The EU CAP Reform: Implications for Doha Negotiations

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Introduction

In the context of establishing its Multiannual Financial Framework for the period 2014–20, the EU also had to plan its Common Agricultural Policy (CAP) for that period. Accordingly the European Commission tabled a first document in 2010, outlining its thoughts on where the CAP should go. The Commission followed up with detailed legal proposals in 2011. After lengthy debates and negotiations between the Commission, the Council of Ministers and the European Parliament, the latter endowed with new powers by the Lisbon Treaty of 2009 and hence much more influential in shaping decisions on the CAP, a political agreement among the three parties was reached in September 2013. The framework for the CAP in the 2014–20 period is thus set.¹

Given the size of the agricultural sector in the EU, and the volume of agricultural trade conducted by the EU, the decisions on the CAP for 2014–20 could well have important implications for world markets, but also for the agricultural negotiations under the Doha Round. What is the nature of the decisions on the future of the CAP taken in 2013? Are they likely to have implications for the WTO negotiations on agriculture in the post-Bali context? Will they affect the position adopted in these negotiations by the EU? The present note will attempt to respond to these questions.

1. The CAP for 2014–20: background and outcome

To understand the nature of the decisions taken in 2013, shaping the CAP for the 2014–20 period, it is best to view them from the perspective of the evolution the CAP has taken since the early 1990s. In 1992, at a time when the Uruguay Round negotiations on agriculture were close to collapse over disagreement, in particular between the US and the EU, regarding the extent to which domestic support and export subsidies should be reduced, EU Commissioner for Agriculture Ray MacSharry managed to push successfully for the first CAP reform in EU history worthy of the name. Price support for a number of commodities was cut significantly, and direct payments were introduced as compensation for farm incomes. These new direct payments were coupled to production as they were based on the area actively farmed. Though internally in the EU the political argument at the time was that the MacSharry reform was initiated for domestic reasons, there is little doubt that it was strongly motivated by the ongoing negotiations of the Uruguay Round – and it did indeed open the door towards a successful conclusion of the multilateral trade talks (Swinbank and Tanner 1997, Daugbjerg and Swinbank 2009).

The successor to MacSharry, Commissioner Franz Fischler, took the next step in reforming the CAP, by de-linking the direct payments from production: farmers could receive (most of) the payments irrespective of what and, indeed, whether they produced any commodity. The Fischler Reform of

¹ A number of decisions on implementation are still pending, both at the EU level and in the individual member countries.
2003, variously described as “the most radical reforms of the CAP” ever (Swinnen 2008, p. 135), was motivated by a number of considerations. However, Fischler certainly wanted to avoid a repeat of the experience MacSharry had made in the Uruguay Round. There was little doubt that the Doha negotiations, if successful, would result in further reduction commitments for tariffs, domestic support and export subsidies. By switching to decoupled payments, the EU was in a position to place the largest part of its domestic support in the green box, sheltering it from reduction requirements and hence creating the possibility for the EU to agree, in the Doha negotiations, to further cuts in trade-distorting domestic support. Thus, Fischler’s strategy for CAP reform was also linked to the multilateral trade negotiations (Swinnen 2008).

The following Commissioner for Agriculture, Mariann Fischer Boel, also pushed for a determined continuation of CAP reform. She initiated a fundamental reform of the EU’s sugar regime (in response to a WTO dispute), with a significant cut of price support, and in her “Health Check” reform achieved the decision to end milk quotas (in 2015). Fischer Boel also continued the process of decoupling support from production and moving the CAP in the direction of more market orientation, thus making it more WTO-proof (Daugbjerg and Swinnen 2011).

When Dacian Cioloş took over as Commissioner for Agriculture in 2010, having to prepare the CAP for the 2014–20 period, the strategy changed fundamentally. Rather than continuing along the path towards fundamental CAP reform, for example by embarking on a gradual decline of direct payments and shifting expenditure to more targeted and territorially differentiated measures, the focus was on safeguarding the direct payments into the future (Tangermann 2014). From the first proposals tabled by Cioloş, and throughout the debate about the CAP for 2014–20, emphasis was not on whether direct payments, originally introduced as compensation for the 1992 price cuts, were still needed, but how the payments should be distributed across recipients. The decision eventually was indeed to redistribute payments to some degree, towards farmers in the EU’s new member countries in Central Europe, towards a more regionally even distribution within member countries, and towards smaller farms.

The Commissioner also proposed a new conditionality for receiving 30% of the payments, in the form of requiring farmers to engage in certain farming practices that are supposed to be environmentally friendly. This so-called “greening” of the direct payments was (and continues to be) much debated among the EU’s agricultural policy-makers and farmers, but was in the end reluctantly accepted. There are good reasons to doubt the environmental effectiveness of the new “greening” conditionality applied across the whole EU, in particular if compared to well targeted measures that take account of specific regional conditions and requirements and engage individual farmers in a contractual relationship (Tangermann 2014). Thus it is difficult to avoid the impression that “greening” the direct payments was primarily a strategy to make them immune against political criticism.

