The EU's Common Agricultural Policy and the WTO

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Outline

1. The Common Agricultural Policy (CAP) and WTO commitments
   - Market access
   - Domestic support
   - Export subsidies
2. How the EU has adjusted
   - An example: cereals policy
   - The structure of CAP expenditure
   - EU WTO domestic support notifications
3. Recent CAP reform and outlook

1. CAP and WTO commitments (I)

The Uruguay Round Agreement on Agriculture (AoA) established disciplines in three areas:

1. Market access (36% average reduction in bound tariffs, minimum 15% reduction, minimum access 5% of consumption)
2. Domestic support (20% reduction of Aggregate Measure of Support)
3. Export subsidies (36% reduction in value of subsidies, 21% reduction in quantities)

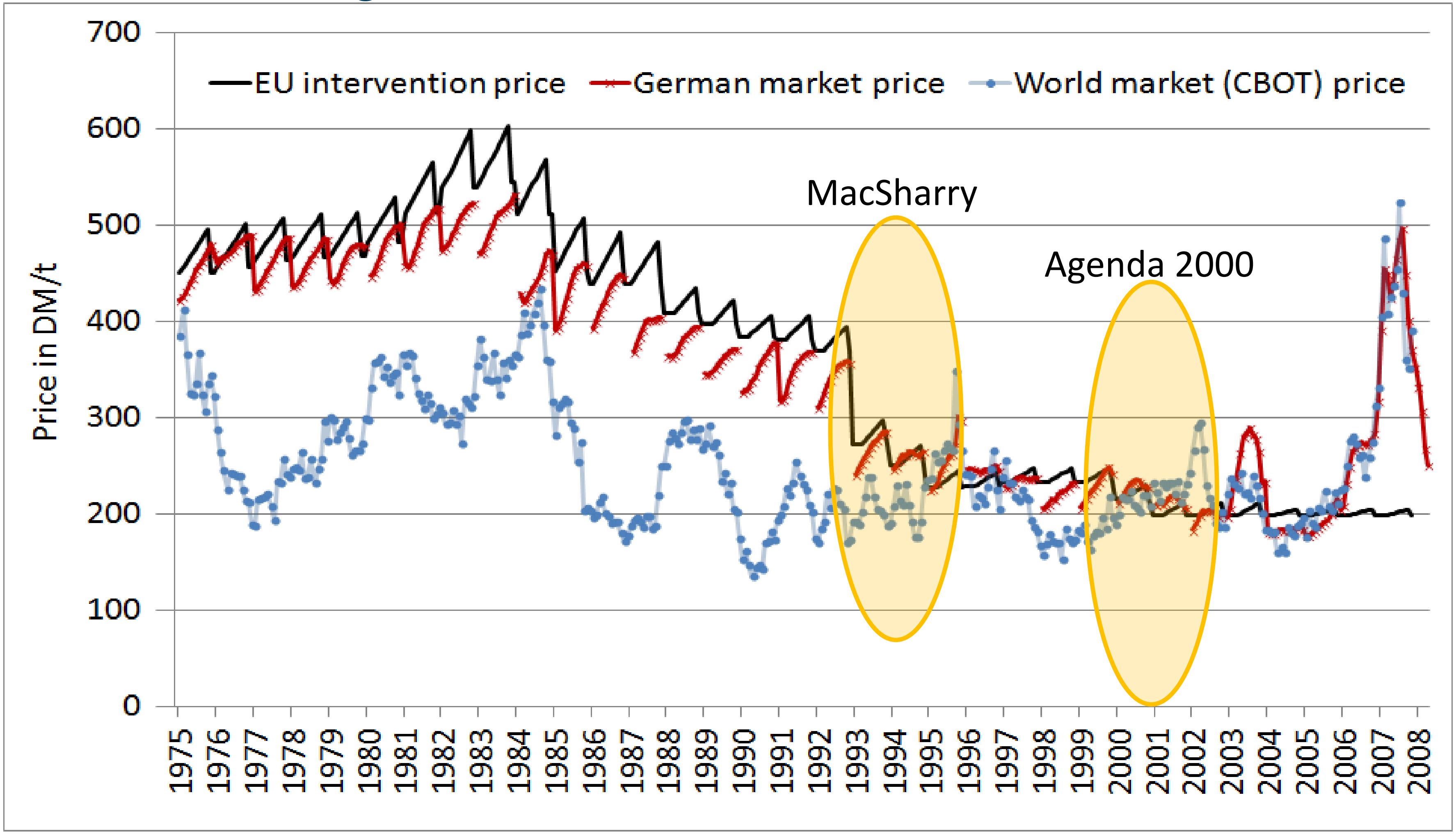
1. CAP and WTO commitments (II)

The impact of the AoA on the CAP:

