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CAP Reform and the Doha Development Agenda

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Abstract
The CAP reforms that the EU accepted in June 2003 will partially decouple direct income payments to farmers from production and make these payments conditional on cross-compliance. The reforms are driven by enlargement of EU membership, budgetary constraints, mounting pressures from diverse animal welfare, consumer and conservationist non-governmental organisations, and by external pressure for a less distorting agricultural policy. The paper addresses the issue whether these CAP reforms will contribute to an agreement in the Doha Development Round that will liberalize world trade in agricultural products. The paper argues that the 2003 CAP reforms have enabled the EU to participate more constructively in the multilateral trade negotiations compared to the Uruguay Round. However, the reforms do not create room for improved access to EU agricultural markets for third country producers. These countries insist on substantial tariff reductions that, if realized, will force down the relatively high internal EU prices, which would mean a further restructuring of the sector.

Keywords: Agriculture, Trade Policy, Agricultural Policy, European Union, World Trade Organization.

JEL classification: F13, F14, F15, Q18.

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1. Introduction

The European Union (EU) is one of the main players in the negotiations in the World Trade Organization (WTO) on the liberalization of international trade in agricultural products. The EU has a share of 19 per cent of world trade in agricultural products.[1] At the same time, the EU agricultural sector is heavily protected. The Uruguay Round of trade negotiations resulted in an Agreement on Agriculture that was the first step towards bringing agricultural trade under the normal GATT/WTO disciplines. The negotiating history of this agreement shows that the EU could only accept the new disciplines after the member states had agreed on the reform of the Common Agricultural Policy (CAP) as laid down in the MacSharry reforms. The forces that drove the internal EU decision-making included the growing financial burden of the CAP, the distribution of its benefits over the member states and external pressures (Coleman and Tangermann, 1998). It soon appeared that the Agreement on Agriculture did not constrain the CAP very much. Most import barriers had to be expressed into tariffs as stipulated in the Agreement on Agriculture. This transformation, aptly labelled "dirty tariffication", resulted in high tariff barriers that effectively bar import competition (Ingco, 1995; Messerlin, 2002). The Agreement on Agriculture commitment to lower the Aggregate Measure of Support did not place an obligation of adjustment on the EU after the implementation of the MacSharry reforms. The main constraints resulting from the Agreement on Agriculture was in export subsidies (Swinbank, 1999).[2]

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[1] Not counting internal trade in the EU. Source: European Commission, 2002a.

[2] The Aggregate Measure of Support is the monetary value of *domestic* support to agricultural production, with the exception of those payments that have "no, or at most minimal, trade distorting

In 2000, the WTO negotiations on agricultural trade have been resumed, as stipulated in the Agreement on Agriculture. This could enforce deeper reforms of the CAP. In comparison to the Uruguay Round, the internal forces for CAP reform are even stronger: the enlargement of the EU with ten more member states in 2004 and the food safety problems caused by diseases put CAP reform on the agenda of the member states before the WTO negotiations were picking up steam. Agenda 2000, agreed by the Berlin Council of 1999, took the MacSharry reforms some steps further in the direction of liberalisation, but did not bring a structural reform (Keyzer and Merbis, 2000). The same Council decided on a midterm review of Agenda 2000. This led the European Commission to propose a further reform of the CAP in July 2002. After discussions in the Council, the Commission came up with more definite proposals in January 2003. In the same month, the Council of Ministers approved of the input of the EU in the Doha Development Agenda as proposed by the European Commission (European Commission, 2003). In June 2003, the Council of Ministers agreed on CAP amendments that will put a part of the midterm review proposals by the Commission into practice. These reforms are commonly known as the Fischler reforms.

This paper investigates the changing nature of the CAP and tries to answer the question whether the Fischler reforms will make the CAP more compatible with the objectives and principles of the WTO, thus contributing to a successful completion of the Doha Development Agenda. This question is a relevant one: the EU Council and the Commission are transforming the CAP for other reasons than trade liberalisation; their primary goal is to realise the objectives of the CAP in a more efficient way, or to

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effects" (the Green Box), are given under a production-limiting programme (Blue Box) or do not exceed a *de minimis* level. Agreement on Agriculture, art. 6 and Annex 2. Tariffs and export subsidies are not captured by the Aggregate Measure of Support (Diakosavvas, 2003).

