Analysis of the 2003 CAP Reform Agreement

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FAPRI
Food and Agricultural
Policy Research Institute

FAPRI-Missouri
University of Missouri
101 S. Fifth St.
Columbia, Missouri 65201
573-882-3576
www.fapri.missouri.edu

FAPRI-Iowa State
Iowa State University
578 Heady Hall
Ames, Iowa 50011-1070
515-294-7519
www.fapri.iastate.edu

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http://www.fapri.missouri.edu

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Executive Summary

At the request of Congressman Stenholm, the Food and Agricultural Policy Research Institute (FAPRI) has analyzed the reforms of the EU Common Agricultural Policy (CAP) that were approved in June 2003.

The most important feature of the reform is the creation of a "single farm payment" that would eventually replace a variety of EU payment programs that benefit producers of grain, oilseeds, cattle, sheep, and milk. The single farm payment would not be tied to current production of any commodity. The reform also includes a number of adjustments to support prices and other CAP measures.

One complicating feature of the reform is the flexibility it provides EU member states to maintain at least some proportion of current payment programs that are more directly tied to production. Given uncertainty regarding how individual countries will use this flexibility, FAPRI examined two extreme scenarios:

1) The MOST scenario assumes that all countries choose the maximum permissible level of decoupling by rolling all eligible payment programs into the single farm payment.
2) The LEAST scenario assumes that all countries choose the minimum permissible level of decoupling by maintaining current coupled payment programs to the full extent allowed by the compromise agreement.

Major results of the analysis include:

- For many commodities, the reforms would have only modest impacts on supply, consumption, trade, and prices. For example, EU net exports of wheat and coarse grains would fall by about 1 million metric tons, resulting in adjustments in both EU and world wheat and corn prices of less than 1 percent.

- For the commodities where current payment programs are most closely tied to production, the reforms could have larger impacts. In the MOST scenario, for example, EU cattle producers would reduce beef cow herds enough to reduce EU beef production by 4 percent in 2012 relative to maintaining current policies.

- It appears that the reforms will allow the European Union to shift much of its internal support for producers from the WTO blue box to the green box.

- Even in the LEAST scenario, it appears likely that remaining EU support in the blue box would be less than 5 percent of the value of production, consistent with the recent joint EU-U.S. negotiating framework proposal.

- Projected EU amber box support is less than 50 percent of the negotiated Uruguay Round WTO ceiling.

Introduction

In June 2003 substantial reforms to the Common Agricultural Policy (CAP) were agreed to by the farm ministers of the European Union. In July, Congressman Stenholm asked FAPRI to review the reforms and report their likely impacts on agricultural markets and world trade talks. The CAP reform agreement is part of a process that began with a Mid-Term Review (MTR) of the Agenda 2000 reforms (European Commission, 2002) and continued through initial legislative proposals that were released in January 2003 (European Commission, 2003). As of early September 2003, the final legislation has not been agreed to, so this analysis is based on the compromise agreement document (Council of European Union, 2003).

The compromise agreement did not explicitly address the use of export subsidies, import tariffs, or tariff-rate quotas. It did include, however, a significant change in the way that the CAP supports farmers directly. The 1992 MacSharry Reforms and the 1999 Berlin Agreement on Agenda 2000 shifted the balance of support from price support to direct payments to producers. The new compromise agreement goes a stage further, providing the possibility of converting most of the direct payments into a more decoupled single farm payment.

The final agreement differs from the initial European Commission proposal in a number of ways, as adjustments were made to achieve a political compromise. The compromise agreement provides countries with options that complicate the analysis, as methods of support are allowed to differ among countries and among regions within countries. As the positions of individual countries remain unclear at this time, this analysis examines two extreme scenarios in terms of the decoupling of payments. One scenario assumes that all EU countries incorporate as many payments into the decoupled single farm payment as the agreement allows; the other scenario assumes that all EU countries choose to do the least amount of decoupling permitted by the agreement by maintaining payments tied to production wherever it is allowed. These two scenarios bracket the numerous possible outcomes.

