

THE COMMON AGRICULTURAL POLICY OF THE EUROPEAN UNION WITH A SPECIAL FOCUS ON AGRICULTURE IN THE NEW EU MEMBER STATES

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ABSTRACT

This paper represents a product of professor (mentor) and student (graduate) cooperation. It analyses the the Common Agricultural Policy of the European Union (CAP), which is trying to preserve agriculture that guarantees food safety and to ensure sustainable and balanced development of all European rural areas, including areas with difficult production conditions. This agriculture policy should respond to citizens' concerns in terms of food, but at the same time, it is necessary to preserve rural communities and landscapes, as they are a precious part of European heritage. Rural areas cover more than 77% of the area of the European Union, and in them lives approximately half of the EU population. By entering of Central and Eastern European countries in the EU's agricultural diversity of Europe has increased even more. The CAP allows the farmers from the EU to meet the needs of about 500 million people whose main goals are to provide a decent living for farmers and to guarantee well-established and safe food supply at a price affordable for consumers. Since its inception in 1962, the CAP has developed significantly. It is developing continuously, and the basic priorities of CAP are to guarantee sustainable food production, to ensure the sustainable management of natural resources and promote the balanced development of rural areas of the EU. Poland, which is the most successful new EU member state when it comes to the CAP, utilizes all the benefits of this policy. Poland can be considered as a model country, which consistently applies and takes advantage of the agricultural policy. The paper analyzes the implementation of CAP on the overall growth of the Polish economy and GDP.

Keywords: *The Common Agricultural Policy of the EU (CAP), the European Agricultural Fund for Rural Development, the rate of subsidy, the amount of the aid, Poland*

1. INTRODUCTION

The Common Agricultural Policy of the European Union (further in the text the CAP) is a set of measures and programs of aid to agriculture in the European Union (further in the text the EU) governing the production and sale of agricultural products in the EU. The CAP is one of the most important areas covered by the European Union. It is designed both for farmers and for all the people of the European Union. The aim of European Union policy of the agriculture is to ensure reasonable prices and quality of food agricultural products for European consumers, and adequate income for farmers, but also to preserve the rural heritage.

2. THE PLANS REGARDING THE CAP BY THE YEAR 2020

The plans of the CAP are currently scheduled for the period from 2014 to 2020. The reform is fully in accordance with the fundamental principles of the CAP, aimed at ensuring sufficient amounts food of high quality at reasonable prices to consumers in the EU and globally. The

reform also fully applies on the EU rules on animal welfare and environment protection. It also aims to ensure the adequate standard of living for European farmers¹.

The reformed CAP includes:

1. Payments to farms owners and introduction of environmentally friendly farming practices such as crop diversity, and the maintenance of ecologically rich landscape features and the minimum area of permanent grassland.² Article 37 of the EU Regulation 1307/2013 of the European Parliament and of the Council of 17 December 2013, stipulates that the Member States should use part of their national ceilings for direct payments in order, on top of the basic payment, awarded yearly payment. It can take into account the internal convergence of the Member State or a region, as a mandatory practice, which farmers should follow, and is primarily concerned with the operation of climate and environmental policy objectives. Those practices should take the form of simple, general, non-contractual and annual measures that go beyond cross-compliance and are linked to agriculture, such as diversity of crops, maintenance of permanent grassland, including traditional orchards where fruit trees are grown in the rare part of the lawn and the establishment of ecologically important areas. In order to achieve the objectives of the CAP and to allow effective management and control of it, such a practice should apply to the eligible area of the farm³.
2. Fair distribution of aid in order to reduce the major differences in levels of income support received by farmers across the EU and reducing payments above a certain amount to the largest farms⁴. To ensure that financial resources for rural development are used in the best possible way and to measure the scope of the rural development program focused in accordance with the priorities of the Union for rural development and to guarantee equal treatment of applicants, Member States should establish selection criteria when selecting projects. Exceptions to this rule should be made only for payments under the measures for agriculture, the environment and climate, for organic farming, the measure Natura 2000 network and the Water Framework Directive, and measures for areas with natural or other specific constraints, for animal welfare, for forestry environmental and climate services, and measures related to risk management. The application of the criteria for selection should take into account the scope of activities in accordance with the principle of proportionality⁵.
Council Regulation (EU) no. 1370/2013 of 16 December 2013 on establishing measures for the determination of certain grants and subsidies related to the common organization of the markets in agricultural products are also provided support for: supplying students with milk and dairy products, for private storage as a measure of market intervention, to deliver fruit and vegetables to children. In addition, certain subsidies for production

