

**The CAP and national priorities
within the EU budget
after 2020**



INSTITUTE OF AGRICULTURAL
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The CAP and national priorities within the EU budget after 2020

Editors:

dr Marek Wigier

prof. dr hab. Andrzej Kowalski

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Technical editors:

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Instytut Ekonomiki Rolnictwa i Gospodarki Żywnościowej

– Państwowy Instytut Badawczy

ul. Świętokrzyska 20, 00-002 Warszawa

tel.: (22) 50 54 444

faks: (22) 50 54 636

e-mail: dw@ierigz.waw.pl

http://www.ierigz.waw.pl

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5. The specificity of economic integration processes in agriculture

Prof. Julian Krzyżanowski
Institute of Agricultural and Food Economics – National Research Institute,
Warsaw, Poland
krzyżanowski@ierigz.waw.pl

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Abstract

Theories of economic integration refer to the benefits of creating a free trade area (trade creation effect, the effect of shifting trade flows). While observing the economic reality, it seems that it is difficult to limit the benefits of integration agreements only to the issues of foreign trade. The paper states that economic ties create added value in the form of economic, social and environmental effects in many areas, including agriculture. Another manifestation of the so-called European Added Value is the financing of non-agricultural measures from the CAP. Integration agreements may, however, also cause negative phenomena, e.g. through the possibility of lowering standards in terms of product quality, food safety and animal welfare.

Keywords: economic integration, added value, quality of products, safety, food, animal welfare

JEL codes: A10, E00, F10, F15, F53, Q18

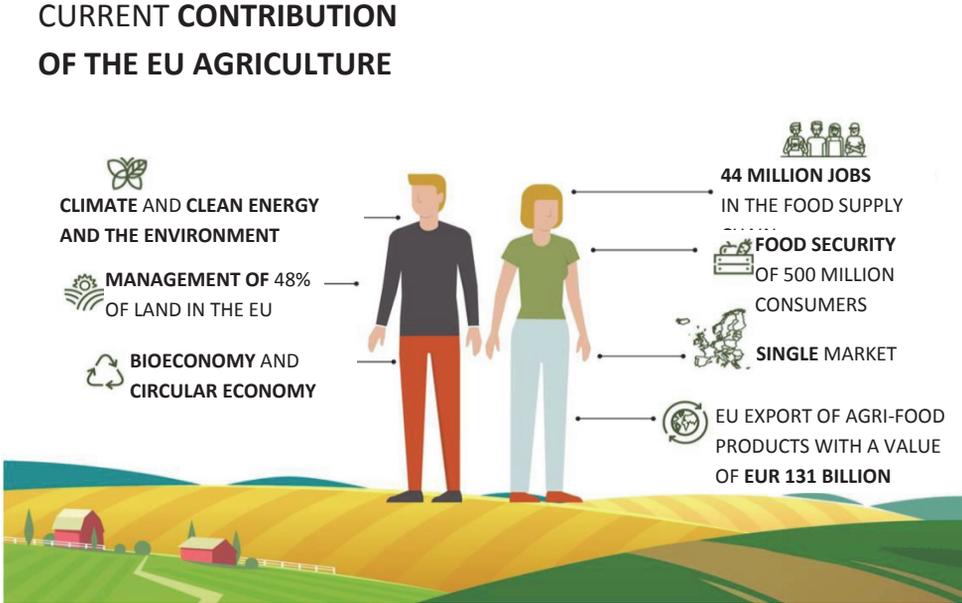
5.1. Introduction

Economic integration is the process of tightening economic cooperation by at least two countries through gradual elimination of barriers limiting economic cooperation [Budnikowski, 2006]. To be more precise, one should talk about international economic integration on a regional scale, or regional integration. This term is used for integration processes related to a specific region or subregion [Adamowicz, 2008].

The most mature form of regional integration is the European Union. Using the example of the European Union as a model, one can follow which processes take place in other integration agreements. Integration ties in the European Union are particularly strong in the broadly understood area of agriculture (including rural development) and it can be argued that in this sector joint actions have brought the most visible effect in the form of creating the Common Agricultural

Policy, the only truly common policy, and enabling 60 years of its activity. Integration in the agricultural sphere is specific also because agriculture and rural areas in the EU perform many tasks for the benefit of the whole Community.

