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The Impact of the Reform of the Common Agricultural Policy (CAP) on the Nordic Food Retail Market and the Seven Applicants for EU Membership

Ladies and gentlemen

PP 2. Fig. 1

Three of the five Nordic countries, Denmark, Finland and Sweden, are member states of the EU, while Iceland and Norway are not. 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.

Of the seven applicants there are five on the Balkan Peninsula. Only Iceland is totally outside this area, while Turkey is in the close neighbourhood but mainly outside Europe. Bosnia Herzegovina and Kosovo are also potential candidates for EU membership.

PP 3. Table 1

There are many differences that appear in Table 1. The five Nordic countries are quite similar, although Iceland is by far the smallest. Living standards in the Nordic countries are very high as the general government total expenditure and the tax burden as a proportion of the Gross Domestic Product (GDP).

A comparison with the EU, which now includes 27 countries with a combined population of 500 million, shows that living standards are somewhat lower there than in the Nordic countries. Agriculture is important to the EU, but does not represent a high proportion of GDP.

The living standard of the applicant states in southern Europe is much lower than in the Nordic countries, and also in comparison with EU countries. It is therefore clear that the countries applying for EU membership, apart from Iceland, are very poor. Since 2004, the EU has changed from a club of the biggest European countries into a federation of mostly medium-sized countries.

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 heavily populated.

PP 4

The food sector is a significant part of retail in all these countries. In the past years, discounters and hard discounters have increased their share in retail in Europe. It is the case for the newest EU member states and the seven applicants that they will very quickly change to a system of modern retail.

The enlargement of the EU reduces technical barriers in business and changes retail much as, for example, logistics problems will be easier and cheaper to solve. There is no reason to believe that the tendency will be different in the future than it was in Western Europe some decades earlier.

The EU food retail sector is characterised by a high concentration, as it is in most countries. In many of the countries the five biggest retail companies have more than 50% of the market. The EU retail market is not a single market; there is diversity in the competition across the member states. Law, practices, and state of market entry is not the same.

PP 5

State support for agriculture takes a twofold form in most Western countries. There are payments to farmers from the state for their produce and then are import tariffs or import quotas, where imports of cheap agricultural products are restricted or entirely prohibited.

Grants from OECD states to agriculture are huge. They are about one-third of the combined GDP of all the countries of Africa. 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. Each milk cow in the EU gets a financial support of 2.50 dollars per day while 75% of people in Africa live on less than 2 dollars per day.

PP 6

Governments interfere in the arrangements of agricultural affairs due to the historical significance of the sector and the long-term influence of interest groups in agriculture. The reason for the expensive EU Common Agricultural Policy can be located to the extensive influence of German and French farmers on politics; it is principally Germany and France that have dictated the Union’s policy. This influence of agriculture, and in particular in the rural areas, in these most powerful nations in Continental Europe is not recent, but reach many centuries into the past. The social transformation of Europe following the mid-18th century into industrialised urban communities and the increase in agricultural production was much quicker than the political will to make changes in agriculture. This happened in most of the industrialised countries, at the same time with a rise in the urban populations at the expense of rural populations.

PP 7

A completely new agricultural policy was established in the European Union in 2003. The new Common Agricultural Policy abandoned subsidies for the manufacture 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.

The CAP is based on two columns or pillars: first, direct subsidies to producers within the EU and market support and rural development programs. The CAP after 2003 and to 2013 includes ceilings for expenditures on the two pillars. Pillar one must not exceed 42.3 billion euro and pillar two must not exceed 13.2 billion euro. Furthermore, the CAP expenditures must in 2013 amount to only 26% of total EU expenditures that year. If we compare this to the 45% share of the CAP in the EU budget for 2006 and the 65% share in 1988, it is clear that EU has succeeded in improving the CAP.

PP 8

The new EU Agricultural Policy of 2003 is the most fundamental change in the CAP ever made. 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 harvest by 10–20%.

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 96.3 billion euro for the period 2007-2013. The fund is intended to support isolated areas in the member states. An important point regarding the EU agricultural subsidies is that maximum amounts are determined so that when new member states join the union, the subsidies to other states will be decreased.

PP 9

The Doha round of WTO negotiations, which began in Qatar in 2001, has the objective of promoting trade in agricultural products, systematising domestic support and market access, improving the situation of poorer states, e.g., through tariff reductions, and reducing market-disturbing support. A number of meetings have been held in the Doha round, but at the last meeting, in Geneva in 2008, the negotiations stalled. If barriers to trade in agriculture were removed and subsidies discontinued, this would make the situation of developing countries better.

