Paper: Retailing and Consumer Services Conference, organised by the European Institute of Retailing and Service Studies (EIRASS) in San Diego, California, USA, July 15-18, 2011

Prof. Dr. Agust Einarsson
Bifröst University
311 Borgarnes
Iceland

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

Abstract

This paper analyses the impact of reforms of the Common Agricultural Policy (CAP) in the EU. The reforms were approved in 2003 and represent the most radical CAP reforms in the history of the EU. We discuss the resulting changes and evaluate their impact on the Nordic countries and the seven applicants for EU membership. We also discuss the planned world trade reforms currently being negotiated at the level of the 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, and where the respective positions taken by the Nordic countries and the EU applicants in the course of negotiations are far from identical. 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. Denmark has been an EU member state since 1973 and has a relatively strong agricultural sector. Iceland and Norway have implemented an extensive protection policy and state aid system for their agricultural sector, and food prices are very high in these two countries in comparison with other European countries. An assessment is then proposed of whether the agricultural sector will prove to be among the chief issues in applicants' negotiations with the EU Commission regarding membership and eventual decisions on accession.

1. Introduction

The structure of this paper is as follows: first we will describe the main characteristics of the countries discussed, i.e. the five Nordic countries and the seven applicants for EU membership, and the food market in those countries. Next, we illustrate the reform of the Common Agricultural Policy (CAP), which started in 2003. We also discuss the negotiations within the World Trade Organization (WTO) regarding agriculture and their impact on the CAP. We consider the effect of the CAP reforms for the Nordic countries and the applicants for EU membership, and we evaluate whether agriculture will be one of the main issues for the applicants in the membership discussions.

2. The Nordic countries, the seven applicants for EU membership and the food market

The map in Figure 1 shows the five Nordic countries, Denmark, Finland, Iceland, Norway, and Sweden, and the seven applicants for EU membership, Albania, Croatia, Iceland, Macedonia, Montenegro, Serbia, and Turkey. Iceland is both a Nordic country and an applicant. Of the seven applicants there are five on the Balkan Peninsula. They all suffered greatly during the decade-long civil war in the Balkans. Only Iceland is totally outside this area, in the far north, while Turkey is in the close neighbourhood, but mainly outside Europe. Negotiations regarding EU membership have started with five of the applicants, but not yet with Albania and Serbia (European Commission. Eurostat. *Glossary: Candidate countries*, 2011). It is to be expected that Bosnia Herzegovina and Kosovo will also apply for EU membership in the future.

Fig. 1: Map of Europe

Table 1 contains some fundamental information on the countries discussed and, for comparison, the USA and China. Four characteristics for the year 2010 are shown, i.e. population in millions, Gross Domestic Product (GDP) based on purchasing-power-parity (PPP) per capita in current international dollars, unemployment as a percentage of the total workforce, and total taxes as a percentage of GDP (IMF. Data and Statistics. Gross domestic product based on purchasing-power–parity (PPP) per capita, 2011 and European Commission. Eurostat. Total population, 2011).

	Population in millions	GDP per capita in 1.000 $ in PPP	Unemployment in %	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

Table 1: Main characteristics of countries in 2010

There are many differences that 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 between 40 and 50% 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 extensive in the countries of South Europe, from 10% to just over 30% in Macedonia, which is abnormally high. The general government sector is relatively much smaller in these 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, similar to the United States and the EU. The general government sector in the U.S., at slightly under 30%, and even smaller in China, at 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.

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

Table 2: Population of the 27 EU countries in millions in 2010 and the Nordic countries and the seven applicants

Table 2 shows the inhabitants, in millions, of the 27 old EU states, with the Nordic countries in red, and the seven applicants in blue. 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.

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

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

Living standards, measured as GDP per capita in 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, as compared to the richest countries. The food sector is an important part of retail in all these countries.