A model of the EU-15 agricultural sector was used to conduct this analysis. Ongoing work will extend the current EU model to incorporate the 10 countries scheduled to join in 2004, but these countries and their effects on current member states are not included in this analysis. In addition to the policy options resulting from the CAP reform agreement examined here, the new members are also provided further options regarding how they transition from their current policies to the newly reformed CAP.

The model and baseline used are the same that were used earlier this year in the FAPRI-Ireland analysis of the European Commission's legislative proposals (Binfield et al, 2003).[1] The baseline is therefore slightly out of date, given weather, exchange rate, and other developments. Some of the results are sensitive to the baseline; for example, the euro/dollar exchange rate and initial stock levels will influence the impact of the reforms.

[1] The FAPRI-Ireland study also included the impact of the EU's proposal on modalities for the Doha round.

Policy Assumptions

In addition to a baseline that maintains policies agreed to prior to 2003, two scenarios have been simulated. One of them, MOST, assumes that all EU countries choose the maximum degree of decoupling that is available to them, i.e., that all adopt the single farm payment in 2005. The LEAST scenario assumes that all EU countries do the least amount of decoupling that is required, that is, they opt to keep the largest allowed proportion of their payments in their present, more coupled form. At present it is not possible to determine which of the options countries will choose to implement, and in reality the degree of decoupling will likely fall between these extremes. A discussion of the implications of different choices is included in the final part of the paper.

The Agreement

There were a number of different changes made to the CAP under the reform agreement. They can be characterized as:

i) Fundamental changes to the way that support is provided. The biggest change under the reforms is the introduction of the single farm payment. With the reforms, it will be possible to pay most of the current direct payments in the form of a single farm payment, based on historical claims, that is linked to land rather than production.

ii) Changes that were made to “problem” commodities, such as rice and rye. In the case of rice, the previously agreed “Everything but Arms” agreement will significantly liberalize access to the EU market by least developed countries, raising fears of large increases in EU imports and intervention stocks under the current system where the EU market price is roughly double the world rice price. In rye, stocks had been building significantly prior to 2003 with intervention stock levels exceeding a year’s production.

iii) The transfer of money between CAP objectives. Over time the single payment is “modulated,” i.e., eventually a minimum of 5 per cent of its value is transferred to rural development measures. “Degression,” the further reduction of payments to finance reforms in other sectors or to meet budgetary objectives, will be decided in each year, with the Commission retaining the right to modify payment rates by up to 3 per cent.

It was envisaged in the MTR document that virtually all the payments would be decoupled and paid as part of the single farm payment. In the course of negotiations concessions were made that enabled payments to remain coupled to a certain extent. The result is that the reform agreement is complicated, containing concessions to different countries and allowing a large number of permutations as to its final implementation. In fact, the final legal wording has not been released.

The agreement is summarized in Table 1.

Table 1. Major aspects of the CAP reform agreement of 2003

Single payment	A single farm payment replaces various existing payments to grain, oilseed, cattle, sheep, and dairy producers. Countries can implement the single farm payment as early as 2005, but no later than 2007.
Entitlement	Single farm payment entitlements are awarded to farmers based on historical payments. Payment is subject to cross compliance criteria, but does not require production of commodities.
Options	Member states can retain a proportion of current payments that are tied to production of particular commodities in some cases: i) Pay 25% of the arable area payment **or** 40% of the durum wheat payment. ii) Pay 50% of the ewe premia. iii) Pay 100% of the suckler (beef) cow premia and 40% of the slaughter premia **or** 100% of the slaughter premia **or** 75% of the special beef premia. Member states can also allocate 10% of the total available in the form of sector specific payments.
Modulation	For those entitled to claim in excess of 5,000 euro, payment rates are reduced by 3% in 2005, 4% in 2006, and 5% from 2007 onwards.
Soft wheat, corn, and barley	No change in stated intervention price, but 50% cut in monthly increments slightly reduces effective support price.
Rye	Intervention abolished in 2005.
Durum	Supplemental payments in “traditional areas” are reduced from 344.5 euro/ha in steps to 285 euro/ha by 2006. Introduction of special premium of 40 euro/mt.
Set-aside	Largely unchanged.
Rice	Intervention price cut by 50% to 150 euro/mt. Areas eligible for payment reduced. Compensation payment paid in two parts (75 euro/m.t. is crop specific, and 102 euro/mt is part of the single payment).
Energy crops	45 euro/ha payment for energy crops (e.g., rapeseed for oil used to produce biodiesel), subject to 1.5 mil. ha limit.
Cattle	All payments eligible to become part of the single payment. Proportion of suckler (beef) cow premia that can be paid on heifers is increased to 40%.
Dairy	Relative to planned changes under Agenda 2000: - Intervention price cuts moved forward a year, with butter support cut by an additional 10% by 2007. - Increases in milk quota scheduled for 2005 deferred to 2006. - Further restrictions on purchases into intervention.