¹ The reform of the common agricultural policy, Why reform?, <http://www.consilium.europa.eu/hr/policies/cap-reform> (Retrieved 10/02/2016).

² Ibid.

³ REGULATION (EU) no. 1307/2013 of the European Parliament and of the Council from the 17th of December 2013 laying down the rules for direct payments to farmers to support programs in the framework of the common agricultural policy and repealing Council Regulation (EC) No. 637/2008 and Council Regulation (EC) No. 73/2009, article 37.

⁴ The reform of the common agricultural policy, Why reform?, <http://www.consilium.europa.eu/hr/policies/cap-reform> (Retrieved 10/02/2016).

⁵ REGULATION (EU) no. 1307/2013 of the European Parliament and of the Council from the 17th of December 2013 laying down the rules for direct payments to farmers to support programs in the framework of the common agricultural policy and repealing Council Regulation (EC) No. 637/2008 and Council Regulation (EC) No. 73/2009, article 38.

in the sugar sector, for cereals and rice, and others. The new budget of the CAP for the period from 2014 to 2020 makes about 38% of the total EU budget.

3. The total amount of expenditure of the CAP in the period of the afore-mentioned seven years amounts to 408.31 billion euros. The annual budget should be reduced during the period from 2014 to 2020 a commitment budget of the CAP in 2020 should be reduced by approximately 15% compared to 2013⁶. The new agricultural policy by 2020 is necessary to find a solution for the challenges ahead. The CAP has provided food and an integrated, high-quality and safe products at an affordable and fair price. Over the years, the CAP has made efforts to respond to the economic circumstances and the complex demands of the market that are constantly changing. In 2013, the CAP was transformed in order to meet the challenges that lie ahead. Taken into account the expectations of society and it will allow far-reaching changes. Direct support should become more equitable and in accordance with the highest environmental standards, the situation of farmers in relation to other participants in the food chain should be strengthened and overall policy to become more efficient and transparent. The reform of the CAP gives a strong answer to the challenges in terms of food security, climate change and growth and job creation in rural areas. The CAP will continue to play a key role in achieving the overall objective of promoting smart, sustainable and inclusive growth.

3. THE AGRICULTURAL DEVELOPMENT IN THE NEW MEMBER STATES OF THE EU

The main challenges facing the agriculture and rural areas in transition should face is how to fit its current transformation into the requirements and instruments of the common EU policy of agriculture and rural development. The accession to the EU provided a historical opportunity for the countries of Central and Eastern Europe for the future development of their agriculture. Before them was the task of transition and reform policy adapt to new agricultural strategies of the EU. The main limitations and problems of agriculture and rural areas in transition countries were limited capital assets, which is provided by the EU. Investments in education are supposed to contribute to the goals of improving productivity, creating new businesses, and adapting quickly to the conditions of market economy. New EU vision and instruments on rural development have enabled the development of resources⁷. In the recent past, the new Member States were facing problems of transition, because in many cases after privatization and land reform remained unsolved property relation. It should be remembered that the development of agriculture here took place in a somewhat different way than in the Western Europe, because of those particular problems.

The main objectives of the CAP in the new EU member states were focused on modernization, which ensure rapid integration of candidate countries in the new concept of the second pillar of the CAP. Thus, the new concept of the European model of agriculture offered measures that are essentially the same measures of rural development offered by the existing policies for rural areas of the EU, in accordance with Agenda 2000⁸, including the restructuring of farms and plots of land.

