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Planned Shape of the CAP 2021-2027 versus Globalisation and Integration Processes

Abstract. The planned CAP reform will determine the capacity of EU agriculture in facing challenges, especially those related to climate change and growing international competition. The aim of the paper is to assess the EC's reform proposals in the context of globalisation and integration processes. The paper is based on the analysis of the EC's proposals for the CAP 2021-2027. The results show that the proposed changes in the CAP are limited and they do not ensure significant support for the agricultural sector. They also are not adequately precise to evaluate them. Moreover, the proposed change in the CAP implementation model poses a serious risk of the CAP disintegration, which will not help the EU in its trade talks with other partners and thus can be detrimental to the future of the EU agri-food sector. It seems that the first step to make the CAP more effective is to strengthen its monitoring system.

Key words: common agricultural policy, globalisation, integration

JEL Classification: Q18, Q28, Q01, R58

Introduction

In 2018 the European Commission (EC) presented proposals for the functioning of the common agricultural policy (CAP) in the programming period 2021-2027, which followed the EC's communication (European Commission, 2018a) and its proposal for the Multiannual Financial Framework (MFF) (European Commission, 2018b). The proposals for the new CAP were based on earlier publications outlining objectives and challenges for the CAP to make it "future-proof" (European Commission, 2017). In the rationale for the proposals, the EC stated that international trade relations and international commitments compel the European Union (EU) to modify its agricultural policy.

The planned changes in the CAP include a new set of specific objectives. They relate to challenges connected with climate change and socio-economic development. They are as follows:

- support viable farm income and resilience across EU territory to enhance food security;
- enhance market orientation and increase competitiveness including greater focus on research, technology and digitalisation;
- improve farmers' position in the value chain;
- contribute to climate change mitigation and adaptation, as well as sustainable energy;
- foster sustainable development and efficient management of natural resources such as water, soil and air;
- contribute to the protection of biodiversity, enhance ecosystem services and preserve habitats and landscapes;

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- attract young farmers and facilitate business development in rural areas;
- promote employment, growth, social inclusion and local development in rural areas, including bio-economy and sustainable forestry;
- improve the response of EU agriculture to societal demands on food and health, including safe, nutritious and sustainable food, as well as animal welfare (European Commission, 2018c).

The EC's proposals envisage slight modifications to policy instruments and significant changes in policy implementation and management. The focal point of the proposed changes is on performance of the CAP. It is geared toward greater empowerment of the member states so that the CAP will become better targeted.

The proposals can be analysed from different perspectives. One is an assessment of the impact the proposed changes can have on the position of the EU in globalisation processes and its integration. This paper is aimed at studying the potential impact of the planned CAP reform on the agricultural sector and to establish whether new solutions will help the agricultural sector to cope with the challenges related to integration and globalization. The paper is based on the analysis of documents related to the planned reform of the CAP. It assesses the context and drivers of the reform, as well as the relevance of the proposed changes to the problems and challenges faced by EU farmers in these processes. The presented research can help determine the potential of the CAP to stimulate the competitiveness of the EU agricultural sector.

Context and main drivers of the CAP reform

There are numerous drivers related to the coming CAP reform. Since the reforms enacted in 2013, the situation in the EU agricultural sector has altered significantly. Therefore, there is a need to adjust the CAP to improve its responsiveness to the current needs of the agricultural sector.

The challenges and drivers of the current reform can be divided into three groups: sectoral; those related to integration; and those associated with globalisation. The first encompasses factors directly related to the functioning of the agricultural sector. The key of problem is that of climate change, which in two ways forces the farmers to act. First of all, farmers have to adapt their farms and agricultural practices to the changes in climate conditions. Moreover, they are obliged to actively mitigate these changes by applying agricultural practices that enable this.

Increasing constraints on resources are also an important problem. This relates not only to natural resources such as water, but includes the rising problem of competition for land with other human activities, as well as difficulties finding employees.

The next key issue is the process of technological development. This can have both a positive and negative impact on the EU agricultural sector. On one hand, it can facilitate adaptation to climate changes and enable more efficient use of resources and other inputs. Yet, on the other hand, this can significantly distort the sector by creating competition. A good example is the growing use of GMOs in other parts of the world, which makes EU agricultural products less competitive on the world market.

Factors linked to integration have both institutional and economic nature. They include the process of Brexit, budgetary pressure and EU internal policies such as its growth

strategy, circular economy action plans or energy strategy. The budgetary proposal envisages a substantial fall in the CAP's budget. The total CAP is to amount to over EUR 1.1 billion in constant prices (Table 1). This equals a drop of 15% in the CAP's financing as compared with the total budget for the CAP 2014-2020, excluding the allocation for the United Kingdom. Each of the CAP's pillars will be affected to a different extent by the decrease of funding. In the case of Pillar 1 (European Agricultural Guarantee Fund – EAGF) the reduction will amount to 11%, while for Pillar 2 (European Agricultural Fund for Rural Development) to it will be over twice that large – 28%. Moreover, the planned reduction of the CAP's budget means that its share in the total MFF will be the lowest in the CAP's history, sliding below 30%.