Figure 1. Contribution of the CAP funds to various spheres of activity



Source: *The Future 2017*.

The theory of economic integration was developed, e.g. by Tinbergen [1954], Meade [1953; 1955] and Balassa [1961]. It was the latter who defined five stages of economic integration of which, according to him, the earliest one¹ is the free trade area.

Theories of economic integration [Viner, 1950; Balassa, 1961; Dalimov, 2009] refer to the benefits of a free trade area (trade creation effect, the effect of shifting trade flows). While observing the economic reality, it seems that it is difficult to limit the benefits of integration agreements only to the issues of foreign trade. Some of the authors dealing with the issues of economic connections are convinced that some additional effect appears in the integration processes – added value [Robson, 1998]. It can manifest itself in various areas of economic, social and scientific life.

¹ For example, according to Crowley [2001], trade agreements are the first stage of integration. The difference between this level of integration and the next form is that in agreements countries reduce tariffs but they do not abolish them completely. The Free Trade Area (FTA) covers entire trade as opposed to agreements which do not have such a wide range.

Literature on the integration of agriculture also mentions benefits but passes over negative effects, such as the possibility of reducing or grouping the standards in force in a given country. It is due to the fact that high and uniform requirements related to food safety, quality and image of the EU food are one of the most important competitive advantages of the EU agri-food sector created thanks to the CAP. In order for the EU to maintain the leading position in world food production, at least the current level of requirements needs to be maintained. Multiple standards related to broadly understood food safety and animal welfare also determine the specificity of integration processes in agriculture. However, this will not be the subject of this study.

The integration in agriculture in the economic sphere creates added value in the sector itself, in the form of economic, social and environmental effects also outside it. Integration may, however, also cause negative phenomena, e.g. through the possibility of lowering standards in terms of product quality, food safety and animal welfare.

5.2. Objectives and methods

The paper is an introduction to a broader study, it defines the research problem which is to be solved. The main goal of a wider study is to show that the creation of added value in integration agreements is the third effect of these agreements, in addition to the two indicated in the literature. In this sense, it is a contribution to the theory of economic integration.

The objective of this work is to indicate the specificity of integration activities and its manifestations. In our deliberations, we will limit ourselves to the European Union, undoubtedly the most mature international organisation in terms of economic and administrative links. We point to the emergence of the European Added Value (EAV) category and the examples of its manifestation. Particular attention will be paid to the creation of the EAV in various areas of economic and social life in the EU, thanks to the actions financed from the Common Agricultural Policy.

The work uses analysis of literature on the subject and documents of the European Union, as well as comparative studies.

5.3. Research results and discussion

Generally, the European Added Value (EAV) means additional value (benefits) of measures (policies) implemented at the European level in relation to the effects which would be achieved by separate policies of individual Member States in a given area [European, 2013]. When looking for the origins of introduction of

the concept of European Added Value, we must go back to 1992/1993 and the provisions of the Maastricht Treaty establishing the European Union. The concept of the EAV follows from three principles: subsidiarity, proportionality and additionality, the first two of which are set out in Article 5 of the Treaty [Treaty, 1992], and then additionally interpreted in a special protocol [Protocols, 1997].

Under the principle of subsidiarity, in areas which do not fall within its exclusive competence, the Union acts only if and in so far as the objectives of the intended action cannot be sufficiently achieved by the Member States, either at central level or at regional and local level, but can rather, by reason of the scale or effects of the proposed action, be better achieved at the European Union level. Under the principle of proportionality, the content and form of the EU action shall not exceed what is necessary to achieve the objectives of the Treaties.

Protocol No 30 to the Treaty states that for Community action to be justified, the principles of subsidiarity and proportionality should be met: the objectives of the proposed action cannot be sufficiently achieved by Member States' action in the framework of their national constitutional systems and can therefore be better achieved by action on the part of the Community.

