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The Final Agenda 2000 Agreement on Agriculture: An Assesment

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The Final Agenda 2000 Agreement on Agriculture: An Assessment

Abstract

This paper presents a general overview on the final Agenda 2000 Agreement on Agriculture, reached by the EU Heads of State in March 1999. Following a summary of the reforms agreed, the paper aims at assessing to which extent this package will suffice to address the two major external challenges facing the CAP: 1. Compliance with its current trade commitments at the World Trade Organisation and response to future pressures resulting from the new negotiating round starting at the end of 1999, and 2. Securing a smooth integration of the agricultural sectors of Central and Eastern European countries, which could start to accede the EU as early as 2002. The paper concludes that the agreement appears insufficient to address both challenges. The EU will have to adopt a very defensive position in WTO, being unable to pursue more offensive objectives such as the opening of foreign markets for its products. Moreover, key issues regarding EU enlargement, namely direct payments and supply controls, remain unresolved.

Zusammenfassung

Dieser Beitrag gibt einen Überblick zu dem Agrarteil der Agenda 2000 entsprechend der Einigung der EU Regierungschefs im März 1999. Im Anschluß an eine Zusammenfassung der beschlossenen Reform findet eine Bewertung des Paketes im Hinblick auf die zwei wesentlichen Herausforderungen für die GAP statt: 1. Berücksichtigung der gegenwärtigen Handelsvereinbarungen im Rahmen der Welthandelsorganisation und der Vorbereitung der Ende des Jahres 1999 anstehenden neuen Verhandlungsrunde. 2. Vorbereitung einer möglichst problemlosen Integration der Agrarsektoren der Mittel- und Osteuropäischen Länder, die der EU bereits im Jahr 2002 beitreten könnten. Die Vereinbarungen der Agenda 2000 erscheinen ungenügend im Hinblick auf diese beiden Herausforderungen. Die EU ist gezwungen eine sehr defensive Position im Rahmen der WTO Verhandlungen einzunehmen. Eine klare Strategie zur Öffnung der Weltmärkte für eigene Produkte kann nicht verfolgt werden. Darüber hinaus bleiben die zentralen Probleme hinsichtlich der EU-Erweiterung, nämlich Direktzahlungen und angebotsbeschränkende Instrumente, ungelöst.

1 Introduction

In July 1997, following the conclusion of the Amsterdam Treaty, the European Commission presented the communication Agenda 2000. This document outlined in a single framework (1) proposals to strengthen and reform the European Union (EU) institutions and policies with a view to adequately address the challenges facing the EU, (2) an assessment of the preparedness of candidate countries for EU accession and some recommendations for enlargement negotiations, and (3) a financial framework proposal for the period 2000-06, designed taking EU reform proposals and enlargement into consideration.

Part 1 of Agenda 2000, on reform of EU institutions and policies, included a section on agricultural policy reform. The latter provided some general orientations for further Common Agricultural Policy (CAP) reform, and indicated that detailed proposals would be presented at a latter stage. Indeed, the Commission published detailed legislative proposals for further CAP reform in March 1998. This set of proposals served as a basis for discussions by Agricultural Ministers at the Agricultural Council, who following lengthy and difficult debates, finally reached an agreement on CAP reform on 11 March 1999. This so-called political agreement was submitted to the Heads of State at the Berlin European Council, held on 23-24 March 1999, who in turn introduced some further modifications to the agricultural package and finalised the overall agreement on Agenda 2000.

The original European Commission proposals for further agricultural policy reform – whose main elements were a 20% cut in intervention prices for cereals coupled with partial direct compensation, a 30% cut in beef buying-in prices and a 10% cut in intervention prices for dairy, to be compensated by increased premium levels – were substantially watered down, first by the Agricultural Ministers, who reduced price cuts for beef to 20% and delayed dairy reform to 2003, and then by the Heads of State who, partly on budget grounds, limited price cuts for cereals to 15% and delayed dairy reform until the year 2005.

Although the European Commission stresses the central role played by internal challenges in the definition of the reform proposals (i.e. budget constraints, curbing the regressivity of the policy, public dissatisfaction the policy, emerging new roles for European agriculture on environmental preservation and rural development, food quality and safety etc.), it is widely accepted that – probably with the exception of budget constraints – the two most imminent challenges are of an external nature, namely the pressures for further trade liberalisation likely to emerge at the next round of WTO agricultural negotiations, starting at the end of this year, and the future enlargement of the EU.