In the Doha round the EU wants to stop all export subventions on food; the EU is the largest importer of food in the world. Even though the negotiations delayed in 2008, there have been agreements between individual countries concerning limited issues, and it is likely that the negotiations will be started again.

PP 10

The EU wants to go further than many other WTO countries in the Doha-negotiations. Danish farmers are happy with the EU membership, and of course their membership is long-standing, as Denmark joined the EU in 1973. In Finland and Sweden food prices went down much following attainment to the EU, and it is likely that the same would happen in Iceland, i.e., that food prices to consumers would go down.

PP 11

The new CAP, to decouple funding in agriculture from production, have better market access, stop export subsidies and support isolated areas, should be good to agriculture in the Nordic countries and applicant states. The benefit of membership to consumers in the form of lower food prices is unquestionable. These changes, which are already in evidence, will be profitable to the applicant states, whether membership will be or not.

PP 12, Table 5

Turkey applied for EU membership 24 years ago, in 1987, but negotiations started in 2005. They will go on for many years. Turkey is quite a different country from the other applicants or the EU states. There are many unsettled political problems, and there will be some problems regarding the agricultural sector because of the size and production capacity of Turkish agriculture.

Croatia applied in 2003 and negotiations are now over. Croatia is most likely to 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, as well as problems with Bulgaria regarding interpretations 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 there should be no serious problems with regard to agriculture in that process.

Albania applied for EU membership in 2009. There should be no special problems regarding Albania's application, but it will take some years, as in the case of most of the other applicants. The EU has a policy to include the states of the former Yugoslavia as full member states.

Iceland applied in 2009. There will be some problems regarding agriculture, as the Icelandic agricultural system is a very protective one and that has to change. 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 time being the majority of Icelanders opposes EU membership, but that can change.

Serbia applied for EU membership in 2009. The negotiations will take some years but there should be no serious problems regarding agriculture.

One can expect the same development for the seven applicants as for the ten countries that joined the EU in 2004. That was a good step for those countries and for the EU as a whole.

Thank you for your attention.

Power Points

PP 4

The food sector is an important part of retail in all these countries.

The trend will be not different in the future than it was in Western Europe some decades earlier.

The EU food retail sector is characterised by a high concentration.

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.

Regulation, business practices, and situations of market entry are not the same.

PP 5

State support for agriculture takes a dual form:
On the one hand, there are payments to farmers from the state for their production.
On the other hand, state support takes the form of import restrictions.

Support from OECD states to agriculture is one-third of the combined GDP of all the countries of Africa.

The poorest developing countries only have about 1% of the world trade in agricultural produce.

Each milk cow in the EU receives a subsidy of USD 2.50 per day while 75% of people in Africa live on less than USD 2 per day.

PP 6

Governments intervene in agricultural affairs owing to the historical importance of the sector and the long-term influence of interest groups in agriculture.

The reason for the expensive EU Common Agricultural Policy can be traced to the extensive influence of German and French farmers on politics.

This influence of agriculture extends many centuries into the past.

The social transformation of Europe following the mid-18th century into industrialised urban communities and the increase in agricultural production was much quicker than the political will to make changes in agriculture.

PP 7

A completely new agricultural policy was established in the European Union in 2003.

The CAP is based on two pillars: first, direct subsidies to producers within the EU and market support measures and, second, rural development programs.

Pillar one, i.e., market and direct aid, must not exceed EUR 42.3 billion in 2013.

Pillar two, i.e., rural development, must not exceed EUR 13.2 billion in 2013.

The CAP expenditures must not exceed 26% of total EU expenditures in 2013.
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 the EU has succeeded in reforming the CAP.

PP 8

The new EU Agricultural Policy of 2003 represents the most radical change in the CAP ever made.

When ten new member states were added in 2004 the number of farmers in the Union increased by 60%, from seven to eleven million, and arable land by 30% and crops by 10–20%.

The European Agricultural Fund for Rural Development has a budget of EUR 96.3 billion for the period 2007-2013.

When new member states join the EU, the subsidies to other states will be reduced.

PP 9

The Doha round of WTO 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.

The EU is the largest importer of food in the world.
It is likely that the negotiations will be resumed, as there is much at stake.

PP 10

The EU wants to go further in permitted market access than many other WTO countries in the negotiations.

Danish farmers are happy with the EU membership.
It applies both to Finland and Sweden that food prices dropped considerably immediately following accession to the EU.
The same would happen in Iceland.

PP 11

The general thinking in the EU's new CAP, to decouple subsidies in agriculture from production, permit better market access, discontinue export subsidies and support rural areas and less favoured areas, should not be difficult to agriculture in the Nordic countries and applicant states.

The adaptation to these changes will no doubt be advantageous to the applicant states, whether actual membership becomes a reality or not.