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## THE IMPACT OF GLOBAL SURROUNDING ON THE COMMON AGRICULTURAL POLICY

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### WPLYW GLOBALNEGO OTOCZENIA NA WSPÓLNĄ POLITYKĘ ROLNĄ

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**Summary:** The global factors have been influencing the shape of the common agricultural policy (CAP) at least since the WTO agreement. Yet, not only trade agreements influence the CAP. The situation of agricultural sector in non-EU countries also affects the way and extent the EU supports its farmers. Moreover, the EU interests in other sectors of economy or its global strategy and policy interests can translate into specific alterations in the CAP. The aim of the paper is to identify the meeting points between CAP and global issues, present the status quo and analyze potential alterations within the CAP that could be made to strengthen the EU position on the world arena. The paper is based on the analyses of the WTO negotiations concerning agriculture, CAP policy instruments and the EU priorities in external relations. The results show that the process of CAP's internationalization progresses in a non-linear way but is an important factor determining the shape of subsequent CAP reforms.

**Keywords:** common agricultural policy, global agri-food trade, policy instruments.

**Streszczenie:** Czynniki zewnętrzne wpływają na kształtowanie wspólnej polityki rolnej (WPR) przynajmniej od czasu porozumienia WTO. Jednakże nie tylko porozumienia handlowe wpływają na WPR. Sytuacja sektora rolnego poza UE także wpływa na sposób i zakres wspierania rolników w UE. Ponadto interesy UE dotyczące innych sektorów oraz jej globalna strategia i interesy polityczne mogą się przekładać na określone zmiany w WPR. Celem tego artykułu jest identyfikacja punktów wspólnych między WPR a kwestiami globalnymi, zaprezentowanie status quo i analiza potencjalnych zmian w WPR, które mogłyby wzmocnić pozycje UE na arenie światowej. Opracowanie opiera się na analizie negocjacji dotyczących rolnictwa prowadzonych w WTO, instrumentów WPR i priorytetów UE w relacjach zewnętrznych. Wyniki badań wskazują, iż proces internacjonalizacji WPR ma charakter nieliniowy, ale odgrywa on ważną rolę w determinowaniu kształtu kolejnych reform WPR.

**Słowa kluczowe:** wspólna polityka rolna, globalny handel produktami rolno-spożywczymi, instrumenty polityki.

## 1. Introduction

Common agricultural policy (CAP) remains one of the key EU policies based on its budget share. Despite the structural changes EU agriculture has been going through since launching CAP the sector still expects public support. It could be even argued that the increasing competition from countries and regions that previously did not play a significant role in the global agri-food trade makes the EU farmers and food manufactures more worried about their competitiveness potential.

The CAP during its over 50 years of existence underwent a number of reforms aimed at improving its functioning and adjusting the policy instruments to world trade regulations. Thus, we can name three main channels through which CAP has been influenced by global surrounding. The first one is direct impact of the WTO obligation or bilateral treaties. The second one is the indirect influence of the non-EU agricultural producers with whom the EU agri-food sector has to compete on both the EU and global markets. The third one is the trade-off between the interests of agri-food sector and other sectors of the EU economy.

The impact of all the internal and external factors on the CAP is a complex issue. This system is dynamic and some synergies and exchangeability among these factors can be observed [Kulawik 2015]. Therefore, it cannot be stated that the external surrounding was a sole factor bringing the changes in the CAP described in this paper. At the same time the reforms of the CAP cannot be analyzed without the global perspective.

The aim of the paper is to identify the meeting points between CAP and global issues, present the status quo and analyze potential alterations within the CAP that could be made to strengthen the EU position on the world arena. The paper is based on the analyses of the WTO negotiations on agri-food trade, CAP policy instruments and the EU position on world trade and other issues. In the first part the key channels through which global surrounding influences the CAP are presented. The second part is devoted to the problem of balancing the EU internal priorities with the impact of global surrounding within the CAP.

## 2. Channels through which global surrounding influences the CAP

The process of globalization accompanied by bilateral and multilateral trade agreements increases the impact of global surrounding on the domestic agricultural policies. This is the result both of the impact of world trade on domestic economy and of the stipulations of the trade agreements obliging the agreeing parties to make some modifications in their policies.

