) and the seven applicants (underlined) in 2010.*

Population in millions	Countries	Number of countries
> 55	Germany, <u>Turkey</u> , France, UK, Italy	5
20–55	Spain, Poland, Romania	3
10–20	Netherlands, Greece, Belgium, Portugal, Czech Republic, Hungary	6
5–10	<u>Serbia</u> , <b>Sweden</b> , Austria, Bulgaria, <b>Denmark</b> , Slovak Republic, <b>Finland</b>	7
1–5	<b>Norway</b> , Ireland, <u>Croatia</u> , Lithuania, <u>Albania</u> , Latvia, <u>Macedonia</u> , Slovenia, Estonia	9
< 1	Cyprus, <u>Montenegro</u> , Luxembourg, Malta, <u>Iceland</u>	5
	Total number of countries	35

Table 2 shows the inhabitants, in millions, of the 27 EU states, with the Nordic countries in bold, and the seven applicants underlined. Turkey is the standout, with more than 70 million inhabitants. Two countries, Montenegro and Iceland, with populations of 600,000 and 300,000 respectively, have very few inhabitants. Since 2004, the EU has changed from a club of the biggest European countries into a federation of mostly medium-sized countries.

*Table 3. Gross domestic product (GDP) in 2010 based on purchasing power parity (PPP) per capita in current international dollars of the 27 EU countries, the Nordic countries and the seven applicants.*

GDP in \$1,000	Countries	Number of countries
>40	Luxembourg, <b>Norway</b>	2
30–40	Netherlands, Austria, Ireland, <b>Sweden</b> , <b>Denmark</b> , <u>Iceland</u> , Belgium, Germany, UK, <b>Finland</b> , France	11
20–30	Spain, Italy, Greece, Cyprus, Slovenia, Czech Republic, Malta, Portugal, Slovak Republic	9
10–20	Poland, Hungary, Estonia, <u>Croatia</u> , Lithuania, Latvia, <u>Turkey</u> , Bulgaria, Romania, <u>Serbia</u> , <u>Montenegro</u>	11
<10	<u>Macedonia</u> , <u>Albania</u>	2
	Total number of countries	34

Living standards, measured as GDP per capita at PPP, differ considerably within the EU, as shown in Table 3. Only one applicant, Iceland, ranks among the top countries. Six of the applicants are among the poorest countries in Europe, which also means quite a different situation in the agricultural sector and the retail sector, including the food market, when compared to the richest countries. The food sector is an important part of retail in all these countries.

### **3. The food retail market**

Many of the Western Balkan states have become members of the OECD and NATO and have applied for membership in the EU. A relevant index of the activity of the retail sector is the share of trade as a percentage of GDP, which, for example, is high in Croatia — the most favoured applicant — at 50%, similar to that in the EU. Another significant characteristic of the applicants is recent growth in the retail sector, with far more large stores and hypermarkets than before. This development has also taken place within the EU in recent years (Žužić, 2006).

In the manufacturing and retail sector within Europe, it is common for relatively few companies to hold a large market share. In recent years, discounters and hard discounters have increased their share in European retail markets. The German enterprises Aldi and Lidl are examples of this trend. In Europe, the largest 15 retail companies are responsible for about 80% of retail sales. An example of this is Romania, a relatively new member state of the EU, where the market share of hypermarkets and other big stores increased from 19% to 34% over only two years, from 2004 to 2006. The big retail chains playing a central role in Romania are Metro, Rewe Group and Carrefour. The newest EU member states and the seven applicants look set to undergo a quick change to a modern retail system, where economies of scale and consolidated buying will underpin low-price policies of retail leaders (Bălan, 2007).

