The Likely Impact of CAP-Reform on EU Positions in Cancun

A discussion paper

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Contents

Introduction

The June 26th 2003 EU Council Agreement on reform of the Common Agricultural Policy provides the basis for the EU's negotiating position in the WTO Agreement on Agriculture negotiations. This paper looks at the outcome of the final CAP-reform agreement in the areas of:

- decoupling and cross compliance;
- modulation and rural development;
- the major sectoral reforms agreed;
- with reference to the initial European Commission proposals, the extent of the changes introduced in the final agreement, and the broad implications of these changes for EU positions in the WTO agricultural negotiations on export subsidies, market access and domestic support to agriculture.

The paper then goes on to consider the implications for ACP countries in terms of the challenges this will generate at the Cancun WTO Ministerial. It concludes by proposing options for ACP governments to pursue at Cancun with the aim of maintaining some economic space for national and regional agricultural and agro-based industrial development, in the face of a reformed CAP and the liberalisation of agricultural markets that are implicit in the WTO process.

The Final CAP-Reform Agreement

Partial decoupling and 'cross compliance'

Initial commission proposals and the final agreement

According to the European Commission the June 26th 2003 agreement on CAP reform will mean that "*in future, the vast majority of subsidies will be paid independently from the volume of production*".

The new single farm-payment system will enter into force in 2005. However, member states may get a special dispensation to apply it only from 2007. This new system will be linked to respect of standards in the environment, food safety, plant health and animal welfare, as well as the requirement to keep all farmland in good agricultural and environmental condition (so called 'cross compliance'). The 'cross-compliance' dimension of the single farm-payment system is used to strengthen the Commission's argument that the new system of farm payments is non-trade-distorting (and hence should not be subjected to WTO expenditure disciplines), since it is related to additional costs that EU farmers must incur in order to meet higher standards in food safety, environmental protection, animal welfare and rural development.

It should, however, be noted that the single decoupled farm payment is to be based on the levels of assistance received under the previous system. The agreed reference period for the calculation of single decoupled farm payments is the 2000-2002 payment entitlements of the farmers concerned.

In the sectors where the Commission proposed to introduced the single farm-payment scheme, the final June 26th agreement left considerable flexibility to member states to choose when to decouple and whether or not to fully decouple. This was explicitly acknowledged by the Commission which noted "*member states may choose to maintain a limited link between subsidy and production under well defined conditions and within clear limits*".

Significantly the explicit intention behind allowing partial decoupling is to avoid any abandonment of agricultural production within the EU.

The outcome of the 26th June Council meeting led the United States Department of Agriculture to conclude that in reality the final EU agreement means that decoupling will take place at three levels:

1. payments that will not be decoupled at all;
2. payments that will be partially decoupled;
3. payments that will be decoupled later.

The Commission's initial proposals involved a more extensive introduction of decoupling of aid payments from the production of individual products. However, when the debate with member states began, it soon became apparent that exceptions to decoupling would be required in order to secure approval of the Commission's proposals. The Commission therefore recognised that *partial* decoupling or *deferment* of decoupling would be necessary in order to secure political agreement on the basic shift towards a system of single decoupled farm aid payments (a modification nominally justified by referring to the need to avoid the abandonment of production in marginal farming areas).

According to the Commission's initial proposal the overall aim of the proposed reforms was to "enhance the competitiveness of EU agriculture by setting intervention as a real safety-net measure, allowing EU producers to respond to market signals while protecting them from extreme price fluctuations".

The extent of flexibility to be allowed

In the **cereals sector**: member states are to be allowed to maintain up to 50% of current hectare payments in the arable sector linked to production if this maintains land in production. Alternatively 40% of the supplementary durum wheat premium may continue to be linked to production.

In the **beef sector**: member states may decide to retain up to 100% of the suckler-cow premium and over 40% of the slaughter premium as a production-linked payment or 100% of the slaughter premium or 75% of the special male premium.

In addition for sheep and goats a maximum of 50% of the premia can remained linked to production, while drying aid for cereals in the outermost regions of the EU may remain linked to production.

The **dairy sector** will only be incorporated into the single farm payment from 2008 when the process of reform has been fully implemented.
Member states may make additional payments equivalent to 10% of the amount of the single farm aid payment to encourage specific types of farming.

