Agricultural Trade, WTO and the Doha Round: What is the relevance of CAP reform?

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Outline

- Where is CAP reform relevant to DDA
  - policy principles and product coverage

- Where is CAP reform irrelevant to DDA?
  - The CAP cost debate: public image and reality

- What impact of CAP reform?
  - on domestic markets
  - on world markets

- CAP reform and the DDA
  - main issues in three pillars
  - relevance of CAP reform for DDA
What drives CAP reform?

- **CAP policy dilemma (as defined by CAP objectives)**
  - be competitive in world markets
  - meet the highest environmental/food quality/animal welfare standards

- **CAP reform orientation aims at meeting both objectives**
  - in a manner that meets citizen, taxpayer and consumer priorities
  - in the less-trade distorting manner

- **As coverage of CAP reform gradually expands…**
  - arable crops, beef, dairy, olive oil, tobacco, cotton reformed
  - sugar proposal to follow soon

- **…CAP becomes more demand-driven**
  - policy instruments of all reformed sectors move in similar direction
CAP reform path at a glance

- **From product price to direct producer support…**
  - gradual reduction of support prices into safety-nets
  - partial compensation of product support drop by shift to producer support

- **…to decoupling of direct aids…**
  - single farm payment based on historical references…
  - …requiring compliance with set of existing statutory standards

- **…and to a better balance of support**
  - enhancement of RD policy instruments to meet new standards
  - shift of funds from market support to rural development
  - financing new market reforms with redistribution of direct aids
EU price support reductions

Cumulative % reduction in price support

-75 -60 -45 -30 -15 0

Soft wheat Durum wheat Beef Rice Butter SM Powder

Completed reform Reform in process
The path of CAP expenditure

billion €

- Export subsidies
- Market support
- Direct aids
- Rural development

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Alternative views on CAP cost...

2003 CAP cost (in absolute terms)

- EU-15: billion €

2003 CAP cost (in relative terms)

- EU-15: Share of GDP

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...lead to alternative conclusions

**CAP cost 50 billion €**

- focus on this figure alone ignores:
  - EU budget composition
  - EU policy competence
  - changes in CAP structure
  - impact of various accessions

**CAP cost in perspective**

- CAP costs indicate a clear trend:
  - declining share in EU GDP (from 0.54% to 0.43% to 0.33%)
  - declining share in EU budget
  - declining share in EU public expenditure
  - significant shift in type of support
Aspects of the CAP debate cost

- **Putting the CAP cost into perspective**
  - look at direction and *relative* level of CAP cost

- **The real issue is *not just how much is spent on the CAP***
  - the composition of public spending is everywhere a domestic issue
  - looking at absolute figures in isolation of any reference always misleads

- **The real issue is *how CAP expenditure is spent***
  - previous reforms already increased CAP efficiency
    - control measures (member-state provisions in clearance of accounts)
    - policy instruments (beginning a *shift of support from product to producer*)
  - recent reforms expand previous efforts to increase efficiency
    - farm *compliance* with environmental/food quality/animal welfare standards
    - *shift of funds within existing budget* to finance market and RD reforms
Opportunities from CAP reform

- **From market reform…**
  - supply (price) incentive for overproduction and intensity largely gone
  - expectation for more demand-driven pressures leads to market response

- **…to producer direct support…**
  - allows farmers to respond better to markets-driven signals
  - …thanks to the presence of a rather stable income component

- **…to rural development measures…**
  - it is not so much the additional funds (always constrained) that matter
  - …but also the additional policy instruments that become available

- **…the potential for a consistent approach exists!**
What impact from previous CAP reform?

- The domestic impact
  - price support decline led to market price decline and resulted in
    - increased domestic demand (especially in cereals)
    - decreased production incentives (lower yields and area planted)
    - rendering of intervention less relevant or in some sectors irrelevant
  - farm income globally stabilised, stopping previous trend
    - significant country or sector variations
    - distribution of support continues to be an issue in some countries

- The international linkage
  - lower EU surpluses in all sectors imply...
    - lower impact on world market prices...
    - …but in most commodities EU is already a price-taker
What role of EU agricultural trade?

