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The Evolving CAP, Pressures for Reform, and Implications for Trade Policy

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Paper prepared for the Australian Agricultural and Resource Economics Society's pre-conference workshop:
Trade Policy Reform and Agriculture: Prospects, Strategies, Implications

Coffs Harbour, NSW, 8 February 2005

Acknowledgement: This is an expanded version of my paper 'Developments in the WTO and Implications for the CAP' prepared for the Agricultural Economics Society's one-day conference *CAP Reformed?*, London, UK, 12 January 2005. I am grateful to Carolyn Tanner for helpful comments on an earlier draft.

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Introduction

This paper is narrowly focused on the price and income support mechanisms of the European Union's common agricultural policy (CAP), as adapted by the Fischler reforms of 2003 (and 2004), their interaction with the provisions of the existing family of WTO agreements (most notably the Agreement on Agriculture – referred to as the URAA in this paper – adopted at the conclusion of the Uruguay Round of GATT negotiations) and their likely compatibility with any probable outcome to the Doha Round. Thus it does not discuss the EU's *non-trade* concerns that form a central plank of its negotiating strategy in the Doha Round (for example its defence of multifunctionality, and its quest to enshrine the protection of animal welfare and Geographical Indications (GIs) of origin as basic tenets of the WTO system); nor does it examine the implications of other WTO agreements on EU practice (for example the Agreement on the Application of Sanitary and Phytosanitary Measures).

The paper proceeds as follows. First it introduces the Fischler Reform of 2003. Then it briefly examines the post-MacSharry CAP's record in coping with the URAA constraints, as recorded in the EU's periodic reports to the WTO. Third it notes how the URAA 'rules' are themselves changing as a result of a succession of cases challenging existing policies in the Dispute Settlement process. Fourth it addresses other trade liberalisation initiatives within the WTO framework, notably *Everything but Arms*. Fifth it considers some of the issues under consideration in the agriculture negotiations in the Doha Round and their implications for the CAP, before finally asking whether the Fischler reforms can be considered the end of the process of CAP reform.

The Fischler Reforms of 2003

The CAP *has* changed since the late 1980s. First, in 1992, on a proposal from the then EU Commissioner for Agriculture Ray MacSharry, intervention prices for cereals and beef were reduced, and compensation granted to farmers in the form of arable area payments (when specified arable crops were grown on eligible land) and headage payments on bovines kept (Swinbank and Tanner, 1996: chapter 5). By 2000, 61% of the CAP budget was devoted to these (and similar) direct payments, with a further 26% on mechanisms of price support (intervention, export subsidies, etc.) and 13% on

structural policy and rural development (Swinbank, 2004b: 18). The Agenda 2000 reforms of 1999 extended and deepened these reforms. However, crops had to be grown and livestock kept for the payments to be made. It was only partial decoupling.

The Agenda 2000 reform package had made provision for a review mid-way through the 2000-2006 financial perspective. Franz Fischler, EU Commissioner for Agriculture from 1995 to 2004, took this opportunity to push through a new reform of the CAP (Cunha, 2004; Jotzo, Roberts, Andrews and Warr, 2003). The proposal was tabled in July 2002, and the Council's decision came in June 2003. A follow-up, dealing with cotton, tobacco, olive oil and hops was concluded in 2004.

