European Commission
Agriculture and Rural Development

The Commission proposal and the Doha Round: What impact on EU agriculture?

DG for Agriculture and Rural Development
European Commission

The new Commission offer

- ***The main parameters of the proposal…***
  - overall balance across sectors
  - balance within agricultural pillars
- ***…the agricultural part…***
  - no change in domestic support and export competition
  - improved offer in market access
  - cross-cutting conditionality, including GIs
- ***…and its reception***
  - considered too ambitious in NAMA/Services by DCs
  - considered as lacking ambition in AMA by exporters

The agricultural proposal

- ***Export competition***
  - export subsidies to be phased-out
  - but parallelism still missing on STEs, food aid and export credits
- ***Domestic support***
  - 70 % cuts for EU, 60 % cuts for US in AMS and total support
  - 80 % cut in *de minimis*
  - new blue box disciplines to come from disciplines in support price gap
  - 5% ceiling part of the framework agreement as recognition of reform
- ***Market access***
  - thresholds at 30/60/90, cuts at 35/45/50/60
  - flexibility in lower band, formula for TRQ expansion, SSG

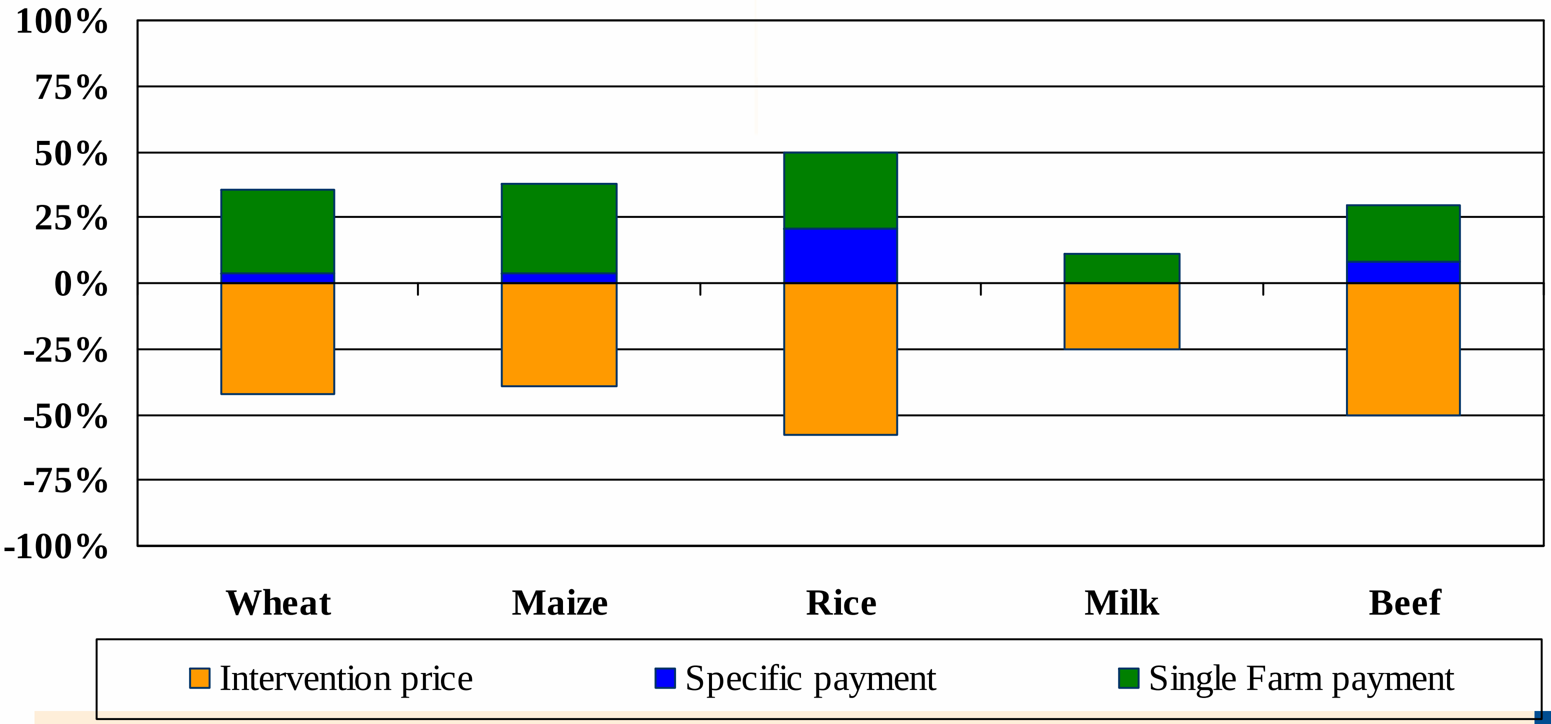
Measuring the ambition of the EU proposal

- ***The subsidy issue***
  - the need for harmonisation is in the direction of policy reform
  - USDA analysis shows 2/3 of benefits from EU reform from subsidies
- ***Market access***
  - both methods of calculating averages are valid
  - comparing *globally* UR approach and DDA approach is deceiving
  - fact is our average agricultural tariffs will drop from 23 % to 12 %
  - fact is highest tariffs would drop more
  - fact is we provide real marker access even for sensitive products
- ***Overall impact***
  - CAP cumulative impact is amplified by similar direction in all pillars
  - commodity analyses (USDA/OECD) clearly indicate this balance

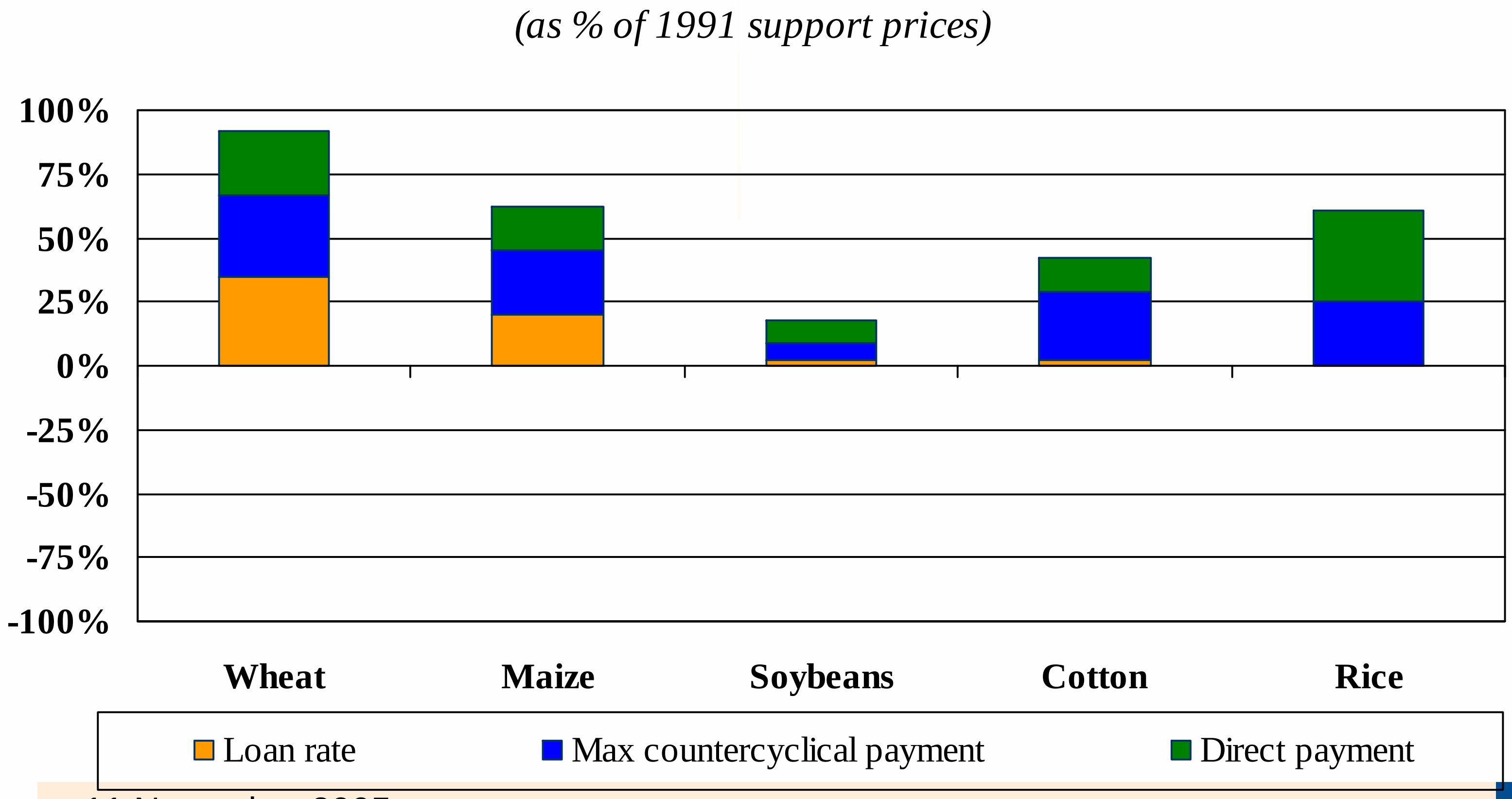
European Commission
Agriculture and Rural Development