There will also be some reduction in the level of direct payments. However, this was not a deliberate decision on the side of agricultural policy-makers in the EU, and certainly not aimed by them at embarking on a gradual elimination of the payments. The reduction was rather a result of the general decision to scale the overall EU budget for the 2014–20 period down somewhat.

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2 The budget for the ‘First Pillar’, consisting mainly of the direct payments, will be reduced by 1.8% in real terms relative to the previous budget period (European Commission 2013).
As far as market measures are concerned, a remarkable outcome of the decisions in 2013 was resolve to end sugar quotas by 2017. In this regard the Cioloş package continues to reform the EU’s sugar policy and to eliminate supply management from the CAP, both initiated originally by Commissioner Fischer Boel through cutting price support for sugar and proposing an end of milk quotas. Other elements of the EU’s market and trade policies for agriculture were changed only marginally through the 2013 decisions. A limited number of largely technical amendments were made to some elements of the common market organization under the CAP, none of which changes the operation and implications of the regime significantly. However, the EU’s Member States are now given more scope for coupling part of the direct payments again with production, undoing elements of earlier CAP reforms and reducing the degree of market orientation.

Several changes were also made to the nature and implementation of rural development measures (the “Second Pillar” of the CAP), pursued by the individual member countries within a given EU framework and co-financed between member countries and the EU budget. Among others, member countries can make use of a “risk management toolkit” that now provides for the possibility of introducing income stabilization schemes, with parameters apparently designed with a view to the respective provisions under the green box in the WTO Agreement on Agriculture.

Though necessarily affecting developments on agricultural markets and the economic situation in agriculture, support for the production and use of biofuels in the EU is not part of the CAP in a formal sense, but comes under the heading of energy policy. Moreover, at the level of the EU only targets and general conditions are set, while implementation of biofuel support policies is the responsibility of the individual member countries. In designing its strategy for biofuels, the EU has for some time grappled with the issue of indirect land-use change (ILUC), as expansion of agricultural commodity production for use in biofuels might well push “traditional” agricultural products into areas (such as rainforests) that are sensitive regarding impacts on climate change and the environment, reducing (if not negating) the savings of greenhouse gas emissions that might otherwise result from biofuels. Most recently, in June 2014, the Council of Energy Ministers has agreed to scale back the target for use of conventional biofuels (produced on the basis of agricultural commodities, as opposed to “advanced” biofuels) from 10% to 7% of energy consumption for transport in 2020. If confirmed by the European Parliament this change in the EU’s biofuel policy could reduce the burden placed on international food markets by biofuel support provided in the EU.

2. Implications for the WTO negotiations

While the CAP reforms initiated by the three predecessors of the EU’s current Commissioner for Agriculture were at least partly aimed at shaping the EU’s position in the respective ongoing trade negotiations under the GATT/WTO, there is little if anything in the 2013 CAP package which might suggest that considerations regarding the Doha Round negotiations played a notable role this time round. At the same time it is also hard to detect much in the way of any direct implications that the CAP decisions taken in 2013 might have for the ongoing negotiations in the post-Bali framework.

In line with the tradition of past CAP reforms, the 2013 CAP package did not make any changes to the EU’s border protection for agricultural products. No tariffs were modified, nor were any Tariff

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3 With approval of the Commission, member countries can spend up to 13% of their direct payment volume on payments coupled to the production of a large number of crops and livestock products.
Rate Quotas (TRQs) adjusted or changes made to the administration of TRQs. Like in the past, the EU considers changes of its market access regime in agriculture to be a matter of international trade negotiations, rather than a subject of unilateral amendments of the CAP. Moreover, there are no specific reasons to assume that the decisions taken on the CAP for 2014–20 might in any way have changed the EU’s position regarding the Doha negotiations on market access in agriculture.

Quite independent from the decisions taken domestically in the EU one could potentially argue that the high level of international market prices for agricultural commodities that has materialized over the last few years, and that most analysts project will continue to prevail for quite some time, might allow the EU to show more flexibility than in the past in negotiations on tariff cuts for agricultural products. However, while this is not completely impossible it may also not be very likely. The whole “philosophy” behind the CAP decisions taken in 2013, and apparent in the debate that preceded them, is not reform-oriented, but rather focused on maintaining benefits to the farming community. Thus the nature of the 2013 CAP decisions would not appear to speak for a willingness on the side of the EU to show a wholly new flexibility in the Doha Round negotiations on market access in agriculture.

