

IMPACT OF CAP 2014-2020 REFORM ON SERBIAN AGRIBUSINESS SECTOR

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Abstract

In this paper is analyzed influence of CAP toward 2020 reform on agribusiness sector in Serbia. New CAP is more in accordance with WTO, support will be oriented more on environment preservation, development of cooperatives, risk management instruments, decrease in state interventions, member states can chose how to allocate subsidies. EU CAP reform toward 2020 is very important and with great influence on Serbian agribusiness sector. First by declining in public support new CAP reform will positively affect all third countries by increasing competitiveness of these countries. Second Serbia is EU' candidate and will benefit positively from institutional development and harmonization with new CAP will have obligation to harmonize law regulation in agricultural sector with CAP. Furthermore Serbian agricultural producers will have possibilities to use pre-accession funds prescribed in new CAP as planned from 2017.

Key words: *Common agricultural policy, EU accession, Common market organization.*

Introduction

In view of the EU's role as a major exporter and importer in and from Serbia, the CAP could arguably play a role not only in domestic but also in international agricultural markets, thus potentially affecting production and consumption levels in third countries (OECD, 2005). Since the MacSharry reforms of 1992, the CAP has undergone considerable changes steering EU agriculture towards greater market orientation.

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Impacts of CAP reform toward 2020. on Serbian agricultural can be transmitted (Matthews, 2011) by:

- 1) *EU domestic support,*
- 2) *EU export subsidies,*
- 3) *EU market access restrictions,*
- 4) *Change in Serbian institutional framework by harmonization of legislation with CAP,*
- 5) *Use of EU' pre-accession funds.*

Finally, even in the absence of directly measurable or identifiable price effects (OECD, 2005), countries' governments may take decisions that affect their populations following EU policy changes or expected changes in world markets – these could be defined as political economy impacts.

CAP toward 2020 in brief

The CAP reform started with a public debate in 2010, followed by the issuing of the Commission's Communication on its vision of agriculture and the challenges and priorities for the future CAP and finally by legislative proposals for the first ever overhaul of the entire policy. The decision-making process differed from previous reforms, with the European Parliament for the first time acting as co-legislator with the Council. This CAP is historic in many respects; for the first time the entire CAP was reviewed all at once and the European Parliament acted as co-legislator with the Council (EU Commission, 2013).

The new policy is moving from product to producer support and now to a more land-based approach. This is in response to the challenges facing the agricultural sector in EU.

These have been identified as **economic** (including food security and globalization, a declining rate of productivity growth, price volatility, pressures on production costs due to high input prices and the deteriorating position of farmers in the food supply chain), **environmental** (relating to resource efficiency, soil and water quality and threats to habitats and biodiversity) and **territorial** (where rural areas are faced with demographic, economic and social developments including depopulation and relocation of businesses).

Past reforms have led to step changes in the CAP and this one is no exception. It represents another milestone in the CAP's history placing the **joint provision of public and private goods** at the core of policy. Farmers should be rewarded for the services they deliver to the wider public, such as landscapes, farmland biodiversity, climate stability even though they have no market value. Therefore, a new policy instrument of the first pillar (greening) is directed to the provision of environmental public goods, which constitutes a major change in the policy framework.

The new CAP design is also more **efficient, targeted and coherent**. It is based on a more holistic approach to policy support through the maintenance of the existing two pillar structure but in a more targeted, integrated and complementary way. Both pillars of the CAP are aimed at meeting all three CAP objectives more effectively, with better targeted instruments of the first pillar complemented by regionally tailor-made and voluntary measures of the second pillar (EU Commission, 2013).

The CAP toward 2020 has the two pillars, but increases the links between them, thus offering a more holistic and integrated approach to policy support. CAP toward 2020 introduces a new structure of direct payments, new eco-policy, subsidies etc. According to new CAP Member states (MS) can chose how to allocate subsidies.