The Scenarios

The particular choices that the individual countries will make in implementing the reform are unknown. Two scenarios are examined in an attempt to bracket possible outcomes.

Scenario MOST

In this scenario, all EU-15 countries are assumed to divert the maximum amount of current direct payments into the single farm payment at the earliest time. This means that the arable area payment, special beef premia, suckler (beef) cow premia, slaughter premia, ewe premia, and the eligible part of the rice premia are included in the new single farm payment linked to land, but not to crop production.

In this scenario the dairy payments also become part of the single farm payment, but the dairy quota is assumed to continue to be the primary determinant of milk production in the European Union. Decoupling of payments is likely to lead to significant restructuring of the industry in several countries.

Scenario LEAST

Under this scenario the countries are assumed to transfer the least permissible amount of direct payments to the single farm payment at the last possible dates. Decoupling is therefore delayed until 2007, and after that point countries are assumed to keep 25 percent of their arable payment coupled (Italy is assumed to instead keep 40 percent of its durum payment coupled). All countries are assumed to retain the option to pay 100 percent of the suckler cow premia and 40 percent of the slaughter premia in their current form.

Note that in the model, the single farm payment is assumed to have some modest impacts on supply. Cross compliance criteria that are attached to the payment provide one explanation for why the largely decoupled payments may, nevertheless, have supply effects. In addition, in FAPRI models even relatively decoupled payments like the U.S. direct payment program are assumed to have some modest effects on production because of risk concerns and other factors. As in the U.S. model, however, a euro (or dollar) transferred to producers by means of a relatively decoupled payment like the single farm payment has a much smaller effect on production than would the same amount of money transferred to producers in a payment more directly tied to current production.

Results

With a few exceptions, the reforms have only modest impacts on EU agricultural commodity supply, consumption, and trade. For soft wheat, barley, corn, oilseeds, pork, and poultry, the estimated impacts are very small, primarily because the reformed policies represent only a modest departure from current policies. In contrast, the reforms result in a larger deviation from previous policy for the beef, sheep, rice, and rye sectors, and the estimated market impacts are correspondingly larger.

In interpreting the impact of the introduction of the single payment, it is important to consider the extent to which pre-existing programs are coupled to production. For example, in the beef and sheep sectors, in order to claim the premia, producers have been required to have the animal. Production effects of the payments are somewhat lessened by limits on eligible animals and other program provisions, but the link between payment and production is strong in most areas.

In contrast, the pre-existing arable aid payment is much more decoupled. With some restrictions, farmers are largely free to select the crop that they grow. There is also the opportunity to put the land into voluntary set-aside, which allows farmers to reduce production without affecting payments. Shifting from a partially decoupled arable aid payment to a more decoupled single farm payment may have only modest effects on producers of soft wheat, barley, corn, and oilseeds.

Cereals and oilseeds

The impact of the reforms on the major cereals and oilseeds is small, as the current regime is largely decoupled, and there are provisions in the agreement to prevent the conversion of pasture land into crop production. In addition, there were significant changes made in the final compromise that meant the estimated impact on this sector is smaller than what was projected in analysis of the initial proposals. A summary of the estimated effects on the crop sector is included in Table 2.

