

The Effect of the Common Agricultural Policy Reform by 2013 on Direct Payments in Relation to Animal Welfare in the European Union - Review

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Abstract

The primary role of agriculture is to provide food and the European Union should be able to contribute to rising world food demand. The Common Agriculture Policy covers the wide variety of measures used to support and protect the European Union farmers. The most important measure within the Common Agriculture Policy is direct payments paid directly to farmers to protect their income. The Common Agriculture Policy is due to be reformed by 2013. The main object of the Common Agriculture Policy, which is a provision of safe, healthy choice of food at transparent and affordable prices, will remain unchanged, but further changes of the Common Agriculture Policy are necessary to respond to the new challenges such as animal welfare, global food security, natural resources such as water, air, biodiversity and soil, climate changes, increasing globalization and rising price volatility.

Keywords: animal welfare, Common Agriculture Policy reforms, direct payments, food security

1. Introduction

The farmers within the European Union have been eligible for compensatory payments in the form of direct payments since 1992. Direct payments as a farmer's protection measure within the Common Agriculture Policy (CAP) were paid directly to farmers as a compensation for their income loss after price support instruments have been reduced. Price support, linked to the production, caused distortions at agricultural markets and world trade, led to the overproduction within the European Union and created a major problem for budget. The main object for following reforms was to remove link between support and production, so that way the payments would not depend on the volume of production or on production of eligible crops or animals. The CAP will be reformed in 2013, because the policy is confronted with new set of challenges, the budgetary framework ends

in 2013, the Lisbon treaty came into the force and the CAP post-2013 needs to be aligned to Europe 2020 strategy.

According to Henning [1] during the last 15 years the CAP has undergone a radical reform process in response to changed economic and social framework conditions. In detail main drivers of CAP reforms include enlargements of the European Union (EU), increasing globalization of international trading regimes governed by common rules of the World Trade Organisation and new demands of EU citizens focusing on a multifunctional agriculture providing public goods such as environmental protections or animal welfare.

Bavec and Bavec [2] stated that the CAP is a system of the EU agricultural programmes for farmers and rural areas providing them subsidies whose aim at the beginning was to maintain adequate supplies of food and feed, increase productivity and ensure that consumers and producers received a fair deal in the market. But during decades of development these priorities have shifted as environmental and animal

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concerns, as well as safety and health aspects have become more and more important. As a consequence, the CAP has moved from a production based structure of subsidies to a market-oriented system, integrating standard for food safety, environment and biodiversity as well as animal welfare

The reform in 2003 was adopted within the Mid Term Review of the reform from 1999. The main reason for the CAP reform was to provide farmers a freedom in their production decision in order to produce agricultural commodities according to the market demand requirements. The Fischler reform introduced a new system of direct payments implementation called Single Payment Scheme (SPS).

Kotulič and Adamišin [3] stated that the main purpose of CAP reform was to remove the link between direct payments paid to farmers and production, to comply direct payments to the legislative concerning environment, food safety, animal welfare and safety of working conditions, to increase a support of rural development policies through “modulation“ of direct payments paid to all farmers except of small ones, to introduce a new system of audit on farms and a new rural development measures aimed to improve of production, food safety and animal welfare.

A new instrument was introduced within the CAP reform in 2003 called “Cross Compliance”.

According to the European Commission [4] cross-compliance links direct payments to farmers to their respect of environmental and other requirements set at the European Union and national levels. All farmers receiving direct payments (even when they are not yet part of the SPS) will be subject to cross-compliance. And it has been extended beyond compliance with environmental rules, to include new requirements regarding public, animal and plant health, animal welfare, and the maintenance of all agricultural land in good agricultural and environmental condition. Farmers do not have to produce in order to receive SPS and/or other direct payments. But they must respect cross compliance standards in two ways:

- *Good agricultural and environmental condition:* All farmers claiming direct payments, whether or not they actually produce from their land, must abide by standards to be established by the Member States. This new requirement is a consequence of the introduction of the SPS and is

intended to avoid the abandonment of agricultural land (and its environmental consequences).

- *Statutory management requirements:* Farmers must respect other cross compliance standards called statutory management requirements set-up in accordance with 19 EU Directives and Regulations relating to the protection of environment; public, animal and plant health; animal welfare. Failure by farmers to respect these conditions can result in deductions from, or complete cancellation of, direct payments.

