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AGRICULTURAL PROTECTIONISM OF THE EUROPEAN UNION IN THE CONDITIONS OF INTERNATIONAL TRADE LIBERALIZATION

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Summary

The key objective of agricultural protectionism is reflected in the protection and developing of agriculture sector. Integrated parts of this policy in the European Union are the initial model of agricultural protectionism and a new strategy of agricultural policy, which emerged as a response to the shortcomings of previously existing model. The paper presents the key reforms of agricultural policy, conditioned to internal problems and pressures in the negotiations of trade liberalization of agricultural and food products. Reform solutions for the period of 2014 to the 2020 will have similar goals. The priority will be to develop sustainable food production and sustainable management of natural resources. There is a widespread awareness of sustainable development that includes not only the economic component (which is reflected in the increase in productivity and production efficiency), but also an environmental component (the need to preserve the environment), as well as the social component of sustainable development (integrated rural development). Conducting negotiations in the framework of liberalization of agricultural and food products, there was a gradual reduction of restrictive measures in the field of domestic agriculture protection. However, the European food market is still highly protected from foreign competition because of the many features of the agricultural production sector and the importance of agriculture for the entire society. It is certain that the CAP will lose its narrow agricultural character.

Key words*: agriculture, protectionism, EU, reforms of the agricultural policy, world trade liberalization.*

JEL: *F15, F55*

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Introduction

Agricultural protectionism is the part of the agricultural policy of almost every country. It is a system of government measures to protect domestic agricultural production from foreign competition, usually by preventing or discouraging of imports. It is specially developed in Western Europe after the Second World War, and experienced a boom in the application of measures and instruments of the Common Agricultural Policy (hereinafter referred to as CAP) of the European countries. The main objectives of this policy are defined and embedded in the founding documents of the European Union (hereinafter: the EU). The study points to the need to protect domestic agriculture from foreign competition, as well as very specific economic activities, which is of great importance for the population's basic needs.

Agricultural protectionism is focused on the selection of measures of foreign trade and economic policies to achieve the protection of agricultural sector from foreign competition. In a narrow sense, it refers to the barrier that makes the presence of foreign products in the domestic market difficult (impossible). However, in addition to measures in the field of agriculture which directly restrict imports (customs duties, levies, quantitative import restrictions, compliance with standards), there are also measures to stimulate exports (export subsidies, multiple exchange rates), as well as measures for the direct stimulation of agricultural production (premiums, reimbursements, direct cash transfers). At the same time protects the interests of all groups: producers, consumers and the overall economy.

Thanks to the protection, agricultural policy of this economic integration has managed largely to meet its original goals. Since its inception, the agricultural policy of the EU has had a protectionist (protective) character, bearing in mind that the member countries protect agriculture from competition from third countries. The positive effects of the measures were reflected in the growth of production, achieving self-sufficiency in food security and stability in the common market for agricultural products. The key reason of agricultural protectionism was to reduce dependence on imported food products, keeping in mind that one of the basic functions of agriculture is ensuring food security, as well as the constant food availability. From the consideration of the EU CAP development, we come to the knowledge of its protectionist elements. Due to the constant deficiencies of agricultural policy, there were reforms that have been relatively successful, which initiates the new reforms. Contemporary theory and practice indicate that due to the world trade liberalization protective measures are slowly losing importance, while objectives that are related to the sustainable development of agriculture are increasingly preferred. The aim of all previous reforms is that the principles that are applicable in the field of CAP are stricter by introducing pure market logic in the agriculture sector.

Methodology

From the perspective of scientific methodology is important methodological approach to the problem which is the subject of research. In the selection and application of specific methodologies of scientific research we was guided by the need to on the correct methodological

and, to the extent possible, complete and accurate manner approach to the problem that is the subject of research in order to achieve the main goal of research: contribute to understanding the importance of liberalization process of foreign trade flows to the EU common agricultural market. In accordance with the subject matter and research goals, during the survey will be used following the scientific method.

In order to establish the basis of the research of this problem it will be applied the empirical analysis of the role of principles that are applicable in the field of CAP are now stricter by introducing pure market logic in the agriculture sector. First it will be applied the method of deduction in order to get the desired response, while in the later stages of the research will be applied the inductive method in order to reach new conclusions and hypotheses.

Tabeau et al. (2008) concluded that effects of possible future CAP reform decision on the Dutch agriculture till 2020 are very important if not crucial for farmers. The study is based on the AGMEMOD econometric model which reflects a sectoral, dynamic, partial equilibrium model, which also takes into account the national specificities and is built up of models for the Member States of the EU 27.

Daugbjerg, Swinbank (2007) in their case presentation comparing the three latest CAP reforms, and demonstrate that pressures on the CAP arising from international trade negotiations cannot alone account for the way in which the EU responds in terms of CAP reform.

The authors will be in this research directed towards such an approach to establishing links between CAP reforms and international trade liberalization. The results of this study clearly indicate that there is a direct link between the CAP reforms and the liberalization of agricultural markets. In order to fully meet the requirements imposed by the object of study for this research will be applied and the comparative method, while a synthetic methods imposed as to consolidate the previously mentioned method, and the shaping of a unified whole. Therefore, this paper will be applied combined system of more scientific methods, with the prioritization system analysis method which is based on three basic principles, objective analysis, and the truth of the evidence and scientific reliability of the methods.

