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The impact of globalization on agricultural policy

Introduction

Since the first appearance of the term globalization in 1962 it has gone to banality. The Economist has called it “the most abused word of the 21st century“.

Recent trends in trade liberalization and the increasing globalization of the world market and economy started wide debate whether globalization is a tool for growth and development or it presents a threat for countries. Stiglitz (2002) refers to “the devastating effect that globalization can have on developing countries”. On the other hand, Bhagwati (2004) holds that globalization can be beneficial for both developed and developing countries. He postulates that, for this to occur, there must be a set of new policies and institutions that will help developing countries handle increased volatilities resulting from globalization.

Globalization has become a widely recognized concept in explanations of the contemporary restructuring of the industrial, agricultural and service sectors of the economy, with the formation of, and access to, global markets for products and services commonly interpreted as dominant exogenous economic, driving forces‘ in the restructuring of regional economies (Amin & Thrift, 1995). For agriculture, according McMichael (1994), these exogenous, or external, processes include the development of global food networks and regulation of state intervention in agriculture, for example the Common Agricultural Policy (CAP) of the European Union – EU (Laurent & Bowler, 1997).

The Common Agricultural Policy has undergone many changes since its origin. Various measures were taken to curb production growth and to contain the agricultural budget, with varying degrees of success. Milk quotas were agreed in 1984, followed by the agreement of agricultural budgetary guidelines in 1988. Subsequently, in response to growing international pressures for the liberalisation of agricultural trade within the Uruguay round of the GATT world trade talks, a wider package of the so-called MacSharry reforms, under Agricultural Commissioner Ray MacSharry was agreed by the EU in 1992 (Kay, 1998).

MacSharry` reform was a substantial reform, which began in year 1992, brought increased pressure on production extensification and environmental protection. The fundamental reform principle is the transition from price support of production to direct farmers support connected with reduction of food production intensification factors.

In 1992, farm leaders said that the switch from price support to direct support made the CAP look like a social policy (Daugbjerg 2003), which was regarded as highly undesirable within the farming community and caused strong opposition to the 1992 reforms. The redefinition of direct support as a payment for services to society may make future efforts to reduce or dismantle direct payments more difficult. Farmers would then feel that they would be losing payment for their `produce`. This might mobilise significant resistance within the farming community, perhaps precluding support reductions.

Before the MacSharry reform most of the market regimes applied a high price model. These high prices were maintained by managing markets using import taxes, intervention purchases and export subsidies (with production often constrained by measures to control supply such as quotas). Through the increased prices they pay, consumers bear a major part of the cost of supporting farmers. The MacSharry reforms reduced intervention prices substantially in some sectors, and introduced direct payments to compensate farmers for the revenue loss. Thus cereal producers receive an area payment for the crops they grow, and beef producers receive a headage payment for the animals they keep. The so-called "Agenda 2000" reform of March 1999 continued along this path by further reducing guaranteed prices and increasing direct payments. In practice, the two approaches are sometimes used at the same time within the same commodity regime (Swinbank, 2002).

Results

This article highlights the important changes connected with phenomenon globalization that have taken place in the agriculture and food system.

The agricultural sector is a central part of this research, as the area with agricultural subsidies transfers. Most countries use some form of subsidies to protect their agricultural sector. Without the EU`s Common Agricultural Policy globalization would bring the destruction of much of European farming, especially small farms.

The Treaty of Rome, establishing the European Union in 1958, set out agricultural policy as a cornerstone of the confederation. Whereas policies for industrial sectors remained largely in the domain of member states, the EU adopted a

Common Agricultural Policy based on a common market, common policies, and financial solidarity. Since the 1980s the CAP was connected with high price supports for most agricultural products, isolation of domestic from world markets.

