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*The EU's CAP, the Doha Round and Developing Countries*

by

Michael Halderman and Michael Nelson

October 20, 2004

### **Abstract**

This study analyzes the political economy of European Union policy-making in regard to EU trade in beef and dairy with developing countries. The way the EU makes its agriculture and trade policies involves three levels: the EU member state, the EU itself, and the international trading system. The study also considers a fourth "level," developing countries, that is affected by EU policy-making. We present criticism from various sources concerning negative international effects of EU agriculture and trade policies. Recognizing the great range of trade-related interests among developing countries, the study analyzes relevant issues of four categories of such countries. EU trade and agriculture policy is strongly influenced by international factors, particularly by multilateral trade negotiations. Change in relevant EU agriculture and trade policy affecting developing countries has been part of or directly linked to - and in the future will require additional reform of - the EU's Common Agricultural Policy (CAP). Recent reform of the CAP has been affected by and linked to the current Doha Round of multilateral trade negotiations conducted under the auspices of the WTO.

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**THE EU'S CAP, THE DOHA ROUND  
AND DEVELOPING COUNTRIES**

**By Michael Halderman & Michael Nelson**

Paper Presented at the Institute of European Studies  
University of California, Berkeley  
September 14, 2004

## ABSTRACT

This study analyzes the political economy of European Union policy-making in regard to EU trade in beef and dairy with developing countries. The way the EU makes its agriculture and trade policies involves three levels: the EU member state, the EU itself, and the international trading system. The study also considers a fourth “level,” developing countries, that is affected by EU policy-making. We present criticism from various sources concerning negative international effects of EU agriculture and trade policies. Recognizing the great range of trade-related interests among developing countries, the study analyzes relevant issues of four categories of such countries. EU trade and agriculture policy is strongly influenced by international factors, particularly by multilateral trade negotiations. Change in relevant EU agriculture and trade policy affecting developing countries has been part of or directly linked to - and in the future will require additional reform of - the EU’s Common Agricultural Policy (CAP). Recent reform of the CAP has been affected by and linked to the current Doha Round of multilateral trade negotiations conducted under the auspices of the WTO.

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## ABBREVIATIONS

<b>ACP</b>	African, Caribbean and Pacific Countries	<b>IFPRI</b>	International Food Policy Research Institute
<b>AoA</b>	Agreement on Agriculture (WTO)	<b>IGC</b>	Inter-Governmental Conference
<b>BEUC</b>	European Consumers Organization	<b>ILRI</b>	International Livestock Research Institute
<b>BSE</b>	Bovine Spongiform Encephalopathy	<b>IPSA</b>	Instrument for Structural Policies for Pre-Accession
<b>CAFOD</b>	Catholic Agency for Overseas Development	<b>LDC</b>	Least Developed Country
<b>CAP</b>	Common Agricultural Policy	<b>LEI</b>	Dutch Agricultural Economics Institute (Netherlands)
<b>CESR</b>	<i>Conseil Economique et Social Regional</i> (France)	<b>LFA</b>	Least Favored Area
<b>CFA</b>	<i>franc de la Communauté financière de l'Afrique</i>	<b>LLPs</b>	Livestock and Livestock Products
<b>CIAA</b>	Confederation of the Food and Drink Industries of the European Union	<b>MGQ</b>	Maximum Guaranteed Quantity
<b>COGECA</b>	General Committee for Agricultural Cooperation in the EC	<b>MS</b>	Member State (of the European Union)
<b>COPA</b>	Committee of Agricultural Producers' Organizations	<b>MTR</b>	Mid-Term Review (of the CAP)
<b>CP</b>	<i>Confederation Paysanne</i> (France)	<b>NCA</b>	Northern Communal Area (Namibia)
<b>DC</b>	Developing Country	<b>NFIDC</b>	Net Food-Importing Developing Country
<b>DEFRA</b>	Department of Environment, Food and Rural Affairs (UK)	<b>NGO</b>	Non Governmental Organization
<b>DFID</b>	Department for International Development	<b>NTB</b>	Non-Tariff Barrier
<b>DG</b>	Directorate-General	<b>NTC</b>	Non-Trade Concern
<b>EAGGF</b>	European Agricultural Guidance and Guarantee Fund	<b>ODI</b>	Overseas Development Institute
<b>EBA</b>	Everything But Arms initiative	<b>OECD</b>	Organization for Economic Cooperation and Development
<b>EC</b>	European Commission	<b>OIE</b>	<i>Office International des Epizooties</i> (World Organization for Animal Health)
<b>ECA</b>	European Court of Auditors	<b>PPLPI</b>	Pro-Poor Livestock Policy Initiative
<b>EEC</b>	European Economic Community	<b>RPR</b>	<i>Rassemblement pour la République</i> (France)
<b>EU</b>	European Union	<b>SAPARD</b>	Special Accession Program for Agriculture and Rural Development
<b>FAO</b>	Food and Agriculture Organization	<b>SMP</b>	Skimmed Milk Powder
<b>FMD</b>	Foot and Mouth Disease	<b>SPS</b>	Sanitary and Phytosanitary Measures
<b>FNB</b>	<i>Federation Nationale Bovine</i> (France)	<b>UECBV</b>	<i>Union Européenne du Commerce du Betail et de la Viande</i>
<b>FNSEA</b>	<i>Federation Nationale des Syndicats des Exploitants Agricoles</i> (France)	<b>UNCTAD</b>	United Nations Conference on Trade and Development
<b>GATT</b>	General Agreement on Tariffs and Trade	<b>UNDP</b>	United Nations Development Program
<b>GDP</b>	Gross Domestic Product	<b>WB</b>	World Bank
<b>ICTSD</b>	International Centre for Trade and Sustainable Development	<b>WTO</b>	World Trade Organization
<b>IFAD</b>	International Fund for Agricultural Development	<b>WWF</b>	World Wildlife Fund

## PREFACE

Most of the research for this paper was funded and supported by the Food and Agriculture Organization of the United Nations. The FAO recently launched a new Initiative to facilitate and support the formulation and implementation of policies and institutional changes intended to have a positive impact on the livelihoods of a large number of the world's poor. One goal of the Initiative is to contribute to poverty reduction in developing countries through equitable, safe and environmentally appropriate livestock-related activities. The Initiative is supported by the newly established Pro-Poor Livestock Policy Initiative (PPLPI) based at FAO Headquarters in Rome.

One of the research projects commissioned under the FAO Initiative was an in-depth analysis of the political economy of livestock and related policy-making at various levels of decision-making (global, regional, national, sub-national). This research project was under the direction of David Leonard, Dean, Institute of International Studies (IIS), University of California, Berkeley. The research project was implemented jointly by the IIS and Dr. Michael Halderman, an independent consultant based in Berkeley. The study discussed in the present paper was carried out by Michael Halderman and Michael Nelson, a doctoral candidate at UC Berkeley. A somewhat different version of this paper will be published as a PPLPI working paper.

The study reported on here analyzed the political economy of European Union (EU) policy-making in regard to EU trade in beef and dairy with developing countries. The way the EU makes its agriculture and trade policies involves three levels: the EU member state, the EU itself, and the international trading system. The study also considered a fourth "level," developing countries, that is affected by EU policy-making. EU trade policy is strongly influenced by international factors, particularly by multilateral trade negotiations. Change in relevant EU agricultural and trade policy affecting developing countries has been part of or directly linked to - and in the future will require additional reform of - the EU's Common Agricultural Policy (CAP). Recent reform of the CAP has been affected by and linked to the current Doha Round of multilateral trade negotiations conducted under the auspices of the WTO.

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## EXECUTIVE SUMMARY

This study examines the political economy of policy-making concerning trade in livestock and livestock products (LLPs) between the European Union (EU) and developing countries (DCs). The main objective is to determine and assess how relevant EU policy is made, including the role of key actors and forces both domestic and international. A related objective is to identify “entry points” and provide strategic recommendations aimed at achieving positive change.

Two livestock commodities, beef and dairy, were selected as central to the study because of the high levels of EU support and the global prominence of the EU in the production and trade of these products. The EU subsidizes these commodities more than any other LLPs, and the EU is the only country or trading bloc that provides export subsidies for beef.

This paper is divided into the following chapters:

- Chapter 1 introduces the study and key issues
- Chapter 2 presents criticism from economists and advocacy groups concerning negative international effects, particularly in regard to developing countries, of the EU’s Common Agricultural Policy (CAP)
- Chapter 3 examines EU domestic policy-making relevant to the CAP. It discusses the analytic approach taken in the study, the CAP’s background, previous and current efforts to reform the CAP, internal politics of member states, and relevant EU institutions
- Chapter 4 discusses additional forces influencing the CAP including: the activities and roles of interest groups; budgetary pressures, particularly stemming from the enlargement of the EU; and the constitution-making process
- Chapter 5 focuses on the EU’s international trade in beef and dairy, including: EU policy-making in regard to international trade; the current Doha round of multilateral trade negotiations; the impact of trade liberalization, as well as of sanitary and phytosanitary (SPS) standards on poor LLP producers in developing countries; and policy coherence
- Chapter 6 provides conclusions and recommendations.

### **Criticisms of the CAP**

International organizations, academics and advocacy groups have argued that protectionist trade barriers, trade-distorting domestic support and export subsidies by many OECD governments have had very negative economic consequences on the economies of both developing and developed countries. The European Union’s CAP is a frequent target for those who desire to significantly reduce the negative impact of such policies, for example the significantly lower world prices for some agricultural products. The CAP-related agriculture and trade policies that lead to overproduction and dumping of EU agricultural products are said to undermine the livelihoods of millions of farmers in developing countries who, at the same time, are also denied fair opportunities to export their own agricultural products to the EU market. Pro-developing country advocacy groups have raised awareness of these issues and of their direct linkages to the CAP. The present report presents the findings of others to demonstrate the negative effects of the CAP in developing countries in general and in specific cases (the dumping of beef on West African and South African markets, and the dumping of dairy products in Jamaica). A recent

study by IFPRI suggests that if the EU liberalized its agricultural trade the results would include an increase of US\$42.6 billion in the net agricultural trade (exports minus imports) of developing countries. In addition, increasing concern with the inconsistencies between the EU's agriculture, trade and development cooperation policies has led to efforts by some EU member states to promote "policy coherence."

## EU Policy-Making and the CAP

Three levels of analysis were identified and used to explain EU policy-making.

- EU Member State (MS) level politics are especially important because the MS agriculture ministers who collectively make the decisions about agricultural policy at the EU level (the CAP) are primarily accountable to their own MS, and to their own constituencies within their country
- EU level institutions and inter-state bargaining are central to the EU policy-making process. The European Commission plays a key role in setting the agenda for EU agricultural policy, as shown by its recent efforts to promote CAP reform. The Commission's own objectives include promoting European integration and efficient allocation of scarce budgetary resources. The member states are sharply divided on the issue of CAP reform, and inter-state bargaining in the Council of Agriculture Ministers has been very important in decisions regarding the CAP. The involvement of the leaders of France and Germany concerning EU agricultural policy-making has been significant.
- The International level of analysis and trade issues are discussed below.