Table 1. Planned allocation for the CAP 2021-2027 (constant prices 2018; EUR million)

Specification	1. EU-28 2014-2020	2. EU-27 2014-2020	3. EU-27 2021- 2027	Change 3/2 in %
EAGF	309,064	286,143	254,247	-11%
EAFRD	102,004	96,712	70,037	-28%
Total CAP	411,068	382,855	324,284	-15%
Total MFF	1,136,105	1,082,320	1,134,583	5%
CAP's share in MFF	36.1%	35.3%	28.5%	--

Source: author's own elaboration based on EC data.

The proposed change in the CAP's budget can also be measured in different ways. We can compare the CAP 2014-2020 and the CAP 2021-2027 in current prices. In this case, the total fall in the CAP budget amounts to approx. 3% (Fig. 1). Spending for Pillar 1 is to increase by over 2%, while for Pillar 2 is to plummet by over 17%.

Yet another method of comparing the current and future CAP budget is possible and used by some researchers (example: Mathews, 2018). It is to multiply the allocation for the last year of the current MFF in 2020, by 7. In this case, the fall in the CAP's budget is even higher as it amounts to over 19% in current prices.

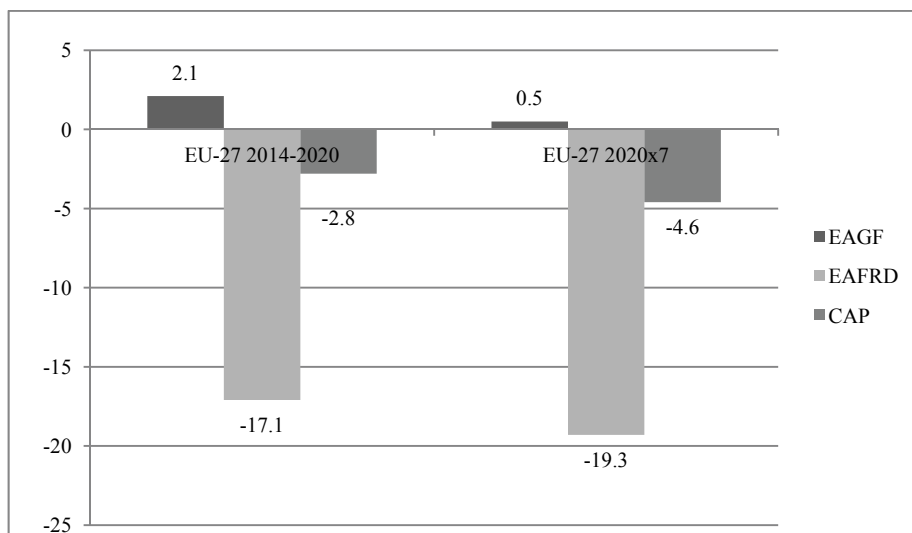


Fig. 1. Planned CAP 2021-2027 budget in relation to the EU-27 2014-2020 and EU-27 2020 x 7 CAP allocation (current prices, %)

Source: author's own elaboration based on EC data.

Analysing the EC proposal concerning the MFF 2021-2027 as a percentage of the EU's GNI, we can state that the planned budget for 2021-2027 will be higher. Currently, it amounts to 1.03% GNI and in the following programming period it is to increase to 1.11% (Ferrer, Gros, 2018). Also in this perspective, the allocation for CAP is lower than in the period 2014-2020. Currently 0.38% of the EU's GNI is allocated for the CAP, while in the planned MFF it will only be 0.32% (Fig. 2).

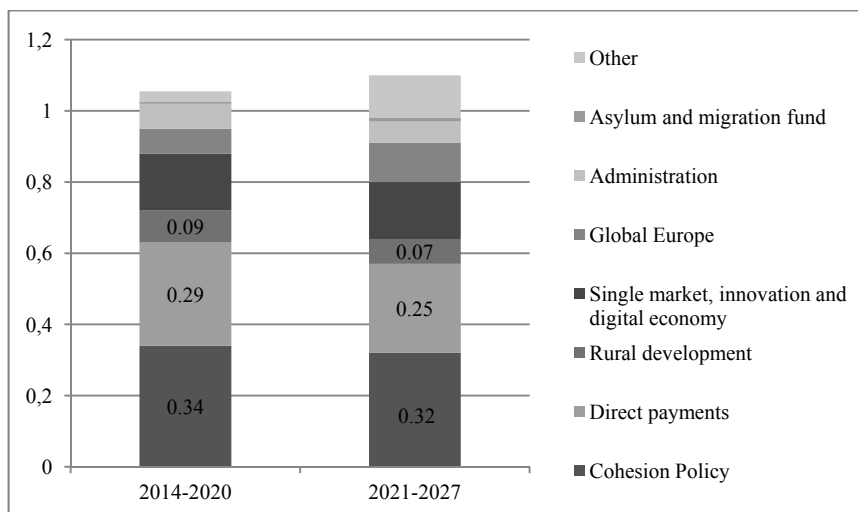


Fig. 2. Proposed EU spending commitments as a proportion of EU GNI, 2014-20 and 2021-27

