Geneva, 10 July 2003

EUROPEAN COMMON AGRICULTURE POLICY (CAP) REFORM IN THE WTO CONTEXT

SOUTH CENTRE

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I. BACKGROUND

Agriculture negotiations at the WTO started in the year 2000 as mandated by the Uruguay Agreement on Agriculture itself. Negotiations were stagnated until the adoption of the Doha Ministerial Declaration in November 2001, which established a new and more precise negotiating mandate on agriculture framed within a tight timeframe and a broad negotiation package.

Although many hours of technical discussions and consultations have been invested on devising possible modalities for further reform, fundamental differences remain among members regarding the level of ambition expected from the current negotiations and the way to move forward in deepening the reform process in agriculture.

In parallel to the multilateral negotiations at the WTO, the United States passed a new Farm Act in May 2002, which set the framework of agriculture policy in this country for the period 2002-2007. The overall impact of the US Farm Bill is difficult to ascertain as yet, but it is clear that support to agriculture in this country is meant to **increase** rather than diminish, as the current negotiations at the WTO on furthering reform on agriculture trade would have called for. The particular structure of US support policies vis-à-vis the loopholes in the AoA has allowed the US to portray itself as 'liberaliser' of farm trade while maintaining high levels of support for its agricultural sectors.

On the other hand, the Mid-term Review (MTR) of the Common Agriculture Policy (CAP) of the European Union started in July 2002 with a proposal by the European Agriculture Commissioner to reform important features of the CAP. Such review was part of the overall process of reform of the CAP prompted by the increasingly unbearable budget costs of the common policy; the pressure that the enlargement of the EU would have on the budget and structure of the common policy itself and the dissatisfaction of the EC public with the results of the CAP in terms of the quality of food, equity and environmental impact, among others.

The slow pace of change of the CAP has left the EC in the defensive throughout the negotiation process (as compared to the US) suggesting only minor concessions in all the pillars of the agreement which were considered not meaningful by the large majority of the WTO members. WTO members placed many expectations on the MTR of the CAP hoping that its results would allow the EC to make a better contribution to multilateral reform in agriculture. After prolonged and difficult negotiations, the EC decided on a final reform package on 26 June 2003.

EU's Agriculture Commissioner explained the achievement of the decisions reached indicating: 'our new policy is trade-friendly. We are saying goodbye to the old subsidy system, which significantly distorts international trade and harms developing countries [(1)]. WTO Director General, Supachai Panitchpakdi, called the EU decision a 'substantial achievement' further suggesting: 'The EU has done a great deal to move the process forward. The movement means

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(1) Financial Times, *Fischer's surprise for Europe's farmer: now the argument over agriculture moves to the WTO,* 27 June 2003.

we can go further in agriculture, which should spur countries to move in other areas such as services and non-agricultural goods [2].

The jubilation of EU representatives and WTO Secretariat however, looks overdone to more cautious analysts. The final programme for reform considerably watered down the already modest proposals by the Commission unveiled in mid-2002, raising doubts as whether the agreed terms would be enough to allow the EC to present a more meaningful offer at the WTO talks on agriculture on key areas of the negotiations.

This note is an attempt to appraise the possible implications of the decisions reached in Europe on 26 June on CAP reform for the agriculture negotiations at the WTO. That is, trying to understand how the policy changes agreed could be translated into the WTO framework and put it in context. Such an assessment is urgently called for, given the diversified and ambitious agenda of the EC in the WTO and its clear determination to pursue such agenda even more aggressively in exchange for the 'concessions' it maybe able to make in agriculture after months of holding back any progress in the negotiations.

II. THE MID-TERM REVIEW PACKAGE

Any assessment of the repercussions of the CAP reform in WTO negotiations can only be preliminary, based on the limited information provided by EU official sources (the actual legal texts containing the reform package are in the drafting) and be based to a large extent, in speculation. Why? Because the CAP reform constitutes an internal process which would have no concrete impact in the negotiations until the EC clearly states its will to move from its well known positions in the different areas or pillars of the Agreement on Agriculture.