For most major crops, the agreement results in only small changes in supply, consumption, trade, and prices. While moving to more decoupled payments tends to reduce production, the estimated overall effect on area harvested across 9 major crops is a modest 1 percent reduction. Most of the reduction in area is accounted for by durum wheat and rye, the two commodities where other policy changes significantly reduce marginal production incentives.

The net result is that area and production changes for soft wheat, barley, corn, and oilseeds are all less than one percent. The slight reduction in effective support prices (because of the reduction in monthly increments to the intervention price) has a slight depressing effect on EU market prices, offsetting the impact of reduced production and leaving EU market prices very close to baseline levels. EU grain net exports are slightly reduced, but the effect is so small that world prices rise by less than 1 percent. For these crops, movements in world prices and exchange rates are likely to have a greater influence on the evolution of the sector than the policy reforms.

The reduction in the support payment in the durum sector results in a significant reduction in the durum area planted. The abolition of intervention for rye means that the rye price falls until stocks are disposed of and area adjusts. In 2003 German cereals producers anticipated these changes and had already reduced area somewhat. Under the scenarios, area is well below that which was planted in the years prior to 2002.

Table 2. EU-15 crop sector: average results for 2007-2012

	BASELINE	MOST (Maximum decoupling)			LEAST (Minimum decoupling)		
	2007-12 average	2007-12 average	Change from base	% change from base	2007-12 average	Change from base	% change from base
EU-15 crop area (1000 ha.)							
Soft wheat	14,282	14,193	-89	-0.6%	14,226	-56	-0.4%
Durum	3,798	3,613	-186	-4.9%	3,633	-165	-4.4%
Barley	10,750	10,703	-47	-0.4%	10,709	-41	-0.4%
Corn	4,371	4,360	-11	-0.3%	4,360	-11	-0.3%
Rye	960	876	-84	-8.8%	877	-84	-8.7%
Rice	391	385	-6	-1.6%	385	-6	-1.6%
3 major oilseeds*	4,984	4,953	-30	-0.6%	4,975	-8	-0.2%
9-crop total	39,537	39,082	-455	-1.2%	39,165	-372	-0.9%
EU-15 net exports (mmt)							
Soft wheat and durum	11.44	10.65	-0.79	-6.9%	10.86	-0.58	-5.1%
Barley, corn, and rye	8.16	7.89	-0.27	-3.3%	7.90	-0.25	-3.1%
EU-15 net imports (mmt)							
Rice	1.69	1.14	-0.55	-32.5%	1.13	-0.56	-32.9%
Oilseeds and products	40.64	40.72	0.08	0.2%	40.66	0.01	0.0%
EU-15 prices (euro/mt)							
Soft wheat	109.30	109.04	-0.26	-0.2%	108.89	-0.41	-0.4%
Barley	101.74	102.00	0.26	0.3%	101.65	-0.09	-0.1%
Corn	124.19	124.71	0.52	0.4%	124.61	0.42	0.3%
Rice	257.30	173.69	-83.61	-32.5%	173.32	-83.98	-32.6%
World prices ($/mt)							
Wheat, U.S. Gulf	146.67	147.66	1.00	0.7%	147.38	0.71	0.5%
Corn, U.S. Gulf	104.73	105.07	0.34	0.3%	104.94	0.21	0.2%
Soybeans, Rotterdam	232.39	233.05	0.65	0.3%	232.56	0.17	0.1%
Rice, Bangkok	258.90	252.46	-6.45	-2.5%	252.44	-6.47	-2.5%

* Soybeans, rapeseed, and sunflowers.

Source: FAPRI estimates for the current 15 members of the European Union. Does not include impacts on the 10 countries scheduled to join the European Union in 2004.