Retail companies are trying to the extent possible to secure a share in the improving living standards in Asia, South America, and Central and Eastern Europe. This represents a growth strategy for these companies. Manufacturing companies have done this before, and now there is the same trend with global retailers (Reynolds and Cuthbertson, 2004). Retail, including the food sector, is very important in the seven applicant states because one can expect an increase in living standards in these countries in the coming years (*ceteris paribus*) and more trade, especially retail trade. Large retail chains derive a bigger part of their income from activities abroad than before. The collapse of the economic and political system in Eastern and Central Europe left a vacuum in the retail sector, which is being filled by Western retail companies (White and Absher, 2007). Increased globalization, as a result of the progress in the WTO negotiations, has boosted the retail sector. In Hungary and Poland foreign companies' presence is strong, although both these states are relatively new members of the EU. The same trend will most likely occur with the current seven applicants when they become members of the EU (Einarsson, 2010).

Strong domestic companies are one characteristic of the retail sector in most countries. Yet these companies have increasingly expanded across borders and many of them are now multinational or even global. This is a strong tendency in the food sector and will continue in other sectors of retail. However, small retail companies also have good opportunities to meet special needs and thrive in niche markets (Hanf and Dautzenberg, 2007).

Turkey is by far the largest of the seven applicants, both in population and economic size. If all seven countries become members of the EU, the economic effect on the existing 27 states will be little but positive. The increase in GDP for the current EU countries will be

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about 0.5%. For the applicants, there will also be a positive economic effect, whether on a small scale, as in Iceland, or a larger scale, as in Turkey; overall, the increase of GDP through EU membership is estimated to be 1.5% to 8% (Einarsson, 2010). The question of membership is, of course, not only economic but also related to issues concerning political influence and to changes in society in the direction of EU norms regarding issues such as transparency, judicial systems, domestic institutions, anti-corruption efforts, free movement of workers, stability of institutions, guaranteed democracy, human rights and protection of minorities. Free movement of labour can be problematic, as in the case of Turkey and some other new and potential member states; this will affect the retail sector and agriculture. These countries have already put considerable work into creating structures that allow them to benefit from the economic advantages of proximity to the EU without actual membership. For example, tariffs and quantitative restrictions between the EU and Turkey were removed between 1996 and 2001 (Lejour and de Mooij, 2004).

Access to the internal market of the EU can be secured through a bilateral agreement without EU membership, as in the case of the Agreement on the European Economic Area (EEA) between the EU and the EFTA countries (most of these countries joined the EU in 1995). The EEA Agreement includes most of the economic framework of the EU. Trade liberalization in the past few decades has been effective in many countries, and in many of the seven applicant countries the sum of imports and exports as a share of GDP is about 50%. Although many of the applicants already have an agreement with the EU, and could go further in that direction without becoming members, these countries do not want that. They want full membership.

The fundamental principle of the EU is free movement of goods, services, capital and persons, which of course has a huge impact on trends in the retail and food sector. Much can be learned from the experience of the ten countries which became members in 2004. There, a higher living standard entailed an increased demand for consumer goods. The enlargement of the EU has reduced technical barriers in business, which changes the retail environment extensively through, for example, making logistics problems easier and cheaper to solve. There is no reason to believe that the trend in Central and Eastern Europe will be different from that in Western Europe some decades earlier (Delaporte et al., 2006).

The EU food retail sector is characterised by highly concentrated market share, as it is in most countries. In many of the countries the five biggest retail companies have over 50% of the market. The EU retail market is not a single market; the competitive environment differs from member state to member state. Regulations, business practices and conditions of market entry are not the same (Bukeviciute, 2009).

The Stabilization and Association Agreement with the EU has been signed by most countries in the Western Balkans. It is to be expected that gains in productivity will result. The change from centrally planned economies to market-based systems, as in Central and Eastern Europe and in the Balkans, is among other things characterised by a vital role for small and medium-sized enterprises in the retail sector, although the bigger firms are increasing their market share. This development required new legislation and regulatory systems to comply

with the framework of the EU. The sectoral differences in the new EU countries and the applicants offer opportunities for active foreign firms. This was the case in Spain and Portugal in the early 1990s, when the food retail sector was targeted by large foreign supermarkets and hypermarket chains, which put pressure on small retailers (Smallbone and Rogut, 2005).