What follows is an attempt to identify the areas in which decisions taken recently would allow the EC a larger margin for manoeuvre in the WTO talks.

II.1 The Scope of the Mid-Term Review

The first element to take into account is that the very institutional framework under which the current review took place established important constraints as to the extent that the review could result in a 'reform' or complete overhaul of the CAP. For one, EU members fixed the overall budget of the CAP in October 2002 at estimated current levels, plus 1 per cent annual adjustment for inflation until 2013. That is, the overall CAP budget will increase from Euro 44,5 billion in 2005 to Euro 48,6 billion in 2013. In the meantime, the EU will expand by including 10 new members.

The MTR was never meant to be comprehensive. In fact some EU members opposed for long to discuss any significant changes of the CAP before 2006 when the policy framework established by Agenda 2000 was deemed to expire. Important issues related to the WTO negotiations and of concern to the large majority of developing countries were never in the agenda of the MTR such as market access and export subsidies. The review was basically focused in the area of domestic support. Even there, the objective was not to reduce the level of domestic supports but to change its orientation in a way that would make it more compatible with the WTO framework. The main

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(2) Financial Times, *Fischer's surprise for Europe's farmer: now the argument over agriculture moves to the WTO,* 27 June 2003.

objective of the Commission was to severe the link between production and the amount of subsidies paid to farmers. In this the Commission as seen below, was only partially successful.

In addition, important sectors were excluded from the review, including sugar. Proposals for reform on olive oil, tobacco and cotton may be presented this fall, based on the objectives and the approach of the current reform, according to EU sources [(3)].

II.2 Basic tenets of the reform

i. <u>Decoupling</u>

The most important component of the CAP MTR package was the decision to substitute the different payments or premia currently received by farmers for a 'single payment for exploitation' beginning in 2005. Such payment would be calculated on the basis of 'a reference amount in a reference period 2000-2002'[(4)]. That is, the amount of the payment would not depend on what and how much the farmer produces hence the payment has been 'decoupled' from production. EU member countries could decide to postpone the introduction of the single payment until 2007.

There is no clarity regarding the exact basis for calculating the single payment. Whether it would be based on the amount produced in the reference period or on the amount of payments received during those years. The EC Agriculture Commissioner indicated when presenting the proposals on decoupling to the European parliament in January 2003: "For every holding, the direct payments to which they are currently entitled would be bundled into a single payment, the level of which would be based on the amounts they received in the 2000-02 period as a result of their full entitlements under the present scheme. All the criteria on which this support was based during the reference period would be taken into account (area payments, head of livestock, per tonne payments etc)"[(5)].

The historical reference locks-in the high level of subsidies of previous years. Therefore, payments are decoupled because they are not linked to <u>current</u> production and farmers would receive the payment even if they do not produce but the amount of the payment has in-built historical distortions.

Decisions regarding decoupling were adjusted to the needs of members and specific sectors. Minimum percentage of decoupling was established by the Commission providing liberty to member States to decide on the specific combination of coupled and decoupled payments in different sectors. In the case of dairy, the single payment will only come into effect once the current reform process stemming from Agenda 2000 is concluded in 2008, although members may decide to introduce the new system earlier. These adjustments mean that a large percentage of subsidies will continue to be linked to production in the sectors where decoupling has been introduced (*See Table I below for details*), whereas for other sectors current distortions continue since those sectors have not been touched by the present review, as is the case of sugar.

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(3) http://europa.eu.int/rapid/start/cgi/guesten.ksh?p_action.gettxt=gt&doc=IP/03/898|0|RAPID&lg=EN&display=

(4) http://europa.eu.int/rapid/start/cgi/guesten.ksh?p_action.gettxt=gt&doc=IP/03/898|0|RAPID&lg=EN&display=

(5) CAP & Developing countries monitor, T*he EU Common Agricultural Policy & Developing countries –NGO Monitor,* N° 9, May 2003.

The differences likely to emerge in terms of the speed and the actual combination of policies among member States has raised concerns among EU farmer associations and political leaders regarding competition within the internal market and the 'renationalization' of the CAP [6, 7].

