

CONTINUING THE FARMGATE SCANDAL: EU HEADS OF STATE, CAP REFORM AND POOR FARMERS

Briefing paper for Copenhagen Heads of State meeting 12-13 December

What is at stake?

Governments in rich countries are paying over \$300 billion a year – almost \$1 billion a day - to subsidise their agricultural sectors. This money is subsidising the growth of poverty among poor and small-scale farmers. Farmers in developing countries often receive no subsidies and are being pushed into poverty by cheap over- subsidised goods sold on to their markets by the farm barons of Europe and the US.

ActionAid believes that substantial cuts in subsidies are vital to reducing poverty in developing countries. It is essential that the EU reduces and retargets its farm subsidies immediately. This week, the EU has a key opportunity to take action to deliver on reform as the Heads of State meet in Copenhagen, Denmark.

EU subsidies must be reformed because they:

- undermine the livelihoods of poor and small-scale farmers
- encourage over production of food crops
- make EU farm goods artificially competitive on world markets
- result in ‘dumping’ of cheap subsidised produce in developing countries
- fail to prevent small UK farmers going out of business

The EU - playing games with the future of the world’s poor

New proposals to reform the Common Agricultural Policy (CAP) have now been on the table for about five months (the so-called Mid-Term Review). At the most recent EU Agricultural Council of Ministers meeting (27-29th November), the Ministers again failed to make any meaningful progress on these reforms. Reform is essential, not only to relieve the hardships of poor and small-scale farmers in developing countries, but also to deliver a timely, if somewhat tardy mandate that the EU can put forward in the on-going agricultural negotiations in the WTO.

However, ongoing politicking and trade offs at the EU is putting reform on hold - pushing poor farmers further into poverty.

First, **the Franco-German deal at the Brussels Summit** was an agreement between the two countries to ensure that the CAP budget did not spiral out of control after enlargement (a German demand) whilst simultaneously providing the French with an opportunity to block any CAP reform. This deal threw the reform process of the Mid-Term Review into doubt with the potential scenario that even the limited positive elements contained within the Review may be dropped until at least 2007 (the current CAP regime expires at the end of 2006, when it will again be reformed).

It is rumoured that some member states do not want agriculture on the agenda at Copenhagen to avoid some of the horse-trading that went on in Brussels between France and Germany in October. The UK is also thought not to want the CAP in the discussion so as not to antagonise the current frosty relationship between France and the UK.

Second, **ActionAid believes that the failure to agree CAP reform is seriously undermining the agricultural negotiations at the WTO.**

In the Doha declaration, the EU pledged to ‘substantially reduce trade distorting domestic subsidies’ and ‘reduce, with a view to phasing out, all forms of export subsidies’. For many developing countries, agricultural reform in the WTO is one sector in which they continue to hope to make gains. Substantial cuts in subsidies will enable EU Governments to go some way towards meeting their commitments to make Doha a ‘Development Round’.

WTO agriculture negotiations are currently at a critical stage. By 18th December, Stuart Harbinson (Chair of the Special Negotiating Session on Agriculture) is due to provide an overview position paper of the current negotiating proposals. The EU has yet to table its negotiating mandate, the only major agricultural trading bloc not to have done so¹.

ActionAid’s understanding of these tactics suggests that **the failure to deliver a position on agriculture is in keeping with the EU negotiating stance.** It seems that the EU would be happy to see the timing of the agriculture modalities paper – due on 31st March - slip right up to the Ministerial in Cancun and there is every possibility this might happen. Because the EU has always proposed that any new round would be negotiated as a ‘single undertaking’, it appears that **the EU wants to obtain as much negotiating capital on potential ‘losses’, for example, export subsidies, with potential ‘gains’ in other areas (particularly in contentious areas such as services and new issues).**

This tactic could be disastrous for negotiations in the run up to Cancun, and also lead to the overloading of the agenda at the Ministerial. This would leave small delegations from developing countries at a distinct disadvantage, and possibly allow rich countries to push through their agendas.

The EU must meet those pledges made in Doha. Unless the MTR and the CAP reform process address the negative impacts caused by developed country agricultural subsidies – particularly those subsidies that distort production and trade and lead to dumping - the Doha ‘Development’ Round will fail to deliver on its commitments and a fairer world trading system. WTO members must stick to the agreed timetable and not embark in a series of trade-offs, which are often to the detriment of developing countries.

