

HARMONIZATION WITH THE COMMON AGRICULTURAL POLICY FOR A NEW MEMBER STATE: THE CASE OF CROATIA

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Abstract

The integration process of candidate and potential candidate countries for the EU causes confusion and scepticism among different stakeholders, which often leads to missing out on accession opportunities. Although NMS are able to achieve economic growth by joining the EU, membership success also depends on the initial agricultural structure, local and national policy, pre-accession and post-accession measures, education, vocational training, development of the non-farm rural economy and institutional environment. Croatia, as the newest EU member state, has been experiencing certain issues in the implementation of CAP measures. Using thematic references dealing with the issues of the CAP and harmonization of NMS and conducting interviews among stakeholders in Croatia through focus groups during the pre-accession and membership period, the goals of this paper were to determine: (1) the understanding of the CAP principles and adjustments of national agricultural policies (2) the effects of policy results on national agriculture and further expectations (3) the state of policy learning and dialogue. These results could serve agricultural policy scholars as contribution to the analysis of integration policies and decision makers to avoid misunderstandings when implementing new agricultural policy measures.

Key words: CAP, Croatia, candidate countries, the EU, membership, NMS, stakeholders

INTRODUCTION

For Croatian agriculture, which is a highly sensitive sector dependent on political decisions, the process of adjustment to the Common Agricultural Policy (CAP) was estimated as not enough successful. Previous research implied that reasons for political and economic failures could be found in a great disparity of goals at national and EU level [4]. Budgetary support was primarily sector-oriented and intended for production increase. This is quite different intention than that of the CAP, which wants to target the multifunctional character of agriculture: environmental impacts, biodiversity, sustainable rural development, food safety, animal welfare and other non-market related elements. Agricultural policy has mostly benefited large-scale farms, while mid-scale and small ones lost their role in balancing a

healthy structure of agricultural and rural sector.

Furthermore, CAP decision makers find it more and more difficult to create policy measures and instruments that would be acceptable to both Western and Eastern members [5]. Priorities of Western members are often oriented to agri-environmental issues, animal welfare, renewable resources and climate change. Central and Eastern member states (CEE), including Croatia, which mostly have semi-substantial farms with low levels of factor capitalization, seek for higher direct support in order to reach the amount of subsidies per farm as it is for Western farmers, simplification of legislative framework and for measures which would focus on rural poverty.

The case of Croatian adaptation to new political and economic circumstances could serve as a valuable evidence which brings together causes and consequences of national

agricultural policy and results in new policy learning not just for Croatian policy makers, but also for other countries with similar start positions in the process of joining the EU community, whether they are candidate countries as Albania, Montenegro, North Macedonia, Serbia, Turkey or potential candidate countries which do not yet fulfil the requirements for EU membership (Bosnia and Herzegovina and Kosovo).

MATERIALS AND METHODS

Results and conclusions in this paper are driven using outcomes from research studies and interviews through focus groups conducted during pre-accession and membership period (2005-2019). Additionally, secondary resources dealing with issues of the CAP and harmonization of NMS were used to discuss the context of adaptation to new political and economic situation. The chosen period is divided into two phases: in the first phase, from October 2005 (the opening of negotiation with the EU) to the end of 2013, three focus groups were organized. It related to joint project of Food and Agriculture Organization of the United Nations (FAO) and Regional Rural Development Standing Working Group in South Eastern Europe (SWG), "Streamlining of agriculture and rural development policies of SEE countries for EU accession". The main stakeholders of the project were the representatives from the Ministries of Agriculture of the participating countries (Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro, Serbia, and Kosovo), research institutions in the CEE region and representatives from civil society associations dealing with agriculture and rural development policy issues.

In the second phase, in the period from 2014 to 2019, discussions were organized in three focus groups, trying to reach deep insight into opinions and attitudes of domestic stakeholders (researchers, MA and producers) about agriculture and agricultural policy during the first years of Croatian membership in the EU. Thirty participants altogether (phase 1 and 2, five from each group) from

the domain of public administration responsible for creating and applying policies, agricultural producers (family farmers, representatives of farming associations, cooperatives and other business entities) and academic society took part in the discussions. Using the results of this two-phase research, the goal of this paper is to determine among stakeholders:

(1) the understanding of CAP principles and adjustments of national agricultural policies (2) the effects of policy results in national agriculture and further expectations (3) the state of policy learning and dialogue.