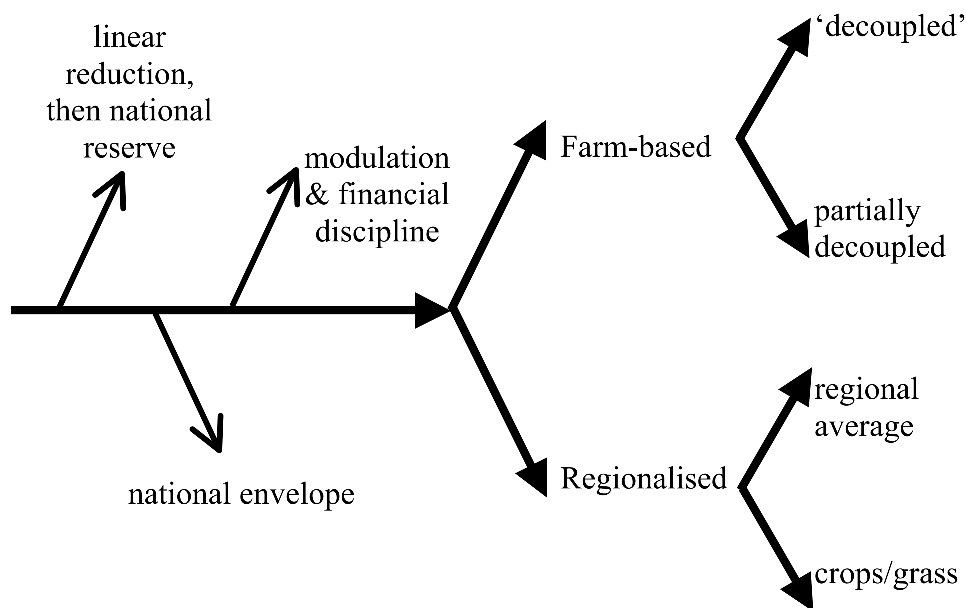
Earlier in 2002 the Commission had proposed that direct payments should be extended to the 10 applicant states still waiting EU membership, confounding those who had argued that reform should precede enlargement. It was nonetheless suggested that, rather than area and headage payments being tied to production as in EU15, the budgeted monies should be paid as a simple area payment regardless of production. This was the deal that was eventually agreed in Copenhagen in December 2002 (Daugbjerg and Swinbank, 2004). Was this where the idea for a further decoupling of the EU15's direct payments (proposed in July 2002) came from, or had the Commission already embraced this idea in the early part of the year?

The centrepiece of the Fischler reform is the introduction of a Single Payment Scheme (SPS).[1] This embraces all the direct payments under the CAP (the area and headage payments from the Fischler reforms, the dairy compensation payments from Agenda 2000, direct payments for cotton, tobacco, olive oil, etc.). Fischler's original idea was that a farm's entitlement would be based on that farmer's historic claims for direct payments. Thus, if in the base period 2000 to 2002, €*a* had been claimed on *b* hectares, the farmer would have a payment entitlement €*a/b* per hectare on *b* hectares. To claim the SPS in full (on all *b* hectares), the farmer in subsequent years would have to remain in agriculture (though the entitlement could be passed on) and show that *b* hectares were still farmed or kept in good agricultural and environmental condition. Land on which fruit and vegetables were grown, or which was planted to permanent crops (e.g. orchards) could not be used to claim the Single Payment, but

[1] In addition there are major price cuts for rice, an additional (over and above that already agreed in Agenda 2000) reduction in the intervention price for butter, and new aid schemes for nuts and energy crops.

otherwise farmers would be free to farm (or not, as the case may be). In addition, various cross-compliance conditions (farming practice, environmental protection, animal welfare, etc.) would apply. A fraction of the payment (now set at 5% from 2006 for annual payments in excess of €5k) would be creamed-off ('modulation') and diverted to the rural development budget. If the CAP budget threatens to exceed the budget ceilings agreed in October 2002, a new financial discipline can be invoked to scale down payments.

Figure 1: An overview of the Single Payment Scheme



NB: upward moving arrows depict the default position; downward moving arrows depict options. To allow for the potential entitlements exceeding the base level claims (e.g. hardship cases during the base period) all entitlements are subject to a linear reduction. Member States also establish a 'national reserve' from their base entitlement to allocate to farmers who took up farming after 31 December 2002 (i.e. after the base period, but before the scheme was implemented). Furthermore 10% of payments can be siphoned off for more specific use in the sector, for example to promote organic farming (the so-called national envelope)

As Figure 1 implies, the scheme as adopted is far from simple and no two states of the EU15 will apply the same scheme. In the United Kingdom there are four: in each of England, Wales, Scotland and Northern Ireland. It applies from 2005, though Member States can defer application to 2006.

There are two main ways in which the SPS as applied can depart from the original concept. First, to avoid 'desertification' of entire agricultural regions, Member States can opt for partial decoupling (in addition to the small amount of product-specific payments that are retained at EU level): for example, 25% of the arable area payment (as opted for by France and Spain), and 100% of the suckler cow premium (Austria, Belgium, France, Portugal and Spain) (*Agra Europe*, 23 December 2004: A/1).