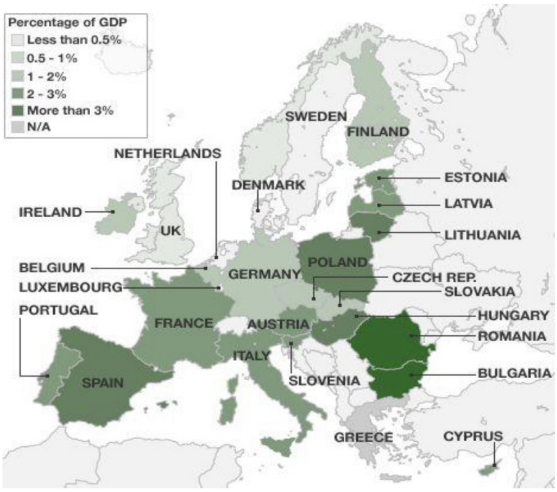
Reasons for the existence of agricultural protectionism

Although a free trade is a key factor in increasing competition, efficient allocation of resources and the demands of consumers, agriculture is a specific economic activity that requires a different (special) treatment and consideration. Specifics of agricultural production and the sensitivity of the agricultural sector on many factors (mostly natural) require state intervention in this area. Unequal position of agriculture relative to other economic activities leads to the need for protectionism, which is implemented by a wide range of measures and instruments. Thus, the special relationship of the state to the agricultural sector stems from its features. One of the characteristics of agricultural production is that it has a seasonal character, while due to the organic method of production there is a very slow turnover of capital. Long production cycle in the production of agricultural products also requires adequate protection for these activities. Due to the specific risks associated with agricultural production, it is necessary

to protect producers and consumers of these products. State interventionism and significant involvement in this area is very important because it is a large influence of climate and other natural factors that increase the risk of carrying out agricultural activities.

Specific treatment of agriculture is logical bearing in mind that this sector is essential for human survival (*Chart 1*). Therefore, protective measures are necessary. Agriculture is important from the standpoint of food security for the population. In this way, agriculture satisfies the essential, basic human needs. The key objectives of the strategy of agricultural development of any country are ensuring food security for consumers, self-sufficiency in food and variety and quality range of products.

Chart 1. Importance of agriculture in the economy



Source: European Commission.

In addition, agriculture is the basis for the development of the industry which is a major driver of economic development of any country. This is because agriculture is the main supplier of inputs (raw materials) for food, and other industries. In the initial stage of economic development, most of the working population is active in agriculture, and a large part of national income also is from agriculture (Đekić, 2010). Through the policy rate (the phenomenon of "price scissors"), tax, credit and customs policy, income was pulled from agriculture and contributed the development of the industry. These measures are usually temporary (time-limited), and their importance decreases with the economic development of the national economy. Industry, through the overflow of capital is able to contribute more to economic development than agriculture.

While international trade in non-food products in recent decades mainly carried upward with gradual liberalization and lowering tariffs (which is the result of several rounds of international trade negotiations), it wasn't the case in the trade of agricultural products (Božić et al., 2011). Fear of growing import dependence has initiated some countries (Switzerland, Japan, members of the European Economic Community) for application of strong protectionist measures. Agricultural protectionism has existed since ancient times, and "the real" is associated with

the expansion of CAP European countries in sixties of the twentieth century. Today, the protective measures of agricultural protection are present in many economies, but they are of particular significance in the agrarian policy of the countries of Europe and the United States. Protectionist measures operate twofold: to limit imports (defensive protectionism) and stimulate exports (offensive protectionism). Unlike the defensive model of agricultural protectionism of the EU, the United States (hereinafter: the USA) primarily implemented model that favors the stimulation of exports.

Other factors that contribute to increasing the level of agricultural protectionism in developed countries are: market stabilization, resistance to disturbances to the world market (wars, natural disasters), protection against uncontrolled imports of genetically modified foods and transmission of animal diseases, and in order to protect the health of consumers.

Protectionist character of EU agricultural policy

The EU agricultural protectionism is the basis of the CAP. The post-war period (the fifties of the twentieth century) brought a lot of problems regarding the supply of the population in agricultural and food products. In fact, Western European countries were faced with the scarcity of food on the market. There are problems associated with the lack of agricultural machinery, fuel, fodder, etc. The main concern of European countries was to increase food production. The recovery was aided by the Marshall Plan. Countries were bringing the various laws regulating the field of agriculture. Along with that, begins the discussion among some members of the European Economic Community on the future direction of development of national policies in the field of agriculture. CAP was accompanied by the abolition of tariffs on trade between the countries and implementation of a common foreign policy. It is the oldest and also the most expensive sector policy of the EU. With regard to the share of the agricultural sector in the total EU budget, we can conclude the importance of agriculture to European countries. Giving for these purposes amounted to well over two-thirds of the total budget of the eighties of the twentieth century. For many years this share in the total budget amounted to more than half of the total available funds. Investments in joint budget are often a bone of contention among member countries.

