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Trade Impacts of Common Agricultural Policy

Alan Matthews, Luca Salvatici, and Margherita Scoppola

Selected Paper prepared for presentation at the International Agricultural Trade Research Consortium's (IATRC's) 2015 Annual Meeting: Trade and Societal Well-Being, December 13-15, 2015, Clearwater Beach, FL.

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TRADE IMPACTS OF THE COMMON AGRICULTURAL POLICY

Alan Matthews, Luca Salvatici and Margherita
Scoppola

Presentation to the 2015 IATRC Annual Meeting

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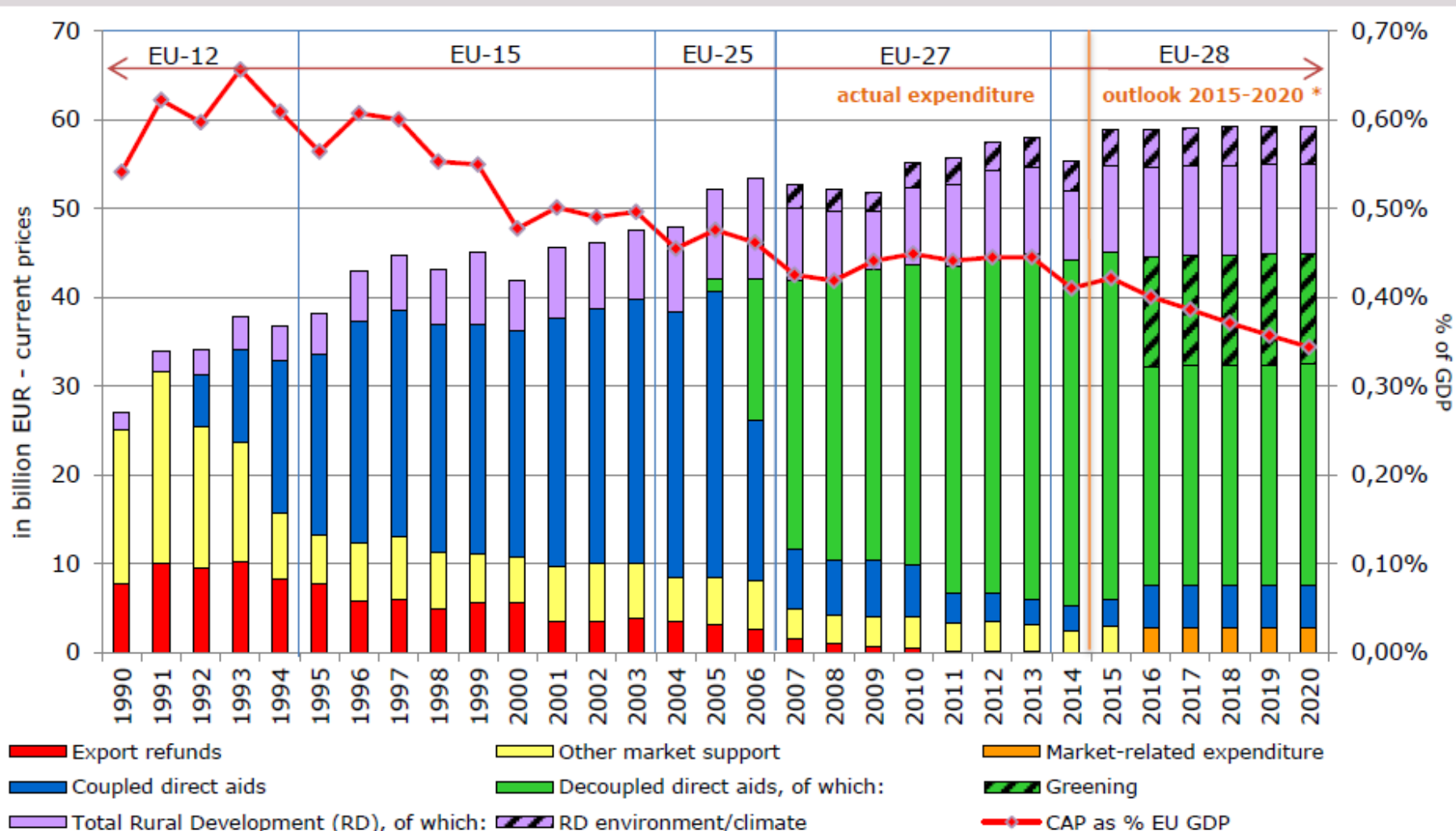
Motivation and outline

- Commissioned IATRC paper, deadline March 2016
- Presenting today an extended outline based on agreed terms of reference
- Four sections:
 - General background and policy instruments of the EU's CAP following the 2013 reform
 - Evaluation of trade effects of internal policies
 - Evaluation of trade effects of border policies, including trade agreements
 - Status of debate within Europe on future farm policy
- Your role: Do we cover the main issues you would expect? Do you have further suggestions?