Evolution of EU support prices, 1992-2007

(as % of 1991 support prices)



Evolution of US support prices, 1992-2007



Measuring the impact on EU markets

- ***Domestic support***
  - CAP reform already implemented in DG-AGRI baseline
  - baseline results benchmark for comparing impact
- ***Export subsidies***
  - Introduce gradual phasing-out of EU export subsidies
- ***Market access***
  - run model without treatment of sensitive products to see full effect
  - implement EU formula for TRQ expansion to assess impact
- ***Overall impact***
  - simulations impose changes *only* on EU, not other WTO members
  - conditionalities of EU proposal aim at mitigating full impact

Caveats of analysis

- ***Domestic support***
  - positive impact from US domestic support commitments on cereals, cotton and oilseeds missing
- ***Export subsidies***
  - positive impact from STE, export credit and food aid disciplines on cereals and dairy missing
- ***Market access***
  - full tariff cut scenario will affect all players and markets
  - SSG not implemented
- ***Overall impact***
  - comparing scenarios within same analytical framework helps…
  - …but model results are not the outcome, just a tool for analysis

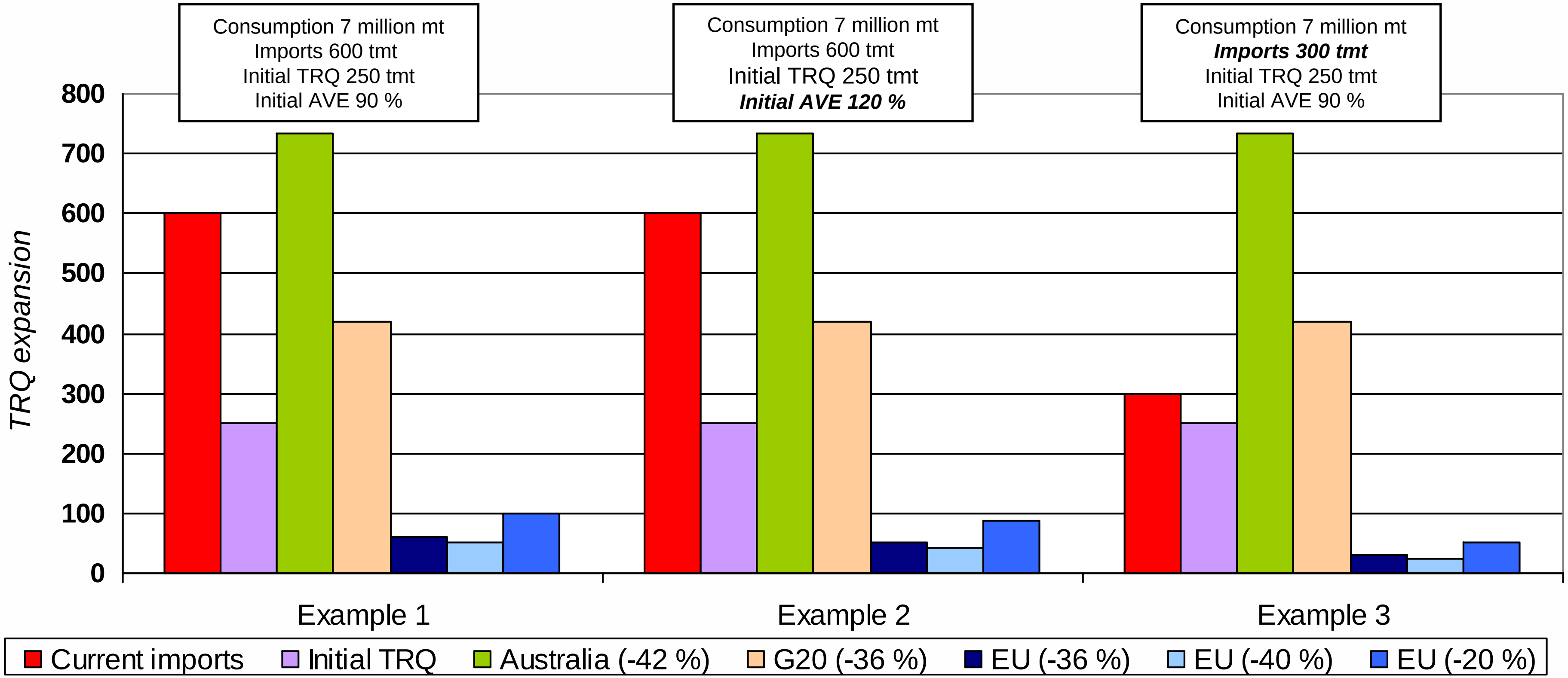
Measuring the market access impact

- ***The mandate question***
  - measuring proposal against CAP reform impact easier to quantify and assess
  - assessing acceptable economic impact more difficult and qualitative
- ***What basis for comparing results***
  - phasing-out of exports subsidies within mandate
  - UR approach for tariff cuts initially agreed by ms
  - framework agreement sets additional parameters
- ***Overall impact***
  - *caution*: baseline *excludes DDA impact*
  - only comparison of relative results among scenarios meaningful

The treatment of sensitive products

- ***Central element in EU proposal***
  - the aim of treatment should be to respect the framework agreement
  - the EU approach is derived by including all relevant parameters
- ***Flexibility in lower band***
  - allows increase in overall ambition of EU proposal…
  - …while keeping minimum cut for sensitive products in this band unchanged
- ***TRQ expansion formula***
  - provides substantial market access in comparison to full tariff cuts
  - exporters' proposals arbitrarily and independently determine TRQ expansion…
  - …but bear no relevance to market access impact via tariff cuts
- ***Overall impact***
  - substantial market access via significant tariff cuts
  - cumulative impact due to other pillars and tiered approach

Alternative proposals for TRQ expansion



(applied tariff cuts in parentheses)