BASELINE: Continues policies agreed to prior to 2003. Note that in the case of rice, this includes the "Everything but Arms" agreement that would open EU markets to imports of rice from least-developed countries. Given pre-2003 policies, high internal prices in the European Union result in a large increase in EU rice imports in the baseline.

MOST: Incorporates the new reforms agreed to this year, and assumes all EU member states will choose the implementation alternatives that result in the maximum amount of decoupling of payments.

LEAST: Incorporates the new reforms agreed to this year, and assumes all EU member states will choose the implementation alternatives that result in the minimum amount of decoupling of payments.

In the baseline, the high EU domestic rice price relative to world markets results in a large increase in imports as the Everything but Arms agreement provides least-developed countries access to EU rice markets. The halving of the rice intervention price results in lower EU rice prices under both scenarios. Rice-specific payments offset the impact of lower prices, resulting in only a modest adjustment in rice area. With sharply lower internal EU rice prices, there is less incentive for least developed countries to ship rice to the European Union than is the case under the baseline.

While scenario rice imports are well below baseline levels, they do exceed the levels of recent years. The EU price reductions resulting from the reforms increase EU domestic rice consumption. Further, current formulas mean that the reduction in intervention prices also reduces allowed tariffs for rice imports from non-developing countries, and so in the early years of the projections, some countries may have an incentive to increase sales. The European Union has stated that it wants to negotiate import quotas to address this issue.

Livestock and meat

In contrast to the crop sector, more payments in the livestock sector are directly linked to production. Support payments are made on cattle and sheep, and the decoupling of these payments in the reform scenarios has a significant impact on the sector. The incentive to maintain the breeding herd is reduced when the suckler (beef) cow premia and ewe premia are decoupled. Insofar as the other payments in the cattle sector are capitalized into the price of young animals, decoupling of these payments under the LEAST scenario still has a negative impact on production. A summary of the results is included in Table 3.

Note that the estimates reported here represent 2007-2012 averages and may understate the potential long-run impacts of decoupling on the beef and sheep sectors. Because of herd dynamics, effects build over time, and the estimated impacts on beef production in the MOST scenario are significantly larger in 2012 (a 4 percent reduction) than in 2007 (less than a 1 percent reduction). Given the magnitude of the departure from current policies, it is difficult to estimate cattle and sheep sector effects with confidence. The impact of the reform will vary between countries depending on their production systems and relative reliance on payments.

Given reduced beef and sheep meat production, and with imports of these products restricted by TRQs, EU livestock prices rise. The extent of the price rise for beef is determined by the Commission’s behavior regarding export refunds. The higher prices in the beef sector mean that the Commission has greater scope than under previous policies to reduce export subsidy levels, given that it can do so and still leave prices above levels that would prevail under current policies.

The changes made in the dairy sector are small, with the quota assumed to continue to determine production over the projection period. The reform agreement does include a further reduction in the butter support price relative to that previously agreed and the incorporation of dairy payments into the single farm payment. It is reasonable to assume that this will lead to widespread restructuring of production in many countries, but the impact on the aggregate sector figures is likely to be limited.

Table 3. EU-15 livestock and dairy sectors: average results for 2007-2012

	BASELINE	MOST (Maximum decoupling)			LEAST (Minimum decoupling)		
	2007-12 average	2007-12 average	Change from base	% change from base	2007-12 average	Change from base	% change from base
EU-15 meat production (1000 mt)							
Beef	7,268	7,079	-189	-2.6%	7,252	-16	-0.2%
Pork	18,483	18,546	63	0.3%	18,494	10	0.1%
Poultry	9,495	9,540	45	0.5%	9,503	8	0.1%
Sheep meat	1,091	1,031	-59	-5.4%	1,072	-18	-1.7%
EU-15 net exports (1000 mt)							
Pork	1,275	1,274	0	0.0%	1,275	0	0.0%
Poultry	225	224	-1	-0.5%	225	0	0.0%
EU-15 net imports (1000 mt)							
Beef	42	143	101	241.3%	51	9	22.2%
Sheep meat	266	277	12	4.3%	269	3	1.2%
EU-15 prices (euro/mt)							
Beef	240.36	254.67	14.30	5.9%	241.89	1.52	0.6%
Pork	132.56	133.42	0.86	0.6%	132.67	0.11	0.1%
Poultry	126.91	127.85	0.94	0.7%	127.03	0.13	0.1%
Sheep meat	367.88	415.42	47.53	12.9%	381.14	13.26	3.6%
EU-15 dairy							
Milk production (mmt)	122.36	122.33	-0.02	0.0%	122.34	-0.02	0.0%
4 product net exports*	0.98	0.93	-0.05	-5.0%	0.93	-0.05	-4.9%
Milk price (euro/100 kg)	27.20	26.83	-0.37	-1.4%	26.83	-0.37	-1.4%

