COMMISSION OF THE EUROPEAN COMMUNITIES

SEC(92) 2267 final

Brussels, ~~25~~ 26 November 1992

Embargo 17h30

446
411.6
441.2(103)

COMMUNICATION FROM THE COMMISSION

Agriculture in the GATT negotiations
and the reform of the CAP

ANNEX 4

Council Regulation (EEC) 2066 of June 30 1992

Article 4i

1. Operators may qualify for a processing premium in respect of male dairy-breed calves which are withdrawn from production before exceeding the age of ten days (processing premium).

2. The amount of the premium shall be ECU 100 per calf withdrawn. Save in duly justified exceptional cases, payment must be made within a period not exceeding four months from the date of submission of the application.

3. Each Member State may decide not to apply the processing premium, taking account of its production structure. In that case, it shall participate in the special intervention arrangements for lightweight carcases provided for in Article 6a.

4. In accordance with the procedure laid down in Article 27, the Commission:

— shall adopt detailed rules for applying this Article, and

— may amend the amount of the premium or decide to suspend the grant thereof.

Article 6a

1. The special intervention measures laid down in paragraph 2 may be taken during the period from 1 January 1993 to 31 December 1995. These measures shall apply exclusively in Member States which have not introduced the processing premium referred to in Article 4i.

2. By way of derogation from Article 5 (2), buying-in by intervention agencies in one or more Member States or in a region of a Member State of certain kinds of fresh or chilled meat from male bovine animals of 150 to 200 kg carcase weight and originating in the Community may be organized under tendering procedures.

3. The quantities of meat bought-in under the special measures shall be taken into account in applying the buying-in ceilings referred to in Article 6 (1).

4. The Commission shall adopt the detailed rules for implementing this Article in accordance with the procedure laid down in Article 27.';

5. the following Article shall be inserted:

'*Article 30a*

The amounts to be paid pursuant to this Regulation shall be paid in full to the beneficiaries.'

Table 3

Quantity Reduction Commitment on subsidised Exports

21% reduction on all individual products

1000 tonnes

	Base Volume	1994	1995	1996	1997	1998	1999	% Cut base
Wheat and wheat flour	17008	16413	15817	15222	14627	14032	13436	21.0%
Coarse grains	12025	12183	11741	11299	10858	10416	9974	21.0%
All cereals	29033	28596	27558	26522	25484	24447	23410	21.0%
Butter and Butteroil	464	447	431	415	399	382	366	21.0%
Skimmed milk powder	308	297	286	276	265	254	243	21.0%
Cheese	386	372	359	345	332	318	306	21.0%
Other milk products	1188	1146	1105	1003	1022	980	939	21.0%
Milk products	2346	2263	2181	2099	2017	1935	1853	21.0%
Beef meat	1034	998	962	925	889	853	817	21.0%
Pigmeat	492	475	458	440	423	406	389	21.0%
Poultrymeat	368	355	342	329	316	304	291	21.0%
All meat	1894	1828	1761	1695	1629	1563	1496	21.0%

Table 2

Tariff equivalents along average 36% reduction

Safeguard against the c.i.f. EC import price
Selected products ECU/T

	Gatt offer 1990			36% reduction			Prices along CAP reform			
	Refprice 1986–88 ECU/t	Average cif-EC import price ECU/t	Initial TE ECU/t	Final TE ECU/t	Highest expected imp. price ECU/t (1)	Lowest expected imp.price ECU/t (1)	Price cuts foreseen	Final buying-in price ECU/t (2)	Preference against lowest imp. price ECU/t	Preference against highest imp. price ECU/t
Common wheat	92.8	148.5	148.5	95.0	285.2	187.9	−29%	128.5	71.4	156.7
Maize	84.5	113.6	148.8	94.0	231.3	175.5	−29%	128.8	48.0	104.7
Barley	85.4	105.4	144.7	92.6	221.9	162.7	−29%	128.5	38.2	96.4
White sugar	195.0	518.7	524.0	335.4	739.0	628.7	0%	678.5	−48.8	120.5
Skimmed milk pow.	885.0	840.7	1485.0	950.4	2315.5	1701.7	0%	1974.5	−272.8	341.0
Butter	943.0	2485.5	2981.9	1885.6	4488.9	3480.3	−8%	2980.2	580.1	1588.7
Beef (fresh)	1626.0	2004.7	2763.0	1768.3	3596.3	3171.7	−15%	2570.9	600.9	924.5
Sheepmeat (fresh)	1423.0	3828.7	2877.3	1713.5	4201.9	3741.1	0%	3035.9	706.2	1166.0

(1) The special safeguard [illegible] in the Dunkel paper [illegible].
Expected world prices are assumed to be either the highest or lowest monthly prices observed between 1986 to 91.