Second, rather than determine payments for the farm on the basis of that farm's historic claims, regionalised schemes can apply. All of the money that would have been paid in a particular region (or country) can be pooled, and then paid on a flat rate basis on all eligible land in the region (with or without combination of arable and livestock payments). Hybrid schemes can apply, and in England (but not the rest of the UK) there is a *dynamic hybrid* in that, in 2005, 10% of payments will be paid through a regionalised scheme, rising to 100% in 2012, with the remaining monies paid out through the historic farm-entitlement mode.

Quite what all this will mean for production (and hence trade), land use, prices, etc. remains the subject of much thought and discussion in the EU, and is beyond the scope of this paper. Clearly the various formats of the SPS display differing degrees of decoupling, and none of them are as fully decoupled as the Tangermann bond (as articulated for example in Swinbank and Tangermann, 2004).[2] Furthermore, in sustaining farm revenue, all variants potentially impact on production – through for example the wealth effect identified by Hennessy (1998).

[2] First proposed in 1991, under the bond scheme an entitlement to a pre-determined flow of compensation payments would be issued to an individual adversely affected by policy change. Payments would be made regardless of the future use of the land (ruling-out cross-compliance) or the activities of the farmer. Entitlement could be transferred, and would in effect acquire the characteristic of a government bond (or, more correctly, a coupon strip).

How well has the CAP coped with the URAA's quantitative constraints?

Prior to the early 1990s, external pressures played little part in the design and implementation of agricultural policies. A basic presumption of this paper is that since then the CAP has increasingly been shaped and moulded by such considerations. Analysts are still divided on what were the key factors that prompted the MacSharry reforms of 1992. Kay (1998: 165-6), for example, suggests that whilst the 'international dimension affected the start of the domestic policy reform process', it was the provisions of the 1988 stabilizer regime that 'forced' the Council of Agricultural Ministers 'to reach an outcome on the reform proposals and conclude the MacSharry reform process'; whereas Coleman and Tangermann (1999: 386) 'strongly subscribe' to the hypothesis that 'the timing of the CAP reform and the very logic of the reforms introduced represent direct responses to international pressures emanating from the GATT negotiations.' Whatever their genesis, with the MacSharry reforms in place the EU was enabled to conclude a GATT deal with its trading partners.

A key feature of the URAA is its three pillars: market access, domestic support and export competition. These pillars were retained by Stuart Harbinson in his ill-fated draft modalities document of February 2003 (WTO, 2003), and still figure prominently in the *Framework for Establishing Modalities in Agriculture* agreed in August 2004 (WTO, 2004a).

As expected in 1995, the post-MacSharry CAP has – as yet – been little affected by the strictures of the URAA. Variable import levies were largely replaced by fixed import tariffs in 1995, but in many sectors they remain prohibitively protective, particular when combined with the Special Safeguard Provisions of Article 5 of the URAA (Swinbank, 2004a). It was to be the next round of negotiations that would (potentially) open up markets. The EU's declared level of domestic support has fallen well short of its AMS (Aggregate Measurement of Support) constraint, largely because its area and headage payments have been declared as blue box expenditure: a switch in support reinforced by the Agenda 2000 reforms of 1999 (see Table 1).

Table 1: The EU's Green, Blue and Amber Box Declarations

Million ecu/€	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
AMS Commitment	78,672.0	76,369.0	74,067.0	71,765.0	69,463.0	67,159.0	67,159.0
AMS Declared	50,026.0	51,009.0	50,194.0	46,683.0	47,885.7	43,654.0	39,281.3
Blue Box	20,845.5	21,520.8	20,442.8	20,503.5	19,792.1	22,222.7	23,725.9
Green Box	18,779.2	22,130.3	18,166.8	19,168.0	19,930.5	21,844.5	20,661.2
Blue, as % of agricultural production	10.1	9.8	9.4	9.6	8.5	9.1	9.6
Doc: G/AG/N/	EEC/12 /Rev.1	EEC/16 /Rev.1	EEC/26	EEC/30	EEC/38	EEC/49	EEC/51

Source: EU submissions to the WTO, as indicated by the document references in the bottom row.