Part I presents a summary of the reforms agreed as well as the modifications introduced at each stage of the legislative process. Part II then turns to assess to which extent will the reforms address the challenges faced by the EU at the turn of the century, and in particular to which degree will these reforms suffice to pave a smooth way for EU enlargement, and what are the perspectives in the light of the current WTO commitments and the next round of negotiations.

2 Overview of the Reform Proposals and Final Agreement

Table 1 presents the agreement on total agricultural expenditure for the period 2000-2006 as originally proposed by the European Commission and as finally agreed at the Berlin European Council. Whilst the tempering of the proposals at the Agriculture Council was motivated by the eagerness of most Ministers to defend as much as possible the status quo for their farmers, the final agreement at Head of State level was partly driven by budget considerations. France, a firm advocate of the status quo for dairy, managed to present the delay of the dairy reform until 2006 and the 5% reduction in the price cut proposed for cereals, as an opportunity to save on higher direct payments in the short-term.

Table 1: Total agricultural expenditure 2000-2006 (mill. euro at 1999 prices)[1]

	2000	2001	2002	2003	2004	2005	2006	TOTAL
Commission legislative proposals (March 1998)	46050	46920	47820	48730	49670	50630	51610	**341430**
Berlin European Council Agreement	40920	42800	43900	43770	42760	41930	41660	**297740**
of which (a) markets [2]	36620	38480	39570	39430	38410	37570	37290	267370
(b) rural development [3]	4300	4320	4330	4340	4350	4360	4370	30370

Source: European Commission (1999)

[1]For calculating the amounts in current prices a deflator of 2% is used.

[2]Including veterinary and plant health measures, and excluding accompanying measures.

[3]Including accompanying measures. The rural development measures financed by the EAGGF Guidance section outside Objective 1 programmes are additional to this expenditure. The annual average of these amounts corresponds to the Commission proposals in Agenda 2000. All rural development actions are co-financed by European Commission and Member States.

The main elements of the final agreement on agriculture are as follows:

Table 2: Agenda 2000 Agreement on Agriculture

Arable crops	
Cereals	A cut in intervention prices of 15% in two equal steps in 2000/01 and 2001/02 Compensation of approximately 50% in the form of direct payments.
Oilseeds	Oilseeds aid to be aligned to that of cereals by 2002.
Beef	A 20% price cut in three equal steps, coupled by increased premium levels. Premium increases to be partly allocated as a 'national envelope' to Member States, with flexibility granted to take account of national priorities. New extensification payments.
Dairy	A 15% cut in intervention prices for butter and skimmed milk powder, coupled by an increase in premium levels, and an overall quota increase of 1.5%, to be implemented as from 2005.
Wine	Simplification of the regime. Structuring and conversion measures.
Rural Development	All rural development measures under a single framework that applies to all rural areas. Measures to areas outside Objective 1 regions to be financed by EAGGF-guarantee. Decentralisation and flexibility as guiding principles.

Table 3: Overview of the reform proposals at each stage of the legislative process