make the CAP cheaper.[3] The coming EU enlargement makes this motive far more urgent than before as the upper limit of the EU budget has not been allowed to surpass the 1.27 per cent of EU GDP while the Council has frozen CAP spending in October 2002. The WTO aims at raising standards of living, full employment, steadily growing real income, "while allowing for the optimal use of the world's resources …".[4] As far as the negotiations on agriculture are concerned, the long-term objective of the WTO members is "to establish a fair and market-oriented agricultural trading system … " (Preamble, Agreement on Agriculture). This objective was repeated in the Ministerial Declaration starting the Doha Development Agenda. It is not obvious that the Fischler reforms will serve the WTO objectives, although EU policy makers do stress the room the June 2003 agreement will create for the Doha Development Agenda negotiations. Now that internally driven CAP reform precedes the Doha Development Agenda negotiations, the internal EU compromise could also constitute a stumbling block, preventing the EU from participation in a flexible way.

The paper is composed as follows. The second section reviews the changes that the CAP has undergone over the last decade and the condition of the EU agricultural sector. The third section discusses the contents of the Fischler reforms. The input of the EU into the preparations of the WTO Fifth Ministerial Meeting in Cancún is the subject of the fourth section. Section five tries to answer the question of whether the CAP reforms are sufficient to bring the Doha Development Agenda to a successful end. Section 6 concludes.

2. The changing CAP and EU agriculture

[3] The objectives of the CAP (art. 33 EU Treaty) are: to increase agricultural productivity, to ensure a fair standard of living for the agricultural community, to stabilise markets, to assure the availability of supplies and to ensure reasonable prices for consumers.

[4] These objectives can be found in the Preambles to the GATT (1947) and to the Marrakesh Agreement Establishing the World Trade Organization (1994).

The CAP has been under reconstruction for a long time. The 1986 super levy in the dairy sector was a first radical break with price guarantees for unlimited quantities. Budgetary constraints and pressures from trading partners in the Uruguay Round forced the EU to continue the reform process. This gave rise to the reforms proposed by Commissioner MacSharry in 1991 and Agenda 2000 proposals for the 1999 Berlin Council. Basically, the MacSharry reforms cut the support price for cereals by 30 per cent, compensated by direct income support for farmers.[5] For beef, lower support prices were also compensated with direct payments. The Agreement on Agriculture concluded in 1994 did in fact not much to adjust the CAP. Tariffs had become prohibitively high after the process of "dirty tariffication". The Aggregate Measure of Support was to be reduced by 20 percent, which did not impose adjustment needs (Swinbank, 1999). The main constraints resulted from the export subsidy limits of the Agreement on Agriculture. The Agenda 2000 decisions by the Council took the MacSharry reforms a few steps further. The effect of these reforms has mainly been a shift in the structure of agricultural support, as measured by the Producer Support Estimate (PSE), shown in table 1. The PSE is an indicator of the annual monetary value of gross transfers from consumers and taxpayers to support agricultural producers, measured at farm gate level.[6] Over the 15-year period, the absolute amount of support has increased (in nominal terms). The amount of support equalled more than 35 per cent of the total value of agricultural production in the EU.[7] The way this support is given is changing. At present, 58 per cent is made available through artificially increased market prices – down from 86 per cent in 1986/88. The lowering

[5] On the condition of a set-aside for the big farmers.
[6] Compared to the Aggregate Measure of Support, the PSE includes much more. See footnote 2.
[7] Measured at farm gate level. The average for 1986/88 was 42 per cent (OECD, 2002).

of intervention prices is responsible for the decline of this part of the PSE. The rest is given as direct payments.

The shift away from market price support is striking. However, in itself this was not sufficient to meet the demands for reform in and outside the EU. First, NGOs were pressing for reforms for reasons of environmental and animal welfare reasons; these groups do not see trade liberalisation as a solution (see, e.g., EEB, 2002). Second, consumers demand safe food - absence of animal diseases and remains of pesticides in food, no hormone treated food and genetically modified organisms. These groups propose to de-intensify production and to trade less. Finally, pressure from large exporting countries (Cairns Group, USA) was mounting. Trade economists argue that better allocation improves welfare of both exporting and importing countries. Some maintain that the CAP has environmentally detrimental effects (Anderson, 1992; Legrain 2002). In their view, trade liberalisation will diminish the environmental pressure of agricultural production in the EU.