ActionAid believes that the discussion at Copenhagen this week must make a decision on substantive CAP reform, not only to address the impact of the CAP on developing countries but also to provide the impetus for the EU’s position at the WTO.

What kind of reform should Heads of State agree to?

The MTR could be the basis for meaningful reform of the CAP and also enable the EU to progress their agricultural negotiating stance at the WTO. ActionAid believes that the European Agriculture Commissioner, Franz Fischler, at least recognises the importance of retaining the ‘decoupling’ proposals² within the MTR (despite the fact that the French and a number of other

¹ It is speculated that the EU may not be able to table a mandate until after the EU Agricultural Council of Ministers in March 2003 and thus would probably be unable to meet the deadline for the paper on the negotiating modalities for agriculture scheduled for 31st March 2003. In any event, the current prevarication on the MTR is almost certainly and severely undermining the timing of the EU’s negotiating mandate to the WTO.

² Domestic agricultural subsidies in the EU have historically been linked to production (ie, under the current direct payments scheme, farmers are paid for every hectare they grow or the number of animals). ‘Decoupling’

anti-reformist countries believe that proposals should not be discussed until 2007). If accepted, his proposals provide some scope for WTO members to believe that the EU is at last beginning to move away from production-linked subsidies. It is reported that Fischler, despite the Franco-German deal, plans to push forward his reform proposals - including decoupling - and that his legislative text would be ready by early 2003.

However, ActionAid believes that Fischler's proposals, despite containing a number of positive elements, **do not adequately address development issues outside of the EU**, in particular the use of trade distorting subsidies that lead to the dumping of products into developing country markets:

- export subsidies are left almost untouched (although proposals for dairy and sugar reform are due to be tabled by the Commission by the middle of 2003).
- the proposals as they currently exist do not remove the link with production and will probably leave the biggest farmers receiving the most subsidies.³

ActionAid calls for the EU Heads of State Summit to agree to the following:

1. Acceptance of the current MTR proposals with the following revisions:
 - All forms of export subsidies to be eliminated immediately.
 - Subsidy payments should be completely de-linked from production and that supply management is introduced on all agricultural products to reduce structural surpluses.
2. To bring forward the following concrete proposals for full CAP reform by March 2003 which would be agreed in time for the WTO Cancun Ministerial:
 - Binding targets and timetables for the phasing out of market price support (specifically in the sugar and dairy sectors)
 - Specific commitments with targets and timetables to reduce the overall level of support to agriculture (degressivity) within the EU, specifically within the CAP budget.

The EU has a long way to go to gain the full trust of developing countries who are calling for a fundamental 're-balancing' of agricultural trade rules. In addition to the above policies, the EU should accept unconditionally developing countries' calls for better special and differential treatment in the WTO's Agreement on Agriculture,³ and all developed countries must implement the Marrakesh decision, improve market access to developing country products and agree to not extend the Peace Clause⁴ beyond the expiry date at the end of 2003. This might begin to provide greater scope for gaining the trust of developing country governments and for successful WTO negotiations.

Tim Rice, Food and Trade Policy Analyst, ActionAid, 10/12/2002

of domestic subsidies would mean a complete de-linking of payments so that, in theory, they do not influence production or distort trade.

³ The so-called decoupled payments would be tied to some historic reference point – for example by area or yield. ActionAid believes that there should be no current or historical link with production but the availability of subsidies should be tied specifically to the delivery of public goods (rural development, conserving the environment etc). The decoupling proposals as they are currently devised are thus seen by many as no more than window dressing to enable these subsidies to comply and be moved from the Blue Box to Green Box (ie non trade or minimally-trade distorting subsidies). ActionAid has written to the Agriculture Commissioner outlining these concerns and we await with interest as to how the Commission would implement a (fully) decoupled scheme for the delivery of public goods. In effect this would entail scrapping Pillar 1 (commodity support regimes) of the CAP and moving all subsidies into Pillar 2 (support for structural adjustment, rural development, diversification, environmental management etc).

⁴ The peace clause calls on WTO members to use 'due restraint' by not challenging agricultural subsidies of other members that fully conform to WTO rules.

For an indepth analysis of the developmental impact of agricultural subsidies, please see
ActionAid's recent report: Farmgate at
<http://www.actionaid.org/resources/pdfs/farmgate.pdf>