

# EUROPEAN UNION EXPERIENCE WITH AGRICULTURAL POLICY REFORM IN LIGHT OF WTO COMMITMENTS

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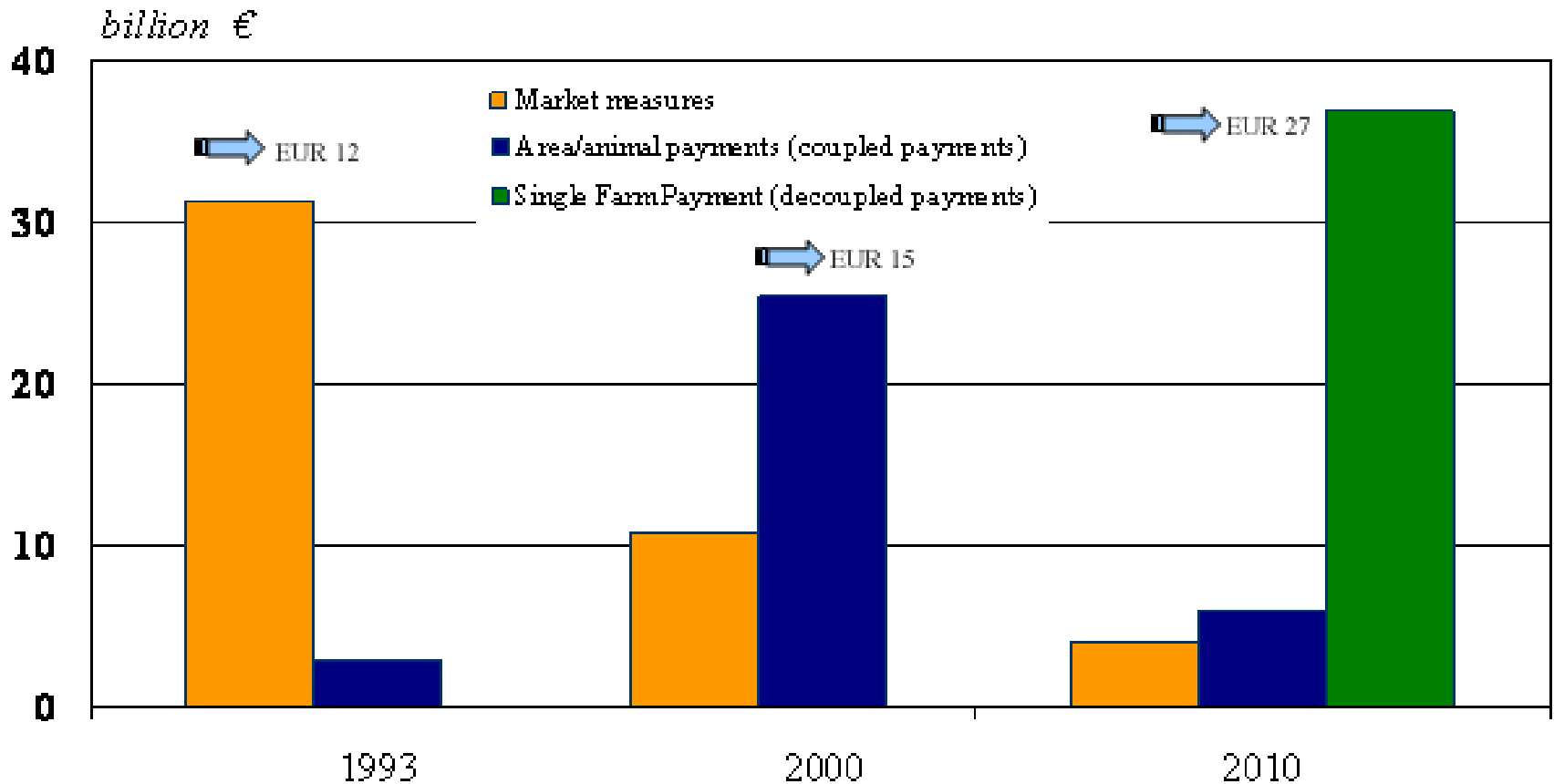
# EU COMMON AGRICULTURAL POLICY

- A common policy covering 27 Member States
  - Common external trade regime
  - Internal free trade and common regulations
    - Mutual recognition principle
  - Two Pillars
    - Pillar 1 Market and income support (direct payments)
    - 100% financed by EU budget
    - Pillar 2 Rural development measures (improvement of farm structures, agricultural modernisation, agri-environmental measures, rural quality of life)
    - 15-50% co-financed by Member States
  - Common financing
  - Problem of net transfers between member states
  - Common pricing
    - but fluctuating exchange rates between eurozone and non-eurozone member states