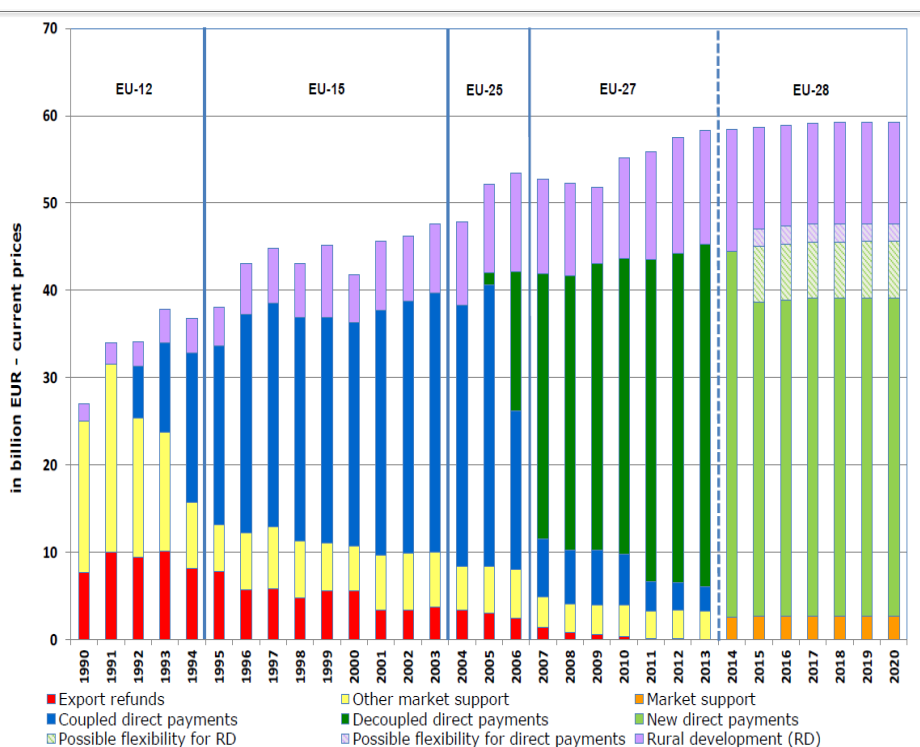
There is new **flexibility** for Member States (MS) in the budgeting and implementation of first Pillar instruments, acknowledging the wide diversity of agriculture, agronomic production potential and climatic, environmental as well as socio-economic conditions and needs across the EU. It also took place in the framework of the discussions on the overall EU budgetary framework for 2014-2020, the Multiannual Financial

This means a total amount of EUR 362.787 billion for 2014-2020, of which EUR 277.851 billion is foreseen for Direct Payments and market-related expenditure (Pillar 1) and EUR 84.936 billion for Rural Development (Pillar 2) in 2011 prices. Yet, within the current economic and financial climate, these amounts within the MFF show continued strong support for an ambitious agricultural policy which represents 37.8% of the entire ceiling for the period 2014-2020.

The amounts for the CAP agreed under the new EU multiannual financial framework for 2014-2020 are outlined in the table below. The amounts for both pillars of the CAP for 2014-2020 would be frozen at the level of

2013. In real terms CAP funding will decrease compared to the current period. Compared to the Commission proposal, the amount for pillar 1 was cut by 1.8% and for pillar 2 by 7.6% (in 2011 prices). This means a total amount of EUR 362.787 billion for 2014-2020, of which EUR 277.851 billion is foreseen for Direct Payments and market-related expenditure (Pillar 1) and EUR 84.936 billion for Rural Development (Pillar 2) in 2011 prices (EU Commission, 2013).

