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GLOBAL AND EUROPEAN DETERMINANTS OF THE CAP

Abstract

The paper, primarily, aims at presentation of the selected global and intra-European determinants of planning, running, updating and reforming the Common Agricultural Policy (CAP) of the European Union. These determinants form a dynamic system of interactions of complementary (synergies), but also contradictory (substitutability) character, with the addition of intrinsic dilemmas of the CAP, which are typical for each sectoral economic policy. Such a broad outlook is justified by the deepening interdependencies in the modern world and the significance of the EU as the largest economic player on the global scale. The CAP is continually at interest of other countries as a source of inspiration but also a precautionary tale as it comes to the undesired effects of widespread state interventionism.

The paper is a cross-sectional study – though having some features of meta-analysis – which synthesises the works of other researchers and own thoughts of the author. All these deliberations led to the conclusion that the CAP – for years appealing to the paradigms of sustainability and multifunctionality of agriculture – bears features of a rather modern utilitarian construct oriented at the future. However, its strong dependence on subsidies makes it a rather unattractive proposal for most of the developing countries, even hindering the process of solving serious development problems. Furthermore, agricultural subsidies deform competition in the international agri-food markets. They also weaken the motivation of the EU farmers to try to improve their competitive position by entrepreneurial behaviours, implementation of innovations, sound cost monitoring and adequate and flexible operating, financial and risk-management strategies.

Key words: determinants, Common Agricultural Policy (CAP), competitiveness, state interventionism, sustainability of agriculture, climate change, agri-food market, emissions, food security

Introduction

Planning, running, updating and reforming the CAP is a complex process, conditioned by many factors, shaped by many political and economic actors and targeted at several goals, but only partly autonomous against global forces. The following paper presents some of these determinants, which are important according to the author's subjective opinion. Of course, this will not be a holistic approach, because the global, European and national factors are part of various, dynamic interactions, mainly as synergies and substitutabilities, not yet fully recognised, not to mention their modelling. Although the main focus will be their implications for the competitiveness of the EU food sector, this category will be, at the same time, treated as a process and result, in a highly instrumental manner, i.e. as a means to achieve upper-level socio-economic objectives.

Global determinants

These are numerous, but the key ones include:

1. Population growth will probably be higher than so far expected. Instead of ca. 9 billion people in 2050, the Earth's population may still grow after the date reaching at the end of the current century 12-13 billion. The demographic pressure will continue, mainly in the so-called developing countries, mostly Africa. The continually growing percentage of overweight and obese people will be a worldwide problem. According to the most recent data of the World Health Organization (WHO), of July 2015, there are already 2.1 billion of such people in the world and each year the global community has to pay ca. USD 2 trillion for negative effects related thereto (Kowalski, 2012). This is under the conditions of a slow but steady drop in the number of hungry people; according to the UN, today, they number ca. 795 million. Unfortunately, the diet of ca. 2 billion people on Earth still contains not enough micro-elements.

2. The economic growth, as measured by the GDP, is moderate at most. This is reflected to the fullest in the so-called secular stagnation hypothesis, which was formulated in the 1930s by A. Hansen and recently propagated by L. Summers and P. Krugman. Its critics point to the static presentation of the problem, disregarding innovation as the main stimuli for improvement in the total productivity of the factors of production. It would be worthwhile to search for a mix of activities that increase the global demand and involve elements of redistribution and tax progression, are oriented at supply (supporting innovations and investments in modernisations, human and social capital, and cultural competences and improvements in the legal and regulating setting) and stimulate changes in companies. The latter refers primarily to extending the assessment perspectives for economic operators and linking the wages of managers to the improvement in the long-term results.

The significant drop in the economic growth in China and serious disruptions on its capital markets can provide for the validity of the secular stagnation hy-

pothesis. China, with its structural weaknesses in the form of very high savings rate, overinvestments – especially in infrastructure and housing development of self-governments and companies – high debt of the government (over 200% of the GDP) and prevalence of state-owned companies and pollution of the natural environment, can – at least in the near future – cause some serious trouble for the world economy. Devaluation of the Chinese yuan at the beginning of this August can even trigger the so-called currency war, consisting in competitive devaluation of currencies of respective countries. This factor, combined with the weakening growth in the Chinese economy, will cause a drop in the global demand for raw materials, including also agri-food demand. Moreover, agricultural land in China still belongs to “people’s communes” and “workers’ brigades”, which limits its rational and effective use.

Nonetheless, long-term projections of economic growth rate are very risky. Hence, it comes as no surprise that recently the International Monetary Fund (IMF) gives the GDP growth rate only for the current and the next year. According to its projections for July 2015, the global GDP growth rate will amount to 3.3%, i.e. less by 0.2 percentage point than projected by the IMF this April. In 2016, the world will develop only a tad faster, i.e. at the rate of 3.8%. This should not surprise, as there is not enough room for further monetary and fiscal stimulation of the economies and structural reforms are very slow. It will translate into moderate – at most – income, ergo demand, growth. The number of people living in absolute poverty will also increase slower, though; there has already been a huge progress in this regard. In line with the UN data, concluding the degree of reaching the so-called Millennium Development Goals, the number of such people dropped from 1.9 billion (1990) to 836 million (2015). Simultaneously, the middle class tripled. Thus, the demand for products of animal origin and food processed to a higher degree will probably rise. This has major implications for the natural environment, climate and fresh water management.