CAP of the EU has its basis in the Treaty of Rome in 1957 where they defined the following objectives:

- Increasing agricultural productivity through technological progress and rational use of the means of production,
- Ensuring an adequate living standard of farmers,
- Stabilization of the market (through the coordination of supply and demand for agricultural products),
- Regularity and safety in the food supply and
- Providing variety and quality of food supply to domestic consumers, which will be available at reasonable prices.

It should be noted that all of these goals remain the same to this day. Most of them are achieved to a greater extent, except attaining acceptable prices to consumers. There are strong economic objectives (related to the development of agricultural production through increased efficiency), social objectives (in terms of protecting the living standards of the manufacturer), and aims to achieve customer satisfaction (and the availability of sufficient quantities of healthy and safe food). Given the need for the realization of these goals, in 1962 was established the European Fund for guarantees and policies in agriculture, which was in 1964 divided into two parts: the first part of which is supported by guaranteed prices on the market, and second, that referred to structural reforms (European movement Serbia, 2010). The guarantee part is accounted for over 90% of the total fund, and related to the financing of market-price policy. The remaining part was used to support structural adjustment measures (rural development measures). From the constitution of the European Economic Community, it was clear that the agricultural sector will have special treatment compared to other sectors of the economy. The status of the EU agricultural policy is maintained even today, albeit in a slightly modified form.

In the first few years of operation, agricultural policy measures have begun to give certain effects. Since the shortage of agricultural products, it was created a significant supply of food. Implementation of CAP came to the fore its protective function which has worsened the position of third countries exporting agricultural products to the EU market (Acin et al., 2006). Incentives are focused on price support as the primary mechanism of agricultural policy that was implemented through price protection. Since its constitution, CAP was a policy of subsidizing agricultural prices, followed by the abolition of customs duties on mutual trade and the introduction of a common external tariff policy (Božić et al., 2011). In this way, the EU overcame the problems of self-sufficiency of food, provided a relatively high income to farmers, living standard of the population is held on a decent level, and the EU became an important partner in the export of agricultural and food products. Price support to farmers caused the positive and negative implications for the agricultural sector. Farmers were given guaranteed prices for their products, even in the case of large surpluses. The high level of import protection of the common market has led to a rise in prices of basic agricultural products far above the level of prices on the world market. The achieved level of prices is maintained primarily by export subsidies, and other instruments of agricultural protectionism. We conclude that the goal of security supply to consumers at reasonable prices isn't fully realized because of the constant high product prices on the EU market.

The initial model of the agricultural protection

CAP is conducted by two main groups of measures and instruments. These are market-price policy and measures to promote the development of rural areas. Market-price policy involves the market-intervention (import protection and export refunds, intervention buying, storing, etc.) and direct payments. They belong to the so-called first pillar of the CAP. Measures to promote rural development support multi-functionality of agriculture, diversification of the rural economy, engaging in non-agricultural activities. They revive rural areas and improve the rural environment, thereby improving the quality of life in these areas.

Within the agricultural policy of the EU countries, there is an internal and external protection (Bogdanov, 2004). Internal protection provides the stability of the food supply through protection from market disruptions. This protection is achieved through the common price. The guaranteed prices are especially important. They protect farmers from excessive lowering product prices in the situation when the market supply is far greater than the demand. This mechanism is similar to the policy of stockpiles (intervention buying). External protection is implemented by input prices, levies and export subsidies. In this way, producers are protected from cheap and excessive imports, and the disorder of the world market.

Strategy of limiting imports (defensive protectionism) is characterized by the following elements. The target price is the price determined on the beginning of the year. It was a desirable price level that would be achieved, and that the manufacturers provide a decent income. If the offer of domestic products was higher than the demand, the market price would be formed below the target price. The lower limit for the formation of market prices was the intervention price. Therefore, the intervention price is a form of price that assumes a minimum guaranteed price for domestic producers. The entrance price is the key in protecting of domestic agricultural production. This is the lowest price at which the imported goods can be sold in the common market. The variable levies are determined on the basis of it. It is a levy paid by domestic importer and the difference between the higher input prices and the lower import prices (which includes the cost of shipping and duty paid). They have provided a high level of protection of domestic agricultural producers. Through tariffs and levies are established funds that flow into the EU agricultural budget, and then used to stimulate exports and realization the other goals of agricultural policy.

The strategy of attacking agricultural protectionism is related to the export stimulation of agricultural products. Specifically, in order to encourage exports, the EU provided compensations to exporters. Export-oriented domestic agricultural producers were given these incentives. They are actually export subsidies, which are a significant budgetary expenditure. This measure was justified given the much higher prices in the domestic market compared to the price of foreign agricultural products. In the absence of subsidies, food from the EU wouldn't be cost-competitive on the international market.

The above initial model of agriculture was implemented at a time when the Western European countries were faced with a shortage of many agricultural products. There has been some revival of agriculture, increasing the range and quality of products. Except the positive results, there were the difficulties that have caused the reforms of agricultural policy. The prices of some agricultural products were approximately four times higher than world prices. There was a reduction in the competitiveness of agricultural products and therefore the European Economic Community was continuing application of agricultural protectionism. Through high tariffs, levies and other protective measures, it is hampered access to other countries on the common market, and through export subsidies solved the problem of placement of domestic products to foreign markets.