To sum up, at the start of the 21st century EU agriculture can be characterized as follows. First, the sector is highly protected through tariffs on temperate zone agricultural products (see table 2), which resulted from the tariffication process of the Uruguay Round. For some individual products, tariffs are much higher than the averages in the table. In addition, many tariffs are specific (in € per unit of weight or volume), which has the effect that tariffs increase in percentage terms if world market prices go down. In percentage terms, the EU tariff for beef is 143 per cent, for butter there is a tariff of 144 per cent (OECD, 2002).[8] Second, despite lowering of intervention prices the sector can sell its products at relatively high prices. In 1999-2000, internal EU prices were almost 50 per cent above world market prices. For

[8] Some examples of EU tariffs are: 12.8% plus € 221.1 per 100kg (beef); € 95 per ton (wheat); € 33.9 per 100 kg (sugar); € 189.6 per 100 kg. (butter). Source: Taric at http://europa.eu.int/comm/taxation_customs/dds/en/home.htm.

dairy products, sugar, beef and mutton internal prices were even higher. Third, EU farmers are supported by large amounts of direct income support (table 1). Fourth, there is widespread dissatisfaction with agricultural production among large sections of society as a result of negative environmental effects, low levels of animal welfare and doubts over food safety.

There are abundant arguments for further reform of the CAP. At the same time, it is not clear how one set of reforms can address the diverse demands for change simultaneously.

3. Multifunctionality and the Fischler reforms

At the run up to the 1999 Berlin Council, the European Commission proposed reforms that went much further than what was in the end agreed in Agenda 2000. The Commission was supported by a relatively strong coalition of Denmark, the Netherlands, Sweden and the UK. However, the coalition unravelled in the Berlin meeting (Swinnen, 2001, p. 33). A few years earlier, the European Commission had been promoting the idea of multifunctionality of agriculture as a new ground for direct income payments for farmers. The idea was plugged into the WTO negotiations on the liberalisation of trade in agricultural products. These negotiations started in 2000 as agreed in the Agreement on Agriculture. In article 20 the members agree that "… the long-term objective of substantial progressive reductions in support and protection resulting in fundamental reform is an ongoing process" and that negotiations will be taking into account "non-trade" concerns. The pre-amble to the agreement stipulates that "… commitments under the reform programme should be made in an equitable way among all Members, having regard to non-trade concerns, including food security

and the need to protect the environment …”. The text does not make clear what exactly are non-trade concerns. In November 2001, the Ministerial Meeting of the WTO at Doha confirmed that non-trade concerns were to be taken into account in the forthcoming round (WTO, 2001).

In 1998, the EU submitted a document on multifunctionality to the WTO Committee on Agriculture.[9] The EU uses multifunctionality of agriculture as an operationalisation of non-trade concerns. The EU defines multifunctionality of agriculture as follows (European Commission, 1999): “Apart from its production function, agriculture encompasses other functions such as the preservation, the management and enhancement of the rural landscape, the protection of the environment, including against hazards, and a contribution to the viability of the rural areas”. The EU attaches a particular value to multifunctionality of agriculture beyond its intrinsic value, giving the pre-amble of the 1994 Agreement on Agriculture – as cited above - a particular interpretation. “In order to ensure that commitments are made in an equitable way among the Members, the divers roles of agriculture must be taken into account”. Thus, the EU holds the view that multifunctionality of agriculture is necessary for a balanced outcome of the negotiations on agricultural liberalization. Other WTO members have opposite opinions. At a meeting of the Commission on Sustainable Development, the Cairns Group expressed “concern at the reintroduction of protectionism, under the guise of the concept of multifunctionality, which could be counterproductive to achieving the goals of sustainable development”. The group recognises “… the legitimate non-trade concerns and objectives of countries” (United Nations Commission on Sustainable Development, 2000).

[9] The concept of multifunctionality was extensively discussed in the FAO and OECD at the end of the 1990s (FAO, 1999 and OECD 2001). For critical analyses of the multifunctionality see K. Anderson (2000); G. Faber (2002); D.R. Harvey (2003).