What the experience with decoupling shows?

The extent of decoupling and the effects of policy changes on world markets would depend on the actual choices made by EU members and how those policy choices are implemented. What is clear though is that decoupling, as the experience of the EC in cereals indicates does not necessarily lead to less production and fewer distortions in production and trade.

EU production of cereals (where partial decoupling was introduced early in the 90's) increased by 25 per cent in ten years' [8]. Analyses by the European Commission seem to indicate that 'when compared to 2002 production, the decoupled proposals (along with the rest of the reform proposal) would increase EU-15 production to 2009 for most cereals (soft wheat, barley, maize and rice) and this production increase would more than meet any increase in EU-15 consumption'[9]. This subsidized excess production will be sold in world markets at less than its cost of production providing for a continuation of dumping.

The expected increase in cereals productions has been estimated at:

- 11,3 per cent in the soft wheat production by 2009 compared to 2002;
- 3,2 per cent increase in maize production by 2009 compared to 2002;
- 6.2 per cent increase in barley production by 2009 compared to 2002;
- 4.6 per cent increase in durum wheat production by 2009 compared to 2002;
- 20.1 per cent in rice production by 2009 compared to 2002 [10].

Furthermore, the information arising from the implementation of decoupled payments by the US under the green box categories of the AoA has raised much concern as to the extent that such payments are really 'decoupled' from production [11]. In addition, direct payments do have wealth effects and provide for income stability that allows farmers to continue in the land and producing which they could simply not do in the absence of subsidies.

Therefore, the fact that the EU is moving towards a less distorting support policy in agriculture, in terms of the AoA, will not make any difference to developing countries. The level of support may even **increase** in the coming years, production will continue to be sold in the international markets at less than its cost of production and dumping will continue to affect the most

(6) The Guardian, *EU agrees to agriculture shakeup,* 27 June 2003.

(7) Le Temps, *Après ses concessions sur la PAC, la France fait des promesses à ses agriculteurs,* 28-29 June 2003 (Week-end Edition).

(8) Le Temps, *Ces détails qui empoisonnent l'accord,* 27 June 2003.

(9) Tim Rice, *CAP Reform Agreement and implications for developing countries,* A preliminary analysis for Action Aid, 1 July 2003.

(10) CAP & Developing countries monitor, T*he EU Common Agricultural Policy & Developing countries –NGO Monitor,* N° 9, May 2003.

(11) Direct payments to farmers under the Production Flexibility Contracts (PFC) of the US depend on historical production. This may lead farmers to maintain or increase production, particularly under expectations that the reference year for calculating the payments may change, as happened in the 2002 US Farm Bill. In addition, analysts argue that payments are not totally decoupled because farmers are not allowed to produce certain other crops, such as fruits and vegetables. Therefore, farmers will more likely continue to grow the crops eligible under the programme. From Tim Rice, *CAP Reform Agreement and implications for developing countries,* A preliminary analysis for Action Aid, 1 July 2003.

vulnerable farmers in developing countries, in particular, in a scenario of further tariff reductions resulting from the current negotiations.

Table 1. Details on the remaining 'coupled' payments by sector.

SECTOR	PERCENTAGE OF REMAINING 'COUPLED' PAYMENTS
Durum Wheat	40 per cent
Cereals	25 per cent
Beef	**Option 1**: up to 100 per cent of the present suckler cow premium and 40 per cent of the slaughter premium, **or** **Option 2**: either up to 100 per cent of the slaughter premium or alternatively up to 75 per cent of the special male premium
Sheep and goat	50 per cent
Dairy	More information required. Decoupled payments to be introduced in 2008

Source: http://europa.eu.int/rapid/start/cgi/guesten.ksh?p_action.gettxt=gt&doc=IP/03/898|0|RAPID&lg=EN&display=

ii. Rural Development

The CAP reform includes provisions for additional resources for rural development programmes. Such additional resources will come from progressive reduction or 'modulation' of direct payments to the larger farms (those that receive more than Euro 5,000 a year). This approach has two exceptions: first, outermost regions will be exempt from modulation; second, direct payments to acceding members will not be reduced until such payments reach normal EU-15 levels. That would take place in 2013 when the overall CAP budget will be discussed.

