



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

The Next WTO Round on Agriculture and EU Enlargement: Pressures on the EU Dairy Sector

E. Huan-Niemi

J.E. Niemi



**Paper prepared for presentation at the Xth EAAE Congress
'Exploring Diversity in the European Agri-Food System',
Zaragoza (Spain), 28-31 August 2002**

Copyright 2002 by E. Huan-Niemi and J.E. Niemi. All rights reserved. Readers may make verbatim copies of this document for non-commercial purposes by any means, provided that this copyright notice appears on all such copies.

The Next WTO Round on Agriculture and EU Enlargement: Pressures on the EU Dairy Sector

Abstract

The EU dairy sector will be one of the most sensitive sectors to be affected by the outcome of the on-going negotiations for the new WTO round for agriculture. Nevertheless, if the Next WTO Round is going to be along the same lines as the Uruguay Round, the EU may be able to stay within the WTO commitments for export subsidy in the dairy sector without further reforms in the Common Agricultural Policy. Certainly, some minor reforms are needed to relieve the binding commitments for cheese and other milk products. The upcoming reform in the dairy sector under Agenda 2000 starting from year 2005 may help in reforming the dairy sector for the new round. In contrast, a steeper reduction in the export subsidy commitments compared to the Uruguay Round may cause problems for cheese and other milk products because the majority of exports in these products will have to be exported without any export subsidy. After enlargement, in particular with a steeper reduction formula, the EU may face troubles in the categories of butter, skim milk powder, cheese, and other milk products. The reforms under Agenda 2000 may not be sufficient because the difference between the EU internal market price and world market price is still too high for EU dairy products to allow unsubsidised exports to the world market. The EU internal market will have to absorb the dairy products intended for the export market. Consequently, the EU internal market for dairy products will be under pressure for further price reduction, and the EU world market share in dairy products will shrink.

Key words: EU, WTO, enlargement, dairy sector, export subsidy

1. Introduction

Trade in agriculture is governed by rules under the Uruguay Round Agreement on Agriculture (URAA) for 144 members of the World Trade Organisation (WTO). The Uruguay Round fundamentally changed the rules for international agricultural trade, whereby quantitative constraints for agricultural policies were established for all WTO members. The URAA began on the 1st of July 1995 and concluded on the 30th of June 2001, implemented over a period of six years. Global agricultural commitments imposed by the WTO are divided into four key areas: export competition, market access, domestic support and the so-called non-trade concerns. These commitments will remain at year 2001 level with no further reductions in commitments before the introduction of a new WTO round for agriculture.

Negotiations on further liberalisation in agricultural trade were launched at the WTO in March 2000. Member countries of the WTO have agreed to continue the ongoing agricultural negotiations on the basis of Article 20 of the URAA. Negotiating proposals were submitted by member countries to the WTO, paving the way for the fourth WTO Ministerial Conference that was held in Doha, Qatar in November 2001. The launching of the Doha Development Agenda and future negotiations will influence the shape and dynamics of the comprehensive trade round. The next WTO Ministerial Conference will be held in Mexico in year 2003.

Different interest groups in the WTO have diverse proposals for the future agreement on agriculture. For instance, the Cairns Group has proposed for phased elimination of export subsidies and trade distorting support payments with a 50 percent reduction in the first implementation year of the Next WTO Round. On the other hand, the EU has proposed that tariff and farm subsidy cuts to be along the same lines as in the Uruguay Round. The outcome for the rules in the Next WTO Round is uncertain until the 1st of January 2005, which is the deadline set for the completion of the WTO negotiations for the comprehensive trade round.

During the WTO Ministerial in Doha, the WTO members declared to “commit themselves to comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support.” The EU will encounter further reductions in the export subsidy commitments in the new forth-coming WTO round for agriculture.

Until 1995, the EU had been able to increase its world market share of dairy products by means of export subsidies. The URAA export subsidy commitments put an end to the EU’s policy of gaining market share through export subsidies. With further reductions in export subsidy or the eventual phasing out of export subsidies, the EU may lose market share in the world market for dairy products. In the future, the EU may not be able to use export subsidies as a tool for getting rid of surplus production in the EU dairy sector. As a consequence, the EU internal prices for dairy products will be directly under pressure when there is an oversupply situation in the EU internal market or a slump in the world dairy market.

The main focus of this research is to study the impacts of further reductions in export subsidy commitments on the EU dairy sector. In addition, by including the ten Central and Eastern European (CEE) countries, the impacts of the prospective EU enlargement are assessed according to the different degrees of reduction in the export subsidy commitments.

2. Methodology

Two different scenarios are shown in the projections for the Next WTO Round. In the first scenario, the reduction in commitments for the Next WTO Round is assumed to be along the same lines as in the Uruguay Round with further 36 percent reduction in export subsidy expenditure and 21 percent reduction in the volume of subsidised export. In the second scenario, the reduction in commitments are projected with further 50 percent reduction in export subsidy expenditure and 50 percent reduction in the volume of subsidised export. The base year for reduction in commitments is 2004/2005, which is a continuance of the Uruguay Round’s level in marketing year 2000/2001. The on-going WTO negotiation process is assumed to be completed by January 2005. Thus, the Next WTO Round is assumed to begin in marketing year 2005/2006 and end in marketing year 2010/2011 over a six-year implementation period.

The EU notifications to the WTO are used as a base for the export subsidy projections (WTO Notifications). The EU-15 total export figures for dairy products are based on projections from European Commission’s “Prospects for Agricultural Markets 2001-2008.” The percentages of subsidisation (percentage share of subsidised export quantities from total exports) for EU dairy exports are based on the average levels of subsidised EU dairy exports during the Uruguay Round over a period of six years (Appendix 1). Average subsidy per ton (Appendix 2) is used for the projection of the actual export subsidy expenditure (average subsidy per ton multiplied by the total subsidised exports).

Under the EU enlargement scenarios, it is assumed that ten new member states should be ready to join the EU by year 2004 with the “big bang effect.” The new member states consist of Poland, Hungary, Czech Republic, Slovenia, Estonia, Latvia, Lithuania, Slovakia, Bulgaria, and Romania. It is assumed that EU membership does not affect the agricultural production and exports of the Central and Eastern European (CEE) countries. It is also assumed that production quotas will be imposed on milk production in the CEE countries. The production quotas will correspond to the 1999 production level for milk in the CEE countries. The CEE-10 countries’ total export figures for dairy products are based on FAPRI (2000) projections. In the EU-25 projections, the CEE-10 countries’ net exports are added to the EU-15 member states’ total exports. Intra-trade within the CEE countries (UNCTAD TRAINS) and intra-trade between the CEE countries and EU-15 member states (EUROSTAT COMEXT) are excluded from the CEE countries’ net exports calculations for EU-25 exports.

3. Export subsidy projection for EU-15 dairy sector

The export subsidy commitments for EU's dairy products are divided into four different categories rather than as a single product grouping: butter & butteroil, skim milk powder (SMP), cheese, and other milk products. During the Uruguay Round, the quantity commitments for subsidised export was reduced by 21 percent and the budgetary commitments for export subsidy was reduced by 36 percent over a period of six years.

In this study, further reductions in the export subsidy commitments are projected in two different scenarios for each product category. In the first scenario, the EU-15 export subsidy commitments in the Next WTO Round are projected with further 21 percent reduction in the quantity commitments and 36 percent reduction in the budgetary commitments, whereas the second scenario has projections of further 50 percent reduction in both the budgetary and quantity commitments. Similar to the Uruguay Round, the new round is assumed to be implemented over a period of six years.

3.1 Butter & butteroil

During the Uruguay Round, both the quantity and budgetary commitments for export subsidy were not binding for butter (Graph 1 and 2). There was a huge slack in the export subsidy commitments for butter because high base-years were used for the calculations of the base year commitments compared to the actual lower exportable surpluses of butter during the Uruguay Round.

Under Scenario 1, both the quantity and budgetary commitments for export subsidy will not be binding for butter in the Next WTO Round (Graph 1 and 2). The slack in the export subsidy commitments for butter during the Uruguay Round will carry on to the Next WTO Round even though 100 percent of butter is exported with export subsidy.

Under Scenario 2, the export subsidy commitments for butter will be binding by the end of the Next WTO Round, and the quantity commitments will be more binding compared to the budgetary commitments (Graph 1 and 2). Under this scenario, the EU will still be able to stay within the export subsidy commitments for butter in the Next WTO Round even though all butter exports is subsidised.

3.2 Skim milk powder

The quantity and budgetary commitments for export subsidy were not binding for skim milk powder at the beginning of the Uruguay Round (Graph 3 and 4). However, the export subsidy commitments were breach in marketing year 1999/2000 because the EU was taking advantage of the "roll-over" feature allowed for under utilised commitments in order to empty the storage of skim milk powder accumulated from intervention buying. In stark contrast, the final marketing year 2000/2001 actual subsidised export quantity and expenditure for export subsidy were well below the export subsidy commitments due to the weak Euro and high demand in the world market.

