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**FEATURES OF THE COMMON
AGRICULTURAL POLICY
OF THE EUROPEAN UNION
COUNTRIES**

State regulation is an indispensable condition for the development of the agrarian sector of the economy. State regulation of the agricultural sector in the EU countries is based on Common Agricultural Policy. The objectives of CAP set for the period 2014–2020 are [1, p. 11]: general objectives – viable food production, sustainable management of natural resources and climate action, balanced territorial development; specific objectives – enhance farm income, improve agricultural competitiveness, provide environmental public goods, pursue climate change mitigation and adaptation, maintain agricultural diversity across the EU.

Three general objectives, in turn, are intended to ensure the Europe 2020 objectives of smart, sustainable and inclusive growth.

CAP is based on two concepts so-called «pillars». Pillar 1 is production and trading pillar [2, p. 257]. It regulates support measures within the Common Market and includes a single

payment system and a system of payments per unit area of cultivated land. It includes direct payments to help farmers to deal with volatile market prices and weather conditions. Pillar 2 is social structural pillar [2, p. 257]. It solves the issues of integrated development of rural areas, increasing the competitiveness of the EU agricultural industry and improving the environment and quality of life in rural areas. According to this concept, measures to finance less conducive territories are taken. Except content, there is one more important diversity between these two concepts – Pillar 1 expenditure is 100 % financed from the EU budget, whereas Pillar 2 expenditure is cofinanced with the Member States. CAP is intended to support EU production efficiency and food security by using mechanisms of subsidies and stabilization of food price on at a minimal level. But all these arrangements require funding.

Spending on EU agricultural policy takes the form of Union expenditure through the EU budget and Member State (national) expenditure. At the present time, CAP is taking about 40 % of the overall EU budget. However, the share tends to fall, started since the 1980s (when the share was 70 %) [1, p. 14].

There are 2 agricultural funds that cover the cost of CAP. They are the European Agricultural Guarantee Fund, which finances Pillar 1, i.e. direct support to farmers and market management measures, and The European Agricultural Fund for Rural Development, which finances Pillar 2 measures.

So, developed farm support system in EU leads to heavily dependence of agricultural income on the direct payments received under the CAP. On average across the EU, Pillar 1 direct payments account for 28 % of agricultural factor income; when Pillar 2 payments such as agri-environment payments and compensatory payments for farming in areas of natural constraints are added, the total rises to 33 %.

The most significant, in the question of interdependence, CAP's instrument is direct payments. Researches show that the share of market income in farm net income represents only 38 %, while direct payments have accounted for 47 % and other public transfers 15 % (over the period 2004–2013). But the positive moment is that such huge dependence presented not on all farms. The level of dependency changes from occupation of farm.

Thus influence of direct payments on horticultural farms is 7 %, vineyards – 9 %, pig and poultry farms (granivores) – 22 %. While at the same time payments account for 70 % of the income on «other grazing livestock» farms (predominantly beef and sheep) and 61 % on mixed farms [1, p. 45].

However, there can be positive production and trade effects in the long-run due to direct payments. It is possible because payments reduce the volatility of income and the fear of risks that, in turn, gives the ability of farmers to invest in new more efficient production technologies and methods. Moreover, wealth effects on reducing financial limitations on borrowing in banks.

Direct payments, providing opportunities for farmers to improve production by using researches and new technologies, also may have a positive effect on efficiency and productivity of farms. This is confirmed by the study of Kazukauskas, Newman, and Sauer (2014) of Danish, Dutch and Irish farms. But there is one more option of interdependence between direct payments and efficiency. Earlier research of Zhu and Lansink, who analysed German, Dutch and Swedish farms over the period 1995–2004, shows that the share of subsidies in total farm revenues (i.e. degree of subsidy dependence) had a significantly negative impact on technical efficiency [1, p. 45].

This effect occur in case when subsidies withdraw a motivation to perform well, because income already high. To make a conclusion about these different effects, it should be said that negative one took place before the reform in 2005. But the change of the partially-coupled subsidies to decoupled payments has eliminated this negative effect till nowadays.

Common Agricultural Policy measures essentially can affect different household's processes, especially production and trade. That's why the problematic of this issue is important and actual, especially in line with obtaining experience for Ukraine.

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