

CAP reform and world trade negotiations

by Joseph A McMahon

In March 1999 the European Council in Berlin agreed on reforms to the Common Agricultural Policy. Joseph McMahon of the Queen's University of Belfast examines these reforms in relation to the European Community's Agenda 2000 proposals and the next round of WTO negotiations and argues that they may not go far enough.

The reforms to the Common Agricultural Policy (CAP) agreed at the Berlin European Council meeting in March 1999 were described as the essential elements of the Community's negotiating mandate in the multilateral trade negotiations set to begin in 2000. One problem with these reforms is that not only may they fail to deal with the problems with the existing policy, especially as the Community enlarges to the East, but they may also frustrate the process of building on the reforms in the Uruguay Round of international trade negotiations which are incorporated in the Agreement on Agriculture ('the Agreement').

THE AGREEMENT ON AGRICULTURE

The commitments of the Community, and other members of the World Trade Organisation (WTO), under the Agreement revolve around three core areas: market access, budgetary support and export subsidisation.

Market access

In addition to the usual reductions in the levels of tariffs there are also to be concessions on non-tariff measures. These latter concessions are the result of the adoption of the process of tariffication that applies to nearly all types of non-tariff barriers. The starting point for this process is the conversion of existing non-tariff barriers into tariff barriers to provide for an equivalent level of protection. The process of tariffication also requires that existing access opportunities be maintained; derogations from the process are possible for sensitive products and safeguard measures may be taken in very limited circumstances. For the Community, the process involved the replacement of variable import levies by import duties and a commitment to effect an average reduction of 36 per cent of these duties over the implementation period.

Budgetary support

The centrepiece of the commitments in this area is the concept of the Aggregate Measurement of Support (AMS), which is defined as:

'the annual level of support, expressed in monetary terms, provided for an agricultural product in favour of the producers of the basic agricultural product or non-product-specific support provided in favour of agricultural producers in general.'

Support which is production neutral – the so-called 'green box' policies – need not be included in this calculation, emphasising that what is being calculated is all those financial factors that influence the decision of a farmer to produce a certain product. The commitment of the members of the Agreement is to reduce the product-specific and non-product-specific support that does not qualify for exemption by 20 per cent during the implementation period.

Export subsidisation

Under the Agreement certain direct export subsidies would be subject to a commitment to reduce the budgetary outlay and quantities benefiting from such subsidies. For developed country members, such as the Community, the commitment is to reduce the budgetary outlays on export subsidies, and the quantities benefiting from such subsidies, over the implementation period covered to a level 36 per cent and 21 per cent below the levels in the 1986–1990 base period. For those export subsidies that conform to the provisions of the Agreement there will be an exemption from actions based on art. XVI of the GATT, the traditional GATT provision on subsidies, or art. 3, 5, and 6 of the Subsidies Agreement. Those export subsidies not covered by art. 9(1) are not to be applied in a manner that results, or may result, in the 'circumvention of the export subsidy commitments'.

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<http://www.wto.org>

The Committee on Agriculture documents on the notification by the Community on the implementation of the Agreement are available at G/AG/N/EEC.

The Committee on Agriculture, which is established by art. 17 of the Agreement, is responsible for reviewing the progress in

the implementation of the commitments undertaken on the basis of notification submitted by members and any documentation requested by the WTO. According to art. 20 of the Agreement negotiations for a further package of reforms would begin in 1999. This would continue the process of improving market access, reducing direct budgetary support and implementing further decreases in the levels of export subsidisation which represent the core of the Uruguay Round commitments of the parties in the area of agriculture. These negotiations were identified by the Commission in its Agenda 2000 document as a problem for the Community, especially as negotiations would begin on a range of new issues such as environmental and social standards and consumer protection.

THE AGENDA 2000 PROPOSALS

The long-term outlook for agriculture as outlined in the Agenda 2000 document indicated that the Community would be confronted with a number of further problems. The outlook for the existing policy was described as 'not very promising' as structural surpluses would begin to re-emerge for a number of products. During the period of international trade negotiations accession negotiations would be conducted with the applicant countries of Central and Eastern Europe and Cyprus. The resulting accession of these countries to the Community would necessitate further adaptations of the existing CAP. The initial Commission thinking on the nature of the reforms needed to deal with these three problems confronting the CAP was outlined in the Agenda 2000 document.