1. Market access – little impact because bound tariffs > applied tariffs. However, “water in the tariffs” now largely eliminated, future cuts would have a real impact (Doha?)
2. Domestic support – in anticipation of AoA, 1992 MacSharry reform shifted emphasis from market intervention to income support
3. Export subsidies – in interaction with domestic support the most constraining discipline

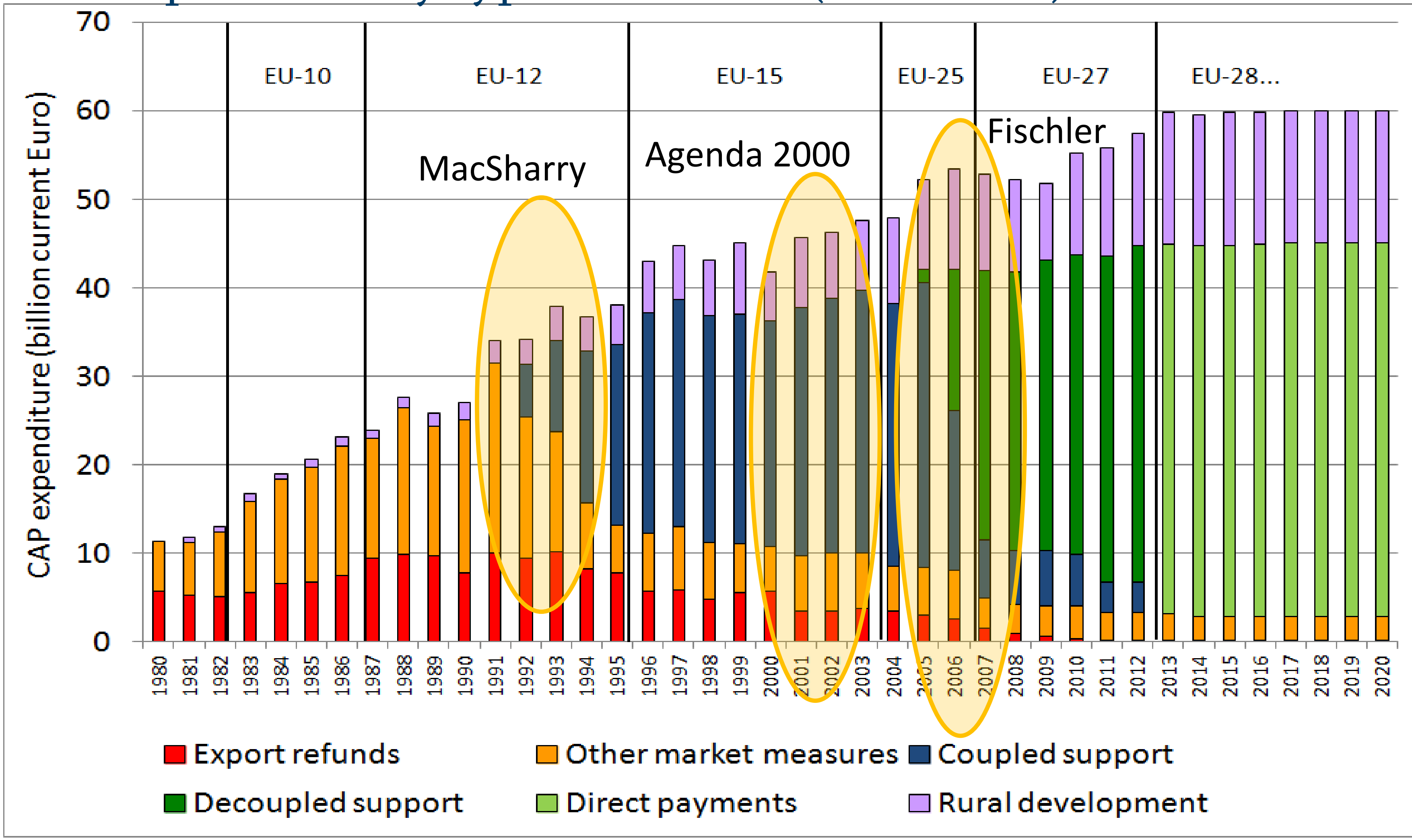
2. How the EU has adjusted (I)

Prices for milling wheat in the EU and the world (1975-2008)