3. Propagation of productivity growth rates and labour charges are consequences of globalisation, financialisation and monetary stimulation in the fight against the most recent crisis. The above takes place in concordance with the shrinking of the number of jobs for people with low and average qualifications, which is caused by progressing digitisation and robotisation, popularisation of the Internet of Things and big data. The situation of young people in the labour market is especially challenging. All in all, it is difficult to clearly increase the aggregated effective demand, including also food demand, and restore rapid economic growth for good. This would require measures targeted more at wage rise, rational redistribution of income, assets and working time, lessening the role of managers and owners as well as measures limiting the possibilities of optimisation and avoidance of taxes by transnational corporations and rich people. This optimisation is an element of a broader phenomenon: offshoring, i.e. moving abroad various aspects of business activity to reduce costs and improve com-

petitiveness. However, social sociologists see the issue yet differently, namely as a form of escape from all commitments, severing social ties and deepening inequality. It is even recognised as the main battlefield of the contemporary class struggle. Most certainly, it is one of the negative effects of globalisation. At this background, maybe it is even expedient to implement the basic income concept, formulated by F.A. von Hayek and M. Fridman, which is to be received by each citizen working or not.

4. The Doha Round WTO negotiations have been in complete deadlock for several years. At the same time, more and more bilateral and regional agreements are being concluded. It is a clear proof of insufficient coordination of the global socio-economic, including agri-food policy. This is not without effect on the transparency of subsidising of agriculture and it deforms the competitiveness in global agri-food markets, e.g., through social and environmental dumping practices. Consequently, this competition is mainly a zero-sum game, while the world needs more of win-win behaviours, meaning a sort of combination of competition with cooperation.

5. International relations once again had to welcome realpolitik, history and geopolitics. This was caused by the conflict in Ukraine, expansion of the Islamic State and aggressive behaviours of China in the South China Sea and East China Sea as well as announcements by Japan and Germany to review pacifist policy. This will be followed by mounting tensions between food, internal, social and energy security. Competition will emerge also in access to public funds. The cycle of sanctions-countersanctions-re-sanctions in the West-East / non-West relations may, in turn, escalate and consolidate. This will make the competition in the international agri-food trade fiercer and the traditional advantages, based on low manufacturing costs, will gain even more in importance. For Europe, armed conflicts in its closer and further surrounding create a very serious problem with immigrants, especially from Africa. As it has already been noted, this continent is characterised by the highest birth rate. As per the UN forecasts of this July, the number of Africans will increase from 1.2 billion now to 4.3 billion in 2100.

6. Climate, energy, low-carbon economy and green growth and socio-economic development create a set of phenomena and problems more and more strongly interconnected and mutually conditioned. But, limiting ourselves to the climate and its connection to the greenhouse gas emissions from human activity, it needs to be stated that, today, ca. 2/3 of the world carbon dioxide emissions fall to developing countries, led by China (28% share). These countries, just like the US, Canada and Australia, were so far reluctant to sign a global climate agreement. There is a hope for change, though, as the US and China voluntarily declared reduction targets. Maybe then, the Paris climate conference scheduled for December 2015 ends in success, i.e. signing a worldwide agreement on reduction of carbon dioxide emissions. It most certainly covers also

agriculture, which, at present, accounts for ca. 13% of greenhouse gas emissions (Nowa polityka rolna..., 2014). This will require specific adaptation and mitigation measures, whose costs will most likely translate into a short-lived drop in competitiveness in some countries.

7. Perhaps those claiming that from the end of the World War II mankind has entered a geological epoch termed Anthropocene have been right all the time. The term reflects the dominant impact of men on nature, depletion of natural resources, greenhouse gas emissions leading to faster climate change and emissions of other harmful substances. In the wake of this: Earth's species will unify, men will take the position of the alpha predator in the food chain, thus, implying his undeniable impact on the evolution of other species, and biosphere will be increasingly penetrated by technosphere, meaning machines and human-created devices will take over control of life on Earth (Ulanowski, 2015). Hence, we live at the expense of future generations, tightening the competition for non-renewable and renewable resources and speeding up the process of already the sixth mass extinction of species. We also have to be prepared that nature itself will try to restore balance by, for example, a pandemic outbreak. It would be better to prevent this by guiding the world towards a more pronounced sustainability. The UN sees the need for such a global transformation proclaiming recently that the Millennium Development Goals (MDG) are to be replaced by Sustainable Development Goals. They are to be substantiated in September 2015. There will be 17 goals encompassing the whole range of current and future challenges that the world has to face (Stefanicki, 2015; The Millennium Development..., 2015).

