



The Common Agricultural Policy & the WTO: is the Mid Term Review compatible with WTO requirements?

This is an information paper on the relationship between the latest reform of the EU's Common Agricultural Policy and the proposed reform of the WTO's Agreement on Agriculture. It supports a series of position papers on agriculture and trade. BirdLife is focusing on key environmental and agricultural issues that are significant to the 5th Ministerial Session of the WTO in Cancún, Mexico, September 2003. We believe that sustainable farming practices and the protection of rural communities are essential to a meaningful reform of the WTO's agricultural trade rules. Without positive outcomes for both the environment and developing countries, the so-called 'Doha Development Round' of the WTO will fail to meet both its own sustainable development mandate and the needs of present and future generations.

BirdLife advocates the development of more sustainable agriculture that provides food that is produced within ecological limits and sustains rural communities. This concept of sustainable agriculture encompasses the three 'pillars' of sustainability – environmental, social and economic.

Introduction

The political agreement on the latest reform of the Common Agricultural Policy (CAP) in Luxembourg on 26 June is a substantially watered down version of the Mid-Term Review (MTR)¹ plans first tabled by the EU's Agriculture Commissioner Franz Fischler in July 2002. In order to get agreement, the conclusions are so flexible as to allow Member States to choose whether they radically alter the way they manage farming or whether they – more or less - retain the status quo. The potential impact of the reforms will become clearer when Member States announce which combination of options they will implement. However, this will not be until after Cancún, as implementation of the MTR package is not until 1st January 2005 at the earliest. This puts the European Commission in an interesting negotiating position, as officials will have to make a number of key assumptions. This paper attempts to address some key issues with regard to the scope of the latest CAP reform in terms of the commitments that the EU can afford to make at a WTO level:

1. What are the implications of decoupling and partial decoupling on WTO requirements to reduce direct support?
2. Which 'box' should these payments go in?
3. What are the likely impacts of the agreement on i) export subsidies and ii) market access?
4. Will the MTR package meet WTO requirements?

The consistency with future WTO requirements is judged on the basis of the revised draft proposal presented by the Chair of the WTO Agriculture negotiations, Stuart Harbinson² (hereinafter 'Harbinson draft'). It must be noted that no country has accepted the Harbinson draft as a basis for negotiation and, in the meantime, other proposals for agricultural modalities have been circulated. However, it was the only draft proposal available during the MTR negotiations and it also contains the most detailed numerical commitments, allowing for some quantitative assessment of the EU's reform package.*

The EU Agriculture Budget

The net cost of the CAP in 2003 is expected to be around €46bn. The CAP is funded through two different sections of the European Agriculture 'Guarantee' and 'Guidance' Fund (EAGGF). In 2001, €42bn was spent on agriculture through the Guarantee budget (agricultural market expenditure) and a further €3.5bn through the Guidance section (agricultural structural improvements) (Table 1).

* The figures used in this paper are based mainly on an analysis from Agra Europe, July 4, 2003.

Of the €42bn spent in 2001 through the Guarantee budget, around 65% was spent on production subsidies, 14% on intervention (including withdrawing products from the market and storing them) and 8% on subsidising produce to be exported onto world markets.

Table 1. Breakdown of the agriculture EAGGF Guarantee budget in the EU, 2001 (€000s)

	Production subsidies	Export subsidies	Intervention (storage, etc)	Total Expenditure
Common Market Organisations (CMOs) ³ produce support	27,430	2,965	5,848	36,266
Other products (Non Annex 1)	0	436	0	436
Other programmes (food programmes, vet and plant health, promotion, etc)	0	0	180	1,018
Sub-Total	27,430	3,401	6,028	37,720
Rural development	0	0	0	4,364
Sub- Total	0	0	0	4,364
Total Expenditure	27,430	3,401	6,028	42,084

Based on data in 'Agriculture in the European Union – Statistical and Economic Information 2002', European Commission.

1. What are the implications of decoupling and partial decoupling on WTO requirements to reduce domestic support?

1.1 Implications for Amber Box⁴

The Harbinson draft is calling for a 60% reduction in Amber Box subsidies over 5 years. This will bring the EU's financial ceiling down from €67.5bn to €27bn. Current spending is roughly €30bn and should decline further, given the reductions in intervention prices⁵ under the MTR.