Table 2: EU's Utilization of WTO Export Constraints, 2001/02

	Budget % Utilized	Volume % Utilized
Wheat and wheat flour	0.7	11.4
Coarse grains	10.8	36.2
Rice	82.3	99.1
Rapeseed	0.0	0.0
Olive oil	0.0	0.0
Sugar	96.7	82.6
Butter and butter-oil	34.3	48.5
Skim milk powder	13.3	31.9
Cheese	55.2	87.0
Other milk products	57.6	79.7
Beef meat	31.0	58.8
Pigmeat	10.5	16.1
Poultry meat	66.4	80.6
Eggs	13.7	81.2
Wine	58.4	99.1
Fruit and vegetables, fresh	39.4	93.5
Fruit and vegetables, processed	43.4	54.9
Raw tobacco	0.0	0.0
Alcohol	54.9	43.6
Incorporated products	99.2	
TOTAL	34.5	

Source: Export Subsidies 2001/02: G/AG/N/EEC/44

On export subsidies, the picture is mixed (see Table 2). In introducing its proposals for CAP reform in Agenda 2000, for a further cut in the intervention price for cereals, the Commission predicted that: 'Up to 2000, the situation is likely to remain relatively tight, in particular for wheat. From 2001 onwards, the current GATT commitments on subsidised exports become constraining for both wheat and coarse grains, leading to a

rapid increase in intervention stocks' (Commission, 1997: 35). With the Agenda 2000 price cuts in place, the export constraints on cereals have not proved too problematic, although in the Fischler reform the Council did decline to enact the final 5 percent cut in the intervention price for cereals, postponed from Agenda 2000. For sugar, the export constraints have been binding, necessitating an annual adjustment to sugar quotas; and – if the sugar panel's report is adopted (WTO, 2004c) – the figures in Table 2 will need revision. The allocation of export refunds on non-Annex I goods ('incorporated products' in Table 2) has been subject to rationing.

Twenty-five WTO Members (counting the EU as one) can grant export subsidies as a result of the URAA but the EU is by far the most important player, accounting for 89 percent of export subsidy *expenditure* of all WTO Members in 1995 for example (WTO, 2002: Table 1). Neither Japan nor South Korea, countries that both wish to retain significant flexibility to protect their farm sectors in the Doha Round, have this facility. Some countries on the list, for example Australia and Brazil, have made very limited use of export subsidies. Thus the EU is rather isolated, and – recognising this – has signed up to a commitment in the *Framework* agreement that export subsidies will be terminated by an agreed date (together with parallel commitments on export credits, state trading enterprises and food aid) (WTO, 2004a: A-4).

An important provision of the URAA was the so-called Peace Clause (Article 13), which has now lapsed. Whether it (or something similar) will be re-enacted at the conclusion of the Doha Round remains to be seen. The Peace Clause protected domestic and export subsidies programmes undertaken in conformity with the URAA from challenge under other WTO provisions, to a greater or lesser extent, although its protective provisions were largely untested by the Dispute Settlement procedures. Steinberg and Josling (2003: 371) concluded that, without the Peace Clause, 'EC and US agricultural subsidies will be vulnerable to the claim that they are causing 'serious prejudice' to non-subsidising countries … even if those subsidies are in conformity with the Agriculture Agreement'. Another aspect of the CAP that looks vulnerable is the export subsidies on processed foods, allowed by the URAA but seemingly incompatible with GATT Article XVI (which allowed for subsidies on primary but

not processed products) and the *Agreement on Subsidies and Countervailing Measures* (the subsidies code).[3]

Dispute Settlement and evolution of rules: cotton and sugar

Although the WTO makes its rules by consensus – a difficult task for 148 Members, as demonstrated in Seattle and Cancún – its Dispute Settlement process proceeds in a quasi-judicial fashion. A series of panel rulings have demonstrated that the galaxy of farm policies in place in 1994, that some Members might have thought were immune from challenge, can indeed be challenged and judged to be incompatible with WTO provisions.[4] Thus, over time, and even without the demise of the Peace Clause, the provisions of the URAA would have become more restrictive. Two recent cases, both subject to appeal, illustrate the point.