Alternative approaches to TRQ expansion

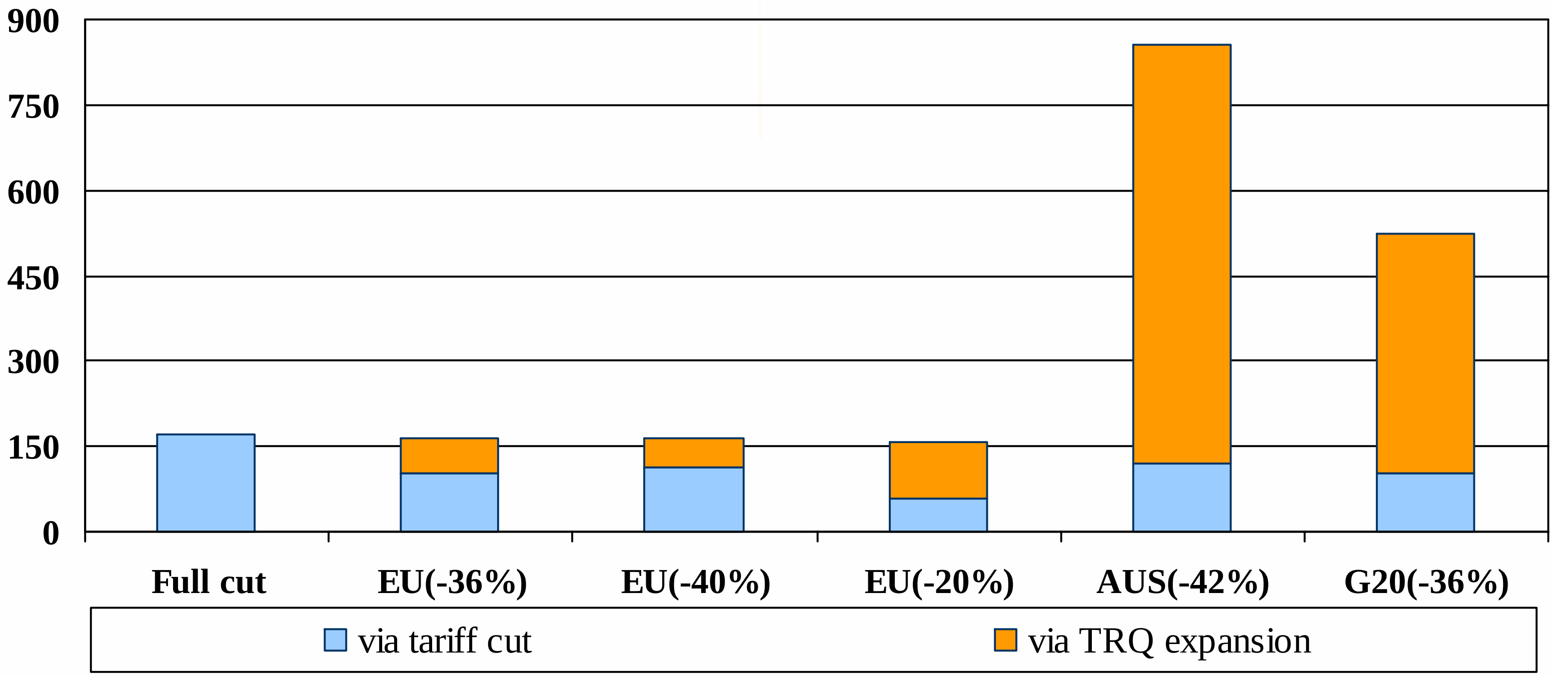
- ***TRQ expansion as percentage of consumption***
  - common approach for Australia, US and G20
  - sets fixed target independently, without reference to market access
  - attempts to capitalise on non-trade factors that influence consumption
  - ignores data limitations and inconsistencies of a residual figure

- ***TRQ expansion as percentage of actual imports***
  - only approach explicitly comparing alternative market access impacts
  - derived from requirements of framework agreement
  - adjusts TRQ expansion to tariff profile, TRQ level and actual trade
  - provides substantial market access in relation to relevant targets
  - utilises available and transparent data per tariff line

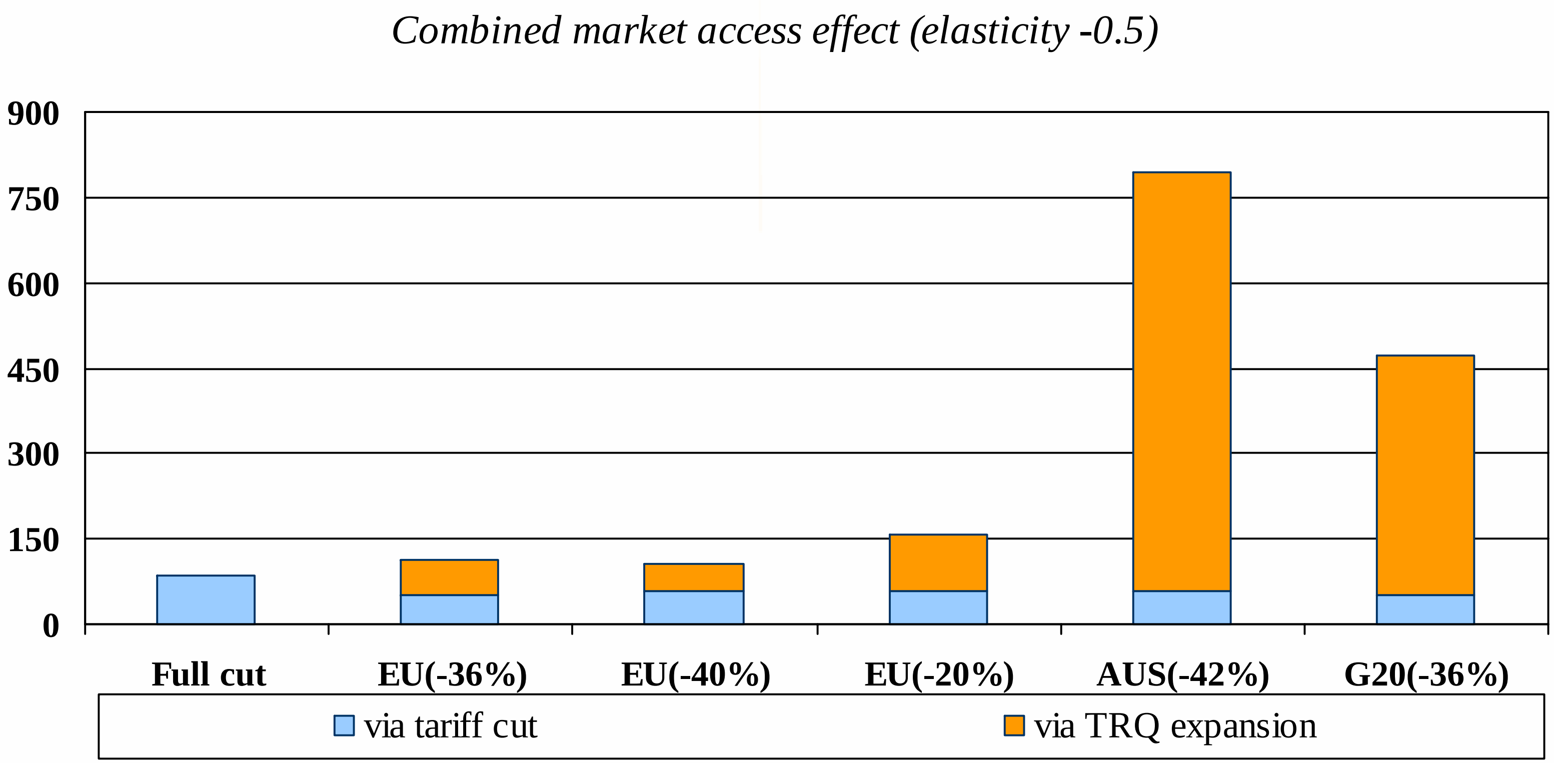
- ***The proof is in the pudding***
  - assume a price of 1500 €/mt in the previous example 1
  - further assume different import demand elasticity values
  - compare results

Market access and sensitive products

Combined market access effect (elasticity -1)