Graph 1. Structure of subsidies 2014-2020

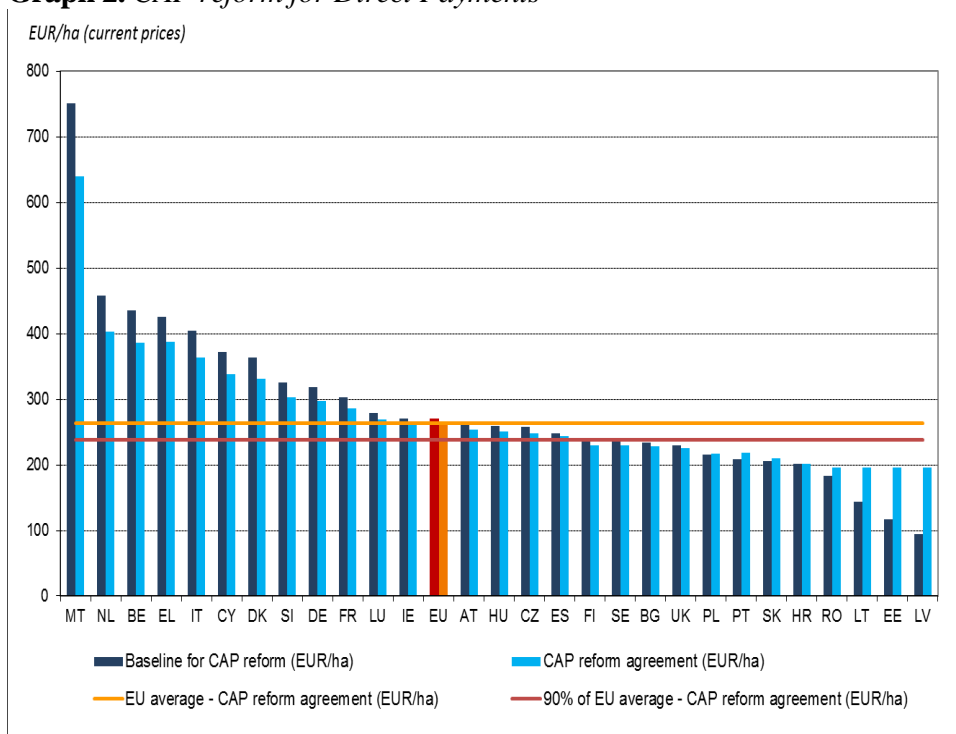


Source: *The Overview of CAP Reform 2014-2020 (2013): EU Commission, Available from: <http://ec.europa.eu/agriculture/cap-post-2013/> (Accessed: 12.03.2013.)*

In short, new CAP has aim to attain higher levels of production of safe and quality food, while preserving the natural resources that agricultural productivity depends upon.

Direct payments are other changes. In previous CAP there was large difference in direct payments between MS. New CAP will put similar level of direct payments for all MS (Graph 2).

Graph 2. CAP reform for Direct Payments



Source: *The Overview of CAP Reform 2014-2020 (2013)*, EU Commission, available from: <http://ec.europa.eu/agriculture/cap-post-2013/> (Accessed: 12.03.2013.)

Impact of CAP toward 2020 on agribusiness sector in Serbia

CAP toward 2020. will have two side effect on Serbia:

- 1) *As all third countries CAP is impacting trade by lowering subsidies in EU' MS, Serbia will benefit from reducing support Serbian agricultural products will gain on competitiveness. Lowering the trade barriers will have positive effect on Serbian agriculture (Berkum at al., 2012) etc.*
- 2) *Beside effect on third countries new CAP will have impact on Serbia as EU candidate (Oskam et al., 2010.) throughout institutional changes in Serbia (required harmonization with CAP). Secondly Serbia will have opportunity to use pre-accession support prescribed by CAP according to Draft strategy on agriculture and rural development of the R. Serbia 2014-2024.*

CAP toward 2020 main changes in supports which are influencing trade and markets of agricultural products in Serbia

In CAP toward 2020 main changes in supports which are influencing trade and markets of agricultural products are as following:

- 1) *Income Support Schemes is structured as following: single payment scheme (SPS), single area payment scheme (SAPS), complementary national direct payments (CNDPs), transitional national aid, coupled aids, specific support.*
- 2) *Main changes introduced by new CMO Regulation: ending of sugar quotas in 2017 (milk quotas to end in 2015 as per previous reforms), wine planting rights will be abolished in 2015 (a new system of vine planting authorizations will apply from 2016), adjustment of market intervention/aid schemes, exclusion of sorghum from public intervention, abolition of mandatory private storage aid for butter, deletion of certain aids for silkworms and for the use of skimmed milk and powder in animal feed and casein More responsive and efficient market measures, more flexible triggering conditions for optional private storage aid, automatic tendering for skimmed milk powder and butter above fixed quantities (butter increased to 50 000 tones), updated, more flexible exceptional measures, market disturbance and threat thereof can be addressed via exceptional measures, including export refunds (via urgency procedure in case of imperative grounds of urgency). Measures against loss of consumer confidence now cover all main sectors, emergency clause to "adopt necessary and justifiable emergency measures to resolve specific problems", commission power to authorize stabilizing collective measures by POs and IBOs. Availability of crisis reserve for specific measures (in particular market intervention, exceptional measures, export refunds).*

All of those policy changes will have double effect on Serbian agricultural sector, first liberalization and further reduction of supports will have positive effect on trade balance with EU by increasing Serbian competitiveness.

Secondly, it is expected from 2017 for Serbia to use pre-accession funds defined by new CAP, which will positively influenced Serbian agribusiness sector.

CAP toward 2020 main changes in public interventions which are influencing trade and markets of agricultural products in Serbia

EU public interventions products are purchased by the Member State and stored under their control, prior to re-sale when market conditions improve. Main intervention models under CAP toward 2020. is private storage aid (PSA), Eligible products: common wheat, barley, maize, paddy rice, butter, skimmed milk powder (SMP), beef (Article 11 CMO). Origin of eligible products: originate in the EU i.e. crops harvested in the EU, milk produced in the EU (Article 9 CMO). Intervention periods: cereals (1 November to 31 May), rice (1 April to 31 July), butter/SMP (1 March to 30 September). Fixed price quantities are for: common wheat (3 million tones, SMP 109,000 tones, butter 50,000 tones).

Eligible products for interventions: white sugar; olive oil; flax fiber; fresh or chilled meat of bovine animals aged 8 months or more; butter produced from cream obtained directly and exclusively from cow's milk; skimmed milk powder from cow's milk; cheese with a PDO/PGI; pig meat, sheep meat and goat meat. Origin of eligible products: EU origin, as per public intervention. Other general requirements: sound, fair and marketable quality and which do not exceed the maximum levels of radioactivity allowed.

Import and export licenses in brief: there is established validity period and security, export with refund or zero, current month + 4 months, 20 €/t for most products, export with dash: 60 days, 5 €/t, import: 45 days, 1 €/t outside TRQs.

Main types of state aid: investment on the farm/for processing and marketing, compensation for losses due to natural disasters, adverse weather conditions and plant/animal diseases, technical assistance, advertising, forestry (non commercial), the tool exists with following technicalities, difference between world market price and EU export price (FOB-FOB, except oats) set via tenders for grain, set via standing system (published refunds) for processed products. Public interventions are structured by two measures:

- *Guaranteed price.*
- *Public intervention stocks (safety net). Open from 1 November until 31 May Buying price for soft wheat is : 101,31 €/t up to 3 million tones. Over 3 millions tones tendering procedure sets the price.*

In the period of low prices subsidies of storage costs are meant to withdraw products surplus. Harmonization of law regulations on state intervention is of great importance for Serbian agribusiness sector. Currently Serbian Law on Commodity reserves has no any state intervention prescribed. Serbia will have to establish state intervention agency within Paying agency.

Conclusion can be drawn that new CAP has less state interventions which will have positive impact on Serbian agribusiness sector by increasing competitiveness of Serbian agricultural products.

Furthermore Storage cost subsidies is important measure in CAP 2020. Serbia has developed system of Public warehouses operating under Law on public warehouses for agricultural products. Public warehouses can serve for storing agricultural products for CAP' private storage subsidies in per-accession period. Currently Serbia has 16 public warehouses and needs to increase number of public warehouses.