8. Even assuming that, in the future, the income of the world's population will grow at a very moderate rate, it seems that growth in agri-food demand is to be expected given a surge in population figures. It, however, is an open issue whether or not the supply will be ample. In this context, trends in land and freshwater resources are vital. Today, the world has less than 4.9 billion hectare of land at its disposal, but each year it losses ca. 5 million hectare. The share of very good soils is very low, namely ca. 3%. The possibilities to increase the acreage of UAA across the globe are also minor, i.e. 10%, mainly in South Asia, Africa, Russia and Latin America. The process of land degradation, caused by water and wind erosion, chemicalisation of agriculture and natural biological cycles, also poses a serious threat. It is estimated that presently ca. 2.8 billion people worldwide (35% of the Earth's population) suffers from the so-called water shortage resulting from economic factors (Zbadań nad rolnictwem..., (25) 2014). In 2030, it can affect as much as ca. 47% of the population. It needs to be added that agriculture is the largest "consumer" of freshwater – its share is estimated at 60-70% (Zegar, 2012). This follows mainly from development of livestock production and intensification of mineral fertilisation, most commonly linked to land irrigation. Trying to generalise these examples, it can be assumed

that the major challenge for world agriculture was and still is a solution to the problem of simultaneous implementation of measures targeted at sustainable raise in supply of agri-food products, and rationalisation and reduction of demand, primarily by diet change, reduction of losses or practical implementation of production technologies for biofuel of the second and next generations. This gives a chance to ease the tension between the former model of achieving food security and the growing environmental problems, i.e. progressing climate change and the loss of biodiversity.

European determinants

According to the information of September 2014, provided by demographers from the Washington State University in Pullman, at that time there were 740 million people in Europe, but by the end of the century the number is to be less by ca. 14 million. The UN forecast of July this year is much gloomier as it states that there will be ca. 646 million people living in the Old Continent in 2100. Thus, Europe is a continent of aging people that has problems with economic growth and jobs for the youth, protects the welfare state model against globalisation, is deeply in public and private debt and recently faces threats to its internal security. It is a region where the old EU Member States, led by Cyprus, Ireland, the Netherlands and Luxembourg, but also Austria, Belgium and the United Kingdom, exercise unfair tax competition. Whereas the new Member States fall back to the so-called race-to-the-bottom, to attract foreign capital to the detriment of, e.g., the natural environment. Brussels also goes deep into competitiveness, e.g., by the Macroeconomic Imbalance Procedure. But, paradoxically, Europe is still a kind of heaven on Earth for millions of poverty-stricken residents of Africa, Middle East and Asia. Their integration with Europe will be a tedious and intricate process, though.

The EU copes quite well with reducing budget deficits (10 out of 24 countries are still covered by the excessive deficit procedure) but struggles with public debt. At present, across the whole Europe, it is higher than in 2007 and in 11 countries it is twice higher. Greece and Italy are, in fact, bankrupt. The EU has indeed introduced the two-pack, six-pack and fiscal compact to strengthen the Stability and Growth Pact, but France and Italy refuse to comply anyway. It seems, however, that there will be no sanctions against them on this account. The issue of economic imbalance and instability of the euro area are and will, undoubtedly, stay the greatest problems. The case of Greece showed more clearly than ever that even the worst-case scenario, namely total collapse of Euroland, is not out of the question. In such a case, every effort should be made to ensure smooth functioning of the EU, the single market and the Schengen area.

In the EU everyone wants to follow in the footsteps of Germany, Austria, the Netherlands, China and Japan, meaning they want to export, export and export again. But who will import then? In Germany labour market deregulation came

before export expansion, thus deepening the income gap even more. The export model invites to use the “take your neighbour to the cleaner’s” type of practices, which, ultimately, consume everyone. It will also, rather quickly, crash into the barrier of actual demand. Hence, expectations for a visible growth in the efficient consumer demand in the EU are futile. Therefore, the intra-EU competition in the agri-food markets will be cut-throat, especially as regards mass products, namely unprocessed agricultural raw materials, which was readily apparent in this summer’s protests of the French farmers who blocked food transport, e.g., from Poland. Consequently, the low production costs will be even more important as the basic competitive advantage.

Although the ECB and the EU funds for financial stability prevented the collapse of the Euroland in 2011-2012, the fundamental problems were not satisfactorily handled. The health of banks improves slowly and monetary policy still takes the blows of stabilisation policy. Fragile growth, interwoven from time to time with shallow recessions, and real deflation risk continually push the ECB towards nonstandard measures with unidentified effects. Due to high public debt more active fiscal policy is rather not an option and structural changes are hard going. Today, it is rarely that you hear about the fiscal union as a necessary component to complete the common currency area and majority instead of unanimous voting. The bond market speculative bubble in Euroland pumps up. Maybe the euro area and the entire EU will have to write off the entire decade. Liquidity mechanisms for the banks of the EU-19 and, above all, separate budget pose a threat to the non-Euroland countries. The following conclusions can be drawn from the above:

- The global demand and especially consumer demand in the EU and the Euroland will be rather stable over the coming years, but its drop is not unlikely. This will intensify competition based on low costs and their reasonable proportion to quality.
- The peripheries of the Euroland have made a considerable progress in the so-called internal devaluation, resulting, e.g., in a drop in unit labour costs. This raises their competitiveness in export.
- Because Fed stopped quantitative easing of monetary policy, euro depreciation is to be expected, which can provide an additional export incentive, but the effect will be different in Euroland and non-Euroland countries. Still, the latter have a narrow margin to exercise impact via its monetary policy, by the so-called exchange rate channel, on the economic growth, inflation and export. The exchange rate of their currencies is more and more often determined by the global factors and operations of transnational corporations.
- Low interest rates will probably continue for a longer time, thus preferring consumption over savings and investments, and deforming choices in the field of cost-effectiveness of development-oriented undertakings.