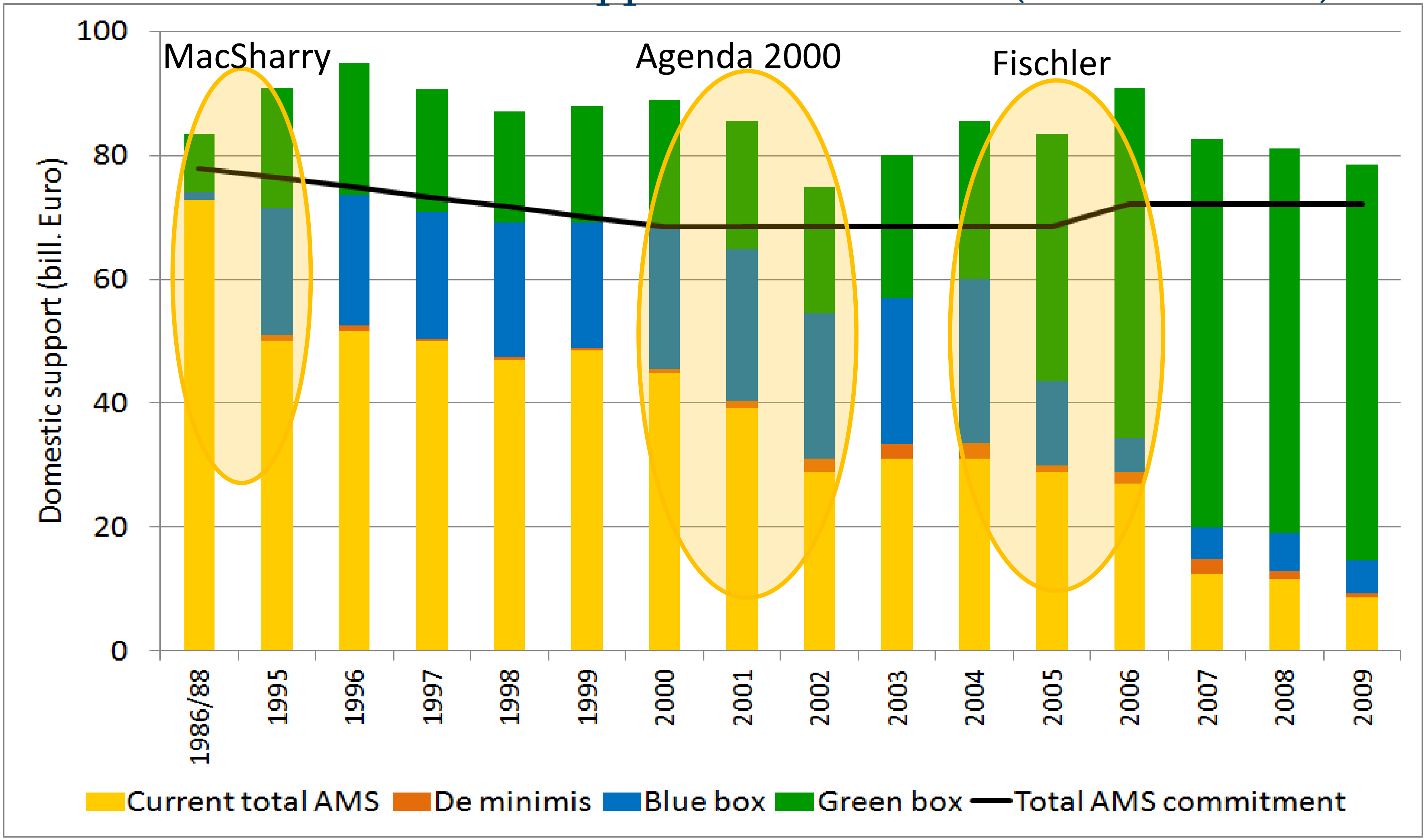
2. How the EU has adjusted (II)

CAP expenditure by type of measure (1980-2020)



2. How the EU has adjusted (III)

The EU's WTO domestic support notifications (1986/88-2009)



