Australian Farm Institute

MEDIA RELEASE

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EU FARM REFORMS – NO LEVEL PLAYING FIELD FOR AUSTRALIAN FARMERS

The current European Union's (EU) Common Agricultural Policy (CAP) reforms are unlikely to produce benefits for Australian farmers in the foreseeable future, according to a range of experts who have written papers in the May Quarter edition of the *Farm Policy Journal.*

"Under the CAP, EU farmers are estimated by the OECD to receive an average of 37% of their gross farm receipts in the form of government subsidies (Australian farmers receive less than 4%)" explained the Editor of the *Farm Policy Journal,* Mick Keogh.

"Up until the current CAP reform process, EU subsidies were linked to farm production, providing strong incentives for EU farmers to overproduce, resulting in EU countries having to maintain high trade barriers against farm imports, and pay export subsidies to help market surplus non-competitive EU farm products internationally."

"The resulting distortions in world agricultural markets have had a strong negative impact on non-subsidised farmers such as those in Australia and New Zealand, who rely heavily on export markets."

A range of forces over recent years have driven the EU to reform the CAP. These forces have included World Trade Organization (WTO) rulings, the growing cost of the CAP for European taxpayers, and the pressures caused by the recent expansion of the EU with the inclusion of 10 new Member States.

The main changes to the CAP to be implemented in 2005 include subsidies:

- paid as a 'Single Farm Payment', rather than a range of different payments for different commodities
- 'decoupled' from production, and based on historical payment levels that will gradually reduce over time
- conditional on farmers meeting environmental requirements in managing their land.

These reforms should theoretically result in reduced EU farm production, however, as the authors of papers in the *Farm Policy Journal* point out, this is unlikely to happen in the near future. Projections suggest EU farm production levels are likely to be maintained for most commodities and even increase for some, meaning that current EU trade barriers will remain in place, and the EU's use of export subsidies may continue to be maintained.

"Despite this, the CAP reforms are a small step in the right direction. They indicate a willingness to increase the influence of market forces on production decisions being made by European farmers. Hopefully, in the longer term that will lead to a reduction in agricultural trade barriers, creating opportunities for Australia's highly competitive farm sector."

Please contact the Institute for additional information and data comparing the level of subsidies provided in a variety of developed countries.

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The Implications of Common Agricultural Policy Reform for Farmers in Europe
John Marsh, Emeritus Professor, University of Reading, United Kingdom

A major redirection of agricultural policy within the European Union was signalled in the reforms proposed in June 2003 by the then EU Commissioner for Agriculture, Franz Fischler. In place of budgetary support related to production, farmers are to receive a Single Farm Payment based on the previous level of production and requiring only that they meet 'cross-compliance' conditions designed to keep land in good agricultural and environmental condition. The 'decoupled' payments to farmers will be reduced over time. Farmers will have to plan production on the basis that all they will receive is the market price. Prices are likely to be more volatile and will be significantly lower than under previous arrangements if there is greater competition from imports as a result of a World Trade Organization (WTO) settlement. The reformed policy will apply within a Community that has recently acquired 10 new Member States who have not fully applied the Common Agricultural Policy (CAP) and who will in future have to relate investment decisions to market realities rather than to support prices. This paper notes that these changes are taking place within a changing economic and political environment. This adds to the uncertainty farmers face. It reviews some predictions of the likely effect of the new policy on production. These show relatively little change. However, the discussion questions the validity of assumptions incorporated in the calculations and argues that, radical though the changes are, this reform represents work in progress rather than a 'final solution' to the problems of the CAP.

The Evolving Common Agricultural Policy, Pressures for Reform, and Implications for Trade Policy
Alan Swinbank, Professor of Agricultural Economics, The University of Reading, UK

The European Union's (EU) Common Agricultural Policy (CAP) has evolved slowly. The MacSharry reform of 1992 resulted in a partial decoupling of support for cereal and beef producers. In 2003, in the so-called Fischler reform, further decoupling occurred, and under the Single Farm Payment Scheme farmers became entitled to an income support that, in many instances, was not to be linked to crops produced or livestock kept. However, the land has to be farmed or kept in good environmental and agricultural condition. The MacSharry reform enabled the EU to sign-up to the agricultural trade policy reforms agreed in 1994 at the conclusion of the Uruguay Round of international trade negotiations. The Uruguay Round Agreement on Agriculture had three pillars covering import access, domestic support, and export competition, but these constraints have not, to date, had much impact on the post-MacSharry CAP. Indeed the EU has recently enlarged from 15 to 25 Member States with the CAP largely intact. Through the World Trade Organization's dispute settlement process, existing agricultural policies worldwide are under challenge (for example cotton in the US and sugar in the EU); and if there is to be a successful conclusion to the current Doha Round of trade negotiations the EU may have to make further changes to the CAP, over and above those agreed in 2003.

Implications of Changed EU Agricultural Policies for Australian and New Zealand Farmers
Caroline Saunders, Professor of Trade and Environmental Economics, Lincoln University, New Zealand

Agricultural trade policy has seen a series of changes in recent years, especially in the Common Agricultural Policy (CAP); the European Union (EU) agricultural policy. As a consequence of these changes, there are likely to be significant factors affecting international agricultural trade. Clearly, producers in the EU will experience considerable changes to the structure of their industry, and for countries such as Australia and New Zealand, heavily dependent on agricultural exports, changes to policy and markets have the potential to significantly affect the overall economy. These changes are also influenced by the World Trade Organization negotiations given these will influence CAP reforms as well as by themselves affect the world market. This paper briefly reviews the history of the CAP and then focuses on the CAP reforms. In particular it outlines recent changes introducing a Single Farm Payment Scheme and the potential impacts on Australian and New Zealand trade.