The EU wants to be a leader in the fight against climate change and promotion of low carbon economy. The energy and climate issues in the Community are governed by the Plan 2050, which provides for a reduction in the CO₂ emissions in the EU by 80% in 2050 against 1990. The Plan is implemented by the so-called one-decade packages. The currently applicable package is dated on 23 April 2009 and termed 3x20 Package – it ends in 2020. The solutions to be binding after 2020 were adopted in 2014. They expect that in 2030, against 2005, it will be possible to achieve.

- a CO₂ emission reduction by 40% (43% in power and industry sectors, i.e. sectors covered by the EU emission trading scheme (ETS), and by 30% in non-ETS sectors, i.e.: agriculture, transport, construction);
- a growth in the share of renewable energy sources (RES) to 27% and better energy efficiency also by 27%. These are non-obligatory targets. It needs to be added that non-ETS sectors emit 60% of greenhouse gasses.

Assessing the above-plans it needs to be pointed out that:

- Diverse solutions for the EU-15 and the EU-13, included in the 2021-2030 Package, will distort the intra-EU competition, but they were adopted in the name of European solidarity.
- In the short-term, the Package involves costs and sacrifices, but in the long run it should favour innovations, technical progress, rise in the energy independence of the EU, new jobs and re-industrialisation based on new grounds. It needs to be kept in mind that 6 Polish cities are among the top 10 of the most polluted EU cities.
- A wide-ranging pragmatism is needed, however; especially as regards subsidies for RES and ensuring that wide-scale energy exclusion is not an issue.
- The EU expects that the Package will provide stimuli for successful conclusion of the Paris climate conference this December.
- As for reduction in the greenhouse gas emissions in agriculture, it is not yet clear how to achieve it in practice.

It is possible that the United Kingdom will exit the EU (the so-called Brexit). The case will be decided in 2016, 2017 at the latest. How Ireland, Denmark and Sweden would react to this remains a mystery. The future of Greece is also an open issue. It has to be remembered that Brits are the third largest net payer to the EU budget (in 2013 – they paid EUR 8.5 billion). This followed from a relatively low support for agriculture and fairly low level of structural assistance. In the context it should be noted that:

- The Brits are traditionally perceived as supporters of economic liberalism and free trade. But demanding restrictions in free movement of people is clearly at odds with this preconception.
- The possible Brexit will cause a shortage in budget income, which should be covered by other members. Otherwise, the competition for reduced funds will tighten.

- The absence of Brits will strengthen the group of countries supporting interventionism in agriculture and solving the CAP problems mainly by means of subsidies.

Although by the end of September 2014 the EU signed the Comprehensive Economic and Trade Agreement (CETA) with Canada, the negotiations of a similar agreement with the US are still ongoing (TTIP). On 9 October 2014, the EU countries presented their negotiating mandate for the European Commission in its talks with the Americans. It says nothing about, e.g., GMO, but contains provisions on settlement of disputes between the state and companies, specifically the ISDS (Investor-State Dispute Settlement) clause. This instrument of public international law gives almost unlimited possibilities of suing individual countries by transnational corporations, which raises great concerns in the EU, and being presently the most difficult issue in the negotiations. Moreover, it should be added that it is already a third attempt at conclusion of such an agreement with the US. The first two failed, e.g., blocked by the French agricultural lobby. The present agreement is to initially enter into life in 2016, which is, however, unfeasible because there are political barriers on both sides of the Atlantic and, mind you, all national parliaments have to ratify the agreement.

The CETA and TTIP have socio-economic objectives. Theoretically, they can boost trade, growth, employment, etc. But longer time-frame is required for these very different systems to adjust to each other which refers also to agriculture. It is enough to say that Americans have a different philosophy of granting subsidies to agriculture than the EU, for example:

- Americans support liquidity and stabilise the business cycle in agriculture. They put much store by subsidisation of agricultural insurances; instead of the simple agri-environmental payments they have the quasi-market auction instrument called CRP (Conservation Reserve Program).
- There is no VAT in the US. There is the turnover tax instead, but not in all states. Two conclusions follow from the above:
 - the possible ratification of the CETA and the TTIP as well as similar agreement with Japan and South Korea will greatly extend the market, thereby, also demand;
 - it is very difficult to point to the new winners and losers in the game; each country has to make its own profit and loss account linked to taking over the transatlantic partnership.