Under Scenario 1, the quantity commitments for export subsidy will be very binding for skim milk powder by the end of the Next WTO Round compared to the budgetary commitments (Graph 3 and 4). Under this scenario, the EU is able to stay within the export subsidy commitments for skim milk powder, whereby 10 percent of skim milk powder is exported without any export subsidy.

Under Scenario 2, the quantity commitments for export subsidy will be breached for skim milk powder, if 90 percent of exports in skim milk powder is still subsidised in the Next WTO Round (Graph 3 and 4). However, the EU will be able to stay within the budgetary commitments for export subsidy in the Next WTO Round if the average subsidy per ton is near EUR 626. In order to stay within the quantity commitments for export subsidy, only 60

percent of skim milk powder exports can be subsidised by the end of the Next WTO Round. In other words, the EU is able to stay within the export subsidy commitments for skim milk powder, if 40 percent of skim milk powder is exported without any export subsidy.

3.3 Cheese

During the Uruguay Round, the quantity commitments for export subsidy were binding for cheese compared to the budgetary commitments. Both the actual subsidised exports quantity and expenditure in export subsidy were declining at the beginning, but changed to an increasing trend by the end of the Uruguay Round (Graph 5 and 6). The EU had been utilising the “inward processing system” in order to circumvent the binding quantity commitments for cheese (Huan-Niemi & Niemi).

Under Scenario 1, both the quantity and budgetary commitments in export subsidy for cheese will be breached in the Next WTO Round, if 76 percent of cheese is still exported with export subsidy (Graph 5 and 6). In order to stay within the export subsidy commitments, only 50 percent of cheese exports can be subsidised by the end of the Next WTO Round, and the average subsidy per ton is near EUR 745. Thus, the EU is able to stay within the export subsidy commitments for cheese, if half of cheese exports is not subsidised.

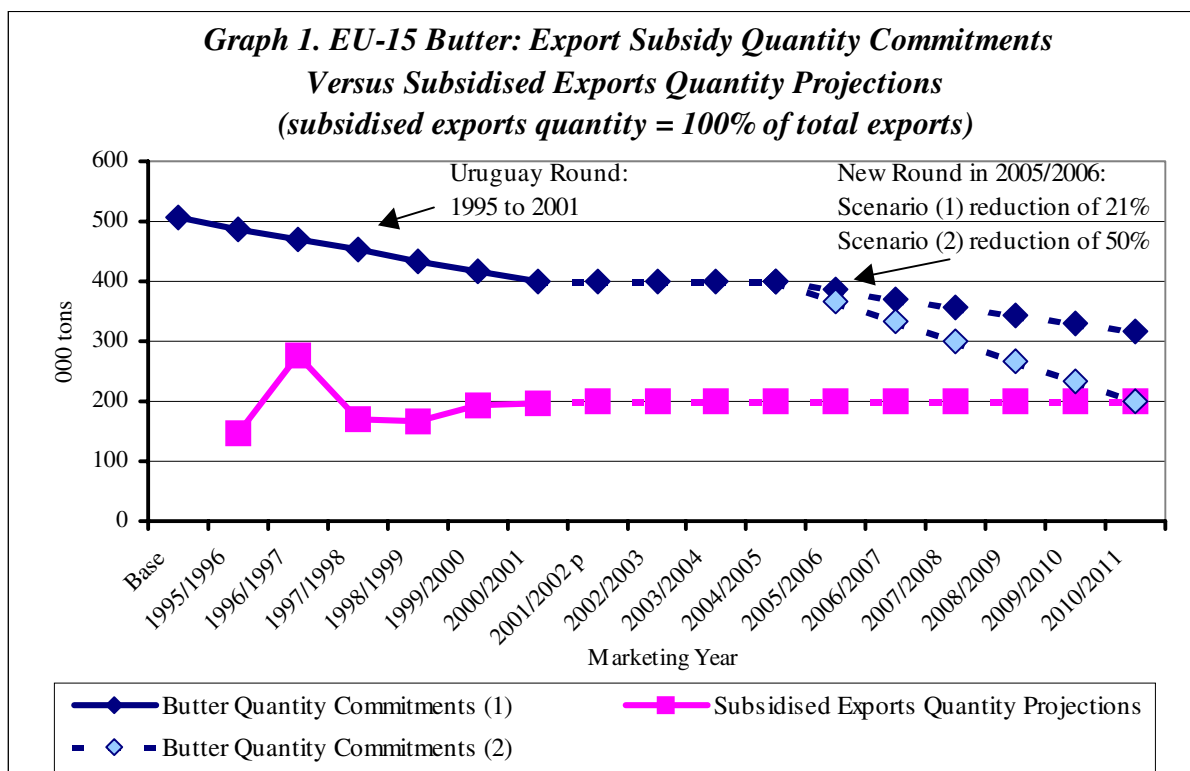
Under Scenario 2, the breach in the export subsidy commitments will be more acute compared to Scenario 1 in the Next WTO Round, if 76 percent of exports in cheese is still subsidised (Graph 5 and 6). In order to stay within the export subsidy commitments, the EU can export only 35 percent of cheese with export subsidy by the end of the Next WTO Round, but the average subsidy per ton can remain at EUR 745. Subsequently, the EU is able to stay within the export subsidy commitments for cheese, if 65 percent of cheese is exported without any export subsidy.

3.4 Other milk products

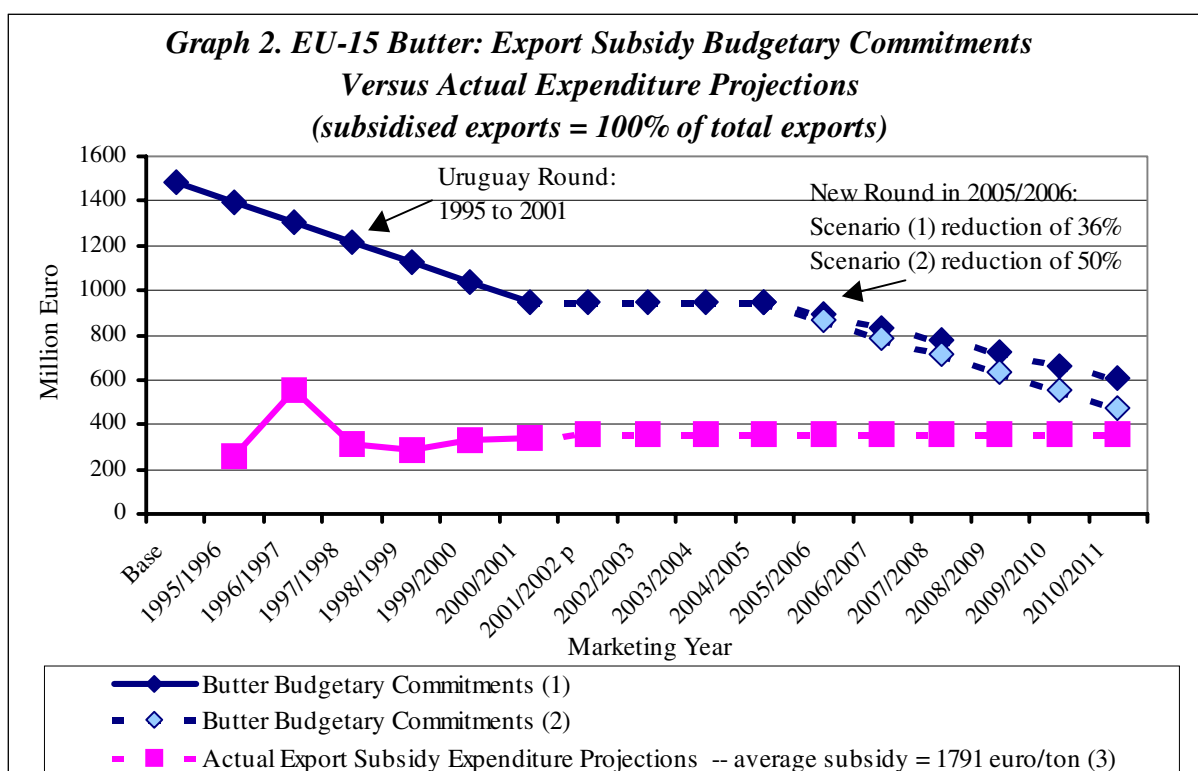
The quantity commitments in export subsidy for other milk products (includes fresh milk, whole milk powder, condensed milk, casein, yoghurt, etc) had been extremely binding during the entire span of the Uruguay Round (Graph 7 and 8). The export subsidy commitments were even breached in some years, but the “roll-over” feature for under utilised commitments during earlier years allowed the violation. By the final marketing year 2000/2001, the EU was able to stay within the export subsidy commitments for other milk products, whereas the actual expenditure in export subsidy was well below the budgetary commitment due to the weak Euro and improved demand in the world market.