In *United States – Subsidies on Upland Cotton*, a highly complex case, Brazil alleged that the US subsidy policy for cotton infringed a number of the constraints embedded in the US's Schedule of Commitments. One particularly interesting conclusion – *which has been appealed by the US* – was that the production flexibility contract (PFC) payments (under the 1996 Farm Bill) and the more recent direct payments (DP) (from the 2002 Farm Bill) could not be classified as green box payments (and were instead amber box support) because recipients were not allowed to grow fruits and vegetables on the land (WTO, 2004b: paragraph 7.413). Paragraph 6(b) of Annex 2 of the URAA (the so-called green box) insists that 'decoupled income support' payments must not be based on 'the type or volume of production … undertaken'. As the EU's new Single Payment Scheme has similar provisions, one is led to conclude that this too may not be consistent with the green box. The EU could readily change this provision to allow any crop to be grown on the land; but with that complaint dealt with, would the SPS then meet the test of paragraph 6(d), that the

[3] Observe that the (unadopted) 1983 Panel Report on *EEC – Subsidies on Export of Pasta Products* noted that neither the United States nor the EU 'had finally contended that pasta was a primary product; and that the Panel itself 'was of the opinion that pasta was not a primary product but was a processed agricultural product' (from WTO, 1995: 452; with quotes from the original Panel Report).

[4] What happens next is a difficult issue. The presumption is that the offending party will change its WTO-inconsistent legislation, which may not be easy. Failing that, the offending party can try to compensate the complainants by, for example, offering improved market access (a tariff rate quota say) on some other product. If the complainant is not satisfied with the compensation package on offer, it can return to the WTO and ask for permission to apply trade sanctions against the offending party.

‘payments … shall not be related to, or based on, the factors of production employed in any year after the base period’?

Whilst the upland cotton ruling might yet be over-turned by the Appellate Body, pundits are more confident that the Australian, Brazilian and Thai case against the EU’s use of export subsidies on sugar infringes its WTO commitments. With some parallels to the Canadian milk case (van Vliet, 2000, 228-229), the sugar panel concluded that the EU had exceeded its quantity commitment on subsidised sugar exports, and its budgetary outlay commitment, therefore nullifying or impairing benefits of other WTO Members (WTO, 2004c, paragraphs 8.3 and 8.4). In particular, the panel concluded that the complainants had provided *prima facie* evidence that the EU’s C sugar exports, and the export of a quantity of sugar equal to its ACP[5] and Indian imports under the Cotonou Agreement, were subsidised, although not declared as such (WTO, 2004c, paragraph 8.1). According to the panel, in 2000/01 the EU’s exports of subsidised sugar amounted to 4.1 million tonnes, in contrast to its commitment level of 2.8 million tonnes.

Everything but Arms

The multilateral trade negotiations are not the only potential catalyst for farm policy reform: it has been suggested that RTAs (regional trade agreements) can have the same effect. However, despite the fairly pervasive view held in the mid-1990s, that EU enlargement to the East would have to be contingent on CAP reform, the EU was enlarged with the level of support offered by the CAP largely intact, though analysts will no doubt continue to debate the extent to which the Fischler reforms were prompted, or shaped, by enlargement (for an initial assessment see Cunha, 2004).[6] On the whole, the EU has been cautious about the inclusion of CAP products in its tangled web of regional trade agreements. Nonetheless, the unlimited duty-free access for products from the western Balkans goes beyond the much more limited access provisions that were incorporated within the *Europe Agreements* that the EU concluded with the ten Central and Eastern European States in the 1990s, although the

[5] From the (sub-Saharan) African, Caribbean and Pacific States.

[6] The domestic support and export subsidy constraints for EU25 have yet to be determined, and the EU has yet to conclude any GATT Article XXIV(6) negotiations with WTO partners seeking compensation for loss of tariff concessions consequent upon enlargement.

sugar provisions have been problematic.[7] But perhaps the most interesting, and – for the CAP – threatening, trade arrangement is *Everything but Arms* (EBA).