The possible creation of the EAV is the result of respecting the above principles. However, the concept of added value has a broader character than both of the above concepts. Subsidiarity and proportionality are intended to legitimise the EU action in the legal sense. One of the aspects of manifestation of the EAV is its economic significance. The conditions for its formation and the type of value created are important. The creation of the EAV is also not limited by the Union's borders. A new value can be created, e.g., in the form of development assistance.

The concept of the European Added Value was strongly emphasised during the discussion on the EU budget for 2014-2020 [European, 2017]. According to the European Commission, the EAV is the best defined as "the value resulting from the EU actions which are additional to Member States actions" [Ex ante, 2001].

Parallel to the creation of added value, attention was drawn to the theory of regional economic integration [Robson, 1998]. European Added Value means an additional value obtained due to the fact that given action was not taken on the part of Member States, but at the level of the European Union. The mere establishment of a common approach for all Member States to deal with a given issue can be considered an added value since it creates a single framework for action and ensures the functioning of the EU common market, which is considered an example of the EAV.

The specific trade structure of the EU Member States, in which trade in goods with other EU countries is greater than with third countries, is also seen as a manifestation of added value [Gorzela et al., 2017].

However, it can be concluded that the EAV is not a simple added value. In fact, the EAV is a manifestation of the synergy effect, i.e. in this case cooperation at the regional level². Currently, the EAV is more and more often identified with the synergy effect.

Actions at the Community level created the EAV because:

1. Many elements are of a cross-border nature, i.e. concern other sectors, for example, the CAP is connected with the operation of the single market whose operation depends, in turn, on the situation on the global markets. Climatic issues, water and air quality are clearly of cross-border nature.
2. Actions related to common issues are more effective at a higher level of centralisation.
3. The solidarity activity is built thanks to the joint budget. This way projects, even those lacking local resources, can be implemented in the Member States or regions.

It is in the case of the budget which makes us assume that these funds bring more benefits than if they were spent by individual Member States. In this case, we can use the theory of fiscal equivalence [Olson, 1969]. According to this theory, the structures of the state should be organised in such a way that when the state provides a public good, there should be similar interests of beneficiaries, decision-makers and taxpayers. If this is the case, there are no cross-border (negative) externalities and public goods are provided in an effective manner.

Hence, one can encounter statements that European public goods should be provided at the EU level [ECORYS, 2008; Collignon, 2011]. This includes:

- border control,
- defence policy,
- internal security,
- regulations concerning the common market,
- trade and competition policy,
- environment, counteracting climate change, energy policy,
- research and development and education policy.

It can even be argued that European integration creates new European public goods which can only be provided effectively at the European level. They include, e.g. lowering trade barriers, migration policy, flows of production factors. It can also be proved that managing the implementation of tasks from the

² **Synergy** (synergistic effect, from Greek *συνεργία* “cooperation”) – cooperation of various factors the effect of which is greater than the sum of individual separate actions. For example, as a result of synergy combined enterprises generate higher profit than the sum of profits of individual enterprises before the combination. The main reasons for the emergence of synergies is the reduction of costs and the expansion of each enterprise’s sales area.

EU level allows Member States achieving greater results than when they are performed through the sum of actions at the national level and, above all, reduce (save) funds. That is when the EAV is created [Heinemann, 2011].

Regarding the EAV generated in broadly understood agriculture (i.e. including actions and measures in the field of rural development), the Common Agricultural Policy is one of the few EU policies implemented mainly at the EU level and closely related to the principle of subsidiarity.

The European Added Value realised thanks to the existence of the CAP has its specificity:

1. It creates new values in the countryside and agriculture.
2. It creates economic, social and environmental effects also outside agriculture.