Shopping habits vary greatly between regions in Europe, including in the food sector (Einarsson, 2008). There are fewer shops per inhabitant (but larger ones) in Northern Europe than in Southern Europe. The largest retail enterprises have a larger market share in Northern Europe than in Southern Europe (Flavián et al., 2002). Retailing now has a global nature, with large retail chains operating in most countries. The Nordic countries are regarded as a small market region (*Nordic food markets – a taste for competition*, 2005). Retail companies are among the biggest enterprises in many countries. Retailers have huge buying power, resulting in what is known as monopsony (Clarke et al., 2002).

Table 4 shows the price levels for countries in Europe, which differ greatly (“Comparative price levels of consumer goods and services,” 2011).

*Table 4. Price level by country for total household final consumption expenditure on goods and services in 2010.*

	Price level
Denmark	143
Finland	123
Iceland	111
Norway	147
Sweden	120
EU-27	100
Albania	50
Croatia	74
Macedonia	44
Montenegro	59
Serbia	52
Turkey	73

The EU-27 average is 100, so, as illustrated in Table 4, the overall price level in (for example) Denmark is 143, or 43% higher than the EU average. Northern European countries have the highest prices, while southeastern European countries show the lowest prices. The cheapest country is Macedonia, at 44% of the EU average. Prices in the food market in Norway are much higher than in other European countries. This can be explained by the extremely inefficient agricultural sector in Norway. As shown clearly in Table 4, price levels are much lower in the applicant states in the Balkans than in the Nordic countries, and are in all cases below the EU-27 average.

#### **4. The CAP reform**

State support for agriculture often consists of payments to farmers from the state for production. These may be based on each farm's production quota, farm size, the number of family members living on the farm, or other criteria, which are often combined in determining payment levels and arrangements. State support also takes the form of import restrictions, i.e., import tariffs or import quotas, where imports of agricultural products are restricted or entirely prohibited.

Grants from OECD states to agriculture are extensive, and to put them into perspective they equal about one third of the combined GDP of all the countries of Africa. Annual subsidies to farmers in the OECD countries amount to USD 380 billion, while OECD development aid amounts to USD 130 billion ("Statistics from A to Z," 2011). To give another example, each milk cow in the EU receives a subsidy of USD 2.50 per day, while 75% of people Africa live on less than USD 2 per day (Panagariya, 2005). The share of agriculture in the GDP of the OECD states is approximately 2%. The OECD countries control the world trade in agricultural produce, as 70% of agricultural imports and exports are to and from those countries. The poorest developing countries only have about 1% of the world trade in agricultural produce. Almost all the OECD states impose such heavy tariffs that in some cases they exceed the entire production value of the product in question (Einarsson, 2007).

Total government support for agriculture, as estimated by the OECD as a proportion of GDP, takes three forms. First, there are payments out of the state treasury to farmers for production or quotas. These are direct payments, partly production-linked. If they are not linked to production they are called environmental or green payments.

Secondly, there is import protection, which can be assessed by subtracting the foreign price of agricultural produce from the price of comparable domestic products. The difference is the import protection level, but processing costs are ignored in both cases. When the import protection level is added to direct subsidies from the state, the resulting figure is the so-called Producer Support Estimate (PSE).

Thirdly, there are payments relating to soil reclamation, reforestation and agricultural schools. When these amounts are added to the PSE, the result is the Total Support Estimate (TSE) for agriculture. It is a matter of some doubt whether this third pillar of support in the OECD assessment (soil, reclamation, reforestation, etc.) should be specifically regarded as support for agriculture, as the undertakings involved are general, public ones which are of significance more widely than in agricultural-sector employment.