This provides for duty-free (and quota-free) access for all products except armaments (but subject of course to rules of origin) from the 49 least developed countries, with a staged implementation for sugar (totally free access from 2009), rice (2009) and bananas (2006). As the EU's market price for sugar is supported at something like three times world levels, this provides a considerable incentive to gear-up to supply the EU's protected market.

Fischler (2002), in presenting his reform plans to the European Parliament, clearly indicated that the need to fundamentally change the rice regime (a halving of the intervention price, with compensation largely incorporated into the Single Payment Scheme) had stemmed from the EBA initiative when he said: 'The progressive reduction in import tariffs for rice under the *Everything But Arms* initiative will lead to a dramatic deterioration of conditions on the EU rice market. To my mind, simply to sit and watch as the situation gets steadily worse would be to abdicate our responsibility to the EU's rice farmers. We must therefore act now to reduce the intervention price for rice to world-market levels.' It is difficult to avoid the conclusion that the same logic applies to sugar.

Agriculture in the Doha Development Agenda

Although WTO Members have yet to agree the details ('modalities') of a new agreement on agriculture – the *Framework* document of August 2004 is almost devoid of numbers – and the original Doha timetable has slipped, progress has been made, and the EU's negotiating stance has evolved.[8]

Back in January 2003, when the EU was still immersed in the debate on the Fischler reforms, it belatedly tabled its proposals for Stuart Harbinson to consider when drawing up his draft modalities (European Commission, 2003). On import tariffs the EU rejected the notion of applying the Swiss Formula, as advanced for example by the US. Instead, for developed countries, it proposed the same formula

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[7] Indeed the Commission has proposed to limit duty free access by the imposition of a tariff rate quota (Commission, 2004: 10).

[8] The WTO Secretariat produces a comprehensive, and periodically updated, briefing paper on the state of the negotiations (WTO, 2004d).

that applied in the Uruguay Round: an *average* cut of 36% across all tariff lines, with a minimum of 15% on each tariff line. This proposal lacked ambition, and was surpassed by the Harbinson draft (WTO, 2003). The August 2004 *Framework* agreement recalls the Doha Ministerial Declaration's call for 'substantial improvements in market access'; insists that '[p]rogressivity in tariff reductions will be achieved through deeper cuts in higher tariffs with flexibilities for sensitive products' whilst noting that '[s]ubstantial improvements in market access will be achieved for all products'; but notes that '[t]he number of bands, the thresholds for defining the bands and the type of tariff reduction in each band remain under negotiation' (WTO, 2004a: A-5 – A-6). With regard to 'sensitive products' we are told that 'Members may designate an appropriate number, to be negotiated, of tariff lines to be treated as sensitive, taking account of existing commitments for these products.' Quite what these products might be is unclear: whether the EU would be able to declare sugar to be a 'sensitive product' is debateable.

The MacSharry, Agenda 2000 and Fischler reforms do give the EU some flexibility to agree tariff cuts. For cereals and rice, for example, the EU's *bound* tariff rates do not apply, and so these could be cut substantially without reducing *applied* rates. The cuts in the intervention price for butter and skim milk powder over the period 2004 to 2007 amount to 43% and 26% respectively of the current mfn tariffs on those products; but any Doha formula that cut these tariffs by a greater percentage would begin to erode their protective effect. If the currently canvassed sugar reforms (Commission, 2004) go ahead, the EU will be able to offer sizeable cuts in its import tariff without eroding its protective effect. [9] A cut in the intervention price from €632 to €421 per tonne, for example, is equivalent to a 50% cut in the mfn tariff. It is difficult to believe that Brazil would be willing to settle for anything less.

On domestic support, quite a lot hinges on the future scope of the green and blue boxes, and on whether any *product*-specific constraints are built into the AMS limit. The Fischler reforms, according to the EU, transfer 'close to 90%' of existing blue box support into the green box (*Agra Europe*, 17 December 2004: EP/2); and direct payments on tobacco, cotton, olive oil and hops will switch support from the amber box to the blue and green boxes (totalling €4.2 billion in 2001/02 – see Table 3). The reductions in the intervention price for butter and skim milk powder will wipe

[9] On butter and sugar however, the Special Safeguard provision offers additional protection.