The negative effects of the original model of protectionist policy in agriculture were as follows:

- Excessive stimulation of production. Overproduction (production far exceeded the needs of the internal market), has created a large surplus of goods.
- There has been a violation of the natural environment due to the extensive use of agricultural resources (especially land) and the application of large amounts of chemicals in order to unnecessarily excessive increase of production.
- The creation of surpluses of agricultural produce that have led to the high cost of storage, insurance, and keeping inventories of these products.

It accumulated agricultural surpluses, and all the accompanying negative effects, caused the emergence of a new strategy of agricultural policy. Because of the high export subsidies, there was a big part of the total EU budget for agriculture. The main factor that has caused an increase in the cost of the budget they were huge state subsidies for the implementation of offensive protectionism. The high level of import protection worsened the relations of the EU with the traditional foreign trade partners in the trade of agricultural products. In particular, the USA demanded a gradual elimination or reduction of application of protectionist measures and radical reform of the CAP in order to liberalize trade in agricultural and food products.

The new strategy of the EU agricultural policy

One of the first reforms of agricultural policy was initiated even in 1968 by the European Commissioner for Agriculture (*Sicco Mansholt*). His idea was to reduce the predicted amount of guaranteed prices and support structural reforms. It is initiated to reduce the number of employees in agriculture in order to reduce budget expenditures. In this regard some directives were made in order to neutralize the negative tendencies in the development of agriculture. Thus, the Directive of modernization is related to the modernization of agricultural production through increased investment in agricultural buildings and the purchase of modern agricultural machinery. The Directive on early retirement meant the introduction of reimbursement to the elderly and encouraging young farmers for agricultural activities. The goal was to reach the enlargement of farms and improve the position of small and medium-sized farmers. Socio-economic directive is intended to assist in the training and education of farmers (Božić et al., 2011). The effects of the above measures were modest, due to internal problems of member countries, but also because of the economic recession, which is linked to the eighties of the last century. There was the program that shuts down part of the land from cultivation to financial compensation. The reason was an attempt to decrease the accumulation of surplus agricultural products.

It was the first reform of the limited range and in the literature is often ignored. There were documents including „Program of structural policy in agriculture" from in 1972 and the „Green Paper", which was created in 1985. As a „real" reform are the *McSharry* reform in 1992, reform in „Agenda 2000", and the *Fishler* reform („Agenda 2003"). The aim of these reforms was aimed at cheapening CAP and improving the competitiveness of agriculture.

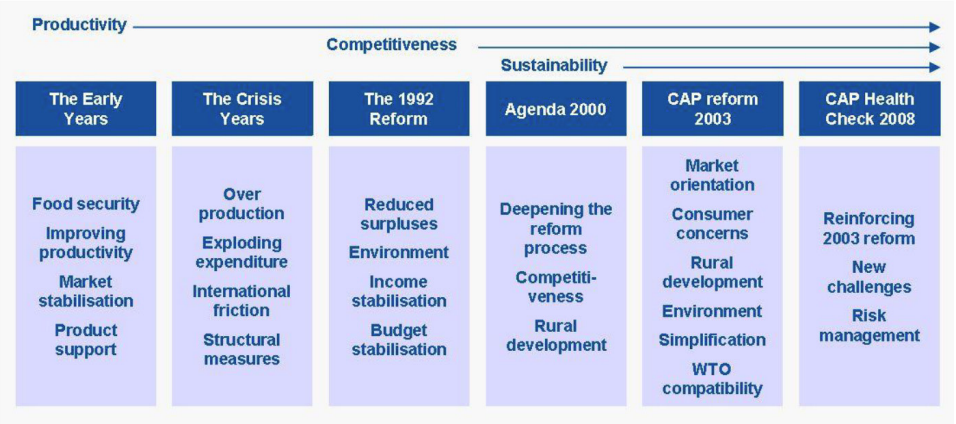
The need to reform the CAP ensued as a result of internal pressure (due to the former policy of demonstrated weaknesses) and external pressure, i.e. closer to a common solution within the World Trade Organization (WTO), (Marković, 2009). In addition, there were increasing differences between the net recipients and net providers of funds to the agricultural budget.

McSharry reform objectives from 1992 were as follows:

- Achievement of greater competitiveness of domestic agricultural production on the world market,
- Preventing unnecessary accumulation of agricultural products through the matching of supply and demand,
- Using of the agricultural budget to fund individuals to ensure long-term binding of farmers living in rural areas of the EU and to improve social and age structure of the population in the countryside.