A variety of interest groups operate across all three levels. Those attempting to influence EU agricultural policy generally find it necessary to lobby at both the member state and EU level. Farmers groups and other agricultural interests have historically had the strongest influence on EU agricultural policy-making. Environmental concerns led to the introduction of the "second pillar" of agricultural support in the 1992 CAP reforms, and these concerns were further strengthened in the Agenda 2000 and June 2003 reforms. Because of the BSE and other animal health and food safety crises, and the activities of consumer and other advocacy groups, CAP policies were strengthened in the area of food safety. Groups supporting animal welfare causes have long been active and have influenced CAP policy in this regard. Some consumer, environmental and pro-developing country advocacy groups have tried to achieve wider reform of the CAP.

The enlargement of the EU from 15 to 25 member states in May 2004 is very significant for the future of the CAP. Concerns about how to pay for the CAP after the many poor central and eastern European accession countries join the EU led to an agreement to limit CAP spending for the 2007–2013 period. Based on projections, the general view is that enlargement will not result in additional surpluses of beef and dairy products. The EU is currently in the process of developing a constitution, and the outcome of this process is still uncertain. It is possible that a constitution could result in significant changes in decision-making procedures concerning EU agriculture and related trade policy.

## **International Trade Issues**

The making of EU trade policy is similar to that of the CAP, with the member states and the Commission playing parallel roles. The Commission, in particular DG Trade, coordinates policy-making and - significantly - represents the EU in bilateral and multilateral trade negotiations. During the Doha Round of multilateral trade negotiations there has been significant pressure on the EU to reform the CAP.

Four somewhat over-lapping categories of developing countries were identified for the purposes of this study:

- South American countries that are major beef exporters (four countries)
- the African, Caribbean and Pacific (ACP) countries as a group (77 countries)
- African countries exporting beef to the EU on preferential terms (six countries)
- the least developed countries (LDCs, 49 countries).

Our first category of countries is among the strongest proponents of liberalizing global agricultural trade during the Doha Round. The ACP countries, which already benefit from preferential access to the EU market, are seeking to maintain their special status, as do the few African countries (all ACP states) currently exporting beef to the EU under a preferential protocol. The LDCs tend to share the concerns and objectives of the ACP countries, as the bulk of LDCs are in the ACP group.

The study found that increased access to the EU market for beef and veal is currently not directly relevant to poor livestock producers in developing countries. A major reason is that such producers cannot meet current SPS standards or European expectations regarding quality.

The cost of compliance with SPS standards is a major problem for developing countries exporting agricultural products to markets that require high SPS standards. These developing countries will need significant assistance in, for example, developing relevant infrastructure and capacity to be able to certify that their products meet international standards. The Uruguay Round produced the agreement on the application of SPS measures that gave the World Organization for Animal Health (OIE) the legal authority to develop standards, guidelines and recommendations regarding international trade in animals and animal products.

## **Forces For and Against CAP Reform**

The most important force driving reform of the CAP has been multilateral trade negotiations. The Doha Round of agricultural trade talks is currently playing this role. To strengthen the EU's negotiating position in the agricultural talks at the September 2003 WTO Ministerial Meeting in Cancun, in June 2003 the EU member states reached agreement on CAP reform. Ranking second as a driving force for CAP reform are budgetary pressures created by the (a) need to integrate the much less efficient agriculture sectors of the ten accession countries that joined the EU in 2004 and (b) the difficulty of sustaining the CAP in general. Environmental concerns have produced changes in EU agricultural policy, as have the concerns and efforts of groups supporting animal welfare. The activities of consumers and pro-developing country advocates have increased awareness of certain issues in recent years but to date have not had much influence in changing agricultural policy except in the area of food safety. The situation is

changing in Europe, as pressures from various groups to reform EU agricultural policy have been mounting. For example, the influence of food retailers, processors and others (particularly as a result of increased vertical integration along the food processing chain from farmer to consumer) is strengthening the pro-reform constituency.

Although the number of European farmers has been steadily declining, the continued strength of farmers' organizations and other agricultural interests has so far served as a bulwark against reform of the CAP. These interests have dominated EU agricultural policy-making for decades, and they are particularly important in the internal politics of France. For many years France, and EU member states sharing similar goals, have used EU-level institutions and inter-state bargaining to successfully defend the CAP.

## **Recommendations**

See chapter 6.

# 1 INTRODUCTION

This study examines the political economy of policy-making concerning trade in livestock and livestock products (LLPs) between the European Union (EU) and developing countries (DCs). The main objective is to determine and assess how relevant EU policy is made, including the role of key actors and forces both domestic and international. A related objective is to identify “entry points” and provide strategic recommendations aimed at achieving positive change. The FAO’s Pro-Poor Livestock Policy Initiative (PPLPI) is working to learn more about how livestock can play a greater role in reducing poverty in developing countries. The present study is part of the PPLPI effort to identify significant political and institutional factors and processes that currently hinder or prevent the poor in developing countries from taking greater advantage of opportunities to benefit from livestock.

## **The Focus on Beef and Dairy**

Two livestock commodities, beef and dairy, were selected as central to the study.<sup>1</sup> The EU is a prodigious producer of livestock and livestock products, and it plays a major role in international trade in LLPs, as demonstrated below in the text and tables of this report. From 1997-2001 the EU was the world’s largest producer of milk, butter, skimmed milk powder and whole milk powder. It was the second largest producer of beef and veal. The EU is the largest exporter of milk powder (skimmed and whole) and exports one-third of the global total. For several years in the 1990s the EU was the world’s largest exporter of beef. Although the EU is a major producer and exporter of other LLPs as well (including pig meat, poultry meat and eggs), it provides far greater support to beef and dairy. For example, in 2001 beef and veal received over 60% of the EU’s support to the livestock sector, while dairy received about 20%. Over half of EU support to dairy is in the form of export refunds. While sheep and goat meat are handsomely supported with about 15% of total EU support to LLPs, there are no export refunds. A very small proportion of EU support in the livestock sector goes to pig meat, eggs and poultry meat, most of it export refunds.

EU subsidies and trade barriers have been the subject of intense criticism by some European Union member states, developed and developing country trading partners, international organizations, academics, advocacy NGOs and others. The EU is said to export skimmed milk powder at half the cost of production (Oxfam 2002b), and to provide each dairy cow with more than US\$2 in support every day – an amount greater than the income of half the world’s human population (Cafod 2002, Oxfam 2002d). The EU is the only country or trading bloc that provides export subsidies for beef, and it is reported to provide the highest level of support to its beef producers of any country in the world. (MLA 2002, MLA 2003)

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<sup>1</sup> Many factors are relevant to the present study. Given the wide range of issues and large number of organizations concerned, as well as the limited resources available, it was necessary to narrow the focus of the study. The aim of the research was to identify and examine key issues, not delve into details.

## **Some Negative Effects of Industrialized Countries' Agricultural Policies**

Publications by the Organization for Economic Cooperation and Development (OECD), World Bank (WB), International Food Policy Research Institute (IFPRI) and others argue that protectionist trade barriers, domestic support and export subsidies have very negative consequences on both developing and developed countries. A World Bank policy research report states that a conservative estimate of the total, annual impact of industrial country barriers on developing countries is likely to be more than US\$100 billion (World Bank 2002). The OECD reported that in 2001 OECD countries provided support to their agricultural sectors totaling US\$311 billion, or 1.3% of GDP. This amount is equivalent to twice the value of developing country agricultural exports, and it is six times the value of official development assistance. The costs are born by domestic consumers and taxpayers and by potential exporters in other countries that lose income.<sup>2</sup> Three-quarters of the transfers are provided as support to farmers, accounting for one-third of their gross receipts, with general expenditures on items such as research, marketing and infrastructure accounting for the rest. The level of support to producers, as captured by the Producer Support Estimate (PSE) varies widely across countries and commodities. The European Union, Japan and the United States collectively account for around 80% of all support. Rice, sugar and milk are the most supported commodities, with transfers to producers exceeding 50% of gross receipts for these products (OECD 2002, OECD 2003a).

IFPRI developed a new estimate of the immediate damage to the economies of the world's poor countries by simulating, based on a computer model of the world economy, the elimination of industrialized countries' relevant current policies. According to this study, protectionism and subsidies by industrialized nations cost developing countries around US\$24 billion annually in lost agricultural and agro-industrial income. Trade distorting measures also displace from developing countries more than US\$40 billion of net agricultural exports per year. Net agricultural trade of developing countries would triple if the industrialized world eliminated its agricultural protectionism and subsidies (IFPRI 2003a,b). A recent World Bank report pointed out that agricultural subsidies in OECD countries now amount to US\$330 billion, of which about US\$250 billion goes directly to producers. The effect is to stimulate overproduction in high cost rich countries and shut out potentially more competitive products from poor countries (World Bank, 2003).

## **Utility of a Political Economy Approach**

Why do developed countries spend so much to support their own agricultural sectors and thereby distort global agricultural trade when economic theory and studies by various international organizations, and many others, assert that liberalizing international trade should bring enormous economic benefits to both developed and developing countries? One key reason is that political factors dominate relevant decision-making. The stubborn perseverance of these factors demonstrates the need for a political economy approach to better understand issues relating to policy-making in regard to LLP trade between the EU and developing countries.

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<sup>2</sup> But not necessarily their consumers who can benefit from subsidized exports.

## Wide Range of Actors Involved

The present study examines the political economy of relevant LLP trade-related issues at four levels: (a) the EU member state, (b) the European Union itself, (c) the international trading system, and (d) developing countries.<sup>3</sup> Several issues cross, or are relevant to, the different levels of analysis. There is a very wide range of actors involved in the issues covered in this study. Annex 1 provides a list of the main actors, and the present paragraph identifies some key actors at the various levels identified above. It is useful to note that some actors are found at more than one level. For example, interest and advocacy groups are found at all four levels. The main actors include:

- At the **EU member state level**: ministries of agriculture, foreign affairs (including development assistance) and trade; political parties; livestock producers; farmers' groups and unions; research units; animal welfare, environmental and other advocacy groups.
- At the **EU level**: the EU Council of Ministers (particularly Agriculture), the European Council (as well as individual heads of state), the European Commission - particularly the Directorates General of Agriculture, Trade and Health; consumers, producers, environmental, developing country and other interest and advocacy groups.
- At the **level of the international trading system**: the World Trade Organization (WTO), European Union, United States (US), Cairns Group, Group of 21, United Nations agencies and two standards setting organizations, the World Organization for Animal Health (OIE, from the French name *Office International des Epizooties*) and Codex Alimentarius; various interest and advocacy groups.
- At the **developing country level**: the Group of 21; African, Caribbean and Pacific (ACP) countries; representatives of individual developing countries at the Doha round of multilateral trade negotiations; developing country representatives at the OIE and Codex Alimentarius; livestock producers, including both large-scale and poor producers.