The Ukrainian conflict will probably span for several years. As a consequence, both Russia and Ukraine and many other former Soviet countries will be an unstable and risky area, experiencing weak economic growth and maybe also deep in a few years' recession and weakening of their currencies. Therefore, this will be a shallow, extremely risky and rather unprofitable market for the EU agri-food exporters. It will indirectly affect the intra-EU competition, which is already pretty clear, for instance, on the pigmeat market. Redirecting export

from the East to other markets will most certainly complicate the situation for those offering food of much lower quality parameters, hence, e.g., Polish exporters. Moreover, the costs of transport, forming sales network and financing transactions and risk need to be added thereto. But then, Ukraine as a very competitive producer of sweets, sunflower oil and poultry should not be underestimated. The country will surely benefit from the preferences contained in the association agreement with the EU. Russia, on the other hand, will attempt to increase its own agricultural production, especially animal production, as in the cereals sector – just like Ukraine – it is already a global player. But according even to Russians, it will not be easy or cheap or fast.

To conclude, it can be stated that the future (after the mid-term review of the CAP but even more after 2020) decisions on the CAP funding will be probably closely linked to settlement of the problem of immigration, energy and climate policy and relations with Russia and Ukraine. Maybe, the positions of the old and the new members to the Community will tighten up. Maybe even, Germany will not support “the new Europe” as it did before.

Dilemmas of the CAP

The CAP constantly evolves, trying to adapt its goals and instruments to the changes in the broadly-conceived surrounding, but it also reacts to the criticism of developing countries, which accuse it of deforming the world trade in agricultural products, thus preventing them to break free from the cycle of poverty. Therefore, the EU agriculture has to become increasingly more competitive and, at the same time, integrated with the world. This can cash in, but it is also necessary to consider the growing economic fluctuations, variability of prices and currency exchange and, as a result, growing uncertainty and risk. The consumers and citizens also increase pressure to rationally use all resources also in agriculture, conserve biodiversity and ensure decent conditions of animal rearing, etc. Agriculture also has to contribute more to climate change prevention and provision of “green energy” sources and biomaterials. Thus, in general, the contemporary and future agricultural policy cannot be concentrated solely on the aims consisting in multiplication and rather fair division of agricultural income, but it has to become a policy that strengthens the international competitiveness of the EU and its Member States in the field of tasks covered by the environmental, climate, energy, technology, consumer and animal protection and global food policies. The issues linked to shaping the rural and spatial development should not disappear from the view, as well. The above challenges and the basic answers thereto are presented in Comparison 1.

Challenges for the contemporary agricultural policy and how to tackle them

Ensuring food to the mankind

- permanent improvement in productivity and efficiency of agriculture
- implementation of country-specific solutions
- boosting activity in agricultural research for development in the EU

Food safety and security and food quality

- initiatives to support healthy eating
- support to high quality production
- information exchange across the entire food chain
- stronger control and sanction mechanisms

Competitiveness of agriculture and the food sector

- data collection and tracking past operations in agribusiness
- support to high quality production
- better export support, excluding subsidies
- elimination of shortages in the applied agricultural research
- replacing support to investments with support to innovations
- better management of price and income risk
- concept of a wider application of commodity futures markets
- analysis of different possibilities of draught effects mitigation

Adjustment to climate change

- better forecasting system
- support to technical adjustments
- support to investments in the farm setting
- possible support to solutions in the area of insurance

Reduction of emissions from agriculture

- development and testing of low-carbon production techniques and concepts
- assessment of regulations concerning fertilisation as regards efficient reduction of excessive nitrogen emissions
- structural projects reducing regional nitrogen surpluses
- implementation of the concept of emission reduction from wetlands in agriculture
- specific projects protecting wet grasslands situated on organic soils

Conservation of biodiversity

- negotiated international programmes protecting species and race biodiversity
- monitoring and research of biodiversity of agricultural landscapes
- conservation and maintenance of extensive grasslands
- reduced eutrophication caused by fertilisation of agricultural crops

Rural development

- clear identification of responsibilities and more intensive use of funds at the regional level
- governmental focus on financial compensation, monitoring and assessment (evaluation)
- implementation of auxiliary cross-sectoral support programmes at the national level that strengthen competitiveness

Source: own study on the basis of: EU-Agrarpolitik nach 2013. Plädoyer für eine neue Politik für Ernährung, Landwirtschaft und ländliche Räume, "Berichte über Landwirtschaft", Band 88, no. 2, September 2010; Kurzstellungnahme zur Mitteilung der Europäischen Kommission über die Ausgestaltung der Gemeinsamen Agrarpolitik bis 2020, "Berichte über Landwirtschaft", Band 89, no. 1, May 2011.

For years the CAP has been based on the concepts of sustainability and multifunctionality of agriculture, which constitute a good safeguard for environmental basics of building long-term competitiveness of agriculture and the entire food sector. They require constant redefinition and update, though. Although the CAP reduced the pressure on the natural environment exercised by fertilisation, especially on fresh water resources, the same is not entirely true for plant protection products. A clear progress in greenhouse gas emissions has also been noted. However, a lot still remains to be done as regards soil regeneration, despite adoption of the so-called thematic strategy in this area in 2006. It is estimated, for instance, that 12% of the land area of the EU is affected by water and 4% by wind erosion (Z badań nad rolnictwem..., (23) 2014).