# STAGES OF CAP REFORM

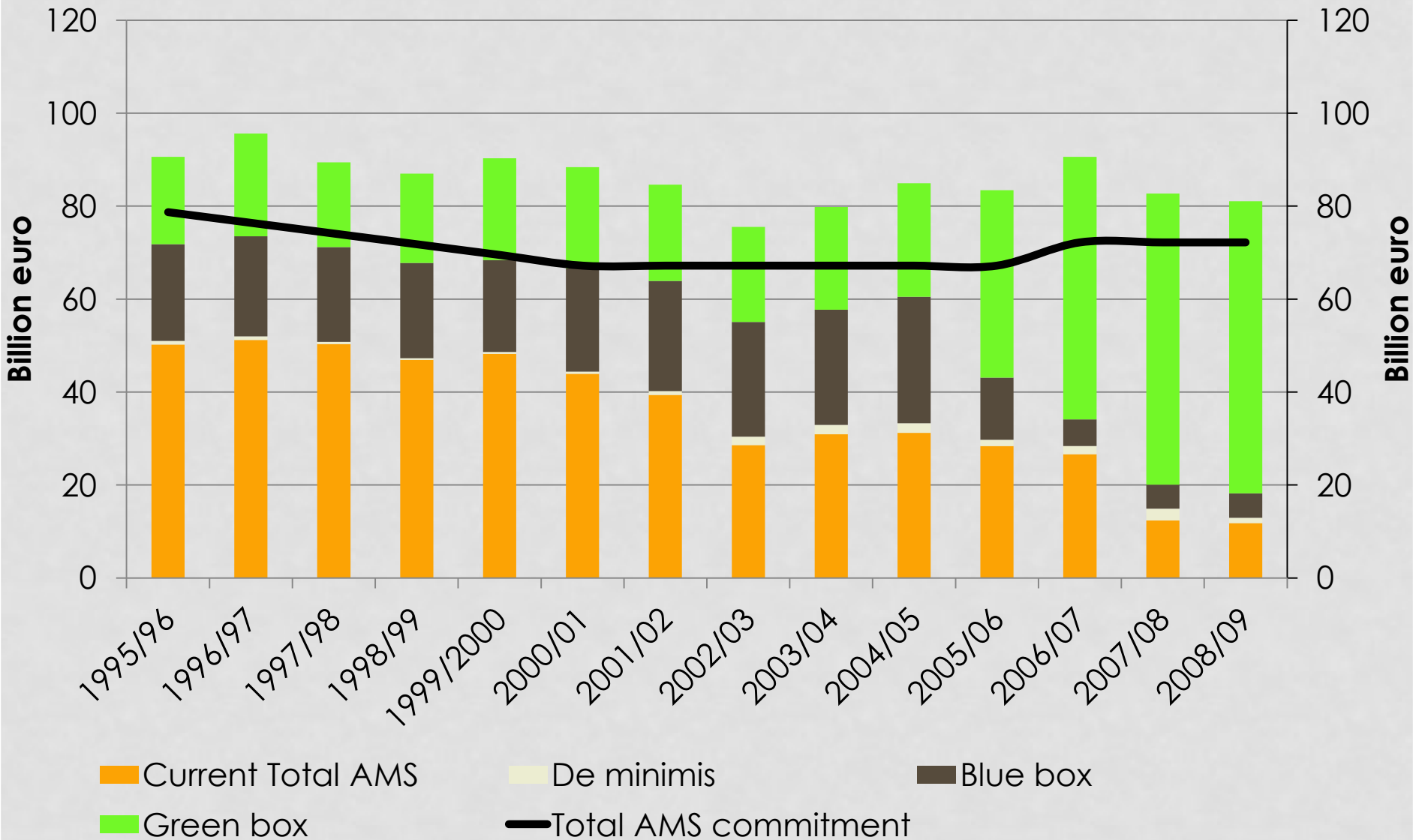
Years	Reform	Effect
1962-1992	The classical CAP	<b>High market price guarantees</b> ; large intervention purchases; variable border protection; increasing self-sufficiency and export surpluses; high budget costs
1992	MacSharry reform	Lowered guaranteed support prices; provided <b>coupled direct payments</b> to farmers in compensation. <b>Defensive response</b> to WTO pressures
2003	Mid-Term Review	Changed coupled to decoupled direct payments; payments linked to entitlements; farmer must have land to activate entitlements; payments subject to <b>cross-compliance</b> . <b>Offensive response</b> to WTO pressures.
2014	CAP 2020	Link decoupled payments to <b>greening</b>