Under Scenario 1, both the quantity and budgetary commitments in export subsidy for other milk products will be severely breached in the Next WTO Round, if 83 percent of other milk products is still exported with export subsidy (Graph 7 and 8). In order to stay within the export subsidy commitments, only 60 percent of exports in other milk products can be subsidised by the end of the Next WTO Round, and the average subsidy per ton has to be below EUR 673 (around EUR 580). So, the EU is able to stay within the export subsidy commitments for other milk products, if 40 percent of exports in other milk products is not subsidised and the average subsidy per ton is near EUR 580.

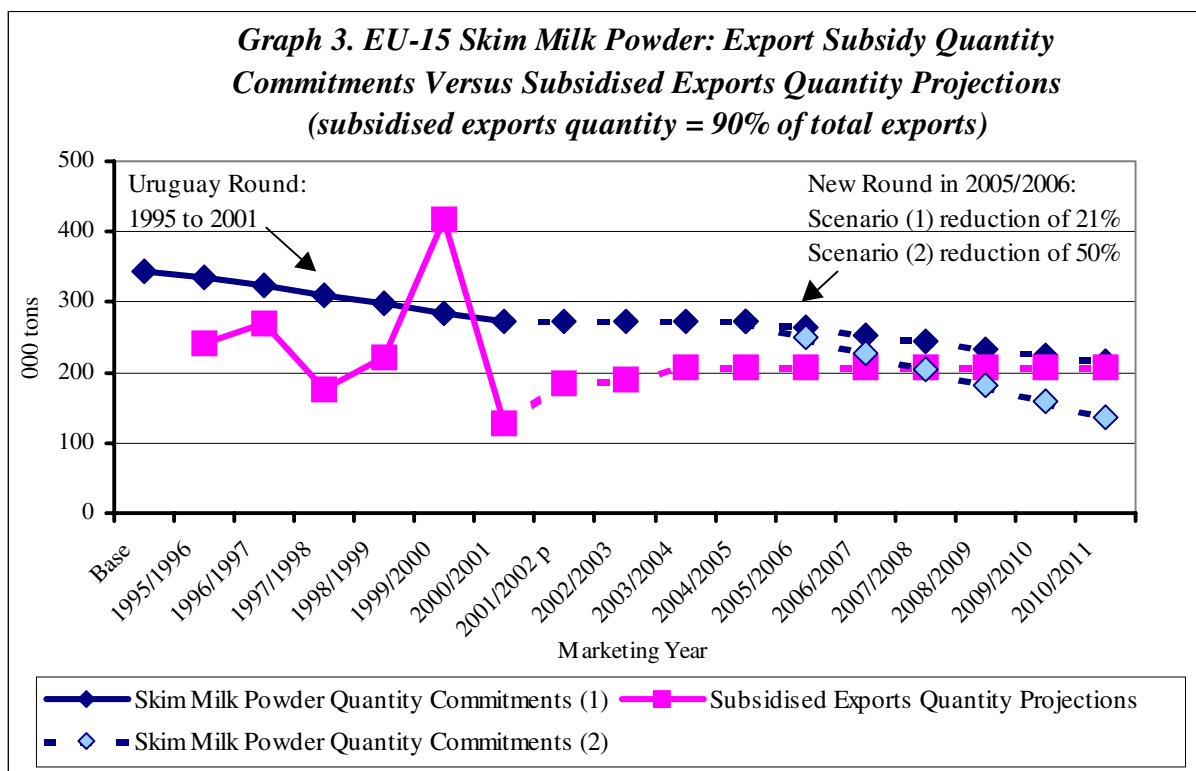
Under Scenario 2, the breach is more serious compared to Scenario 1 for both the quantity and budgetary commitments in export subsidy for other milk products, if 83 percent of other milk products is still subsidised in the Next WTO Round (Graph 7 and 8). In order to stay within the export subsidy commitments, the EU can export only 35 percent of other milk products with export subsidy by the end of the Next WTO Round and the average subsidy per ton will stay around EUR 673. Therefore, the EU is able to stay within the export subsidy commitments for other milk products, if two-thirds of other milk products are exported without export subsidy.



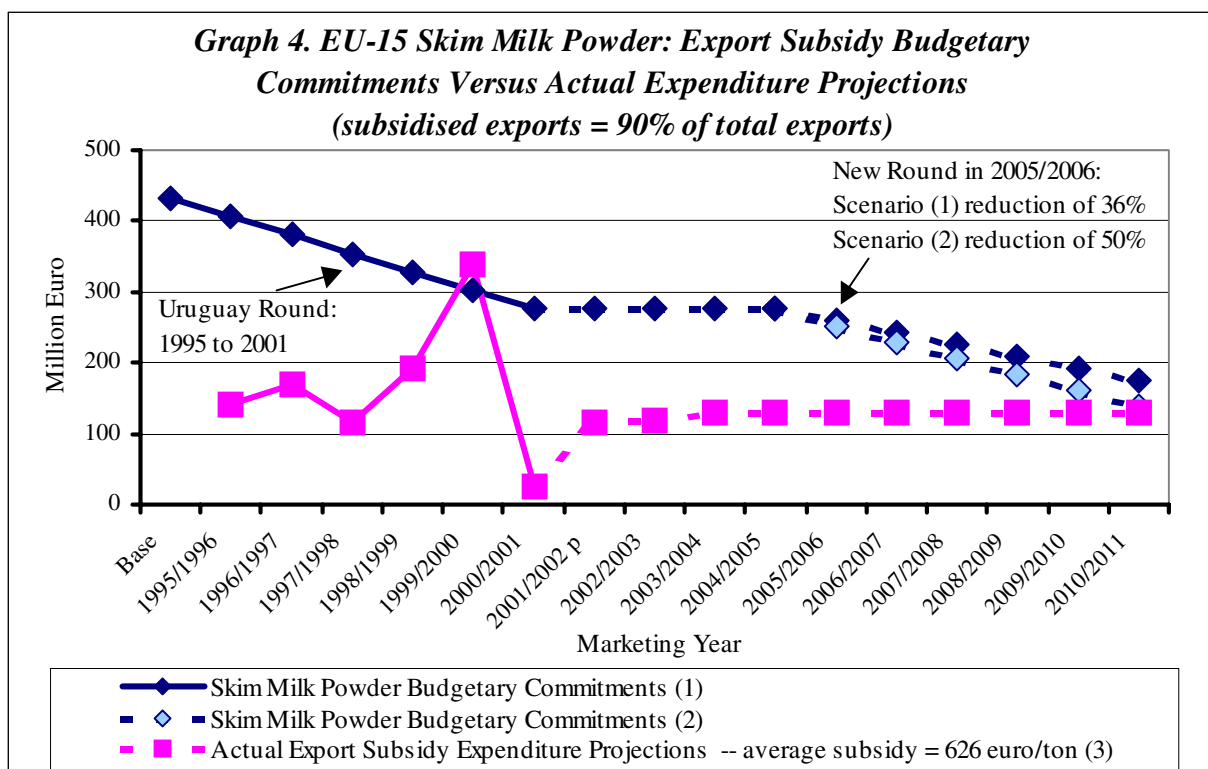
- (1) Butter Quantity Commitments are further reduced by 21%
 - (2) Butter Quantity Commitments are further reduced by 50%
 - p: projections of subsidised butter exports (subsidised exports quantity = 100% of total exports)
- Source: CEC 2001, WTO Notifications, Huan-Niemi & Niemi 2001