Deeper thought in this context should be given, above all, to:

- The possibilities to extend the area of complementarity between its economic, ecological and social sustainability.
- No reasons to depreciate the traditional microeconomic efficiency and productivity for integrated accounts, since this very efficiency and productivity form grounds for the contemporary competition in the international area. Its significance grows in the conditions of deteriorating business cycle and demand restrictions. This is what now takes place. And it can last long.
- It is crucial to loosen up the relationship between the model and subsidies.
- Recognising the fact that the paradigm of sustainable growth of farms exists simultaneously. It was formulated by C.L. Escalante, C.G. Turvey and P.J. Barry (2009). It states that the pace of sales of these farms should not distort the proportion between equity and debt. Hence, the significance of short- and long-term financial balance is emphasised, which is necessary for survival and development and, consequently, for keeping the competitive ability.
- The EU model is not at all attractive for poor countries, and because of extensive subsidisation it can distort international trade, thereby, hindering the process of solving complex development problems to these countries. In this sense, the EU has little impact on mitigation of the scale of undernourishment of a part of the world, but it has the capacity to raise agricultural and food production.

The EU model of agricultural sustainability lacks a clear reference to the systemic paradigm. This was noted by, e.g., R. Ripol-Bosch et al. (2012). First and foremost, seven of the following system attributes are missing:

1. productivity (the ability to provide the required level of goods and services),
2. stability (keeping a fixed level of productivity at normal conditions of operation),
3. reliability (keeping the level of productivity close to equilibrium at normal shocks),
4. resilience (return to equilibrium or productivity level close to the starting point after a series of disturbances),

5. adaptability and flexibility (the ability to find new levels of sustainability or continued delivery of benefits at long-term changes to the natural environment),
6. equity (the ability to fairly divide benefits within a given generation in the intergenerational dimension),
7. self-reliance (the possibility to regulate and control interactions with the surrounding).

The attributes of stability, reliability and resilience are actually very similar in nature and they can be, without prejudice, joined into a single feature, i.e., stability – understood as the ability of the system to cope with changes. Together with adaptability and flexibility they provide an opportunity to analyse agriculture as a dynamic system. The lack of such a perspective in discussions on the CAP, especially in Poland, is sorely evident.

The EU model only partly corresponds to the global challenges facing the food sector. Consequently, there are several concepts competitive and complementary to the EU model. First of all, sustainable intensification has to be mentioned. In general, it aims to increase productivity of land unit, at the same time, reducing the negative effects of agriculture on nature (Firbank, Elliot, Drake, Cao and Gooday, 2013; Franks, 2014; Godfray and Garnett, 2014; Godfray et al., 2010; Ripol et al., 2012; Smith, 2013). The second concept is “climate-smart” agriculture, which is a system that sustainably raises productivity in agriculture, increases its resilience to emissions of greenhouse gasses (adaptation) and reduces their level (mitigation), simultaneously, improving the level of the national food security and more efficiently achieving complex development objectives (Beddington, 2012; The Hague Conference..., 2010).

The safe operating space for interconnected food and climate systems is, undoubtedly, a very interesting model, as well. It generally aims to find compromise solutions that will reconcile the issue of maximisation of food production in the conditions of restrictions imposed by the growth in the Earth’s population figures and the consequences of climate change for agriculture (Beddington, 2012). Finally, the concept of closing the yield gap also has to be mentioned, which, in fact, refers to sustainable intensification. The gap is defined as the difference between the current productivity of land and livestock, and the potential productivity at a given location if crop and livestock production would have been optimal (Franks, 2014; Godfray et al., 2010; Godfray and Garnett, 2014; Smith, 2013). From the above it clearly follows that in some world regions it would be expedient to, e.g., increase crop yields and in others – decrease them, but firstly reducing inputs, thereby, farming intensity.

Major controversies are sparked off by the system, applied in the EU agriculture, of internalisation of externalities emerging in agriculture and the manner of remunerating farmers for provision of public goods, especially in the form of agri-environmental services, related thereto. In the context, the following should be noted:

- The set of used instruments should be extended; hence, it should be made less reliant on subsidies.
- Remuneration for agri-environmental services should offset the costs actually incurred and opportunity costs, with only a small incentive element. However, it should avoid additional income redistribution channels (Endres, 2013; Fees and Seeliger, 2013; Glebe, 2001; Mußhoff and Hirschauer, 2011). Theoretically, it would be best to base it on the Pigouvian subsidy of 1920, but it is difficult to be implemented in its pure form (Blankart, 2011; Brümmerhoff, 2011; Fritsch, 2014; Zimmerman, Henke and Broer, 2012).
- The agri-environmental payments and possibly climate payments should be precisely addressed, at least taking into account their transaction costs, which will ultimately result in more efficient allocation of public funds.
- Subsidies should not be contrary to the unprompted environmental motivations of farmers (Sandel, 2012).
- Agriculture generates external costs both in its production activity and in households of the very farmers. These costs, just like external benefits, should be balanced and estimated in total. It needs to be done for consumption and production externalities and their various combinations. For example, it is estimated that in Poland the so-called low emissions of gasses and dust, i.e. emissions from detached houses (ca. 5 million), 70% of which are situated in rural areas, are much more dangerous than the so-called high emissions originating from the industry.