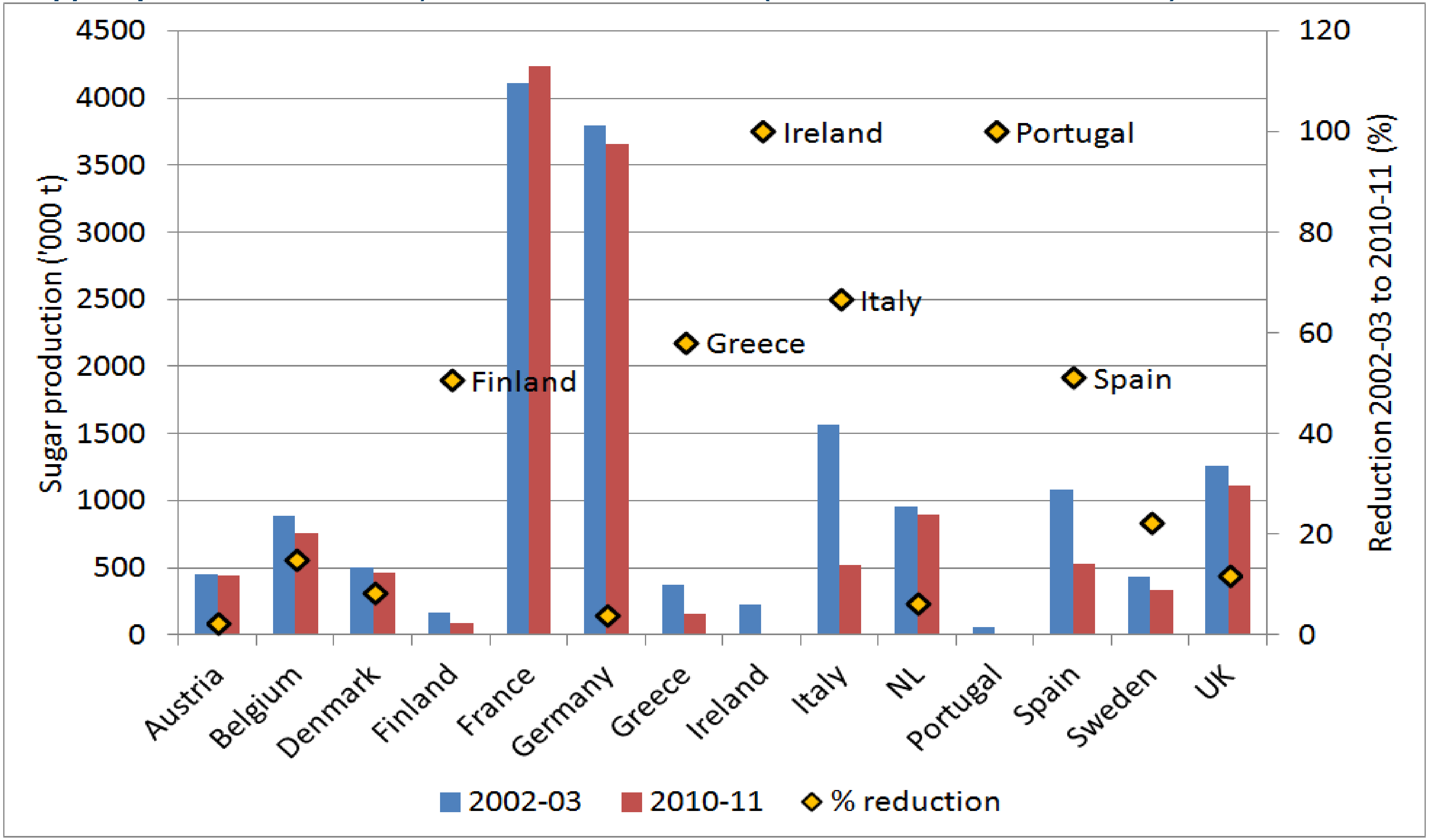
2. How the EU has adjusted (IV)

Other impacts:

1. WTO ruling on <u>EU sugar policy</u>
   - Case brought by Brazil, Thailand and Australia (2002, decision 2004)
   - EU C-sugar exports and ACP-sugar re-exports violate the EU's AoA commitments
   - Result: sugar policy reform; quota elimination by 2015
2. GATT and WTO rulings on <u>EU banana policy</u>
   - Case brought by Central American countries (1993, decision 1994)
   - The EU's banana import regime violates MFN rule
   - Later decisions 1997, 1999, 2005, 2008; agreement 2009

2. How the EU has adjusted (V)

Sugar production by member state (2002/03 – 2010/11)



3. Recent CAP reform (I)

Main elements:

1. Redistribution of direct payments
   - Among member states (in favour of those in which the per ha payment is under 90% of the EU average)
   - Within member states (towards uniform payments per ha within each member state)
   - From large to small farms (mandatory 5% cut on payments > 150,000 Euro)

No foreseeable implications for the EU's WTO commitments

3. Recent CAP reform (II)

2. Greening: 30% of the direct payments will be linked to the delivery of environmental benefits
   - Crop diversification (farms between 15 and 30 ha must plant at least 2 crops; farms over 30 ha must plant at least 3; no crop over 75% of total area)
   - Maintenance of permanent grassland (farmers not permitted to convert more than 5%)
   - Ecological Focus Areas (farms with more than 15 ha must establish EFAs on at least 5% of their area, increasing to 7% by 2017)

No foreseeable implications for the EU's WTO commitments

3. Recent CAP reform (III)

3. Other measures
    - Some scope for re-coupling of direct payments
    - Elimination of sugar quotas delayed from 2015 to 2017
    - Export subsidies continue to be possible

Implications for the EU's WTO commitments are unlikely due to budget constraints and the fact that the EU's current AMS is currently far below its ceiling

Conclusions

1. WTO commitments have had crucial effects on the evolution of the CAP
   - The overall direction of CAP reform away from market intervention to direct income support since 1993
   - Constraints on the use of export subsidies
   - WTO panel decisions for sugar and bananas
2. Lack of external pressure (e.g. WTO) is one reason why the most recent CAP reform is relatively mild (weak?)

Thank you!