# CHANGING PILLAR 1 EXPENDITURE

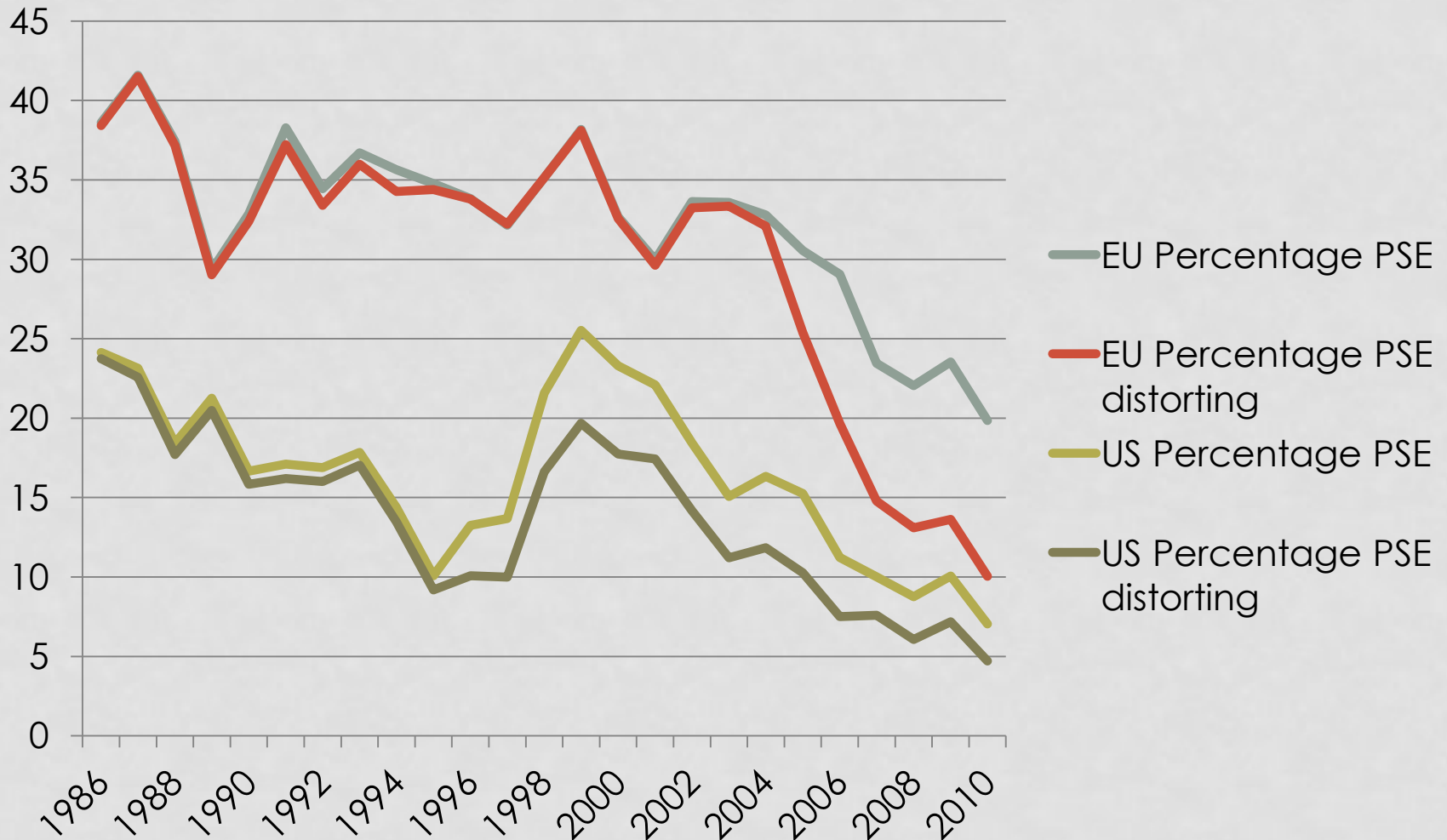


Source: DG Agri website

# EU WTO domestic support notifications

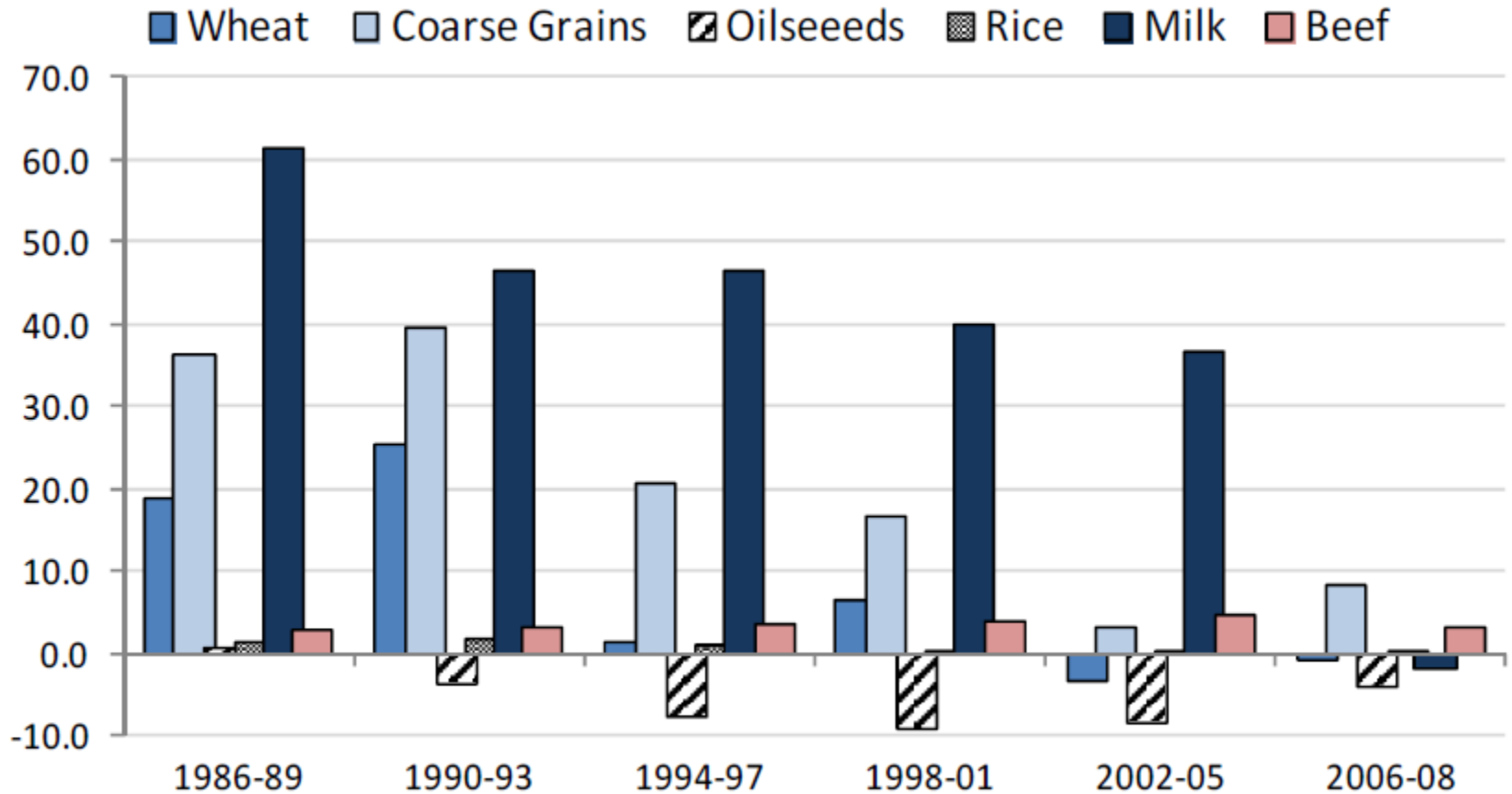


# TREND IN PRODUCER SUPPORT ESTIMATE PERCENTAGES, %



# CAP REFORM IMPACTS ON NET EXPORTS, 1986-2008

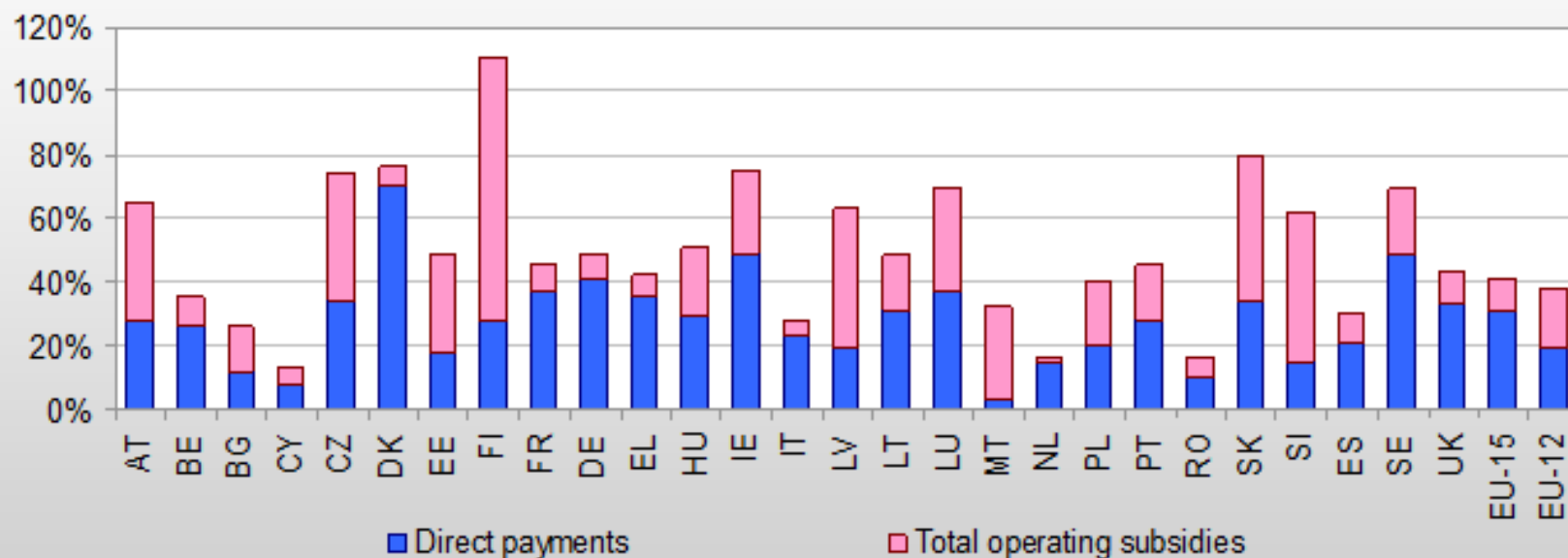
(MILLION TONNES)



Source: OECD PEM model

# DEPENDENCE ON DIRECT PAYMENTS

**Level of direct payments and total operating subsidies as a percentage of agricultural factor income (avg. 2007-2009)**



Source: DG Agriculture and Rural Development

Note: Total operating subsidies include state aids granted by Member States



# CLASSICAL CAP MARKET REGIMES (COM COMMON ORGANISATION OF MARKETS)

- **1. COMs with guaranteed prices and automatic intervention**  
Minimum or guaranteed prices are paid to farmers by public intervention agencies in exchange for delivery of their products, where market prices are too low. This type of COM applied to cereals, dairy, beef and sugar before 1992, is now phased out.
- **2. COMs with guaranteed prices and conditional intervention**  
Apply to wine, pigmeat and some fresh fruit and vegetables. They involve a guaranteed price scheme, although it is applicable only in the event of a serious market crisis. The Commission decides whether such a crisis exists.
- **3. COMs with direct production aids only**  
At a flat rate or proportional to the quantities produced or yields, these COMs applied to oilseeds, protein crops, feeding stuffs, tobacco, textiles, peas and beans, hops, processed fruit and vegetables, some fresh fruit and vegetables (asparagus and nuts), olive oil and olives.
- **4. COMs without direct production support**  
These apply to poultry, eggs, processed agricultural products, flowers and plants, some fresh fruit and vegetables, potatoes and other marginal or exotic products (ethyl alcohol, coffee, tea etc). These products receive only customs protection.