Support will be provided to farmers to adapt to standards related to protection of the environment, public, animal and plant health, animal welfare and occupational safety. The single payment per farm (i.e. decoupled payments) will be conditional to cross-compliance with standards in these areas, with a possibility to reduce those payments if the established conditions are not respected.

Payments under animal welfare programmes

Among the enhanced rural development chapter of the CAP are provisions for 'covering farmer's costs for animal welfare'. Direct payments will be made to farmers willing to improve the welfare of animals beyond 'good animal husbandry practice'. According to the EC, payments will compensate the 'additional costs and income forgone arising from such commitments with annual payment levels of maximum Euros 500 per livestock unit' [12]. The EC has been keen to create a new loophole in the AoA to accommodate these payments to European farmers arguing these constitute green box payments since are not linked to how much is produced but rather on the attainment of demanding conditions related to animal welfare.

The actual implementation of these programmets is not exempted form difficulties and raises doubts as whether such payments could be termed as no, or minimally trade distorting. First, there are no international standards related to animal welfare that could serve as a reference for

(12) http://europa.eu.int/rapid/start/cgi/guesten.ksh?p_action.gettxt=gt&doc=IP/03/898|0|RAPID&lg=EN&display=

gauging the supposedly more demanding standards being requested to European farmers. The OIE (International Office of Epizootics) is only now starting to develop such standards. It is difficult to foresee what would be the parameter used to calculate the 'additional costs' incurred by European farmers joining the animal welfare programmes. There will be an incentive to search for the worst international practices or establish a 'world average' as the basis for calculating the payments. Farmers who could easily implement the 'European standards' and may be doing so now, could be entitled to receive the payments without having incurred additional costs. Second, the payments will be made on a per unit –livestock- basis. Farmers will have an incentive to incorporate more livestock units to the programme to maximize the payments received. If payments do exceed the exact amount required for compensating additional costs of applying higher standards, the programme will lead to overproduction. As indicated above, the basis for calculating the additional costs hence the payments, are not clear. Therefore, it is possible that payments exceeds the costs of implementing the programme and lead to additional livestock units be brought to production to maximize payments.

iii. Decisions regarding market intervention

In conjunction with decoupling, additional measures were agreed in relation to market intervention for certain sectors. As happened with decoupling, the original proposal presented by the Commission to stabilize and bring closer to world market levels the EU's intervention prices [(13)] was weakened. Notably, the proposed 5 per cent cut in the intervention price for cereals presented by the Commission was completely dropped. This decision further dilutes the potential positive results of decoupling in the cereals sector.

The intervention price for rice will be cut by 50 per cent. The Commission argues that this measure is necessary to stabilize the market, in particular due to the impact of the 'Everything but Arms' initiative. Although this is in itself a positive development, the Commission has also been instructed to initiate negotiations at the WTO to modify –increase- the bound rate for rice. This procedure will be framed in the context of Art. XXVIII of GATT 1994 and affected WTO members are entitled to ask for compensation.

In the dairy sector, no drastic changes were introduced. The quota system will be maintained and will not be subject for review until 2014. On the other hand, the intervention price for butter will be cut by 25 per cent by 2008, which represents 10 per cent more than the original Agenda 2000 target cuts for butter. In the case of skim milk powder, the intervention price remains as expected under Agenda 2000, requiring an additional 15 per cent cut from 2004 to 2006. Decoupled payments will enter into effect in the dairy sector in 2008 but members may decide to introduce the system earlier. Such payments will compensate farmers' income loss stemming from the cut in intervention prices. However, such payments will still be linked to production to the extent that only farmers in possession of a production quota will be entitled to claim the direct payment which will be higher, the larger the production quota [(14)].

(13) Intervention price constitutes the domestic support price at which the Commission buys and storage crops when the market does not reach the stated intervention price.