The plan included the reduction of the intervention price. Greater attention was paid to the poor farm. It was expected the development of the system of environmental protection and forestation of agricultural land and less use of agrochemical measures. The task was to eliminate the above-mentioned discrepancies, not only because of the „internal" reasons but also because of the start of the Uruguay Round negotiations in the framework of creating a market-based system of trade in agricultural products. The reform predicted reduction of price incentives. The focus has shifted from price support to direct payments to farmers. The *McSharry* reform was the most comprehensive in the earlier existence of CAP. Direct payments have become the dominant form of subsidizing producers. Right to the premium only had farmers who suddenly withdraw from the production of a certain part of the area under cereals, oilseeds and protein crops. The costs of subsidizing exports were halved, and the share of rural development is constantly increasing. However, market stability is achieved only in the first years of the reform (Đekić, 2010). Supplies of certain agricultural products and the cost of subsidizing exports continue to increase. Due to over-stimulating agricultural production and, consequently, increasing the use of pesticides and fertilizers, there was a growing environmental pollution. Quotas, taxes and tariffs in agricultural trade represented a problem for exporters to this market and were contrary to the principles of open markets and increasingly advocacy for international trade liberalization (Bogdanov, 2011). All this isn't suited to local consumers, because they had to allocate significant funds the purchase of agricultural products. Also, there was a conflict between the EU member states (Germany and Britain on one side and France on the other side) because there was a big difference between net income and net benefits from the agricultural budget.

Chart 2. Historical development of the CAP



Source: European commission, Available at: http://ec.europa.eu/agriculture/cap-history/index_en.htm

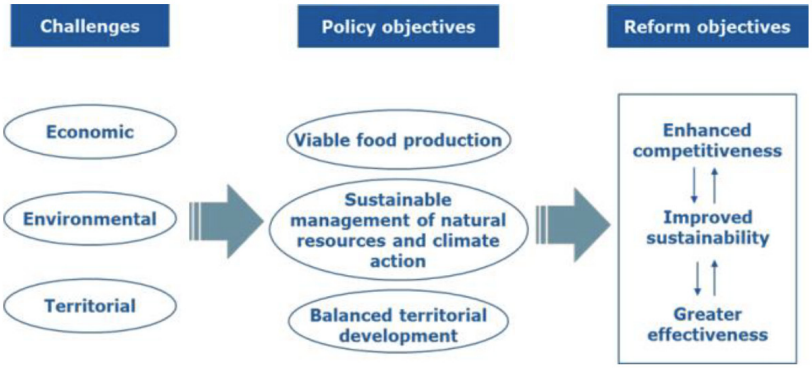
Consequently, there is a re-reform called „Agenda 2000". It was started in 1999 (The Berlin Agreement). „Agenda 2000" was a plan for the continuation of measures initiated in 1992. Agenda defines a common policy for the period since 2000 to the 2006. One of the priorities was to simplify the CAP mechanisms, as well as further support for direct payments to farmers. This is because it was thought to be that way to prevent negative effects on international trade between countries. Direct payments are more directly related to fulfilling environmental requirements of the manufacturer which affect the preservation of rural development and environmental awareness. The aim of the reform was the adaptation of the existing European model of agriculture upcoming EU enlargement, suppression of the gap in wealth and economic prosperity between the regions, and respecting the priorities in funding, taking into account the modest budget growth (Janković, 2009). There are many external factors that have caused the emergence of these reforms, including the main Doha round of negotiations within the WTO and the expected accession of new member states. Implementation of the program has led to a reduction in surplus, limiting price increase and controlling of the funds to support farmers. The reform was seeking to achieve a wide range of objectives: the concentration of agricultural holdings, increasing productivity, improving food quality policy of modernization of agricultural production, increasing income of the rural community residents, the implementation of environmental programs, development of agrarian legislation, the production of safe food. Comprehensive rural development provided a rural development, alternative and complementary activities in the rural areas, the preservation of natural resources, etc.

Another radical reform is created in 2003. In the literature it is known as „Agenda 2003" or the *Fischler* reform. The essence of this reform was further market deregulation and strengthening of rural development policy. The other objectives are: the improvement of the competitiveness of agriculture, the ecological orientation and simplification measures and mechanisms of agricultural policy. Fischler reform was conditioned by negotiations on the liberalization of world trade. The goal was to create such a policy, which will

have less distorting impact on the international market of agricultural and food products. Abolition of production-related payments to farmers should be left to market conditions. Single payment system aims to strengthen competitiveness, market orientation and provide a stable income for farmers (Marković, 2009). This reduces the protectionist character of agricultural policy, taking care of the environment, multifunctional agriculture and sustainable agricultural and rural development. In order to rationalize the use of resources from the common agricultural budget, financial discipline and respect for the limits of the budget are very important. That is why this reform is mostly supported by Germany, which allocates the most amount of money for the implementation of CAP. Such a mechanism is developed to achieve more effective control of costs, because no longer supported farmers to increase the production in order to receive higher subsidies and other benefits. Thus, the savings in the reduction of subsidies, created the funds for the promotion of rural development (modulation), and the requirements for them are: to obtain a right to protection of the environment, protection and implementation of animal welfare standards and improving the quality and safety of food (cross-compliance conditions). An important feature of these reforms was the pursuit of reducing the guaranteed prices of certain agricultural products. It is predicted the complete substitution mechanisms of support to agriculture in the direction of giving more freedom to farmers in the selection of production according to market demand. The aim was a system that is as close as possible to the market model. It is crystallized the view that agriculture provides a complement to economic production, but also exerts positive effects on the environment, rural development and social structure. It is the role of agriculture in maintaining and improving environmental quality. In aspiration of international trade liberalization, the EU carried out reduction of export stimulating measures and import protection and increase of supplemental payments from the budget of the EU member states.