* Cheese, butter, skim milk powder, and whole milk powder, mmt.

Source: FAPRI estimates for the current 15 members of the European Union. Does not include impacts on the 10 countries scheduled to join the European Union in 2004.

BASELINE: Continues policies agreed to prior to 2003. Note that in the case of dairy, this includes the 2005-2007 scheduled increases in milk quotas and reductions in intervention prices agreed under Agenda 2000.

MOST: Incorporates the new reforms agreed to this year, and assumes all EU member states will choose the implementation alternatives that result in the maximum amount of decoupling of payments.

LEAST: Incorporates the new reforms agreed to this year, and assumes all EU member states will choose the implementation alternatives that result in the minimum amount of decoupling of payments.

Implications for the WTO Negotiations

The recent CAP reforms appear likely to transfer a sizable portion of EU agricultural payments from the exempt, but production limiting, blue box to the exempt green box. Currently, the European Union has an amber box limit of 67 billion euro. For 1999, the latest year for which the European Union has reported domestic support, amber box support topped 47 billion euro and nearly 20 billion euro was spent on blue box payments. On the basis of previous (pre-2003) CAP reform policies, FAPRI estimates annual baseline amber box spending levels of about 34 billion euro (Table 4). Annual baseline blue box spending rises from about 24 billion euro to about 27 billion euro over the projection period (the phase-in of dairy payments established under Agenda 2000 accounts for most of the increase).

The major policy change for WTO purposes is the development of the single farm payment scheme. The payment scheme is structured to fit within the current definition of green box income support. Since most of the payments covered by the single farm payment scheme are currently in the blue box, FAPRI analysis indicates a dramatic reduction in blue box spending in both scenarios. In the LEAST scenario, blue box spending falls to 7 billion euro annually by 2007. In the MOST scenario, blue box spending is reduced to 0.4 billion euro annually after 2004. The differences between the two scenarios are due to the timing and implementation of payment decoupling. Under both scenarios, annual amber box spending falls slightly, to about 32 billion euro.

This analysis suggests that the European Union could negotiate a sizable reduction in amber spending limits, abide by new limits on blue box spending, and still maintain the policy structure just approved. Projected levels of amber box support under both reform scenarios are approximately 52 percent below the current WTO limit. Furthermore, the projected level of blue box support, even under the LEAST scenario, is below the limit of 5 percent of the value of production suggested in the recent EU-U.S. joint proposal (in 1999, the reported value of agricultural production was more than 233 billion euro; blue box support of 7 billion euro would account for just 3 percent of that figure).

While the CAP reforms may have significant effects on measures of EU internal support, they do less to reduce EU export subsidies or import barriers. FAPRI estimates suggest only small changes in EU net trade, domestic prices, or world prices for most commodities. For example, net EU trade in wheat and coarse grains is only about 1 million metric tons lower in the CAP reform scenarios than in the baseline, and both EU and world prices change by less than 1 percent.

Exceptions to the general rule of small border measure effects would be in the cases of rice (where EU prices fall sharply, and net imports are lower than in the baseline), beef (where EU prices rise but exports fall), and butter (where a fall in EU prices reduces the tariff level necessary to protect the EU market).