RESULTS AND DISCUSSIONS

Historical issues of the Common Agricultural Policy

In the first decades after establishment, the CAP put a strong emphasis on the market support, while structural support measures were of minor importance. Consequently, the CAP became its own victim and faced the problem of surpluses and budgetary burden, additionally weighed due to the implementation of export subsidies, production quotas, and storage of surpluses.

In 1990s society became increasingly concerned about the environmental sustainability of agriculture and food safety. Additional pressure was made in the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) which demanded from the CAP to be less market distortive, to put limits on farm payments and to exercise control over growing budget expenditures.

Through MacSharry reform in 1992 and Agenda 2000, intervention price levels were significantly reduced at international market prices, direct payments to farmers were established and a serious debate about the role of agriculture in the European society was initiated. Especially with Agenda 2000, the strategy was to gradually decouple supports away from production and to turn subsidy towards rural development. Market and price support became pillar 1 and rural development pillar 2 of the CAP.

Although the name 'Mid-term review' (MTR) hinders extent and substance of the reform package in 2003 (also known as Fischler reform) it has been assessed by many experts as the most radical reform of the CAP since its creation [12] and [10]. The key element of the 2003 reform was the introduction of the single farm payment scheme (SFP) which meant decoupling a large share of CAP support from production.

Health check in 2008 was a rather modest reform. This reform is marked as a missed opportunity mostly because member states (MS) differ greatly in their views of future CAP and unanimous agreement is hardly achievable. Conservative MS (France, Italy, Ireland, Belgium, Luxembourg, Spain, Portugal, Greece) seek a greater budget for agricultural production, have strong farmers' lobbies and want more benefits from EU institutions. On the other side, reform-oriented MS (Denmark, Netherland, Sweden, Estonia, Latvia, Czech Republic, Slovakia) are liberally oriented and strive more for efficient production. Other members have changing positions, depending on political power and person involved in the negotiation [8].

CAP post-2013 was announced as the major reform with further orientation towards more cost-efficient and less distorting forms of farm support for the current period between 2014-2020. Raising challenges of climate change, environmental damages provoked by intensive agriculture, disproportion in payment amounts between farms, diversity between Old Member States (OMS) and New Member States (NMS) agricultural goals and public criticism on the amount of budget were to be faced more seriously in upcoming years. The main intentions of the reform were to make tighter connection between direct payments and rural development when it comes to agricultural and environmental support.

Croatian agricultural policy: significance of joining the EU and stakeholders' perception

The CAP is never sufficiently reformed to respond to the needs of Eastern Europe, but the experience of NMS that entered the EU in

2004 and 2007 is overall positive [2]. Accession resulted in a higher value of agricultural output, higher prices, higher export and import quantities and higher farmers' incomes. Still there are great differences in performance among countries due to differing initial conditions, pre-accession and post-accession policies.

A long period of communism in Croatia, as well as in the majority of NMS, left behind an adverse agricultural structure (large state farms vs. small private farms, negative perception of cooperation, lack of entrepreneurial spirit, etc.) that, together with a central-planned economy, caused great difficulties in adjustment to the market-oriented economy. Additionally, consequences of the War for Independence at the beginning of 1990s were obvious in devastation of natural resources, but economy was additionally limited by complicated transition period and WTO membership rules (regarding market liberalization). In the first decade after gaining independence, Croatian agriculture was characterized by considerable decrease in agricultural production and employment, indebtedness, technological lagging behind, worsening of trade balance and insolvency. The War considerably influenced the delay of economic reform and integration, but the post-war period also failed in policy adjustments regarding farmers and rural areas. During the process of Croatian integration into EU, the CAP was at the crossroads. Also, Croatian agricultural policy system had to adapt to the upcoming rules of capping direct payments, prepare domestic stakeholders to decoupled payments and greening procedures. To the EU, Croatia was another ascending member state with the centrally-planned economy background, with high average payment per farm, mostly coupled, which doesn't improve poor agricultural structure where few very big farms prevail. Low level of realization of strategically planned activities and rather an ad-hoc approach in designing and implementing agri-policy measures didn't fit properly in the CAP system. Still, it was not expected that Croatia by itself would