According to the Council Regulation (EC) No 1782/2003 [5], the full payment of direct aid should be linked to compliance with rules relating to agricultural land, agricultural production and activity. Those rules should serve to incorporate in the common market organisations basic standards for the environment, food safety, animal health and welfare and good agricultural and environmental condition. If those basic standards are not met, Member States should withdraw direct aid in whole or in part on the basis of criteria which are proportionate, objective and graduated. Such withdrawal should be without prejudice to sanctions laid down now or in the future under other provisions of Community or national law. In order to help farmers to meet the standards of modern, high-quality agriculture, it is necessary that Member States establish a comprehensive system offering advice to commercial farms. The farm advisory system should help farmers to become more aware of material flows and on-farm processes relating to the environment, food safety, animal health and welfare without in any way affecting their obligation and responsibility to respect those standards.

Boulanger et al. [6] stated that, the 2003 reforms introduced the concept of cross-compliance, which makes direct payments conditional on farm systems achieving certain environmental and animal welfare standards in production. These requirements aim to address social and environmental objectives, while providing income support to farmers. Cross-compliance measures can create incentives to change production patterns, or induce a change in production methods and commodity yields. The extent of these effects depends on the nature of the requirement, the cost of compliance and the cost structure of production across commodities. For example, animal welfare requirements affect

livestock farmers but not crop farmers, and limitations on the use of pesticides affect crop farmers more directly than livestock farmers. The cross-compliance regulations can increase unit costs. This can shift the farm supply curve up, and can lower output and increase prices. Evidence to date suggests that the majority of cross-compliance obligations have had little or no direct impact on farm production costs. The associated direct income payment, however, tends to shift the supply curve back down. The net effect on production and prices is ambiguous; accurately measuring the net effects of cross-compliance is therefore difficult and would require further modelling research. The impact of cross-compliance measures on the agricultural sector can depend on the willingness of the society to pay for the cost of meeting enhanced environmental and animal welfare standards. Cross-compliance raises subsidiarity issue since European, national and local preferences can be divergent.

According to Canali and Keeling [7] animal welfare is an issue of increasing significance for European consumers and citizens (Miele and Parisi [8], Blokhius et al., [9]). Animal welfare is an integral part of the Community's "farm to fork" policies and is one of the strategic priorities related to the development of more sustainable food production policies. Recent CAP reform measures have introduced the principle of cross-compliance with various standards for beneficiaries of direct payments, including animal welfare standards, from 2007. The new framework of the reformed CAP encourages producers to reach higher welfare standards.

Horgan and Gavinelli [10] stated that the ongoing reform of the EU Common Agricultural Policy is the most relevant reflection of the demands of society to incorporate animal welfare in a wider context. Sustainability is now enshrined as a fundamental principle to be respected and the provision of direct payments to producers will depend on cross-compliance with animal welfare and production standards. It should be noted that, with a view to promoting the best possible farming practices, the CAP also now has provisions in place to financially support producers who achieve animal welfare standards higher than those laid down in statutory legislation. Consumers also need to understand that implementing higher animal welfare standards

can incur extra costs for producers and possibly higher output prices and they may be willing to pay a premium price for a product emanating from a more animal welfare "friendly" production system. However, proper labelling of products and provision of information to consumers are vital ingredients in this regard. Indeed a recent sociological study carried out in Europe revealed that a lack of labelling on production methods was preventing consumers from possibly shifting towards such products.

According to Carlier et al. [11] concerning market and income policy, the cross-compliance is the core instrument. The CAP 2003 reform also involves decoupling most direct payments from production. From 2005, all farmers receiving direct payments will be subject to compulsory cross-compliance. In the fields of environment, public, animal and plant health and animal welfare, 19 legislative acts applying directly at the farm level have been established and farmers will be sanctioned in case of non-compliance (partial or entire reduction of direct support). Beneficiaries of direct payments will also be obliged to keep land in good agricultural and environmental conditions. These conditions will be defined by Member States, and should include standards related to soil protection, maintenance of soil organic matter and soil structure, and maintenance of habitats and landscape, including the protection of permanent pasture. In addition, Member States must also ensure that there is no significant decrease in their total permanent pasture area, if necessary by prohibiting its conversion to arable land.