Many of the Western Balkan states have become members of the OECD and NATO and have applied for membership of 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%, which is similar to that in the EU. Another significant characteristic of the applicants is the growth of the retail sector, with far more large stores and hypermarkets than before. This is the same development as within the EU in the past years (Žužić, 2006).

A large market share of relatively few companies is very common in the manufacturing and retail sector within Europe. In the past years, discounters and hard discounters have increased their share in retail in Europe. The German enterprises Aldi and Lidl are examples of this trend. In Europe, the largest 15 retailer companies hold about 80% of retail sales. An example of this is Romania, a relatively new member state of the EU, where the share of hypermarkets and other big stores increased from 19% to 34% from 2004 to 2006 in only two years. The big retail chains playing the central role in Romania are Metro, Rewe Group and Carrefour. 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, where economies of scale and consolidated buying will characterize the low-price policies of the 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 is a growth strategy by these companies. Manufacturing companies have done this before, and now there is the same trend with global retailers. Retail, including the food sector, is very important in the seven applicant states because one can expect in these countries, *ceteris paribus*, an increase in living standards in the coming years 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 will be filled by Western retail companies. Increased globalization, as a result of the progress in the WTO negotiations, has boosted the retail sector. In Hungary and Poland there is a strong presence of foreign companies, 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. 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. One has to bear in mind, however, that the small retail companies have good chances of meeting special requirements and finding niche markets even though the share of small retail companies is getting smaller compared to the big companies (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 else than positive. Some studies project the increase in GDP for the current EU countries at about 0.5%. For the applicants, the economic effect will be positive, ranging from a small scale, as in Iceland, to a larger scale, as in Turkey. The increase of GDP through EU membership is estimated to be 1.5% to 8%. The question of membership is, of course, not only related to economic matters but also to gains in political influence and to changes in society in the direction of the norm in the EU regarding issues such as transparency, judicial systems, domestic institutions, less corruption, 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 eventually new member states, and that will affect the retail sector and agriculture. Much has already been done in these countries to benefit from the economic advantages without actual membership. Tariffs and quantitative restrictions between the EU and Turkey, e.g., were removed between 1996 and 2001 (Lejour, Arjan M. and Ruud A. de Mooij, 2004).

Accession to the internal market of the EU can be achieved by 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, mainly Nordic countries; most of these countries joined the EU in 1995. The EEA Agreement includes almost all the economic framework of the EU. Trade liberalization in the past decades has been effective in many countries, and in many of the seven applicants 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 they could go further in that direction without becoming members, these countries do not want that. They want full membership (Einarsson, 2010).

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 membership of the ten countries in 2004, where a higher living standard entailed an increased demand for consumer goods. The enlargement of the EU reduces technical barriers in business and changes retail extensively as, for example, logistics problems will be easier and cheaper to solve. There is no reason to believe that the trend in Central and East Europe will be different than it was in Western Europe some decades earlier (Delaporte *et al.*, 2006).

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 over 50% of the market. The expenditures of households on food and beverages are usually one sixth of their total expenditures. The EU retail market is not a single market; there is diversity in the competition across the member states. Regulation, business practices, and situations 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 there will be gains in productivity. The change from centrally planned economies to market-based systems, as in Central and Eastern Europe and in the Balkans is, among other things, characterized by small and medium-sized enterprises which are vital in the retail sector, although the bigger shops are increasing their share. This 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, putting pressure on the small retailers (Smallbone and Rogut, 2005).

Shopping habits vary greatly between regions of Europe, also in the food sector (Einarsson, 2008). There are fewer but larger shops per inhabitant 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 is now characterized by global retailing, with large retail chains operating in most countries. The Nordic countries are regarded as a small market region. The retail companies are among their biggest enterprises in many countries. The retailers have huge buyer power, representing the situation of monopsony (Clarke *et al.*, 2002).