Most experts dealing with the CAP state that its reforms since 1990s until 2008 were motivated by international trade negotiations and it is even argued that this resulted in the internationalization of agricultural policy [Daugbjerg 2017]. Given the lack of progress in World Trade Organization (WTO) talks the CAP reform of

2013 was not in such an extent as the former ones shaped by the international trade relations. Yet, the other external influence channels did play a role in the reform's design.

### 2.1. Impact of trade obligations

The key role in the global trade is played by the stipulations of WTO trade agreement. The WTO Uruguay Round Agreement on Agriculture (AoA) established discipline in three areas of the domestic policy:

1. Market access (36% average reduction in tariffs, minimum access 5% of consumption).
2. Domestic support (20% reduction of Aggregate Measure of Support<sup>1</sup>).
3. Export subsidies (36% reduction in value of subsidies, 21% reduction in quantities) [von Cramon-Taubadel 2013].

Limitation of domestic support and export subsidies had a significant impact on the CAP. The MacSharry reform of the CAP in 1992 dealt with the problem of reducing the level of domestic support offered to farmers. The market intervention instruments were partially replaced by direct payments<sup>2</sup>. This enabled the EU to fulfil the requirement of lower domestic support. Market intervention as the most market distorting measure is classified as a WTO amber box policy instrument<sup>3</sup>. Direct payments introduced with the MacSharry reform related mostly to arable crops and as they were interlinked with production limiting measure of keeping 15% of the farm's arable land set aside were seen as a blue box measure.

The WTO negotiations were finalized by the agreement explicitly emphasizing that the long-term aim is the establishment of a "fair and market-oriented agricultural trading system" [WTO 1995]. This means that further talks and liberalization were planned. Following talks did not reach any agreement but in 2001 started the Doha round. Initially the USA and the Cairns Group<sup>4</sup> proposed an abolition of the blue box. The threat of such a change was an important factor taken into account in designing the Fischler reform of the CAP in 2003. This reform involved decoupling direct payments and creation of a so-called single payment scheme. Fischler reform also introduced cross-compliance and modulation of direct payments.

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<sup>1</sup> Aggregate Measure of Support (AMS) is the measure of support used within the WTO. It includes all product-specific support and non-product-specific support.

<sup>2</sup> Guaranteed minimum prices for cereals were reduced by 29% [Daugbjerg 2017].

<sup>3</sup> According to WTO terminology three types of measures of the agricultural policy are distinguished. The amber box includes measures to support prices and subsidies directly related to production quantities. In blue box are measures that would normally be in the amber box, but their eligibility is conditional and farmers have to limit production. The green box consists of measures that do not distort trade.

<sup>4</sup> The group was established in 1986. Currently the group's members are: Argentina, Australia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, New Zealand, Malaysia, Pakistan, Paraguay, Peru, Thailand, Uruguay, Vietnam. Former members are: Fiji, Hungary, Indonesia and the Philippines.

The WTO Doha round stalled after 2008. There was no new pressure from trade obligations for further changes in the CAP, so the policy reform of 2013 was not radical and concentrated on presenting to EU public opinion direct payments as an instrument for recompensing farmers for delivering public goods.

## **2.2. Impact of world competition in agri-food market**

The growing number of world populations means that demand for agricultural production will increase in the next decades. Yet, not only the EU agricultural sector is interested in benefiting from this. The EU agriculture operates in natural conditions that are much worse than in many other regions that are competing on the global market. Its farms are also on average much smaller than in the biggest agri-food producers and the cost of labor and compliance with the environmental and animal welfare regulations additionally increase the production cost compared to other regions.