significantly affect budget planning or cause a key turnover of the CAP. Indeed, the previous reforms of the CAP were responses to challenging enlargements and integration of the EU with its Eastern neighbours.

Although Croatia had a good legal background which begins to develop in the mid-1990s, the lack of expert and scientific research has caused slow adjustment to new budgetary schemes and to preparation and implementation of rural development programs. In the period prior to the EU accession process, there was obvious, considerable dissatisfaction with the state administration, the gap between policy desires and opportunities (challenges of the European market versus uncompetitive domestic agriculture) and neglecting of expert advice in designing the policies [4]. It seems that the problem existed not only in the agricultural sector. It has been also found out that there are no precise studies about the impact of business sector on policy decisions and, although different experts have been invited into advisory bodies, their role was symbolic and proposed recommendations were disregarded and not implemented [9]. In agricultural sector this could partly be justified by tight deadlines in which policy decisions were made; in completely incomparable socio-economic circumstances, they had to meet the goals of policy that constantly changed as well. However, some comments of the public officers during debates also reflect a kind of professional arrogance against the academic community. Thus, it could be heard that "there is nobody at the faculties who knows anything about the principles of state intervention in agriculture" or doubts about "whether anyone knows about CAP mechanisms at the faculties" or a comment on how "faculty professors in their offices are not familiar with the situation in the field", implying that the academic opinion is not important. The attitude that nobody but a public official is competent as „a policy maker“ was obvious. Therefore, the academic community had little or no influence on final political decisions, and the results of professional studies were often neglected

because public officials did not have confidence in scientific methods used.

Such a disagreement has contributed to the number of erroneous interpretations of CAP standards, ranging from imprecise translations of professional terminology in the first official documents to the selection of agricultural policy measures which, according to economic principles, could not achieve the declared goals (such as market-price policies in achieving competitiveness). Also, the lack of involvement of academics, interest groups and wider society in the accession process is a little remarked and analysed problem. It causes "democratic deficit" in CEE governance which is trying to demonstrate faster progress towards policy implementation [7].

Judging by the results of focus groups made during the pre-accession period and the first years of EU membership, the prevailing viewpoints of Croatian stakeholders are in many respects similar to those in most of the NMS which entered the EU before Croatia:

- The main goal of agricultural policy is "to increase production and self-sufficiency" with little or no awareness of "greening" standards; common belief among agricultural producers, but often present in a rhetoric of farmers or key administrators ("why should we give funds for non-production?"), ignoring the fact that Croatian agriculture is only a minor segment of the European market that must survive under liberal trade conditions;
- Asking farmers about the responsibility and who should act to improve the situation in agriculture, answers generally started as "The government/the Ministry of agriculture should... by giving incentives for...", indicating still weak "bottom-up" approach over farmers' expectations of the government's 'strong hand';
- Achieving competitiveness is possible through market-price instruments such as price regulation, foreign trade limitations and production support. Unfortunately, although economically unjustified, the idea has been prevalent among farmers and produced a longstanding misunderstanding of the concept of income support under the CAP principles,

which confirms farmers' productivist attitudes [6]. Farmers from both new and established member states mostly perceive themselves as someone who produces food and believes that the survival and market performance of their farms depends on policy support. In addition, authors discuss convergence of NMS in the EU [2] and [3]. Countries which implemented policy measures in favour of competitiveness helped the agricultural sector to make better use of the opportunities created by accession. For example, Poland, with its low pre-accession level of subsidies and the Baltic countries with their liberal land policies, increased their gross agricultural output after accession. On the contrary, Hungary, Romania and partially Czech Republic with high and uneven price and market support experienced very little price increase. Overall, Poland and the Baltic countries could be treated as the winners of EU accession in agriculture, while Romania and Bulgaria proved to have used their potentials to the least. Focusing on high value added agri-food products (animal and processed production) proved to be a good strategy of reaching development. Countries focusing on the production of cereals and agri-food raw materials turned out to benefit the least.