	Price level	
	Overall	Food only
Denmark	141	147
Finland	125	125
Iceland	117	120
Norway	139	154
Sweden	114	117
EU-27	100	100
Albania	53	74
Croatia	75	94
Macedonia	47	59
Montenegro	62	77
Serbia	58	82
Turkey	73	87

Table 4: Price levels by country 2008

Table 4 shows the price levels for countries in Europe, where the price levels differ greatly. The average for EU-27 is 100, so, as illustrated in Table 4, the overall price level in Denmark, i.e. for total household final consumption expenditure on goods and services in 2008, is 141, or 41% higher than the EU average. Northern European countries have the highest prices, while South-eastern European countries show the lowest prices. The cheapest country is Macedonia, at 47% below the average. The price level for food and non-alcoholic beverages is 147 for Denmark, i.e. the food is 47% more expensive in Denmark than it is on average in EU. Prices in the food market in Norway are much higher than in the other countries of Europe. This can be explained by the extremely inefficient agricultural sector in Norway. As shown clearly in Table 4, the price levels are much lower in the applicant states in the Balkans than in the Nordic countries, and this is in line with the much higher living standard in the Nordic countries, as compared to the countries in the South, as illustrated in Table 1.

3. CAP reform and WTO negotiations and their impact on the Nordic countries and the applicants

State support for agriculture takes a dual form in most western countries. On the one hand, there are payments to farmers from the State for their production, or in line with the quota of each farm, farm size, number of family members or other criteria, which are often mixed in the plan of the payment arrangements. On the other hand, State support takes the form of import restrictions, i.e. import tariffs or import quotas, where imports of cheap agricultural products are restricted or entirely prohibited.

Grants from OECD states to agriculture are extensive, and to put them into perspective they are higher than the combined GDP of all the countries of Africa. To give another example, each milk cow in the EU received a subsidy of up to USD 913, while each person in sub-Saharan Africa received USD 8 in development aid. The share of agriculture in the GDP of the OECD states is approximately 2%. Annual subsidies to farmers in the OECD amount to USD 280 billion, while OECD development aid amounts to USD 80 billion. 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: In the first place there are payments out of the State Treasury to farmers for production or quotas. These are direct payments, partly production-linked, and if they are not linked to production they are called environmental or green payments.

In the second place, import protection is assessed with the foreign price of agricultural produce subtracted from the price of comparable domestic products. The difference is the import protection, but processing costs are ignored in both cases. When the import protection is added to direct subsidies from the state, the resulting figure is the so-called Producer Support Estimate (PSE).

In the third place, payments are added relating to soil reclamation, reforestation and agricultural schools, and when this figure is added the result is the Total Support Estimate (TSE) for agriculture. It is a matter of some doubt whether the third pillar of support in the OECD assessment, soil, reclamation, reforestation etc., should be calculated specifically as support for agriculture, as these are general public undertakings which have a wider application than as an employment issue in agriculture.

The basic principles of economics provide that an optimal situation is achieved with market equilibrium, where many sellers ensure the supply of goods and many buyers represent a demand for the 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, i.e. supply. Agricultural produce, which comprises organic products, deteriorates with time and some products, such as dairy products, spoil relatively quickly. The price elasticity of demand for agricultural products is inelastic, i.e. the proportional price change has relatively little impact on demand. This is the case with necessities, which agricultural products are considered to be. This is not unique, however.

It is generally considered that agricultural products are not income elastic, i.e. an increase in income has the effect that demand for the product increases proportionally less. However, it would be improper to generalise, as there are many who will spend more on food and drink if their income increases. There are indications that people will spend a similar proportion of their income on food, regardless of the amount of income.

Although production in agriculture is subject to uncertainty, e.g. as a result of 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; prices are not allowed to correct the imbalance between supply and demand owing to government intervention. The explanation for government intervention is untenable in economics, which recommends the maximum possible freedom of trade without market-distorting actions by governments. There are political reasons at play.