# CEREALS REGIME TODAY

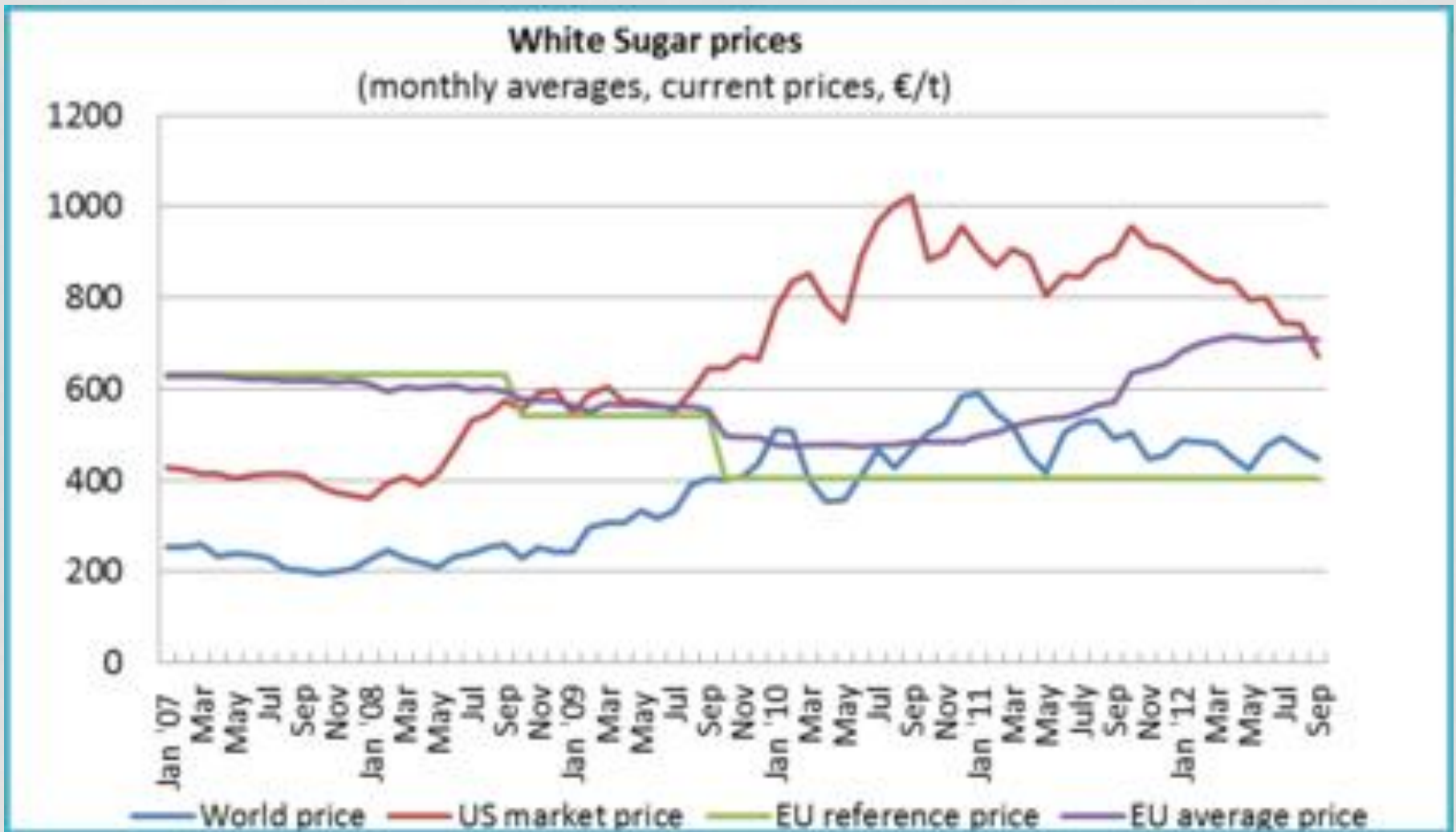
- Intervention scheme applies for common wheat, durum wheat, barley, maize and sorghum.
- The intervention price, at the wholesale stage, is €101.31 per tonne (Jan 2013 futures price €247/t)
- To ensure that this is a safety net and does not influence market price formation, intervention purchases currently set to zero (3 million tonnes for common wheat)
- Export subsidies and import tariffs set to zero during the price spike, but subsequently reintroduced
- Set-aside abolished in 2008
- Overall decoupling has made EU production more responsive to world price changes

# SUGAR REGIME TODAY

- Sugar quotas allocated to individual factories who in turn allocate to farmers
- Out-of-quota production possible but must be used for non-food uses (biofuel)
- Sugar reference price provides safety net but does not determine market prices (reduction in sugar prices compensated by increased direct payments)
- High import tariffs plus preferential access arrangements for preferred exporters
- **WTO EU-Sugar:** quota regime cross-subsidised ALL sugar and hence any sugar exported must remain within WTO ceiling on subsidised exports
- World price now  $>$  reference price; EU argues normal exports no longer cross-subsidised