Part 1. Background and CAP policy instruments

- General architecture of CAP
 - 2 pillars, 2 funds, 4 regulations
- How the CAP is financed
 - Role of the Multi-annual Financial Framework (MFF)
- The reform process 1992 to 2013
- The CAP following the 2013 reform
 - How Pillar 1 direct payments work
 - Market intervention rules, producer bargaining power and the crisis reserve
 - Varied range of measures in Pillar 2
 - Food safety and quality policy, inc. geographical indications
- Structure and importance of EU agricultural trade
 - Declining importance of EU in global agricultural trade

CAP expenditure and CAP Reform path (current prices)

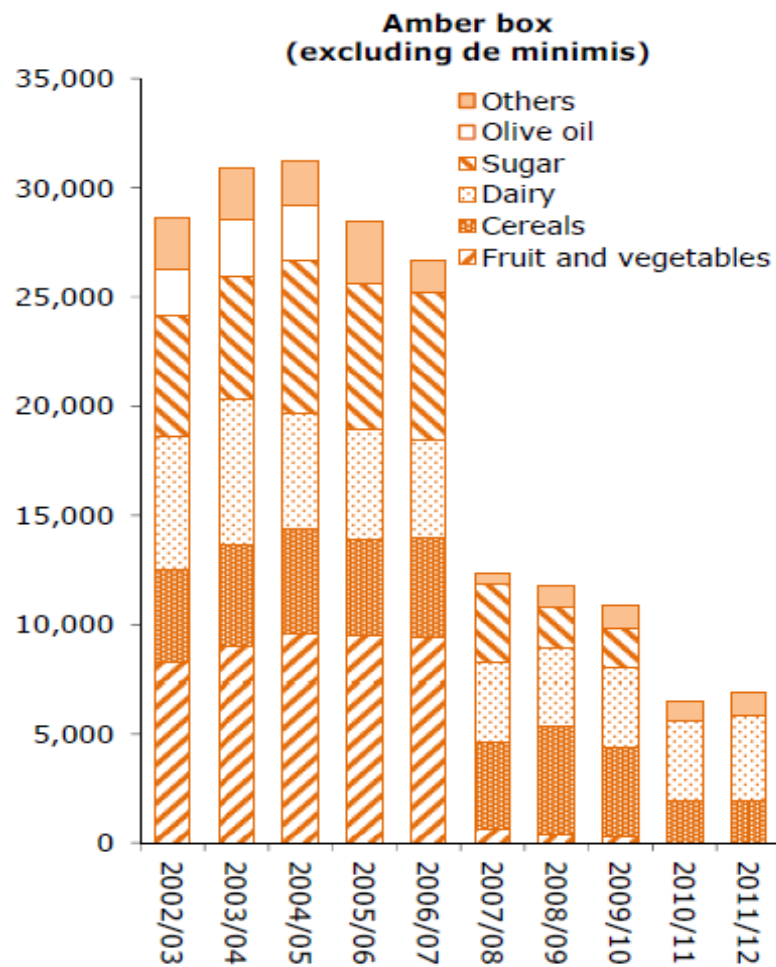
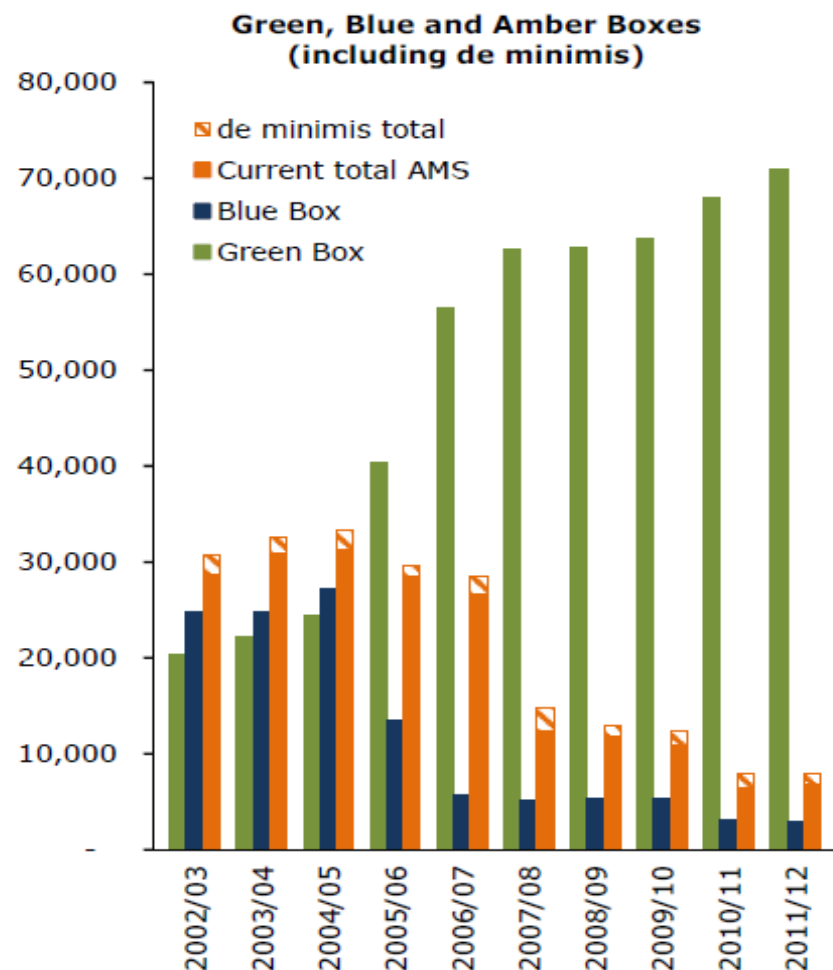