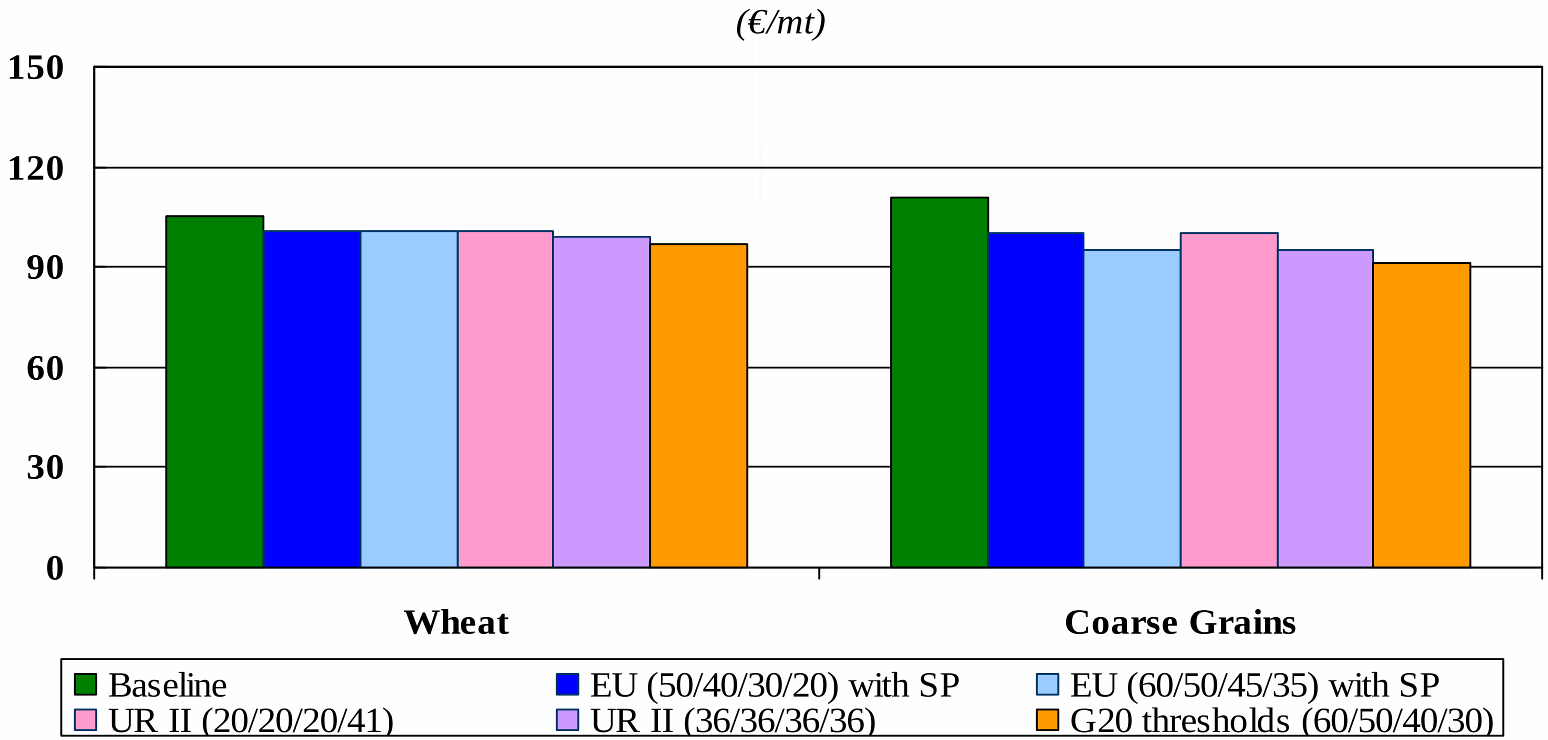


Market access and sensitive products



European Commission
Agriculture and Rural Development

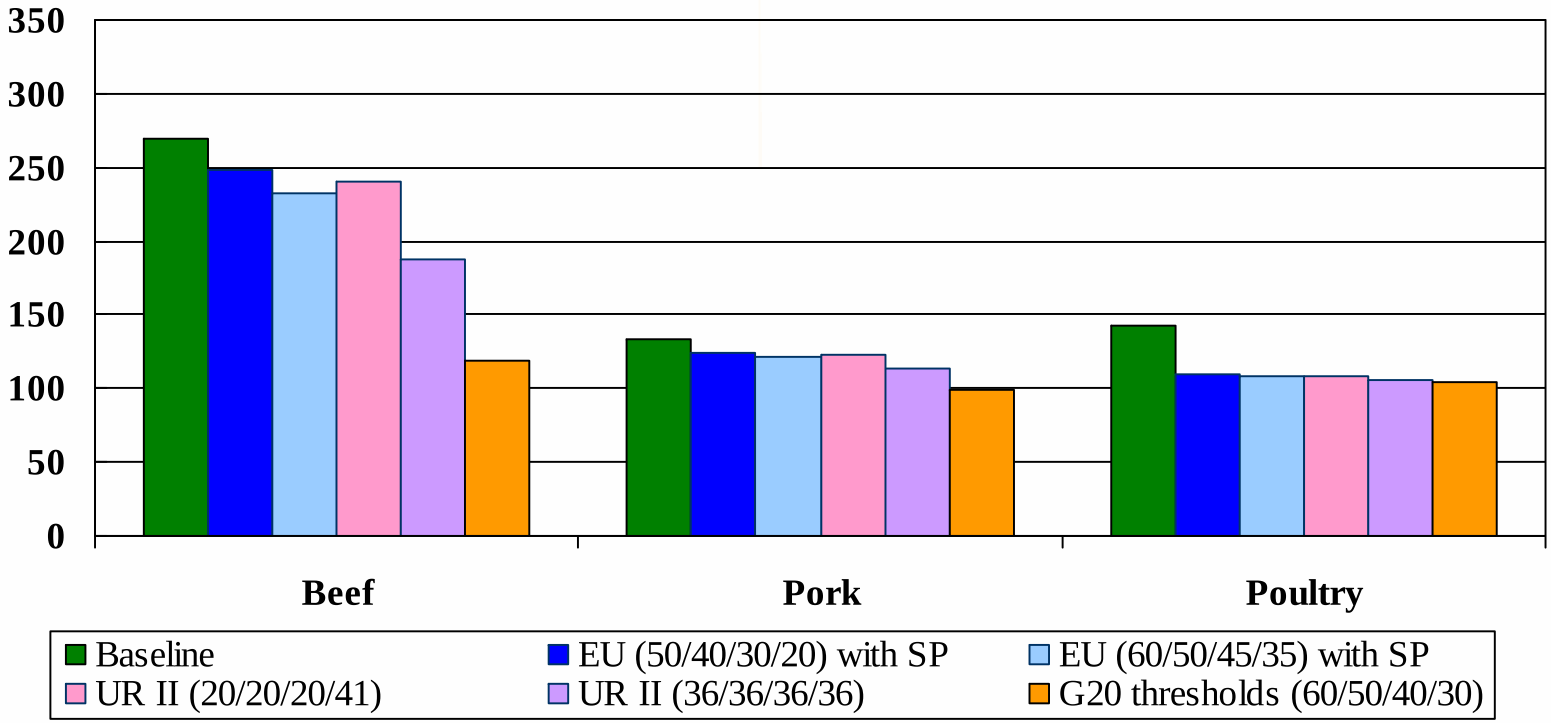
Impact on EU prices (cereals)