	Arable Crops	Beef	Dairy
General Orientations July 1997	***Cereals*** **Price support cut** A 1-step 20% reduction in intervention price for cereals in 2000 (down from 119.5 to 95.35 Ecu/tn). **Compensation** Non-crop specific area payment of 66 ECU/tn. [1] Payments adapted to market price developments. Set-aside area to be eligible for compensation. **Set-aside** Compulsory set-aside retained but reference rate set at 0%. Voluntary set-aside allowed, extraordinary set-aside abolished. ***Oilseeds*** Mention the need to overcome the Blair House Agreement constraints. ***Exceptions*** Silage maize excluded. Protein crops will receive supplement aid of 6.5 ECU/tn to keep competitive with cereals. Present supplements to durum wheat maintained.	**Price support cut** A 30% reduction in buying-in price for beef in 2000-02 (down from 2780 to 1950 ECU/tn). **Compensation (premia increases)** Bull: Increase from 135 to 368 ECU (one-off) Steer: Increase from 109 to 232 ECU (two payments) Suckler cow: Increase from 145 to 215 ECU/year Dairy cow: New premium of 70 ECU/year **Extensification** The Commission will reflect upon ways to encourage it.	**Price support cuts** A 10% cut in intervention prices over the period 2000-06. **Compensation** New annual payment to dairy cow of 145 ECU (adjusted to average yield) Continuation of the quota system until 2006
Legislative Proposals March 1998	**New elements** Direct payments to oilseeds and non-textile linseeds will be aligned to cereal payments level to overcome international trade constraints. Voluntary set-aside to be maintained at the same level as for cereals, and granted for 5 years. Silage maize will continue to be eligible for direct payments **N.B.** No reference to the non-crop specificity of area payments.	**New elements** The 30% price cut to be implemented in 3 equal steps starting 1/6/2000. From 1/6/2000 the intervention system to be replaced by private storage. **New concept for compensation** Similar aggregate compensation levels but divided into: An EC-wide basic payment equal to pre-reform levels plus 50% of total premium increase (i.e. bull: 220, Steer: 170, suckler cow: 180, dairy cow: 35) A "national envelope" equivalent to 50% of the premia increase, and which MS can allocate with flexibility, according to national priorities. **Ceilings** A national ceiling for suckler cow premium rights (1996/97 levels + 3%). A regional ceiling for male premia (1997/98 levels). **Extensification premium** Additional extensification premium of 100 ECU per premium granted if stocking densities < 1.4 LU/ha.	**New price cut proposal** A 15% reduction in intervention prices for butter and skimmed milk powder in 4 steps (i.e. beyond the original proposal but more targeted in terms of products covered). **New concept for compensation** Direct payments as a function of the number of premium units. [2] Aggregate compensation levels similar to the general orientations but divided into: An EC-wide basic payment of 100 ECU/premium unit. A "national envelope" of 45 ECU/premium unit, to be spent according to national provisions **Quota system** Due to the impact of the price intervention cut on demand, a 2% increase of the reference quantity in 4 years (to be distributed to specific categories, e.g. young, mountain farmers).

Table 3: Overview of the reform proposals at each stage of the legislative process (continued)

	Arable Crops	Beef	Dairy
Agricultural Council's Political Agreement on CAP Reform March 1999	**New elements** The 20% reduction in intervention support to be implemented in 2 steps starting 2000/2001 The reference price system for oilseeds to be abolished in 2000, and direct payments for oilseeds and non-textile linseeds to be reduced to cereal payment levels in 3 year steps. Compulsory set-aside to be retained at a basic rate of 10 % until the marketing year 2001/02, and at 0% afterwards. Voluntary set-aside maintained.	**New elements** Reduction of buying-in prices of only 20% in 3 equal steps (down to 2,224 Euro/tn). **Compensation** 1. EU-wide basic premia to increase as follows: Bull: 210 Euro (*1) Steer: 300 Euro (2*150) Suckler cow: 200 Euro/year Dairy cow: abolished "National envelopes" defined to top up payments on male and female bovine, including dairy cows. **Ceilings** Two national ceilings set for the slaughter premium for calves and adults -male and female- (1995 level) Regional ceiling for the special male premium (1996 level with 5% trigger) National ceilings for the suckler cow premium defined **Extensification premium** MSs can apply them in two possible ways: 100 Euro/LU if stocking rate < 1.4 LU/ha, as proposed by the Commission As follows: 2000/01 33 Euro if 1.6 < LU/ha < 2.0 66 Euro if LU/ha < 1.6 2002 - 40 Euro if 1.4 < LU/ha < 1.8 80 Euro if LU/ha < 1.4	**New elements** The reduction in intervention price of 15% for butter and SMP to be implemented in 3 equal steps starting 2003. Quotas to be expanded 1.5% in 3 steps starting 2003. Greece, Spain, Ireland, Italy and United Kingdom to benefit from a specific quota increase. All in all, a quota expansion of 2.39% by the end of the period. The future of the quota regime after 2006 to be reviewed in 2003. **Compensation** Basic EU-wide aid increase in 3 equal steps to 17,24 Euro/tn in 2005. Increasing "national envelopes" for 2003/05.
Berlin European Council Final Agreement on CAP reform March 1999	Agricultural Council Political agreement endorsed with the following modifications: The cut in intervention prices will be limited to 15 % and will be implemented in 2 equal steps in 2000/01 and 2001/02. This will be followed by a close market analysis, to determine whether further cuts are necessary. Compensation will be established at 63 Euro per ha, approximately 50% of the price cuts. The base rate for compulsory set-aside will be 10% for the entire 2000-06 period.	Agricultural Council Political Agreement endorsed.	The reform of the dairy sector will apply, but will only be implemented as from 20005/06. The current quota system will therefore be in place at least until the year 2008.