*) 2015: budget amounts; 2016-2020: Annex III Regulation 1307/2013 broken down based on notifications by March 2015, coupled direct payments including POSEI and SAI direct payment component and Annex I Regulation 1305/2013

EU reform path from WTO perspective

Domestic support in the EU, 2002/03–2011/12

(€ million)



Part 2. Trade distorting impacts of domestic support policies

- Trade effects of EU storage policies
- Trade effects of decoupled direct payments
- Trade effects of voluntary coupled support
- Trade effects of risk management and insurance schemes
- Trade effects of rural development policies
- Trade effects of EU bioenergy policy
- Trade effects of EU quality policy (e.g. GIs, organic, labelling, sustainability certification)

Trade effects of EU decoupled payments

- How coupled are EU decoupled payments?
- Decoupled payments linked to cross-compliance obligations
- Degree of coupling of decoupled payments can be assessed using three sources of evidence:
 - Model simulations
 - Micro studies of degree of capitalisation in land rents and prices
 - Micro studies examining impact on production, productivity, investment etc.
- Broad conclusion is that payments affect structure more than level of production

Risk management and insurance schemes

- Large element in the US Farm Bill, very minor in the EU
- CAP 2013 reform introduced various possibilities for **public support** as a voluntary element in Pillar 2
 - Financial contributions to insurance premiums or to mutual funds to pay compensation for weather, disease or environmental incident
 - Financial contributions to mutual funds for an income stabilization tool to compensate farmers for a severe drop in income
- Around 50% of MS have included in their RDPs, but account for <2% of total funds
- But highly concentrated:
 - Italy accounts for €1.6 billion and France for further €0.6 billion of €2.7 billion programmed by May 2015
- Obligation to respect WTO Green Box criteria

Part 3. Trade effects of EU border policies

- Trade effects of export subsidies
 - Export subsidies no longer important, export promotion budget growing
- **Size and significance of EU tariff protection**
 - Descriptive (WTO data) and economic (MTRI) analysis
- The EU's preferential trade agreements (PTAs)
 - Non-reciprocal preferences in the GSP and EBA
 - Reciprocal preferences in growing number of RTAs
- Assessment impact of EU's PTAs
- **Trade effects of the EU's tariff rate quotas (TRQs)**
 - Evaluation of the growing use of TRQs in RTAs
- Trade effects of EU SPS measures
- Empirical studies analyzing CAP impact on third countries

MTRI uniform tariffs (2004)