According to Bennet [12] cross-compliance has increasingly been used to integrate environmental considerations into the CAP. From 2005 it became compulsory for all Member States to ensure that recipients of Single Farm Payments adhered to Statutory Management Requirements (SMRs), stemming from 19 EU regulations and directives, and kept their whole agricultural holding in 'Good Agricultural and Environmental Condition' (GAEC), to be defined by Member States or regional authorities. The potential for cross-compliance to enhance implementation of the EU environmental legislation and reach a large area of farmland seems good, although there are some questions remaining over whether it will reach the agricultural land at most risk of environmental damage or with the highest nature value. In

addition, farmers could react in several ways to exempt themselves or some area of their holding from cross-compliance conditions. Member States or regional authorities have taken a variety of approaches to setting cross-compliance standards, some of which seem minimal and vague. There is scope for the SMRs and GAEC to cover more environmental issues. Better guidance at EU level and increased communication could enhance implementation of cross-compliance. Self-audits, co-operation with private assurance schemes or other methods of monitoring should be explored to maximise the efficiency and effectiveness of administrative efforts.

The European Union agriculture ministers reached a political agreement on the CAP Health Check on 20 November 2008. The main object of the CAP Health Check was to simplify and modernise the CAP and remove remaining restrictions on farmers.

According to Timmerman [13] the Health Check of the CAP was launched in November 2007 and concluded at the end of 2008. The European Commission presented it as an evaluation of the 2003 CAP reforms addressing three specific issues. It sought to streamline the Single Payment Scheme, improve the market orientation of the CAP and provide adequate policy tools for new challenges. In the framework of the Nice Treaty, the Health Check of the CAP was subject to the consultation procedure, meaning that the Council shall, on a proposal from the Commission and after consulting the European Parliament, acting by a qualified majority, make regulations, issue directives, or take decisions, without prejudice to any recommendations it may also make (EC Treaty [14]).

Henning [15] stated, that to increase an efficiency of cross compliance regulations the European Commission proposes within a Health Check a review of the list of Statutory Management Requirements (SMR) set out in the current cross compliance regulation, and the criteria which define Good Agricultural and Environment Condition (GAEC). In particular, environmental and animal welfare rules should be reformulated, while other non-relevant measures should be abolished.

In the first years of the accession New Member States can use a different type of direct payments aid scheme called "Single Area Payment Scheme,

which is a simplified model of Single Payment Scheme.

The European Commission [16] stated within the Health Check of the CAP in 2008, that animal welfare will be introduced into the scope of cross compliance as of 1 January 2013 for New Member States EU-10 (except Malta and Slovenia) and of 1 January 2016 for New Member States EU-2 (Romania and Bulgaria), for all payments covered (direct payments, wine and rural development).

According to the European Commission [17] Member States had the possibility within the 2003 CAP reform of either choosing to introduce the SPS in full, combining all aid in one payment, or maintaining a proportion of direct aid to farmers in its previous form ("partial decoupling"), mainly if they believed that the move to SPS could result in the abandonment of production or disturbance to agricultural markets. Following the reform, beef, sheep meat and goat meat payments were either incorporated into the SPS, or paid as follows in partially decoupled payments:

Beef:

Member States may choose to keep up to 100% of the "*suckler cow premium*" and up to 40% of the "*slaughter premium for adult bovine animals*" coupled in order to make payments to farmers in the sectors concerned. Alternatively, they may retain 100% of the "*slaughter premium for adult bovine animals*" or up to 75% of the "*special male bovine premium*" in order to make these payments. They may also retain up to 100% of the "*slaughter premium for calves*" for the purpose of making a specific payment.

Sheep and goat meat:

Member States may retain up to 50% of the sheep and goat premiums (i.e. 50% of the "*sheep/goat*" component of the national ceiling) as coupled payments.

After the Health Check of the CAP, as stated in the Council outcome, all beef and veal payments except suckler cow premium will be decoupled by 1st January 2012.