Governments intervene in the arrangements of agricultural affairs owing to the historical importance of the sector and the long-term influence of interest groups in agriculture. The market is not permitted to seek a natural equilibrium of supply and demand, as in other sectors, 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 the consumers' gains are transferred from consumers to farmers, and at the same time this contributes to a welfare loss, meaning the value that is lost as a result of intervention of this kind.

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. This influence of agriculture, and in particular the 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 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, concurrently with a rise in the urban populations at the expense of rural populations (Einarsson, 2007).

The EU's purpose with its CAP is to increase productivity, ensure positive operating results in agriculture, invigorate markets, secure an adequate supply and offer foodstuffs 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 consists, among other things, of import tariffs and quotas imposed on foreign states, price setting of products, subsidies for production and export subsidies. This policy has been changing in recent years, with most of the changes being decided in 2003.

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. This represents a departure from the haphazard and inefficient production subsidies.

The new CAP will be introduced as law in 2011 and will be effective in 2013. The CAP is based on two pillars: first, direct subsidies to producers within the EU and market support measures and, second, rural development programs. The CAP after 2003 and to 2013 includes ceilings for expenditures on the two pillars. Pillar one, i.e. market and direct aid, must not exceed EUR 42.3 billion in 2013 and pillar two, i.e. 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 (House of Lords. European Union - Second Report, 2005/06).

This new policy is also intended to change the system and bring it closer to the WTO's definitions of environmental (green) subsidies, with the intention of strengthening the EU's position in those discussions. The new EU Agricultural Policy of 2003 represents the most radical change in the CAP ever made, and it is a part of the attempt to improve the competitiveness of agriculture in the member states and respond to the increase in the number of member states. 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%.

If the EU wishes to continue its production subsidies to some extent, this will be done with extensive restrictions and within clearly defined budget allocations. Payments to farmers or farms will 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, and at the latest in 2007 at the request of member states, with individual countries permitted to make full use of the time limits or not as they chose.

It is interesting that by decoupling subsidies from production, the possibility is opened of subsidies to non-producing farmers. The general conditions for subsidies do not only stem from environmental viewpoints, health in production and animal welfare; the requirement is also made that all land used in agricultural production must be in a good arable and environmental state. Also, the focus is on rural communities by increasing subsidies to such places in order to ensure that agricultural production in such places complies with all EU requirements. The reduction in subsidies to larger farms fund 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 an annual budget of EUR 5 million. 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 determined so that when new member states join the union, the subsidies to other states will be reduced.

With the new CAP surpluses in production eliminated, competitiveness is improved, farming becomes more sustainable, and an integrated approach is introduced for rural areas. 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 the coupled direct payments to producers represented the lion's share of the expenditures. The decoupled direct payments represent the biggest share after 2009, followed by payments for rural development. With the new CAP food security is improved, the environment is better protected and it is easier to cope with economic crises than before. The environmental challenges include soil depletion and water/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. The CAP is intended to become more sustainable and to focus on environmental and climate change objectives (DG for Agriculture and Rural Development. European Commission. Communication on the future of the CAP, 2010).

The globalisation of trade and communications represents great opportunities for improved living standards with strong infrastructures, as market areas are growing, trade is become simpler, e.g. within Europe owing to the common currency, tariffs are coming down and barriers to trade are lowering. Relative competitive advantages determine world trade and promote economic growth.

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-disruptive support. These negotiations took over from the GATT negotiations, which were brought to an end with an agreement between the nations of the world in 1994. A number of meetings have been held in the Doha round, but at the last meeting, in Geneva in 2008, the negotiations stranded on disputes between the industrial states and the developing states over agricultural matters, which have 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).

Among the disputes within the WTO is how much the United States should cut back on their aid to farmers, how much market access the EU should permit, and how much tariffs should be reduced; in addition, disputes concern the opening of markets for industrial products in the larger developing countries. In the Doha round the EU wants to discontinue all export subsidies on food in 2003; the EU is the largest importer of food in the world. Even though the negotiations stranded 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 (WTO. News items. Lamy outlines what is needed to conclude round this year, 2011).