Table 4. EU-15 domestic support levels

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
				million euro				
Permitted AMS	67,170	67,170	67,170					
Current AMS								
BASELINE	40,081	34,814	34,687	34,744	34,332	33,933	33,505	33,520
MOST			34,687	34,134	32,972	32,388	32,117	32,121
LEAST			34,687	34,134	33,059	32,540	32,174	32,208
Blue box								
BASELINE	23,064	24,018	23,989	23,998	25,020	26,029	27,054	27,033
MOST			23,989	25,330	367	372	376	379
LEAST			23,989	25,330	26,976	28,366	7,411	7,089
Sum of current AMS and blue box								
BASELINE	63,145	58,831	58,676	58,742	59,352	59,962	60,559	60,553
MOST			58,676	59,463	33,339	32,760	32,493	32,500
LEAST			58,676	59,463	60,034	60,906	39,585	39,297
Current AMS vs. 2003/04 permitted AMS								
BASELINE			-48%	-48%	-49%	-49%	-50%	-50%
MOST			-48%	-49%	-51%	-52%	-52%	-52%
LEAST			-48%	-49%	-51%	-52%	-52%	-52%
Sum of current AMS and blue box vs. 2003/04 sum of current AMS and blue box								
BASELINE			0%	0%	1%	2%	3%	3%
MOST			0%	1%	-43%	-44%	-45%	-45%
LEAST			0%	1%	2%	4%	-33%	-33%

Source: FAPRI estimates of domestic support levels for the current 15 members of the European Union. Does not include impacts on the 10 countries scheduled to join the European Union in 2004.

AMS: Aggregate Measure of Support.

BASELINE: Continues pre-2003 policies. Includes scheduled adjustments in dairy policy between 2005 and 2007 that were agreed as part of the Agenda 2000 reform package in 1999.

MOST: Incorporates the new reforms agreed to this year, and assumes all EU member states will choose the implementation alternatives that result in the maximum amount of decoupling of payments.

LEAST: Incorporates the new reforms agreed to this year, and assumes all EU member states will choose the implementation alternatives that result in the minimum amount of decoupling of payments.

The reforms will allow the EU to spend less on export subsidies. In the beef sector production reductions mean that subsidies could be reduced without prices falling below baseline. Subsidized beef exports are already well below the URAA limits on volume and value. In the dairy sector, the EU is closer to the URAA limits, but the reduction in support prices and fall in exports would reduce subsidized exports.

Concluding Comments

Quantifying the impacts of the 2003 CAP reforms is difficult at this time. Implementing legislation has yet to be approved, and the compromise agreement gives countries considerable latitude in how they choose to implement key provisions.

Perhaps just as important, it is very difficult to predict with confidence how EU producers will respond to the proposed decoupling of many payment programs. Based on the response of U.S. producers to the significant decoupling of many U.S. support programs in 1996, it appears likely that there will be cases where the analysis under- or over-estimates impacts, or even misses the direction of impacts.

With those caveats in mind, it nevertheless appears likely that the reforms will have only modest impacts on producers of soft wheat, barley, corn, oilseeds, hogs, and poultry. For the major grains and oilseeds, previous policy reforms had already partially decoupled certain payments, so the further decoupling mandated by the reforms has only small estimated effects. In contrast, the reforms will significantly affect marginal incentives for producers of cattle, sheep, rye, durum wheat, and rice, so the estimated impacts on those sectors are generally larger.

Perhaps more important than the supply-and-demand impacts, the reforms may have an important effect on EU negotiating positions at the WTO talks. Assuming the single farm payment is classified in the green box, the reforms would sharply reduce EU blue box spending. An agreement that places limits on blue box spending and requires significant reductions in amber box support from current permitted levels may not require major changes in EU agricultural policies beyond those included in the reform package. However, it should be noted that for sugar and other sectors not directly affected by the current reforms, both trade and domestic concerns are expected to lead to further EU reform efforts.

The reforms have only small impacts on EU export subsidies and market access for most commodities. The terms of a new WTO agreement in the areas of export subsidies and market access could prove very important to EU and world agriculture.

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