(14) Hird. V. and T. Lobstein, 2003. *Land of Milk and Money?* A brief on the dairy system and reform of dairy policies. Sustain

III. THE CAP REFORM IN THE WTO CONTEXT

In terms of the WTO framework, the main effects of the CAP reform concern the area of domestic support, in particular the blue box subsidies. The other 'pillars' of the AoA, market access and export subsidies were not included as such in the review and no major changes could be expected in those areas.

III.1 Domestic support

The main impact of the CAP reform decisions of last June will be reflected in the way the EC provides domestic support subsidies and thus, the way such subsidies are classified under the different WTO 'boxes'. Severing the link between subsidies and current production will allow the EC to shift subsidies from the blue box category towards the green box. The moves towards the Green box would allow the EC to increase production subsidies over time following the example of the US.

Oppose restrictions on the green box

Given the direction of reform in the EC, it is clear it cannot accept any restraint on the green box payments where it intends to continue moving most of its subsidies to agriculture in the years to come. Furthermore, the EC is rather keen to expand the scope of green box payments to accommodate its 'rural development' policies, such as direct payments to farmers to compensate for the introduction of higher animal welfare standards.

In that respect, the proposed modalities for further reform presented by the Chairman of the Special Session of the CoA provides comfort to the EC in the sense that no limits or cap are placed on the green box payments (as has been proposed by the Cairns Group and developing countries) and it further expands its scope to include animal welfare payments as suggested by the EC in its negotiating proposal of January 2003. Whether this would be acceptable to other WTO members, in particular Cairns Group and developing countries members remain to be seen.

Accept cuts in the blue box

The 'negotiating margin' gained by the EC with decoupling would be reflected in the reduction targets it could potentially accept regarding the blue box payments. According to a Senior Commission official 'at the end of the CAP reform implementation period in 2013, at least two-thirds of the EC blue box subsidies would be considered to be in the green box because of the decoupling in the CAP reform package'[(15)]. EC's blue box payments stood at Euro 19,792 million for the marketing year 1999/2000, roughly the same as the green box payments –Euro 19,930.5 million.[(16)]

The EC's position regarding the blue box has traditionally been one of refusing the elimination or even cap of blue box payments. Decisions on CAP reform indicate that the EC could in fact accept some reduction of the blue box without changing its internal policy framework. In this context, it is important to recall that the blue box payments were included in the calculation of the base total AMS [(17)] during the Uruguay Round for being trade and production distorting, but

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(15) Inside US Trade, *Agriculture ministers say CAP reform sets limit on WTO subsidy cuts,* 4 July 2003

(16) G/AG/N/EEC/38, 27 June 2002

(17) The base total Aggregate Measurement of Support (AMS) represents a measure of all trade distorting domestic support, as defined by the AoA, provided during the reference period used during the Uruguay Round. This measure was the basis from which WTO members committed to undertake reductions commitments on domestic support.

later excluded from the current AMS [18] calculations for effects of the implementation of the reduction commitments. This 'escape clause' was introduced in the modalities of the Uruguay Round as a result of the Blair House agreement between the EU and the US. The implication of this arrangement were two fold: first, the EC has benefited from a 'credit' in its AMS which eased the implementation of the already modest (20 per cent) reduction commitments of the AMS agreed in the Uruguay Round. Second, the mere existence of the blue box for the last seven years constitutes a concession from WTO members, mainly to the EC.

No change in the amber box

The reform package of the PAC does not seem to provide much flexibility to the EC regarding commitments under the amber box in addition to what earlier decisions under Agenda 2000 provided for. The reduction in the intervention price for some products, such as butter, rice and rye, may provide some additional but not significant margin.

In its January 2003 proposal, the EC had proposed to reduce the amber box (AMS) by 55 per cent from the final Uruguay Round bound levels. According to the EC notified levels for the period 1999-2000, the actual AMS expenditure represented 69 per cent of its bound level [19]. Therefore, the EC counts on an in-built flexibility in terms of its actual expenditure under the amber box and its commitments at the WTO. Analysts have indicated that 'as a result of the changes made in the last round of CAP reform in Agenda 2000, and because of the current CAP package, the EU will fill about 50 to 60 per cent of their bound amber box subsidies level [20]. Being this the case, the EC could position itself close to the proposed modalities presented by the Chairman of the Special Session of the CoA regarding the amber box: reduction over a five-year period of 60 per cent of the final AMS bound levels. Such commitments would not require additional changes to the EC policy framework beyond those already expected as result of its internal process of reform. Such reduction targets were quite close to what the EC had originally proposed, as indicated.