The systems used by Iceland and Norway will need to be adapted to the prospective WTO Agreement, which means that tariffs will have to be lowered and payments will need to be changed to green subsidies, which is done pursuant to certain rules. 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, and of course their membership is long-standing, as Denmark joined the EU in 1973. They see significant advantages in membership. Spokesmen of Danish farmers supported the membership of the 10 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, representatives of Danish farmers 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, it applies both to Finland and Sweden that food prices dropped considerably immediately following accession to the EU, and it is assumed that the same would happen in Norway on accession. It is also likely that the same would happen in Iceland, i.e. that food prices to consumers would fall (Einarsson, 2007).

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 WTO, are that the trend will be in this direction. The adaptation to these changes, which are already in evidence, will no doubt be advantageous to the applicant states, whether actual membership becomes a reality or not.

Applicant	**Year of application**	**Remarks**	**Problems regarding the agricultural sector**
Turkey	1987	Negotiation from 2005. Many political questions	Some
Croatia	2003	Negotiation going well. First in line to become an EU-member	No
Macedonia	2004	Questions regarding the name of the country	No
Montenegro	2008	No serious questions but the negotiations will take many years	No
Albania	2009	No serious questions but the negotiations will take many years	No
Iceland	2009	No serious questions but membership is controversial	Some
Serbia	2009	Questions regarding the war in Western Balkans	No

Table 5: The seven EU applicants, remarks and problems. Conclusions

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 older 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, 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 going well. There is, however, an unresolved border dispute with Slovenia, but nevertheless 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, i.e. the Western Balkans, 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 very fast.

Serbia applied for EU membership in 2009. There were problems with Serbia regarding the criminal court in The Hague, but they have since been solved. The negotiations will, of course, 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 (Einarsson, 2010).

Negotiations on EU membership have been an extremely complex affair, and negotiations have usually gone on for years. A good knowledge of all the aspects of regulatory framework and policy are a prerequisite for being able to come to grips with the changed circumstances in the future.

References

Bălan, Carmen, 2007. The Alliances of European Retailers and Their Effects in the Field of Marketing and Supply Chain. The Romanian Economic Journal 10(25), 29–48.

Bukeviciute, Lina; Andriaan Dieres; Fabienne Ilzkovitz and Guillaume Roty, 2009. Price transmission along the food supply chain in the European Union. Paper prepared for the 113th EAAE Seminar, "A resilient European food industry and food chain in a challenging world". September 3–6, Crete.

CAP reform – a long-term perspective for sustainable agriculture, 2006. European Commission, Brussels. Retrieved February 25, 2011 on www.ec.europa.eu/argiculture/capreform/index_eu.htm

Clarke R.; S. Davies; P. Dobson and M. Waterson, 2002. Buyer Power and Competition in European Food Retailing. Edward Elgar Publishing, Cheltenham.

Deardorff, Alan V. and Robert M. Stern, 2003. Enhancing the Benefits for Developing Countries in the Doha Development Agenda Negotiations. Research Seminar in International Economics. Gerald R. Ford School of Public Policy. The University of Michigan. Discussion Paper No. 498, August 13. Retrieved on February 20, 2011 on http://www.fordschool.umich.edu/rsie/workingpapers/Papers476-500/r498.pdf

Delaporte, Séverine; Ilona Juřenová; Lizhu Ren and David Towers, 2006. Entering the retail sector in central Europe. Tesco's expansion into the Czech Republic. International marketing. MIB 21a. Graduate School of Business, Grenoble.

DG for Agriculture and Rural Development. European Commission, 2010. Communication on the future of the CAP. 18 November 2010. Retrieved on February 22, 2011 on http://ec.europa.eu/agriculture/cap-post-2013/communication/slide-show_en.pdf

Dragun, D., 2003. *Value Creation among the World's Top 500 Retailers. The Final Report 2002.* Templeton College, Oxford.