Source: European Commission and Council official documents (1997, 1998, 1999)
[1]Multiplied by regional cereals reference yields of the 92 reform.
[2]Individual reference quantity/ average milk yield of EU (5,800 litres/cow).

3 Assessment of the Final Agricultural Agreement of Agenda 2000

3.1 Assessment of the Agenda 2000 agreement on the reformed sectors

3.1.1 Arable crops

The agreement to reduce intervention prices for cereals by 15% aims at a further deepening of the 1992 reforms, with a view to increase EU's competitiveness in world markets and the responsiveness to market forces, enabling the EU to export without subsidies. Still, unless world prices for cereals – at the moment are at very low level – increase drastically, the 15% cut is likely to fail in bringing domestic prices down to world levels, thus obliging the EU to continue the use of export subsidies for grains, and therefore constraining export opportunities for EU farmers. Nonetheless, the inclusion of a provision for "a decision upon a final reduction in the intervention price to be applied from 2002/03 onwards to be taken in the light of market developments" implies that further price cuts could be agreed if the EU runs into difficulties with export subsidies constraints.

The fact that compensatory payments are still coupled (based on historic production levels and crop-specific, requiring farmers to continue growing the correspondent crop in order to receive payments), and that no time-digressivity has been accorded, will be the focus of serious attacks in the next WTO round of negotiations. It remains doubtful whether the EU will succeed in its claim for an extension of the blue box[1], and if the blue box goes, EU's Aggregate Measure of Support (AMS) levels will be well above the ceiling allowed by WTO rules, thus violating international trade rules.

Difficulties for an extension of the blue box are posed by the fact that, following the US 1996 Fair Act, which introduced truly decoupled payments[2], the US has no longer an interest in keeping it, as it is likely that these new payments will be introduced into the green box[3].

[1] The blue box is a list of production-limiting programmes that are granted a temporary exemption from WTO obligations on trade- and production-distorting domestic support reductions. It was designed specifically to include direct compensation from the EU's 1992 CAP reform and US deficiency payments. The blue box was included at the last minute into the Uruguay Agreement by request of the EU and the US.

[2] The 1996 Farm Act decouples payments to the principal crops (with the exception of peanuts, tobacco and sugar) from output and cropping decisions. Farmers are free in their planting decisions, and are even allowed to stop planting altogether. Payments are time-digressive, starting at a high level.

[3] A list of non-trade distortive measures exempted from any reduction commitment .

Besides, the aid increases per hectare agreed for Spain and Italy, and the expansion of maximum guaranteed durum wheat area for Portugal, could be in conflict with current WTO rules concerning the blue box[4].

Although the drop in direct payments to oilseeds down to direct compensatory payments to cereals (i.e. 63 euro as from 2002) appears drastic, trading partners are likely to argue that the payment will be based on the grain yield rather than oilseed yield, which is more than double in most Member States[5].

3.1.2 Dairy

From the outset reform proposals for the dairy sector[6] were milder than for cereals or beef. The European Commission probably considered that substantial cuts in intervention prices, which would allow an expansion or even a removal of the present quota system, would have required full compensation to all farmers in order to make the reform politically viable. The very large number of, mainly, small-producers, would have made the reform very costly, with agricultural expenditure expanding well-beyond the agricultural budget ceiling. Thus, proposals would not only have been opposed by most Agricultural Ministers, in an attempt to defend the status quo for their farmers, but also by Heads of State, mostly concerned about expenditure and national contributions.