According to the Art. 69 of Council Regulation (EC) No 1782/2003 [5] Member States may retain up to 10% of the component of national ceilings corresponding to each sector. In the case of the arable crops, beef and veal, sheep and goat sectors, this retention shall be taken into account for the purpose of application of the maximum percentages fixed. In this case and within the limit of the ceiling fixed, the Member State shall make,

on a yearly basis, an additional payment to farmers in the sector or sectors concerned by the retention. The additional payment shall be granted for specific types of farming which are important for the protection or enhancement of the environment or for improving the quality and marketing of agricultural products.

Additional payments corresponding to different shares of national ceilings component were used by Greece, Spain, Italy, Portugal, Slovenia, Finland, Sweden and United Kingdom mostly in beef and veal, sheep and goat and milk sectors.

According to Erjavec and Erjavec [18] even consumer organisations, such as BEUC (the European Consumer's Organisation), whose real influence on the CAP decision making process is relatively modest (Edgell and Thomson [19]), demand a change of the CAP from a "price support system" into "more sustainable agricultural practices, improved environment, rural development, animal welfare and better quality, safety and choice of food for consumers". For example:

We stress the need for radical change of the CAP in relation to the price support system based on such device as intervention, quotas, production controls, import levies and export subsidies. Minor changes are not enough. We want money to be spent on better and more sustainable agricultural practices, improved environment rural development, animal welfare and better quality, safety and choice of food for consumers (BEUC [20]).

According to Arfini et al. [21] another important issue faced in the Health Check proposal concerns the revision of the Article 69 of the CAP regulation: it becomes the new Article 68, which should allow more flexibility in its use from the Member States, broadening the scope of the former Article 69. From this point of view the Commission's proposal also removes the restriction that linear reductions are taken from and staying in the same sector. At a first glance it seems that there might be some overlapping between the measures provided from the proposed Article 68 and the existing typologies of intervention in the rural development programmes. The result is that the new conditions can determine strong restrictions on the intervention's opportunities (MiPAAF [22]).

According to Timmerman [13] it was proposed in the Health Check to introduce more flexibility for

member states to redirect up to 10% of direct payments as specific support from 2010 onwards. The Commission wanted to lift the restriction that linear reductions are taken from and staying in the same sector. Moreover, it would be allowed to support farmers to compensate specific disadvantages in the dairy, beef, sheep and goat meat and rice sectors in economically vulnerable or environmentally sensitive areas, in areas subject to restructuring and for contributions to crop insurance premiums and mutual funds for animal and plant diseases. Finally, these provisions would also be applicable by member states using the SAPS, whereas it previously was only allowed for member states applying the SPS. The Council agreed to make the provisions of the article on specific support more flexible. The scope of the specific support measures is widened. It may be used to help farmers producing milk, beef, goat and sheep meat and rice in disadvantaged regions or vulnerable types of farming and for specific agricultural activities entailing additional agri-environmental benefits. Moreover specific support can be allocated for the enhancement of animal welfare standards. Specific support can also be used to support risk management measures such as insurance schemes for natural disasters and mutual funds for animal diseases.

After the Health Check of the CAP, Council Regulation (EC) No 73/2009 establishing common rules for direct support schemes for farmers under the common agricultural policy and establishing certain support schemes for farmers, which repealed Regulation (EC) No 1782/2003, was adopted.

According to the Council Regulation (EC) No 73/2009 [23] Member States should be allowed to use up to 10 % of their national ceilings for the single payment scheme for granting specific support in clearly defined cases. Such support should allow Member States to address environmental and animal welfare issues and improve the quality and marketing of agricultural products. Specific support should also be available to buffer the consequences of the phasing-out of milk quotas and the decoupling of support in particularly sensitive sectors. Given the growing importance of the effective management of risks, Member States should be given the option to contribute financially to the premiums farmers pay for crop, animal and plant insurance as well as to the financing of compensation for certain

economic losses in the event of animal or plant diseases and environmental incidents. With a view to respecting the Community's international obligations, the resources that could be used for any coupled support should be limited to an appropriate level while allowing for transitional measures for Member States facing particular difficulties. The conditions applicable to the financial contributions for crop, animal and plant insurance premiums and compensation in relation to animal and plant diseases and environmental incidents should be established accordingly.