Einarsson, Agust, 2010. The Retail Sector in the Two Most Recent Member States of the EU and the Seven Applicants for Membership: Similarities and Differences. 17th International Conference on Retailing and Consumer Services Science July 2 – July 5. Istanbul.

Einarsson, Agust, 2008. The retail sector in the Nordic countries: A description of the differences, similatities, and uniqueness in the global market. Journal of Retailing and Consumers Services 15(6), 443-451.

Einarsson, Agust, 2007. Landbúnaður og Evrópusambandið – álitaefni við aðild (In Icelandic). In Ný staða Íslands í utanríkismálum. Silja Bára Aðalsteinsdóttir (editor). Alþjóðamálastofnun og rannsóknasetur um smáríki. Reykjavík, 39-54.

European Commission. Eurostat. Glossary: Candidate countries. Retrieved on February 19 2011 on http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Glossary:Candidate_countries

European Commission. Eurostat. Price levels of consumer goods and services. Retrieved on February 19 2011 on http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Price_levels_of_consumer_goods_and_services

European Commission. Eurostat. Total population. Retrieved on February 15 2011 on http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&language=en&pcode=tps00001

Flavián, C.; A. Haberberg and Y. Polo, 2002. Food retailing strategies in the European Union. Journal of Retailing and Consumer Services 9(3), 125–138.

Hanf, Jon and Kristi Dautzenberg, 2007. Retail Internationalization and Its Consequences on the Food Chain. Paper prepared for presentation at the 1st International European Forum on Innovation and System Dynamics in Food Networks, February 15–17.

Hanrahan, C. and R. Schnept, 2006. WTO *Doha Round:* The Agricultual Negotiations. CRS Report for Congress. Congressional Research Service, Washington. Retrieved February 25, 2011 on http://fpc.state.gov/documents/organization/61057.pdf

House of Lords, 2005/06. European Union - Second Report. Session 2005-06. Retrieved on February 20, 2011 on http://www.parliament.the-stationery-office.co.uk/pa/ld200506/ldselect/ldeucom/007/702.htm

IMF. Data and Statistics. Gross domestic product based on purchasing-power–parity (PPP) per capita, Retrieved on February 12, 2011 on http://www.imf.org/external/data.htm

Lejour, Arjan M. and Ruud A. de Mooij. Turkish Delight. Does Turkey's Accession to the EU Bring Economic Benefits? CESifo Working Paper no. 1183. Category 7. Trade Policy.

May, 2004. Retrieved on February 25, 2011 on http://www.cesifo-group.de/portal/pls/portal/docs/1/1189226.PDF

Malzbender, D., 2003. EU CAP-Reform and Southern Africa. Working paper no. 8/ 2003. Trade Law Centre for Southern Africa (Tralac), Stellenbosh.

Nordic Food Markets – a taste for competition, 2005. Report from the Nordic competition authorities. Nordic Council of Ministers, Copenhagen.

Reynoldm J.and C. Cuthbertson (editors), 2004. Retail Strategy. The view from the bridge. Elsevier, Amsterdam.

Smallbone, David and Anna Rogut, 2005. The Challenge Facing SMEs in the EU's New Member States. International Entrepreneurship and Management Journal 1, 219–240.

White, Dain W. and Keith Absher, 2007. Positioning of retail stores in Central and Eastern European accession states. Standardization versus adaption. European Journal of Marketing, Vol. 41 (¾), 292–306.

WTO. News items, 2011. Lamy outlines what is needed to conclude round this year. 2 February. Retrieved on February 20, 20111 on http://www.wto.org/english/news_e/news11_e/tnc_dg_stat_02feb11_e.htm

Žužić, Ana, 2006. Country profile Croatia. Slato-Youth South East Europe Resource Centre. Ljubljana.