Source: Begg (2018), Fig. 1.

Naturally, there are also other factors and drivers shaping the CAP's proposed reform. They include, *inter alia*, Brexit and the growing world trend for protectionism and trade conflicts (European Parliament 2018).

Assessment of the reform proposals in relation to globalisation

Global issues have shaped a number of CAP reforms, including the one introducing direct payments to meet WTO obligations (Wieliczko, 2017). They also play a crucial role in the currently discussed reform proposal. The key is trade relations. With the WTO talks continuously at a standstill and the globalisation process slowing down, bilateral trade agreements start to play a key role in increasing the opportunities for EU products to find new buyers of its food products. As Mottershead et al. stated "the EU is pursuing an ambitious agenda of bilateral free trade agreements" (Mottershead et al., 2018, p. 23). These agreements will surely enable the EU trading partners to export some of their agri-food products to the EU at lower tariffs or lesser non-tariff conditions than has been seen so far. This will result in stronger competition, which can become a problem for some of the EU producers and markets.

The process of bilateral trade talks that has been replacing multilateral trade agreements is also a barrier for agriculture. This is a result of the growing magnitude of different rules and regulations which lead to increasing costs finding buyers and fulfilling all the export related obligations. This can make exports to third countries unprofitable to some small EU producers, for whom transaction costs can become too high.

Environmental issues related to the new CAP proposals can be discussed as part of both globalisation and integration processes, as the EU and its member states have international and internal commitments towards sustainability, resource efficiency and reduction of greenhouse gas emissions such as the Paris Agreement. Löprich (2018) stated that the current opportunity to make the CAP more environmentally sustainable should not be missed. Yet the proposals do not ensure that this opportunity will actually be seized. The proposal offers no new policy instruments to tackle environmental issues. It envisages a minimum share of spending for environment-related policy measures, but it does not specify any specific targets to be met.

The CAP's achievements in the field of environmental issues have been seen as insufficient (European Court of Auditors, 2018). The indicators show that despite the fact that all the stakeholders are aware of the problems and the CAP offers some instruments to tackle environmental issues, biodiversity and water quality have been steadily deteriorating. This may be related to the fact that "some CAP measures have unclear objectives" (European Court of Auditors, 2018, p. 17). This especially applies to greening as its environmental impact was watered down by the desire to make greening obligations universal over all of EU agriculture.

This vagueness of environmental goals and links between CAP instruments and environmental objectives applies also to the EP's reform proposal for the future CAP. Moreover, the EC's proposal "does not reflect a clear increase in environmental and climate ambition" (European Court of Auditors, 2019, p. 3). The proposed empowerment of member states to make them adjust the CAP to the needs of their agricultural sector and rural areas is also seen as a potential risk for achieving ambitious environmental goals, as some member states may focus on challenges other than environmental needs that are faced

by their agricultural sector. The way in which the strategic plans and the powers between the EC and member states are divided in the process of designing and implementing the new CAP will play a key role in determining the impact of the new model on tackling environmental issues. At this stage we can only state that the new model poses certain risks and uncertainties. This is related to the fact that the EC proposal does not offer any performance indicators that are to be achieved by the EU as a whole or by its members.

Assessment of the reform proposals in relation to integration

The CAP is a policy that is supposed to support integration processes as it offers support to farmers in all of the EU member states. The EU-wide agricultural policy should also ensure common conditions for competing on the EU single market. Yet, given the growing diversity on the way the CAP operates in different member states (and in a number of member states the diversity is observed at a regional level), these common conditions can be questioned. The EC's proposal advocates even more diversity as it sees the need to tailor the policy to national needs of the farming sector. This should make CAP support both more effective and efficient. Yet, without some common goals or obligations this can result in the CAP's losing its "common" approach. Therefore, the EC should offer certain limits, like minimum performance goals or minimal requirements that can guarantee that EU farmers operate in similar conditions when it comes to policy instruments. Such a safety net for the CAP has not been included in the EC's reform proposal. But it can be included at the level of assessment of the strategic plans that will be prepared by the EU member states explaining their strategy to make use of CAP funds. The criteria for assessing strategic plans must be transparent and they must demonstrate how the EC wants to ensure meeting common CAP and EU development objectives.