The 2013 CAP package also did not make any changes to the EU’s regime for export subsidies in agriculture. To be sure, in recent years the EU has made less and less use of export subsidization and, for the time being, it does not grant any export subsidies at all. Yet, this is not the result of deliberately abandoning the respective elements in the EU’s market regimes for agricultural products. The EU still has the instrumentation in place that allows it to subsidize exports, and in case of doubt it could begin to grant export subsidies again any day. The decline, and current disappearance, of export subsidies is a combined result of past cuts in EU support prices and the decoupling of direct payments on the one hand and of recent increases in world market prices for agricultural commodities on the other hand. It comes handy as it allows the EU, for the time being, to escape criticism for using this internationally much condemned instrument. It also is likely to allow the EU more flexibility in the Doha Round talks on eliminating export subsidies altogether, as already reflected, to some extent, in the EU’s acceptance of the Bali Ministerial Declaration on export subsidies, and in particular its undertaking that “the level of export subsidies will remain significantly below the Members’ export subsidy commitments”.

Quite some attention has been paid to a statement by Commissioner Cioloş made at the Berlin Green Week in January 2014, where, in the context of promoting the decisions on the CAP for 2014–20, he also said:

“I would like to tell you this evening, in the framework of preferential partnership agreements with African countries: I am prepared to go one step further. I am ready to propose to stop, once and for all, the use of export refunds to those developing country destinations – even in times of crisis when this instrument can still be used.”

While this suggestion can well be interpreted as an indication that the EU is moving more and more in the direction of accepting a final elimination of export subsidies (and measures with equivalent

4 The EU will not have been unhappy about the following sentence in the Bali Ministerial Declaration on export competition: “We recognize that the reforms undertaken by some Members have contributed to this positive trend.”

effect), it is worth keeping in mind that Cioloş made it in referring to the ongoing negotiations about Economic Partnership Agreements with African, Caribbean and Pacific (ACP) countries. These agreements would be comprehensive free trade agreements (FTAs). As in most FTAs the partner countries agree not to use export subsidies on intra-FTA trade (Fulponi, Shearer and Almeida 2011), it should not come as a surprise that the EU shows willingness to forgo the possibility of subsidizing exports to ACP countries after having concluded FTAs with them.

As the 2013 CAP decisions have primarily focused on direct payments, any implications they may have for the Doha Round negotiations on agriculture could potentially come mainly in the area of domestic support. However, even there it is not really obvious that any significant changes of the EU position might directly flow from the decisions taken domestically in the EU. One could possibly discuss whether some elements of the “greening” approach to direct payments could affect the legal status of these payments under the WTO’s green box as currently defined (see e.g. Häberli 2013). However, even if it were to turn out that (some part of) the "green" element of the EU’s direct payments could no longer be brought safely under the green box, this might not pose a major problem for the EU as there is sufficient scope under the Aggregate Measures of Support (AMS) commitments of the EU, both in their current form and after a potential agreement along the lines of the 2008 Draft Modalities. Thus even with regard to the WTO disciplines for domestic support it appears unlikely that the CAP decisions taken in 2013 will, by themselves, have any significant implications for the Doha Round negotiations on agriculture in the post-Bali context.

Conclusion

A sober assessment of the decisions taken in 2013 regarding the CAP for the 2014–20 period suggests two conclusions. First, compared to the reform trend established in the EU since 1992 by three successive Commissioners for Agriculture, the package of decisions taken in 2013 under the guidance of Commissioner Cioloş cannot really be called a reform. Instead, this was a holding operation, aimed at safeguarding a political future for the direct payments by making them immune to the most prominent criticism regarding their uneven distribution across farmers and their dwindling justification.

Second, contrary to the CAP reforms since 1992, all of which had some elements aimed at facilitating the EU’s constructive participation in the GATT/WTO negotiations, the decisions taken in 2013 had essentially very little, if anything, to do with the ongoing negotiations of the Doha Round. Market access was not improved at all. Export subsidization is still possible, though it is not currently used. And as far as domestic support is concerned, the past reforms of the CAP had created so much scope for the EU that no pressure is felt from that side. As a consequence it would also be difficult to argue that the recent decisions on the CAP for 2014–20 will by themselves have noticeable implications for the Doha Round negotiations in the post-Bali context.

At the time of writing it appears that attention of the EU’s agricultural policy-makers and the wider public is focused more on the Transatlantic Trade and Investment Partnership (TTIP) negotiations with the US than on the WTO’s Doha Round. If successful, a TTIP agreement could well affect the EU’s position in the multilateral negotiations. If access of the US to EU markets for agricultural products and foods is significantly improved under TTIP it would be difficult to argue that the EU should not also open its markets more widely to other exporters, in particular those from developing
countries. Equally, giving up on the possibility of export subsidization in trade with the US might well be a precursor to elimination of export subsidies overall. Implications regarding domestic support, though, are less clear as it is unlikely that any disciplines in this area might be included in a TTIP. However, it is conceivable that in the context of TTIP the US and the EU could agree to make a determined joint push in the WTO for significantly more stringent commitments on domestic support. If that possibility were to materialize, then even the EU’s position on domestic support might be affected in a way that is helpful for the Doha negotiations on agriculture.

The potential change in direction of the EU’s biofuel support policy, foreshadowed by a recent decision of Energy Ministers to scale back the target for biofuel use to 7% of energy consumption in transport, might reduce the burden biofuel support policies place on international food markets.
References