## The Link between CAP Reform and the Doha Round of Negotiations on Agriculture

EU policies dealing with the production of and trade in LLPs are part of, or closely linked to, the EU's Common Agricultural Policy (CAP). In addition, the policies are regulated by the WTO's multilateral trade rules, particularly the Agreement on Agriculture. It is, of course, not possible for an individual EU member state to make its own agricultural or trade policy in regard to LLPs or any other product. To change European Union LLP policy therefore requires reforming CAP policy, and such reform is linked to multilateral trade rules. Two very important processes affecting EU agricultural policy-making were taking place during the period of research for this study. Both processes were evolving, with new and sometimes surprising developments (as well as an avalanche of information) on a regular basis. One process involved strenuous efforts to reform the CAP that led to the agreement reached by the agriculture ministers of the EU's 15 member states in June 2003. The second process involves the on-going Doha round of WTO

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<sup>3</sup> The first three are considered important in terms of their direct impacts on the EU policy-making process. The final "level" – developing country – is important given the overall purpose of the study.

agricultural trade talks that stalled with the collapse of the Cancun ministerial meeting in September 2003.

The following chapter reports criticism from various sources indicating that the CAP has negatively affected developing countries. Some of the adverse effects reported include the results of EU production of and trade in LLPs. Both CAP reform and the Doha round of multilateral agricultural negotiations provide critical opportunities to change current EU policies and practices in a manner that might benefit livestock producers in developing countries. The present report explains how CAP policies are made, and it examines the range of factors and pressures for and against reform. The report also explains how CAP reform and the Doha round of trade negotiations are closely inter-linked, and it discusses whether poor livestock producers in developing countries might benefit from changes to the CAP and/or global trade rules.

## **Structure of the Report**

The following chapters of this report cover: criticism highlighting negative effects of the CAP, in general and on developing countries; EU policy-making relevant to the CAP, including the role of EU institutions, member states, and interest groups; the future of the CAP, in view of the enlargement of the EU, budgetary pressures, the current constitution-making process, and forces for and against reform; germane issues concerning international trade, including aspects of trade in beef and dairy between the EU and developing countries; an explanation of the link between the CAP and the on-going Doha round of multilateral trade negotiations on agriculture; conclusions and recommendations. There are diagrams and a number of graphs and tables in an effort to make the presentation of material reader friendly.

Research for the study focused on obtaining existing information from (a) a review of available literature and documents, and (b) interviews with informed individuals. In addition to academic works, documents were obtained from relevant websites and during the interviews. Interviewing knowledgeable individuals was considered a necessary complement to the literature and document review. The identification of individuals to interview was based on networking, and the results of the interviews were treated confidentially. The interviews provided valuable information that played a major role in the selection of issues to cover in the present report and in the analysis of issues. It has not been possible to incorporate into the present report all of the information and insights obtained during the many interviews. (See Annex 7 for a list of individuals consulted.)



## 2 CRITICISM OF THE CAP

This chapter presents criticism from economists, advocacy groups and the European Commission itself concerning negative international effects - particularly in regard to developing countries - of the EU's Common Agricultural Policy. It begins with the results of two computer simulation studies regarding global economic effects of the CAP. The first study suggests that the economies of developing countries have been significantly harmed by the EU's agricultural and trade policies. The second simulation study indicates that the CAP is responsible for major distortions in global production and trade. This is followed by the position of advocacy NGOs that the CAP undermines the livelihoods of millions of farmers in developing countries. Specific examples of this position are provided by: (a) reports that EU exports of subsidized beef destabilized beef production and marketing systems in West and South Africa, and (b) evidence from advocacy groups regarding harmful consequences caused by the EU's dumping of dairy products in developing countries. The final section of this chapter deals with allegations that the CAP prevents the "coherence" of the EU's agricultural, development and trade policies. Some key points and allegations presented here are assessed in subsequent chapters.

It is widely recognized that the CAP protects EU farmers from external competition, a result of the fact that when the CAP was established over 40 years ago a primary focus was internal price support to promote food self-sufficiency within the member states. Protection is achieved by controlling market access (through import tariffs and other means) and by providing domestic support as well as export subsidies. As a result, the prices EU agricultural producers receive tend to be well above international levels. EU producer prices are stabilized relative to international prices, and EU consumers and taxpayers pay most of the costs. The high prices encourage farmers to increase production, while the high consumer prices discourage consumption and imports. The combination of the various factors leads to the need to export surplus production. The EU subsidizes the export of some agricultural commodities because otherwise surplus production would not be internationally competitive. There are two general ways in which the CAP can negatively affect agricultural producers and exporters in other countries: (a) lowering international prices for raw agricultural products and (b) dumping into specific markets, thereby undercutting local producers.<sup>4</sup>

### **IFPRI Estimates of Damage to the Economies of Developing Countries**

Recent computer simulations by OECD, the World Bank and IFPRI, as pointed out in the first chapter, have produced estimates of how the economies of developing countries have been harmed by the agricultural and trade policies of industrialized countries. An IFPRI simulation study of the world economy showed that protectionism and subsidies by industrialized nations result in about US\$24 billion annually in "lost agricultural and ago-industrial income" in developing countries (IFPRI 2003b). Latin American and Caribbean countries lose about US\$8.3 billion of such annual income, developing countries in Asia lose some US\$6.6 billion, and sub-Saharan Africa loses nearly US\$2 billion (see Table 1). In addition, the EU's trade-

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<sup>4</sup> There is also a third way EU policy may affect developing countries that this paper does not discuss. The EU's practice of tariff escalation may discourage the development of processing industries in many of its trading partners, especially ACP states (FAO 2003a, Ravenhill 1984).

distorting policies and measures are reported to cause more than half of the US\$40 billion of net agricultural exports per year displaced from developing countries.

**Table 1:** Potential Impact on Developing Countries of Changes in Industrialized Countries' Agricultural Trade Policies

<b>Developing Country Net Agricultural Trade (Exports minus Imports, in Billions of Dollars)</b>						
<b>Region</b>	<b>1997 Net Trade Levels</b>	<b>Changes in Agricultural Trade Policies By</b>				<b>% Increase</b>
		<b>US only</b>	<b>EU only</b>	<b>Japan, Korea only</b>	<b>All Industrialized Countries*</b>	
Sub-Saharan Africa	7.4	8.1	9.6	7.6	10.7	45%
Asia	12.3	15.6	15.6	15.7	22.8	85%
Latin America and Caribbean	31.7	37.1	39.3	32.5	46.4	47%
Other Developing Countries **	(31.0)***	(29.4)	(21.9)	(30.1)	(19.1)	38%
All Developing Countries	20.4	31.4	42.6	25.7	60.8	198%

<b>Annual Changes in Incomes Going to Primary Agriculture and Agroindustrial Production (increases in Million Dollars)</b>				
<b>Region</b>	<b>Changes in Agricultural Trade Policies By</b>			
	<b>US only</b>	<b>EU only</b>	<b>Japan, Korea only</b>	<b>All Industrialized Countries*</b>
Sub-Saharan Africa	455	1,290	150	1,945
Asia	2,186	2,099	2,346	6,624
Latin America and the Caribbean	2,896	4,480	607	8,258
Other Developing Countries **	1,148	5,069	339	6,659
All Developing Countries	6,684	12,936	3,442	23,486

Source: IFPRI, 2003

\*Simulations for the EU, US, and Japan (and Korea) consider each one of these countries/regions only, one at a time. Simulations for all industrialized countries include those three countries/regions at the same time, plus others, such as Canada and Australia. Because of the complexities of agricultural trade and countries' trading practices, the effects of liberalization will change depending on which markets are being liberalized. Consequently, individual scenarios depicted in the model simulations should not necessarily add up to the total when all industrialized countries liberalize their markets. The simulations consider the full elimination of protection, trade-distorting domestic subsidies, and export subsidies.

\*\*Other Developing Countries includes transition economies.

\*\*\*Indicates negative

Because of regional trade relationships, EU policies have a greater impact on Africa than on Asia or Latin America. If agricultural trade-distorting policies were eliminated worldwide, almost 70% of the increase in value of exports from sub-Saharan Africa would come from liberalization by the EU. For Latin America and the Caribbean, more than 50% of the expansion of exports from global liberalization would come from changes in EU policies (IFPRI 2003a,b). The IFPRI simulation study estimated (a) the potential impact of changes in industrialized countries' agricultural trade policies on developing countries, in terms of developing country net agricultural trade (exports minus imports), and (b) the annual changes in incomes going to primary agriculture and agro-industrial production. Results of the simulation study are presented below in Table 1. The table shows that the role of EU trade protection and trade distortion is significant, as is that of the US and Japan/Korea.

### **Global Economic Effects: What if the CAP were Abolished?**

What might be the global economic effects if the CAP were abolished? A simulation study by Borrell and Hubbard published in 2000 examined this issue. The model used was "a mathematical representation of the world's most important economies, all linked and interacting globally through trade." The model was aggregated into seven regions and ten sectors (Borrell and Hubbard 2000)

The simulation study estimated the EU production of milk products 51.5% higher and meat products 17.6% higher than they would have been without the CAP. Production of non-grain crops would have increased the most (809%), with grains increasing by the same proportion as milk products. The enlargement<sup>5</sup> of the EU agriculture sector is found to have been at the cost of all other sectors of the economy. The increased agricultural production has resulted in huge structural surpluses within the EU that were dumped on world markets. The increases in exports estimated by the simulation study are extremely high, as without the CAP the EU would not export these products. Instead, the EU would significantly increase imports of agricultural products. The increase in the export of milk products (as well as of grains and non-grain crops) is reported as 9900%, and of meat products 4900%. The dumping of EU agricultural exports on world markets and reduced import demand has in some cases lowered world prices substantially. It has also led non-EU agricultural exporters to reduce production.

In regard to dairy and meat: (a) for the category "rest of the world" (developing countries minus Latin America) the CAP is estimated to have led to output reductions of 47.4% for milk products, 9.1% for livestock, and 5.7% for meat; (b) for Australia and New Zealand, it resulted in a 51.2% output reduction in milk production and 16.7% reduction in meat production. Decreased exports due to the CAP are reported to be even greater: (a) for the rest of the world, a 91.5% reduction in milk products, 67.8% reduction for livestock and 58.5% reduction for meat; (b) for exports from Australia and New Zealand, a 72.1% reduction for milk products and a 31.5% reduction for meat. The authors of the simulation study suggest that the CAP has had a profound influence on the production and trade of many agricultural products in many countries, and that the CAP has caused structural changes in the economies of many countries. They

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<sup>5</sup> The word "enlargement" is used here in regard to the findings of Borrell and Hubbard's study, not in regard to accession countries.

conclude that the CAP has been for most of the last 30 years “a major source of disruption and instability on global agricultural markets” (Borrell and Hubbard 2000).