Still, the Commission proposal to cut prices by 10% was to start as early as the year 2000. Agricultural Ministers postponed it to 2003, and Heads of State went a step further and delayed the reform until the year 2005, charmed by the short-term budget savings in compensation such a decision would entail.

Although the EU is the main world producer of dairy products and has a structural production surplus, under the present system it will not be able to take advantage of expanding world trade in dairy, due to WTO commitments on export subsidies. Indeed, the cheese sector is already constrained by ceilings on export subsidies, which are limiting its growth potential, and similar

[4] As already noted in various USDA reports on Agenda 2000 agricultural agreement.
[5] Ibid.
[6] The current regime is characterised by high intervention prices, well above world levels, and a quota system that controls and limits farmers production decisions. The quota system prevents overproduction, which would be very costly, and which could not be disposed of in export markets at subsidised level due to WTO constraints, thus forcing the EU into an increasing piling up of stocks. The system has been fiercely attacked by economists as a very inefficient and command economy-like one, but the very large number of small-scale, more inefficient farmers, love it, and so do the Member States with a large proportion of them.

pressures are expected to be placed in the future on skimmed milk powder, whole milk powder and concentrated milk. Furthermore, the surplus situation is likely to worsen by the increasing access to EU markets as required by the Uruguay Round agreements.

Against this background, it appears that increasing surpluses and declining ceilings for subsidised exports will force Member States to maintain tight quota levels, constraining the growth potential of the most efficient farmers. Moreover, the agreed delay for reform will have an impact on the integration of the Central and Eastern European Countries (CEECs) at the time of accession (see section II.3.1).

3.1.3 Beef

The BSE crises aggravated what was already a serious structural surplus problem in the beef sector. This surplus reflects high buying-in guaranteed prices, which have resulted in increased production, and a stagnant or declining demand, as consumers do not appear ready to pay for the price difference between red and white meat (approximately 2:1). Furthermore, as prices for cereals go down, cereals-based meat production (pig, poultry) is becoming increasing competitive, which is deepening the imbalance even more. On the other hand, export subsidies for beef are constrained by WTO commitments, and this ceiling has already posed some problems to EU policy-makers.

Thus, the Commission proposal aimed at a 30% price reduction was a bald attempt to alleviate both internal pressures as well as present and future export constraints. The final agreement, however, reduced the price cut to 20%. It remains to be seen whether this proves enough to solve the structural problems of the sector – which also depends on issues such as restored consumer confidence or the competitiveness of other meat – as well as export limitations. To which extent the latter become constraining will depend on the evolution of world market prices.

3.2 Curbing agricultural expenditure – The Agenda 2000 approach

Prior to the 1992 reform, CAP reform came always at the time of budgetary crises, the main objective being a reduction in budget costs. The 1992 reform put forward by Commissioner Ray MacSharry was a turning point in the evolution of the policy. For the first time it emphasised non-budgetary considerations for reform (increasing surpluses, trade tensions as a result of its disposal in world markets, the regressiveness of the policy as well as its negative environmental effect). Furthermore, it was estimated at the time that the reform might increase budgetary costs as a result of increased compensation costs.

The 1992 reform was deemed necessary to allow a finalisation of the GATT Uruguay Round agreement, which was blocked at the time by agricultural negotiations. The fact that the EU had a key interest on the agreement on services and intellectual property among others, somehow forced a market-oriented reform of the CAP, as put forward at the time.

In view of expected increasing constraints on import protection, trade-distorting domestic support and export subsidies, it is of key importance if the EU wants to take advantage of increasing export opportunities to export without subsidies. This requires a reduction of intervention prices to a level close to world markets. This facts partly shaped the Commission's proposal to bring intervention prices for cereals down to world markets, the price cut for beef and the milder price cut for dairy, which even if many found too conservative, was at least a first step towards more-market orientation.

But in order to make a policy reform politically viable, adequate direct compensation needs to be granted to farmers. Inevitably, policy reform along these lines will result in increased budget costs in the short-term. This could be compensated by higher savings in the long run, however, provided compensatory payments to farmers are of a temporary nature.

Compensatory payments as defined in Agenda 2000 do not include any element of time-digressivity or modulation. This will not only increase the budget burden of the policy, but will make a defence of the blue box ever more difficult in the WTO. Time-digressive payments and some elements of modulation would have eased the budget costs, would have facilitated the EU position in trade negotiations and would have introduced a correcting element against the regressiveness of the policy.