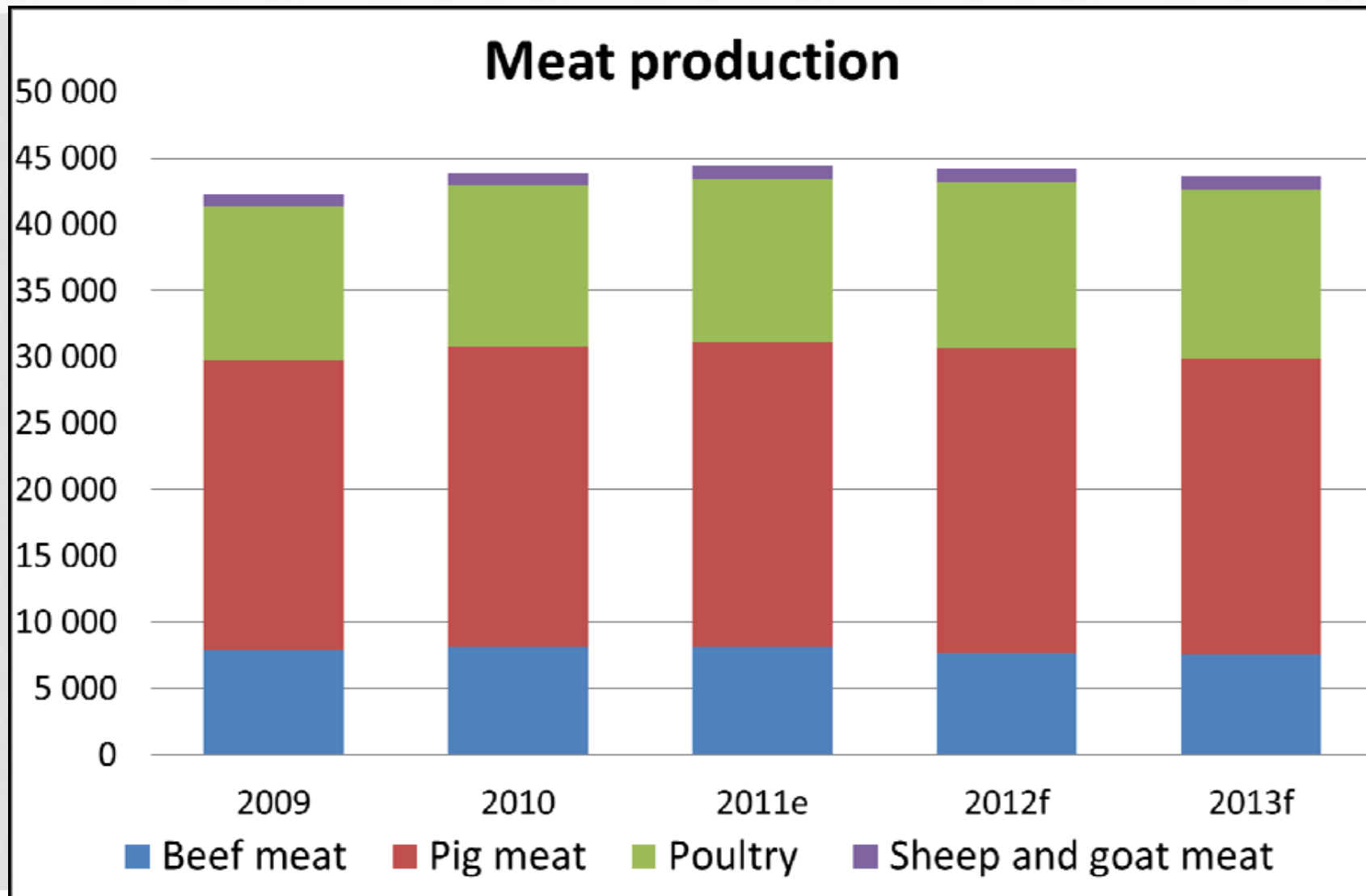
# TRENDS IN EU VS WORLD SUGAR PRICES

Source: FoodDrink Europe



# EU MEAT PRODUCTION

(SOURCE: DG AGRI)