Move from price to income support

First, there would be a continuation of the process of reducing support prices for those agricultural products which were expected to generate surpluses in the years to come, such as cereals and beef. The existing quota scheme for milk would continue until 2006 with a 10 per cent reduction in the level of support prices over this period. No proposals were made for the future of the dairy regime beyond 2006 and no reference was made to measures that would lead to the eventual elimination of the existing quota system in the sugar sector. With respect to direct income support, the Commission acknowledged that there would be an individual ceiling for such payments, allowing member states, under commonly agreed rules, to supplement these payments.

Environmental and consumer concerns

Secondly, in addition to the conversion of the CAP from a system of price support to a system of direct income payments, the new CAP would also have to agree a more aggressive rural policy. This was needed not only to implement a more coherent policy to tackle the social and economic problems of rural areas but also to reinforce and enhance the existing environmental aspects of these areas and the CAP. This latter aspect of rural

policy was seen as increasingly demanded by the citizens of the Union, who at the same time in their capacity as consumers were also demanding greater food safety and products which are both 'environmentally friendly' and 'culturally significant'. On 18 March 1998 the Commission published more detailed proposals for the reform of the CAP which were intended to translate the above reforms into legal texts.

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<http://www.europa.eu.int/comm/dg06/ag2000/index-en.htm>

Details of the Commission proposals for the reform of the Common Agricultural Policy.

Decentralisation

Thirdly, the proposals recognised the diverse nature of the agricultural situation in the member states by promoting a new division of functions between the Community and the member states. For example, in the area of direct payments to producers, compensation would be provided in the form of national envelopes by the Community, with the member states being responsible for the allocation of this money to its agricultural producers, subject to agreed criteria.

A similar decentralised approach was also to be taken in the area of rural development, where there would be a new legal framework as part of the process of simplification of Community agricultural legislation. The new framework provided for two groups of rural development measures – a kind of second pillar to the CAP. Those relating to less favoured areas and the measures in the 1992 reform package such as early retirement, and agri-environmental measures, would be co-financed by the Community through the EAGGF Guarantee section for all regions of the Community. The second group of measures, relating to modernisation and diversification, would be financed as part of the Community's efforts to promote greater economic and social cohesion in the Community in the newly defined Objective 1 and Objective 2 areas.

POLITICAL AGREEMENT ON REFORM

In the aftermath of the publication of the Commission proposals, considerable discussion occurred between the member states on the scope of the reform of the CAP. In preparation for the European Council meeting in Berlin in March 1999, the Council of Agriculture Ministers ('the Council') eventually reached a political agreement on a compromise package of reforms. Major elements of the reform package were:

- the intervention price for arable crops to be cut by 20 per cent in two steps starting in 2000/2001;
- direct payments to be increased to compensate farmers for the loss of income.

Other measures included:

- compulsory set aside to be retained with the basic rate to be set at 10 per cent for the two marketing years beginning in 2000 but to be reduced to zero per cent as from 2002;
- the system of voluntary set-aside to be maintained and improved;
- in the beef sector, the price reduction to be set at 20 per cent, to be achieved by three equal steps (when the final step is taken,

a basic price for private storage of beef to be established as well as a 'safety-net' intervention system – and once again, as compensation for the price reductions, payments under various premia to be increased subject to various regional ceilings);

- as a measure to promote flexibility, various national envelopes are established allowing member states to compensate producers for regional variations in production practices and conditions.

The political agreement on reforms to the arable crops and beef sector follow the proposals advocated by the Commission with a number of important changes: notably, the price reduction in the arable crop sector is to be 20 per cent over two years rather than the one year proposed and price reduction in the beef sector is to be 20 per cent rather than the 30 per cent advocated. This pattern is repeated in the reforms agreed in the milk sector. Although the intervention price is to be reduced by 15 percent, as advocated by the Commission, the increase in quotas is set at 2.39 per cent rather than 2 per cent. The quotas for most member states are to be increased by 1.5 percent in three steps as from 2003 with provision for special quota increases for some member states as from 2000. As for the future of the regime beyond 2006, discussions will begin in 2003. Once again, to compensate farmers for the price reductions, a system of aids will be introduced which may be supplemented through agreed national envelopes.