⁶ The reform of the common agricultural policy, Why reform?, <http://www.consilium.europa.eu/hr/policies/cap-reform> (Retrieved 10/02/2016).

⁷ Ibid.

⁸ In Agenda 2000, there are explicitly established economic, social and environmental objectives, within the new reformulated sets the objectives of the CAP, which were in accordance with the requirements of the Treaty of Amsterdam. In the coming years, it is aimed to give a concrete form to the European model of agriculture and the preservation of diversity of farming systems throughout Europe, including areas that are faced with specific problems.

4. THE EU FUNDS AND SUBSIDIES

The membership in the EU has provided the new Member States a perspective in the development of agriculture through the systems of European funds and subsidies. Despite the many advantages that the EU has provided to the Member States, the experience⁹ has shown that the Member States, even those with the longest membership, have a problem with spending funds for the CAP and that the negative experiences are an accompanying factor. There was 346.5 million inappropriately spent euros, which had to be returned to the EU budget. On the other hand, the key results of the assessment of agricultural income in the EU for example, 2014, prepared by the national authorities in the Member States of the European Union in accordance with a common methodology of economic calculation in agriculture, according to the agricultural income per worker was 33% more than in the crisis year of 2009. However, there was a decrease of agricultural income by 1.7% compared to the year 2013¹⁰.

By analyzing the available data, it can be concluded that since 2005, for example, Slovakia more than doubled its level of income per worker. Bulgaria and Hungary have also made similar progress. Six countries with the highest increase in its revenues entered the EU in 2004 or later, which is evidence of the positive effects of increasing public aid granted to the agricultural sector, higher market prices and access to the single market. At the bottom of agricultural income per worker, there are eight countries where the income was lower in 2014 than in 2005, and that leads Luxembourg who recorded the biggest drop of nearly 33%.

However, despite successive income, increase agricultural income, which is recorded in the countries of the EU-N12¹¹ is about 5 800 euros, which is much less, compared to the advent of agriculture in 2014 for the group of EU-15¹², where revenues amounted to as much as 24 500 euros¹³.

The Agricultural Fund for Rural Development (EAFRD) aims to strengthen European rural development policy and simplify its implementation. It was envisaged that the Fund would improve the management and control of the rural development policy for the period 2007–2013. The Fund is financed by the CAP, and contributes to achieving the objectives of the strategy Europe 2020, by promoting a sustainable rural development throughout the European Union and contributes to environmental and territorial balance, climate protection and the introduction of innovation in the agricultural sector¹⁴.

For the 2007-2013 period, 96.4 billion euros were available, while in the new financial period from 2014 to 2020, the planned program budget should amount to 84.93 billion euros. The program can be used for agriculture, economic operators, agricultural organizations, associations and trade unions, environmental protection associations, and organizations that provide services in the culture of the community, including the media, women associations, farmers, foresters and the young farmers.

More in: Agriculture and rural development, http://ec.europa.eu/agriculture/cap-history/agenda-2000/index_en.htm (Retrieved 20/02/2016).

⁹ The agriculture is unprepared for the EU, <http://www.poduzetnistvo.org/news/poljoprivreda-nespremna-za-eu> (Retrieved 12/02/2016/)

¹⁰ According to the EU agricultural income in 2014 - first estimates, in 2014, the EU Agricultural Economics and Farm Briefs.

¹¹ A group of countries including Member States that accessed the EU in 2004: Czech Republic (CZ), Estonia (EE), Cyprus (CY), Latvia (LV), Lithuania (LT), Hungary (HU), Malta (MT), Poland (PL), Slovenia (SI) and Slovakia (SK), and in 2007: Bulgaria (BG), and Romania (RO).

¹² A group of countries that includes the Member States of the European Union in 2003: Belgium (BE), Denmark (DK), Germany (DE), Ireland (IE), Greece (EL), Spain (ES), France (FR), Italy (INT), Luxembourg (LU), the Netherlands (NL), Austria (AT), Portugal (PT), Finland (FI), Sweden (SE), and the United Kingdom (UK).

