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## TRADE LIBERALISATION AND MULTIFUNCTIONALITY OF AGRICULTURE

One of the main features of the European Model of Agriculture is great diversity of agricultural systems and their multifunctionality. European agriculture produces a wide range of tradable and non-tradable goods, including public goods. There is growing public agricultural support devoted to environmental services and cultural landscape protection delivered by agriculture. WTO negotiations and international pressure for trade liberalisation is very often regarded as a threat to the non-tradable part of agricultural activity. This problem is a focal point for the international research project ENARPRI (European Network of Agricultural and Rural Policy Research Institutes – thematic network on trade agreements and European agriculture).<sup>1</sup>

The European Network of Agricultural and Rural Policy Research Institutes brings together leading research institutes in agricultural and rural policy, including trade policy. The network includes institutes in 11 out of 15 “old” EU member states and institutes from 2 East European countries which joined the EU on 1 May 2004, including Poland, the largest agricultural economy in Eastern Europe, represented by the Institute for Rural and Agricultural Development of the Polish Academy of Sciences.

### MAIN GOALS FOR THE NETWORK

From the start of the European Union, most decisions on agricultural and, increasingly, rural policy are prepared and implemented by the European Commission in Brussels. However, most of the research in the EU on these issues is done in member countries in institutes which are the privileged conduit between the academic community and (national) policy makers.

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<sup>1</sup> Description of the network and research agenda is based on the ENARPRI project proposal.

This has important advantages, as these institutes assist the member state governments in preparing their position on agricultural and rural policy. It also allows the integration of local concerns and specific structural conditions into the analysis.

Yet the absence of a central EU research institute constrains both policy preparation and the decision-making process. Moreover, in certain member states agricultural and rural policy research is dispersed and confined within a limited number of small academic units. Furthermore, the growing importance of international trade negotiations in the area of agricultural and rural policy reinforces the need for an EU level research capacity. This would certainly regard trade issues which are negotiated at EU level, and which would strengthen the EU in international negotiations with countries such as the US, where the US government can rely upon a strong central research capacity, e.g. in the US Department of Agriculture.

The objective of the European Network of Agricultural and Rural Policy Research Institutes is to create an institutional structure with major benefits for the improved exchange of information and policy analysis both in the short and long run; to develop improved tools for impact assessment; to come up with more effective impact assessment of trade agreements on a variety of important social, economic, and environmental indicators; and to produce a clearer analysis of the need for EU policy adjustments.

The first achievement would, therefore, be the creation of an institutional structure which would lead to improved exchange of information and policy research insight among the research community and between the research community and policy-makers. By improving information exchange and providing a forum for exchange of ideas the network would also contribute to the development of tools and methods and the organisation of EU wide research programmes which are closer aligned with the interests and demands of the users of the policy research.

## MAIN TOPICS AND RESEARCH AREA FOR THE PROJECT

The central theme of the network is the impact of several regional, bilateral, and multilateral trade agreements which the European Union has concluded or is negotiating, including WTO, Enlargement, Everything But Arms (EBA), EuroMed, Mercosur, etc. The impact of each of these agreements differs across commodities, sectors, over time, and within the EU between member states and regions. Most of the agreements are complex in nature and require significant modelling efforts to analyse the effects in sufficient detail in order to make the results useful. The agreements have impacts not only on efficiency and growth,

but also on income and welfare distribution within the EU. To model these effects in detail, collaboration among various institutes with detailed knowledge of local circumstances and data, will benefit the overall effort. Furthermore, several of the trade agreements will have significant interaction effects. The interaction of the trade agreements complicates their impact, and further complicates the modelling effort. This further stimulates the benefits from a concerted effort.

Within this trade agreement framework, the network will pay specific and extensive attention to the impact of the EuroMed trade proposals/agreements, and their interaction with other trade agreements. Several of the institutes involved in the network have already started modelling the impact of the trade agreements with Mediterranean third countries.

A related theme on which the network will focus is the multifunctional model of European agriculture and sustainable development of rural areas. The impact of the trade agreements on the structure of EU agriculture and the livelihoods of rural areas is of particular importance, as well as the interaction of the trade agreements with EU policies. For example, the EU has made the so-called non-trade concerns and the multifunctional role of agriculture a key aspect of its WTO negotiation strategy. At the same time a significant debate is currently taking place in the EU on the need to revise some EU agricultural and rural policies to address existing concerns on the sustainability of EU agriculture and rural areas. Obvious questions emerge on whether some of the proposed policies, such as payments for good farming practice, or for agri-environmental purposes are consistent with some of the trade agreements. Hence, the interaction between EU policies within the multifunctionality and the sustainable development framework and trade agreements will be an important focus of the network.