1.2 Implications for Blue Box⁴

The Harbinson draft foresees two possibilities for dealing with payments under the Blue Box. The first is to incorporate Blue Box payments into the Amber Box; the second is to impose a limit on Blue Box payments and to reduce them by 50% from 1999-2000 levels over 5 years. The first option would mean elimination of the Blue Box and would be unachievable for the EU under the latest CAP reform deal. Achieving the second option depends on the extent of complete decoupling adopted across the EU (where support to farmers is completely independent from production), and the subsequent shift of subsidy payments to the Green Box. It has been estimated that, based on the initial responses by Member States to the reform options, Blue Box payments will be reduced by €18-20bn, from €29bn to €8-10bn, well within the proposed ceiling allowed for in the Harbinson draft. Specifically, it was assumed that half the Member States will take up the option of 25% coupled payments (i.e. partial decoupling) for the arable sector while the majority of Member States will adopt the 50% coupling allowable for livestock.

2. Which Box should these payments go in?

Partially decoupled payments (where a proportion of support to farmers is still linked to production) will mean that quotas and export subsidies are still required, but they are production-limiting and could be classified as Blue Box support. According to independent studies published by the European Commission and some Member States, the fully decoupled Single Farm Payment and National Envelope⁶ payments (under the MTR) are production-neutral and could be classified as Green Box measures. Ideally, the EU will want all reformed payments to be in the Green Box by 2007, the latest date for implementation of the MTR package.

3. What are the likely impacts of the agreement on export subsidies and market access?

While the MTR only addresses one of the three key elements of the WTO negotiations on agriculture, namely that of domestic support, this issue is crucial. The extent to which domestic support is reduced will determine the ability of the EU to make concessions elsewhere. In the case of market access it will affect the extent to which the EU will need high tariffs to protect domestic production from cheaper foreign agricultural imports. In the case of export support, it will determine the extent to which the EU will need export subsidies to sell potential surplus production at competitive prices abroad.

3.1 Implications for export subsidies

This may prove to be one of the most difficult issues for agreement between the EU and WTO during the Cancún negotiations, given the proposal set out by Harbinson draft.

Harbinson proposes the elimination of export subsidies on major products within 6 years and on lesser products within 10 years. Export subsidies in the EU have declined since the *Agenda 2000*⁷ CAP reforms that reduced support prices for products such as cereals. The latest CAP reforms will partially further this process. Decoupling should reduce production surpluses and therefore the need for export refunds (subsidies). The European Commission expects export subsidies to fall from €3,786bn in 2004 to €1,676bn by 2008 and €1.1bn by 2013. Reductions in export subsidy disbursements will depend on the scale and rate of decoupling. The sectors least affected by the MTR measures, namely the sugar and dairy regimes, are still likely to produce substantial surpluses. In addition, intervention price cuts are not as significant as first proposed. The scope for reducing export subsidies is therefore limited. Estimates are also prone to wide error margins because the actual disbursements depend on world prices and exchange rate movements, both beyond the control of the European Commission. In other words, the EU will still be dumping surplus production on world markets.

3.2 Impact on market access

Maintaining prices in the transition from a subsidy-driven regime to a liberalised market has implications for import tariffs, as higher priced domestic products would be vulnerable to cheap imports. It seems unlikely that the European Commission would allow a significant increase in external competition until the domestic markets have settled under the new regime. This could take years. The lack of reform in other sectors (sugar, dairy) also reduces scope for EU tariff reductions – again, likely to be a stumbling block at Cancún. Although the EU and US have recently agreed to reach some kind of agreement on tariff structures and reduction (published 13 August 2003), the scope is limited because of the reasons noted above.

4. Will the MTR package meet WTO requirements?

The new version of the CAP will sever the link between farm production and subsidy (known as *decoupling*). However, the flexible nature of the MTR agreement means that Member States (and regions within them) can retain some aspects of the old and damaging system. Despite this, the MTR package should allow the EU to meet the draft proposals set out by Stuart Harbinson for reductions in Amber and Blue Box subsidies. This will be dependent on whether WTO members accept the EU's proposal to transfer reformed Blue Box payments into the Green Box. The fact that the MTR gives Member States so much flexibility, combined with a lack of reform within the sugar and dairy regimes, means it is difficult to judge whether the EU can meet the proposed reductions on export subsidies and tariff reductions.