## Advocacy NGOs’ Positions Regarding the CAP’s Impact on Developing Countries

Numerous European development and advocacy NGOs have criticized the CAP because of what they describe as its negative effects on developing countries. The perspectives of these NGOs have often been based on their own experiences, as well as those of their partner organizations, in developing countries. Some of the NGOs have established groups to strengthen their advocacy efforts. One such group, Eurostep comprises more than 20 non-governmental organizations<sup>6</sup> from 15 European countries “working for justice and equal opportunities, North and South.” Based in Brussels, Eurostep was founded in 1990 to coordinate its members’ policy work at the European level (Eurostep 1993; 1999a,b). The Trade Justice Movement is another group of NGOs that includes ActionAid, Cafod and Oxfam. These organizations are working together in efforts to fundamentally change what they describe as the unjust rules and institutions that govern international trade, so that “trade is made to work for all” (Cafod 2002; see also ActionAid 2002).<sup>7</sup>

Oxfam has been particularly active recently with its Make Trade Fair campaign. It has set up an informative website and produced a number of reports. The core report is the lengthy *Rigged Rules and Double Standards: trade, globalisation and the fight against poverty* (Oxfam 2002a). There are also a number of shorter reports on specific topics aimed at a more general audience (see, for example, Oxfam 2002b,c, d). Oxfam’s views on CAP reform and related trade issues are frequently reported in the British press. The Make Trade Fair campaign also works with schools, providing teachers with lesson plans and ideas for instructing school children.<sup>8</sup>

A report by Cafod, a development and advocacy NGO based in the UK, entitled “Dumping on the Poor” has been widely referred to and presents views presumably representative of the Trade Justice Movement.<sup>9</sup> The report states that the EU’s Common Agricultural Policy is enormously expensive and enormously damaging. A typical UK family of four pays sixteen pounds a week in taxes and higher food prices to support an agricultural system with a disastrous track record of overproduction, environmental degradation and food safety scares. The CAP also undermines the livelihoods of millions of farmers in developing countries by dumping cheap produce in their markets and denying them export opportunities to the EU market. This problem is seen as particularly serious because agriculture is central to the people and economies of developing

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<sup>6</sup> The members of Eurostep (European Solidarity Towards Equal Participation of People): Action Aid, UK; CNCI, Belgium; Concern Worldwide, Ireland; Deutsche Welthungerhilfe, Germany; Forum Syd, Sweden; Freres des hommes, France; Helinas, Greece; Hivos, Netherlands; Ibis, Denmark; Intermon, Spain; Kepa, Finland; Mani Tese, Italy; Mellemfolkeligt Samvirke, Denmark; Movimondo, Italy; NCOS, Belgium; Norwegian People’s Aid, Norway; Novib, Netherlands; Oikos, Portugal; Oxfam GB; Oxfam Ireland; Swiss Coalition of Development Organisations, Switzerland; Terre des hommes, Germany; Terre des hommes, France.

<sup>7</sup> The members of the Trade Justice Movement: Cafod, Christian Aid, Oxfam, Friends of the Earth, the Fairtrade Foundation, SCIAF, ActionAid, People and Planet, Save the Children Fund, and the World Development Movement.

<sup>8</sup> See the Oxfam website: [www.maketradefair.com](http://www.maketradefair.com)

<sup>9</sup> For information on the Trade Justice Campaign: [www.cafod.org.uk](http://www.cafod.org.uk)

countries, where a very high proportion of the population makes their living from farming. Three-quarters of the world's extremely poor people live and work in rural areas. The CAP, as well as subsidies and protectionism on the part of other major economic powers such as the US, "constitute a roadblock on the path to development for dozens of the world's poorest nations." The present system prevents these countries from building on their agricultural potential to improve the lives of their poorest people and communities. When developing country farmers do achieve the capacity to export, frequently they find EU markets closed to them by high tariffs and other obstacles. In other markets they face competition from subsidized European exports. Developing country farmers and governments see the CAP, along with the US Farm Bill, as the worst example of double standards, summed up as "you liberalize, we subsidize" (Cafod 2002).

### **EU Exports Destabilized African Beef Production and Marketing**

The cases of the EU dumping beef in (a) West Africa in the 1980s and early 1990s and (b) South Africa in the mid-1990s are well known to those concerned with LLP trade. Beef production in the EU grew rapidly in the 1980s, and by the early 1990s the EU had become the world's largest beef exporter with 26% of total exports. The Middle East and Eastern Europe were the most important markets for the EU, taking nearly 70% of its exports in 1990. Africa ranked third among the EU's beef markets at that time at 15%, with most exports going to Egypt, Tunisia and Morocco. The West African market was quite small with only 4-5% of total EU beef exports (Eurostep 1993).

#### West Africa

Beginning in 1984 exports of EU beef to coastal West Africa increased rapidly. Between 1984 and 1991 exports increased sevenfold to 54,000 tons. Most of the meat was low-grade "*capas*:" frozen or chilled boneless side meat with high fat content. In Cote d'Ivoire, the biggest market for beef at the time, imports of frozen and chilled beef (nearly all from the EU) jumped from 18% of beef consumption in 1984 to 44% in 1990. EU export support for this beef was two ECUs per kilo in the early 1990s, *four times the reported value of the beef itself!* In 1991 the EU reportedly provided 100 million ECU to European companies to export EU beef valued at 27 million ECU to West Africa. France was the leading supplier of EU beef to West Africa in 1991 with 40% of the total, followed by the Netherlands (20%), Germany (10%), Denmark (10%), Spain (8%) and Italy (8%) (Eurostep 1993).

The EU beef was sold in West Africa at one-third to two-thirds below the price of local fresh beef. Within the EU itself, beef was far more expensive than EU beef sold in West African markets. The very low prices at which beef was sold in West Africa created a major problem for the normal suppliers of beef to coastal West African countries as these suppliers were undersold. For decades livestock producers in Sahelian countries (Mali, Burkina Faso, Niger, Chad, Central African Republic) had provided live cattle for beef consumption in coastal West African countries stretching from Cameroon to Senegal. This pattern continued until the amount of low cost EU beef rapidly increased in the mid-1980s. By the late 1980s, the *Club du Sahel* estimated that regional cattle trade had dropped by 30% from the early part of the decade. In Cote d'Ivoire the share of beef from the Sahel in the country's total beef supply dropped from more than two-thirds in 1975 to 28% in 1990.

Livestock raising is an extremely important economic activity in the Sahelian countries, among the poorest countries in the world. On the other hand, cattle raising in the neighboring coastal countries has long been hampered by a number of problems. The complementary production and marketing system in which livestock were raised in the Sahel for consumption in the coastal countries was very important for the regional economy. It was particularly important as a source of income for livestock producers in the Sahelian countries.

Beginning in 1993 Eurostep played a key role in identifying and publicizing the problems described above, and it led a successful campaign by advocacy NGOs and others to stop the dumping of EU beef in West Africa. The EU significantly reduced subsidies for beef exported to West Africa in 1993-1994. In January 1994 the CFA was devalued by half and EU exports to West Africa dropped significantly (Eurostep 1993, 1999a). On the basis of the available information, it is not possible to determine the relative influence of the role of the advocacy groups, devaluation of the CFA or other factors in the significant decline in subsidized EU beef exports to West Africa. Recent interviews suggest that such dumping has never resumed, and that the EU currently exports very little beef to West Africa.

### South Africa

At about the same time as the EU reduced its dumping of beef in West Africa, it found a new market for low quality beef in South Africa. In September 1993 the South African government replaced quantitative restrictions on beef imports with a tariff. EU beef exporters used export refunds to greatly increase the amount of beef shipped to South Africa. Between 1993-1995 exports of EU beef to South Africa increased from 6,600 tons to nearly 46,000 tons. During this period there was a significant increase in EU expenditure for export refunds for beef in general (Eurostep 1999a, Goodison).<sup>10</sup>

The EU beef exported to South Africa in the 1993-1996 period was primarily low quality, frozen de-boned "C grade" meat intended for use in industrial production or institutions. During the 1994-1996 period beef imported from the EU dominated these South African markets comprising, for example, 70% of supplies in the canned meat sector. EU exporters made most of their profit from the export refund, not the price of the beef itself. Export refunds rose from about 1.5 times the FOB (Free on Board) price of the beef in 1993-1995 to 2.5 times the price of the beef in 1996. In spite of a 28% devaluation of the Rand between January 1994 and December 1996, EU beef was imported at prices substantially below the prevailing wholesale prices of beef.

In regard to the impact the dumping of EU beef had on local producers, South Africa has been the major market for Namibian beef exports since the 1950s. Demand and price trends in South Africa have therefore long had a major influence on cattle prices in Namibia. Opportunities for Namibians to export beef to South Africa increased from 1993 as the beef sector was deregulated. Higher quality hindquarter cuts were exported to Europe (see chapter 4) and lower quality fore quarter cuts to South Africa.

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<sup>10</sup> Goodison and Eurostep 1999a, as well as interviews and email correspondence, are the basis for this and the following paragraphs in this section.

Reportedly because of the drop in prices, in 1996 there was a 40% reduction in livestock marketed in the Northern Communal Areas (NCA) of Namibia in spite of severe drought conditions. An estimated 95% of the NCA population is dependent on livestock production, and livestock are the principle source of cash income. The Namibians affected by the subsidized exports of EU beef to South Africa included the poorest sections of the population. The large-scale imports of low grade EU beef at below local wholesale prices in South Africa is reported to have undermined the NCA livestock development project that aimed to integrate livestock raising in northern Namibia into national and regional markets.

