

The Consequences for the European Union of the WTO Revised Draft Modalities for Agriculture

Tim Josling

Sebastien Jean

David Laborde

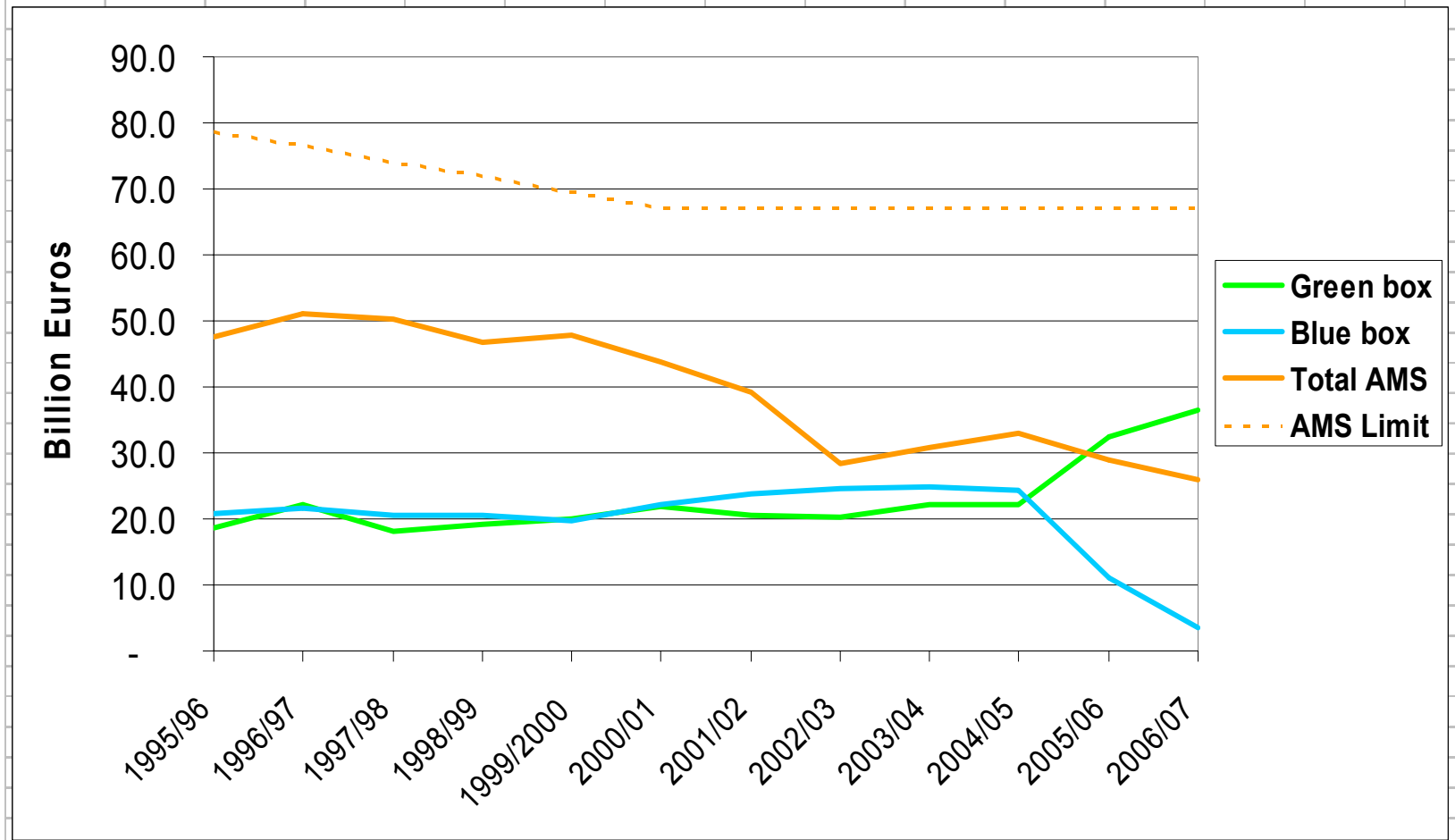
Overview of Presentation

- Current EU levels of domestic support
- *Impact of Draft Modalities on EU Domestic Support and the CAP*
- Current EC tariff levels on farm products
- *Impact of Draft Modalities on EU Market Access*
- Current export subsidy levels
- *Impact of Draft Modalities on EU Export and Food Aid Policies*