(2) [illegible] if any (cereals 7 times 2.5 ECU and sugar [illegible]).
[illegible] price for sugar, skimmed milk powder and butter and representative market price for sheepmeat.

Table 1

Total AMS along broad sectors

Mio ECU

	Base year 1986–88 (a)	Credit since 1986 (b)	Target −20% (a −20% + b)	Estimated AMS CAP reform
All AMS crops	31611	237	25526	11101
All AMS livestock	27266	1263	23076	19698
All AMS equivalents	20422	152	16490	20422
All products	79299	1652	65091	51221

with or without a GATT agreement. But it is important to stress that the necessary mechanisms to implement this action are already in place because they were adopted unanimously by the Council(1) within the framework of the reform. This involves in particular the supply control arrangements envisaged in Council Regulation (EC) 2066/92 of 30 June 1992. To these measures must certainly be added a limit on the maximum weight of animals bought into intervention, which is within the Commission's competence.

A combination of the application of these CAP reform measures will enable the EC to meet the commitments laid down in the draft agreement.

Before the entry into force of the agreement the problem of stocks should be dealt with. This raises a budgetary problem.

CONCLUSIONS

These are the elements of explanation that the Commission was asked to provide.

The draft agreement brings an essential innovation: the CAP is "safe" under the legal rules of GATT because of the adoption of the "peace clause".

When one thinks of all the disputes, panels and harassment of every kind to which the CAP has been subject in recent years, this is a considerable improvement. Certainly, there have been, in the past, ceasefires (such as the Gundelach/Strauss exchange of letters) but they never lasted for long. This is why it is essential that the peace clause takes a legal form and that it is included in the Final Act. The CAP is now compatible with GATT and recognised as such.

In summary, the draft GATT Agreement and the Reform of the CAP form a coherent whole. The first confers on the second indispensable international security.

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(1) Council Regulation (EEC) 2066/92 of 30 June 1992 and in particular Articles 4f and 6a. See annex 4.

- the increase in imports of cheese due to the commitment on "minimum access" (100.000 t) corresponds to 1 million tonnes in milk equivalent. There is nothing to indicate, moreover, that the 100.000 t will actually be imported because the cheese, as a whole, does not correspond to European tastes

- all the preceding elements show that there is 3 to 3.5 million tonnes of milk equivalents to deal with. This should not present serious difficulties in so far as

- the consumption of cheese in the EC is increasing by 1 to 2% a year on average, or 300.000 to 600.000 tonnes in milk equivalent. The consumption of fresh products is increasing by 1% a year, or 300.000 tonnes in milk equivalent

- the settlement of the Spanish and Italian milk problem should lead, by buying up, to a reduction in production of 2 mt.

The balance sheet should, therefore, be in order given in addition that it seems possible to export more high quality cheese without refunds.

In conclusion, the commitments of the draft agreement can be met within the framework of the CAP reform.

(iii) the meat sectors

(a) the white meat sector, at first sight, appears a problem. The exportable surplus, at the end of the six years, is in fact significantly higher than the volume authorised by a reduction of 21%. The "surplus" is in the order of 200.000t for pork, and 150.000 t for poultry. But the problem is only apparent in so far as the reduction in cereals prices would allow the export of a large part of these products without refunds

(b) the beef sector, on the other hand, raises difficulties. Even taking a conservative hypothesis (stable production and consumption) the exportable surplus, at the end of the six years, is above the authorised export volume (817.000 t) by about 300.000 to 400.000 t, which represents less than 5% of EC production. The increased emphasis on quality and better promotion under CAP reform should improve internal consumption.