The extent of the change

While the Commission has been unable to secure as large a shift towards a system of single decoupled farm payments as initially proposed, the new system of single farm payments has been accepted in principle by EU member states. The Commission's longer-term objective, involving a shift from product support to producer support through *"the introduction of a decoupled system of payments per farm, based on historical references and conditional upon cross compliance to environmental, animal welfare and food quality criteria"* has thus been firmly established as the basic trajectory for future reform.

Given that the single decoupled farm aid payment is to be based on payment entitlements over the 2000-2002 period the new system will effectively freeze in place, under the new nominally less trade-distorting system, the trade distortions generated under the old system.

Equally the link between the single farm-payment scheme and various environmental, food-safety and animal-welfare issues cannot disguise the fact that the scheme will serve to maintain EU agricultural production in the commodities concerned at levels higher than those that would prevail were farmers' production decisions determined solely by the market.

Implications for the WTO negotiations

In relation to the WTO negotiations on agriculture it needs to be borne in mind that the Commission's proposals for the introduction of single decoupled farm payments (and proposals for an expansion of rural-development measures) are designed to shift EU agricultural support from measures which are subject to WTO expenditure disciplines to those which would not be. The partial nature of the decoupling which has occurred as a result of the June 26th 2003 EU Council agreement means that in the coming years a higher level of EU agricultural aid will remain coupled to production and therefore subject to WTO disciplines than the European Commission initially aimed at. This in turn means that the EU will have less flexibility in agreeing to reductions in domestic support than it hoped.

Given that all EU member states have considerable flexibility in determining how to implement decoupling it is very difficult at the present time for the Commission to make an accurate calculation of the expenditure implications of the agreed package with regard to the balance between measures subject to WTO disciplines and those no longer subject to WTO disciplines.

However, at an early stage in the debate on the reform proposals tabled in July 2002, the Commission recognised the need to retain partially coupled payments. It probably therefore took this into account in the proposals it made to the WTO for reductions in domestic agricultural support. This means that the EU will probably be unwilling to go substantially beyond its existing proposals for reductions in support, since this would compromise the functioning of some EU agricultural markets given the partial nature of decoupling reforms agreed.

How the EU sees the link with the WTO

In future the vast majority of subsidies for farmers will be paid independently of the volume of production ('decoupled'). This means that direct aids can be classified as 'green box' under the WTO agreements, i.e. non-trade distorting. They will therefore not be subject to reduction in the eventual trade agreement.

CAP Reform Summary: http://europa.eu.int/comm/agriculture/mtr/sum_en.pdf

The agreement on ‘modulation’ and rural development

Initial commission proposals and the final agreement

The Commission’s concept of ‘modulation’ involves capping the levels of support which can be claimed by any individual farm, by progressively reducing payments to larger farms

The initial Commission proposal was that “all direct aid payments will be reduced progressively in arithmetic steps of 3% per year to reach 20%”.

While small-scale farmers (those receiving less than €5,000 a year) would be excluded from the scheme, a maximum ceiling of €300,000 in agricultural support payments would apply to large-scale farmers. The funds generated by this ‘dynamic modulation’ would then be used to finance additional rural-development programmes and further sectoral reform (e.g. in the sugar sector).

However, the Council agreement on June 26th 2003 significantly modified this ‘modulation’ proposal in two ways: first it reduced the extent of ‘modulation’, with reductions in payments being introduced at 3% in 2005, rising to 4% in 2007 and reaching a ceiling of 5% from 2007 to 2013, a quarter of that originally proposed; second, it restricted the utilisation of funds generated by ‘modulation’ to the financing of rural-development measures

It is estimated that this process will (from 2007) generate some €1.2 billion per year in additional funds for deployment in support of rural-development programmes. This gives concrete expression to the political commitment to strengthening the rural-development pillar of the Common Agricultural Policy. The expansion of rural-development expenditures forms part of the wider EU effort to move agricultural support into measures which are tolerated by the WTO and not subject to WTO expenditure disciplines.

Prior to the June 26th EU Council meeting, agreement was reached on the expansion of the scope of the EU rural-development programme to include programmes to deal with:

- food quality assurance and certification schemes;
- support in meeting new EU hygiene standards;
- improving animal welfare.

These supplement existing programmes to promote economic diversification in rural areas and to support the development of social and economic infrastructure in rural areas.

The extent of the change

In the light of the overall ceiling on CAP expenditures already agreed by the EU Council, the restriction of funds generated by modulation to rural-development expenditures would appear to make the financing of further CAP reform more problematical.