There were a number of protests against the EU's dumping of beef in South Africa. The government of South Africa officially protested in Brussels, and NGOs focused attention on the issue. Representatives of farmers' organizations from South Africa and Namibia also protested in Brussels. The bovine spongiform encephalopathy (BSE) crisis in Europe had significant financial impact on the EU budget, and from January 1997 the total volume of export refunds and the payments per ton of beef exported from the EU were reduced. Apparently for all of these reasons, by 1999 export refunds for beef going to South Africa were reduced by 70%, leading to a 76% drop in exports from the 1995 peak. It is significant that the BSE livestock health crisis in EU countries played a key role in drastically reducing the amount of export refunds and the amount of beef exported to South Africa.<sup>11</sup>

## **Reports that EU Dairy Exports Undermine Livelihoods in Developing Countries**

Currently Oxfam, Cafod and some other advocacy groups are waging a campaign against the dumping of EU dairy products in developing countries. In spite of production quotas introduced in 1984, the EU consistently produces more dairy products than needed for domestic consumption. The EU is the world's largest exporter of skimmed milk powder (SMP), and Oxfam estimates that the EU exports SMP at around one-half the costs of production. Both Cafod and Oxfam maintain that each person in the poorest half of the global population earns less income per day than each of the 21.5 million dairy cows in the European Union receives in financial support under CAP and member state policies (Cafod 2002).<sup>12</sup>

Export subsidies in the dairy sector in recent years have accounted for 1.5 billion euros, according to Oxfam, 50% of EU expenditure in the sector. The direct beneficiaries of the export subsidies are not the milk producers but the dairy processing and trading companies that export the products. These companies receive more than one billion euros a year in export subsidies alone. Oxfam found it impossible to obtain a breakdown of which companies received what subsidies, concluding that this was evidence of a lack of transparency in how taxpayers' money is spent under the CAP system (Oxfam 2002d).

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<sup>11</sup> EU dumping of beef in West and South Africa is discussed below in chapter 4.

<sup>12</sup> The Cafod calculation was based on the total producer support estimate (PSE) in 1999 for dairy resulting from expenditure by both the EU under the CAP and individual member state governments, more than US\$ 17 billion to support 21.5 million dairy cows (Cafod, 2001). Oxfam did its own calculations using the OECD producer support estimate showing that in 2001 the EU supported its dairy sector with Euros 16 billion, 40% of the value of EU dairy production. Oxfam calculated that this support is more than US \$2 per cow per day (Oxfam #34).

Jamaica is frequently identified as a developing country where the domestic dairy industry has been seriously harmed by the import of subsidized EU dairy products. It is reported that in 1992 Jamaican import tariffs on milk powder were reduced while a parallel subsidy for local dairy farming was abolished as a result of conditions attached to a structural adjustment loan negotiated with the World Bank. One result has been a nearly fourfold increase in the import of milk solids since 1992, with the EU as the source of two-thirds of the imported powdered milk. Eurostep estimated in 1999 that the EU annually spent four million euros on subsidized milk powder exported to Jamaica. With cheap imported milk powder readily available, Jamaican food companies have shunned Jamaican fresh milk. Before 1992 small scale producers in rural areas had been part of and benefited from the national dairy industry, aided by infrastructure and a system that enabled milk companies (with government assistance) to collect, process and sell milk. By buying cheap subsidized milk powder from the EU and US, large milk processors and wholesalers have been able to reduce the price they pay local farmers for their milk (Cafod 2002, Eurostep 1999a and b, UNDP 2003, Oxfam 2002d).

Under pressure from the Jamaican dairy industry, in 1996 the government raised tariffs on milk powder from 30% to 50%. This has not been effective as there is a tariff of only 5% for importers who can classify themselves as “manufacturers.” This category is loosely defined. In addition to major milk companies in Jamaica, this category also includes a new group of importers who emerged to profit from the advantageous situation. Jamaica is reportedly reluctant to take trade measures against the EU because it depends on Europe for preferential access for its exports of bananas and sugar. (Cafod 2002)

## **Policy Coherence**

Under article 130 of the Amsterdam Treaty and article C of the Union Treaty, the EU is committed to ensuring coherence between its development cooperation policies and activities and other policies likely to affect developing countries (Eurostep 1999a). There have been numerous allegations that the CAP has prevented policy coherence by interfering with the EU’s own efforts to promote development cooperation affecting DCs. The CAP has even more often been charged with interfering with the development activities of other donor agencies and NGOs. A lack of policy coherence is evident in some of the cases described above.

The heavily subsidized exports of EU beef to both West and South Africa were inconsistent with previous and then on-going livestock development activities of the EU itself and of other donors in those parts of Africa. In West Africa, since at least the 1970s there has been a great deal of donor support for livestock development activities including beef production. Various European bilateral development agencies (Belgium, France, Germany, Netherlands), USAID, the World Bank, and numerous NGOs have been involved. The EU itself invested relatively large sums to support beef production in several West African countries. The subsidized exports of EU beef undermined these efforts, including those aimed at helping poor livestock producers in the Sahel and other West African countries (Eurostep 1999, DG Development 2000). In Southern Africa, for example, the EU invested 3.75 million ECU in a livestock development project in the neglected Northern Communal Areas of Namibia aimed at increasing cash incomes of cattle owners and reducing pressure on the land. A key objective was to open up opportunities for NCA cattle and meat to be marketed in South Africa. The large-scale imports by South Africa of low grade EU beef at below local wholesale prices is reported to have undermined the NCA



livestock development project that aimed to integrate livestock raising in the NCA into national and regional markets.

The EU and other international donors supported Operation Flood that played a key role in the successful development of the Indian dairy industry. Between 1970 and 2000, India's annual milk production increased fourfold. India is currently the world's largest milk producer with 13% of global production, and milk is now the single largest agricultural commodity produced in the country. Nearly 11 million farmers are involved in the dairy sector. More than 75% of those involved are smallholders or landless, many of them women. India is now self-sufficient in milk production and has recently begun to develop small quantities of dairy exports. The country's efforts to increase exports to Bangladesh and the Middle East, however, are reported to confront heavily subsidized, lower priced exports from the EU. Further, the Indian dairy industry has complained that local milk producers are unable to compete with imports of subsidized EU butter and milk powder (Oxfam 2002d; see also Sharma and Gulati 2003).

The European Commission itself has acknowledged "incoherence" between fundamental mechanisms of the CAP and the EC's development cooperation policy. The main issues are: (a) subsidies granted by the European Agricultural Guiding and Guarantee Fund (EAGGF) to exports of agri-food products to third countries; (b) measures aimed at providing EU produced agri-food products a competitive edge against imported products on the domestic EU market. A European Commission report pointed out that it was widely recognized that the CAP has three major distorting effects on livestock production in developing countries: (1) subsidized exports of animal products undercut the competitiveness of local animal production; (2) subsidized exports of crop by-products provide cheap animal feed, favoring peri-urban over rural livestock production and competing with domestically produced animal feed; (3) crop by-products from some developing countries are exported to the EU where they fetch a higher price as animal feed than domestically. This is likely to thwart livestock production in developing countries (DG Development 2000). The first point is examined below in chapter 4; the second and third points are not addressed as they are beyond the scope of the present study.

### 3 EU POLICY-MAKING AND THE CAP

Why does the European Union's Common Agricultural Policy continue to receive nearly 50% of the total EU budget when only 4.2% of the population is employed in agriculture and the share of agriculture in GDP is only 1.7%? Why do EU consumers and taxpayers continue to pay the high direct and indirect costs the CAP? This report attempts to answer these questions. Powerful actors and forces that enabled the CAP to achieve and maintain its position are resisting change. Most of the support has come from farmers and agricultural interests as well as the French government. At the same time, the research found that several factors are influencing change in the direction of reforming the CAP. Foremost of these are the pressures arising from the current Doha round of multilateral trade negotiations. Budgetary pressures arising from the CAP and from the extra burdens enlargement brings, lobbying by the food and beverage industry, and pressure from advocacy groups: all are additional forces for reform. This chapter examines EU domestic policy-making relevant to the CAP. It discusses the analytic approach taken, the CAP's background, previous and current efforts to reform the CAP, internal politics of member states, and relevant EU institutions. Subsequent chapters discuss the activities and roles of interest groups, enlargement of the EU, constitution-making process, and international issues, thereby providing additional analysis of the factors both driving and opposed to CAP reform. The present chapter begins with an explanation of the analytic approach taken in the study to understand EU policy-making.

#### **Analytic Approach to EU Policy-Making**

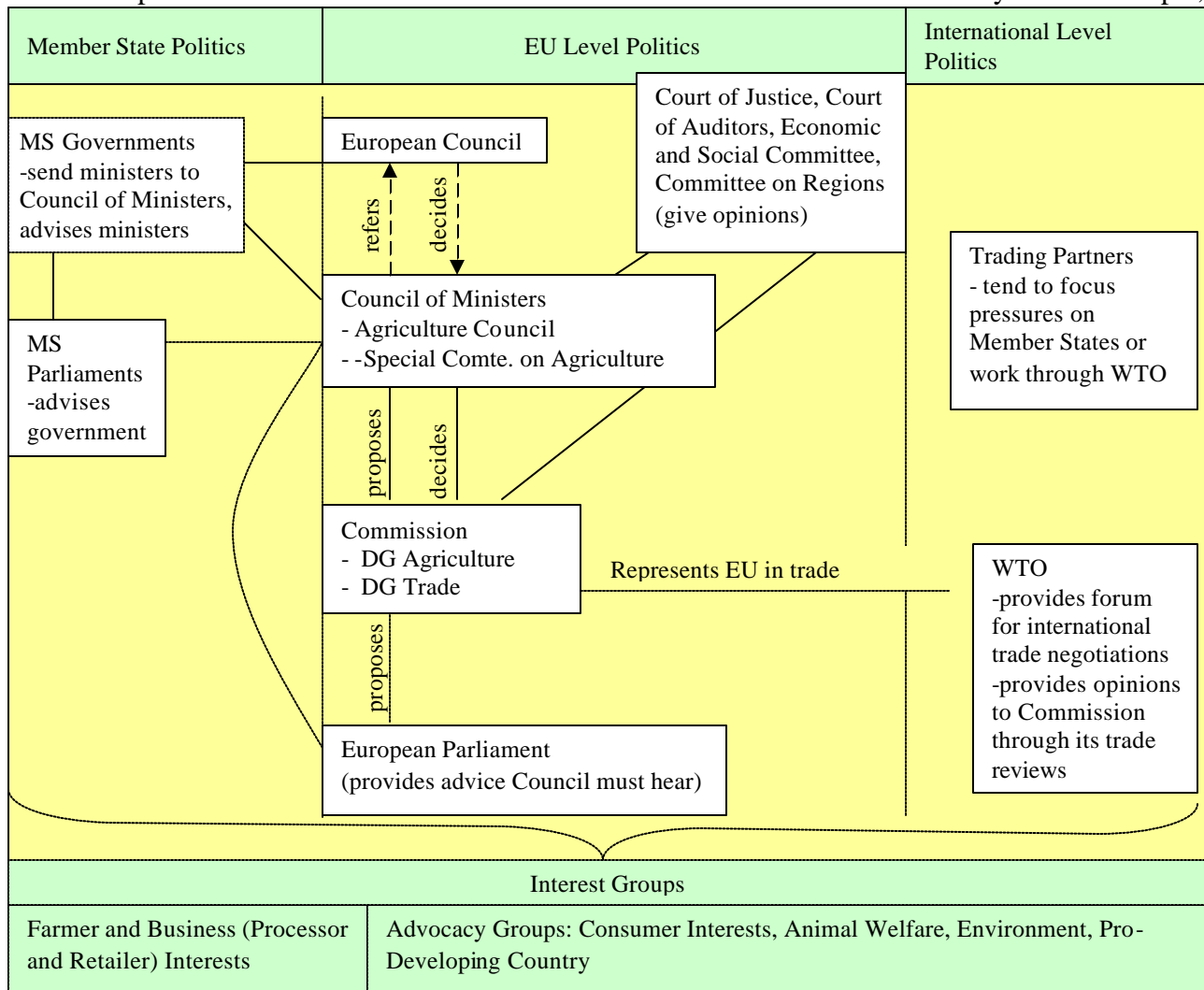
Relevant EU policy-making, especially the recent efforts to achieve CAP reform, demonstrates clearly that both domestic and international political and related factors are important to understanding EU policy outcomes. Three levels of analysis were identified for this study, as presented graphically in Figure 1.<sup>13</sup> (Theoretical issues are briefly discussed in Annex 2.) The first level involves politics internal to Member States (MS). As the figure shows, the primary concern here is with the activities of MS governments. Interest groups, listed along the bottom of the diagram, play important roles and are active at all three levels of analysis. The second, or "EU level," involves at least two aspects of EU politics: interstate bargaining and the EU institutions that both mediate such bargaining *and* play their own active role. The two most important EU bodies shown in the diagram are the Council of Agricultural Ministers and the European Commission, especially its Directorate-General for Agriculture. Finally, the third level involves the actors and forces in the international environment that influence and are influenced by the EU, especially EU trading partners and the WTO (discussed in chapter five).