This problem would arise anyway; even without a GATT agreement, in so far as it cannot be envisaged (for both budgetary and market reasons) that the EC can support indefinitely a volume of exports comparable to those achieved in 1991 (1.300.000 t exported) and in 1992 (about 1.200.000 t). Corrective action must, in any event, be undertaken.

(b) Imports would remain stable at about 3 million tonnes. There is no commitment which obliges the EC to increase them.

(c) evolution in internal consumption

It is going to increase for two essential reasons:

- the reduction in cereals prices will lead to the replacement of substitutes (soya cakes and manioc principally) by cereals
- the increase in the demand for cereals due to a foreseeable increase in the production and the consumption of white meat (pork, poultry)

The cumulative effect of these factors should lead to an increase in consumption of cereals within the EC of the order of 12 million tonnes by 1999/2000.

The balance sheet, built on these hypotheses, leads to an exportable surplus slightly more (2 mt) than the volume authorised by a reduction of 21%. But, an average increase in yields of 1% a year is an unlikely hypothesis at the upper end of the scale, taking into account the way in which the per hectare aids are calculated as well as the other incentives given for extensification.

In conclusion, therefore, the most likely outcome is that the exportable surplus will remain within the limits authorised in the draft agreement and be compatible with CAP reform.

(ii) Milk products

Let us note, first of all, that there is no problem in the butter or skim milk powder sectors: the volumes corresponding to a reduction of 21% are much above the exportable surplus foreseen at the end of the six-year period. This point is not contested.

On the other hand, the question of cheese and other milk products (fresh products, whole powder, condensed milk etc) merits careful examination if present production breakdown amongst milk products continues.

- the volume of subsidised exports authorised at the end of six years is 305.000 tonnes of cheese and 938.000 t of other milk products, about 7.600.000 tonnes in milk equivalents. The exports of products which form the basis (average 86-90) from which this reduction is calculated, represents about 10 million tonnes in milk equivalent.

In this respect, it must be stressed that the solution agreed for oilseeds ensures that the hypotheses in terms of area, which are at the basis of the reform remain valid. The number of hectares (5.128.000 hectares) which will form the base corresponds, in fact, exactly to the average which is used in the regulation on the reform (89/90/91).

Let us now examine cereals. The draft agreement lays down that the volume of cereals that can be exported with export subsidies will be, at the end of the 6 years, 23.410.000 t. To this figure must be added cereals given as food aid or supplied free of charge (more or less 2.500.000 t during the marketing year 91/92, but this quantity can increase).

After the adoption of the reform, the Commission presented, in July, to the Council, a cereals forecast. This forecast was based on a production of 164 million tonnes, internal consumption increased by 9 million tonnes and an exportable surplus of 19 million tonnes. No delegation entered a reserve on the document at the time.

Since then, these forecasts have been criticised. These criticisms need to be examined.

First of all, the agreement in fact will only apply from the marketing year 94/95 (July 94/June 95). The exportable surplus will depend on the evolution of 3 variables: production, imports, consumption.

(a) evolution of production

The July document was based on a stable cereals yield, based on an average yield of 4.86 t/ha, which is above the yield for the marketing year 92/93 (4.66 t/ha).

Obviously one can debate forever the future evolution of production. But certain facts need to be underlined:

- during the last 10 years, the growth curb for cereals yields has not ceased to decline: +2.5% on average in the years 80, +1.8% over the last 5 years.

- the reform of the CAP is based on per hectare payments with a fixed yield of 4.6 t/ha. There is no longer any incentive for higher yields as there will be no payments beyond the fixed yield. The US example shows that, in a system of payments based on a fixed yield, the latter only increases very little on average.

Let us examine, however, a worst case scenario in which the yield would increase by 1% a year with a starting point of a yield of 5 tonnes per hectare. This would lead to a production of 176.8 million tonnes in 1999/2000.

- world prices (average 86-88) used to calculate the tariffs are, as a general rule, considerably lower than existing prices
- the prices used (C.I.F. import prices 86-88) to trigger the safeguard mechanism are considerably higher than world prices. This means that this mechanism will be effective.