According to the Art. 68 of Council Regulation (EC) No 73/2009 [23] Member States may grant specific support to farmers for specific types of farming which are important for the protection or enhancement of the environment; improving the quality of agricultural products; improving the marketing of agricultural products; practising enhanced animal welfare standards; specific agricultural activities entailing additional agrienvironment benefits and to address specific disadvantages affecting farmers in the dairy, beef and veal, sheepmeat and goatmeat and rice sectors in economically vulnerable or environmentally sensitive areas, or, in the same sectors, for economically vulnerable types of farming.

According to Winter et al. [24], the factors implied in the Five Freedoms (and welfare charters) are affected directly by animal husbandry and enterprise characteristics, and in turn by farm structure, the structure of agriculture, and a range of other factors (including the CAP) as shown in Fig. 1.

The results by Harper and Henson [25] show, that consumers are concerned about the impact of production methods on the well being of the

animals and/or food safety and quality. However, a series of barriers prevents consumers translating their concerns into food choice, therefore, inspite of increasing standards of animal welfare in the EU, there remains a large competing market for imported cheaper (lower standard) animal-based food products. The fact that current World Trade Organisation rules on non-product related process and production methods does not allow intensively produced products to be distinguished from extensively produced products has a serious impact on the competitiveness of EU producers. According to Wichern [26] the administrative costs of agricultural policies are significant. This holds in particular for direct payments as farmers individually apply for them annually. They have to demonstrate how much of each crop and/or how many cattle or sheep they are producing. Based on this information the annual payments to farmers are calculated by regional administrations. The introduction of decoupled payments following the 2003 reform is a significant step towards simplification as a differentiation by numerous types of crops is no longer necessary. Principally, farmers will receive a fixed rate per hectare and the types of production and the number of animals are no longer relevant leading to lower administration and control. On the other hand, cross compliance has been introduced, which requires certain production conditions from the farmer (e.g. in terms of environment and animal welfare) to remain eligible for direct payments. The control of the latter will make it difficult for the Member States to reduce their administrative personnel to administer the CAP and additional national support programmes.

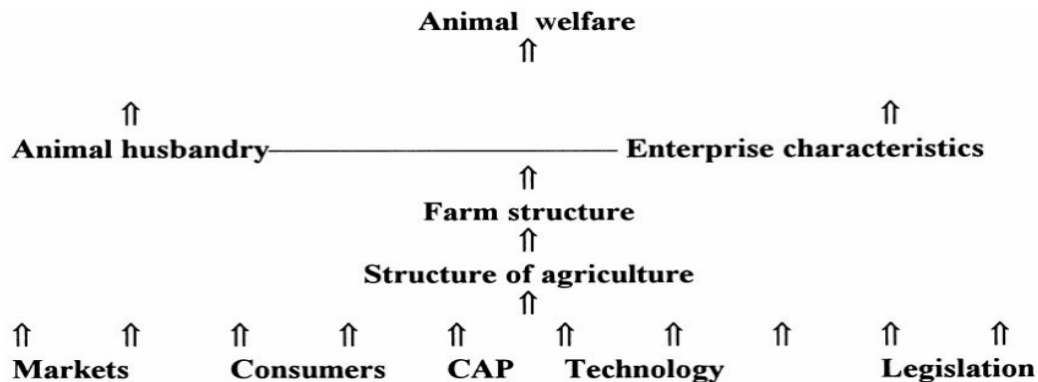
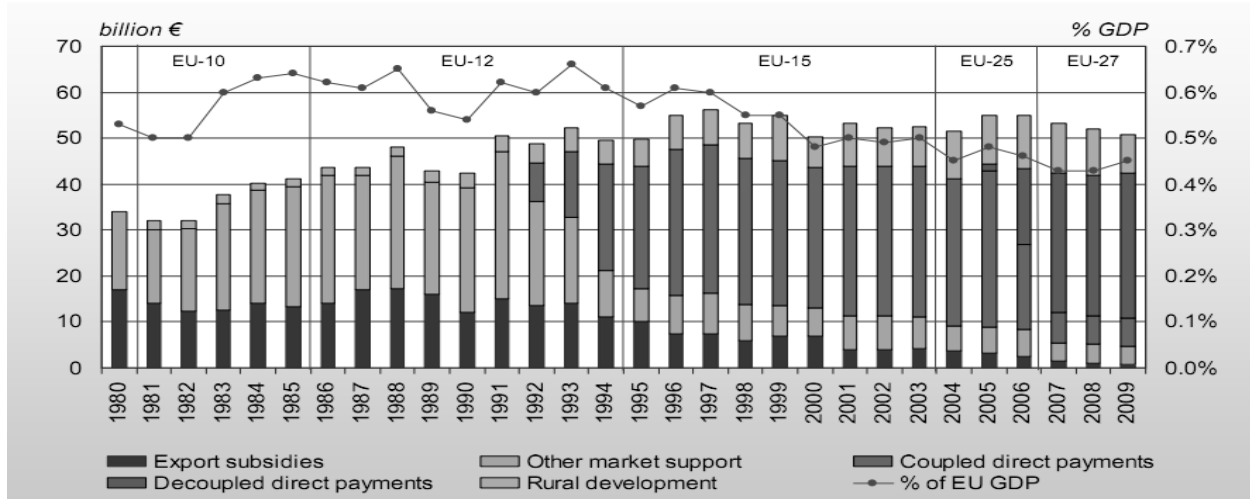