Although the European Commission is committed to putting forward proposals for further reform in the autumn in the sectors of olive oil, tobacco, cotton and, with variable emphasis, sugar, the reality is that the financial constraints may well limit the scope of reforms which the Commission can put forward, particularly in the sugar sector where currently EU consumers bear most of the financial burden.

Implications for the WTO negotiations

Deferment of reform, or an extended time frame for implementation of reform in the sugar sector, would be likely to maintain the EU's need for export refunds and would compound problems already generated by the renewed strength of the euro against the US dollar[1]. This will reduce the ability of the EU to accept reductions in the level of export refunds that are tolerated by the WTO. Thus while the EU will accept reductions in export refunds (something which the price reductions agreed in the dairy and rice sectors make easier), the possible deferment or slow pacing of sugar-sector reform will place very real limits on the extent to which the EU is willing to accept reductions in the WTO-tolerated levels of export refunds.

It also needs to be borne in mind that a growing number of EU rural-development measures potentially have trade-distorting effects. Of the established rural-development programmes, those dealing with investment in modernisation and diversification of agricultural holdings and improvements in the processing and marketing of agricultural products have important trade implications. Of the new rural-development programmes those allowing payments of up to €10,000 to support compliance with new EU standards and providing €500 per livestock unit to promote compliance with animal-welfare standards (the 'being nice to cows' payment) are a particular source of concern, since ACP country exporters will eventually have to comply with these same EU standards without having the benefit of such high levels of public support.

This suggests a need for ACP governments to begin to question in the WTO the EU definitions of what constitutes non-trade-distorting forms of agricultural support, if existing trade distortions and new trade barriers (particularly those related to the economic cost of compliance with new EU hygiene standards) are not to become entrenched under a new nominally more trade-friendly CAP.

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[1] This is a crucial factor for export-refund expenditures as most major internationally traded agricultural products are quoted in US dollars. A strong euro increases the gap between euro- and US dollar-denominated world market prices, thereby increasing the need for export refunds to bridge the gap.

Rural-Development Measures with Trade Implications

1. Financial assistance for the modernisation and diversification of agricultural holdings, including support for:

- improvement of product quality,
- health and hygiene standards.

Such support may cover between 40% to 55% of the total investment cost depending on the circumstances of the farming enterprise.

2. Financial assistance for the improvement of the processing and marketing of agricultural products, including support for:

- improving the presentation of products;
- rationalisation of processing procedures and marketing channels;
- reorientation of production to new outlets;
- application of new technologies;
- monitoring of quality and health conditions;
- encouraging innovation

Such support may cover up to 50% of eligible investment costs providing they contribute to the improvement of the situation of the basic agricultural sector.

3. Financial assistance towards meeting environmental-, public-, animal- and plant-health standards, including:

- payments of up to a maximum of €10,000 per year per holding;
- support to farmers in using farm advisory services up to a ceiling of €1,500 per annum.

4. Financial assistance towards the meeting of food-quality standards, including:

- payments to farmers of up to €1,500 per year;
- support to consumer information campaigns by producer groups up to 70% of eligible costs

5. Financial assistance for animal-welfare measures, including payments up to a limit of €500 per livestock unit.

Agreed sectoral reforms

Initial commission proposals and the final agreement

In the **cereals sector** the European Commission initially proposed:

- a 5% cut in the cereals intervention price (involving a reduction from €101.31 to €95.35 from 2004/5, with compensation in line with the Agenda 2000 formula);
- a reduction of the monthly increments by 50%;
- a modification of special payments for durum wheat to encourage quality production for manufacturing purposes.

The European Council declined to cut the cereals intervention price by 5% but did agree to the reduction of the monthly increments by 50%. With regard to durum wheat it was agreed that in traditional areas up to 40% of supplementary aid could remain linked to production, but that this would be reduced from €313 per hectare in 2004 to €285 by 2006. In non-traditional areas it was agreed that the supplementary aid, currently set at €139.5 per hectare would be progressively phased out by 2006

In the **rice sector** the Commission proposed a reduction of the rice intervention price by 50% to bring it into line with world market prices (to €150 per tonne by 2004/5). The European Council agreed to this dramatic reduction in the intervention price and the consequent expansion of direct aid payments. Direct aid payments will be increased from €25 per tonne to €177 per tonne. Of this €102 per tonne will be part of the single farm aid payment, based on historical rights while the remainder (€75 per tonne) will be paid as a crop-specific aid. This will be equivalent to 88% of the price reduction, in line with the compensation levels paid under the Agenda 2000 reforms.