Reform solutions for the period of 2014 to the 2020 will have similar goals. The priority will be to develop sustainable food production and sustainable management of natural resources. There is a widespread awareness of sustainable development that includes not only the economic component (which is reflected in the increase in productivity and production efficiency), but also an environmental component (the need to preserve the environment), as well as the social component of sustainable development (integrated rural development). In order to provide a stable income of farmers, the emphasis will be put on extra investment in research and innovation for competitiveness of agricultural holdings. It will still be supported as it will be the significant funds in the total EU budget for agriculture in the next seven-year period. On the other hand, the conditions for receiving direct payments will be more limited, or will be co-financing from the national budgets of member. Single payment system should provide greater market orientation of farmers. Young farmers would be encouraged far more because of their higher productivity and readiness for application of modern innovation (technological advances) in agricultural production. New reforms include the abolition of milk quota in 2015 and production quotas for sugar in 2017. In case of serious market distortions, CAP will provide special reserves to be paid at the expense of direct payments.

Chart 3. The CAP post-2013: From challenges to reform objectives



Source: European commission, DG Agriculture and Rural Development.

The aim of all previous reforms focused on reducing the share of the agricultural budget in the total budget of the EU, improving the competitiveness of European agriculture on a world scale and adjusting to the conditions of the world market (Todorović, Marković, 2013). For the next budget cycle funds allocated for the agricultural sector amounted to approximately 38% of the total budget, i.e. 362.79 billion (European Commission, 2013). Of this, 77% of the agricultural budget will refer to the first pillar (direct payments and market interventions), while the remainder of the funds will go for rural development. New distribution involves reducing the differences in the obtained funds (direct payments) between the member states. The EU will continue to give priority to small farms and sustainable rural development measures. The novelty is reflected in the major incentives for the less developed areas. It is certain that the CAP will lose its narrow agricultural character.

Liberalization of the international trade of agricultural products

Protectionism its powerful effects achieved in the international trade of agricultural and food products. At the same time there are pressures from many developed countries in the promotion of the free movement of products on the global market. This is because they can't overcome the barriers to export their products. Although it tends to mitigate the impact of protectionism on the world market, the fiercest resistance to its elimination comes from agricultural sector of the EU. Measures of agricultural protectionism in part affected by the developed countries, but are far more pronounced manifestation of the economic stability of the less developed and developing countries, and therefore it is a serious limiting factor of the rational international division of labour in the field of agro-industry (Vlahović, 2007). This leads to a steady increase in the share of high-income countries in world exports. Unlike the USA, which is for negotiations to liberalize world trade, the EU wants to keep the existing CAP instruments. At the global level, it causes war subsidies between these countries. It should be noted that there is no country that freely allows the import of certain products. In practice it is always present a smaller or larger degree of protectionism. The level and nature of agricultural protectionism begin to change from the seventies of the twentieth century, and about the problems in agriculture are discussed more in the context of international institutions

and organizations. In agriculture there has been a change in the policy of subsidizing until recently, and the abolition of non-tariff protection measures by the highly developed countries in recent decades, artificially created domestic agricultural empire that has low prices won the world market, on the other hand, non-tariff barriers to protect the domestic market from imports of agricultural products (Popović Petrović, 2004).

We emphasize the view that the liberalization of trade in agricultural products is conditioned by the existence of the following factors (Prekajac, 2005):

- Agreement on Agriculture of the WTO,
- Pressures on the domestic market by consumer protection organizations and organizations for the protection of the environment due to the expansion of environmental destruction,
- Internationalization of large corporations in agribusiness, which includes the expansion of production and sales networks abroad because of lower costs and better business conditions,
- International migration of farmers.

Negotiations on the trade liberalization of agricultural and food products were flowed very slowly. One of the main reasons is huge opposition to the highly developed countries of the world, primarily the EU. Conclusion of the Agreement on Agriculture, there was a certain shift. However, during the conduct of these negotiations, the countries involved in the EU CAP didn't allow a significant reduction of protectionist measures. Thus, the process of liberalization of world trade was going at a slower pace due to the high level of protection in the field of agriculture. With the establishment of the WTO, especially at the beginning of this millennium, they begin to intensify talks that are exactly related to this economic area. Agriculture is covered by the policy of the WTO, so as to require a gradual reduction of subsidies to encourage certain production. The EU has made some concessions in terms of removal of non-tariff barriers on some products and, in turn, lowering tariff rates. The aim was to significantly reduce tariffs. These requirements were primarily initiated by the USA and other countries importing food.