EU Domestic Support

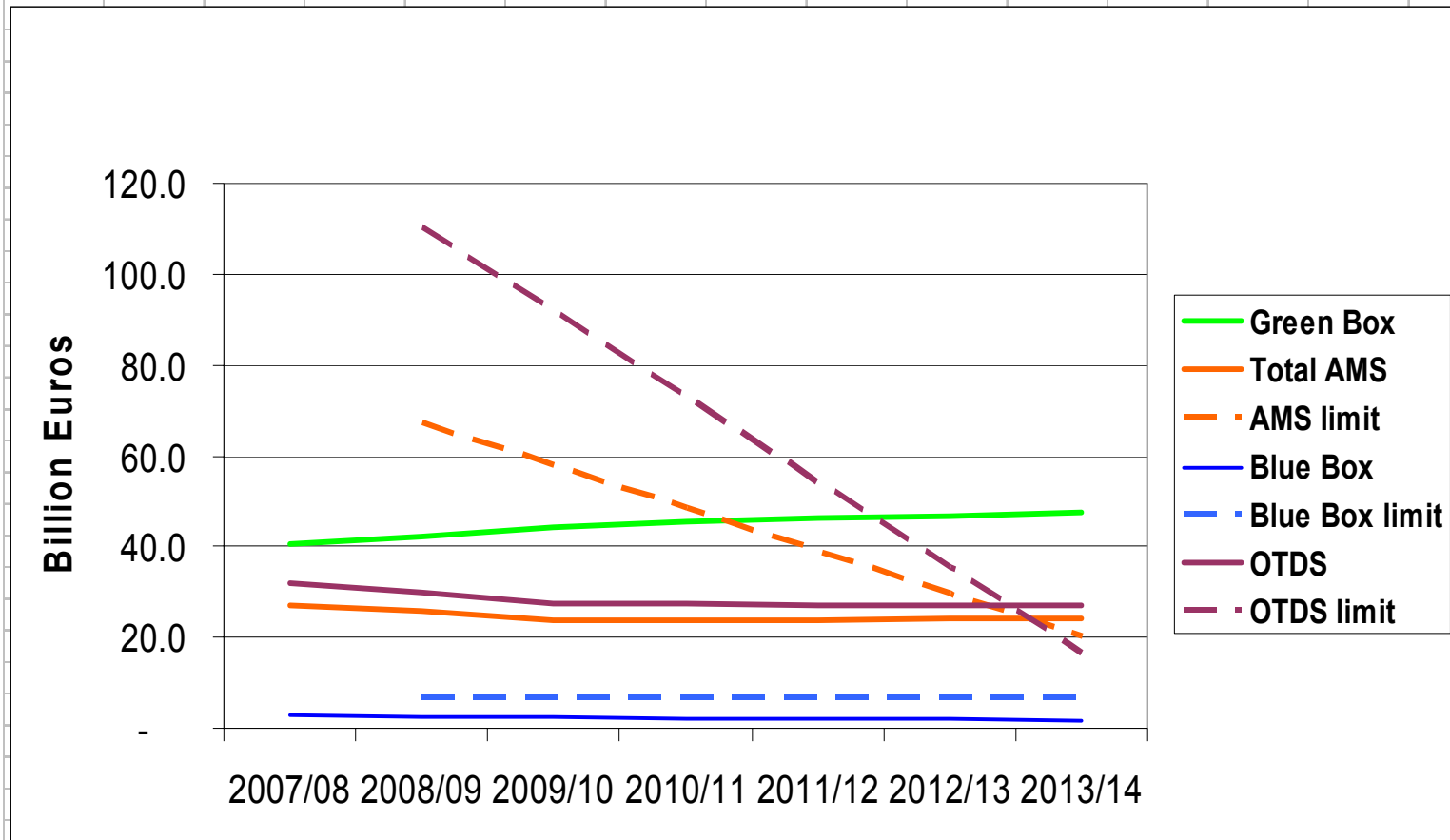
- High levels of EU domestic support have been target of US and other exporters in DDA
- CAP reforms (1992, 1999, 2003 and 2004) have changed the profile of EU domestic programs
- Will the DDA Modalities cap the CAP? Will there be pressure for more reform?