The Commission also proposed that the cereals and rice import regimes should be modified in line with the new market realities within the EU created by the implementation of reform. This proposal was accepted by the EU Council

In the **beef sector** the Commission proposed a major simplification of direct aid payments in order to encourage safer and more quality-focussed production methods. The EU Council agreed that member states may decide to retain up to 100% of the suckler-cow premium and over 40% of the slaughter premium as a production-linked payment or 100% of the slaughter premium or 75% of the special male premium.

In the **dairy sector** the Commission proposed a major extension of reforms in the dairy sector going beyond the commitments made under the Agenda 2000 reform agreement[2].

[2] Under the Agenda 2000 series of reforms, agreement was reached on the reform measures to be implemented in the dairy sector but the implementation of these measures was deferred.

The EU Council agreed to reduce the intervention price for butter by 25% over four years and that for skimmed milk powder by 15% over three years. Intervention buying for butter will be suspended above a limit of 70,000 tonnes in 2004, with this declining to 30,000 by 2007. In line with the price reductions, compensation payments will rise from €11.81 per tonne in 2004 to €23.65 in 2005 and €35.5 per tonne in 2006. The EU Council also agreed to retain in place a dairy-quota regime until 2014/15. The EU Council further agreed that once these dairy-sector reforms had been implemented the dairy sector would be incorporated into the single decoupled farm-payment scheme.

In addition to the foregoing major reforms the Commission also proposed changes to the support for protein crops, grain legumes, dried fodder, nuts and energy crops, most of which were agreed by the EU Council.

The extent of the change

In the **cereals sector** the member states' refusal to reduce the intervention price by 5% is likely to generate a continued need for export refunds to clear EU cereal markets, although this will depend both on how world market prices develop, and on the extent of currency fluctuations, relative to both the US dollar and to the currencies of newly emerging cereals exporters.

In the **rice sector** the one step 50% reduction in the EU intervention price will bring the EU rice price (€150 per tonne) into line with the world market price. Intervention buying will be triggered should market prices fall to €150 per tonne, with a ceiling of 75,000 tonnes being set for intervention buying. New tariff items are to be created to accommodate the new rice regime. This radical reform will reduce the need for export refunds and assist the EU in clearing its accumulated stocks of rice (equal to one-third of EU consumption and three times current EU annual rice exports). It will allow the EU to dramatically reduce the tariffs charged on rice imports. However, this improved access to the EU market will simply increase competition for ACP suppliers, whilst at the same time dramatically reducing the prices earned on rice exports to the EU.

In the **dairy sector** the 25% reduction in the intervention price for butter goes beyond the reforms agreed in 2000 by introducing an additional price cut of 10%. The agreed reduction in the skimmed milk powder price was in line with the Agenda 2000 agreement. The changes introduced in the dairy sector will reduce the need for export refunds for EU dairy products and will increase the export-price competitiveness of EU dairy exports. The intention is that the reforms will halt the declining trend of EU participation in the global dairy trade. The maintenance of production quotas will not however result in any change in the overall level of EU dairy production.

The changes introduced in the **beef sector**, involving as they do the continued deployment of direct aid coupled to production will largely maintain current levels of demand for WTO-constrained domestic support in the beef sector.

Implications for the WTO negotiations

At present there is a high degree of uncertainty as to how world market prices will develop in relation to EU prices of cereals. The refusal to reduce the intervention price further will compel the European Commission to keep its options open in terms of the overall levels of export refund payments which can be made within WTO limits. However the EU Council's agreement to intervention price cuts in the dairy sector which go beyond the Agenda 2000 agreement, will reduce the need for export refunds for dairy products. The dramatic reforms in the rice sector will also reduce the demand for export refunds, although the rice sector was never a major recipient of export refunds in comparison with the dairy, sugar and cereals sectors.

Overall the agreement will reduce the scope the Commission has for agreeing to reductions in export refunds which go beyond the current EU proposals.

The three-tiered approach to decoupling which the EU has finally adopted (nominally linked to concerns over land abandonment) which allows EU member states to maintain coupled payments to varying degrees, will reduce the scope the Commission has to agree to reductions in WTO ceilings on domestic support to agriculture.

This means that the Commission is unlikely to be willing to go beyond its existing proposals for reductions in domestic support.