Instead, Heads of State opted to water down reforms for beef and cereals and to delay dairy reform altogether. This short-sighted approach may reduce expenditure figures in the immediate future, but is only delaying the inevitable, is undermining the EU's position in WTO, and is even irresponsible, as it does not appear to consider the implications of reform delays on CEECs agricultural policy decisions in the run up to accession, or the effect of this postponement on the overall enlargement process.

3.3 External challenges for the CAP – Will Agenda 2000 do?

3.3.1 EU Enlargement

Direct payments

It is doubtful whether the agreed reform will pave a smooth way for enlargement. Agenda 2000 does not foresee an increase in agricultural expenditure as a result of enlargement beyond the financial guideline. This result, however, rests on the controversial assumption that direct payments will not be extended to new Member countries. This is officially justified by the fact that farmers in these countries will not suffer any price cuts, but rather price increases, and there is therefore no reason why they should receive compensation. But the real rationale behind this position is rather that an expansion of direct payments would sharply increase budget costs for the EU.

This approach presents a number of serious drawbacks, however. First of all, it is arguable whether such system would be compatible with the Single Market. Secondly, it would increase the regressive nature of the policy, by providing some extra payments to the better-off farmers in the West. Finally, it could be attacked on the grounds that farmers in Austria, Finland and Sweden receive payments from the 1992 reform, even if these countries were not members of the EU at the time, farmers in Eastern Germany are eligible even if prices increased rather than fell, and new farmers in the EU are entitled to compensatory payments, even if they were not in business at the time of the reform. (CEPS, 1999)

The European Commission rightly considers that an expansion of direct payments to the CEECs would have serious distortive and destabilising effects, and hinted back in 1995 (European Commission, 1995) that “CEECs agricultural and food industries could probably make much better use of the money available for compensation payments after accession (or at least part of it) for agricultural restructuring (...) and rural development (...).” Some experts consider that implicitly this means that this transition period after accession would provide time for the EU to further reform the CAP and change the nature of current payments into new payments for rural development. (European Commission, 1997[b]).

This latter possibility would be dependant on the budget available, however. How much money would EU Member States be willing to spend on new Member States during this transition period? If the answer to the first question is that proportionately less of what old Member States are receiving in compensation, will new Member States, now sitting with full voting rights at the Council, accept a second class treatment for long?

Supply controls

The postponement of dairy reform until the year 2005, which in turn implies a continuation of the quota regime until at least the year 2008, and the exclusion of the sugar regime altogether from the reform package, will send the wrong signals to prospective members. It is now clear to candidate countries that they can expect to join the CAP as it approximately stands today. It will be therefore very difficult to convince them that it is not in their interest to expand production as much as possible prior to accession in order to guarantee higher quotas. Besides, it is arguable whether this distortive supply management approach can be enforced on the highly fragmented dairy system of many candidate countries, especially Poland.

3.3.2 Increasing trade liberalisation

The GATT Uruguay Round Agreement on Agriculture subjected agriculture for the first time to international trade rules. Reduction commitments were agreed for import protection, domestic support and export subsidies [7]. Although this constituted a sweeping change to international trade rules, the agreement did not result in an immediate major liberalisation of agricultural markets, as signing parties chose base years for the reduction schedule with unusual high protection levels, and countries were allowed to apply the commitments with certain flexibility [8].

The current CAP has so far lived more or less comfortably with the agreement, although certain export subsidy limits have become binding, obliging the EU to reduce export licences to producers at times. Nonetheless, as levels of support and protection are further reduced, commitments will become increasingly constraining. Most trading partners will be pushing for further liberalisation at the

[7] Import protection of all countries was converted into tariffs and subjected to a reduction schedule of 36% (as an unweighted average, provided a minimum cut of 15% per product), over the implementation period, namely 1995-2000. Market access opportunities were to be maintained and increased to 5% of domestic consumption by the end of the period. Production and trade-distortive domestic support, measured as Aggregate Measure of Support, was to be reduced 20% by the year 2000. Non-distortive measures were defined in the green box and production-limiting programmes subject to conditions defined in a blue box, temporarily excluded from reduction commitments. Finally, export subsidies were to be reduced, product by product, 36% in value and 21% in volume.