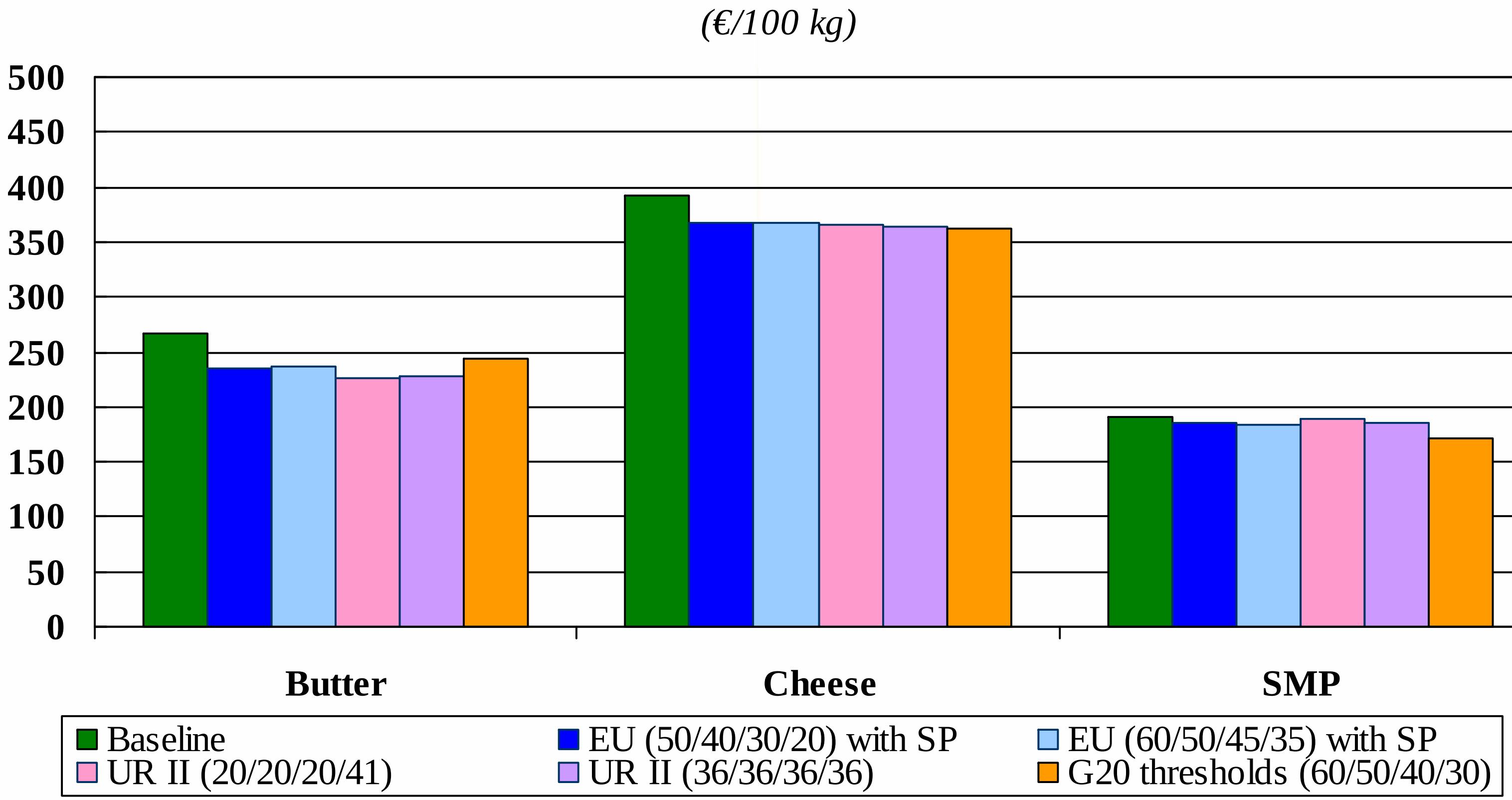
European Commission
Agriculture and Rural Development

Impact on EU prices (meats)

(€/100 kg)

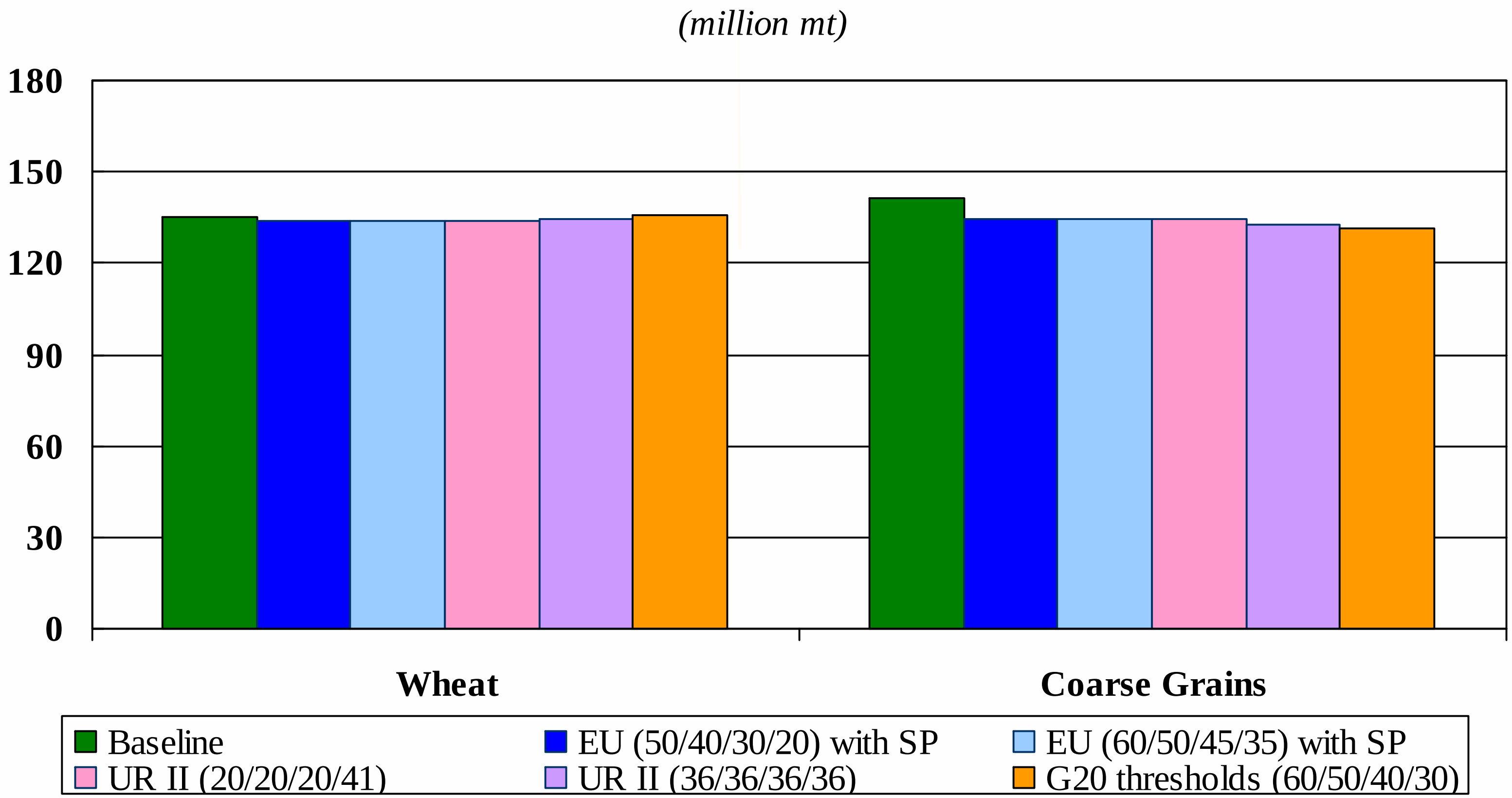


Impact on EU prices (dairy)