In July 2002, the European Commission presented its midterm review of Agenda 2000 and the proposals for further reform. The proposals did not mention multifunctionality, although this concept is at the basis of the most conspicuous element of the proposals: decoupling of direct income support. In summary, the proposals were as follows:

1. A single decoupled income payment per farm, based on historical payments and covering as many sectors as possible. Some coupled payments (such as durum wheat payments) are also included in the scheme. Farms under this system have complete farming flexibility (to follow market signals). Payments are conditional upon cross compliance, i.e. compliance with statutory environmental, food safety, and animal health and welfare standards. Thus, direct income support is presented as a payment for the by-products of agriculture as recognized by the multifunctionality concept. The dairy sector will be integrated later after quota systems have been abolished; the same applies for sugar, olive oil and some fruit and vegetables.[10]

2 Modulation: all direct payments will be reduced progressively in steps of 3 per cent per year until 20 per cent is saved. Small farmers are exempted from modulation: the franchise is €5000 for up to two full time work units. The maximum amount paid per farm is € 300 000. The amounts "saved" by modulation will be distributed to member states "on the basis of agricultural area, agricultural employment and a prosperity criterion, to target specific rural needs." These funds are to be used for rural development, and more in particular for institution building, for food quality, realizing standards for environmental protection, food safety, animal welfare as well as implementing farm audits.

3. For particular products it was proposed:

[10] The European Commission tabled reform proposals for sugar, olive oil and tobacco in October 2003. These are along the same lines as the June 2003 decisions.

to lower the intervention prices for cereals with a ‘final’ 5 per cent;

to decrease payments for durum wheat and to introduce a quality premium;

to decrease the rice intervention price to world market levels and compensate farmers with direct payments;

to simplify the system of direct payments in the beef sector;

discuss four alternatives for reforms in the dairy sector.

These proposals met with fierce opposition from the member states that were net-receivers from the CAP, particularly from France and Spain, supported by Italy. Net paying member states were in favour: Britain, Germany and the Netherlands. The European Commission came up with revised proposals in January 2003. The Commission had taken into account the discussions in many forums, such as advisory bodies of the EU, the European Parliament, sectoral organisations and civil society, and, last but not least the conclusions of the Brussels European Council of October 2002 (European Commission 2003). The European Commission argues that the Council had put a strict limit to the budgetary room for the CAP, in combination with an agreed importance of support for less-favoured regions and multifunctionality. Thus, the reforms "… can only be achieved by increasing the resources available through savings elsewhere in the first pillar [i.e. price and direct income support]."

To a large extent, the January 2003 proposals are the same as those of July 2002. The Commission added more stringent conditions for receiving decoupled payments (with respect to land management and to take the interest of tenant farmers into account). For cereals and other relevant arable crops, area payments are increased from € 63 to € 66 per tonne – to be included in the single farm payment system to compensate for the price reduction by 5 per cent as put forward the year before. For

dairy products, the European Commission proposed a change in the quota system, consisting of a lowering of the support price for milk and a quota increase of 1 per cent per year in 2007 and 2008. Further reductions of prices of skimmed milk powder (17.5 per cent in five years) and of butter (35 per cent in five years) were proposed, as were new compensating direct payments. Another new element was the Farm Advisory System which was to be mandatory for farmers receiving more than €15 000 per year in direct payments. The European Commission proposed a modified modulation mechanism. Its name was changed into a system for degression. The change was, that in the end (2012) 19 per cent of the direct payments was to be "saved" (20 per cent in the original proposals) and, more strikingly, that these savings were now to be used for a large part (13 percentage points) for "additional financing needs for new market reforms." Only six percentage points were to be used for the rural development policies of the member states, which was the full proceeds of modulation in the previous proposals. As a consequence, it is not clear for a significant part of the direct payments for what purposes they will be used.

The final negotiations in the EU Council of Ministers took place in three long sessions, stretching over three weeks. The compromise (Council of the European Union, 2003) was a dilution of the original proposal, although observers have given different opinions about the extent of dilution.[11] Decoupling has been made less strict than the European Commission wanted. Member states can choose for a delay of its introduction until 2007 instead of 2005. More important, member states are enabled to limit decoupling of income payments for a number of products. It is estimated that 90 per cent of cereal subsidies and 70 per cent of beef subsidies will in fact be decoupled.

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[11] *The Economist* (June 28the, 2003) presents its discussion under the title "More fudge than breakthrough". Luis Portugal at the OECD commented: "This is a step in the right direction, but it's a very small step," according to EurActiv.com on 27 June 2003. EU ministers were much more positive, as the next section shows.