In 1987 ministers from OECD countries expressed the need for reduction in the agricultural support and for redirecting its forms toward supporting of lower production and elimination of market disequilibria, making agricultural sector more open and sensitive toward market signals. The ministers understood that governments need more flexibility while selecting proper policy measurements and the pace of reforms regarding differences between OECD countries, and have to clearly define the extension of their policy goals.

Changes in payment schemes

In the framework of Common Agriculture Policy reform, in 2003 most of EU member states (exactly 15 MS) decided to implement the so called direct payment scheme starting from 2005. The rest (Finland, France, Greece, Holland and Spain) started from 2006. Germany, Ireland, Italy, Luxembourg and Great Britain decided to make major changes, while France choose to make the slightest changes in the framework of common payment scheme. For the majority of member states, payments will be based on historical reference period, combined in some countries with regional support payments (like Denmark, Finland, Germany, Luxembourg, Sweden and Great Britain). With the exception of Malta and Slovenia, new member states (NEMS) use single area payment subsidies (SAPS), since 2004. The payment are disbursed per hectare of agricultural land (on average 48 Euro per hectare for 8 mentioned countries), while all 10 NEMS contribute with the so called “top-up” payment as well. This increased support after the accession of NEMS contributed to the increase of agricultural income in all NEMS except Malta, Slovenia and Cyprus. After a preliminary phase, NEMS will have to switch from SAPS to a single farm payment scheme (SFPS).

Low prices forced institutions in USA toward a remarkable increasing agricultural support in the form of loans or periodical payment programs. EU decided that payments granted for specific commodities like olive oil, hops, cotton and tobacco has been included gradually into SFPS program since 2006 (in case of hops since 2005). In case of Canada, local Canadian Agricultural Income Stabilization program substituted and changed certain instruments for income support. Insurance programs have been formulated in France, Italy, Korea and Spain. Certain countries reduced taxes or offered compensation for high fuel prices. Many countries also, paid compensation for damages caused by floods.

An important element of the program Swiss AP 2004–2007 is the gradual elimination of milk product quotas. USA announced the abolition of quotas on tobacco since 2005 and substituted them with ten year purchasing payments.

More flexibility introduced the new system of rice production regulation in Japan, where the government organizes purchases based on tenders and not prices determination. Norway liberalized milk market by increasing the opportunities for private traders. Australia, Canada, Mexico and USA introduced measures aimed at improving access to water resources. Norway introduced a new system, in order to secure better coordination and placement of agro-environmental payments. Ecological conditions has been co-opted as a mean of support payments in EU, while Japan plans to do so, soon. Denmark and Norway increased taxes for agricultural polluters. Some countries started implementing monitoring system, including GMOs (genetically modified organisms), or restructured their food regulation policy and administration.

Since 2004, almost all OECD countries were bound by bilateral or regional trade agreements. Regarding agriculture issues, sensitive products are often excluded from these agreements. After a temporary stagnation of the negotiation process in the framework of Doha Development Agenda (DDA) in 2003, negotiations started anew in 2004.

Progress has been made in the introduction of a certain system for agriculture, but still many questions remain unsolved. If bilateral or regional agreements speed up certain changes in political thinking than will the progress achieved at the multilateral level promote reforming processes in agricultural policy.

Due to delays in the DDA framework conflicts aroused in certain agricultural issues in WTO. OECD countries have been always identified as the cause of problems. Committees had to deal with problems ranging from domestic payments, export subsidies, market access barriers, and state trade companies to phytosanitary requirements. The outcome from agriculture committee has an important impact for domestic reform policies, as well as for multilateral agreements.

Measurement of support to agriculture

Producer Subsidy Equivalent (PSE) and its derived indicators serve as instruments for monitoring and evaluation of agricultural policy developments. It is important to differentiate between the support granted on farmers and its effect on individual production decisions, and, the support granted in the framework of a certain general mechanism designed for agricultural sector as a whole. Measures included in PSE are classified as expression of the way how respective policies are implemented. There is apparent a differentiation between supports provided to producers and support provided to general services for agricultural sector.