III.2 Export Subsidies

Export subsidies in the EC are very much the result or consequence of the complex support regimes provided to different sectors. The reduction in the intervention price for some crops, as mentioned above could result in a small negotiating margin on export subsidies but not to the extent that would allow the EC to significantly change its position at the WTO on this issue.

The continue availability of export subsidies seem to be particularly important for certain sectors where the lack of reform and the accumulation of distortions over the years are likely to result in the EU having substantial exportable surplus in the years to come in sectors such as sugar, beef, butter and cheese. According to analysts, 'while the EU could probably maintain its internal wheat prices without export subsidies, it certainly will not be able to do so in the beef, dairy and sugar sectors. The bulk of current Euro 2-3 billion a year expenditure on export subsidization is for these commodities[21].

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(18) Current AMS refers to the actual trade distorting support provided by a WTO member in a given year, as notified to the Agriculture committee of the WTO.

(19) G/AG/N/EEC/38, 27 June 2002

(20) Inside US Trade, *Agriculture ministers say CAP reform sets limit on WTO subsidy cuts,* 4 July 2003

(21) Agra Europe, *CAP still vulnerable to WTO,* 4 July 2003.

The EC proposal of January 2003 called for 'substantial cuts in the level of export subsidies and an average 45 % cut in the level of budgetary outlays'. This approach differs from the Uruguay round product-specific (or product-group specific) export subsidy commitments but obviously responds to the prevalence of EU export subsidies on specific sectors, as mentioned above.

The EC's actual spending on export subsidies for the period 1999-2000 was around 41 per cent of it bound levels at the WTO.[22] The EC is the largest export subsidy provider worldwide. 'European agricultural subsidies run around 10 per cent of the value of a good, while export subsidies now make up about 10 per cent of the EU's agriculture budget' [23].

III.3 Market access

The CAP reform package did not address the issue of market access. Indeed, the same sensitive sectors mentioned above, in need of continue export subsidies could be highlighted in the area of market access as potentially vulnerable from the EU perspective under the WTO discussions on market access: sugar, livestock, and dairy sectors. The current CAP reform does not provide the EC with any additional flexibility in terms of market access as compared to the situation in January 2003 when it presented its proposal on modalities to the WTO.

Furthermore, given the agreed cut in the intervention price of rice the Commission has been instructed to modify –increase- the WTO bound rate for rice. This would require the EC to initiate negotiations with interested WTO members under Art. XXVIII of GATT 1994. Except for the beneficiaries of the Everything but Arms initiative (Least Developed Countries –LDCs), this decision by the EC would result in less favourable market access conditions for rice.

IV. CONCLUSIONS

As it is clear from the above discussion, the CAP reform and the 'negotiating margin' it provides to the EC for improving its offer in the WTO falls very much short of expectations in Geneva.

Two key areas of the negotiations such as export subsidies and market access were not clearly addressed in the current reform. Moreover, at least as it refers to rice, the market access conditions in the EC market (except for LDCs) would deteriorate as a result of the compromises reached on CAP reform.

The achievements on domestic support would provide additional flexibility to the EC to reduce the blue box payments. Although it may be considered a substantial accomplishment in terms of the traditional EC standing on this issue, it does not look quite impressive in the WTO context for the blue box represented a large loophole in the AoA which most WTO members hope to close in this round (by eliminating, rather than reducing the blue box).

Furthermore, considering the experience with the implementation of the green box payments by the US, the perspective of the EC following the same track does not provide much comfort to developing countries. The OECD, among others, has indicated that 'the extent to which policies deemed 'decoupled' continue to distort production and trade is not clear…No support policy linked to agricultural activity is perfectly decoupled' [24]. Massive amounts of subsidies will be maintained and could potentially increase from current levels in the EC under the green box

(22) G/AG/N/EEC/38, 27 June 2002

(23) Wall Street Journal, *EU agrees to Reform Farm Subsidies,* 27 June 2007.