CAP toward 2020 influence on markets of agricultural products in Serbia

New CAP will have influence on commodity exchanges, stock exchanges and wholesale markets in Serbia. Draft law on Commodity Exchange has to be harmonized with EU regulation³. Clearinghouse, investor protection schemes (security funds), commodity exchange members, licensing process for exchange and exchange members will have to be in accordance with European Security Market Authorities (ESMA) requirements.

Previous CAP had negative impact on the commodity exchanges in new EU member states such as Hungary, Poland and others. Declines in the trade volume at the commodity exchanges in EU was consequence of the price protection and state intervention measures⁴. New CAP is reducing price supports and market interventions and will have positive impact on Serbian commodity exchanges.

³ Spot market commodity exchanges is not subject to regulation EU legislation, it is left to the organization of each Member State

⁴ State price support will decreasing price volatility and lowering the needs of exchange participants for using commodity exchanges for hedging strategies.

One of the main features of the EU system of licensing and control of commodity markets is to integrate control functions (Allgood, C. at al., 2010) within an institution that controls the spot and futures trading in commodities trading in the capital market, the banking sector, the insurance industry and the like. Legislative and oversight role in the area of licensing and control of the capital market, which includes products to agricultural products, carries ESMA (Belozertsov, A. at al. 2011).

The 2012th year came into force the law in the professional community known as EMIR adopted similar provisions as the Dodd - Frank Act. Basic provisions of EMIR 's are: mandatory clearing and exchange and most OTC trading instruments, the application of specific techniques of risk management for trading instruments that are not subject to the clearing, reporting on trading, specific requirements for the establishment and operation of clearing houses and trading platform.

It is important to note that under the EMIR regulation, countries outside the EU have the possibility to send the request ESMA to assess compliance of domestic legislation that regulates commodity exchanges (Zakić at al. 2012), effective exchanges, OTC trading and goods and effects, and the like . If ESMA decides that the national legislation in the “sufficient” degree of compliance with the EMIR regulation allows EU companies and individuals to directly trade on exchanges and clearing houses used by that country. The need for harmonization of domestic listed and ESMA regulation is important in making the legislation related to the commodity exchange as well as the amendments to the capital market.

CAP toward 2020 influence on risk management in Serbian agribusiness sector

The objective of past reforms to enhance the market orientation of EU agriculture is continued by adapting the policy instruments to further encourage farmers to base their production decisions on market signals. It is almost certain that, given the decline in public support, market-based risk management tools will play an increasing role. Futures and other derivatives will be increasingly used to hedge price risk. The EU can encourage their acceptance by providing training and education to farmers, by ensuring availability of market information, by having a suitable supervision regime in place, and potentially by promoting their use among risk-sharing co-operatives.

Insurance will also be increasingly used to mitigate yield risk. Growing insurance portfolios are expected to increase the effects of risk-pooling and reduce the cost of reinsurance. Index-based insurance tools will also contribute to more hazards being insurable. The public sector may support the use of insurance among farmers by providing re-insurance or minimally subsidizing the premium of crop yield insurance: enough to make it affordable, but not too much in order to avoid irresponsible behavior (e.g. planting unsuitable crops). It would also be beneficial for member states to increasingly require that farmers contract insurance to be eligible to compensation payments in case of crises or catastrophes. Rewarding farmers through payments for providing public goods is important to addressing the challenges of the future: promote sustainable agriculture, thus long-term food security, by supporting farming systems associated with high environmental standards of production. Designed to remunerate services rendered by the agricultural sector for which no price is paid on the market, these payments also contribute to cover risk. Additionally, the possibility of pricing externalities in the system should be further investigated (by using the polluter-pays principle, for instance by penalizing the producers or the types of produce associated with the most inefficient use of natural resources). Risk management support measures:

- *Crop, animal and plant insurance: contributions to premia for insurance schemes, covering farmers against losses caused by weather, animal / plant disease, pest infestation, environmental incident, mutual funds, contributions to compensation paid out of funds, to compensate farmers for losses caused by weather, animal / plant disease, pest infestation (when production losses > 30 % of average annual production).*
- *Income stabilization tool: contributions to administrative costs of setting up fund (not capital), contributions to compensation paid out of funds, to farmers experiencing drop of income of > 30 % of average annual income (causes not specified in EU rules); maximum 70 % of income loss to be covered.*

Conclusion can be drawn that new CAP will have positive impact on Serbian agribusiness sector by increasing competitiveness of Serbian agricultural products. Furthermore measures related to support of insurance in production and insurance of income in CAP 2020 Serbian producers will be able to use form 2017.