- National budgetary support are the first source that farmers rely on, and not the European funds, justifying it by following reasons: "It is difficult to fill in the paper, too much to administer", "It is impossible to meet the tender requests". Of course, some of these comments are understandable due to the unresolved land ownership issues, severe financial prerequisites or lack of institutional support as explained in Hungarian case [1]. Land reform resulted in a highly fragmented ownership structure which hampered agricultural and rural development. Hungary was also faced with a late establishment of an institutional framework for agricultural and rural development, which contributed to delays in receiving EU support.

Furthermore, it is evident that the ways in which the countries used pre-accession programmes such as SAPARD, ISPA and PHARE was very important. Those who focused on competitiveness, production improvement and creating the required institutions were better in obtaining benefits after accession [2].

- There is a great lack of argumentation for success or failure in farm business and agriculture.

For the representatives of the Ministry of Agriculture, the results and policy effects are measured mainly by "spending public money", with no interest in further socio-economic effects for the sector or rural areas. The effect of economic institutions and social capital on the agricultural success of CEE countries has been studied in literature [11]. It appears that countries with more economic freedom and trust in institutions achieve better results in attracting foreign investments (Czech Republic) and improving agricultural performance in the EU.

There are some other considerations that can explain slight and slow adjustments to the CAP principles – resistance to new organizational forms by farmers and some academics (dissatisfaction with the need to organize producer organizations while cooperatives already exist) or almost irrational resistance to any changes as a part of folklore (over-emphasizing pride about traditional values). Adjustment to the common market is one of the most pressing demands of the post-accession situation [2]. On that track only Slovenia and Poland, prevailing small-scale farms notwithstanding, adjusted more effectively to the enlarged market, unlike the countries with complicated land reform and farm restructuring processes (e.g. Hungary).

Table 1 presents in more detail the prevailing opinions of examined stakeholders through focus groups during the period of pre-accession (nine years) and in the first six years of EU membership.