The General Agreement on Trade and Tariffs (GATT) was a multilateral trade agreement that was in the original sense was an interim solution until the formation of the WTO. He is as such functioned almost fifty years. New multilateral institutions in the field of international economic co-operation such as the International Monetary Fund and the World Bank, by the end of World War II initiated the negotiations for the improvement of international trade on the basis of multilateralism and non-discrimination (Bogdanov, 2004). So they made the first steps towards reducing protectionist measures. Basically, the agreement was the idea to eliminate various forms of non-tariff protection as the only legitimate measure to protect domestic production of import. This is because they are predictable and clearly defined in advance. Solutions under this Agreement predict differences in the primary trade in agricultural products and industrial products. Thus, for example export subsidies as a measure of offensive protectionism only used when it comes

to trade in agricultural products. The most important negotiations were held within the framework of the Uruguay Round in which the decision was made on the establishment of the WTO. Unlike previous multilateral agreement which was binding on countries that accept it individually, all agreements within the institution that was founded in 1994 in Geneva, were binding on all member states.

Negotiations on the liberalization of international trade have flowed from the sixties to the creation of the WTO, and have continued after the constitution of the international institutions. The most important round of negotiations and their results will be presented in the framework of the following table.

Table 1. Round of negotiations in the framework of the liberalization of world trade in agricultural products

Round negotiations	Year	The result of the negotiations related to agriculture
Dillon round	1960 – 1962.	The reduction in tariff rates for fruits and vegetables, as well as free access to the market for soybeans, cotton and oilseeds)
Kennedy round	1963 – 1967.	The abolition of customs duties on cereals substitutes
Tokyo round	1973 – 1979.	Attempts to reduce income subsidies and favourable access to markets were collapsed
Uruguay Round	1986 – 1994.	Introduced the principle of non-discrimination and national treatment and the anticipated reduction in export subsidies and domestic support to agriculture
Doha round	2001.	The gradual reduction of tariff and non-tariff barriers in the long run

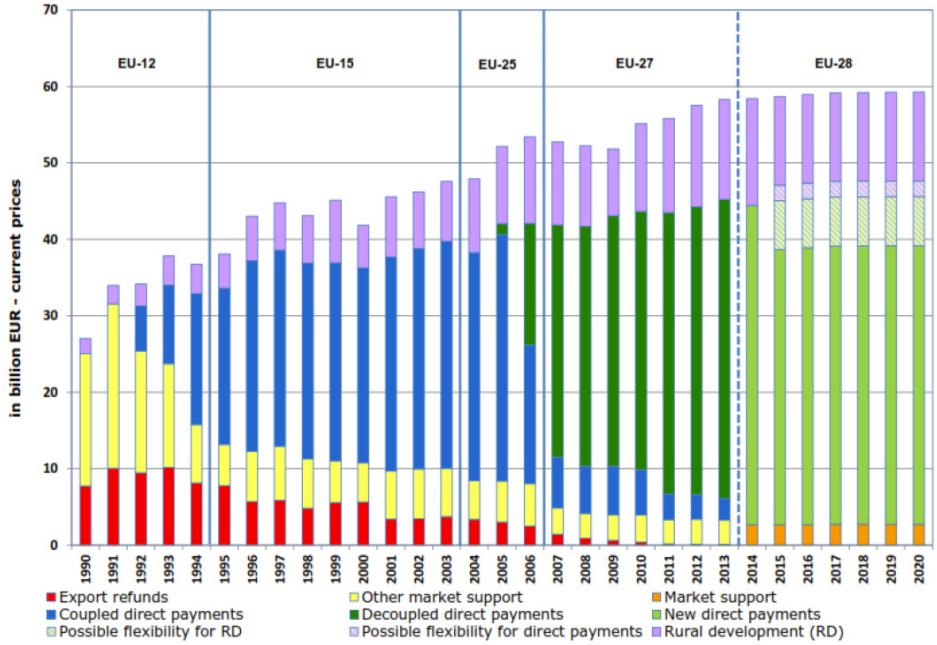
Source: Marković, 2009.

Certainly the most important round was the Uruguay Round negotiations. Upon completion of the above negotiations it is constituted the World Trade Organization. Start of negotiations was in Uruguay in 1986. Negotiations were completed in 1993, and the final act was signed in 1994 in Morocco. The world trade in agricultural products for the first time is regulated by international trade rules. The principle of non-discrimination in trade between Member States and the principle of national treatment in terms of equalizing the treatment of domestic and foreign products are adopted. Establishing a market-oriented system of trade in agricultural and food products was the desired goal of the Uruguay Round negotiations. Also, there are demands to convert non-tariff barriers in customs in order to increase transparency and reduce discrimination.

One of the priorities was the establishment of the control and reduction of domestic support to agriculture. There was a classification of support measures. The so-called green box measures which don't cause market distortions and don't provide support to prices. They are used primarily for the protection of the environment and rural development so that wasn't anticipated obligations of their reduction or elimination. The yellow box contains subsidies that cause distortions in the market by affecting the prices of agricultural products. These support measures must be reduced (for example subsidy for fertilizers). The blue box also contains measures that may not be

eliminated. They relate to payments to exclude areas from processing in the EU. *Chart 4* shows CAP actual payments from 1990-2012, commitments for 2013 and the new MFF ceiling from 2014-2020.

Chart 4. The path of CAP expenditure by calendar year (in current prices)



Source: European commission, DG Agriculture and Rural Development.