Figure 1: EU Notifications of Domestic Support, 1995/96 to 2003/04 with Estimates to 2006/07



Source: WTO EU Notifications and Author's Estimates

Figure 2: EU Domestic Support Levels and DDA Proposed Limits



Source: Authors' estimates

Domestic Support

- CAP will be “safe” until 2012
- “Water” squeezed out so that limits are binding by that time
- By 2013 further reforms will be needed
- 2013 is start of next budget cycle and reforms are on the cards for that reason
- Cosmetic changes to administered prices for fruits and vegetables could also keep AMS down
- Blue box constraints not a problem for EU

EU Tariff Levels

- EU has relatively high tariffs, and many tariff peaks
- Tariffs highest on sensitive sectors such as dairy, beef and sugar (with processed dairy and meat products and foods incorporating sugar)
- EU has resisted the larger cuts requested by US and G-20) and requested significant flexibility for its own sensitive products
- Will the DDA draft modalities open up the EU market substantially?

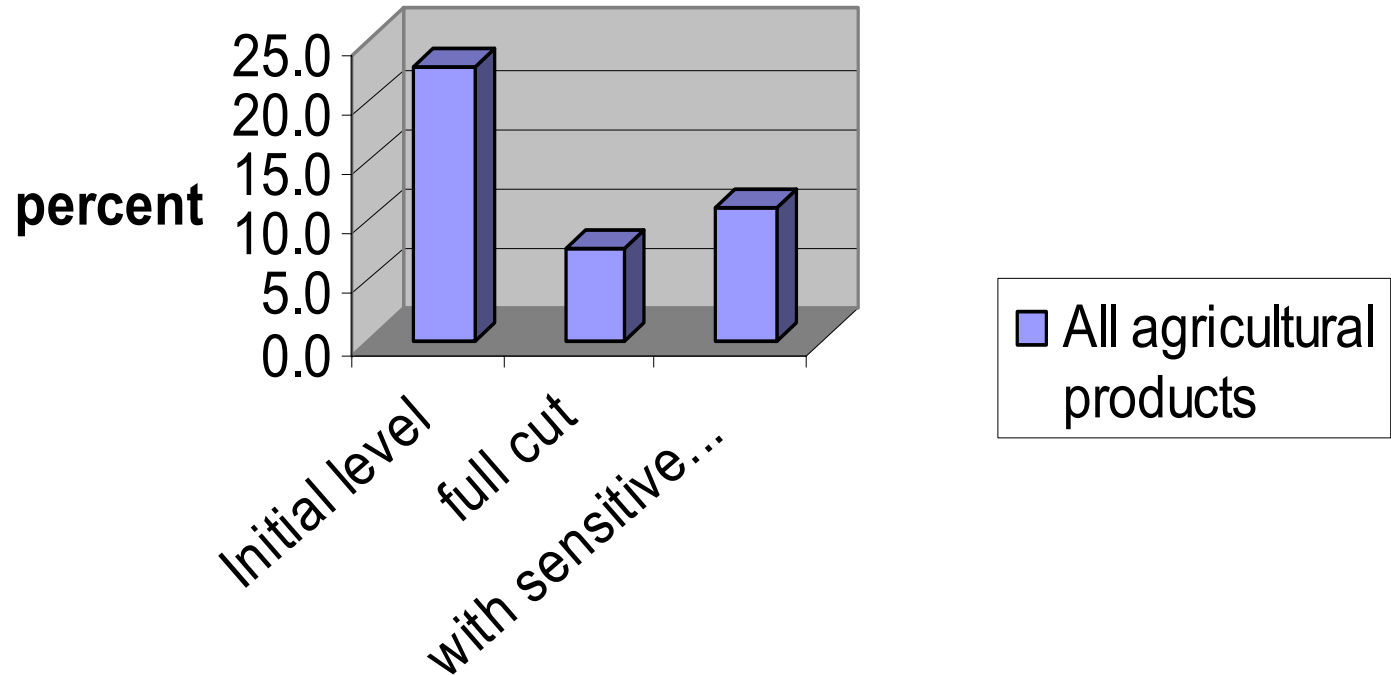
Table	Import-weighted mean	AVE of specific tariffs	Effective Applied Rate	Highest bound duty
Meat and Offal	67.5	58.8	67.5	407.8
Dairy products	55.9	52.2	55.9	264.3
Vegetables	25.0	17.9	20.6	118.9
Edible Fruit and Nuts	19.2	14.1	13.2	29.3
Cereals	78.4	76.7	35.6	93.6
Milling products, starch	44.4	41.0	44.1	100.8
Oilseeds	0.3	0.0	0.3	179.1
Sugar	129.1	127.4	128.9	218.1
Beverages and spirits	8.4	8.0	8.1	136.8
Tobacco	18.6	-	18.6	74.9
Agricultural products	22.9	18.1	19.8	407.8