CAP toward 2020 influence cooperatives in Serbia

Great emphasis is given within the new CAP to producers' organizations (PO) and producers group (PG). Producer cooperations are involved in: greater legal certainty for producer cooperation in all sectors, collective negotiation by POs for the supply of olive oil, beef and cereals and certain other arable crops, under certain conditions and safeguards, possibility for MS to introduce mandatory written delivery contracts for all sectors, with certain minimum contractual elements, subject to certain conditions and safeguards, continuation of sugar sector agreements and contracts after end of quotas in 2017.

New CAP will have significant positive impact on Serbian cooperatives. Serbia has small average agricultural households and cooperatives development is very important in order to achieve economic of scale in agricultural sector. Furthermore measures related to support new PO and PG in CAP 2020. Serbia will be able to use from 2017. It is important to enact new Law on cooperatives which will be in accordance with provision of Single CMO regulative.

CAP toward 2020 influence on agricultural products quality standards in Serbia

Main characteristic of CAP towards 2020 is that is simplified, more flexible and in accordance with international standards. Reform of marketing standards rules: repealed 26 out of 36 specific marketing standards, introduced a General Marketing Standard for other products (GMS) and equivalence with UNECE standards, simplified and rationalized the checking operations.

CAP in organic farming main features: to multiply environmental/climate benefits - eligibility of individual and joint beneficiaries & higher transaction costs for the latter, to increase flexibility – duration of contracts linked to support for conversions may correspond to the conversion period & contracts for maintenance following commitments in the initial period can be shorter (than 5-7 years), maximum aid: € 600 (annual crops), € 900 (perennial crops), € 450 (other land uses), aid intensities is € 3000 per holding per year for participation in quality schemes and 70% of the eligible action for promotion (maximum duration: 5 years).

For Serbia standards development is important sector for two reasons, first often is not possible to export agricultural products without standard and second it is standard implementation value added instrument. Especially is important to introduce meat standards because Serbia is not using any standards for beef and pig meat. By implementing meat standards in Serbia will be possible to establish trade at commodity exchanges with these categories of meat as well the international trade will be improved. Furthermore measures related to support of quality schemes in CAP 2020. Serbia will be able to use support measures form 2017.

CAP toward 2020 influence on Information and accountancy systems in Serbian agriculture

EU Market information system for agricultural products is based on the commitment of all member states of the EU to submit price reports for certain types of agricultural products on a weekly basis. The data used by the European Commission, which according to them is determined by government intervention in the market for agricultural products , as well as Eurostat publishes and analyzes the data and generate reports , which are also published.

Agricultural Market Information System of Serbia - STIPS is based on the collection rate by 18 agricultural stations in Serbia. The system is set up as an Internet portal, so that reporters enter reports directly to the website and thus does not waste time in the distribution of the report.

The Farm Accountancy Data Network (FADN). FADN is based on Commission Implementing Regulation (EU) No 730/2013 of 29 July 2013 on certain detailed implementing rules concerning the keeping of accounts for the purpose of determining the incomes of agricultural holdings. FADN collects representative information according to region, type of farming and economic size. The types of farming, classification according to economic size and regions are compatible with the Eurostat Farm Structure Survey (FSS), so it is possible to attribute to each farm in the FADN sample a weight according to the occurrence of similar farms/types in the FSS. This questionnaire aims to get a better view on the current situation regarding collection of micro-economic information in the agricultural sector, and the efforts needed to build a system fully compatible with the European Farm Accountancy Data Network