¹³ According to the EU agricultural income in 2014 - first estimates, in 2014, the EU Agricultural Economics and Farm Briefs.

¹⁴ The European Agricultural Fund for Rural Development - EAFRD, <http://europski-fondovi.eu/content/europski-poljoprivredni-fond-za-ruralni-razvoj-eafrd> (Retrieved 12/02/2016).

It promotes knowledge transfer and innovation in agriculture, forestry and rural areas, strengthening the competitiveness of all types of agriculture and increasing the sustainability of the economy, promoting food chain organization and risk management in agriculture. It is also aimed at reconstruction, preservation and promotion of eco-dependence on agriculture and forestry, promoting resource efficiency and the shift of support to low levels of carbon dioxide and climate adaptive agriculture, food and forestry, a weight and promoting social inclusion, poverty reduction and economic development of rural areas. This provides for the maximum co-financing rate of 85% of eligible expenditure in the less developed regions, outermost regions and the smaller Aegean Islands, and 50% of eligible public expenditure in other regions. Minimum co-financing rate will be 20% of eligible public expenditure¹⁵. Area co-financing of the EU agriculture included a number of regulations that must be applied directly from EU legislation and their correct administrative application is crucial for the functioning of the CAP. By joining the EU, the Member States have access to the funds for co-financing in agriculture from the CAP, which has enabled farmers to use the grant to a certain percentage.¹⁶ The call for grant applications is published once a year (until 31 October). The Commission accepts applications for co-financing in agriculture only from legal persons and registered farms that are established for at least two years in one of the member states. In addition to agricultural subsidies, allocated following a call for proposals, the Agriculture and Rural Development Directorate-General also concludes public procurement contracts for the provision of services. These contracts have been signed after calls for tender. Among the most important concepts advocated by the new CAP is to strengthen environmental sustainability (“greening”) and 30% of the spending of direct payments in order to improve the use of natural resources. Encouraging young people to engage in agriculture provided the additional incentives of 25% per hectare for a period of five years. Small farmers are given a one-time annual subsidy 500-1000 euros, regardless of the size of the economy. Farmers who are not engaged in agriculture, and therefore do not generate income, will cease or reduce the direct payments or co-financing in agriculture. Every economy will have a limit of 300.000 Euros per year (minus the cost of salaries for the previous year) on co-financing in agriculture. For each economy, conditions of cross-compliance have to be met. The plan is to abolish the production quotas for sugar (from 2017)¹⁷. The level of aid within the CAP can vary from one farm to another and from one country to another. The reform of 2013 and the inequalities in the distribution of EU funds through grants sought to reduce. For 2008, the amount of agricultural subsidies that came from the EU budget varied considerably between the Member States¹⁸. As part of the reform that was adopted, the decision, which will ensure that each Member State does not receive the amount of no less than 75% of the EU for co-financing in agriculture. All Member States will be obliged to use a single payment per hectare to the beginning of 2019. The national envelope for direct payments will be adjusted so that those who receive less than 90% of the EU average direct payments per hectare receive more support¹⁹. The reform, taken in 2013, which aims to reduce the inequalities in the distribution of the EU funds, is very important, since the common European market, with unequal agricultural subsidies, leaves very serious consequences in member countries whose farmers have considerably less subsidies (which is generally the case with the former socialist countries). The high subsidies in the EU lead to low food prices in the market, which are lower than the actual cost of production and

¹⁵ Ibid.

¹⁶ Brochure of the European Commission, EU policies - Agriculture (co-financing in agriculture).

¹⁷ According to: Co-financing in agriculture, taken from: <http://www.pravaideja.net/sufinanciranje-upoljoprivredi> (14.02.2016.).

¹⁸ According to the data from Farmsubsidy.org, <http://farmsubsidy.openspending.org/>.