Figure 1. Determinants of farm animal welfare



Source: European Commission - DG Agriculture and Rural Development

Figure 2. CAP expenditures and CAP reform path

According to European Commission [27] the Common Agricultural Policy is confronted with a set of challenges, some unique in nature, some unforeseen, that invite the EU to make a strategic choice for the long-term future of its agriculture and rural areas. To be effective in addressing these challenges, the CAP needs to operate within the context of sound economic policies and sustainable public finances contributing to the achievement of the objectives of the Union. The future CAP should remain a strong common policy structured around its two pillars. In broad terms, the views expressed recommended the following strategic aims:

- To preserve the food production potential on a sustainable basis throughout the EU, so as to guarantee long-term food security for European citizens and to contribute to growing world food demand, expected by FAO to increase by 70% by 2050. Recent incidents of increased market instability, often exacerbated by climate change, further highlight these trends and pressures. Europe's capacity to deliver food security is an important long term choice for Europe which cannot be taken for granted.
- To support farming communities that provide the European citizens with quality, value and diversity of food produced sustainably, in line with our environmental, water, animal health and welfare, plant health and public health requirements. The active management of natural resources by farming is one important tool to maintain the rural landscape, to combat biodiversity loss and contributes to mitigate and to adapt to climate

change. This is an essential basis for dynamic territories and long term economic viability.

The EU citizens increased their demands on the environment, food safety and quality, healthy nutrition, animal health and welfare, plant health, the preservation of the countryside and biodiversity.

According to European Commission [27] one of the objectives the future CAP would improve the competitiveness of the agricultural sector and enhance its value share in the food chain, because the agricultural sector is highly fragmented compared to other sectors of the food chain which are better organised and have therefore a stronger bargaining power. In addition European farmers face competition from the world market while also having to respect high standards relating to environmental, food safety, quality and animal welfare objectives requested by European citizens. According to European Commission [28] most stakeholders believe that a common agricultural policy at EU level is more desirable than a series of national/regional policies, or no agricultural policies at all. Many, but not all, argue that several reforms of the CAP in recent years have taken agricultural policy in the right direction. These reforms have made farming more market orientated and farmers have been encouraged to provide additional services in their role as land managers, as well as to improve food quality and safety and other practices such as animal welfare. A number of stakeholders believe tough standards to protect farm animals are high on the agenda of European citizens and consumers and should be seen as an important driver of farmers'

activities and CAP reform. These stakeholders cite two Eurobarometer surveys from 2005 and 2007 that revealed that EU citizens give considerable importance to the protection of farmed animals.

Cooper [28] stated that amongst the European public, there is widespread demand for high levels of farm animal welfare (Eastwood [30]; DG Health and Consumer Protection [31]), to avoid any unnecessary suffering or injury and to take account of the physiological and behavioural needs of animals. As such, although it is to some extent in the farmer's private interest to maintain high levels of farm animal welfare because this leads to healthy livestock and a high quality product, society is increasingly deeming the welfare of the animal to be a public good in and of itself, on the basis that farm animals should not be excluded from having access to appropriate living conditions according to their physiological needs, and that this access should be non-rivalrous.