The comparison, at the end of the six year period, between the import prices (even basing oneself on the lowest prices seen between 1986 and 1991) and intervention prices show that, for most products, a substantial Community preference remains (only two products - sugar and skim milk powder) could, under certain pessimistic hypotheses, pose a problem; a solution can easily be found to this problem by using a rate of reduction in the tariff of less than 36%, which is allowed under the draft agreement for these products.

(2) Internal Support

The commitments undertaken in this area can be met without any difficulty and without additional efforts being required of producers.

The objective to be achieved (-20%) as regards the global AMS is 65 billion ECU. The effects of the reform of the CAP and the exclusion, in the calculations of the direct payments to producers, allow a forecast, at the end of the period of 6 years, of a total AMS in the order of 61 billion. There is, therefore, a considerable margin of security.

(3) Export commitments

The analysis on this area is necessarily limited to those products (cereals, oilseeds, milk, meat) covered by the reform of the CAP agreed in 1992.

The other products (in particular sugar, fruit and vegetables, wine, and olive oil) will be the subject of reform proposals as already agreed. One of the objectives will obviously be to bring their market organisations into harmony with the conclusions of a GATT agreement. As regards fruit and vegetables, it should be noted that the Dunkel text on subsidised exports deals with these products as broad categories "fruit" "vegetables".

(i) Arable crops (cereals, oilseeds, proteins)

Only cereals benefit from export subsidies, but the arable sector should be examined as a whole.

(c) If the area calculated as indicated above is exceeded, a penalty will be applied which will be of the same kind as that laid down in the transitional regime for oilseeds for the 1992 harvest.

(d) the areas setaside and cultivated with oilseeds for industrial purposes are not included in the area defined above.

However, a guarantee was given to the US in the following form: If the production of by-products resulting from the cultivation of oilseeds for industrial purposes exceeds 1 million tonnes expressed in soya meal equivalents, the EC will take corrective action within the framework of the reform of the CAP.

(e) the surface referred to under (a) will be adapted in the event of enlargement of the Community.

(f) a dispute settlement procedure, in conformity with the provisions of the Draft Final Act, is foreseen in the event of violation of the agreement by one or other party.

(g) a tariff quota of 500.000 tonnes of corn imports into Portugal will be opened. This figure corresponds to about half of corn imports into Portugal.

(h) the US gives up any claims for further compensation concerning the consolidation by the Community of oilseeds at zero duty.

II <u>Compatibility with the reform of the CAP</u>

This question should be examined by analysing the consequences of the commitments to be undertaken in the following three areas:

- tariffication
- internal support
- export commitments

(1) <u>Tariffication</u>

The tariffication mechanisms used ensure, for the period of six years foreseen for the implementation of the agreement, a sufficient level of protection for Community products. This flows from the following points:

- the intervention prices used for calculating the tariffs (average 86-88) are higher than the prices which will apply in the future, because of the reform of the CAP

(4) Rebalancing

The following text was agreed between the US and the Commission:

"If EC imports of non-grain feed ingredients increase to a level, in comparison with the level of imports 1986-1990, which undermines the implementation of CAP reform, the parties agree to consult with a view to finding a mutually acceptable solution."

(5) Peace Clause

The text agreed with the US is a legal text to be inserted in the Final Act on agriculture. This text, in substance, lays down that

- internal support measures are exempt from actions undertaken under Article 16 of the GATT, as well as actions for nullification and impairment. This latter type of action led to the oilseeds panel.

- export subsidies are exempt from claims under Article 16 of the GATT. This eliminates the risk of panels.

This obviously only applies where the provisions of the agreement on agriculture are respected. Countervailing duty actions remain possible but are subject to conditions which make them unlikely.

(6) Follow-up to the Oilseeds Panel

The agreement between the USA and the Commission has the following main elements:

(a) the creation of a separate base area for the production of oilseeds benefitting from a specific aid regime. This base is equal to 5.128.000 hectares from the 95/96 marketing year. A special regime applies for the 1994/1995 marketing year to take account of the transitional arrangements for Spain and Portugal;

The figure of 5.128.000 corresponds exactly to the average area planted in oilseeds for the years 89/90/91, which are the years used for regulation 1765/92 (reform of the CAP - arable crops) to define the basic area.

(b) each year, this area will be reduced by a percentage equal to the rate of setaside decided by the Council within the framework of regulation 1765/92. Currently, this rate is 15%. For oilseeds, this rate cannot be less than 10%.