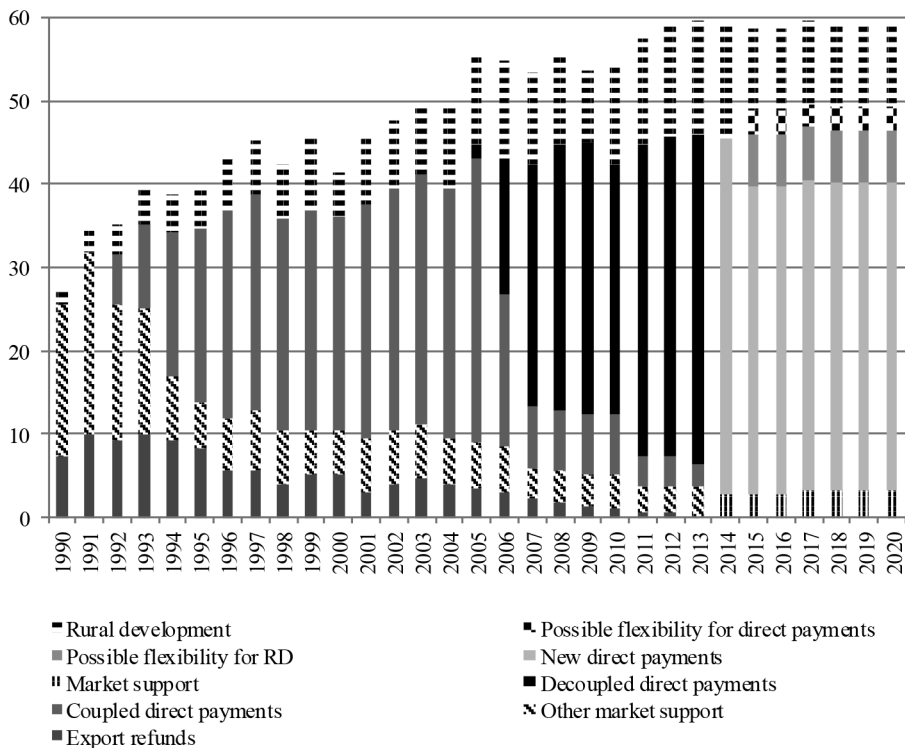
The growing world competition creates a real threat to the European Model of Agriculture (EMA) [Kowalczyk, Sobiecki 2014]. This model is incapable of guaranteeing the EU competitiveness. Therefore, the CAP will be faced with the question whether to protect the EMA as a model combining production and additional functions or to help the EU farms transform themselves to stay competitive. This is a fundamental decision for the EU. The pressure of the other countries has two dimensions: more competition on foreign market and more competition on the EU market. On the EU market foreign products face non-tariff barriers that is the quality regulations that must be obligated to enter the EU market. As the standards for agri-food products vary significantly from country to country, it is often difficult for foreign producers to export their products. They often have to make a decision to specialize and transform their production process into one accepted in the country they export to. A more complicated problem is the competition on the external markets. There also the EU producers have to ensure the compliance with the market standards.

It is extremely important to underline that the interests of agri-food sector shape the state policy in the trade negotiations. The sector naturally lobbies for protection of domestic markets and for succeeding in reaching trade agreements that open foreign markets to their products with as few conditions as possible.

## **2.3. Impact of other EU priorities**

The impact of other than agricultural interests is also important. This is a natural element of policy making where one issue is traded-off for others or that one issue is linked to a different one from some other part of policy spectrum. This relation between the other EU priorities can be linked to the agricultural sector specifically or to several sectors or to an issue that concerns not only agriculture.

A good example of CAP change driven by other than agricultural interests was the reform of the sugar regime conducted in 2006. A vital reason for this reform were the EU import concessions awarded in 2001 to the Least Developed Countries (LDC) through the Everything But Arms initiative (EBA). These agreements stipulated a progressive opening of the EU market to imports from LDC with no duties<sup>5</sup>. Yet, it must be also stated that there were two other key factors that influenced this reform. One of them was internal and related to the attempt to make the sugar regime more coherent with the CAP in its shape after the reform of the year 2003. The second one was external and directly related to WTO obligations. In 2002 Brazil, Thailand and Australia brought to WTO the case against the EU concerning sugar. As the EU lost the case it had to reduce export subsidies. The reform diminished the importance of market management tools [Agrosynergie... 2011].



**Fig. 1.** Structure of CAP expenditure in the years 1990-2020

Source: [European Commission 2013].

<sup>5</sup> This was opposed by the EU banana, rice and sugar producers.

Currently, there are new pressures such as free trade agreements, Brexit and reduction of greenhouse gas (GHS) emissions [Swinbank 2016]. As the EU has already made significant progress in reduction of GHG emissions in several sectors, now the further step is to increase the reduction effort in other sectors as “insufficient progress has been made in GHG emission reductions in the transport and agriculture sectors with respect to the 2020 targets, and that efforts need to be scaled up if these sectors are to meet their emission reduction contribution targets up to 2030” [European Parliament 2017].