Footnotes

- 1. Mid-Term Review of the CAP:** The MTR began in July 2002, when the European Commission tabled its initial proposals for CAP reform. Detailed legislative proposals were published in January 2003. Political agreement was finally reached on 26 June 2003 in Luxembourg following protracted negotiations between Member States. The key elements of the MTR package include:
 - the introduction of a Single Payment Scheme for EU farmers independent (i.e. *decoupled*) from production. However, Member States have the right to maintain a proportion of production-linked support (*partial decoupling*).

- the linking of the Single Payment Scheme to the respect of environmental, food safety, animal and plant health and animal welfare standards, as well as to the requirement to keep farmland in good agricultural and environmental condition (*cross-compliance*).
 - a shift of funds from supporting farming towards supporting land management and rural development schemes (*modulation*).
 - the introduction of a *Financial Discipline* mechanism. This mechanism will be applied in order to keep CAP spending in line with the strict budgetary ceilings laid down by EU leaders at the European Council, Brussels, October 2002. If overspending is forecast, then payments will be reduced thus ensuring the budget is not exceeded. The Council will fix the necessary adjustment each year based on a European Commission proposal.
2. **Harbinson draft:** The draft of the modalities or commitments of governments for the negotiation of the new Agreement on Agriculture, issued by the Chairman of the agricultural negotiations at the WTO, Stuart Harbinson. The draft attempts to reflect a compromise drawn from the government negotiating positions submitted since the start of negotiations. The Chairman released the draft under his personal responsibility, i.e. governments were under no obligation to accept it as a basis for negotiation. Responses from governments have not been warm and no country has yet accepted it as a basis for negotiation.
 3. **Common Market Organisations (CMOs):** used to define the main agricultural commodity sectors e.g. dairy, arable, beef, goat & sheep, olive oil, etc.
 4. **Amber, Blue and Green Boxes:** **Green Box** payments are unlimited disbursements to farmers linked to environmental programmes, food security concerns, infrastructure developments, etc. The **Amber Box** includes producer payments and other domestic subsidies that governments have to reduce but not eliminate. **Blue Box** support is direct unlimited payments to farms that are linked to production-limiting programs with fixed baselines. The talks in Cancún will focus on the elimination or substantial reduction of Amber and Blue Box support and on a tighter definition and extension in scope of Green Box payments.
 5. **Intervention buying:** Intervention buying is a method used by the EU to support market prices for certain agricultural commodities. When the world market price for cereals, skimmed milk powder, butter and beef falls below the EU price, the commodity is bought (by the Member States but funded by the EU) and put it into storage. The commodity is then either put back onto the same or alternative markets at a later date. Intervention buying therefore acts as a price support mechanism.
 6. **National Envelope:** Member States may divert up to 10% of each of the agricultural budgets for the major commodity sectors into a National Envelope, to spend it '*on agricultural activities that are important for the protection or enhancement of the environment or for improving the quality and marketing of agricultural productions*'.
 7. **Agenda 2000:** the name given to the CAP reforms agreed in 1999.

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BirdLife International is a global Partnership of conservation organisations, working in more than 100 countries worldwide. The BirdLife Partnership strives to conserve birds, habitats and global biodiversity, joining local communities around the world to achieve awareness of our natural resources and how to use them sustainably.

The Royal Society for the Protection of Birds is Europe's largest wildlife conservation organisation with over a million members and the UK partner of BirdLife International. Through research, advocacy and land management, we strive to link national and international policies for sustainability with local concerns in both the South and the North.

We have extensive programmes of work in many policy areas including agriculture, trade, climate change, energy, transport, the marine environment, fisheries, education and capacity building.

The RSPB and BirdLife International are working to ensure that international trade and international trade rules provide a positive contribution towards achieving sustainable development and thus do not adversely affect the natural environment.

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