Summary of the EU agricultural proposals to the WTO

On December 16th 2002 the European Commission submitted proposals for the EU's agricultural offer in the WTO to EU agricultural ministers and the Article 133 Committee. The EU proposal suggested that the following actions be taken over a six-year period for developed countries and a ten-year period for developing countries:

- a cut in trade distorting farm subsidies by 55%;
- rolling back budget expenditures on export refunds by about 45% on average with the complete dismantling of export refunds on cereals, oilseeds, olive oil and tobacco, provided that all other forms of export subsidy are also abandoned for these products (in this context the EU is calling for stronger disciplines to be introduced on export credits, state-trading enterprises and abuses of food aid);
- a further opening of agricultural markets by reducing agricultural tariffs by 36% on average, with a cut of at least 15% per dutiable item.

The EU is also calling for other developed economies and advanced developing countries to introduce EBA-style ('Everything But Arms') treatment for LDCs.

The EU proposal also includes:

- support for a 'food security box' involving a special safeguard instrument to ensure food security;
- attempts to secure recognition for its right to protect the European model of agriculture;
- promotion of the EU position on geographical designations of origin.
- an extension of the peace clause, which prevents WTO-accepted support measures from being challenged.

Securing support for the European model of agriculture involves gaining acceptance of the exclusion of internal, non-trade distorting rural-development support measures from the support-reduction commitments.

The **dairy sector** reforms in particular will be likely to significantly increase the price competitiveness of EU butter and skimmed milk powder exports, and will reduce the dependence of this trade on WTO-constrained export refunds. The reforms will bring increased price competitiveness of EU rice exports, together with the removal of any need for export refunds. The existence of large accumulated EU stocks could lead to a dramatic increase in EU rice exports in the coming years as the EU seeks to clear existing stocks. The situation is likely to be compounded by the projected increase in rice production which is foreseen under the reformed rice regime (see annex 1).

This raises a very important point, namely the production effects of the reforms agreed. The Commission's initial proposals were designed to avoid any abandonment of agricultural production in the EU, and the member states' modifications were aimed at further strengthening this policy. This is likely to increase the incentive to produce in a number of sectors, leading to a rise in EU agricultural production under a reformed CAP, compared to the current levels of production[3]. Increased production is likely in all sectors except beef and rye, and in many sectors the surplus available for export will increase, but at much lower prices than those previously prevailing. ACP countries could therefore face increased volumes of EU agricultural exports at lower prices.

What is more, with lower priced inputs, EU value-added food-product manufacturers across a number of sectors will be able to obtain their raw materials at around world market prices and thereby exploit the economies of scale from serving the huge internal EU market. This could lead to increased exports of lower priced EU value-added food products to ACP markets. Such a trend was already apparent following the 1992 process of CAP reform and the Uruguay round of tariff reductions, after which EU exports of value-added food products increased at an average rate of 25% per annum. ACP markets were a particular target during this period for EU exports of simple cereal-based value-added food products[4]. This saw the importance of the ACP market to EU exporters of these products increased from 12.6 % to 20.5% of total EU exports for 'products of the milling industry' (CN 11) and from 4.5% to 7% for 'preparations of cereals' (CN 19).

EU Exports to ACP Countries of Cereals and Cereal Products (€ Million)				
	1996	1997	1998	% change
Cereals (CN 10)	243	216	261	-11.2%
Products of the milling industry	201	333	336	+67.2%

3 It should be noted that this is with reference to current levels of EU agricultural production. The Commission repeatedly claims that the reforms will lead to declines in production, but this is true only when compared to the levels of production which would have occurred by 2009 under an un-reformed CAP.

4 The EU agricultural reform process began in the cereals sector and developments in the cereals sector have always been a forerunner of broader trends in the development of EU agricultural policy measures and the wider development of the EU's trade in agricultural and value added food products.

(CN 11)				
Preparations based on cereals, flour and starch (CN 19)	133	176	205	+54.1%
Source: 'Agricultural Situation in the Community', Tables 3.6.12, 1999.				

This expansion of EU value-added food-product exports was seriously constrained from 2001 onwards when WTO ceilings on the export refunds allowed on value-added agricultural products began to be felt by EU food-product exporters. The CAP reforms currently agreed could begin to ease this constraint on EU exports of value-added food products.