Table 1. The most frequent stakeholders' perception of agricultural policy

	Understanding of policy	Effects and expectations	Dialogue
PHASE 1-pre-accession			
Academia (researchers)	<ul style="list-style-type: none"> -the CAP is spreading measures from agricultural production to sustainable rural development and environment -bottom-up approach for local development -infrastructural adjustment of national farms -increasing income by diversification of farms -support to achieve self-sufficiency is not welcomed in the CAP -easily accessible national support blocks the use of pre-accession funds 	<ul style="list-style-type: none"> -pre-accession national policy is not preparing producers for common market shock and decoupled payments -missing statistical data will cause lack of reliable impact assessment analysis -missing an opportunity to use and learn from pre-accession funds -chance for improvement is in grouping of farms and support from Pillar 2 	<ul style="list-style-type: none"> -abortion of official dialogue between academia and the MA -research studies become more scientific and less acceptable by producers -official data used in negotiation process are hidden from researchers -field studies are organized to gain producers' perception of EU entrance
Ministry of Agriculture (MA)	<ul style="list-style-type: none"> -three years after negotiation started national agricultural and rural support increased to obtain higher value of production -administrative adjustment means change in legislation -rules of implementing pre-accession funds have to be very strict 	<ul style="list-style-type: none"> -higher agricultural support, higher income -increasing trend of agricultural prices and demand could increase producers' quotas -small-size agricultural land per farm could cause problem in common market 	<ul style="list-style-type: none"> -researchers do not understand the process of negotiation and the system of support -researchers are slow and expensive in their analysis -producers shouldn't be afraid of accession into the EU due to the probability of higher support
Producers	<ul style="list-style-type: none"> -policy should protect national production by input support, high customs, support of quantities and self-sufficiency 	<ul style="list-style-type: none"> -delays in transaction of national support -unstable domestic market and uncontrollable import are current policy effects -common market will cause deterioration of many small farms -larger farms could expect fairer business relationships, clearer legislation, better positions in food chain, comparative advantage in high value of natural resources, specific local products and tourism potential -based on the previous experiences of NMS which entered in 2004, the revitalization of rural area is expected 	<ul style="list-style-type: none"> -lack of trust in national political system of clear support goals and control -lack of trust in pre-accession funds because of complexity and unfamiliar system -smaller farms-unfamiliar with negotiation process -only few bigger agricultural holdings were learning business according to EU rules mostly through pre-accession programs
PHASE 2-post-accession			
Academia (researchers)	<ul style="list-style-type: none"> -support for Pillar 2 is used mainly for investment in big agricultural holdings which does not lead to socio-economic improvements in vulnerable rural areas, but helps overall employment -the CAP and OMS are turning to agri-environmental goals -low level of coherence of policies in rural areas (financial, regional, agricultural) -the most appropriate policy factor is Farm Advisory Service which should be enhanced by human and knowledge capacity 	<ul style="list-style-type: none"> -crisis is expected in the following sectors: milk, pig, wheat, sunflower, oilseed and corn -raising support for organic producers, producers of autochthonous breeds -producer organizations could result in an increase in production -raising support for High Nature Value pastures leads to an increase in surface covered but also to the decrease of production -closing down of small farmers statistically leads to higher farmers' income 	<ul style="list-style-type: none"> -the MA is balancing between lobby groups and CAP demands to create policy, minimal participation of experts -increasing communication with producers through public media, decreasing communication through direct contact -low level of cooperation between governmental institutions to harmonize goals for rural development -lack of data for goals which the CAP wants to achieve (local development, farmers' income, agri-environment)
Ministry administration	<ul style="list-style-type: none"> -rules within the frame of spending EU funds are negotiable with the EC -legislation on family farms helps to define and improve family business -national self-sufficiency is important 	<ul style="list-style-type: none"> -our success is measured on how much EU funds we distribute 	<ul style="list-style-type: none"> -low interest for education and information among producers -difficulties in implementation of bottom up approach -local policy often ignores new opportunities
Producers	<ul style="list-style-type: none"> -satisfaction with on-time payments, young farmers scheme, small farmers scheme -small farmers are affected by lack of input support -commodity chain system is not improved in favour of producers -national land policy, consolidation, heritage are far away from improvement -Pillar 2 is seen mainly as support to technology and mechanization 	<ul style="list-style-type: none"> -raising support and incomes for organic producers, biomass producers -no clear vision of national priorities -coupled support should be increased -direct support per farm should be limited -new markets both in and outside the EU 	<ul style="list-style-type: none"> -complete lack of communication with the MA

Source: Authors' elaboration based on the results of focus groups.

CONCLUSIONS

For the Eastern countries with specific historical background and centrally planned economy, joining the EU often causes great difficulties in adjustment to the open market rules and non-productivist orientation of the CAP. The example of Croatia, based on the focus groups research as well as pre-accession and post-accession literature dealing with NMS, shows an evolution in the understanding of CAP principles and effects, expectations and the process of policy learning and dialogue among stakeholders.

The main obstacle in harmonization is the gap between national and CAP goals: Croatia is trying to increase production and CAP is trying to respond to damage caused by intensive agricultural production. Further, Pillar 2 is mostly recognized by large agricultural companies as an opportunity to improve their infrastructure and increase competitiveness and it did not serve the purpose of rural development. Overall, national priorities in agricultural sector are barely clear, local administration rarely cooperates and accepts new opportunities through EU funds which complicates the process of decentralization. Still, the research of focus groups and studies shows that dissatisfaction with agricultural policy measures does not arise due to CAP rules but due to the national administrative institutions led by the Ministry of Agriculture, which are unwilling to establish regular dialogue with all relevant stakeholders (producer representatives, academics, NGOs, etc.)

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