Serbia is in the faze of implementing FADN since 2012. Agribusiness sector will benefit for use of FADN data:

- *Policy making will be improved, Serbian policy makers will be able to compare domestic agriculture production and to use FADN data for policy making.*
- *Data requests and assistance to research Institutes, universities*
- *Benefits for Serbian farmers detailed benchmarks of farms, new knowledge improves farmers performance.*

Conclusion

Impacts of CAP reform toward 2020. on Serbian agricultural can be transmitted by:

- 1) *EU domestic support,*
- 2) *EU export subsidies,*
- 3) *EU market access restrictions,*
- 4) *Change in Serbian institutional framework by harmonization of legislation with CAP,*
- 5) *Use of EU' pre-accession funds.*

EU CAP' reform toward 2020. is very important and with great influence on Serbian agribusiness sector. First by declining in public support new CAP reform will positively affect all third countries by increasing competitiveness of these countries. Second Serbia is EU' candidate and will benefit positively from institutional development and harmonization with new CAP will have obligation to harmonize law regulation in agricultural sector with CAP.

Furthermore Serbian agricultural producers will have possibilities to use pre-accession funds prescribed in new CAP as planned from 2017. Trade policy and markets in agricultural sector, cooperatives, supports in agriculture, risk management instruments in agriculture will have great changes and it is of great importance for agricultural producers, processors and policy makers to learn o CAP and use new possibilities in order to develop agribusiness sector in Serbia. Main changes in supports are influencing positively trade and markets of agricultural products in Serbia. All of those policy changes will have double effect on Serbian agricultural sector, first liberalization and further reduction of supports will have positive effect on trade

balance with EU by increasing Serbian competitiveness. Changes in public interventions are influencing trade and markets of agricultural products in Serbia. Conclusion can be drawn that new CAP has less state interventions which will have positive impact on Serbian agribusiness sector by increasing competitiveness of Serbian agricultural products.

Previous CAP had negative impact on the commodity exchanges in new EU member states such as Hungary, Poland and others. Declines in the trade volume at the commodity exchanges in EU was consequence of the price protection and state intervention measures⁵. New CAP is reducing price supports and market interventions and will have positive impact on Serbian commodity exchanges. CAP toward 2020 influence cooperatives in Serbia. Specific measure is allowed under new CAP for supporting PO and PG in the first five year. New CAP will have significant positive impact on Serbian cooperatives. Serbia has small average agricultural households and cooperatives development is very important in order to achieve economic of scale in agricultural sector.

Impact related to agricultural products quality standards in Serbia is significant and positive. For Serbia standards development is important sector for two reasons, first often is not possible to export agricultural products without standard and second it is standard implementation value added instrument. Especially is important to introduce meat standards because Serbia is not using any standards for beef and pig meat. By implementing meat standards in Serbia will be possible to establish trade at commodity exchanges with these categories of meat as well the international trade will be improved. Serbia has great potential for organic production. Low cost labor, non-contaminated land etc. One of obstacles for further development of organic production is lack of organic pesticides. It will be important to amend Law on plant protection and approve EU organic pesticide list.

Serbia will have opportunity to harmonize law regulations on quality standards with EU and to register Geographical indications in EU. CAP toward 2020 influence on Information systems in Serbian agriculture. Serbia joining the EU will get this commitment, it is therefore necessary to introduce EU quality standards for certain types of products in accordance with EU rules and STIPS adapt to EU requirements.

⁵ State price support will decreasing price volatility and lowering the needs of exchange participants for using commodity exchanges for hedging strategies.

Implementation of FADN will positively impact Serbian agribusiness sector by supporting policy making process and improving accountancy practice of agricultural producers in Serbia. Furthermore all measure in CAP 2020. Serbia agribusiness sector will be able to use in pre-accession period. Overall impact of CAP toward 2020. on Serbian agribusiness sector will depend on the length of the accession period and will have higher impact if the Serbia will access EU in shorter period. If the accreditation of Serbian institution required for receiving EU' funds is fast, agribusiness sector will gain access to EU' pre-accession funds.

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