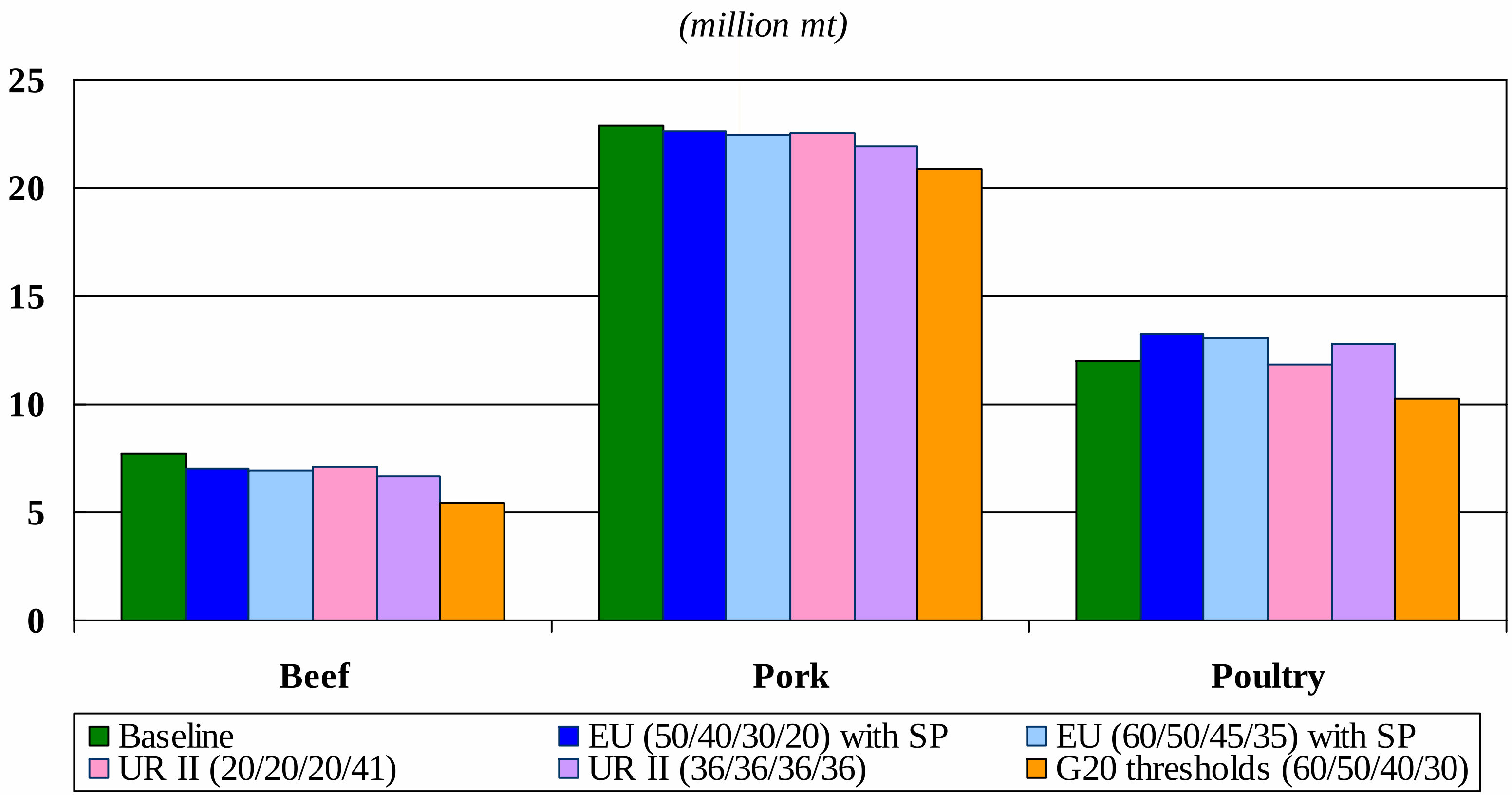
European Commission
Agriculture and Rural Development

Impact on EU production (cereals)



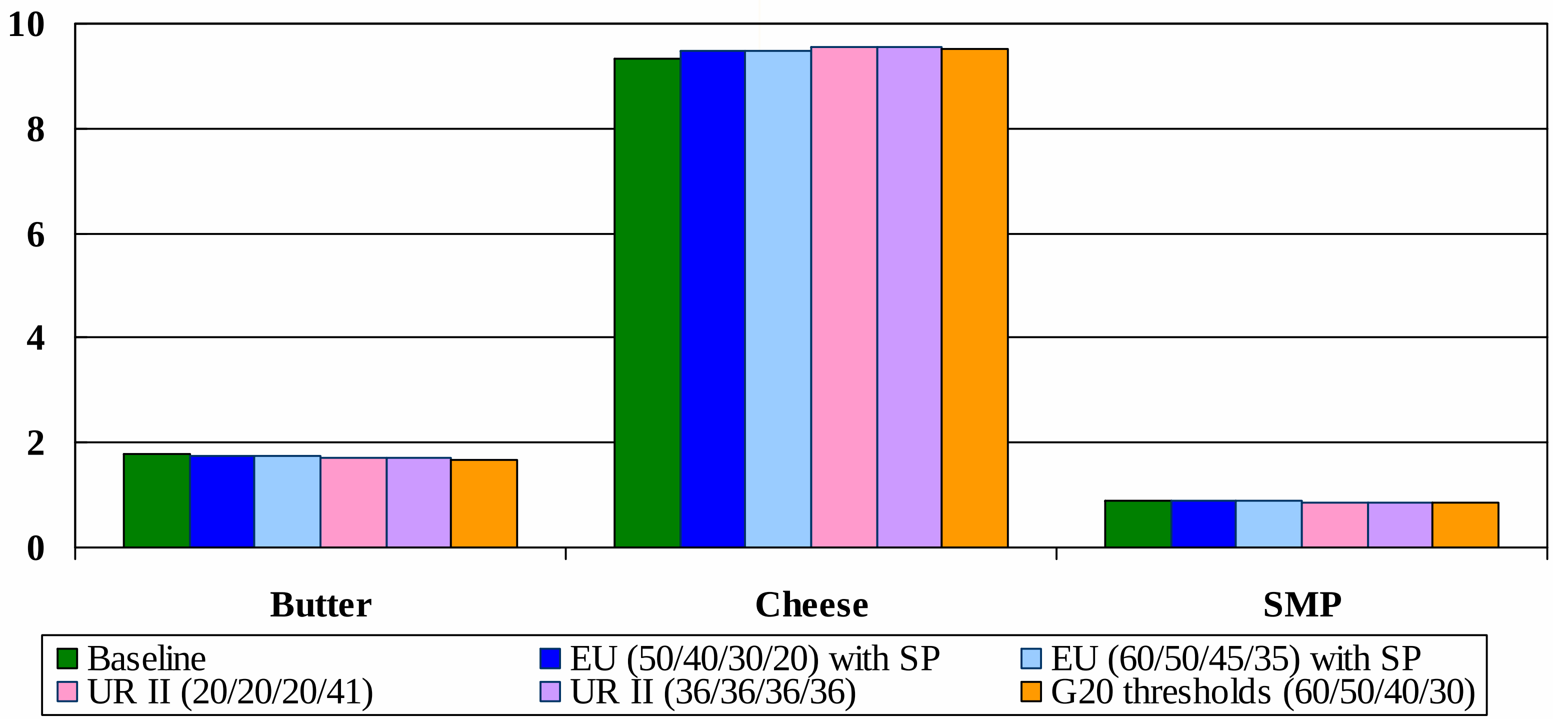
European Commission
Agriculture and Rural Development

Impact on EU production (meats)