(24) OECD, *Agricultural policies in OECD countries.* A Positive Reform Agenda, OECD 2002.

whereas developing countries are required to further liberalize their agricultural sectors. The continuation of dumping in developing country markets is guaranteed.

Finally, it rests to say that the CAP reform was in one-way or another inevitable and the result of internal dynamics (i.e. budget constraints, EU enlargement, etc.). Therefore, it cannot be presented as a 'unilateral disarmament'. Nor can concessions be required from other WTO members in exchange, at least as yet. The EC would have to make concrete proposals at the WTO that may reflect to a certain degree the new –internal- policy guidelines. Furthermore, although the EC's locking-in CAP reform (and other commitments) at the WTO provides legal certainty to trade partners, such reforms constitute already part of the European internal policy which would be implemented regardless of the decisions made at the WTO. The main challenge and objective of the negotiations is to move the EC (and the US) faster and beyond what their own internal processes seem to be able to deliver.

V. POSSIBLE QUESTIONS/RESPONSE BY DEVELOPING COUNTRIES

Below follows a set of questions that may be relevant to pose to the EC to improve WTO members understanding of the implications of the CAP reform and assess its possible implications for the WTO agriculture negotiations.

In addition, some possible responses to the claims of the EC regarding the significance of the reform and the corollary leverage that such reform should provide to the EC in the context of the Doha Work Programme are offered.

QUESTIONS:

1) Would the EC present an improved offer or modalities proposal to the WTO? If so, when?
2) When would the CAP overall agriculture budget – of around US$ 50 billion a year- be revised? What are the expectations regarding the overall agriculture budget after 2013 considering the enlargement of the EC?
3) Is it not true that the CAP reform will increase EC's cereals production as compared with current production levels and beyond EU-15 consumption? Can the EC guarantee that exports will not take place at prices below cost of production? How the EC does plan to address the concerns of developing countries regarding dumping?
4) What are the expectations regarding reform in sectors such as sugar and cotton, of particular interest to developing countries?
5) How does the EC plan to assist those countries affected by the CAP reform, which has eroded and is likely to erode further, the trade preferences of ACP countries?
6) What is the exact basis for calculating the decoupled payments? Is it not true that the historical reference has an important component of in-built distortions, which will be carried-on in the future, significantly diluting the effects of reform?
7) What will be the basis for calculating the decoupled payments for dairy in 2008? According to the information available, only those who have production quotas are eligible to the single (decoupled) payment, and the amount of the payment will be larger the larger the production quota. It seems the payments are linked to production and cannot be consider no or minimally trade distorting.

8) Given the absence of international standards on animal welfare, what parameters would the EC use as a reference to calculate the payments to compensate European farmers for additional costs incurred in applying high standards of animal welfare?

9) Given the fact that market access and export subsidies were not addressed in the current CAP reform, how does the EC plan to improve the market access conditions for developing countries and their concerns regarding dumping?

POSSIBLE RESPONSES TO THE EC'S DEMANDS:

1) The CAP reform does not address market access and export subsidies, which are major areas of interest and concern for developing countries in the current negotiations. Neither does it address the overall level of support. The CAP reform merely implies a shift of the same subsidies between boxes.

2) Any reduction of the blue box cannot be presented as a 'concession' by the EC. On the contrary, the existence of the blue box was a concession that WTO members made to the EC during the Uruguay Round.

3) Given the limited scope and content of the CAP reform, even if bound at the WTO, it cannot be called 'unilateral disarmament' for two reasons: first, the EC will still maintain massive amounts of domestic and export subsidies, as well as border barriers to protect its agricultural sectors; second, the CAP reform responds to internal EU dynamics.

4) The EC may ask for 'concessions' in the negotiations from other WTO members when it is ready to move beyond what its internal process is able to deliver. Up to that point, there are no real concessions from its part worth to be reciprocated.