The basic principles of economics tell us that an optimal situation is achieved with market equilibrium, where many sellers ensure the supply of goods and many buyers create demand for those same goods. This balance is achieved at a particular price level, the equilibrium price. If prices rise, demand is reduced, and the quantity in supply is increased. In an optimum situation, everything that is produced can be sold and there is no accumulation of inventory, i.e., oversupply, nor are there shortages, i.e., surplus demand.



This is not always the reality, as uncertainty reigns in the economy, and demand as well as supply fluctuate in time. This applies in particular to agriculture, where natural circumstances, such as climate, can have an extensive impact on production, and thus supply. Agricultural produce is an organic product which deteriorates over time, and some types, such as dairy products, spoil particularly quickly. The price elasticity of demand for agricultural products is low, i.e., the proportional price change has relatively little impact on demand. This is typically the case with necessities, which agricultural products are considered to be. This is not unique, however. Agricultural products are also income inelastic: an increase in income causes a proportionally smaller increase in demand for the product. However, it would be improper to generalise, as there are many who will spend more on food and drink if their income increases.

Although production in agriculture is subject to uncertainty, for example due to natural conditions, the same applies to various other sectors, such as fisheries. The special position of agriculture is therefore not that circumstances are so different from those of other sectors, but that there have been great increases in productivity, which has increased production, often far in excess of demand (Einarsson, 2007); prices are not allowed to correct the imbalance between supply and demand owing to government intervention. The excess supply of butter which was common in the EU in the past is an example of this. There is no tenable economic explanation for government intervention, as economic theory recommends the maximum possible freedom of trade without market-distorting actions by governments. There are political reasons at play.

Governments intervene in agricultural affairs because of the historical importance of the sector and the long-term influence of interest groups in agriculture. In contrast to other sectors, the market is not permitted to seek a natural equilibrium of supply and demand, which is the system that maximises the benefits of trade, i.e., consumer surplus and producer surplus. Government intervention therefore reduces the achievable benefits from trade. Support for agriculture in the form of payments for production or import protection disrupts the equilibrium that a free market would create. Through government intervention, a part of consumers' gains are transferred from consumers to farmers. This contributes to a welfare loss, meaning that value is lost as a result of this kind of intervention.

The reason for the expensive EU Common Agricultural Policy can be traced to the extensive influence of German and French farmers on politics; it is principally Germany and France that have dictated the Union's policy. The influential role of agriculture (in particular in rural areas) in these most powerful nations in Continental Europe is not recent, but extends many centuries into the past. The social transformation of Europe into industrialised urban communities starting in the mid-18th century and later the increase in the efficiency of agricultural production was much quicker than the political will to make changes in agricultural policy. This has been true for most of the industrialised countries, at the same time as the proportion of the population living in urban rather than rural areas has risen (Einarsson, 2007).

The EU's purpose with the CAP is to increase productivity, ensure positive operating results for agricultural enterprises, invigorate markets, and ensure an adequate supply of food-

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stuffs at reasonable prices. Achieving these objectives has not been a smooth affair, and the CAP has cost the EU a great deal of money. The Common Agricultural Policy has consisted, among other things, of import tariffs and quotas imposed on foreign states, price controls, production subsidies and export subsidies.

The policy has undergone considerable change in recent years. A completely revised agricultural policy was introduced in 2003. The new Common Agricultural Policy abandoned subsidies for the production of agricultural products in favour of support for individual farms. The new policy is intended to meet consumers' and taxpayers' demands by permitting farmers to produce what the market wants. This represents a departure from the haphazard and inefficient production subsidies.

The CAP currently involves two pillars: first, direct subsidies to producers within the EU along with market support measures, and secondly, rural development programs. Up to 2013 there are ceilings for expenditures on the two pillars. Pillar one (market and direct aid) must not exceed EUR 42.3 billion in 2013 and pillar two (rural development) must not exceed EUR 13.2 billion in 2013. Furthermore, the CAP expenditures must in 2013 amount to only 26% of total EU expenditures that year. If this is compared to the 45% share of the CAP in the EU budget for 2006 and the 65% share in 1988, it is obvious that EU has succeeded in reforming the CAP ("European Union —Second Report," 2005).