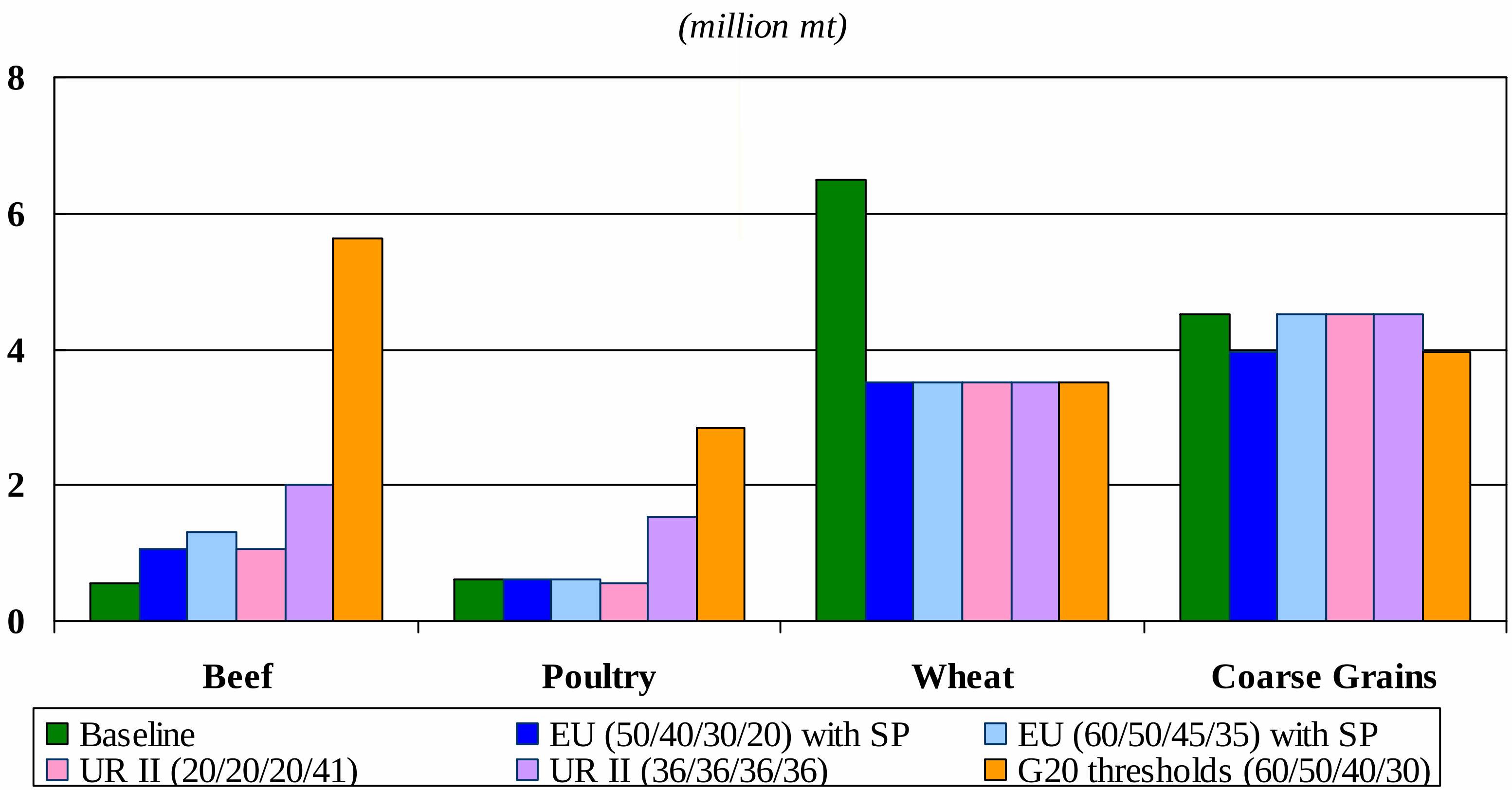


Impact on EU production (dairy)

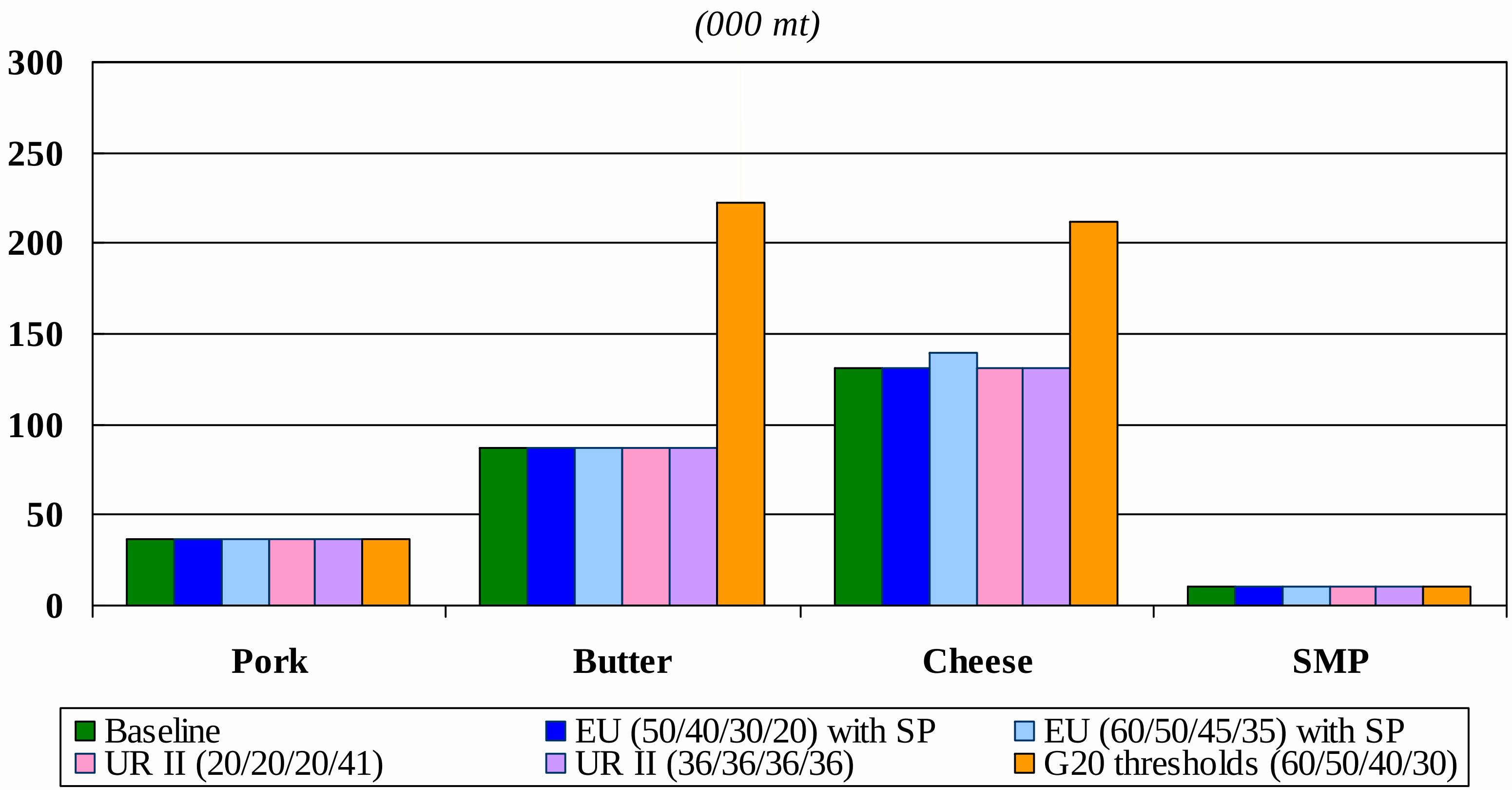
(million mt)



