Update on EU Farm Reforms: Implications for Cancún

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On the 26th of June, after a marathon third session in two weeks, the European Union farm ministers, meeting in Luxembourg, finally agreed a "historic" reform package. The reforms amount to a diluted version of the Fischler proposals for the reform of the EU's Common Agricultural Policy (CAP) tabled more than a year ago.

Whilst these changes are primarily related to the internal processes of agricultural reform in the EU, they will assist in defining the parameters available to the EU in making an offer to the World Trade Organisation, in line with its Doha commitments.

The Luxembourg agricultural reform package has made a positive conceptual shift in the EU's subsidies: it breaks the link between subsidies and production. Farmers will have to increasingly produce for the market, rather than being assured a market at fixed prices. The latter system encouraged farmers to overproduce and dump products on global markets, reducing prices and thus destroying the competitive advantage of many developing countries. The new system will mean that farmers will receive flat annual payments based on past subsidies received.

The reforms however have severely diluted the original Fischler proposals, by retaining a significant percentage of the CAP production-linked subsidies. It has postponed a decision to reform some products (olive oil, tobacco, cotton) to later in 2003. Dairy reforms are postponed to 2008 with existing quotas to remain until 2014/15. Sugar remains excluded from the current reforms. The CAP and cereals go hand in hand - this is what Australia and the US criticise most vehemently. The intervention price for cereals remains in place and is not even reduced. This means that essentially, production-linked subsidies remain. It is highly likely that there will still be cereal surpluses in the EU. How will these be cleared? The answer is via the instrument that most want to rid from the multilateral trading system, export subsidies. The EU CAP Budget (€43 billion) however will remain substantially the same for the period up to 2013. Whilst the EU enlargement process (from 1st May 2004) could enhance the reduction of subsidies paid to farmers, the phasing-in of the entry of these farmers is not clearly spelt out yet and its impact is uncertain. However, the reforms envisage increased support for farmers to assist them with building their competitiveness and marketing their products (additional 10% of single payment by members). This will be in addition to new assistance packages (including for food safety, animal welfare, promotion and marketing and advisory services) for farmers in less developed regions of the Community (rural development). This increased spending could also come from the savings from the envisaged reduction in direct payments made to the larger farms.

The EU envisages shifting the bases of its support from increased output to improved quality and standards for animal welfare, animal and plant health, food safety, and environmental standards, from 2005. This shift in the rationale for its subsidies, the EU argues, will help it move towards less trade distorting (amber and blue box support to green box) support. The impact of these new forms of support on maintaining distortions in global markets will need careful evaluation.

Finally, the EU reform package does not make any proposals to reduce its extremely high tariffs, tariff peaks and tariff escalation which continue to keep out many developing country products from its markets. In addition, the reforms have not dealt with the huge export subsidies granted to its farmers, which have contributed to stifle developing country production (eg. cotton in West Africa) and impede their exports to third markets. Whilst the new single payment system of farm payments is due to begin in 2005, those members who are unable to do so can defer the onset of the new system to 2007.

In sum the proposals amount to two steps forward, one and a half steps backwards. We will have to await the EU's new proposals to the WTO to evaluate the EU capacity to live up to its Doha commitment to substantially reduce its domestic support and phase out its export subsidies and provide substantial access to its markets. These proposals will need to be made before the next ministerial meeting in Cancún. Most WTO members remain cautious and skeptical about the capacity of the EU to make an acceptable proposal. Most delegations have linked their commitment to move in other areas to the EU's commitments in agriculture. Thus, the success of the Cancún ministerial meeting will hinge on the capacity of the EU to convince its trading partners that it is capable of honoring the commitments made in Doha to effect substantial liberalisation of its protectionist agricultural regime.

However, the EU expects to extract the maximum concessions from its trading partners before it translates its reform efforts into WTO commitments. Commissioner Fischler has already warned that "there will be no unilateral disarmament" and EU Trade Negotiator Commissioner Lamy has stated that the EU will be demanding concessions from its trading partners.