The new EU Agricultural Policy of 2003 represents the most radical change in the CAP ever made. Among other things, it is intended to bring the system closer to the WTO's definitions of environmental (green) subsidies, with the intention of strengthening the EU's position in those discussions. It is also a part of the attempt to improve the competitiveness of agriculture in the member states and respond to the increase in their number. The EU changed profoundly when ten new member states were added in 2004, increasing the number of farmers in the Union by 60%, from seven to eleven million, and arable land by 30% and crops by 10–20% (Einarsson, 2007).

Payments to farmers or farms will now primarily take account of environmental viewpoints, health concerns in production, animal welfare and historical circumstances (i.e., prior payments). Payments to larger farms are restricted. The new policy was implemented in 2004 to 2005, though it could be delayed until 2007 at the request of member states. EU countries wishing to continue production subsidies to any extent are permitted to do so only under extensive restrictions and within clearly defined budget allocations.

It is interesting that decoupling subsidies from production opens the possibility of subsidies to non-producing farmers. The general conditions for subsidies are not only based on environmental viewpoints, health concerns in production and animal welfare; all land used in agricultural production is also required to be in a good arable and environmental state. Also, there is a focus on rural communities, through increasing subsidies to such places that help ensure that agricultural production complies with all EU requirements. The reduction in subsidies to larger farms funds the increase in subsidies to more remote areas. One of the principal negotiation issues with regard to new member states is the European Agricultural Fund for Rural Development, which has a budget of EUR 96,3 billion for the period 2007-2013

(“European Agricultural Fund for Rural Development (EAFRD),” 2005). The fund is intended to support remote regions in the member states. An important point regarding the EU agricultural subsidies is that maximum amounts are fixed so that when new member states join the union, subsidies to other states will be reduced.

With the new CAP, production surpluses have been eliminated, competitiveness improved, farming has become more sustainable, and an integrated approach for rural areas has been introduced. In the past, between 1980 and 1990, most EU expenditures on agriculture went to export subsidies and direct market support, but from 1990 to 2003 coupled direct payments to producers represented the lion’s share of the expenditures. Decoupled direct payments have made up the biggest share since 2009, followed by payments for rural development. Under the new CAP, food security is improved, the environment is better protected and it is easier to cope with economic crises than before. Environmental challenges include soil depletion and water and air quality. An important part of the new CAP is to meet territorial challenges, preserve the vitality of rural areas and the diversity of EU agriculture, foster green growth through innovation, and combat climate change. In the future, the CAP is intended to become more sustainable and to focus on environmental and climate change objectives (“Communication on the future of the CAP,” 2010).

## **5. The WTO negotiations**

The Doha round of WTO negotiations, which began in Qatar in 2001, has the objective of promoting trade in agricultural products, systematising subsidies by governments to domestic agricultural enterprises, regulating market access, improving the situation of poorer states, e.g., through tariff reductions, and reducing market-disruptive support. These negotiations took over from the GATT negotiations, which had concluded with an agreement between the nations of the world in 1994 (Hanrahan and Schnept, 2006).

Among the disputes within the WTO are the questions of how much the United States should cut back on aid to its farmers, how much market access the EU should permit, and to what degree tariffs should be reduced; another area of dispute is the opening of markets for industrial products in the larger developing countries. In the Doha round the EU has argued for discontinuing all export subsidies on food; the EU is the largest importer of food in the world. The EU wants to go further in permitting market access than many other WTO countries in the negotiations.

