



European Commission
Directorate-General for Agriculture

Newsletter

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New EU initiative to jump-start WTO farm talks

The European Commission has launched a new EU initiative to move the WTO Doha Development Agenda (DDA) negotiations forward again, notably in agriculture. Since the impasse at the WTO ministerial meeting in Cancún in September 2003, the agricultural talks have been seriously stalled. The EU has used the intervening period to assess its position and has now acted to try to achieve a 'negotiating framework' agreement before the summer break.

In a letter from Commissioners Pascal Lamy and Franz Fischler to their WTO counterparts on 9 May, the Commission has made it clear that the EU will not act alone. The various aspects of its initiative are put forward on the strict understanding that other WTO members must also take some responsibility, and make concessions, in order for the DDA to be successful.

The EU initiative covers the three main elements of the DDA agricultural talks.

- **Non-trade-distorting domestic farm support**

The EU underlines that the CAP reform of June 2003 (plus the reform agreed in April 2004) allows the EU to offer steep cuts (of 70 %) in trade-distorting farm support. EU domestic support is now largely covered by the 'green box' for non-trade-distorting support and should remain free from restrictions. Other developed countries must now follow. To match the EU's lead, the USA will have to reform its trade-distorting 2002 Farm Act significantly. The EU insists that loopholes which leave trade-distorting farm support untouched, such as the *de minimis* rule, must be closed once and for all. The USA currently spends USD 8 billion per annum under *de minimis*.

- **Export support cuts**

The majority of WTO members share the objective of eliminating all forms of export support. The EU has taken the decision to be ready to consider this for all products, if an acceptable outcome emerges on market

access and domestic support, and non-trade concerns. The EU's willingness to move on export subsidies is conditional on full parallelism in disciplining all forms of export support, not just those used by the EU. Additional conditionality which has to be mentioned: an acceptable outcome has to emerge on market access and domestic support.

The EU uses export subsidies to support its exports. The amount of such subsidies has fallen from 25 % of the value of farm exports in 1992 to 5.2 % in 2001, and in absolute terms from EUR 10 billion to EUR 2.8 billion per year. Thanks to CAP reform they will fall further. Other WTO members' use of export supports has increased (the USA uses export credits and food aid; Canada, Australia and New Zealand's State trading monopolies, and the export taxes that Argentina applies to soya and soybean flour, are other examples).

- **Lowering farm tariffs**

WTO members have put forward a variety of formulas to meet the DDA commitment to lower border protection, in ways that best reflect their tariff structures. Given the lack of consensus on a single formula, a compromise between extreme positions is inevitable. The Commission has therefore invited other WTO members to propose an acceptable approach. The EU believes that a blended formula could meet the concerns of all participants, including the sensitivities of developing countries. This could include sharp tariff cuts, while providing flexibility for countries to address their most sensitive tariffs through a combination of tariff cuts and tariff rate quota expansion.

While launching this initiative in the three traditional areas of negotiation, the Commission has made it clear that it remains committed to finding a deal that addresses the needs of less-developed countries and that also accommodates the EU's non-trade concerns, geographical indications requirements and other detailed points.

Commissioner aiming for July presentation of sugar reform proposal

Commissioner Fischler has recently recalled that the Commission intends to issue proposals for reform of the common market organisation (regime) for sugar in July. There has been intense debate about the future of the regime during the period of consultation that followed a Commission

working document in September 2003 which presented three possible scenarios — the 'status quo', 'price reduction' and 'full liberalisation'. This communication was based on an extended impact assessment undertaken by all interested services of the Commission.

Speaking in Austria on 19 May, the Commissioner ruled out full liberalisation but stated that 'one thing must, however, be clear: simply retaining the status quo is not an option. I believe that a reduction in EU production, and probably also in prices, is inevitable if we are to withstand the competitive pressure we will be facing in coming years'.

In 2001, the current quota-based regime for sugar was extended by five years until 30 June 2006. A Commission proposal for the future regime is therefore expected. The Commission has been considering the most appropriate shape for the future regime within the current and probable future European and global circumstances.

The sugar sector faces several challenges, internal to the EU and external, including: whether to reduce the high internal sugar prices for consumers and industrial users; question marks over how competition within the sugar industry is ensured; whether and how the regime can encourage beet growers to adapt to market challenges; how to accommodate developing country suppliers; how to deal with likely tariff reductions leading to additional

competition from imported products, and further limitations on export subsidies reducing export possibilities.

The external aspect is particularly important as the EU is the second biggest global exporter of sugar (behind Brazil) and the third largest importer (after Russia and Indonesia). And, notwithstanding the ongoing multilateral trade negotiations in the WTO, the EU has already made commitments to open its sugar market to the 49 least developed countries in the world. From 2006 onwards, trade barriers will be continually removed. After 2007 — the year by which tariffs will have been reduced by half for these countries — it is very likely that imports will grow significantly. The EU has also signed an association agreement with the western Balkan countries under which they could export up to their entire production to the EU.

Commissioner Fischler considers full liberalisation as unworkable, partly because it would render the EU dependent on sugar imports, but also because it would undermine the system of preferential access to the EU sugar market for poorer countries, on which many of them depend.

News in brief

☐ New publications from the Directorate-General for Agriculture

1. Special newsletter on the second wave of CAP reform ⁽¹⁾

The Agriculture DG has moved swiftly to produce a summary of the second part of the June 2003 CAP reform, namely reform of sectoral policy measures for cotton, hops, olive oil and tobacco agreed by the Agriculture Council meeting in Luxembourg on 22 April. The special newsletter explains the main lines of reform in each sector. While the specific measures involved vary to meet the particular needs of each sector and the regions most associated with them, they are consistent with the overall philosophy of the June 2003 reform, including: establishing long-term policy perspectives for these sectors, enhanced competitiveness, stronger market-orientation, improved environmental respect, stabilised incomes and a higher regard for the situation of producers in less-favoured areas and other sensitive regions.

2. 'Agriculture and the environment' factsheet ⁽²⁾

Another recent publication outlines the important contribution of agriculture to environmental sustainability in the EU. Agriculture is closely involved in the EU's contribution to the global sustainability strategy (as it is a strong contributor to a clean and desirable rural environment), as well as being a potential polluter of that environment.

The factsheet explains how agriculture and the environment work together by taking two main themes: how EU agricultural policy can work to promote a better environment (via incentives and penalties if necessary), and how other policy and regulatory measures are helping the EU to meet global environmental sustainability aims and targets.

Subjects covered include the 2003 CAP reform (for example, cross-compliance and good agricultural practice), agri-environment schemes, rural development measures, forestry policy, soil water and air pollution rules, and biodiversity and genetically modified organism issues.

⁽¹⁾ Catalogue No: KF-59-04-871-EN-C — http://europa.eu.int/comm/agriculture/publi/newsletter/capreform/special2_en.pdf

⁽²⁾ Catalogue No: KF-54-03-162-EN-C — http://europa.eu.int/comm/agriculture/publi/fact/envir/2003_en.pdf