	US			Japan			EU25		
	Agric	Manuf.	Overall	Agric	Manuf.	Overall	Agric	Manuf.	Overall
Rest of Europe	9.8	0.8	4.0	13.3	0.8	8.2	9.3	0.0	1.8
EU candidates	11.8	3.6	11.3	9.1	2.4	16.7	10.4	-0.7	1.8
LDC	1.8	3.4	3.9	62.9	0.2	15.9	0.0	0.0	0.8
ACP	9.4	4.6	6.1	105.5	0.3	25.3	45.2	0.2	11.4
Australia&New Zealand	5.5	1.2	6.1	121.7	0.2	26.3	15.7	0.6	9.5
Euromed countries	2.4	2.4	9.0	7.9	3.9	15.0	39.1	0.0	5.9
China	2.6	3.7	5.5	92.5	3.2	10.7	25.9	3.5	7.5
ASEAN	2.8	2.6	3.4	63.1	0.7	6.5	15.1	2.9	7.3
Rest of Asia	0.7	12.3	12.5	6.8	4.7	9.3	5.7	7.8	9.0
Rest of Latin America	3.0	4.4	4.4	129.4	0.4	65.9	35.8	0.0	15.9
Japan	3.5	1.6	2.0	-	-	-	10.2	3.3	6.1
India	1.2	3.9	4.9	151.8	1.4	72.7	48.8	4.1	17.6
Canada	1.2	0.0	0.0	81.9	0.5	36.2	7.5	1.0	8.8
USA	-	-	-	67.7	0.2	16.5	12.1	1.6	7.9
Mexico	0.3	0.0	0.0	54.0	1.7	34.6	8.4	0.1	5.1
Argentina	9.3	1.5	4.6	57.1	0.3	34.7	13.1	1.4	10.8
Brazil	9.1	2.2	3.7	13.1	0.4	6.8	52.2	0.8	28.9
EU25	4.0	1.3	5.1	69.0	1.8	18.3	-	-	-
NoWTO	2.4	1.1	2.0	19.6	0.2	2.1	5.7	0.7	2.1
Turkey	7.8	6.3	9.8	4.5	2.0	15.9	23.1	0.2	8.1
Chile	1.8	1.2	2.2	35.5	0.1	15.6	9.4	0.1	3.3

Source: Antimiani, A., Conforti, P., Salvatici. 2008. "Measuring restrictiveness of bilateral trade policies: a comparison between developed and developing countries", *Review of World Economics*, 2

Preferential margins: simple averages

GTAP sector	Benchmark: MFN duty		Benchmark: the highest paid duty	
	absolute	Relative	absolute	relative
All products	3.9	72.9	1.9	28.3
Agricultural sector				
Animal products nec	3.6	60.0	1.7	22.2
Beverages and tobacco products	11.9	61.4	6.3	35.1
Bovine cattle, sheep and goats, horses	26.3	78.4	12.1	46.6
Cereal grains nec	18.7	39.7	14.5	29.8
Crops nec	3.0	71.5	1.4	30.0
Fishing	5.2	65.5	3.1	36.6
Food products nec	12.3	57.0	8.4	33.5
Forestry	0.7	75.3	0.3	34.6
Meat products nec	14.6	43.5	10.4	21.1
Paddy rice	21.3	22.8	19.9	20.9
Vegetable oils and fats	10.3	56.5	8.0	30.0
Vegetables, fruit, nuts	11.4	62.4	7.6	34.0
Wheat	5.7	34.8	3.0	15.4

Source: Cipollina M., Salvatici L. 2011. "European Union Preferential Margins: Measurement and Aggregation Issues", in De Benedictis L. Salvatici L. (eds.) *The Trade Impact of European Union Preferential Policies An Analysis Through Gravity Models*, Springer, Berlin/Heidelberg

Agricultural TRQs in the RTAs signed by the EU since 1998

RTAs	Entry into force	Agricultural TRQs
Tunisia	1998	10
Mexico	2000	20
Israel	2000	10
Morocco	2000	9
Former Republic of Macedonia	2001	n.a
Jordan	2002	12
Chile	2003	17
Lebanon	2003	15
Egypt	2004	28
Algeria	2005	11
Albania	2006	9
Bosnia Herzegovina	2008	9
Montenegro	2008	1
Serbia	2010	4
Central America	2013	11
Georgia	2014	1
Rep of Moldova	2014	6
Canada (not in force)	2014	10
Ukraine (not in force)	2014	31
Ecuador (not in force)	2015	10
Total		224

Part 4. Future policies

- Timeline for possible future reforms
- Issues raised in the debate on future reforms
 - Future justification of direct payments
 - Strengthened measures against volatility
 - More effective measures to address sustainability
 - Impact of EU climate emissions reduction targets on agriculture
 - The growing importance of societal concerns on agricultural policy (e.g. animal welfare, public health, norms and standards)
- The EU's role in the international trading system