The planned further convergence of direct payments can be named as one of the tools for strengthening of the integration process. The member states that receive less than 90% of the average direct payments will be subject to the continuation of the process of the convergence of the level of support. It is planned that the gap will be halved. Yet, it must be also said that, as in the current period, the member states may reallocate part of the CAP funds that they are to receive. The transfers can be made in both directions – that is, from each of the CAP's pillars to another one. This will mean that the actual support received in a given country can vary significantly in comparison with other member states. This means that we achieve the opposite of convergence in the level and way the agricultural sector is supported.

An interesting question that should be posed in the context of integration is the way the CAP funds are allocated among member states. They are surely not divided based on the actual needs or commitments to deliver certain results. In the context of environmental challenges and international commitments related to climate changes, such an approach can be advocated as a step in a good direction. Yet it is hardly ever posed by researchers or other stakeholders. In fact, the problem of allocating the funds can be the key solution for achieving higher efficiency and effectiveness of CAP spending. However, this is a strictly political problem and it cannot be expected that any significant changes in fund allocation will be achieved in the foreseeable future.

In this context it can be stated that the focus of the future CAP on performance and results will be hard to achieve. First of all, the availability of the data on the current state of

environment and agriculture is not adequate to assess the actual status quo and the extent of the issues that need to be tackled. Moreover, despite the developments in the ICT, the process of gathering data and its verification is still too long to offer a fast and reliable base for on-going modifications and alterations in the way the CAP instruments operate. It also does not serve as a foundation for informed decisions on transferring funds from one policy instrument to the other.

Summary

The EC's proposal for CAP 2021-2027 encompasses all the aspects of the CAP's functioning (European Commission, 2018c-e). Yet it does not provide new responses to the challenges of globalization and integration. In fact, this applies not only to the CAP but also to the whole proposal for MFF 2021-2027. As stated by Begg, "the Commission's proposals are not especially ambitious or radical, but go some way to meet the conflicting demands" (2018, p. 1). Yet "the EU Commission's proposal for the multiannual financial framework does not meet upcoming challenges" (van Deuverden, 2018, p. 396). This can also be said about the EC's proposals related to the CAP.

First of all, it must be stated that the decrease in CAP funding threatens the scale of actions taken to improve the competitiveness of EU agriculture as well as its contribution to meeting environmental goals. In the context of growing pressure to tackle environmental issues there is the potential of a growing tension between allocating the CAP funds for income and investment support and for environmental measures. This can result in a growing dissatisfaction of farmers with the CAP and lack of their cooperation in tackling environmental issues in a systematic and holistic way, leading to even lower public support for CAP spending and thus creating a vicious circle serving neither agriculture nor the environment.

A second issue that needs to be underlined is the increasing role of factors outside of the CAP in shaping the conditions in which farmers operate. The key factors among them are environmental limitations and, closely related, international and internal obligations for reduction of greenhouse gas emissions as well as other negative impacts on the environment. Another important issue is international trade. In recent years, the globalisation process has slowed down and in many parts of the world a reversal is strongly being advocated and is receiving more and more public support.

The process of bilateral trade talks can prove more detrimental to agricultural interests than multilateral talks. This is because the interests of the farming sector can be more easily traded for the interests of other sectors of the economy. Moreover, the growing number of different trade agreements can result in a diversity of trade and quality standards that can lead to a rapid increase in transaction costs and the need to produce smaller quantities of customized products that will require costly changes in the production and sales processes.

The new programming period will be a challenge for the CAP. The new implementation model must strike the right balance between tailoring the support to national needs and ensuring the achievement of common policy objectives. Therefore, it must be flexible (Erjavec et al., 2018), but at the same time rigid. The question is whether the member states and the EC know how to cooperate in order to make the CAP effective in tackling the growing environmental challenges faced by the EU farming sector. This must be done to ensure that the new model does not lead to disintegration of the CAP, which

would be damaging to the future of the EU agri-food sector both in a globalising as well as de-globalising world.

Summing up, it can be stated that the lack of evidence hinders all the reforms proposed to improve the performance of the CAP. There is a growing need for identifying the links between objectives, inputs, outputs and results of the support offered via CAP. In general, identification of challenges faced by EU agriculture is correct, but the translation of the needed support into a specific policy instruments is still problematic. This is a result of the underdevelopment of monitoring systems and a lack of ambitious innovative projects that could serve as experiments for potential modifications in assessing the impact of policy measures on the farms and their surroundings. Without properly tackling the issue of evidence-based policy, the CAP cannot be transformed into one. Therefore, the focus of CAP reformers should be on improving the availability and reliability of the data serving as a base for any changes in the CAP.

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