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<sup>13</sup> Here we borrow from Patterson (1997) who in turn is strongly influenced by Andrew Moravcsik's work on liberal intergovernmentalism and Robert Putnam (1988). Theoretical issues are (briefly) discussed further in Annex 2.

**Figure 1:** *The CAP Reform process*

It is important to note that the lines between these different levels are fuzzy. For example,



groups within individual member states often draw on the international context in efforts to influence their own government's positions on EU policies. This is what occurs whenever Oxfam UK staff or the UK's Department for International Development (DFID) argue against EU policies they allege harm developing countries. At the same time, interest groups—broadly defined here to include farmers, business interests (producers and retailers) and advocacy groups—within the EU and within individual member states operate in an increasingly trans-European (and international) environment. Oxfam, for example, is an international NGO and during recent CAP reform efforts aligned itself with other trans-European groups, such as the European Consumer's Organisation (BEUC). Also, it is significant that the timing of policy-making does not necessarily follow a neat, logical movement between these different levels. While individual policy events might follow a sequence of sorts -- some describe pricing policy in the CAP as a two-stage sequence of national preference formation followed by EU-level inter-

state negotiations (De Gorter et al. 2000) -- broad-level policy change is a much more complicated, back and forth affair.<sup>14</sup> Finally, it is important to recognize the important role individual leaders can play in working between the two levels. The analysis in this chapter will illustrate, for instance, that the France's Chirac and Germany's Schroeder have utilized this two level "games" (in the game theory sense of the word) approach to strengthen their domestic positions.

**The objectives of the common agricultural policy shall be**

- (a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilization of the factors of production, in particular labor;
- (b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;
- (c) to stabilize markets;
- (d) to assure the availability of supplies;
- (e) to ensure that supplies reach consumers at reasonable prices.

**Text Box 1:** 1957 Treaty of Rome establishing the EEC, Article 33(1)

## Background

The official objectives of the CAP are all related to domestic European concerns (see Text Box 1). The issues involved in today's widely publicized criticisms surrounding the global effects of CAP policies, discussed in the previous chapter, were never considered when the CAP was established over 40 years ago. Instead, several internal factors contributed to the creation of the CAP. One, European agriculture then was not in the healthy condition it is in today. The conventional story told about the creation of the CAP refers to post-WWII food shortages and the need for European agriculture to recuperate from the war. There were then very real concerns about European food self-sufficiency, and it is now clear that the CAP has played a key role in building a strong European agricultural sector. Two, it can be argued that in its early years the European Economic Community (EEC) *needed* the CAP. Rieger (2000) contends: "only with regard to agriculture did the scale of political governance reach proportions resembling those of a federal government." Agriculture dominated early discussions within the EEC, and the prevailing dominant position of the CAP in the EU budget supports this view. The third internal factor was the need to "integrate the national farming population into both the transnational and the national polity." Rieger, and others, present this as part of a welfare state explanation even more important than the conventional story noted above.

Table 2 lists some relevant events in CAP history. Financing of the CAP did not begin until 1962 with the establishment of the European Agricultural Guidance and Guarantee Fund

<sup>14</sup> The end result includes processes with much greater inter-penetration than traditional international relations theory about bargaining power would allow but greater influence for the formal levels of government organization themselves than found in, for example, US state and federal politics.

(EAGGF). In the 1980s several factors changed external and internal to the EU that brought pressure to bear on the CAP. Internally, the CAP was a victim of its own success. Production shortages in the aftermath of WWII were transformed by the 1980s into huge producer surpluses. Storing and exporting these agricultural surpluses became an increasingly expensive burden. Maintaining the CAP itself became more expensive, even as declines were evident in agriculture's share in European GDP and as the sector employed smaller and smaller percentages of Europeans (see Table 3 below and Table 10 in Chapter 5)<sup>15</sup>. Early price support policy had relied on taxing imports, subsidizing exports, and purchasing farmers' products when market prices fell below a given level (intervention buying). In the early 1980s the first significant supply control mechanisms were established —marketing quotas, co-responsibility levies, and budgetary stabilizers (Colman 2001).

**Table 2:** *Relevant Events in CAP History*

Early Years	
1955	Agricultural Law
1957	Treaty of Rome
1962	EAGGF created
1970	Change in MS financing of CAP
1984	Implementation of Milk Quotas
1986	Uruguay Round commences
Current Phase of Reform	
1988	Reform focused on budgetary stabilization
1992	MacSharry Reform (and new budgetary agreement)
1993	Enlargement Agreement by the Copenhagen European Council
1994	Uruguay Round concludes
1995-2000	Implementation of Uruguay Round Agreements
1996	UK announces BSE a threat to humans
1999 (March)	Agenda 2000 agreement at Berlin European Council
2002 (July)	Fischler's <i>Mid-Term Review</i> Proposals
2002 (October)	Chirac-Schroeder Compromise 'capping the CAP'
2002	Decisions on EU budget for agriculture until 2013
2002	Agricultural Policy Decisions for the enlarged EU
Most Recent Events	
2003 (January)	Legislative Proposals for MTR
2003 (June)	Luxembourg Agreement on CAP Reform
2003 (September)	Cancun WTO Meeting

Externally, Europe's trading partners were very concerned about the impact of the CAP on world markets. The United States faced a relative decline in its agriculture export volume throughout the 1980s, a major reason for its insistence on making agriculture central to the GATT's Uruguay Round (Colman 2001, Swinback and Tanner 1996). Trade conflicts escalated as the existence of

<sup>15</sup> Information presented in Table 3 is important in regard to the long term trends affecting and driving CAP reform and is discussed below in the present chapter and in other chapters.

EU surpluses resulted in depressed agricultural commodity prices at the global level. These external pressures played an important role in bringing about the CAP reforms of 1988 and 1992.

**Table 3:** Background Statistics for France, Germany, the Netherlands, the United Kingdom and the EU-15

		France	Germany	Netherlands	United Kingdom	EU-15
Population		59,037,000	82,260,000	15,987,000	59,863,000	377,995,000
Land Area		549,087 km <sup>2</sup>	357,028 km <sup>2</sup>	35,518 km <sup>2</sup>	244,101 km <sup>2</sup>	3,235,390 km <sup>2</sup>
GDP, US\$ bn (2002)		1,424	2,218	384	1,573	7,930 (2001)
GDP/Inhabitant (PPS)		23,620	24,140	26,020	23,160	23,180
Share (%) of Agriculture in GDP		2.2	0.9	2.2	0.6	1.7
% of total civilian employment in agriculture	1970	13.5	8.6	-	-	-
	1980	8.5	5.3	4.9	2.4	-
	1990	5.6	3.7	4.6	2.2	-
	2000	4.2	2.6	3.3	1.5	4.3
	2001	4.1	2.6	3.1	1.4	4.2
Household Expenditure on Food		17.6	15.8	10.5	13.9	16.1%
CAP funds received in 2001		9.2 bn euro; 22.2% of total	5.86 bn euro; 14.1 % of total	1.11 bn euro; 2.7% of total	3.99 bn euro; 9.6% of total	-
CAP funds received for "animal products"		2.16 bn euro; 22.7% of total	0.97 bn euro; 10.1 % of total	0.59 bn euro; 6.2% of total	1.62 bn euro; 16.9% of total	-
Position in CAP Budget		3rd greatest beneficiary	Greatest net contributor	2nd largest contributor	Roughly even	-
Position in overall EU Budget		Net contributor	Net contributor	Net contributor	Net Contributor	-
National Expenditure on Agriculture (2000)		3.24 bn euro	1.6 bn euro	1.09 bn euro	1.11 bn euro	-

Sources: DG Agriculture (2003), DG Budget (2002), Economist (Various Issues), Economist Intelligence Unit (Various Country Profiles), OECD (2003), WTO (2002a)

### The 1988 and the 1992 (MacSharry) Reforms

The 1988 and 1992 (MacSharry) reforms signaled the end of an early phase of the CAP and the beginning of the current reform-oriented phase. The 1988 reform focused on stabilizing a rapidly increasing budget. The measures taken, however, had little to do with real reform of the structure of farming support. The MacSharry reforms, on the other hand, were different. While many of the old mechanisms for maintaining the internal market remained in place, several changes did occur. Most importantly, price supports were replaced with direct payments linked to production (measured by historic yields). This was an attempt to discourage over-production,

as (generally speaking) increases in future production could not expect to be met by similar increases in subsidies.

Significantly, a “*second pillar*” of agricultural support was introduced under the MacSharry reform. The key element of the second pillar was “*modulation*,” a mechanism under which EU farm spending was transferred from market-related support payments to rural development measures. This second pillar emphasized what is now regularly referred to in today’s discussions and debates about the CAP as the “*multifunctionality*” of agriculture. That is, the position that agriculture is much more than simply the production of food and fiber but is also directly involved in protecting the environment, including rural landscapes, and promoting sustainable development, including the economic viability of (and poverty alleviation in) rural areas. In the MacSharry reform, multifunctionality came in the form of incentives to comply with new agri-environmental regulations. Today, pillar II support is linked to compliance with certain criteria concerning the environment, rural development, food safety and food quality, and animal welfare.