€1.6 and €0.3 billion respectively from the 2001/02 AMS reported in Table 1 (own calculations); and if the EU were to eliminate all official domestic price support for cereals, a further €3.7 billion would disappear from the EU's calculation. Thus the EU should not have too much difficulty in coping with the *Framework* document's stricture that the final existing AMS constraint 'will be reduced substantially', and that 'Members having higher Total AMS will make greater reductions'.

The problem (for the EU) is that the *Framework* document also contains the commitments that 'product-specific AMSs will be capped at their respective average levels', and that reductions in the AMS 'will result in reductions of some product specific support' (WTO, 2004a: A-2). In Table 3 we compare the base period (1986-88) AMS for EU12, and the declared AMS and blue box expenditure for EU15 for 2001/02. Bearing in mind the effect of the Fischler reforms shifting amber and blue box support into the green box, the two sectors that have shown little change since the mid-1980s are sugar and fruit and vegetables (both fresh and processed). Again it is difficult to avoid the conclusion that the current EU sugar policy will be a casualty of the Doha Round.

The *Framework* agreement contains other specific commitments on domestic support: that from day one of the new agreement blue box support will not exceed 5% of the value of agricultural production, and that there will be an overall cap on the sum of amber (both *de minimis* and AMS) and blue box support[10] (WTO, 2004a: A-2 –A-3). Furthermore, much remains under negotiation. Australia and the G-20[11] want much tighter controls on the blue box than those outlined in the *Framework* document, with the G-20 claiming for example that under so-called 'production-limiting programmes' EU 'production of cereals, rice and rapeseed has increased by 4%, 24%, and 39% … between 1992 and 2003' (*Agra Europe*, 17 December 2004: EP/2); and – in a direct attack on the green box credentials of the Single Payment Scheme – the G-20 are pressing for a review of green box criteria 'to ensure that direct payments and other income support programmes [do] not encourage farmers to produce more' (*Agra Europe*, 19 November 2004: EP/4).

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[10] At 80% of the Final Bound AMS from the URAA, permitted *de minimis*, and blue box support capped at 5% of agricultural production.

[11] The original grouping was Argentina, Bolivia, Brazil, Chile, China, Colombia, Costa Rica, Cuba, Ecuador, El Salvador, Guatemala, India, Mexico, Pakistan, Paraguay, Peru, Philippines, South Africa, Thailand and Venezuela. Egypt quickly joined, to make 21; but there have been subsequent defections. See http://www.g-20.mre.gov.br/

Table 3: EU Support Levels, 1986-88 Base (EU12) and 2001/02 (EU15). € billion

	1986-88 Base EU12	AMS, 2001/02 EU15	Blue Box, 2001/02 EU15
Cereals	20,117.5	3,659.1	13,648.1
Oilseeds	3,735.3	0.0	1,937.3
Dried fodder	292.0	317.2	
Vetches	574.5	72.9	514.8
Set-aside	–	–	1,931.0
Rice	409.7	396.5	112.8
Sugar	5,266.2	5,732.1	
Olive oil	1,223.8	2,675.7	
Tobacco	973.5	951.6	
Cotton	655.7	575.1	
Wine	3,291.5	891.6	
Fruit & vegetables	8,723.6	7,261.6	
Bananas	5.0	212.3	
Processed fruit & vegetables	681.8	892.9	
Seeds	49.4	99.0	
Flax & hemp	25.8	7.9	
Hops	8.8	12.5	
Silkworms	0.5	0.6	
Dairy	8,144.9	5,814.0	
Beef	18,484.9	9,708.7	5,027.7
Sheepmeat	918.3	0.0	553.8
Pigmeat	62.2	0.0	
Total	**73,644.9**	**39,281.3**	**23,725.9**

Notes: i) Base (1986-88) figures for EU15 do not appear to be available; ii) there is a slight arithmetical discrepancy in the blue box totals reported in the EU document.
Source: 1986-88: G/AG/NG/S/1; 2001/02: G/AG/N/EEC/51