The EU agriculture, for years, has relied mainly on subsidies as the source of funding of current operations and development. It is enough to say that recently in Poland direct payments (1st pillar) and other support (2nd pillar) accounted for 60-65% of monetary income generated in agriculture. The old Community countries definitely prefer the aforementioned payments, while the new ones show a clearer sustainability of the support structure. Across the EU, different rate of payments per 1 hectare of UAA is still a problem, by some considered as a factor deforming competition in the Community. Individual countries differ also as regards the level of decoupling of subsidies from the current production and investment decisions of farmers. The WTO puts much store by the issue, because loosening the relationship between the subsidies and agricultural production is to better equalise competition in the global dimension. At this point it should be added that in the new budget perspective for 2014-2020 the rate of decoupling budget payments from production has been reduced. As a result, an increase in the latter should be expected, which would hinder its efficient management, especially as everyone wants to export. It has to be kept in mind that – as justly captured by J. Kornai – capitalism is an economy of excess (Kornai 2014) which refers also to agriculture.

A very strong dependence of the EU agriculture on subsidies, just like in most of the OECD countries, can be explained, e.g., by political economy (Hen-

ning, 2002; Henning, 2005; Henning, 2008). What comes handy in this context is economic and political efficiency, i.e. the drive of agricultural politicians to maximise the number of their voters to increase their chances for re-election. Figure 1 provides a good illustration of the interdependencies between political and economic efficiency of the CAP. From the above it follows that the greatest split between them was in the period when the EU instruments concentrated on regulation of agricultural prices; hence, when transparency of subsidisation was low. A clear progress, namely, political efficiency dropped and economic one improved, occurred when direct payments coupled with agricultural production were introduced. Greater transparency of the latter for consumers, taxpayers and foreign competitors increased pressure to reform the CAP. Powerful stimuli for changes appeared after the creation of the WTO (1994) and collapse of the former Easter Bloc and the EU's declaration that it is willing to open its borders to countries from our region. This political and institutional setting was the medium for popularisation of the decoupled direct payments – i.e. theoretically neutral to the current agricultural production. Thus, the gap between the two types of efficiency was further narrowed. The present budget perspective of the EU can stop these favourable processes, since the Member States have the possibility to allocate up to 15% of direct support in the form of coupled payments.

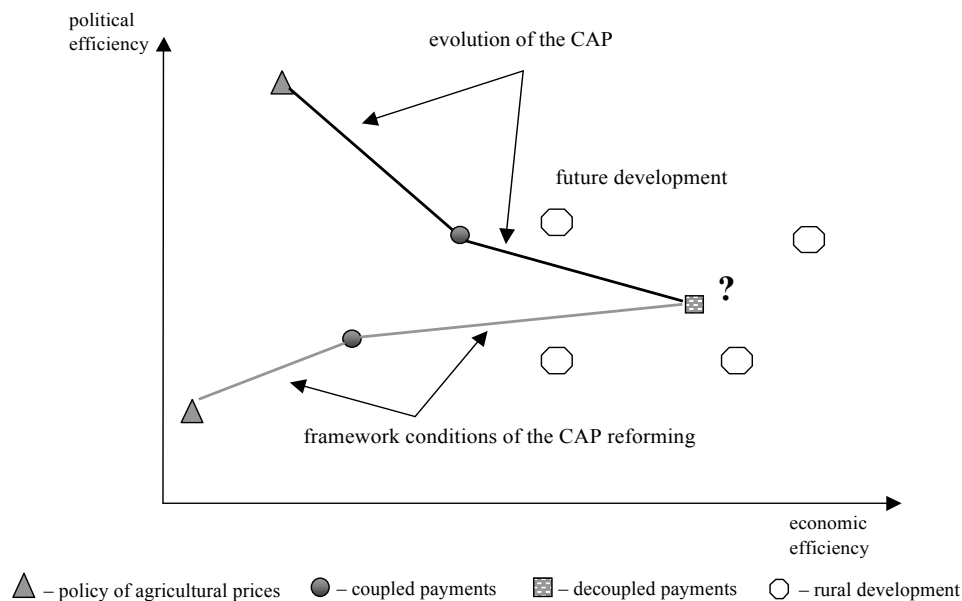


Fig. 1. Political and economic efficiency of the CAP

Source: own study on the basis of: Ch.H.C.A. Henning, The show must go on: Zur politischen Ökonomie der Ländlichen Entwicklungspolitik in der EU, "Agrarwirtschaft", Jg. 54, H. 4, 2005.

An overall account of costs and benefits linked to agricultural subsidies, taking into account changes in wealth, is more and more needed. It should cover:

- increase in social wealth on account of approximation of private and social optimality and mitigation of income and property gaps and gaps regarding equal opportunities in agriculture;
- losses of wealth on account of:
 - substitution and income effects and frauds in the use of subsidies and payment of taxes and tax-like charges,
 - tax collection to fund subsidies and transaction costs linked to the two financial instruments,
 - opportunity costs (dual prices) of using agricultural subsidies,
 - capitalisation and outflow of subsidies to the surrounding.