Zahrnt [32] stated that Single Farm Payment should not become the mainstay of the future CAP but be gradually phased out. The author proposes that the existing two-pillar structure of the CAP should be replaced by a public goods pillar (containing all efficient policies to be preserved) and a discretionary pillar (encompassing all inefficient policies to be removed over time). This would give Member States flexibility in how they phase out inefficient policies, while the EU reform agenda would not be clogged with the contentious details of their progressive removal.

Grochowska and Kosior [33] stated that recently observed rise in world food prices, the result of unfavourable climatic conditions and rising demand for food, fodder and energy in the dynamically developing countries of Asia and Southern America, show the importance of agriculture as a provider of farm produce, food and the strategic security for the EU. Apart from its basic function of providing farm produce and food, agriculture has long been seen as responsible for fulfilling a number of new tasks, i.e. preserving the countryside, protecting the environment, conserving natural resources and biodiversity, ensuring animal welfare. The changing consumption patterns force a shift in the traditional lines of food production to those better responding to consumers' expectations. Given increasing number of obesity cases, cancer illnesses, and heart diseases agriculture sector should contribute to actions against the so called

diseases of the 21st century. Additionally, agriculture is increasingly subject to pressures from progressing climate change which calls for adequate adaptation and preventive actions against negative effects of these changes. All functions of agriculture, both the basic (food production) and the additional ones (providing public goods), are to be carried out under the conditions of continuously decreasing EU budget expenditures to agriculture.

According to European Commission [34] meat production is driven by increasing poultry and pig meat consumption. On a per capita basis, EU meat consumption would reach 85.4 kg in 2020, just 2% higher than 2009. Poultry meat consumption would increase the most, by more than 6% while pig meat growth would remain below 5% on aggregate between 2009 and 2020. Nevertheless, pig meat would remain the most preferred meat in the EU at 43.3 kg/capita in 2020, compared to 24.7 kg for poultry, 15.4 kg for beef and veal and less than 2 kg for sheep and goat meat. Consumption would grow faster in the EU-12 at almost 4% on aggregate (compared to less than 2% in the EU-15), but total per capita meat consumption at 76.4 kg would remain below the EU-15 level of 87.6 kg in 2020. The consumer perception of meat consumption with relation to its environmental impact and animal welfare concerns remains an important factor to influence future demand patterns.

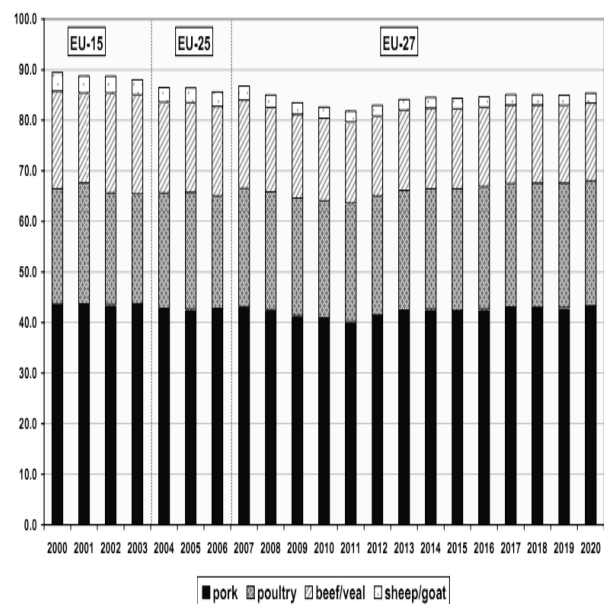


Figure 3. Total meat consumption developments (kg/capita), 2000-2020

4. Conclusions

Animal welfare has been an important issue within the CAP for a long time. All farmers were subject to cross compliance since CAP reform in 2003. Farmers claiming for direct payments were obliged to respect the standards concerning animal welfare established by the EU. Animal welfare standards are part of Statutory Management Requirements set up in accordance with 3 EU Directives concerning animal welfare.

As mentioned before, the CAP is due to be reformed in 2013 and animal welfare will be one of the dominant factors in direct payments distribution.

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