In the period 1990-2020 the CAP has significantly changed. An important driving force for the conducted reforms was the influence of the external surrounding. The market intervention measures disappeared, while less trade distorting measures replaced them (Fig. 1)<sup>6</sup>. This process has been gradual as both external and internal factors for the subsequent policy reforms were slowly turned into concrete proposals and then faced the whole procedure of reaching consensus among all the stakeholders.

### **3. How to balance the EU internal priorities with the impact of global surrounding within the CAP?**

Balancing the forces trying to exert an impact on the shape of CAP is a complex task. Apart from presented in the paper forces there are numerous other stakeholders and issues that are vital for the process of negotiating the policy instruments for the following CAP reforms.

The experience with trade agreements concluded by the EU so far shows that the elimination of tariffs on agri-food products had a positive impact on the EU and led to an increase in both EU exports and imports as well as had a positive impact on the EU farmers and other elements of the food chain [Copenhagen Economics 2016]. Yet, the impact of trade agreements depends on actual provisions agreed by the parties signing them. Thus, these are the detailed stipulations that can turn the treaty into a catalyst or a deterrent to growth in agri-food trade. In the case of the EU agri-food sector there can be winners and losers within a specific product as the competitiveness of farms varies among EU members and regions, which can be detrimental for CAP as a common, EU-wide policy.

Currently there is not much willingness to continue the WTO talks. All the countries try to reach uni- or multilateral trade agreements outside of the WTO. It is hard to predict, if and when the talks can be resumed. A growing number of countries want to limit the access of foreign goods to their market. This can result in decrease in trade and problems on the EU market with products that are not needed at the EU

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<sup>6</sup> It must be underlined that fig. 1 can be misleading as the introduction of the new instrument types after 2013 suggests a substantial modification of the CAP while the only visible difference is the so-called greening of direct payments, which changes the official title for support for 30% of the funds allocated for direct payments.

market but cannot be exported. In such a case new instruments of support for farmers will be needed within the CAP.

It is very difficult to balance internal priorities and external influence on the CAP. Generally, the problem has to be tackled on the case-by-case basis. The only general recommendation for the EU policy makers can be to stay active on the global scene and try to make the EU priorities of sustainable agriculture and food quality global priorities. This should make it easier to balance the CAP and external influences. However, the trade, especially in agri-food products, can be blocked easily by economic sanctions or import bans based on the suspicion of food contamination or non-compliance with sanitary regulations. Therefore, the CAP should create a permanent mechanism of quick responses to such situations making it possible to support farmers and agri-food producers affected by a rapid distortion of marketing channels.

Summing up, it has to be underlined that the EU is and aims at remaining one of the biggest agri-food exporters. This means it is dependent on the external surrounding and needs to promote actively its products on the world markets while at the same time tries to build consensus for trade agreements that would enable continuing exporting of EU products. Given the presence of the process of internationalization of the trade policy as well as the agricultural one the EU must monitor the stand points of the other countries to be able to react quickly to the proposed changes in the trade conditions or the agricultural policy and to advocate its own choice.

#### **4. Conclusions**

The pressure of external surrounding on the CAP can have different forms and channels, but it can be tackled also in various ways by the EU stakeholders shaping the CAP. It is the nature of global circumstances and specificity of the opportunities and treats for the EU economy as a whole and to its agri-food sector that determine the way these pressures are taken into account and to what extent they influence CAP. They can require direct incorporation or just modification of some instruments and mechanisms into CAP.

It can be expected that the impact of global surrounding on the CAP will be steadily increasing with the development of world trade. Yet, at the same time the impact of the CAP on the trade in agri-food products is probably going to gradually fall as already the changes in CAP expenditure have a limited impact on world agricultural markets [Boulanger, Philippidis 2015].

The lack of progress in the Doha round of the WTO talks continues and it is highly probable that in the coming years no new agreement can be reached. Due to this fact EU is trying to negotiate bilateral trade agreements. However, it is getting more and more difficult to reach a stage of win-win situation for all the stakeholders. Therefore, it cannot be ruled out that the reversal of the changes in CAP can be part

of the future reforms. Yet, given the fact that WTO regulations are still in force there is little room for such reform outcomes.

Summing up, it can be argued that the scale impact of global surrounding on CAP fluctuates in time. With the current trend in the internationalization heading towards a standstill, the impact on CAP to take further steps towards measures not distorting world market can stop and a role of indirect influence for supporting strong position of the EU agri-food products can significantly increase.

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