	Number of tariff lines by band				Total
	Band I <20%	Band II 20- 50%	Band III 50- 75%	Band IV >75%	
Meat and Offal	127	50	22	34	233
Dairy products	33	44	44	54	175
Vegetables	109	7	2	4	122
Edible Fruit and Nuts	140	61	0	0	201
Cereals	19	23	7	6	55
Milling products, starch	28	32	18	5	83
Oilseeds	78	0	1	1	80
Sugar	30	6	2	9	47
Beverages and spirits	165	6	1	4	176
Tobacco	23	3	4	0	30
Agricultural products	1569	352	134	149	2204

	Initial bound duties	After formula only	After formula + tropical products	After formula + trop. prod. + tariff esc.
Meat and Offal	67.5	23.0	23.0	23.0
Dairy products	55.9	20.1	20.1	20.1
Vegetables	25.0	9.6	9.4	9.4
Edible Fruit and Nuts	19.2	8.5	6.8	6.8
Cereals	78.4	26.2	25.8	25.8
Milling products, starch	44.4	16.2	14.2	14.2
Oilseeds	0.3	0.1	0.1	0.1
Sugar	129.1	41.2	41.2	41.2
Beverages and spirits	8.4	3.9	3.9	3.9
Tobacco	18.6	8.7	6.1	6.1
Agricultural products	22.9	8.5	7.9	7.7

	Initial level	Final, without sensitive product	% cut	Final, with sensitive products	% cut
Meat and Offal	67.5	23.0	66.0	36.4	46.1
Dairy products	55.9	20.1	64.1	29.2	47.8
Vegetables	25.0	9.4	62.5	12.5	50.0
Edible Fruit and Nuts	19.2	6.8	64.7	9.0	52.9
Cereals	78.4	25.8	67.1	35.3	54.9
Animal/Vegetable Fats	11.9	3.2	73.5	4.4	62.8
Prepared meat or fish	28.4	12.7	55.2	16.2	43.0
Sugar	129.1	41.2	68.1	69.5	46.2
Vegetable preparations	27.2	10.9	59.9	12.5	54.1
Beverages and spirits	8.4	3.9	53.7	4.3	48.6
Food residues	28.7	7.9	72.6	14.7	48.7
Tobacco	18.6	6.1	67.4	6.8	63.2
All agricultural product	22.9	7.7	66.2	11.2	51.3
Non-sensitive prod.	9.5	3.5	63.0	3.5	63.0
Sensitive prod.	83.8	27.0	67.8	45.9	45.2