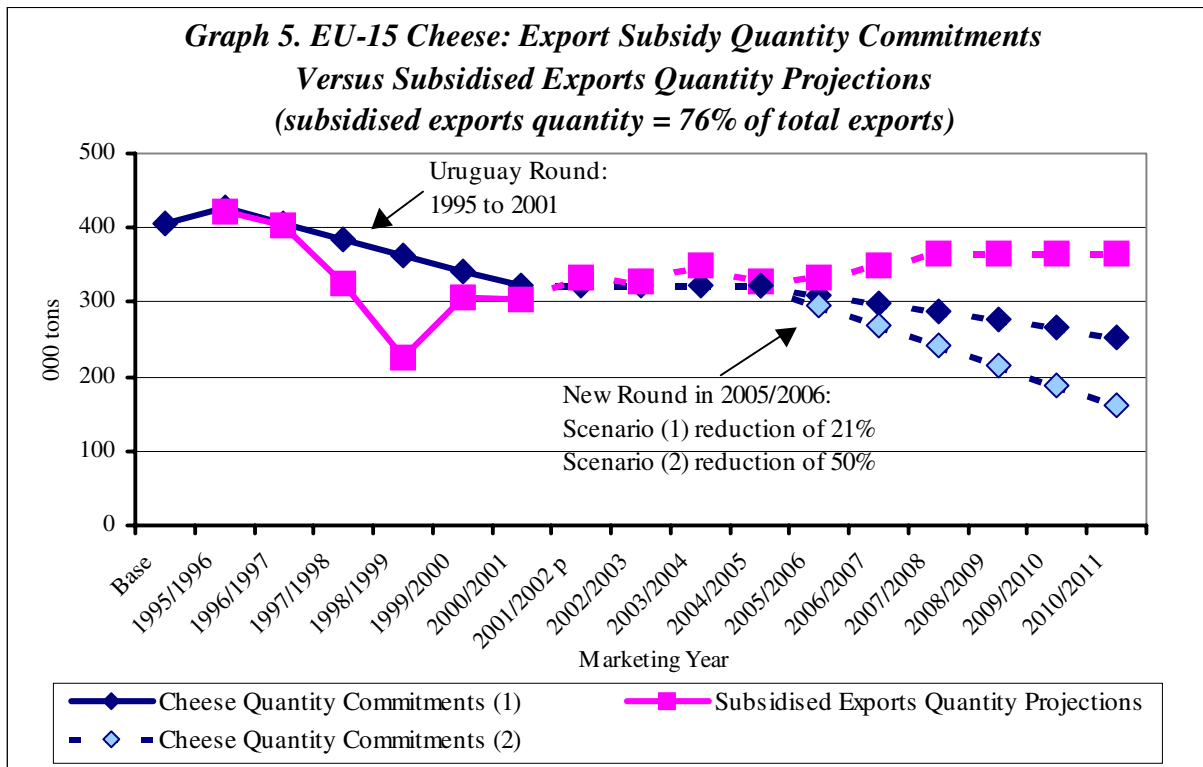
- (1) Butter Budgetary Commitments are further reduced by 36%
 - (2) Butter Budgetary Commitments are further reduced by 50%
 - (3) Average subsidy per ton for butter (1791 Euro) is used for the actual export subsidy expenditure projections
 - p: projections of expenditure for subsidised butter exports (subsidised exports = 100% of total exports)
- Source: CEC 2001, WTO Notifications, Huan-Niemi & Niemi 2001



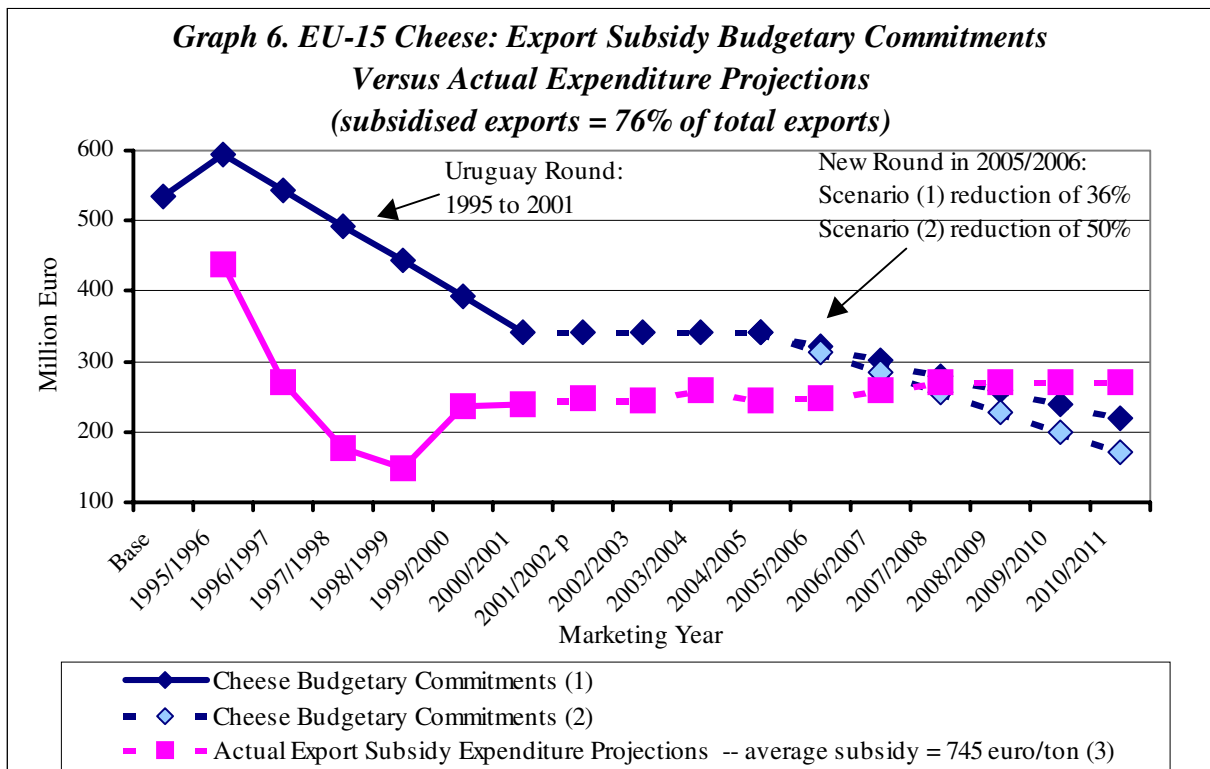
- (1) Skim Milk Powder (SMP) Quantity Commitments are further reduced by 21%
 - (2) Skim Milk Powder (SMP) Quantity Commitments are further reduced by 50%
 - p: projections of subsidised SMP exports (subsidised exports quantity = 90% of total exports)
- Source: CEC 2001, WTO Notifications, Huan-Niemi & Niemi 2001



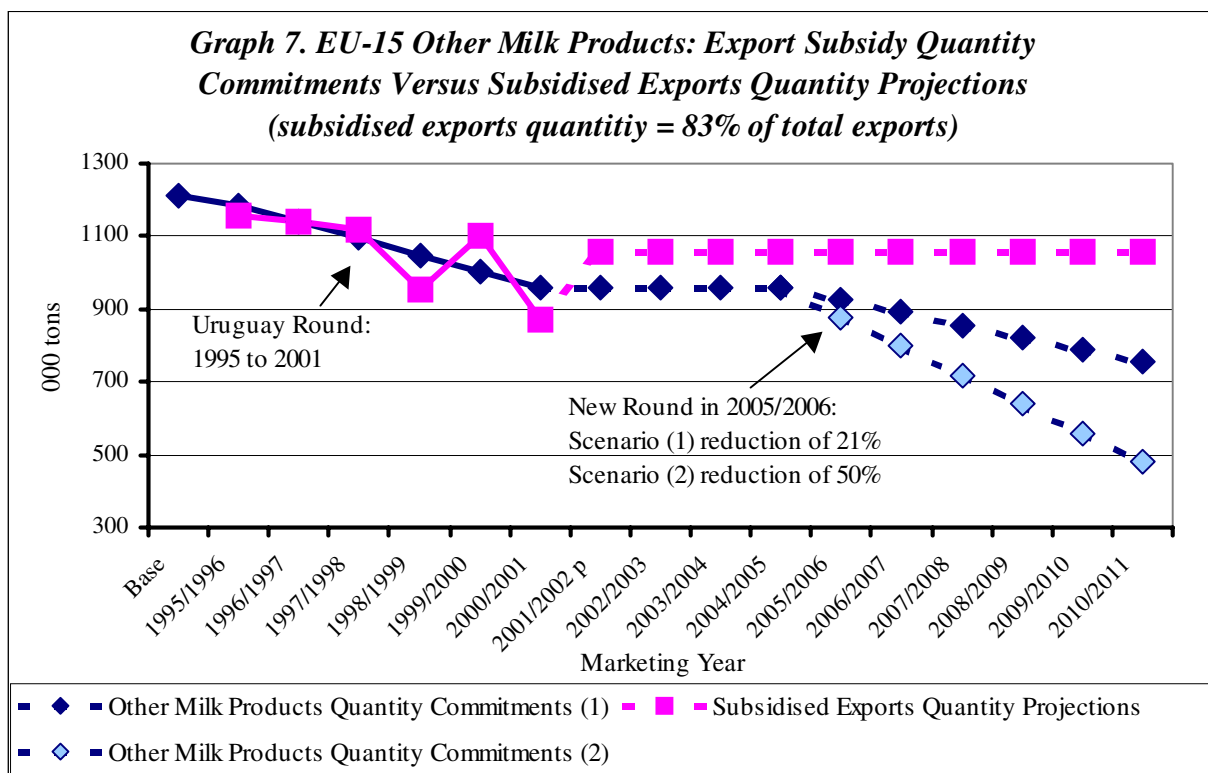
- (1) Skim Milk Powder (SMP) Budgetary Commitments are further reduced by 36%
 - (2) Skim Milk Powder (SMP) Budgetary Commitments are further reduced by 50%
 - (3) Average subsidy per ton for SMP (626 Euro) is used for the actual export subsidy expenditure projections
 - p: projections of expenditure for subsidised SMP exports (subsidised exports = 90% of total exports)
- Source: CEC 2001, WTO Notifications, Huan-Niemi & Niemi 2001