RE 1. The CAP pursues the objectives included in the Treaty of Rome, among which the key one is to ensure Europe's food security. The CAP provides consumers with food at affordable prices, thanks to which households' expenditure on food (and non-alcoholic beverages) in the EU gradually decreased, in 2014 accounting for 12.3% of the total expenditure (while in the 1960s this percentage was over 30%) [Eurostat, 2017]. This is undoubtedly an added value. Similarly, according to calculations, EUR 23 billion a year is saved in the EU in comparison to the situation if there was no CAP [European 2013]³. The Common Agricultural Policy is the guarantor of the European agricultural model, which is an important social good. Without the CAP, in many European countries, there could start rapid concentration and intensification of agricultural production (as in the US, for example) and agricultural enterprises with industrial scale production could emerge, which would have specific social and environmental effects. Today, apart from food security, Common Agricultural Policy provides the EU citizens with access to many public goods related to agriculture [Cooper, 2009; What, 2011], such as: appropriate state of the natural environment (including water and air quality, proper functioning of the soil), vitality of rural areas, animal welfare, landscape elements and structure, and biodiversity. Many of these goods are of "non-market" and cross-border nature (e.g. air quality, climate, water). They are an integral part of the high standard of living of the EU citizens and one of the key elements of an integrated approach to public health. The CAP facilitates effective prevention and reduction of negative ef-

³ In a case study carried out for 21 Member States covered by the CAP, the authors of the study "The European Added Value of EU Spending: Can the EU Help Member States to Save Money?" stated that "since 2007, likely national agricultural policies (instead of the CAP) would exceed CAP spending. Expenditure incurred by national agricultural policies could be EUR 23 billion higher than the CAP spending in 2010 alone". See *The European Added Value of EU Spending: Can the EU Help its Member States to Save Money?* Exploratory Study, Bertelsmann Stiftung 2013, pp. 47-49.

facts of adverse natural and climatic events occurring more and more often in recent years, as well as crises related to plant and animal diseases which cover more than one EU Member State.

RE 2. The CAP is no longer just a sectoral policy. Subsequent reforms of this policy, taking advantage of the multifunctionality of agricultural activity, have included in the scope of the CAP's tasks various areas important for the EU, inter alia, related to environmental protection (e.g. preventing loss of biodiversity) or preventing climate change.

In subsequent financial perspectives, as part of the Treaty objectives, the CAP is implementing the priorities important for the entire EU, determined in the political process. In 2014-2020, these are:

- Viable food production, with emphasis on agricultural income, agricultural productivity and price stability;
- Sustainable management of natural resources and climate action, with emphasis on reducing greenhouse gas emissions, maintaining biodiversity, protecting soil and water;
- Ensuring balanced territorial development (with emphasis on rural development, economic growth and poverty reduction in rural areas) [Communication, 2010].

The CAP is playing an increasingly important role in introducing a new economic model in the EU which is a circular economy, being an alternative to the linear model of the economy ("produce, use and discard"). The CAP also creates a common framework for the functioning of the agricultural sector in the EU [Mariniello, 2015]. The absence of the CAP would prevent the emergence of an efficient common agri-food market in the EU as Member States would compete with each other with the level of agricultural support, which could also lead to an increase in (total) expenditure for agriculture from national budgets [European, 2013]. Distortions of competition would result from differences in the amount of aggregated budget support and the instruments used.

The operation of the single market is also facilitated by the quality standards of agri-food products introduced by the CAP. Lack of common standards of food safety and quality would significantly hinder trade within the European Union. The CAP provides cross-border public goods at the EU level which cannot be replaced. The CAP also effectively counteracts external effects of agricultural activity and provides European citizens with protection against global threats.

5.4. Summary and conclusions

Using the example of the European Union as a model, one can analyse at subsequent stages of research whether added value is created in other emerging economic groupings, at a different stage of development of integration links. If

the answer was affirmative, it would confirm the hypothesis that the creation of added value is a universal process resulting directly from integration actions.

What is the specificity of integration processes in agriculture? It should be assumed that it manifests itself in the creation of strong added value, both for the needs of the agricultural sector and outside, creating new entries in other areas of the economy and social life. The second specific determinant of pan-regional integration is difficulties in agreeing on food quality and safety standards between individual countries or groups.

Trying to make generalisations about the entire economy, one could argue that the value-added effect is the third result, apart from the effect of trade creation and the shifting effect, of the creation of integration agreements. Such a statement would constitute certain contribution to the theory of regional economic integration.

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