- EU agricultural trade structure balanced
  - EU agricultural exports mainly (70%) in high value added products
  - price-dependent bulk commodities represent just 7% of EU exports

- Net export position of the EU decreased in all sectors
  - most of this decline is driven by CAP reform
  - most gains go to Southern Hemisphere
  - not all being policy-neutral (e.g., dairy markets)
EU net export share (reform impact)
What impact on developing countries?

- **EU largest market for developing countries**
  - but most LDC vulnerability is linked to commodity dependence
  - EU preferences result in asymmetries in EU agricultural tariff structure...
  - … turning preference erosion into a very complex issue to address

- **Trade-distorting impact of different policies is the pertinent issue**…
  - …yet confusion continues on impact of domestic support on trade…
  - …while other important market factors and players are overlooked
**CAP reform and the DDA**

- **Agriculture and the WTO: what changed?**
  - the Uruguay Round experience: agriculture lagging behind
  - the Doha Round experience: agriculture more advanced

- **CAP and the WTO: what changed?**
  - the Uruguay Round experience: agree, then reform
  - the Doha Round experience: reform, then agree

- **Where to look for CAP reform linkages to DDA?**
  - the more visible impact on domestic and world markets
  - the less visible impacts of CAP reform
The main 3-pillar issues

- **Domestic support**
  - all agree to achieve substantial reductions in trade-distorting support…
  - …need to agree on extent and scope…
  - …and distinguish policies of trade distortions from the politics of envy

- **Export competition**
  - now that the phasing-out of export subsidies is on the table…
  - …what disciplines for other export competition support?

- **Market access**
  - overall structure of significant improvement in market access agreed…
  - … but despite AVE progress significant interacting details still missing
Domestic support issues

- **The amber box**
  - EU can accept very significant reduction (thanks to CAP reform)
  - US has to reform to meet a meaningful reduction even within a range
  - different bands of reduction still imply US reform

- **The de minimis rule**
  - past use by US mainly for trade-distorting policies, irrelevant for EU
  - has to decrease, while change in US farm policies could affect its use

- **The overall balance**
  - overall reduction of domestic support is now guaranteed
  - 20 % down payment not just symbolic, but indicative of overall ambition
Domestic support issues

- **The blue box**
  - Agreed 5% ceiling recognizes CAP reform process
  - US needs redefinition for counter-cyclical payments even with reform

- **The green box**
  - all parties need of set of least or non-trade distorting policies
  - hair-splitting arguments often miss the main DDA point (trade-distortion)
  - what similarity between US and EU decoupled support?

- **Other issues**
  - the “box-shifting” debate in theory and practice
  - better monitoring is mainly not an EU or US issue
CAP budget cost trend

billion €

- EU-12
- EU-15
- EU-25

Market measures
Area/animal payments
Single Farm Payment (minimum from 2003/2004 reforms)
US domestic support

billion $

Market Price Support
Loan Programme
Counter-cyclical payments
Insurance Subsidies
Disaster Payments
Market Loss Assistance
Other de minimis
AMS ceiling

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**CAP reform and the other DDA pillars**

- **CAP reform impact differs among pillars**
  - reform impact on domestic support immediate and unilateral
  - reform impact on market access/export competition conditional on others

- **Export competition – the catalyst in the 2004 agreement**
  - elimination now applies to more than just export subsidies
  - disciplines on subsidies and other trade-distorting elements also agreed

- **Market access – indirect impact of CAP reform**
  - most difficult and complex issue in negotiations, involving all parties
  - self-selection of sensitive products essential (and now agreed)
  - resolution of AVE issue necessary, but not sufficient for formula
  - end result needs to guarantee single approach for all
  - different, sometimes conflicting interests of LDCs (despite S&T)
  - overall balance and ambition will be determined by this pillar
**Some conclusions**

- **Where CAP reform is relevant to DDA**
  - direction of reform from more to less to least trade distorting policies
  - same principles extended to more and more sectors

- **Where CAP reform is irrelevant to DDA**
  - budgetary disciplines more constraining than WTO…
  - …leading to more transfer efficiency in policy instruments

- **Where CAP reform is less relevant to DDA than thought**
  - impact on world price best proof of policy significance…
  - …yet in most sectors, CAP has minimal impact on world prices…
  - …including products of interest to developing countries!