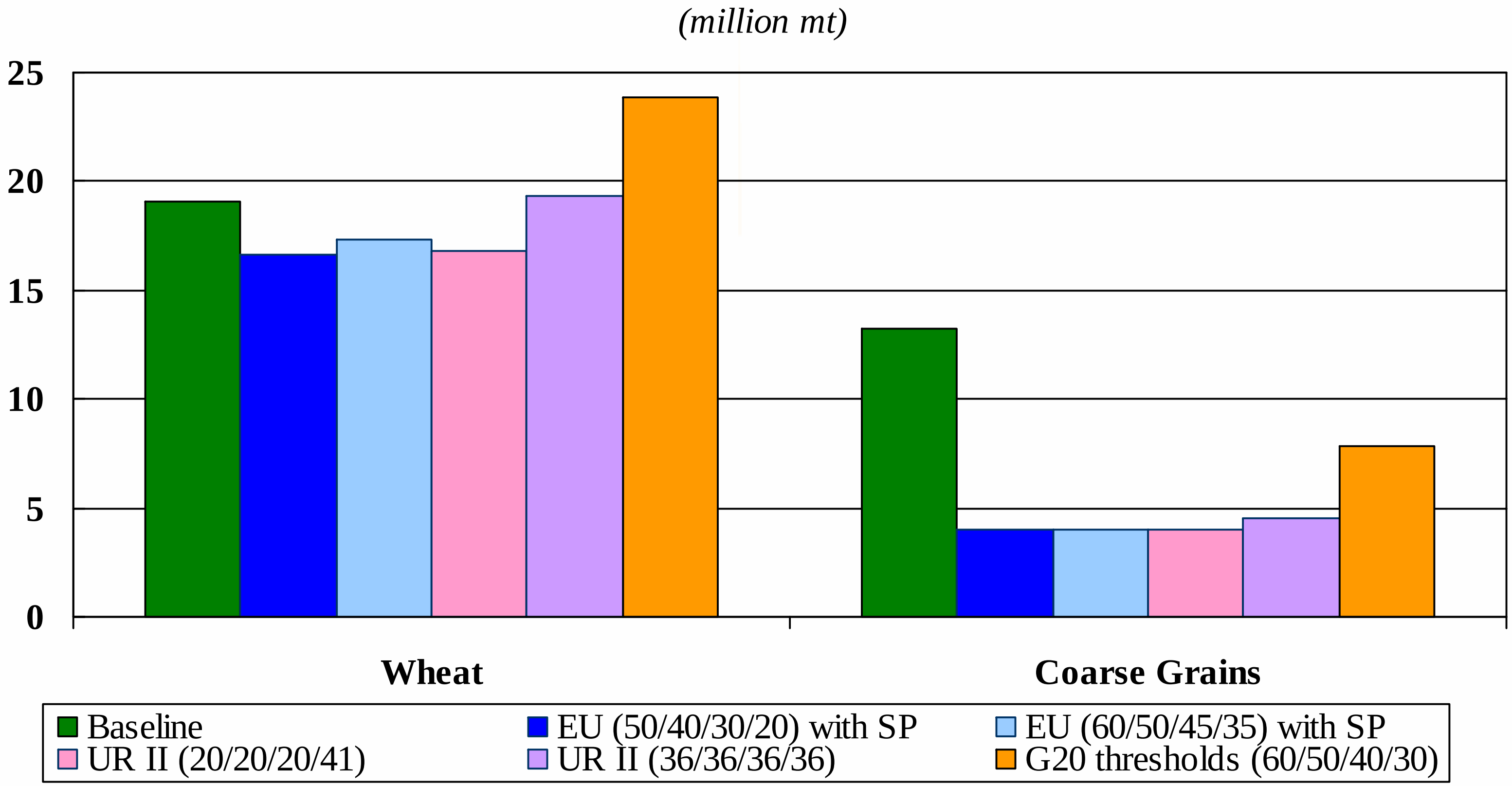
Impact on EU imports



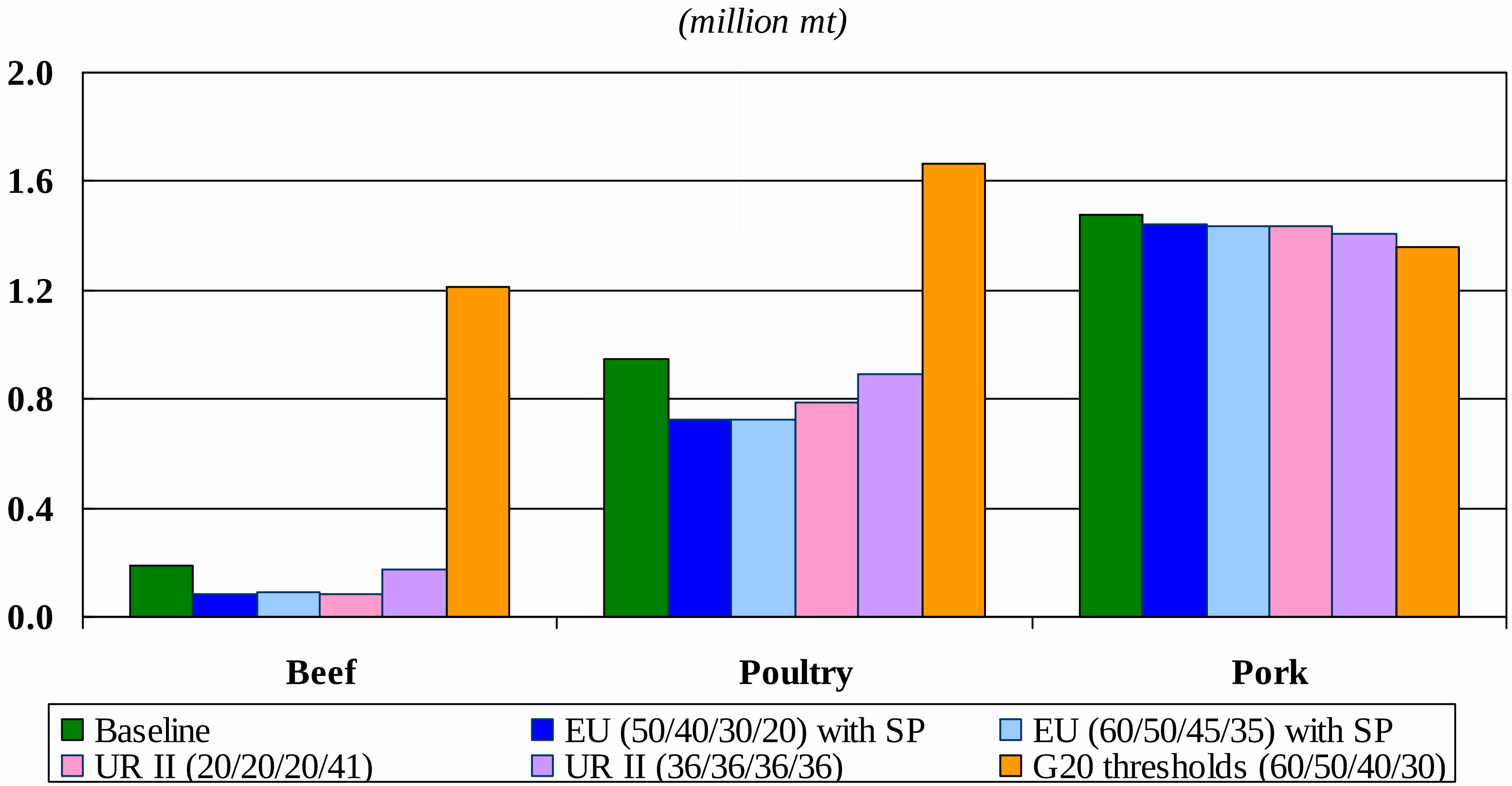
Impact on EU imports



Impact on EU exports (cereals)



Impact on EU exports (meats)



European Commission
Agriculture and Rural Development

Impact on EU exports