The intervention prices for butter are reduced by 25 per cent in four steps, while the intervention price for skimmed milk powder is lowered by 15 per cent in three steps. The quantities of surplus production of butter that will be bought by the intervention agencies will be reduced. Modulation is reduced to five per cent of direct payments (Henke and Sardone, 2003). The European Commission will come up with reform proposals in the sugar and olive oil sectors in subsequent years.[12]

4. CAP reform and preparation of the WTO Ministerial in Cancún

The Council of Ministers of the EU considers the June 2003 compromise on CAP reform to be the main input into the Doha Development Agenda (Council of the European Union, 2003):

> This reform is … a message to our trading partners … It signifies a major departure from trade-distorting agricultural support, a progressive further reduction of export subsidies, a reasonable balance between domestic production and preferential market access, and a new balance between internal production and market opening. … The CAP reform is Europe's important contribution to the Doha Development Agenda, and constitutes the limits for the European Commission's negotiating brief in the WTO Round.

Before the Council decided on CAP reform, the EU had already handed in proposals in the Doha Development Agenda with respect to agriculture. The Doha Declaration mentioned 31 March 2003 as the deadline for agreement on modalities of the negotiations. Modalities refer to the parameters of the final agreement, such as how

[12] See note 10.

far import duties and subsidies should be lowered and over what periods of time. On 27 January 2003, the General Affairs Council of the EU approved of the Commission's proposals for the WTO negotiations on liberalisation of agricultural trade. The main elements of the EU proposals are:

- an overall average reduction of tariffs by 36 per cent, while there will be a minimum reduction of 15 per cent per tariff line;
- a substantial average lowering of the volume of export subsidies, to such an extent that budgetary outlays on export subsidies are reduced by 45 per cent;
- a reduction of the Aggregate Measure of Support by 55 per cent;
- special measures for developing countries, such as a "food security box", more duty free access for developing countries and a reduction of tariff escalation;
- closing of loopholes in the Agreement on Agriculture, such as abolishing the "de minimis" clause (trigger level) of five per cent in the Aggregate Measure of Support, better definition for export credits and food aid to make rules stricter;
- protection of geographical indications in order to prohibit "misleading and unfair" use;
- support to farmers in order to protect the environment, traditional landscapes, bio-diversity and rural development should not be considered as trade distorting.

The WTO members discussed all proposals made by the various members. The chairman of the agricultural negotiations produced a first draft for the modalities in February 2003. One month later, a revised paper was circulated. WTO members could not reach an agreement, as their positions in key areas were too much apart (WTO,

2003). The EU had the opinion that the draft was going too far, while the USA and the Cairns group held the opposite position. Looking at the draft modalities, there is much more liberalization than in the EU proposals of January 2003. The differences centre on tariffs, export subsidies and domestic support. The revised draft modalities propose to reduce tariffs that are greater than 90 per cent by 60 per cent on average with a minimum cut of 45 per cent per tariff line. Tariffs between 15 and 90 per cent are to be reduced by 50 per cent on average with a minimum cut of 35 per cent. For the lowest category, a reduction by 40 per cent is proposed, with a minimum of 25 per cent. These proposed modalities are in brackets. They only indicate where a compromise could be. Furthermore, the draft proposes a full abolition of export subsidies: 50 per cent of budgetary outlays in five years, the rest in nine years. The EU proposes a 45 per cent reduction of export subsidies. The green box[13] is maintained in the draft, while the Aggregate Measure of Support is to be reduced by 60 per cent over five years. The EU proposed 55 per cent reduction.

A comparison of the draft modalities and the EU position of January 2003 shows that the main differences are in the size of tariff cuts and reduction of export subsidies. On tariffs, the EU proposes to reduce tariffs by 36 per cent *on average* (with minimum 15 per cent per tariff line). This would enable the EU to lower tariffs on sensitive products by 15 per cent only, thus keeping them at a prohibitive level.

5. Are the Fischler reforms sufficient?

Do the CAP reforms of June 2003 have moved the EU closer to a compromise in the Doha Round? Or, to put it differently, does CAP reform enable the European

[13] See note 2 for explanation.

Commission to be more flexible to negotiate? The main argument to answer this question in the positive is, that a substantial reduction of the Aggregate Measure of Support is no problem for the EU, now that direct income support has largely been put in the Green Box by the Fischler reforms. The EU offer for support reduction is indeed very close to the draft modalities. A first sign that the EU has come closer to its traditional rivals was the framework agreement on modalities between the EU and the USA of August 2003. The agreement proposes a “blended formula” for the reduction of tariffs, which has the effect of reducing higher tariffs more than lower tariffs. This creates the opportunity for much more tariff lowering than foreseen in the original EU position. The agreement, that was largely included in the draft declaration for the Fifth WTO Ministerial Meeting in Cancún in September 2003, does not mention percentages for the lowering of tariffs and subsidies. For products that are of particular relevance for developing countries, it proposes a complete phasing out of export subsidies.