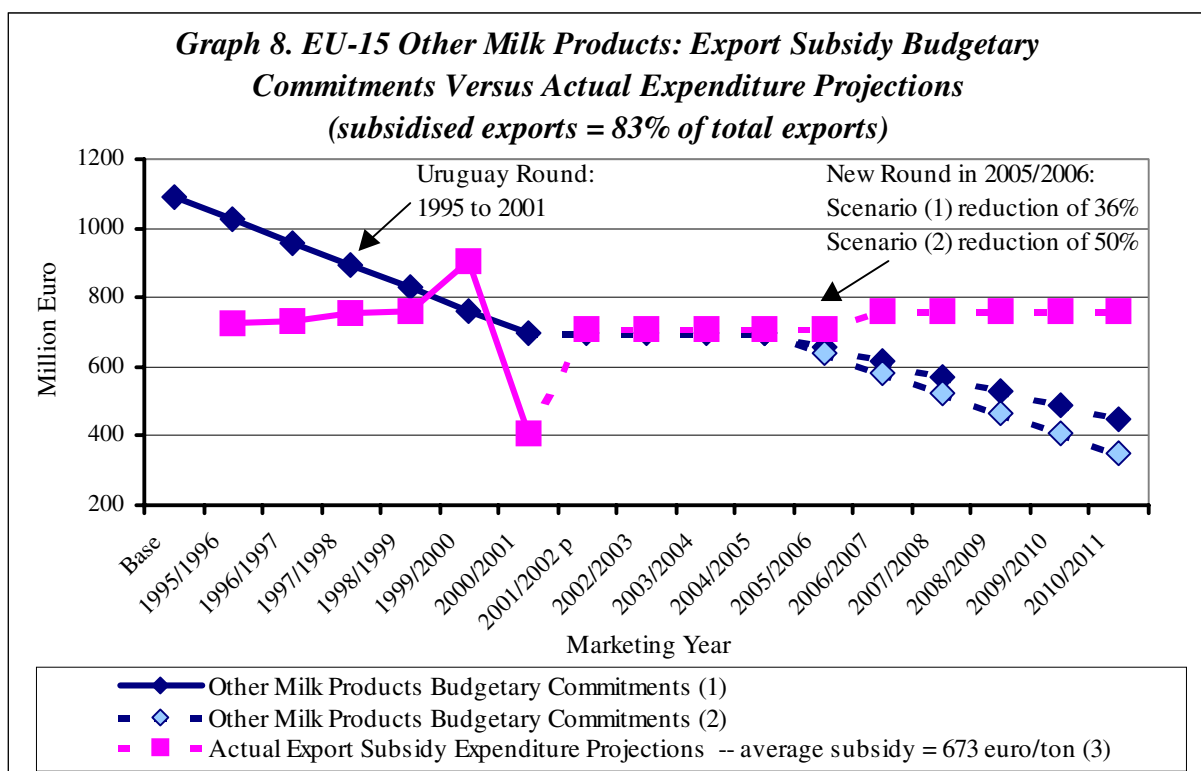
(1) Cheese Quantity Commitments are further reduced by 21%
 (2) Cheese Quantity Commitments are further reduced by 50%
 p: projections of subsidised cheese exports (subsidised exports quantity = 76% of total exports)
 Source: CEC 2001, WTO Notifications, Huan-Niemi & Niemi 2001



(1) Cheese Budgetary Commitments are further reduced by 36%
 (2) Cheese Budgetary Commitments are further reduced by 50%
 (3) Average subsidy per ton for cheese (745 Euro) is used for the actual export subsidy expenditure projections
 p: projections of expenditure for subsidised cheese exports (subsidised exports = 76% of total exports)
 Source: CEC 2001, WTO Notifications, Huan-Niemi & Niemi 2001



- (1) Other Milk Products (OMP) Quantity Commitments are further reduced by 21%
 (2) Other Milk Products (OMP) Quantity Commitments are further reduced by 50%
 p: projections of subsidised OMP exports (subsidised exports quantity = 83% of total exports)
 Source: CEC 2001, WTO Notifications, Huan-Niemi & Niemi 2001



- (1) Other Milk Products (OMP) Budgetary Commitments are further reduced by 36%
 (2) Other Milk Products (OMP) Budgetary Commitments are further reduced by 50%
 (3) Average subsidy per ton for OMP (673 Euro) is used for the actual export subsidy expenditure projections
 p: projections of expenditure for subsidised OMP exports (subsidised exports = 83% of total exports)
 Source: CEC 2001, WTO Notifications, Huan-Niemi & Niemi 2001

4. EU enlargement: export subsidy projection for EU-25 dairy sector

Under EU enlargement, it is assumed that ten new member states will be ready to join the EU by marketing year 2004/2005 with the “big bang effect” and the new WTO round will begin in 2005/2006. Poland, Hungary, Czech Republic, Slovenia, Estonia, Latvia, Lithuania, Slovakia, Bulgaria, and Romania are members of the WTO. Therefore, these countries are also subjected to the reduction commitments under the URAA. These countries export subsidy commitments for dairy products are differently categorised compared to the EU. Moreover, each country has different classification of export subsidy commitments for dairy products (Appendix 3). As a result, the following assumptions are made for the EU-25 export subsidy projections in dairy products:

1. It is assumed that the export subsidy commitments in the category of “Milk Powder” under the CEE countries will be combined with the export subsidy commitments in the category of “Skim Milk Powder” under the EU.
2. It is assumed that the export subsidy commitments in the category of “Cheese,” “Other Milk Products,” “Dairy Products,” and “Butter” will be combined with the export subsidy commitments in the category of “Cheese” under the EU. The EU already has excess export subsidy commitments for “Butter,” whereas “Other Milk Products” is a combination of many dairy products that make it impossible to do projections for this category. Because “Cheese” will be considered the most strategic or competitive product among the dairy products in the future, the rest of the export subsidy commitments are channelled towards the category of “Cheese” under the EU-25 projections.
3. It is assumed that the EU will receive directly all the export subsidy commitments for dairy products from the CEE countries, once these countries attain membership in the EU. In the EU-25 projections, the export subsidy commitments for dairy products will be classified in the same way as the EU-15 categories for dairy products.

Similar to the EU-15 projections, further reductions in the export subsidy commitments are also projected in two different scenarios for each product category. In the first scenario, the EU- 25 export subsidy commitments in the Next WTO Round are projected with further 21 percent reduction in the quantity commitments and 36 percent reduction in the budgetary commitments. The second scenario has projections of further 50 percent reduction in both the budgetary and quantity commitments. Parallel to the Uruguay Round, the new round is assumed to be implemented over a period of six years.

4.1 Butter & butteroil

Under Scenario 1, the EU-25 projections in the Next WTO Round indicate that the export subsidy commitments for both quantity and expenditure will not be binding even though the CEE countries do not bring in any extra export subsidy commitments for butter (Graph 9 and 10). There will be some slack in the export subsidy commitments for butter even though the net exports of butter from the CEE countries are included. Under this EU enlargement scenario, the slack in the export subsidy commitments for butter during the Uruguay Round will continue to the Next WTO Round.

Under Scenario 2, the EU-25 projections indicate that the quantity commitments for export subsidy will be breached by the end of the Next WTO Round, but the budgetary commitments will not be breached (Graph 9 and 10). In order to stay within the export subsidy commitments, only 80 percent of butter exports can be subsidised in the Next WTO Round, and the average subsidy per ton is near EUR 1791. Under this EU enlargement

scenario, the slack in the export subsidy commitments for butter during the Uruguay Round will not be enough to cover the additional net exports for butter (without additional export subsidy commitments for butter) from the CEE countries by the end of the Next WTO Round.