A number of meetings have been held during the Doha round, but at the last meeting, in Geneva in 2008, the negotiations stalled over disputes on agricultural matters between the industrial states and the developing states. This has been the most difficult issue in the negotiations. If barriers to trade in agriculture were removed and subsidies discontinued, this would increase international trade and significantly improve the situation of developing countries (Deardorff and Stern, 2003).

Even though the negotiations stalled in 2008, there have been agreements between individual countries concerning limited issues, and it is anticipated that the negotiations will be

resumed, as there is much at stake (“Lamy outlines what is needed to conclude the round this year,” 2011).

## **6. Conclusions**

We conclude by evaluating the impact of the CAP reform and the WTO negotiations and discuss the present situation the Nordic countries and the present state of the negotiations of the applicants. The role of the agriculture sector is important for accession negotiations. The general thinking in the EU’s new CAP — to decouple subsidies in agriculture from production to the extent possible, permit better market access, discontinue export subsidies and support rural areas and less favoured areas — should not be disadvantageous to agriculture in the Nordic countries and applicant states. The benefit of membership to consumers in the form of lower food prices is undeniable. Most of the indications in the international sphere, i.e., within the WTO, are that the trend will be in this same direction. The adaptation to these changes, which is already in evidence, will no doubt be advantageous to the applicant states, whether they actually become members of the EU or not.

The agricultural systems used by Iceland and Norway will need to be adapted to the prospective WTO agreement, regardless of whether they join the EU or not, which means that tariffs will have to be lowered and the current system of payments will need to be changed to a system of green subsidies, which must happen according to certain rules. Danish farmers are happy with EU membership, and of course their membership is long-standing, as Denmark joined the EU in 1973. They see significant advantages in membership. Danish farming sector representatives supported the membership of the ten new states in 2004 on the condition that the new states should be subject to the same regulatory framework as the existing states. That is what transpired. In other respects, the Danish representatives are of the opinion that government subsidies to agriculture should be reduced in the Union and free trade should be increased, although with a reasonable time for adaptation. It is not easy to assess whether Finnish farmers believe EU membership to have improved their position. Nevertheless, both in Finland and Sweden, food prices dropped considerably immediately after accession to the EU, and it is assumed that the same would happen in Iceland (Einarsson, 2007).

Turkey applied for EU membership 24 years ago, in 1987, but negotiations started only in 2005. They will go on for many years. Turkey is quite a different country from the other applicants or the EU states. It is a very big country with a large population, and it is not in Europe except for a small but important part. There are many unresolved political problems in Turkey.

Croatia applied in 2003 and negotiations have finished. Croatia will most likely become the 28th member state of the EU.

Macedonia applied for EU membership in 2004. Like the other Western Balkan countries, it will take some years for it to become a full member. Political problems, especially with Greece regarding the name of the country, but also problems with Bulgaria regarding inter-

pretations of the history of these two countries, may delay the process for Macedonia, because both Greece and Bulgaria are members of the EU.

Montenegro applied for EU membership in 2008 and Albania and Serbia in 2009. There should be no special problems regarding their applications, but the process will take some years, as in the case of most of the other applicants. The EU's policy is to work for the inclusion of the states of the former Yugoslavia, i.e., the Western Balkans, as full member states.

Iceland applied in 2009. The application will encounter problems regarding agriculture, as the Icelandic agricultural system is very protected and that has to change if Iceland is to join the EU. Iceland is a member of the European Economic Area and Schengen and has adopted most of the economic law framework of the EU. However, EU membership is very controversial in Iceland and polls show that for the time being the majority of Icelanders opposes EU membership. But that can change very fast.

It is likely that the same developments will take place in the economies of the seven applicant countries as took place in the ten countries that joined the EU in 2004. That was a good step for those countries and for the EU as a whole. Negotiations on EU membership have been an extremely complex affair, and have usually gone on for years. A good knowledge of all aspects of the regulatory framework and policy are a prerequisite for being able to come to grips with changed circumstances in the future.

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