To understand the MacSharry reforms in regard to LLPs, it is first necessary to recognize that LLPs are part of the wider agricultural sector. The main target of the MacSharry reforms was the arable crops sector, and the overall level of price support for this sector was reduced. Due to modulation there was little change for small producers and some received compensatory payments conditioned on compliance with set-aside requirements. Minor changes were made with regard to milk quotas but no real reform was made here. Regarding beef, intervention prices were reduced, but premiums to producers were increased. (Current support for LLPs is discussed below.) The variance in treatment of different sectors was linked to the Uruguay Round of trade negotiations occurring at the time.

#### Agenda 2000 and the June 2003 “Luxembourg Agreement”

Both the earlier 1988 and the more recent Agenda 2000 reforms followed the beginnings of new rounds of multilateral trade negotiations, each round focused more than any previous international negotiations on liberalizing trade in agriculture. Also, both the 1988 and Agenda 2000 reforms were regarded as being less important than the reforms that followed them (the 1992 MacSharry and the June 2003 Luxembourg reforms, respectively). In the case of the Agenda 2000 reforms, there was only minor tweaking of the dairy and beef support regimes. The existing milk-quota regime was extended, and small support price reductions for beef were introduced from 2000 onwards and for milk from 2005 onwards. An important innovation under Agenda 2000 was the extension of the second pillar, begun with the agri-environmental measures of the MacSharry reforms, to include early retirement schemes, afforestation, and payments to assist farmers in Least Favored Areas (LFAs).

In sharp contrast, both the MacSharry and the June 2003 reforms have been associated with a change in direction of the CAP. In 1992, the use of direct payments was considered revolutionary, increasing the transparency of the entire system. The 2003 reforms are similarly considered important for their moves toward “*decoupling*” support measures from production.

The EU described the June 2003 agreement in Luxembourg as a fundamental reform of the CAP, stating that the decisions meant a “complete change” in the way the EU would support its farm sector. Subsidies would be de-linked (or “*decoupled*” in the language of Brussels) from

production. The intention was to break the link between supports to producers for specific agricultural commodities and the amount of the commodities the farmers actually produce. The stated goal of decoupling is to make EU farmers more competitive and market-oriented, while providing income stability. To replace the previous support mechanisms, there will be new “single farm payments” linked to environmental, food safety and animal welfare standards. The reformed CAP, according to the EU, is “geared towards consumers and taxpayers, while giving EU farmers the freedom to produce what the market wants” (EU 2003a).<sup>16</sup>

Although there was widespread recognition that the June 2003 agreement was the most significant reform in the history of the CAP (see DG Agriculture 2003c), it was also clear that the agreement represented a very diluted version of the proposals presented by the EC agriculture commissioner Franz Fischler in July 2002. The CAP budget was not reduced and, at 43 billions euros a year, still represents nearly half of the total EU budget. The links between production and support were only partly severed. Beef producers did particularly well, as there would be only 70% decoupling for them. Some countries were to begin decoupling in 2005 while other countries could wait until 2007. There were no reductions in the intervention prices for cereals, although there would be such cuts in the prices for butter and powdered milk. The reforms did not directly address the key issues of market access and export subsidies (discussed in chapter 5).

**Table 4:** Country Comparisons in Average Production 1997-2001

<b>Beef /Veal</b>	<b>Kt cwe</b>	<b>Pigmeat</b>	<b>kt cwe</b>	<b>Poultrymeat</b>	<b>kt rtc</b>	<b>Sheepmeat</b>	<b>kt cwe</b>
US	11,984	China	39,607	US	15,838	EU	1095
EU	7,554	EU	17,384	China	11,299	Australia	648
Brazil	5,772	US	8,501	EU	8,837	NZ	541
China	5,016	Poland	1,952	Brazil	5,477	US	111
Argentina	2,830	Brazil	1792	Mexico	1,699		
<b>Milk</b>	<b>mt pw</b>	<b>Butter</b>	<b>kt pw</b>	<b>SMP</b>	<b>kt pw</b>	<b>WMP</b>	<b>kt pw</b>
EU	121.3	EU	1862	EU	1106	EU	885
US	73.4	US	552	US	597	China	488
Russia	32.5	NZ	358	NZ	246	NZ	387
Brazil	19.4	Russia	269	Australia	237	Brazil	263
Poland	12.1	Poland	169	Japan	192	(US)	(55)

Source: OECD 2003

Abbreviations: kt = thousand tons; mt = million tons; cwe = carcass weight equivalent; pw = product weight

### Current EU Support for LLPs

The European Union is currently one of the largest producers of livestock and livestock products in the world. Table 4 provides data on production levels for the EU and other leading countries in regard to various LLP categories. As noted in chapter 1, the EU is the leading producer of

<sup>16</sup> Some accused the Commission of presiding over a “renationalization” of the CAP. June reforms grant Member States greater flexibility in implementation than previous years, allowing up to 10% of each state’s aid entitlements to be used for “encouraging specific types of farming”. States also have flexibility in deciding the form and timing of decoupling. Commissioner Fischler was quick to deny such claims (*Agra Europe*, 27 June 2003).



dairy products (milk, butter, skimmed milk powder and whole milk powder), and the second largest producer of beef and veal. Much of the tremendous production of LLPs by the EU is directly linked to pillar I kinds of support under the CAP.

A study of the global beef trade, the Magellan Project, reported that the EU had the highest level of support to beef producers of any country or trading bloc.<sup>17</sup> The EU alone accounts for 78% of OECD total support levels concerning beef. According to this study, “Beef in the European Union is one of the most highly protected agricultural sectors in the world.” Support is provided through: (a) tariff quotas which severely restrict market access, (b) internal support in the form of intervention buying and private storage aids to maintain domestic prices, (c) direct payments to producers of an array of premiums, and (d) export refunds paid to beef exporters (MLA 2002, MLA 2003).

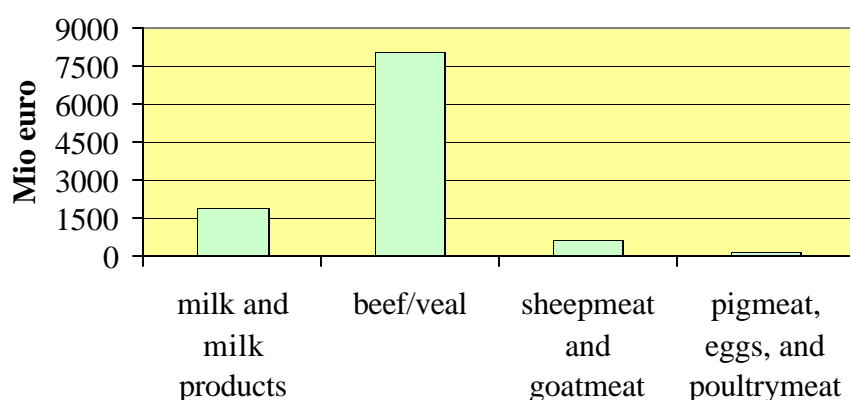
European Union beef producers receive most of their gross returns from government programs rather than from the value of beef at world prices, according to Magellan Project studies. Market price support is the major form of support for EU beef producers, accounting for about 60% of total support. Such market price support is primarily provided by tariffs and tariff quotas that raise internal prices above world prices. The EU is the only trading bloc which uses export subsidies for beef. In 1996-1997 the EU encountered difficulties in meeting its WTO reduction commitments on export subsidies. The subsequent outbreak of bovine spongiform encephalopathy (BSE) led to heavy slaughtering of cattle and reduced exports of beef. The WTO commitments do not currently constrain EU beef exports. During the past ten years there has been little change in regard to outsiders’ access to the EU beef market. The previous quota system has been changed into an array of tariff quotas with very high out-of-quota tariffs. Country allocations of the various quotas have changed very little. During the same period, the EU’s support to its own beef producers has increased significantly. Beef producers in the EU receive the highest levels of support of any meat producers (MLA 2002, MLA 2003).

In 2002, LLPs accounted for 24.5% of the EU’s total EAGGF Guarantee Section budget. Almost 75% of those monies were earmarked for beef and veal products, with a much smaller proportion going to milk and milk products. Even smaller proportions went to sheepmeat and goatmeat, pigmeat, eggs, and poultry meat (see Figure 2). In 2001, the largest source of domestic support for beef products was through “intervention,” especially direct aids (see Table 5). This pattern contrasts with EU support for milk and milk products that relied far more heavily on export subsidies. In 2001 almost 70% of all EU export subsidies for LLPs went to milk and milk products. Dairy products receive support within strict production quotas.<sup>18</sup>

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<sup>17</sup> The five countries of Australia, Canada, Mexico, New Zealand and the United States have a major stake in the world beef trade. In 2001 beef producers in these five countries for the first time collaborated to undertake sector-specific research to estimate the gains from further liberalization of the global beef market. The group call themselves the “Five Nations” and the joint study the group initiated and supported was named the “Magellan Project.”

<sup>18</sup> The EU is the world’s largest importer of ingredients for animal feed (Hasha, 2002). Since the establishment of the EAGGF in 1962, animal feed has not been subject to EEC/EU protection. Heavy dependence on imports, some observers conclude, has led the EU to develop the intensive livestock production practices that enable it to export surpluses (European Farmers Coordination, 2003).



Source: DG Agriculture 2003e

**Figure 2:** 2002 EU Support for LLPs

**Table 5:** Breakdown of expenditure (financial year 2001) by sector according to the economic nature of the measures

2001 budget heading	2001 (Million Euro)							
	Expenditure	Export Refunds	Total Intervention	"intervention"				Other
				Storage	Withdrawals from the market and similar operations	Direct Aids	Other Intervention	
Milk&milk products	1,906.6	1,106.5	800.1	-46.7	0.0	0.0	846.8	0.0
Beef/veal	6,054.0	362.6	5,691.4	325.8	523.7	4,714.4	138.4	0.0
Sheepmeat &Goatmeat	1,447.3	0.0	1,447.3	0.0	0.0	1,449.2	-1.9	0.0
Pigmeat, eggs and poultrymeat	137.1	115.7	21.4	4.9	9.5	0.0	-15.0	21.9

Source: DG Agriculture 2003e

## Internal Member State Politics

There are several reasons that internal Member State politics are important in understanding CAP policy-making and reform efforts (see the far left of Figure 1). The most important reason is that MS ministers who make key decisions at the EU level are primarily accountable to their own Member State. Their decisions largely reflect the positions of their own MS ministry, and the positions and advice of other ministries and parliament in their home country. These factors are particularly important in regard to decisions made by the Council of Agriculture Ministers. EU Member State ministers and other political leaders may be able to get political outcomes from the EU they are unable to obtain domestically, and citing EU constraints can be an effective

political weapon. On the other hand, the politics of individual member states may also constrain other MS.