4.2 Skim milk powder

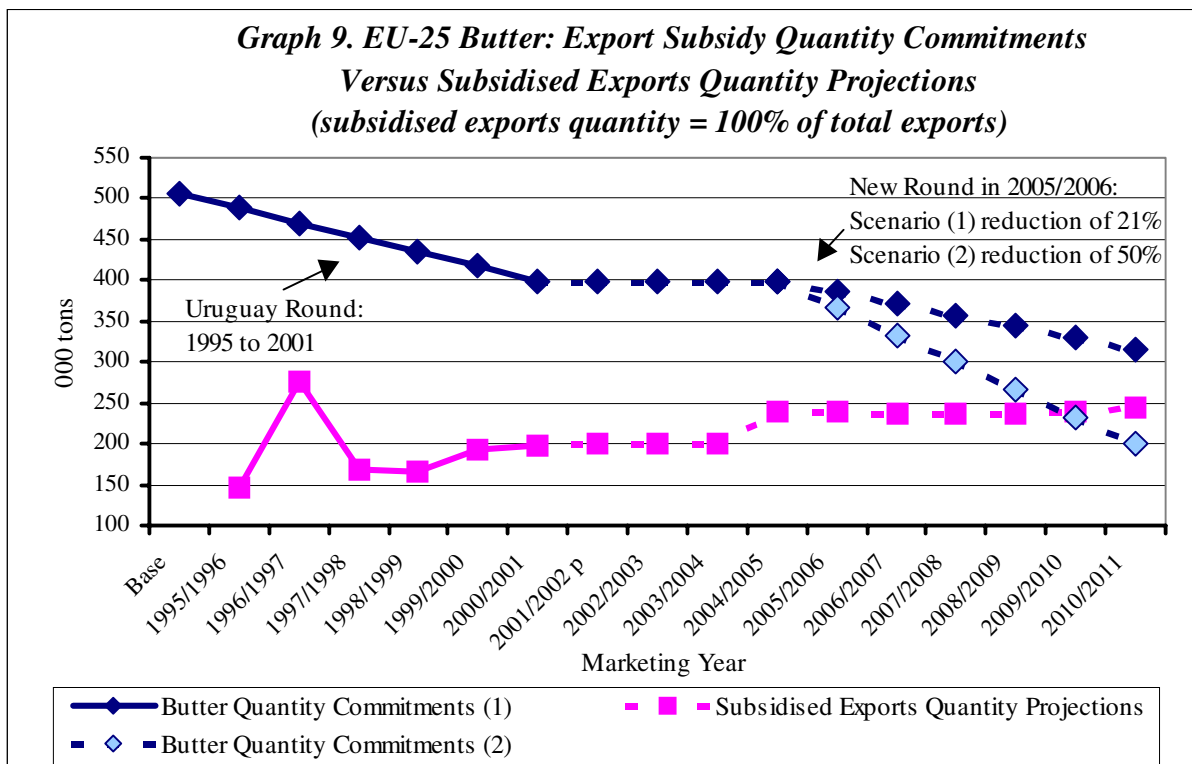
Under Scenario 1, the EU-25 projections for skim milk powder indicate that the quantity commitments for export subsidy will be slightly breached by the end of the Next WTO Round, if 90 percent of skim milk powder is still exported with export subsidy. Though, the budgetary commitments for skim milk powder will not be breached, if the average subsidy per ton is around EUR 626 (Graph 11 and 12). In order to stay within the quantity commitments for export subsidy, about 80 percent of skim milk powder can be exported with export subsidy by the end of the Next WTO Round. Under this EU enlargement scenario, the export subsidy commitments brought in by the CEE countries are insufficient to cover the net exports of skim milk powder from the CEE countries. As a result, about 20 percent of skim milk powder need to be exported without export subsidy by the end of the Next WTO Round compared to 10 percent under the EU-15 scenario.

Under Scenario 2, the EU-25 projections indicate that both the quantity and budgetary commitments for export subsidy will be breached, if 90 percent of exports in skim milk powder is still subsidised in the Next WTO Round (Graph 11 and 12). In order to stay within the export subsidy commitments, about 50 percent of skim milk powder exports can be subsidised and the average subsidy per ton can remain around EUR 626. Under this EU enlargement scenario, about half of skim milk powder exports cannot be subsidised by the end of the Next WTO Round.

4.3 Cheese

Under Scenario 1, the EU-25 projections for cheese indicate that both the quantity and budgetary commitments for export subsidy will be breached by the end of the Next WTO Round, if 76 percent of cheese is still exported with export subsidy (Graph 13 and 14). In order to stay within the export subsidy commitments, 65 percent of cheese exports can be subsidised by the end of the Next WTO Round and the average subsidy per ton is around EUR 745. Under this EU enlargement scenario, the export subsidy commitments brought in by the CEE countries exceed the net exports of cheese from the CEE countries. The main reason is that the CEE countries' export subsidy commitments in the category of "cheese," "other milk products," "dairy products," and "butter" are channelled towards the category of "cheese" under the EU-25 projections. Thus, only 35 percent of cheese exports need to be exported without any export subsidy compared to 50 percent of exports in cheese under the EU-15 scenario.

Under Scenario 2, the EU-25 projections in the Next WTO Round indicate that the breach in the export subsidy commitments will be more severe compared to Scenario 1, if 76 percent of exports in cheese is still subsidised (Graph 13 and 14). In order to stay within the export subsidy commitments, only 40 percent of cheese exports can be subsidised by the end of the Next WTO Round and the average subsidy per ton can remain around EUR 745. Under this EU enlargement scenario, 60 percent of cheese exports will have to be exported without any export subsidy compared to 65 percent of cheese exports under the EU-15 scenario. The "surplus" export subsidy commitments from the CEE countries have a smaller impact here because this scenario has a steeper reduction formula compared to Scenario 1.

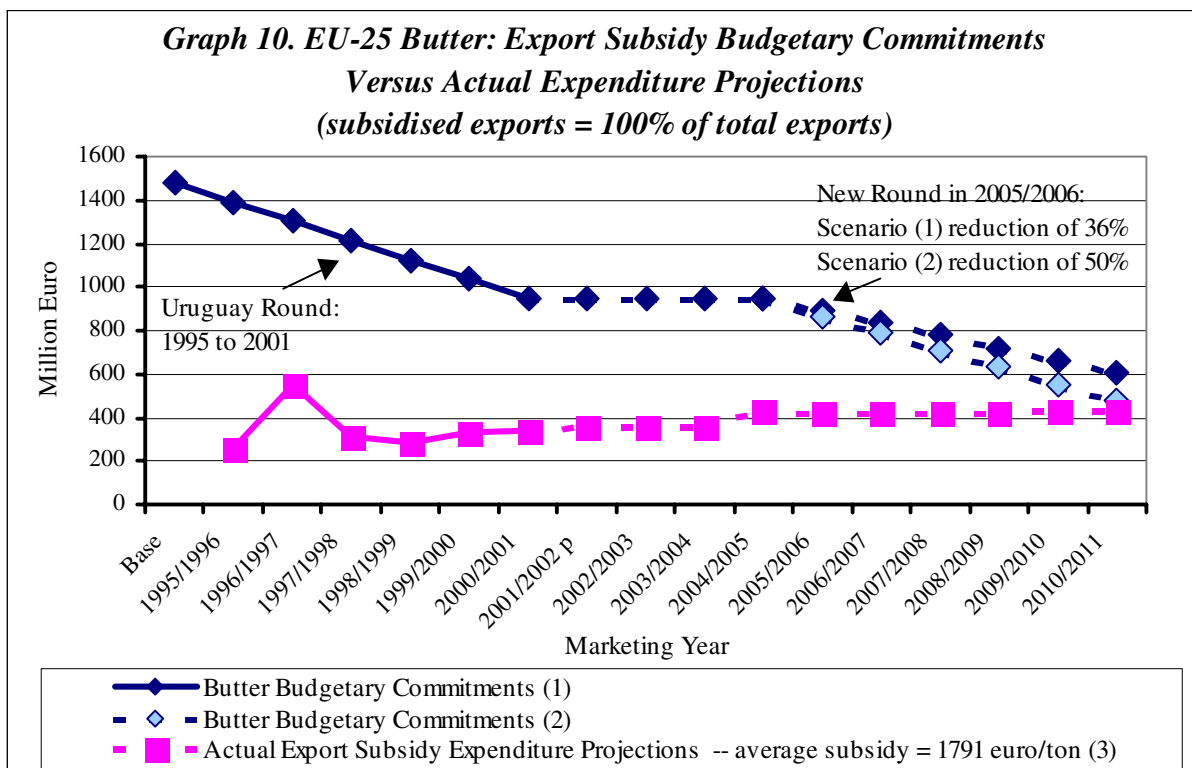


(1) Butter Quantity Commitments are further reduced by 21%

(2) Butter Quantity Commitments are further reduced by 50%

p: projections of subsidised butter exports (subsidised exports quantity = 100% of total exports)

Source: CEC 2001, FAPRI 2000, FAOSTAT 2000, EUROSTAT COMEXT, UNCTAD TRAINS, WTO Notifications, Huan-Niemi & Niemi 2001