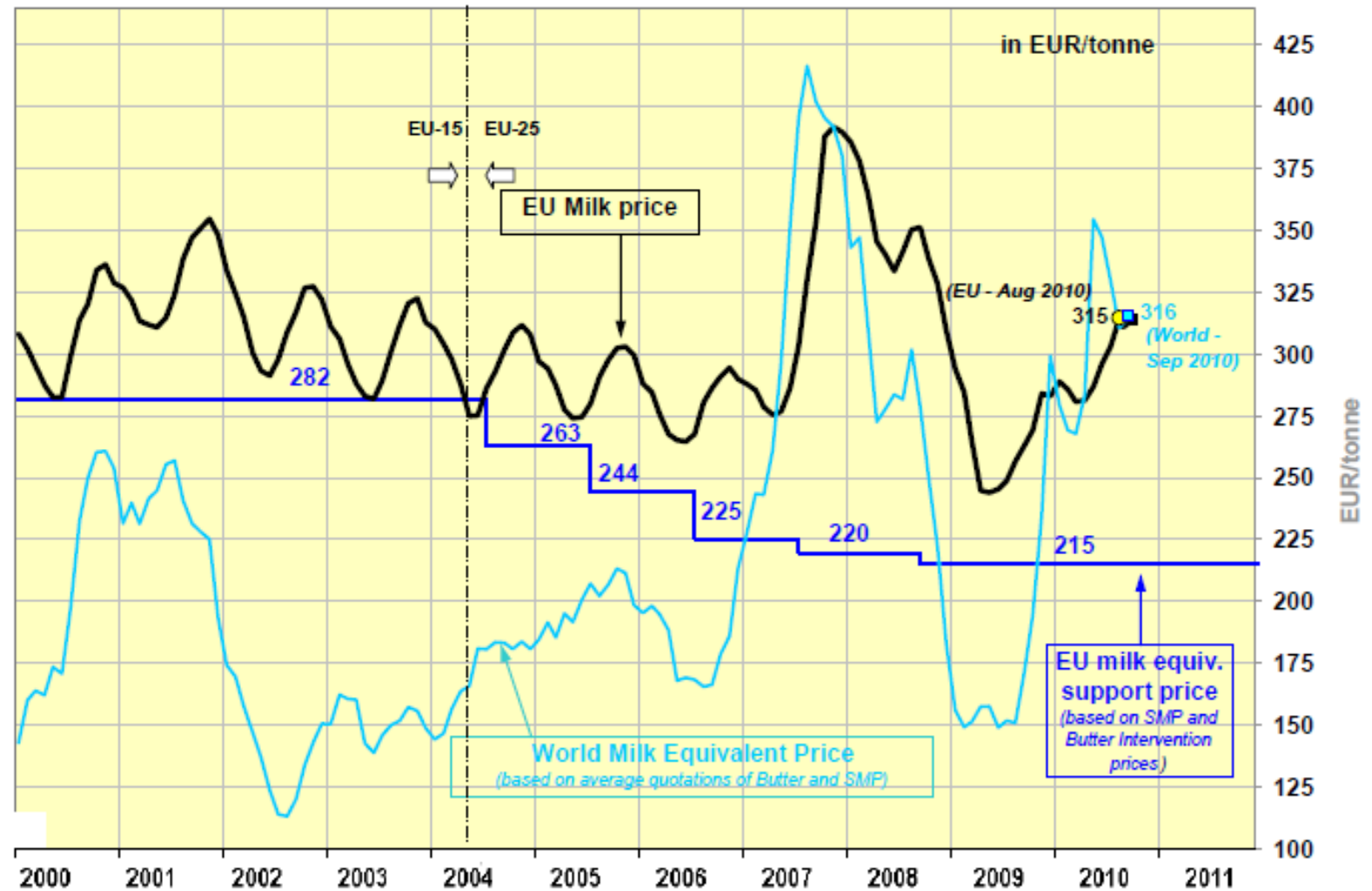
# BEEF REGIME TODAY

- EU now a net beef importer – internal market prices mainly underpinned by high tariffs
- Safety net intervention + possibility of exceptional measures
- Decoupled payments + partial coupling
- Complemented by
  - Beef carcass classification scale
  - Identification and registration of animals
  - Country of origin labelling
  - Ban on use of hormones (WTO dispute)
  - SPS standards

# MILK REGIME TODAY

- Public intervention, private storage
- Tariffs and export subsidies
- Disposal measures to subsidise consumption on the EU market (skim powder for animal feed, promotion, vulnerable groups)
- Milk quotas since 1984
  - Farm level, superlevy sanctions
  - Possibility to pool over- and undershooting at national level
  - Farm quotas can be transferred (managed market)
  - National quotas may not be transferred between Member States
- Milk quotas to be eliminated 2015

# RECENT EU MILK PRICE DEVELOPMENTS





# EU DOMESTIC SUPPORT NOTIFICATION

## MARKET PRICE SUPPORT 2008-09

Basic product	Applied administered price Euro/tonne	External reference price Euro/tonne	Eligible production *'000t	Total market price support Million euro
Common wheat	101.3	86.5	129,475	1,917.5
Durum wheat	101.3	148.5	0	0.0
Barley	101.3	67.3	0	0.0
Sugar	323.5	193.8	13,276	1,722.2
Butter	2217.5	943.3	2,137	2,723.0
Beef	1,560.0	1,729.8	7,929	-1,346.3

Source: EU notification Table DS:5

# CAP REVIEW POST-2013

- **Motivation** for CAP review
  - Need to negotiate next Medium-term Financial Framework (MFF) for 2014-2020
  - MFF sets out maximum expenditures for total budget and for half a dozen major headings (inc CAP)
  - Desire by agricultural interests to maintain size of agricultural budget
- Review focuses on **role and structure of direct payments** (Pillar 1) and addressing issues of environment, climate, innovation and risk management (in Pillar 2)
- Review does not address levels of **external protection** (negotiated in WTO)

# ISSUES IN CAP REVIEW POST-2013

- Allocate a proportion of direct payments (30%) to farmers who follow practices favourable for the environment and climate
- External convergence (reducing differences in value of per hectare payments across Member States)
- Internal convergence (moving to more uniform distribution of payments per hectare within Member States)
- Future role of supply management (dairy, sugar, wine)

THANK YOU!

QUESTIONS AND COMMENTS?