The *Framework* agreement's commitment for 'the parallel elimination of all forms of export subsidies and disciplines on all export measures with equivalent effect by a credible end date' has already been mentioned (WTO, 2004a: A-4). If there is to be a successor agreement to the existing URAA, there seems to be little prospect of an escape from this. The CAP can cope in one of two ways: i) tighter production controls (i.e. quotas) to eliminate export surpluses, or ii) reductions in price support until exports are eliminated or subsidies are no longer necessary. The first approach may not be compatible with the need to lower import tariffs significantly, and would reduce the ability of manufacturers of non-Annex I goods to compete in export markets, whilst the latter – if farmers were to be compensated –

would increase the budgetary burden of the CAP and, amongst the CAP's international critics, raise further concerns about the burgeoning of green box support. The milk and sugar policies are the most problematic. In November 2004 export refunds on skim milk powder determined by tender were €310 per tonne, and those on butter were €1,390 per tonne (*Dairy Industry Newsletter*, 16(17), 21 December 2004: 5). The further cuts in the intervention prices for these products, which have yet to be implemented following the Fischler reforms, would potentially reduce these export refunds to about €100 and €800 per tonne, respectively.[12] Similarly, if the proposed cut in the intervention price for sugar were implemented, the November 2004 export refund of about €460 (*Agra Europe*, 10 December 2004) would be reduced to about €250 per tonne.

The Fischler reforms of 2003 (and 2004): CAP *fully* reformed?

The centrepiece of the CAP reforms of 2003 was the further decoupling of area and headage payments to create the Single Payment Scheme: 'an income support for farmers' (Article 1 of Regulation 1782/2003). In 2004 this was extended to embrace cotton, tobacco, olive oil and hops. As we have seen, Member States can choose from a menu of options regarding the degree of decoupling and whether or not the scheme is applied on a regional or individual farm basis. There were major changes to the support arrangements for rice, and support price reductions for butter and skim milk powder. Modulation has pushed some funds from Pillar 1 (price and income support) to rural development (Pillar 2), but to a much more limited extent than was originally canvassed by Franz Fischler. The sugar reform is pending, and further changes to fruit and vegetables are planned. But have these changes redesigned the CAP to make it compatible with a successful outcome to the Doha Round?

Clearly sugar is an important, but special, case that involves not just EU but also ACP supplier interests. When set against the EU's trading partners' aspirations on the three pillars of market access, domestic support, and export competition, the present sugar regime fails on all three. This is not surprising, but what about the rest of the CAP?

[12] €1 = $A1.7, November 2004.

On domestic support, despite the EU's confident assertions, there is reason to believe that the Single Payment Scheme may not be entirely safe. If the US fails to convince the Appellate Body that its direct payments to cotton producers are legitimately classified into the green box, then the EU will need to change its scheme. Even if the US is successful, others may yet challenge the EU's scheme on the grounds that it does not meet other green box criteria. The EU may yet have to engage in further decoupling, creating in effect the Tangermann bond. Even if securely green boxed, many of the EU's trading partners will question the legitimacy of a provision that seems to offer unlimited (in time and money) income support to the farm sector.

On import access, the Fischler reforms do allow for some tariff cuts on rice and dairy products, but more sweeping reforms will be required if, for example, anything like Swiss 25 and the abolition of the Special Safeguard provisions were to apply. Further reform, of the dairy sector for example, is also needed if export refunds are to be abolished.

But what is the timing? If the Doha Round cannot be concluded, then the URAA will live on without the protection of the Peace Clause, and the CAP will be subject to a number of attacks through the Dispute Settlement process. Export refunds on non-Annex I goods would seem to be an obvious choice because, if the case were lost, the EU's food manufacturers would presumably lobby for CAP reform in attempting to protect their own commercial interests.

If the Doha Round can be concluded successfully in 2006, the new implementation period would presumably run into the early 2010s, which is when export refunds would be finally eliminated. This suggests a new CAP reform driven by WTO concerns about 2010; although other considerations – further EU enlargement, the 2007 budget debate, pressure to switch more funds to Pillar 2 (rural development) – may yet trigger a new reform before the end of this decade.

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