At the „Farm Week" held in Geneva (2004) were initiated proposals in the framework for future action in this area. It is adopted document „A framework for establishing modalities in agriculture", which defines the measures for the progressive reduction of protectionism in agriculture. The document includes provisions relating to export subsidies and competitiveness, market access and support domestic production. Developing countries are allowed a longer period of adjustment, as well as subsidizing transport costs and marketing costs. Special treatment for developing countries is also reflected in a gradual, slight decrease in tariffs and special treatment and inclusion of sensitive products. The least developed countries haven't had to implement any reduction, while the country is a net food importer exercised the special advantages regarding the grant of export credits and guarantees. The above provisions contribute to improving the nutritional status of the population in the least developed countries in Africa, Asia and South America.

From the above discussion, we saw that there was a willingness of the developed world to reform protectionist trade policy in this sector. Agriculture remained a key „backbone conflict" in the negotiations on the international trade liberalization.

Conclusion

Interventionism in the field of agricultural and food products was developed in agricultural protectionism with a wide range of measures, mechanisms and instruments. The aim of the policy is to improve the agricultural protectionism of domestic agricultural production and protection from foreign competition which directly influences the improvement of the living standards of farmers. The basic reasons of agricultural protectionism are the specifics of this economic activity and the importance for the population's basic needs. The reason for this is that agricultural productivity is lagging behind the development of the industry. Another important fact is the dependence of a set of natural circumstances. The necessity of state protectionism is essential because this economic activity is often composed of a large number of relatively small family farms with small financial and production power, which, on one side, has a significant role in the economic and social development of each country, and, on the other side exposed to pressure and permanent inability to survive in market economies. Such protection allows high income farmers, motivates farmers to increase production, balances economic development of certain countries and provides market stabilization.

The objectives of the EU reform of the agricultural policy have been closely associated with the need for trade liberalization in agricultural and food products. So the aim of the McSharry reform is to radically reduce the price support to farmers and to introduce direct payments which are considered less restrictive for free flow on the food market. „Agenda 2000" reduces the amount of direct benefits and binds them to conditions previously met by farmers (implementation of standards, proper manufacturing practices, plant protection, animal health and the environment). It is the so-called cross-compliance conditions payments. And the latest reform decision emphasizes the importance of free trade, and to reduce direct payments to account of the funds earmarked for rural development (modulation). Elimination of production-related direct payment provides freedom in the choice of the manufacturer what the product will produce, which a model of the EU agricultural protectionism makes more market. It is crystallized the need of respect the sustainable development strategy by investing to develop the competitiveness of the agricultural sector, sustainable management of natural resources, encouraging entrepreneurship and employing young farmers in rural areas. The final effect is to strengthen the position of the EU in negotiations within the WTO and aim that farmers produce freely, according to market demands. Hence, agricultural policy of the EU is becoming „more market". By reducing incentives for specific production, farmers are free to choose what to produce according to market needs.

The mechanism of agricultural protectionism is one of the biggest obstacles in facilitating and improving of foreign trade. CAP of the EU means a system of agricultural protection, which is made up of a combination of mechanisms: defensive protectionism, which refers to the protection of domestic production and income of farmers, and offensive protectionism which is done to encourage and provide support to the export of export-oriented farmers. Almost all developed countries (EU, USA, England) in their development applied some of the instruments of agricultural production (selective import bans, bans on exports of raw materials that are necessary for the development of the national economy, import duties, customs refund premiums, quotas).

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AGRARNI PROTEKCIONIZAM EVROPSKE UNIJE U USLOVIMA LIBERALIZACIJE MEĐUNARODNE TRGOVINE

Ivan Marković[3], Milan Marković[4]

Sažetak

Ključni cilj agrarnog protekcionizma ogleda se u zaštiti i unapređenju sektora agrara. Integralni segmenti ove politike u Evropskoj uniji jesu inicijalni model agrarnog protekcionizma i nova strategija agrarne politike koja je nastala kao odgovor na nedostatke prethodno postojećeg modela. U radu se prikazuju ključne reforme agrarne politike uslovljene kako unutrašnjim problemima, tako i pritiscima u okviru pregovora o liberalizaciji trgovine poljoprivredno-prehrambenim proizvodima. I reformska rešenja za period od 2014. do 2020. godine imaće slične ciljeve. Prioritet će biti razvijanje održive proizvodnje hrane i održivo upravljanje prirodnim resursima. Preovladava svest o održivom razvoju koji u sebi uključuje ne samo ekonomsku komponentu (koja se ogleda kroz povećanje produktivnosti i efikasnosti proizvodnje), već i ekološku komponentu (potreba za očuvanjem životne okoline), kao i socijalnu komponentu razvoja (integralni ruralni razvoj). Vođenje pregovora u sklopu liberalizacije razmene poljoprivredno-prehrambenih proizvoda vodilo je postepenom smanjenju restriktivnih mera u oblasti zaštite domaće poljoprivrede. Međutim, evropsko tržište hrane je i dalje visoko zaštićeno od inostrane konkurencije zbog mnogih osobenosti poljoprivredne proizvodnje i značaja sektora agrara za celokupno društvo. Sigurno je da će ZAP u daljem razvoju permanentno gubiti svoj usko poljoprivredni karakter.

Ključne reči: *poljoprivreda, protekcionizam, EU, reforme agrarne politike, liberalizacija svetske trgovine.*

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