[8] Reductions in import protection and domestic support are sector-wide rather than product-specific, and it is allowed to load reduction commitments at the end of the implementation period.

next round and, at any rate, f no agreement is reached at the upcoming agricultural round, the ceilings agreed for the last year of implementation, that is the year 2000, will continue to apply.

In the next trade negotiations the EU will have to strike its interest in opening up new markets for its products – being the second largest agricultural exporter – while at the same time trying to protect domestic markets. What will be the implications of the Agenda 2000 agreements on the EU position regarding current international trade rules and the next negotiating round?

As explained below, the EU will be forced to maintain a very defensive position, and will be therefore unable to defend its key interests on increased market access for its products, and in particular food processed products. Moreover, it remains very doubtful whether the blue box will be maintained, and without it the CAP will violate by large commitments on domestic support. Thus, serious problems can be expected.

Import Protection

Tariff bindings, as defined in the Uruguay Round agreement (sector-wide, with very high protection as starting level) still allow for high levels of protection, and this is unlikely to change in the immediate future. The key change on the CAP is that domestic prices are no longer isolated, but linked to world prices. Thus, the CAP designed by Agenda 2000 will not feel strong pressures on this side in the first years of the next millennium, although this may change as reduction commitments become more substantial.

Export Subsidies

More serious pressures are likely to appear on export subsidy rules. The latter are product-specific, and are limited both in quantity as well as in volume. Thus, in order to overcome export limits it is not enough to cut prices, but to cut them down to world levels, as quantitative limitations apply irrespective of the level of subsidy.

It is expected that by the year 2000 cereal exports will already be constrained by export subsidy limits. This situation will worsen as production increases due to technological advances beyond consumption and export possibilities are further reduced. The European Commission intended to close the price gap with its original 20% cut in intervention prices. This would have allowed to export without subsidy, overcoming quantitative restrictions. The 15% cut finally agreed is less likely to achieve it, and even if domestic prices are only slightly above world levels increasing set-aside will be required to comply with WTO limitations. Still, the agreed further price cuts should at least ease export subsidy constraints, although this will depend mainly on world market prices, currently at unusually low levels.

Domestic Support

The impact of future WTO domestic support agreements on the agricultural policy proposed by Agenda 2000 will depend mainly on whether the blue box stays and whether the EU manages to maintain its compensatory payments in it. As noted in previous sections, a key obstacle for the EU position remains the very nature of its direct payments (not truly decoupled, not time-digressive), so far excluded from reduction commitments by its inclusion in the blue box. The Commission was hoping to counterbalance its weak and isolated position (following policy changes in the US, as explained in section II.1) in its defence of a continuation of the blue box – otherwise its direct payments will violate by large international trade rules – with a strong negotiating position on export subsidies and market access of key commodities. The latter should have been allowed by the more substantial price cuts proposed, mainly for cereals and beef, and to a lesser extent for dairy. This possibility has been reduced with the watering down of the original proposals, however.

Although the European Commission made a timid attempt in the original Agenda 2000 towards a further decoupling of payments, which should have be "non-crop specific area payments", this approach was dropped, however, in the legislative proposals, where no reference was made to it. Thus, future direct payments will continue to be crop-specific, based on past production levels and forcing farmers to continue growing the same crop. An alternative to make these payments more defendable at WTO would have been to introduce an element of time-digressivity. This is however fiercely opposed by both farmer lobbies and by most Agricultural Ministers, who have so far subjected approval for reform to the condition that compensation payments should be durable.