¹⁹ According to: Co-financing in agriculture, taken from: <http://www.pravaideja.net/sufinanciranje-upoljoprivredi> (14.02.2016.).

therefore threatens the survival of farmers in countries that do not have high subsidies and are forced to import food even though they were unable to comply with (at least) their personal needs. The tendency is to take and in those EU countries with high subsidies, maximizing the impact of farmers in the entire food chain, and greater ownership share of primary production to higher stages of processing and distribution of food. In some countries of the EU, direct payments to farmers from the EU budget make up 2/3 of agricultural income, or about half of their total income. However, there is a problem of their survival under conditions of reduction of previous subsidies.

5. THE DEVELOPMENT OF AGRICULTURE: A BRIEF OVERVIEW OF THE POLAND'S SUCCESS

The growth rate of Poland's economy shows that this country has managed to avoid a recession that hit most European countries. Among the “EU-27”, in the most serious year of the Great Recession (2009), Poland was the only member state had a growth rate (1.7%), which shows that Poland, apart from positive results recorded in normal economic conditions, maintained the appropriate economic policies even during the economic decline of countries around. The available data show that Poland is among the few countries where the rural population is increasing, and despite the turbulence in the market, growth and investment in food production. Poland has received generous support from EU funds, and it is estimated that only support the pre-accession period amounted to around 180 million euros per year. Today, Poland is a European food superpower, which is the only year exports increased by 17%. Before these successes, Poland's agriculture was too diversified. The investments in infrastructure are partly facilitated by European funds and they are also for the purchase of equipment used funds from the SAPARD²⁰ program. The Polish problem was, among other things, agricultural land, that because of the high cost hardly anyone buys. This land is typically used for lease and land are very bad quality so that herders rely more on the purchase of fodder, but on the cultivation²¹.

Despite significant reductions of family farms after joining the EU, Poland is the fourth producer of milk in the EU. Although Poland is mostly oriented towards the EU market, there is also a cooperation with Japan, Korea, Singapore, the African countries, the USA and Canada, and the increasing importance of the Eastern markets. Poland is the second producer of tomatoes in Europe. Everything is built and supported by the EU funds, and in many cases, it was a joint investment and so they were easier to accomplish planned investments. In Poland, there was an increase in the entire branch of agriculture; many people have found a job. Demand for tomatoes in Russia (although the sanctions represent a problem at the moment) and local supermarkets guarantees continued employment, while in foreign markets there is a competition with lower prices. Polish example shows that it is specialization, together with directing the production and the recognition of major strategic development goals, can produce excellent results. A sound macroeconomic anti-inflation policy, particularly the implementation of three years prior to joining the EU, has resulted in strong economic growth and weakened inflationary pressures in the first years of the EU membership. The strongest growth was recorded in 2006 (6.2%) and 2007 (6.8%), while in 2006 the lowest inflation rate after the accession was recorded (1.3%). In addition, the rapid growth in exports and increase in domestic consumption strengthen the national balance of payments, which increased the value of the national currency²². In 2004, Poles could spend 25% of the level of support for agriculture

²⁰ Pre-accession program aimed at rural development.

²¹ Poland as an agricultural model, <http://www.agroklub.com/poljoprivredne-vijesti/poljska-kao-poljoprivredni-uzor/11536/> (Retrieved 29/02/2016).

²² Mikuš, O., Piecuch, J. and D. Haladin (2011). *Agricultural policy in the EU after five years of membership: Polish experience*. The 46th Croatian and 6th International Symposium on Agriculture, ed. by M. Pospíšil, Opatija, Croatia: 11-18.