As for measures applicable to all common organisations of the market, there was broad agreement within the Council on the proposals advanced by the Commission although, significantly, the proposal to impose ceilings on direct payments was not endorsed. In relation to rural development policy, the Council endorsed the Commission's proposals for a more coherent and sustainable rural development policy which would create a stronger agricultural and forestry sector that would be more competitive and respectful of the environment and the rural heritage.

Overall, although less ambitious than the original proposals of the Commission, the political agreement on reforms represented an attempt by the Council to continue with the process initiated by the 1992 MacSharry reforms. However, the agreement still had to be endorsed by the European Council as it was only one part of the Agenda 2000 package of reforms. In welcoming the political agreement of the Council, the European Council commented that:

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<http://www.europa.eu.int/comm/dg06/publi/newsletter/index-en.htm>

Details of the agreement within the Agricultural Council and the European Council on the reform of the Common Agricultural Policy.

'The content of this reform will ensure that agriculture is multifunctional, sustainable, competitive and spread throughout Europe, including regions with specific problems, that it is capable of maintaining the countryside, conserving nature and making a key contribution to the vitality of rural life, and that it responds to consumer concerns and demands as regards food quality and safety, environmental protection and the safeguarding of animal welfare.'

Despite this welcome, various changes were made to the political agreement on reform. For example, the agreed changes to the dairy regime, save those on quotas, are not to enter into

force until the marketing year 2005/2006 and the intervention price for cereals, instead of being reduced by 20 per cent is to be reduced by 15 per cent with the base rate of compulsory set aside to be fixed at 10 per cent for all of the period 2000–2006.

Beyond these changes the Council and the Commission were requested to pursue additional savings, except in the areas of rural development and veterinary measures, to ensure that average annual agricultural expenditure over the period 2000–2006 does not exceed €40.5 billion. It was considered by the European Council that the reform of the CAP over this period along the lines agreed by the Council, as amended by the European Council, would lead to a reduction in expenditure over the period, thus contributing to the overall objective of achieving a more equitable financial framework. One aspect of the latter objective was agreement on another major aspect of the Agenda 2000 reform package – structural operations.

As part of improving the effectiveness of structural operations, thus promoting greater economic and social cohesion within the Community, the number of Objective Areas was reduced to three. Objective 1 areas, which would be allocated 74 per cent of the available funds, would promote the development and structural adjustment of those regions whose per capita GDP fell below 75 per cent of the Community average. Just short of 13 per cent of available structural funds would be used to support the economic and social conversion of those areas facing structural difficulties, defined as Objective 2 areas, which includes declining rural areas. Finally, Objective 3 would lend support, in the form of just over 12 per cent of the available structural funds, to the adaptation and modernisation of policies and systems of education, employment and training outside Objective 1 areas. Furthermore, the number of Community initiatives in the field of structural policy would be reduced to three, which include the INTERREG scheme on cross-border and inter-regional co-operation and the LEADER scheme on rural development. Additional funding for rural development would also be available under the agricultural aspect of the financial perspective.

CONCLUSION

The overall agreement on the Agenda 2000 package reached at the Berlin European Council undoubtedly represents an important milestone for the Community. The question to be asked is whether or not the reforms agreed will allow the Community to meet the problems identified in the Agenda 2000 document. With respect to the existing policy, the reforms do not go as far as advocated by the Commission. The traditional slippage between Commission proposals and Council agreement has recurred, indeed this time the European Council added to the slippage. So problems with the existing policy are likely to re-emerge, assuming of course that the reforms agreed are adequate to allow some of the problems to disappear for a time. It is always possible that new problems may also arise, for example in the area of the decentralisation of payments under the CAP in the form of national envelopes. Equally, in relation to enlargement there are problems; notably, by agreeing on lesser price reductions than proposed and by delaying in some cases the onset of those reductions, the agreement adds to the cost of enlarging the Community to include major agricultural producers in Central Europe without further reform to the CAP. The result may be that the working