Producer subsidy estimate, is the nominal indicator of transfers from consumers and state budget to support agricultural producers (farmers), and is calculated as the ratio of support to agricultural producers in the total value of gross

farm receipts. The total value of PSE in OECD, defined in %, is estimated at 27% in 2006. There was a decline from an average 38% in 1986–1988 to 29% in 2004–2006. For example support to producers in EU member countries decreased from 33% in 2005 to 32% in 2006.

During the past measure of producers support has been decreasing. This trend from the long term can be explained by market conditions affecting the measures of price support and output payments, as commodity prices were high in 1996 and contrariwise low in 1999.

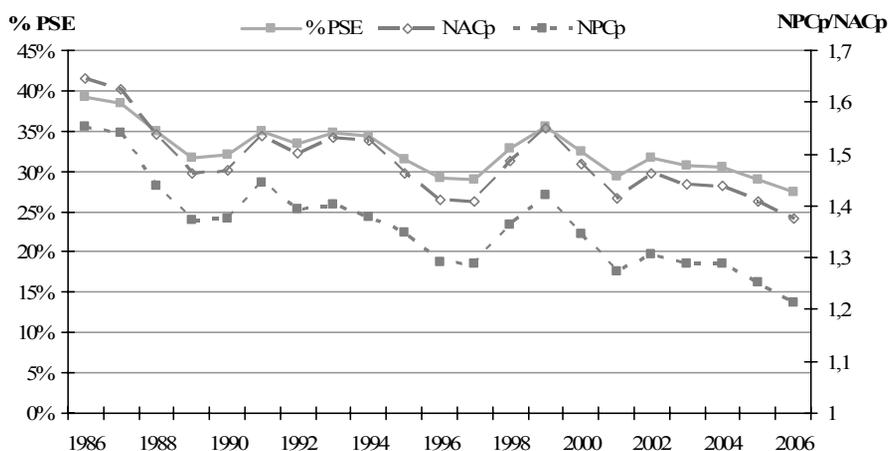


Figure 1

Development of % PSE, producer NAC, producer NPC in OECD countries

Source: Organisation for economical cooperation and development (2007), OECD, PSE/CSE database 2007.

The Producer Nominal Protection Coefficient (NPCp), which measures the level of domestic market protection, declined in OECD countries moderate from 1.25 in 2005 to 1.21 in 2006. This reflects a situation where OECD domestic prices are on average 21% above world prices, compared to 1986–1988 when the average NPC was 1.51. The domestic prices were 51% over the world prices.

The level of agricultural support in OECD countries is possible to analyze also through producer nominal assistance coefficient (NAC), which expresses the ratio between the value of transfers from consumers and state budget to support agricultural producers (farmers) (PSE) and production valued at world market prices without support. Just like % PSE, NAC also changed very little in OECD countries, during the last three years and in average reached the value of 1.44 (2002–2004) and for period 2004–2006 was average NAC level 1.41. In other words, current gross farm receipts are 44% higher than they would have been in case they would have been evaluated in world prices without support.

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WPŁYW GLOBALIZACJI NA POLITYKĘ ROLNĄ

Streszczenie

Artykuł omawia najważniejsze zmiany, jakie miały miejsce w sektorach rolnym i żywnościowym w wyniku globalizacji. Sektor rolny stanowi główny obszar analiz niniejszego opracowania. Wskazuje ono, że w wyniku procesów globalizacji większość państw na świecie wprowadziła różne formy subsydiowania rolnictwa. W przypadku Unii Europejskiej bez Wspólnej Polityki Rolnej procesy globalizacyjne doprowadziłyby do destrukcyjnych zmian, na które narażone byłyby głównie małe gospodarstwa. Należy jednak zauważyć, że poziom wsparcia rolnictwa w UE obniża się. Ten trend długookresowy spowodowany jest głównie czynnikami rynkowymi.