'Balancing' Interests and Reforming the Common Agricultural Policy
Federica Clerici, Former policy advisor to a member of the European Parliament, and policy advisor to an Italian farmer association

Many participants and variables have been involved in the process of reform of the Common Agricultural Policy (CAP) of the European Union (EU), both in the formation and management phase, as well as at the level of policy implementation. It is essential to analyse the roles and positions of some of the influential players in the decision-making process and to comprehend the legislative process in order to understand the creation and development of the latest CAP reform. Despite their differences in national priorities, Member States seem to have agreed, at least at the lowest common denominator level, to proceed towards a liberalisation of the agricultural sector in the EU and towards a curbing of the subsidies system. The European Commission not only has a supervisory function within the institutional context; it is also a leading force in directing the reform course of action and in acting as a mediator among Member States negotiation proposals. However, there is still a considerable percentage of the EU budget devoted to the CAP and reduction of the funding process will require multiple steps forward. The configuration and direction that the current, and future, CAP reform will assume depends not only on agreeing on a political will to pursue the goal of liberalisation, but also on the degrees with which local/regional government will decide to implement the reform.

EU Common Agricultural Policy Reform: Implications for Beef Imports
Andrew McCallum, Manager-Trade Policy, Meat and Livestock Australia
Elizabeth Murphy, EM Consultants

The European Union (EU) beef and veal production systems have been functioning under a favourable operating environment with internal support systems and protection measures such as tariffs and quotas. Recent reforms of the EU's Common Agricultural Policy (CAP) aimed to encourage EU beef and veal production systems to become more market orientated. A centrepiece of the reform involved the introduction of a Single Farm Payment (SFP) Scheme, which is farm based rather than production based and hence, is designed to remove the incentive for EU producers to overproduce. The scheme aims to rebalance the market place and as a consequence producer's incomes should be maintained and improved. However, the final CAP reform package has been implemented in a variable manner, with some Members States opting for partial decoupling with no commitment to adopt full decoupling in the future. These recent CAP reforms are welcome, even though the new scheme still offers strong support via government assistance to EU beef producers. The EU also still imposes a beef import quota on the Australian beef industry limiting high quality beef imports to 7,000 tonnes. Until such time as Australia's country specific high quality beef quota expands or the above quota tariffs are removed, there will be no significant increase in Australia's beef trade with the EU.

Agricultural Policy Reform in EU: An Australian Grains Industry Perspective
James Molan, Trade Policy Advisor, AWB Limited

The European Union (EU) is important to the Australian grains industry as both a market for wheat, lupins and canola and as a competitor in wheat and barley. While the 2003 Common Agricultural (CAP) reforms represent a further decoupling of production from government support, the European Commission's principal objective continues to be to use production subsidies, price support and border protection to prop up its agricultural sector and achieve food production autonomy. The European Commission's latest reforms are more about restructuring the way producer subsidies are paid rather than reducing payment levels or exposing EU farmers to competitive pressure from the international market. Therefore, the 2003 CAP reforms are unlikely to result in a decrease in EU surpluses of soft wheat and barley, especially given the recent expansion of the EU into Eastern Europe. Exports and stocks of EU soft wheat and barley are predicted to increase, although durum wheat production is expected to fall, potentially creating some new export opportunities for Australia. A major problem for the European Commission is that, increasingly, EU wheat exports will struggle to compete in traditional markets in North Africa and the Middle East with low-priced wheat originating from the former Soviet Union States. As a result, the EU is expected to continue to rely on export subsidies at least until they are phased out through the World Trade Organization Doha Round.

Implications of Common Agricultural Policy Reform for the Australian Dairy Industry
Chris Phillips, General Manager - Trade & Strategy, Dairy Australia

The European Union (EU) recently announced a major change in its domestic support structure for dairy. This involves a shift away from supporting farm incomes through product price supports and the management of market outcomes to a system of direct income payments for farmers. Two key issues for Australian producers concerning these recent Common Agricultural Policy reforms are: how the expected impacts on EU production and prices will flow through to world markets and prices and therefore Australian farm gate returns, and whether the changes will affect Australian businesses' future access opportunities into the EU. At this stage the outcome of both issues is still unclear. While the EU reforms will encourage a more dynamic and market oriented dairy industry, there is an expectation that further reforms will be necessary in future years.

European Sugar Policy: Change has been Flagged
Warren Males, General Manager, Trade and International Affairs, Queensland Sugar

The European Union (EU) Sugar Industry is afforded one of the highest levels of subsidisation and protection in the world. The combination of domestic production quotas, import quotas and exorbitant out-of-quota tariffs ensures that EU producers receive a consistently high domestic price. These arrangements also work as a cross subsidisation for preferential imports and EU sugar exports, supplementing world market returns which are less than the cost of production. Over the last few years questions have been raised with regard to the sustainability and viability of the EU Sugar Regime, both internally and externally. Internally, there is growing pressure to enhance the competitiveness of the industry. Externally, the successful World Trade Organization (WTO) challenge lodged by major sugar producers including Australia, Thailand and Brazil, has highlighted the EU's non-compliance with its WTO obligations. An acknowledgement by the EU Agriculture Commissioner regarding the vulnerability of the EU Sugar Regime is testament to the imminent restructure of the EU sugar policy. This is likely to result in a rationalisation of production within the EU. The expected reduction in EU subsidised exports as a result of the policy changes presents significant opportunities for other sugar exporters including Australia.