In reaction to the EU-USA agreement, a group of developing countries (the G 21, including Argentina, Brazil, Mexico, China, India and South Africa) subsequently formulated a counter proposal that demanded much more liberalization by industrialized countries (complete phasing out of export subsidies, much further decrease of income support and of import tariffs). The WTO Ministerial in Cancún broke up without an agreement on how to bring the Doha Round to a successful completion.

It may be concluded that the EU is much more constructively engaged in agricultural negotiations compared to the Uruguay Round. However, the lack of results of the WTO Ministerial Meeting in Cancún and the demands by the G21 indicate that more liberalization is needed than at present offered by the EU and the

USA. What will be the consequences for the CAP? Do the Fischler reforms offer possibilities for this?

In order to answer that question a simple graphic analysis is used, based on some simplifications and assumptions. The development of the CAP since 1992 and the consequences of the Fischler reform and the negotiations in the Doha Round are depicted in Figure 1. This gives a simplified picture of the CAP, is a partial analysis and keeps world market prices constant. It enables us to show some basic effects of CAP reforms and the potential consequences of the Doha Development Agenda. We assume that internal EU demand for a representative product is given by Deu, and supply by EU farmers by Seu. Supply at the world market is represented by Sw at the constant price of Pw. Before the MacSharry reforms, the guaranteed EU price was relatively high, depicted here by Pg. There is a prohibitively high import tariff of PwPg. The result of this is a large surplus (KL), to be bought by the intervention agencies and sold at the world market at Pw, which necessitated a total amount of export subsidies equal to (KL) x (PgPw). The MacSharry reforms brought a lowering of guaranteed prices and a shift to direct income payments. Let us suppose that the intervention price is set at the level Pg', that clears the internal EU market. Export subsidies are not required any more. Instead, direct income payments, coupled to production have to compensate farmers for the lowering of their prices. At the new supplied quantity, this means a total amount of direct income payments equal to (OQ1) x (PgPg'). This is the assumed situation prior to the Doha Development Agenda negotiations and the Fischler reforms. The Fischler reforms aim at a further lowering of intervention prices towards world market levels and a shift to decoupled income payments based on historical payments and subject to cross-compliance. The cost increasing nature of higher production standards as a result of cross-compliance

is shown by a shift of the EU supply curve to S'eu, following Bagwell and Staiger (1998). We assume that the sum of direct income payments remains the same. As a result, the market clearing internal EU price increases to Peu together with a reduced supply of OQ2. Private welfare of farmers and consumers is measured by the producer and consumer surpluses. The net welfare effect for farmers is the result of a shift of the supply curve to the left (decrease of surplus) and an increase of the price (increase of surplus). Private welfare of consumers will fall. Social welfare may increase, dependent on the size of the social welfare gain produced by cross-compliance. The precise result is dependent on the strictness of cross-compliance, the redistributive effects among farmers and the question of the size and distribution of the social welfare gain. The price increase in the EU market is crucial for the relative maintenance of the welfare level of the farmers, as they have higher unit production cost after meeting cross-compliance.

Next the proposals and "concessions" that may result from the Doha Round are brought into the analysis. Central objects of the negotiations are tariffs, the nature of direct payments (coupled or not) and export subsidies. As has been argued above, the Fischler reforms will partly decouple direct income payments and will further reduce the necessity for the EU to use export subsidies. This has enabled the EU to propose substantial reductions in the Aggregate Measure of Support and in export subsidies. However, the reforms do not have any effect on access to the EU market for agricultural products. This is one the core issues in the negotiations. Therefore, the analysis is restricted to market access. Let us assume that tariffs on agricultural products will be abolished, in order to show the direction of effects. This will lower the EU price to world market price Pw and reduce domestic supply to OQ3. Imports increase from zero to Q3Q4. Direct income payments are supposed to stay at their

historical levels (OQ1) x (PgPg') as introduced by the Fischler reforms. The results of the tariff abolition are a large increase of private welfare of consumers as the price falls from Peu to Pw, and a smaller but substantial fall in the welfare of farmers. The producer surplus is reduced by the surface left of the supply curve S'eu and between the horizontal lines right of Peu and Pw respectively. Only more efficient farmers will be able to continue production. Many farmers will stop production, as prices do not cover their cost of production.