(compared to the EU15 member states), with a gradual increase of 5% by 2006. Then it started to increase by 10% to 2013 reached the level of support you have the EU-15. Compared with 2003, the year before entering the EU budget for agriculture and rural development has tripled in 2005, and the allocation of the EU funds increased by nine times²³. The share of agriculture in the national budget is significantly increasing, for example (85% increase to 2008 compared with the level of 2005). After accessing the EU, rural areas experienced some changes in the context of the economic activity, which is increasingly oriented towards multi functionality. The funds from the common EU budget through the SAPARD and the Sectoral Operational Program "Reconstruction and modernization of food sector and rural development" for the period 2004-2006 and 2007-2013 in the function of achieving multi-functionality, support for improving the competitiveness of the agro-food sector and the introduction of instruments for diversification of economic activities. All these programs have a common goal: improving the quality of life in rural areas, development of the service sector and the opening of alternative employment opportunities, unrelated to agriculture²⁴. Since 2002, the Polish farmers and local governments are entitled to use funds from the SAPARD pre-accession fund. Poland used 95% of allocated funds, and priority spending was oriented towards improving rural infrastructure. It has accepted 24 396 applications and spent 720 million euros from the EU funds. In the first years of membership, former concerns of farmers were gradually disappearing. Poland had generally very effective advantage of direct payments from the EU, which has increased the satisfaction of farmers and create a positive attitude towards the EU, which increases from year to year. The Polish membership did not cause a trauma in the agriculture: small farms are not removed, the Polish market is not flooded with food in other member countries, foreigners are not buying massive agricultural land, and Polish farmers do not feel like strangers in Union²⁵. Poland, like most of the new Member States shall apply a simplified scheme of single payments per farm (Single Area Payment Scheme - SAPS). The increase in agricultural income is the result of the impact of increased levels of direct payments received under this scheme. The subsidies in the agricultural income in 2003 amounted to 9.4%. In 2008, it amounted to 49.9%. The financial package from 2007 to 2013 had to a total of 17 billion euros for rural development program, 3.2 billion euros a year for direct payments, while the Structural and Cohesion Funds allocated a total of 67 billion euros. Poland is also a beneficiary of the highest 19% of funds from the structural and cohesion funds within the Member States, and the funds are diverted for transportation (35%), research and development in the context of innovation (16%), environmental protection and risk management (14%), human resources (13%) and information society (6%). The increased interest of foreign investors in Poland since joining the EU supports the fact that Poland does have a stable macroeconomic environment, and the data from the first half of 2010 show that investment increased three times compared to the same period of 2009, and the recession did not cause damage the Polish economy²⁶.

6. CONCLUSION

Modern agricultural policy of the EU with their programs and systems of co-financing from EU funds instilled new hope Member States which, tortured bad economic policy of the communist legacy, recorded a steady decline in agricultural production, low rate of GDP, constant unemployment and a general decline in the overall economy. Experiences of member states

²³ MINROL, 2006, http://ec.europa.eu/agriculture/events/simplification/index_en.htm (Retrieved 15/02/2016).

²⁴ MINROL, 2009, http://ec.europa.eu/agriculture/climate-change/pdf/sec2009_1093_en.pdf (Retrieved 16/02/2016).

²⁵ Mikuš, O., Piecuch, J. and D. Haladin. 2011. *Agricultural policy in the EU after five years of membership: Polish experience*. The 46th Croatian and 6th International Symposium on Agriculture, ed. by M. Pospíšil, Opatija, Croatia: 11-18.

²⁶ Ibid.

show that EU accession and use of privileges offered by the EU to its member countries, positive solution that can very well strengthen the economic picture provided a rational usage of resources obtained. On the way from its inception until today, the European agricultural policy has gone through many stages of development, from its original role of “breadwinner” to the present to achieve a monopoly in the global agricultural market. However, the “stumbling block” in the CAP to represent dissimilar coefficients of co-financing in the agriculture of the Member States which entail the problem of inequality in the European market. The CAP is providing a financial support to farmers to ensure the further cultivation and creation of additional reconstruction of villages, protection of the landscape and cultural heritage projects and a number of other tasks that are linked, directly or indirectly, with agriculture and rural economy. This prevents depopulation of rural areas due to low employment opportunities and high unemployment. By looking for a safe and high quality food, over the years Europe has developed a range of instruments, including the marketing standards, quality systems to identify products specific quality systems certification and hygiene rules. All this strengthened is the overall economic picture of the EU and created a distinctive and unmatched quality in the global market.

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