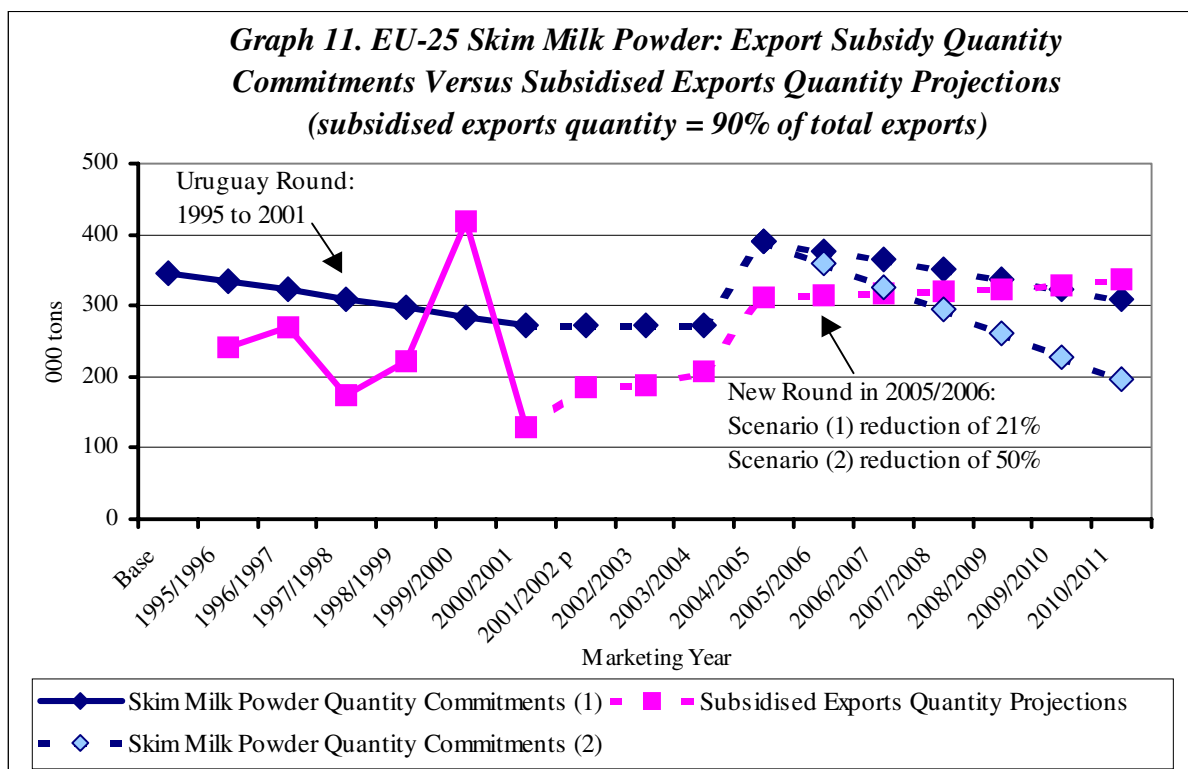
(1) Butter Budgetary Commitments are further reduced by 36%

(2) Butter Budgetary Commitments are further reduced by 50%

(3) Average subsidy per ton for butter (1791 Euro) is used for the actual export subsidy expenditure projections

p: projections of expenditure for subsidised butter exports (subsidised exports = 100% of total exports)

Source: CEC 2001, FAPRI 2000, FAOSTAT 2000, EUROSTAT COMEXT, UNCTAD TRAINS, WTO Notifications, Huan-Niemi & Niemi 2001

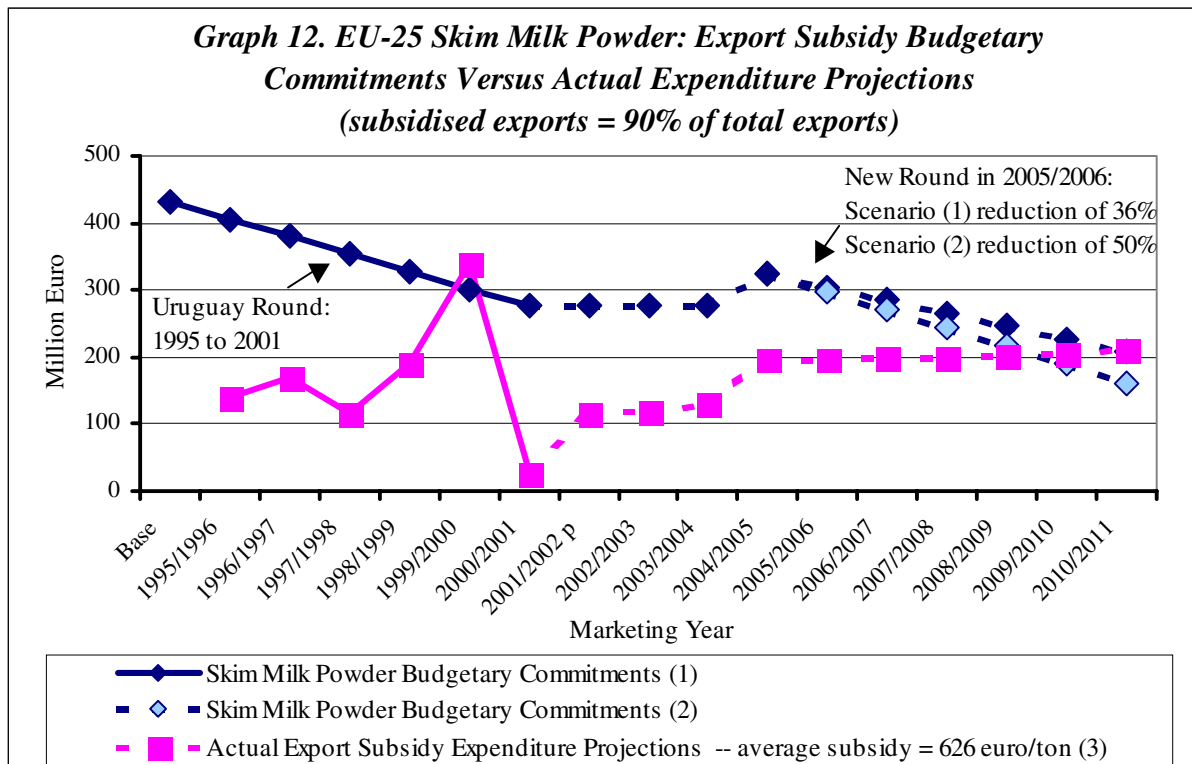


(1) Skim Milk Powder (SMP) Quantity Commitments are further reduced by 21%

(2) Skim Milk Powder (SMP) Quantity Commitments are further reduced by 50%

p: projections of subsidised SMP exports (subsidised exports quantity = 90% of total exports)

Source: CEC 2001, FAPRI 2000, FAOSTAT 2000, EUROSTAT COMEXT, UNCTAD TRAINS, WTO Notifications, Huan-Niemi & Niemi 2001



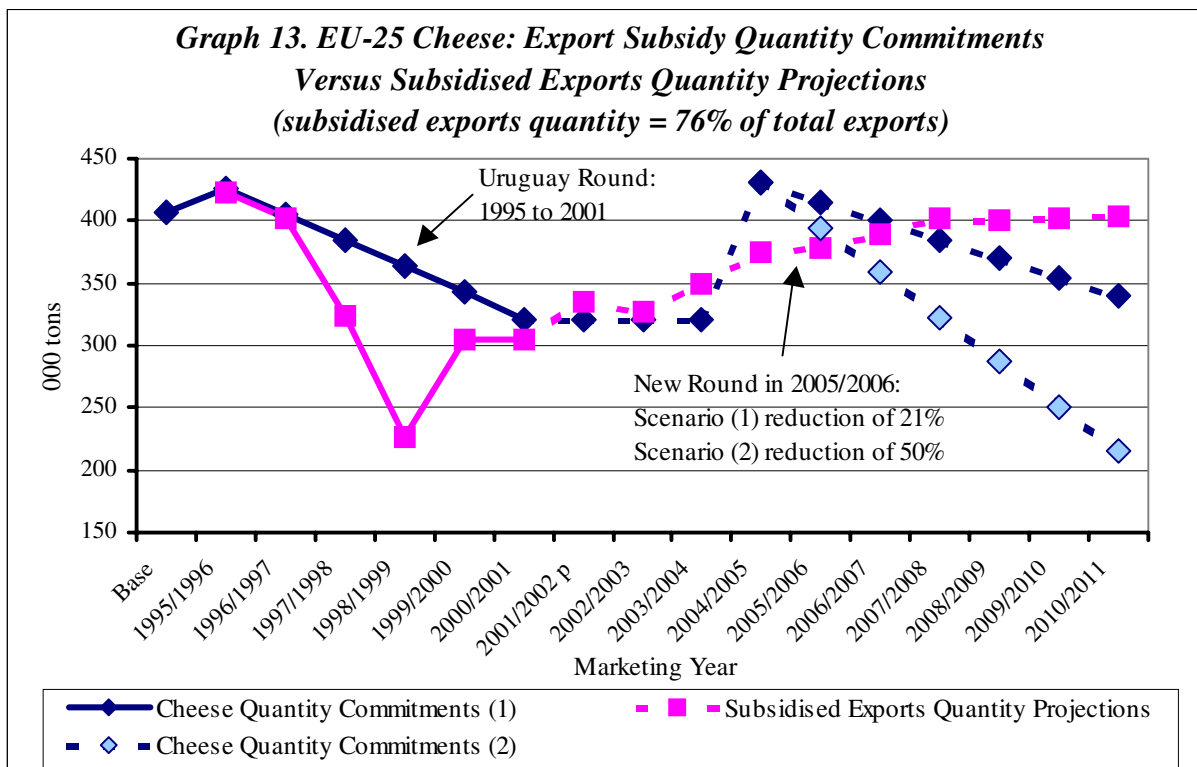
(1) Skim Milk Powder (SMP) Budgetary Commitments are further reduced by 36%

