Institute for International Trade Negotiations

GROUPE D'ECONOMIE MONDIALE

SCIENCES PO

EU Negotiating Room in Domestic Support after the 2003 CAP Reform and Enlargement

GERALDINE KUTAS
Researcher and adjunct professor at the Groupe d'Economie Mondiale (GEM),
Fondation Nationale des Sciences Politiques (Sciences Po), Paris.
geraldine.kutas@sciences-po.org

WORKING PAPER

May 2006

EXECUTIVE SUMMARY

The European common agricultural policy (CAP) is under fire at the Doha round and the EU is the target of many criticisms. According to many WTO members, the offers made by the Europeans do not match the level of ambition of the Doha Development Agenda. On the other hand, some EU member states have accused the EU Trade Commissioner of making too ambitious proposals that exceed its negotiating mandate.
Actually, the limits of the EU negotiating position are complex to evaluate because the EU level of domestic support in the medium run remains unknown. Two elements contribute to this uncertainty: the effect of the 2003 CAP reform package and the impact of the enlargement on the level of domestic support. The objective of this paper is to estimate the level of trade-distorting domestic support measures in EU-25 until 2013, and to assess the EU room for negotiation at the Doha round, taking into account the impact of the 2003 reform package and of the enlargement process.

EU room for negotiation in amber box

Our findings show that applied AMS will decrease from 43’838 million euros (EU-15) at the end of the implementation period of the Uruguay Round Agreement on Agriculture (2000/2001) to 22’634 million euros (EU-25) by the year 2013. The market price support component of AMS will face the biggest reduction (from 31’037 million euros in 2000/2001 to 10’920 million euros in 2013), mainly due to the drop of market price support for the beef sector, olive oil and sugar. EMS and non-exempt direct payments will decrease slightly from 12’810 millions euros in 2000/2001 to 11’714 million euros in 2013. But some flexibility could be gained with the reform of the fruits and vegetables common market organizations (CMO). This sector has been left untouched by the last CAP reform; however it will account for 44% of the total AMS by the year 2013 and for 86% of the EMS and non-exempt payments. The 2003 CAP reform does not have either affected the wine sector. EMS for wine will represent 10% of total EMS and non-direct payments by 2013. This means that, in the absence of a substantial reform, the fruits and vegetables and the wine sector will together account for 50% of total AMS at the end of the period under consideration. The European Commission has recently launched consultations on the forthcoming reform of these sectors. However, in absence of clear elements, it is currently impossible to assess neither the magnitude of the reform nor its impact on the future EU-25 AMS level.

Because cuts in AMS are based on final bound level, the EU will be able to decrease its total AMS by 69%, from approximately 73’228 million euros[1] to 22’634 million euros in 2013.

At the Doha round, WTO members have expressed their willingness to impose caps on product-specific AMS, based on the average support granted to each product during a reference period. Our findings show that the introduction of ceilings by products will not be constraining for the EU, with the exception tomatoes, apples, triticale and sorghum. This result emphasizes the necessity to deeply reform the fruits and vegetables CMO.

The “*de minimis*” component of the amber box should also be further disciplined as a result of the Doha round. The EU last proposal is to cap “*de minimis*” at 2% of the

[1] Commitments for EU-15 (67'900 million euros) plus for the ten new member states (approximately 5’328 million euros)

value of production (1% for product specific, 1% for non-product specific). The EU offer is ambitious because the total "*de minimis*" component has never exceeded 0.5% of the EU value of production during the URAA implementation period. At the Doha round, "*de minimis*" ceilings will provide a large margin to the EU, since the caps will be calculated as a percentage of the EU-25 value of production.

EU room for negotiation in blue Box

It is on blue box notifications that the largest impact of the 2003 CAP reform package is observable because all the direct payments previously classified in the blue box are eligible for decoupling. Our findings show that blue box notifications will decrease from 22'222 million euros in 2000/2001 to 4'474 million euros in 2013. The effect of the reform on blue box notifications will be noticeable since the very first year of its application (2005). Although the blue box payments for the new member states are more complicated to evaluate, our estimates reveal that their impact on the total blue box payments will be marginal. The EU proposes to put a ceiling on the blue box equivalent to 5% of the value of production. Our findings show that the EU has still some room for negotiation and that a cap at 2% of the value of the production could be accepted by the EU.

EU room for negotiation in overall trade-distorting support

In its last negotiating proposal made at the Doha round, the EU offers to cut its overall trade-distorting support (AMS *plus* blue box *plus* "de minimis") by 70%. Our estimates reveal that the EU could even reduce its overall trade-distorting support by 77%. The large share of the unused "*de minimis*" ceiling will provides the EU with some negotiating space.

Conclusion

The findings presented in this study show that the EU proposals fit the 2003 CAP reform package and, in the case of the blue box and of the overall trade-distorting support, the EU still has some room for manoeuvre to offer deeper cuts. In addition, the impact of EU enlargement on the EU negotiating position is relatively marginal since the majority of the support measures to the new member states are placed in the green box. Our estimates reveal that the 2003 CAP reform will have a significant impact on market price support reduction but it will affect only slightly EMS and non-exempt direct payments. As a result, no additional room for manoeuvre in AMS is available in the absence of a far-reaching reform of the wine and fruits and vegetables CMOs. The Commission should take advantage of the WTO pressure to push for an additional and complementary reform to the 2003 CAP package.