4 Annex

Table A.1: Arable Crops : Prices and Payments as agreed at the Berlin Summit

	1999	2000	2001	2002	2003	2004	2005	2006
Cereals/maize in euro/tonne								
- intervention price	119.19	110.25	101.31	101.31[1]	101.31[1]	101.31[1]	101.31[1]	101.31[1]
- compensation	54.34	58.67	63	63[1]	63[1]	63[1]	63[1]	63[1]
Protein crops in euro/tonne	78.49	72.50	72.50	72.50	72.50	72.50	72.50	72.50
Oilseeds in euro/tonne/cereals equivalent	94.24[2]	81.74	72.37	63[3]	63[3]	63[3]	63[3]	63[3]
Non-textile linseed[4] in euro/tonne	105.10	88.26	75.63	63[1]	63[1]	63[1]	63[1]	63[1]
Durum wheat[5] Additional payment per hectare								
- traditional areas	344.5	344.5	344.5	344.5	344.5	344.5	344.5	344.5
- other areas	138.9	138.9	138.9	138.9	138.9	138.9	138.9	138.9
Potato starch[6] per tonne of starch								
- minimum price	209.78	194.05	178.31	178.311	178.311	178.311	178.311	178.311
- compensation	86.94	98.74	110.54	110.54[1]	110.54[1]	110.541	110.541	110.54[1]
Silage grass in euro/tonne	none	58.67	63	631	631	631	631	631
Set-aside in euro/tonne	68.83	58.67	63	631	631	631	631	631

Source: European Commission (1999)

NB: A special measure applies to **cereals and oilseeds** in Finland and Sweden: a fixed drying premium of 19 euro per yield tonne will be introduced from the year 2000.

[1]May change from the year 2002 if the intervention price is lowered, in which case aid will be increased.

[2]Subject to the reference price system.

[3]May change from 2002 in the event of a reduction of the intervention price and/or an overall revision of the sector. NB: Up to and including 2001, aid can be calculated on the basis of the oilseed yield expressed in cereal equivalent multiplied by a factor of 1.95. As from 2002, aid will be calculated on the basis of the cereal yield. The Blair House system will apply throughout the whole transitional period (aid reduced if the maximum guaranteed area (MGA) is exceeded).

[4]No changes for fibre flax.

[5]Subject to maximum guaranteed area per Member State; the MGA for Portugal was increased from 59,000 ha to 118,000 ha.

[6]Subject to Member State quotas; compensation was increased to 75 % to offset quota reductions.

Table A.2: Beef sector: prices and compensatory payments (in euro) as agreed at the Berlin Summit

A.	Current intervention price	Current market support	Price reduction compromise	2000/01		2001/02		2002/..	
				Intervent price	Market support	Intervent price	Market support	Basic price	safely net level
	3.475 /t	(2.780 /t)	**20%**	**3.242 /t**	2.594 /t	**3.013 /t**	2.410 /t	**2.224 /t**	1.560 /t
B.1.	**Premium**	**Current**	**Compromise**	**2000**		**2001**		**2002 and following**	
	Bull premium	135	210	160		185		210	
	Steer premium (x2)	**108,7**	150	122		136		150	
	Suckler cow prem.	144,9	200	163		182		200	
	Suckler cow NAT. supl.	30,19	50	50		50		50	
	Adult animals (slaughter	0	80	27		53		80	
	Calves (slaughter premium)	0	50	17		33		50	
B.2.	**National envelopes (in million EUR)**			**2000**		**2001**		**2002 and following**	
	BE		39,4	13,1		26,3		39,4	
	DK		11,8	3,9		7,9		11,8	
	DE		88,4	29,5		58,9		88,4	
	GR		3,8	1,3		2,5		3,8	
	ES		33,1	11		22,1		33,1	
	FR		93,4	31,1		62,3		93,4	
	IR		31,4	10,5		20,9		31,4	
	IT		65,6	21,9		43,7		65,6	
	LX		3,4	1,1		2,3		3,4	
	NL		25,3	8,4		16,9		25,3	
	AT		12	4		8		12	
	PT		6,2	2,1		4,1		6,2	
	FI		6,2	2,1		4,1		6,2	
	SW		9,2	3,1		6,1		9,2	
	UK		63,8	21,3		42,5		63,8	
	EU15		**493,0**	**164,4**		**328,6**		**493,0**	
B.3.	**Extensification**	**Current**	**Compromise**	**2000**		**2001**		**2002 and following**	
either	LU (livestock unit)/ha <		100	100		100		100	
or	1,6 < LU/ha < 2		33	33		33		-	
	LU/ha < 1,6		66	66		66		-	
	1,4 < LU/ha < 1,8		40	-		-		40	
	LU/ha < 1,4		80	-		-		80	

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