- credit is given for reduction in support achieved since 1986

- support is calculated according to the global method requested by the EC (AMS). This avoids any need to take specific commitments policy by policy.

- internal support is reduced by 20% (credit deducted) in comparison with the 86-88 base. The calculation is done globally for all products together.

- finally, and this is the key point on which the Community got what it wanted, direct aids (per hectare and headage payments) adopted under CAP reform are not subject to any commitment to reduce internal support.

  In concrete terms this means that the value of these aids is excluded, each year, from the calculation of the AMS.

  To benefit from this exemption, these aids must be granted within the framework of production-limiting programmes. This means in fact that they must be made on a fixed base (in area) and on a fixed yield. In the case of animals, the aids must be calculated on a fixed number of animals.

- aids in the green box (as defined in the Dunkel text) are exempt from any reduction

(3) <u>Export Commitments</u>

Two commitments are foreseen:

- the reduction, product by product, of direct export subsidies by 36% over 6 years, from the average outlay 1986-1990.

- the reduction, product by product, of volume of subsidised exports by 21% over 6 years from the average exports 1986-1990. This reduction can be done by unequal annual installments, so as to ensure a certain flexibility. Processed products are not covered by the volume commitment

Exports which take place in the form of food aid are not covered by these commitments. Furthermore, only subsidised exports are covered by the commitment to reduce volumes.

Protection against movements in the dollar is ensured by the fact that import prices are in national currencies, that is in ECU for the EC.

(c) There is a clause on minimum access. It lays down that import opportunities will be opened, equal at the beginning to 3% of internal EC consumption. At the end of the six years, "minimum access" will be equal to 5% of domestic consumption. This is not an obligation to buy but rather a possibility to do so which will be implemented by the opening of a tariff quota with a reduced tariff (equal to 32% of the basic tariff).

At the end of the period of 6 years this minimum access clause will lead to the opening of tariff quotas covering the following quantities:

wheat	:	281.000 t
meat	:	78.000 t
SMP	:	69.000 t
butter	:	10.000 t
cheese	:	104.000 t
eggs	:	208.000 t

(d) There is no longer a clause on increasing current access (in the event, obviously, where the latter is higher than that which results from minimum access).

The only obligation which remains is that of maintaining existing access opportunities. In the Community's case this means two things:

- special agreements (like the New Zealand butter and sheepmeat agreements) will be modified to take account of tariffication, but their results in quantitative terms will be maintained.

- when there is not a special agreement, current access is ensured by the simple fact that levies are changed into tariffs which are progressively reduced.

(e) The Commission explained to the U.S. that the Agreement did not apply to bananas. The Commission's proposal to the Council is not based on tariffication.

(2) <u>Internal Support</u>

The following provisions were agreed:

- the basis for calculating the support is the average 86-88

Agriculture in the GATT negotiations and the Reform of the CAP

This note analyses the agricultural negotiations conducted with the United States and examines the compatibility of the outcome with the reform of the CAP as decided by the Council on 22 May 1992.

I The outcome of the agricultural negotiations

These negotiations cover the following topics:

- access (import regime)
- internal support
- commitments on exports
- rebalancing
- peace clause
- the follow-up to the oilseeds panel

As a preliminary remark, it must be stressed that the Uruguay Round is a multilateral agreement which will lay down rights and obligations for all the contracting parties.

(1) Access

(a) Border protection measures are changed into customs tariffs. These tariffs are reduced by 36% over a period of 6 years - it is the simple mathematical average (not weighted on the basis of trade volume) which must be reduced by 36%. Each tariff must be reduced by a minimum of 15% over 6 years.

For the Community, the tariffs will be, at the beginning of the period, equal to the difference between the world market price (FOB) of the product and its intervention price on the Community market, increased by 10% and by the monthly increments.

The base period used for the calculations is 1986-1988.

(b) In order to protect the EC market from excessive fluctuations on world markets, a variable element called "special safeguard clause", is added automatically to the tariff. This mechanism operates when the import price into the EC falls by more than 10% below the average 1986-88 import price into the Community. The amount added to the basic tariff grows proportionately to the difference between the real import price and the average 86-88 price.