We should be careful not to allow overlapping of subsidies and their capitalisation and pro-cyclical behaviour of banks and financial investments in land of non-framers and speculative capital to stimulate additional processes of establishment of boom / bust cycles in agriculture.

Already now the European Commission tries to convince Member States to use, on a wider scale, returnable instruments in the 2nd pillar of the CAP (commercial credits or subsidisation, credit guarantees and capital inputs). In the future these will be a must.

Conclusions

The global food system is already now unsustainable on many levels, also in the sphere of production and consumption. It has to face many challenges linked mainly to the growing number of increasingly more affluent people, worsening condition of the natural environment and progressing climate change. Competition for land, water, energy and mineral resources, necessary, for instance, for production of potassium and phosphate fertilisers, will become fiercer. Whereas consumption “westernisation” in developing countries will mean changes in diet that involve greater share of processed animal products, more resource-intensive products burdening the natural environment and reducing biodiversity and accelerating anthropogenic emissions of greenhouse gasses. However, it needs to be strongly emphasised that in the global dimension agriculture is a part of climate change but, at the same time, it provides a chance to stop it. The probable imbalance between supply and demand on agri-food markets could unquestionably be mitigated if significant progress in loss and waste reduction across entire food chains was noted. In practice, it is difficult, because agribusiness will continue to operate in the former setting, also unsustainable in many dimensions, and failing to take into account the activities of the global population in the overall scale of externalities. This means that competition on international markets of agri-food products will still be based on low traditionally calculated production costs. These processes should be considered in the CAP all the time.

The very CAP, referring to the paradigms of sustainability and multifunctionality of agriculture in the area of formal superstructure, shows signs of a rather modern, practical and prospective structure. Its community character, just like other EU policies, not always considers the specificities of individual Member States. A need for its clear unification is, in general, justified by a need to ensure equal conditions of competition in the Community. Another case is that Member States often have problems with using the margin of freedom offered by Brussels. It is best visible in case of targeting the agricultural policy instruments at simultaneous achievement of allocation (efficiency), redistribution (equality) and environmental goals. It is often the case that division wins at the expense of efficiency and the natural environment. This largely follows from the preference for subsidisation as a basic tool to solve problems of structural, income and adjustment nature and problems linked to internalisation of externalities in agriculture and rural areas. This often has a negative effect on the traditionally understood cost competitiveness, which will still dominate in Europe in the coming years. Low production costs, calculated in a traditional manner including also externalities, will never lose their basic significance as sources of building competitive advantage. Extensive subsidisation of agriculture of the EU and most of the OECD countries also leads to unsustainability of the sector in developing countries, thus preventing them from efficient competition in international markets, solving acute development problems and breaking free from the cycle of poverty.

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GLOBALNE I EUROPEJSKIE DETERMINANTY WPR

Abstrakt

Podstawowym celem artykułu jest przedstawienie wybranych uwarunkowań globalnych i wewnątrz europejskich projektowania, prowadzenia, aktualizacji i reformowania wspólnej polityki rolnej (WPR) Unii Europejskiej. Uwarunkowania te tworzą dynamiczny układ interakcji o charakterze komplementarnym (synergie), ale i sprzecznym (wymienności). Do tego dochodzą samostne dylematy WPR, typowe dla każdej sektorowej polityki gospodarczej. Takie szerokie spojrzenie uzasadnione jest pogłębiającymi się współzależnościami we współczesnym świecie i znaczeniem UE jako największego aktora ekonomicznego w ujęciu globalnym. WPR z kolei jest przedmiotem stałego zainteresowania innych krajów jako źródło inspiracji, ale też przestroga, jeśli chodzi o niepożądane skutki rozległego interwencjonizmu państwowego.

Artykuł jest studium przekrojowym, mającym jednak pewne cechy metaanalizy, w którym zsyntetyzowano dorobek innych badaczy i przemyślenia własne autora. Z całości rozważań wynika, że WPR – od lat odwołująca się do paradygmatów zrównoważenia i wielofunkcyjności rolnictwa – ma znamiona konstrukcji w miarę nowoczesnej, utylitarnej i zorientowanej na przyszłość. Jednak jej silne poleganie na subsydiach czyni ją propozycją mało atrakcyjną dla większości krajów rozwijających się, utrudniając im wręcz rozwiązywanie poważnych problemów rozwojowych. Subsidia rolne deformują również konkurencję na międzynarodowych rynkach rolno-żywnościowych. Osłabiają ponadto motywację rolników unijnych, by starali się poprawiać swoją pozycję konkurencyjną przez zachowania przedsiębiorcze, wdrażanie innowacji, staranne monitorowanie kosztów oraz adekwatne i elastyczne strategie operacyjne, finansowe i w zakresie zarządzania ryzykiem.

Słowa kluczowe: Wspólna Polityka Rolna (WPR), globalizacja a rolnictwo, ewaluacja i determinanty polityki rolnej

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