Against this background ACP governments will need to pay close attention in Cancun to the rules governing special safeguard measures, in order to ensure that rules are agreed which allow swift, simple and effective safeguard measures to be taken in the face of increased EU exports not only of CAP-supported basic raw materials but also CAP product-based value-added food products (i.e. not just wheat, but pasta, biscuits cakes and the whole value chain associated with wheat production.)

Implications for the ACP

The first level of implications for ACP countries arising from the new CAP-reform agreement is the impact it will have on the price competitiveness of EU exports of agricultural and simple value-added food products. In a growing number of areas this increased EU price competitiveness will not be the result of the deployment of export refunds but a consequence of direct aid payments allowing a lowering of internal EU prices to such an extent that the need for export refunds is removed[5].

It needs to be recognised that the EU is firmly wedded to a process of CAP reform which has been underway since 1992. The EU will not abandon this basic approach to its agricultural policy simply to secure a WTO agreement. Against this background there would appear to be little that ACP governments can do at the WTO to secure a meaningful

[5] EU export refunds are designed to bridge the gap between EU prices and world market prices. If there is no longer any difference between EU prices and the world market prices (e.g. in the rice sector following reform), then there is no longer any need for export refunds.

reduction in *all forms* of EU agricultural support as opposed to a reduction in the types of support which the EU describes as trade distorting (domestic support). In this context ACP governments would appear to be better advised to adopt a strategy which *seeks to insulate their markets from the adverse external consequences of the CAP-reform process* (namely the increased availability of lower priced EU agricultural and simple value-added food products). This suggests that ACP governments should focus on securing swift simple and effective safeguard measures, which can be deployed in a pre-emptive way to avoid market disruption, through the establishment of monitoring and surveillance mechanisms for trade in sensitive products.

The definition of 'sensitive products' should include all agricultural and simple value-added food products where ACP countries have a production interest and where the CAP policies influence production decisions and subsequently trade outcomes.

At a tactical level this may require ACP governments to challenge EU definitions of non-trade-distorting forms of agricultural support until such times as they have secured agreement on swift, simple and effective safeguard measures which include pre-emptive dimensions linked to establishment of monitoring and surveillance mechanism in sensitive products.

This would effectively amount to a trade-off between support for EU definitions of non-trade-distorting forms of support in exchange for EU acceptance of swift, simple and effective pre-emptive safeguard measures designed to:

- prevent disruptions of ACP agricultural markets and markets for simple value-added food products;
- maintain the economic space for the development of ACP value-added food-product industries serving national and regional markets, in the face of lower priced EU exports of these products.

In this context, the principle underpinning the 'Chirac' proposal on a cessation of export refunds on agricultural products to Africa could usefully be highlighted, namely that *the deployment of EU agricultural support should not be allowed to prejudice the agricultural and agro-industrial development of African countries*. If the European Union were to fully support this principle in the development of simple and effective safeguard provisions, then the precise modalities for the attainment of this objective under the new market conditions created by a reformed CAP could be worked out later.

The Scope for Effective Safeguard Measures

The type of safeguard arrangement which WTO rules should be permissive of can be seen in the current safeguard provisions which the EU may use under the Cotonou Agreement should ACP exports threaten the functioning of EU markets. The Cotonou Agreement's safeguard provisions allow action to be taken where imports:

- cause or threaten to cause serious injury;
- threaten serious disturbances in any sector;
- threaten to create difficulties which could lead to an economic deterioration in a region.

These provisions place emphasis on preventing disruption of markets through 'statistical surveillance' and 'prior consultations' in 'sensitive' sectors. In 'sensitive' sectors it also allows action to be taken without the need to document the damage being caused since the emphasis is on preventing 'injury' 'disturbances' or 'difficulties'.

These types of safeguard provisions could very usefully be applied to EU agricultural and value-added food-product exports to ACP countries in a context where CAP reform is enhancing EU price competitiveness through the redesign of agricultural support. Establishing 'monitoring and surveillance' arrangements in sensitive sectors under safeguard provisions mirroring those used by the EU could prevent severe market disruptions arising under future trade arrangements with the EU.

The second major area to be addressed by the ACP is the impact of CAP reform on the value of existing ACP trade preferences. This can best be illustrated by the impact of rice reform on Guyana's and Surinam's rice sectors. These ACP exporters will now face EU rice market prices between 34% and 41% below current prices. They will still enjoy the same preferences vis-à-vis third countries that they have always enjoyed, but the value of these preferences will now be insignificant. Against this background ACP government should explore with the EU the concept of 'compensatory trade measures'.