(2) Skim Milk Powder (SMP) Budgetary Commitments are further reduced by 50%

(3) Average subsidy per ton for SMP (626 Euro) is used for the actual export subsidy expenditure projections

p: projections of expenditure for subsidised SMP exports (subsidised exports = 90% of total exports)

Source: CEC 2001, FAPRI 2000, FAOSTAT 2000, EUROSTAT COMEXT, UNCTAD TRAINS, WTO Notifications, Huan-Niemi & Niemi 2001

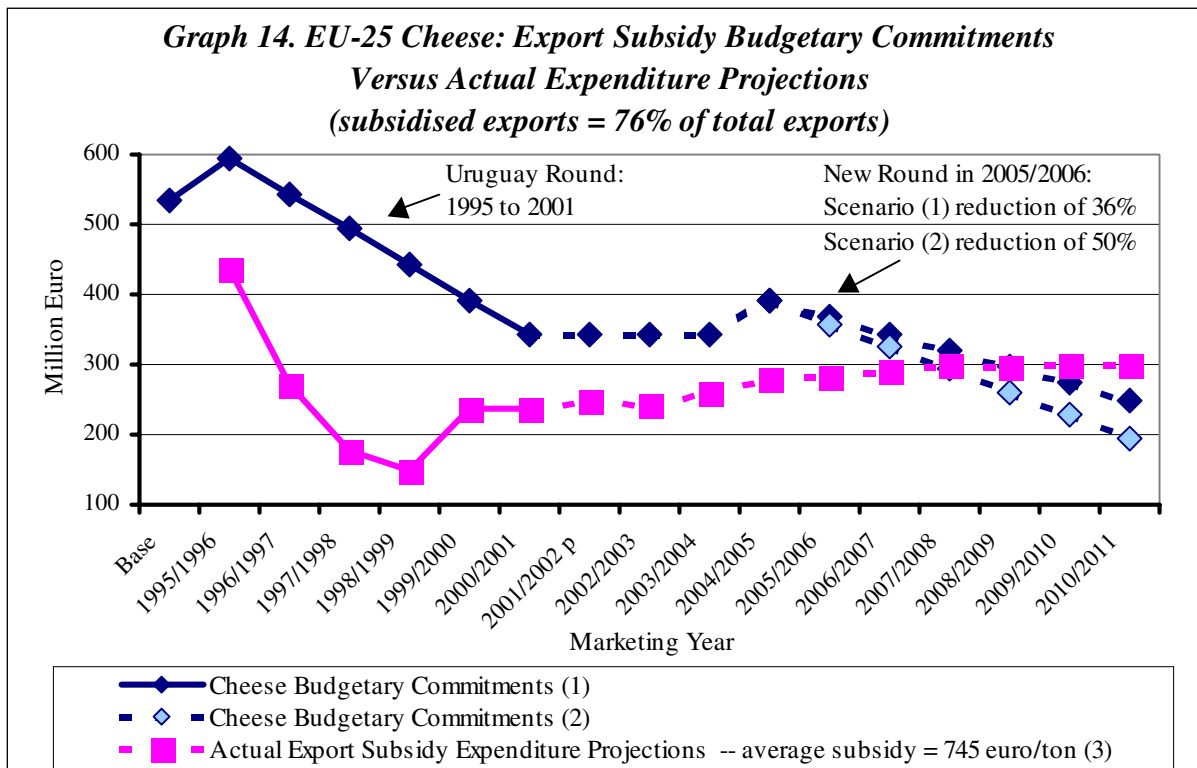


(1) Cheese Quantity Commitments are further reduced by 21%

(2) Cheese Quantity Commitments are further reduced by 50%

p: projections of subsidised cheese exports (subsidised exports quantity = 76% of total exports)

Source: CEC 2001, FAPRI 2000, FAOSTAT 2000, EUROSTAT COMEXT, UNCTAD TRAINS, WTO Notifications, Huan-Niemi & Niemi 2001



(1) Cheese Budgetary Commitments are further reduced by 36%

(2) Cheese Budgetary Commitments are further reduced by 50%

(3) Average subsidy per ton for cheese (745 Euro) is used for the actual export subsidy expenditure projections

p: projections of expenditure for subsidised cheese exports (subsidised exports = 76% of total exports)

Source: CEC 2001, FAPRI 2000, FAOSTAT 2000, EUROSTAT COMEXT, UNCTAD TRAINS, WTO Notifications, Huan-Niemi & Niemi 2001

5. Conclusions

The EU will undoubtedly face further reductions in the export subsidy commitments in the new forth-coming WTO round for agriculture. It is just a matter of what kind of reduction formula that will apply due to the outcome of the current negotiations scheduled to end in the 1st of January 2005. There is a possibility that the new round will be along the same lines as the Uruguay Round, but steeper reductions in the export subsidy commitments can also be a probable outcome.

In both the EU-15 and EU-25 projections, the EU may be able to stay within the WTO commitments for export subsidy in the dairy sector without further reforms in the Common Agricultural Policy (CAP), if the Next WTO Round is going to be along the same lines as the Uruguay Round. However, some minor reforms are needed to relieve the binding commitments for cheese and other milk products. The up-coming reform in the dairy sector under Agenda 2000 starting from year 2005 may help in reforming the dairy sector for the new round. In contrast, a steeper reduction in the export subsidy commitments compared to the Uruguay Round may cause problems for cheese and other milk products because the majority of exports in these products will have to be exported without any export subsidy. The enlarged EU may face troubles in butter, skim milk powder, cheese, and other milk products with a steeper reduction formula. The reforms under Agenda 2000 may not be sufficient because the difference between the EU internal market price and world market price is still too high for dairy products to allow unsubsidised exports to the world market. The EU internal market will have to absorb the dairy products intended for the export market. Consequently, the EU internal market for dairy products will be under pressure for further price reduction, and the EU world market share in dairy products will shrink.

The demand for dairy products in the world market and the strength of the Euro are directly influencing the amount of subsidised exports in dairy products from the EU. A strong demand in the world market combined with a weak Euro will give the EU a great deal of “breathing space” in the export subsidy commitments. Marketing year 2000/2001 was the prove of this occurrence, in which the actual expenditure for the dairy sector under the CAP budget was under spent by about EUR 457 million.

References

CEC 2001. Prospects for agricultural markets 2001-2008. July 2001, Commission of the European Communities, Directorate-General for Agriculture, Brussels.

EUROSTAT COMEXT – database. Internal and External Trade of the EU. Updated 2001.

FAOSTAT 2000. Food and Agriculture Organisation of the United Nations Statistical Databases. Updated 22.12.2000. Available at <http://apps.fao.org>.

FAPRI 2000. World Agricultural Outlook 2000, Food and Agricultural Policy Research Institute. Iowa State University – University of Missouri-Columbia.

Huan-Niemi, E. & Niemi, J. 2001. The Next WTO Round on Agriculture and EU Enlargement: Pressures for reforms in the EU Common Agricultural Policy, MTT Agrifood Research Finland, Economic Research (MTTL), Working Papers 22/2001.

UNCTAD TRAINS – database. United Nations Conference on Trade and Development Trade Analysis and Information System.

WTO Notifications. World Trade Organisation. Available at www.wto.org. G/AG/N/EEC.

APPENDIX 1

AVERAGE SUBSIDISED PERCENTAGE							
	1995/1996	1996/1997	1997/1998	1998/1999	1999/2000	2000/2001	6 years Average
DAIRY PRODUCT							
BUTTER	115 %	107 %	102 %	110 %	120 %	107 %	110 %
SKIM MILK POWDER	97 %	99 %	77 %	111 %	120 %	36 %	90 %
CHEESE	82 %	82 %	77 %	70 %	81 %	67 %	76 %
OTHER MILK PRODUCTS	89 %	84 %	87 %	82 %	87 %	69 %	83 %

Source: WTO Notifications

APPENDIX 2

AVERAGE SUBSIDY PER TON (in Euro/ton)							
	1995/1996	1996/1997	1997/1998	1998/1999	1999/2000	2000/2001	6 years Average
DAIRY PRODUCT							
BUTTER	1750	1999	1837	1728	1719	1713	1791
SKIM MILK POWDER	584	631	663	865	810	205	626
CHEESE	1036	675	543	659	773	781	745
OTHER MILK PRODUCTS	629	642	677	798	820	470	673

Source: WTO Notifications

APPENDIX 3

CEEC Export Subsidy Commitments for Dairy Products by the end of the URAA	
Poland	Milk Powder (37 000 tons)
Hungary	Dairy Products (7 700 tons)
Czech	Milk Powder (66 900 tons) and Other Milk Products (62 800 tons)
Slovenia	no export subsidy commitments
Estonia	no export subsidy commitments
Latvia	no export subsidy commitments
Lithuania	no export subsidy commitments
Slovakia	Milk Powder (15 000 tons) and Other Milk Products (7 100 tons)
Bulgaria	Cheese (5 000 tons)
Romania	Butter (14 800 tons) and Cheese (11 400 tons)

Source: WTO Notifications