This analysis is realistic. Import tariffs are high on average (see table 2 above) and for some important products they are substantially higher than the averages (143 per cent for beef, 144 per cent for butter). In 1999-2000, internal EU prices were almost 50 per cent above world market prices. For dairy products, sugar, beef and mutton internal prices were even higher. Thus, a relatively large decrease of tariffs is needed to even start bringing about market access for many products (e.g. even a 50 percent decrease of tariff PgPw in figure 1 does not result in any market access as the remaining tariff is still prohibitive in case the internal market price is Peu). The "blended formula" for tariff lowering as proposed in the EU-US agreement could address this problem, like the Spring 2003 draft modalities. Access to the EU internal market for agricultural products will only be realized if the lowering of individual tariffs passes critical thresholds. These trigger levels are relatively high for many products, depending on the difference between the world market price plus the tariff and the internal EU price. In its counter proposal, the G21 proposes a maximum duty for all tariff lines. If this maximum would be sufficiently low, real market access would be realized.

The conclusion is, that a substantial reduction of tariffs is required to bring about access to EU agricultural markets. Depending on the extent of market opening,

welfare will be redistributed from agricultural producers to consumers. This contrasts with the Fischler reforms that will not produce major income changes for agricultural producers (European Commission 2003b). Thus, improving market access in the Doha Round will bring a further reform of the agricultural sector in comparison to the Fischler reforms.

6. Conclusions

The paper reviews the pressures on the Common Agricultural Policy of the EU at the beginning of the 21st century. The acceptance of the Fischler reforms in June 2003 will adapt the CAP to these pressures: cross-compliance will contribute to food safety, to animal welfare and to the protection of the environment, of landscapes and habitats. At the same time, by decoupling direct payments and lowering intervention prices, the EU can be more cooperative in the Doha Round negotiations than it was in the Uruguay Round, without lowering farmers' incomes. However, it is doubtful whether the Fischler reforms are sufficient to simultaneously serve all these pressures. This paper shows that the CAP reforms do not address the issue of market access that is one of the basic demands in the Doha Round. If substantial market access for temperate zone agricultural products will be realized, incomes of agricultural producers will fall. This will start a further restructuring of the sector if no compensating measures are taken. The consequence for the negotiations in the Doha Round is, that an agreement on liberalization of trade in agricultural products that includes a genuine opening of markets, will be difficult to accept for the EU. The EU could compensate farmers out of the welfare gains of consumers, but the EU budgetary constraints stand in the way of this solution. Therefore, it could well

happen that the EU will search for an outcome of the Doha Development Agenda that contains only limited market opening, either by not lowering tariffs to non-prohibitive levels or by introducing cross-compliance to imports.[14]

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[14] The "level playing field" argument is a likely defense for this position, although incorrect as climate and soil conditions create wide differences in production circumstances, giving rise to comparative advantages.

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Tables and figures

Table 1 Producer Support Estimate (PSE) for the EU, 1986/88 to 2001, in billion Euro and composition in percentages

	1986/88	1999	2000	2001*
Producer Support Estimate (Bln Euros)	85.0	108.2	97.2	103.9
of which: market price support (%)	86	65	59	58
payments based on output (%)	5	3	4	4
payments based on area/animal no. (%)	3	22	27	27
payments based on input use (%)	5	7	7	6
Payments based on constraints (%)	1	3	3	4

* Provisional figures

Source: OECD (2002), *Agricultural Policies in OECD Countries. Monitoring and Evaluation* (Paris: OECD)

Table 2 Average tariff rates*, applied by the EU on agricultural products, in percentages

01 Live animals	75
02 Meat and edible offal	89
04 Dairy produce	74
07 Edible vegetables	56
08 Edible fruit	42
10 Cereals	72
17 Sugars and sugar confectionary	114
20 Preparations of vegetables	105

* Arithmetic averages based on over-quota, bound MFN tariffs based on implementation of the Agreement on Agriculture and other agreed concessions of the Uruguay Round.
Source: Paul Gibson, John Wainio, Daniel Whitley, and Mary Bohman (2001), *Profiles of Tariffs in Global Agricultural Markets* (Washington: Economic Research Service, US Department of Agriculture).

Figure 1 CAP reform and world markets