EU Tariff Levels for Agricultural Products



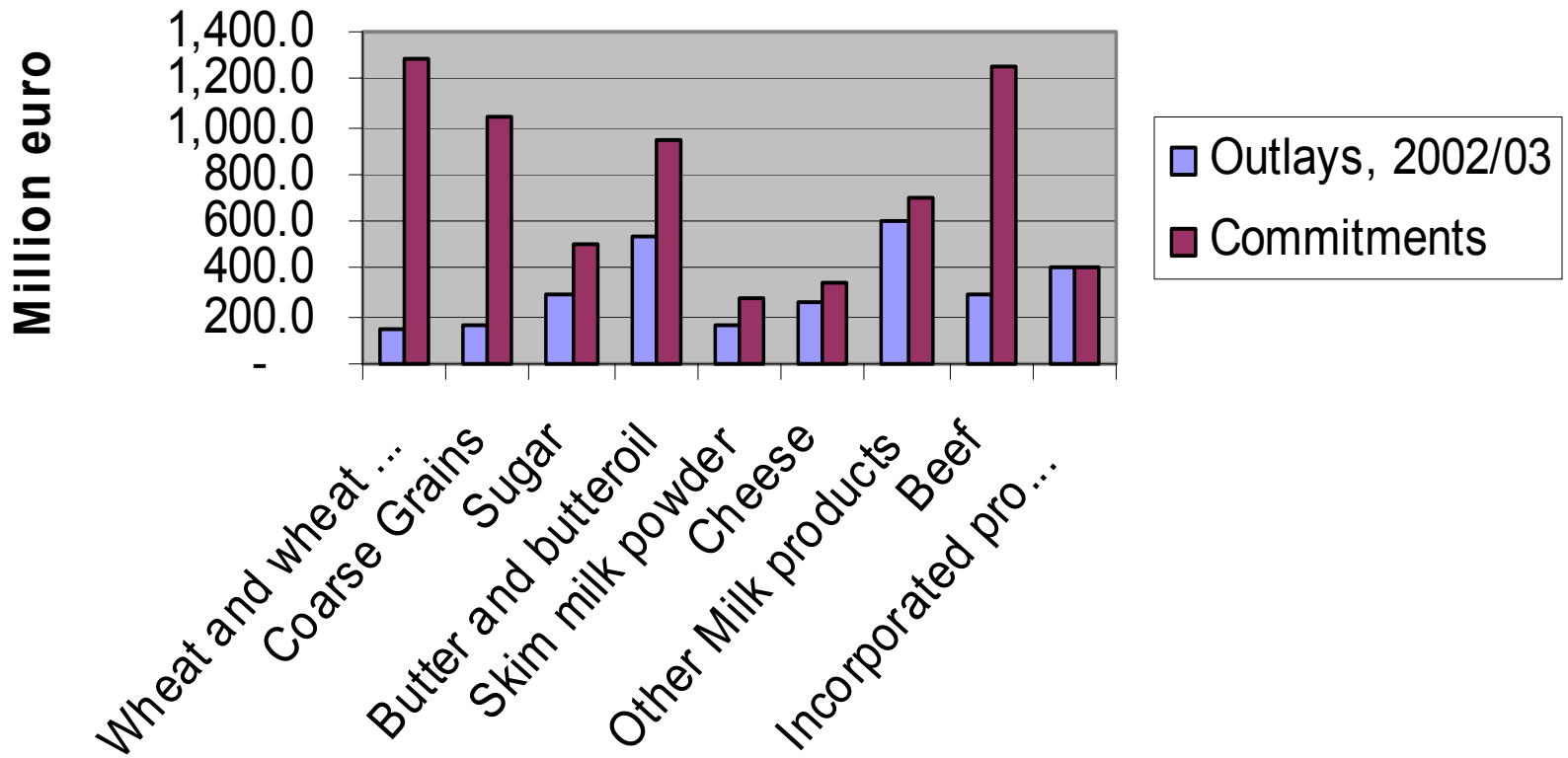
Market Access Improvement

- Full cut by formula would cut EU tariff by two-thirds, to a “modest” 7.7 percent
- Sensitive products category can shelter some high tariff items, and reduce the cut to 50 percent, leaving an average tariff of 11 percent
- But compensation by way of expanded tariff rate quotas would make up for some of this (not factored in to the average rate above)
- Several exporters will be competing for these extra quotas: EU should be made to allocate them on an MFN basis

Export Competition

- EU is virtually the only user of export subsidies
- EU has demanded that export credit programs, food aid rules and activities of single desk sellers be curbed if it is to give up export subsidies
- Agreement in Hong Kong to set the date for elimination of export subsidies and similar measures by 2013
- EU is moving away from the use of export subsidies as a part of its reform – but still wants to be rewarded for this in the DDA
- Can the EU abandon export subsidies without crippling the CAP?

EU Export Subsidy Levels



Export Competition, contd.

- EU could eliminate export subsidies if world prices for cereals and meats remain high
- A price collapse would put increased pressure on the EU to compensate farmers for poor export sales (difficult in green box)
- Some risk management tools may be needed in export-oriented sectors to replace export subsidies
- Removal of Dairy quotas (possible after 2012) will add to these problems as prices will likely fall

Export Competition, contd.

- Food Aid changes in DDA are in line with EU practice: no difficulty in complying
- New disciplines for State Trading Exporters do not imply changes for EU, but make it easier to sell the modalities at home
- EU has abandoned use of export taxes so would likely support an initiative to introduce some disciplines on taxes and embargoes

Bottom Line ...

- CAP subsidies “capped” at 2012 level: no room for recidivism (all “water” gone)
- Level of allowable AMS would be at 20 billion euro (\$28 billion) and further changes in CAP would be needed to keep under this limit
- Product-specific AMS limits add to the constraints

Bottom Line ...

- Market access improvements valuable to other countries: at least 50 percent cut in tariffs plus TRQ expansion for sensitive products
- EU has been expecting to eliminate export subsidies in about 5 years time: this would hold them to that timetable
- EU will require some “victory” on GIs in order to sell the product at home
- Commission generally satisfied with the projected outcome: some member states will grumble for a few months but probably not block a deal

Thanks for your attention

For more details contact Tim Josling
josling@stanford.edu