The Concept of Compensatory Trade Measures

In the face of the declining value of agricultural trade preferences under the impact of CAP reform, consultations in Namibia between agricultural government officials and beef-sector interests had led to the emergence of the concept of 'compensatory trade measures'.

Under this concept it is noted that while EU beef farmers have been financially compensated for CAP-reform induced price declines, ACP beef exporters have not, and must carry the burden of lower EU prices themselves. While there is no suggestion from Southern African beef interests that direct financial compensation payments should be made to traditional ACP suppliers facing declining prices on the EU market as a consequence of the conscious reform of the EU's beef regime, it is being argued that the EU should introduce 'compensatory trade measures'. From a Southern African beef-sector perspective this could include such measures as:

- the abolition of the remaining 8% of the special duty (formerly known as the agricultural levy), which currently costs ACP beef exporters around 15 pence per kg of exported beef;
- a broadening of the beef product range which can be exported within the scope of the beef protocol, allowing the export of higher value products, thereby reducing dependence on declining basic commodity markets;
- a reform of the licensing arrangements to allow greater flexibility to respond to market signals.

Beyond the beef sector it could involve the elimination of all quantitative restrictions on Namibian grape exports. Such measures for affected ACP countries should be introduced in parallel with the implementation of CAP reform.

Annex 1

Projected Impact of European Commission Reform Proposals

Major Cereals Crops: production in millions of tonnes

	2000	2001	2002[6]	2004	2009[7]
Soft wheat	95.8	84.4	97.2	96.98	108.20
Maize	38.6	40.1	40.7	40.15	41.99
Barley	51.6	48.3	48.5	50.95	51.51
Durum wheat	8.9	7.7	9.2	8.98	9.62
Rice	1.55	1.43	1.49	1.70	1.79
Rye	5.4	6.3	5.4	4.88	4.72

6 Figures for 2000 to 2002 are drawn from *'Prospects for Agricultural Markets 2002-2009'* European Commission Directorate General for Agriculture, June 2002. For production of wheat, maize, barley and rye they are drawn from, Table 1.5, Chapter 1 Figures for the production of rice are drawn from table 1.15. and cover the season 1999/00 2000/01 and 2001/02.

7 Figures for 2004 and 2009 are drawn from the '*FAPRI Analysis of the European Commission's Mid Term Review Proposals*', FAPRI, University of Missouri, December 2002, Table 2.

Annex 2

Projected Impact of European Commission Reform Proposals

Major Livestock Products: millions of tonnes

	2000	2001	2002	2004	2009
Beef[8]: production / export	7.45	7.70	7.57	7.28	6.94
	0.577	0.495	0.56	0.64	0.48
Pork[9]: production / export	17.56	17.57	17.93	17.86	18.32
	1.346	1.093	1.2	1.39	1.47
Poultry[10] production[11] / export	8.80	9.13	9.10	8.57	9.03
	1.01	0.97	0.96	1.04	1.06

8 Figures for 2000 to 2002 are drawn from '*Prospects for Agricultural Markets 2002-2009*' European Commission Directorate General for Agriculture, June 2002, table 1.16, while figures for 2004 and 2009 are drawn from the '*FAPRI Analysis of the European Commission's Mid Term Review Proposals*', FAPRI, University of Missouri, December 2002, Table 4.

9 Figures for 2000 to 2002 are drawn from '*Prospects for Agricultural Markets 2002-2009*' European Commission Directorate General for Agriculture, June 2002, table 1.17, while figures for 2004 and 2009 are drawn from the '*FAPRI Analysis of the European Commission's Mid Term Review Proposals*', FAPRI, University of Missouri, December 2002, Table 4.

10 Figures for 2000 to 2002 are drawn from '*Prospects for Agricultural Markets 2002-2009*' European Commission Directorate General for Agriculture, June 2002, table 1.18, while figures for 2004 and 2009 are drawn from the '*FAPRI Analysis of the European Commission's Mid Term Review Proposals*', FAPRI, University of Missouri, December 2002, Table 4.

11 It should be noted that there is a discrepancy between the June 2002 Commission market predictions for poultry and the baseline projections used in the FAPRI model (both with regard to the production and exports), with FAPRI predicting lower production and higher exports for the baseline than the Commission June 2002 Prospects for Agricultural markets report.