Analysis of the impact of trade agreements on the agricultural and rural sector and the interaction with new developments in EU agricultural and rural policy requires an intimate knowledge of trade policy and agreements on agricultural and food trade, EU agricultural policy, including so-called common market regimes, as well as an institutional knowledge of national and regional variations in rural areas and agricultural characteristics. In addition, the analyses of these effects and their interaction requires a profound understanding and working experience with sophisticated trade and agricultural policy models.

Together, the institutes participating in this network have the requirements in order to produce high quality analysis on issues which the network will focus its attention. The institutes have different comparative advantages, both in terms of regional knowledge, analytical capacity and methodological approaches.

Nine of the institutes are large national research institutes with a broad research agenda in the field of agricultural and rural policy, and research divisions specialised in trade issues and in policy issues related to multifunctionality and rural development. These are: Institut National de la Recherche Agronomique (INRA),

France; Istituto Nazionale di Economia Agraria (INEA), Rome, Italy; Danish Research Institute of Food Economics (FOI), Denmark; Agrifood Research, Helsinki (MTT), Finland; Federal Agricultural Research Centre (FAL), Germany; Rural Economy Research Centre (TEAGASC), Dublin, Ireland; Landbouweconomisch Instituut, the Hague (LEI), Netherlands; Institute of Rural and Agricultural Development Polish Academy of Sciences (IRWiR PAN), Poland; Research Institute of Agricultural Economics (VUZE), Prague, the Czech Republic.

All these institutes play an important role in policy analysis, stimulating discussion and influencing public opinion in their countries. One of the purposes of this network is to extend their reach to EU level in this important domain. In the perspective of EU enlargement the network includes the leading research institutions from two countries.

Both academic institutes include leading agricultural and rural policy analysts of their countries and experts of Mediterranean agriculture and rural development, and thereby reinforce the Mediterranean expertise and focus of the network – which is extremely relevant given the important attention given to the EuroMed agreements.

The qualifications of each of the partners for this network and their capacity to provide their contribution to the project, the experience and knowledge which they will contribute is evident from the attached summary information on the institutions.

All the institutes involved in the proposed network have extensive experience with the use of agricultural trade and policy models. Some have been very active in developing extensive trade models, and some have already started work explicitly modelling the impact of the Mediterranean trade agreements. Other institutes in the network provide complementary expertise in the use of models and impact studies of external shocks on efficiency and distributional effects at sectoral and farm level, as well as impacts on rural/regional modelling and environmental interaction effects some of which are especially relevant for studying the impact of the Mediterranean trade changes.

One of the most important results of this project should be the creation of an institutional structure with major benefits for improved exchange of information and policy analysis both in the short and long run:

- b) in the development of improved tools for impact assessment,
- c) in more effective impact assessment of trade agreements on a variety of important social, economic, and environmental indicators,
- d) clearer analysis of the need for EU policy adjustments.

## POLAND'S CONTRIBUTION TO THE PROJECT

The Institute for Agricultural and Rural Development (IRWiR), as a Polish partner in the project, will focus on multifunctionality of European agriculture and its interrelation with trade liberalisation. This topic will also be linked with the sustainable development of rural areas. Poland is the biggest country which joined the European Union on 1 May, 2004. Rural areas cover over 90% of Polish territory and agriculture absorbs almost 15% of total employment. Polish agriculture is very diversified in all dimensions: environmental, cultural, social and economic. One of the major challenges after Poland's accession to the EU is: how to combine agricultural diversity and multifunctionality with successful adjustment to the competitive single European market. This problem is also important for many other European countries. How to combine multifunctionality of European agriculture with international pressure on trade liberalisation – this is a challenge for all EU countries. It is expected that the ENARPRI project will contribute to the reform of the Common Agricultural Policy by identifying the main interrelations between changes in international trade conditions and strengthening the European Model of Agriculture and how to improve policy instruments for fulfilling the desired goals. The Polish team is also going to enrich the outcomes of the project by contributing to the study of social functions of agriculture which is a neglected part of research on multifunctionality. IRWiR together with its British partner will prepare scenarios showing the impact of trade liberalisation on the multifunctionality of European agriculture.