Another reason is that MS also provide support for agriculture beyond that provided by the CAP. The WTO (2002a) estimates that €14.5 billion was provided in 2000,<sup>19</sup> almost a third of the total amount spent by the EAGF Guarantee fund. A very recent reason that internal MS politics is important is that the 2003 CAP reform grants individual MS higher levels of flexibility in the implementation of the reformed CAP. A key issue is the timing of decoupling. The June Luxembourg agreement allows MS to choose when to decouple, with the choice ranging from almost immediately to 2007. MS decisions on the timing of decoupling are heavily influenced by domestic politics and are correlated with the country's general stance on CAP reform. Thus, it is expected that France will wait until the last minute to implement the decoupling reforms whereas the UK is making plans to begin as soon as possible. Member States are also given some flexibility over the amount of decoupling allowed, especially in the beef sector. The ramifications of this flexibility for internal and external markets are still not well understood.

#### Very Different MS Views on the June 2003 CAP Reform

The 15 EU Member States reacted very differently to the DG Agriculture's July 2002 proposals to significantly reform the CAP, and there was intense debate within Europe on these issues. The positions of the different countries followed established patterns. The UK, the Netherlands and Sweden were squarely in the pro-reform camp. The opponents of reform were led by France and included Ireland, Spain and Portugal. The position of Germany was unclear. The widely divergent positions of the EU-15 as of February 2003 are presented in Annex 3, from an article in *Le Figaro*. The various countries maintained their general positions in the run up to the June 2003 Agreement.

Some reasons for the different positions of the Member States seem clear cut, although they tell only part of the story. Countries with important agricultural sectors relative to current EU-15 standards (such as France) and/or large rural populations, and thus larger proportions of their electorate interested in agricultural issues (such as Spain and Portugal) tend to oppose reform.<sup>20</sup> Countries that produce large quantities of commodities favored by the CAP (such as France and Ireland in regard to LLPs) resist reform. Ireland, for example, receives 67% of its CAP payments in support of "animal products." The strongest supporter of CAP reform is the UK, which has the lowest proportion of its population employed in agriculture (1.4%) of any EU-15 country. The equivalent proportion in France is 4.1%, just below the EU-15 average of 4.2%. In France the share of agriculture in GDP is 2.2%; in the UK the share is only 0.6% (the EU-15 average is 1.7%). In 2001 France received 22.2% of the total CAP funds from the EU, the UK received 9.6% of the total CAP funds. (See Table 3, which presents key statistics for the EU-15 and for France, Germany, the Netherlands and the United Kingdom.)

<sup>19</sup> The WTO *Trade Policy Review* continues: "Although national expenditures have remained at about the same level since 1995, this is mainly the result of a steep decline in national expenditure by Germany since then (down 40%), as national expenditures rose rapidly in Ireland (up 322%), Portugal (122%), the Netherlands (74%), Sweden (67%), Belgium (64%), and the United Kingdom (60%). The trend to increasing national expenditure is likely to have continued in 2001 as a result of emergency funds granted to agricultural producers affected by FMD, BSE, and the crisis in confidence in meat."

<sup>20</sup> In June 2003, Portugal was the only country that voted against CAP reform.

Money is important, of course. The pro-reform countries tend to be net payers of the CAP, while the opponents of reform have been net beneficiaries of the CAP. Figure 3 depicts the EU-15 in regard to net CAP payments in 2001. The pattern in which the different MS are presented corresponds quite closely to their position on CAP reform. Spain, France, Ireland and Portugal are shown as leading beneficiaries of CAP payments. Germany, the Netherlands and Sweden are shown as major contributors to the CAP.

**Figure 3:** *Net CAP Payments in 2001*

<i>Net beneficiary</i>							<i>Net Contributor</i>							
<b>Spain</b>	<b>Greece</b>	<b>France</b>	<b>Ireland</b>	<b>Portugal</b>	<b>Denmark</b>	<b>Finland</b>	<b>Britain</b>	<b>Austria</b>	<b>Luxembourg</b>	<b>Sweden</b>	<b>Italy</b>	<b>Belgium</b>	<b>Netherlands</b>	<b>Germany</b>

*Source: Economist (October 5<sup>th</sup> 2002)*

Although the issue of which EU member states are net payers into and which are net beneficiaries of the CAP has received a great deal of attention and publicity, the situation is not so straight forward. Table 6 is presented to provide the bigger picture. This table presents the European Commission's own figures regarding the "operational budgetary balance" of the EU-15 in regard to each country's contribution from 1995-2001 to the EU budget as a whole. Each country is identified as a net contributor or net beneficiary for this six-year period. The figures in this table are calculated after the UK correction and are based on the UK rebate definition.

A careful reading of Table 6 shows that France was a net contributor to the EU budget during the 1995-2001 period, a point stressed by a few of those interviewed during the course of this study. Ten of the 15 MS were net contributors. Germany, of course, was by far the largest net contributor to the EU budget. Ranked in order, the top five net contributors were: Germany, the United Kingdom (after the UK correction), the Netherlands, Sweden and France. The five net beneficiaries were, ranked in order: Spain, Greece, Portugal, Ireland and Denmark.

#### Germany's Ambiguous Position Regarding CAP Reform and the Schroeder-Chirac "Deals"

Germany's recent position regarding CAP reform has been ambiguous. Developments within Germany since the national elections in 1998 would suggest that Germany would be strongly in the pro-reform camp (Schrader 2003). Some of those interviewed shared this view, and there are several reasons why this might be the case. As the largest contributor to the CAP, Germany has a major incentive to reform the system in order to reduce its own contribution. Since the 1990s there have been changes in Germany's internal politics that have reduced the influence of the agriculture sector, thus making it easier for Germany to push for reform of the CAP at the EU level. The current Social Democratic government has appointed a member of the Green Party as Minister of Agriculture. Others interviewed and some key developments, however, suggest that it is difficult to know where Germany stands on CAP reform. It may be that CAP reform has become a bargaining chip for Germany in inter-state negotiations.

**Table 6:** Contributions to the EU Budget: “Operational” budgetary balance (after UK correction) based on the UK rebate definition<sup>a</sup>

	1995	1996	1997	1998	1999	2000	2001	Overall this period
Austria	-788.0	-264.5	-779.8	-629.2	-628.8	-447.8	-536.4	N.C. <sup>c</sup>
Belgium	463.0	16.5	-395.7	-406.5	-314.6	-214.1	-629.5	N.C.
Denmark	502.1	273.4	131.0	7.1	122.6	240.5	-229.0	N.B. <sup>d</sup>
Finland	-70.6	72.6	39.8	-102.4	-194.8	274.5	-150.4	N.C.
France	-937.9	-822.2	-1284.3	-864.5	30.0	-739.4	-2035.4	N.C.
Germany	-11,092.4	-10,405.9	-10,553	-8044.2	-8494.0	-8280.2	-6953.3	N.C.
Greece	3589.1	4039.0	4360.5	4735.7	3818.0	4433.3	4513.2	N.B.
Ireland	2089.0	2421.8	2814.4	2379.2	1978.7	1720.8	1203.1	N.B.
Italy	-62.0	-1693.0	-229.6	-1410.6	-753.9	1210.1	-1977.9	N.C.
Luxembourg	-54.9	-45.8	-54.3	-76.6	-85.0	-56.6	-144.1	N.C.
Netherlands	-554.2	-1295.0	-1087.5	-1539.8	-1827.0	-1540.3	-2256.8	N.C.
Portugal	2571.3	2839.1	2717.3	3018.9	2858.2	2168.5	1794.2	N.B.
Spain	7676.3	5970.2	5782.8	7141.1	7382.4	5346.8	7738.3	N.B.
Sweden	-673.6	-587.9	-1097.7	-779.9	-897.3	-1059.5	-973.3	N.C.
United Kingdom <sup>b</sup>	-2657.1	-518.3	-242.6	-3489.3	-2826.7	-2985.9	707.5	N.C.
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>121.4</b>	<b>-60.9</b>	<b>167.8</b>	<b>70.8</b>	<b>70.3</b>	

Source: DG Budget 2002

<sup>a</sup>The method used makes the total EU-15 “operational” budgetary balance sum up to zero before deduction of the UK Rebate

<sup>b</sup>The positive budgetary balance in 2001 is due to the particularly high amount of the rebate budgeted in this year.

<sup>c</sup>N.C. = Net Contributor for 1995-2001

<sup>d</sup>N.B. = Net Beneficiary for 1995-2001

The main reason that serious questions were raised about Germany’s commitment to CAP reform stem from two recent “deals” between Gerhard Schroeder and Jacques Chirac that have (or appear to have) had enormous impact on issues related to the CAP. The first agreement between the German and French leaders took place in October 2002 when they made an agreement to limit CAP spending for the 2007-2013 period. (The amount of funding until 2006 had already been set.) This deal between these two leaders was and remains very important in regard to the future financing of the EU enlargement (discussed in chapter 4), and the ceiling on CAP spending will mean a reduction in real terms. Some supporters of CAP reform, however, felt that this agreement between Chirac and Schroeder severely undercut efforts to achieve serious reform of the EU’s agricultural policies. The deal between the French and German leaders led to a sharp exchange between Chirac and Tony Blair, and Chirac’s cancellation of a planned meeting between the British and French leaders in December 2002. As the leader of the country with the strongest pro-reform position, Blair was isolated by what is considered an informal but very influential deal between the French and German leaders.

The second agreement reached by Schroeder and Chirac took place in June 2003, just before the agriculture ministers of the EU-15 began their meetings to decide the fate of the significant proposals for CAP reform tabled by the Commission's DG Agriculture. According to several European newspapers (for example, *Financial Times*, 16 June 2003), Schroeder is reported to have agreed to support France's efforts to water down the proposed CAP reform while, in turn, Chirac agreed to support Germany's efforts to oppose the EC's plans on mergers and acquisitions. In the end, France achieved its goal of maintaining elements of the CAP in the face of very strong pro-reform pressure. Germany argued that it had been able to get France to break the tense deadlock and at least agree to some reform of the CAP. The reported trade off between French agriculture interests and German business interests suggest that domestic member state political issues, including those seemingly far removed from farming, can be very relevant to EU decision-making in regard to reforming the CAP.

The deals between Chirac and Schroeder may reflect several factors: the long lasting relationship between the two countries on EU issues and a longstanding trade-off on agricultural support, as well as the then recent alliance between the French and German leaders to oppose the United States in regard to the United Nations Security Council resolution to invade Iraq. France and Germany have and continue to share similar views on other EU issues and, according to Keeler (1996), they have cooperated in the past to significantly water down efforts to reform the CAP. After the October 2002 deal, Chirac was quoted as saying: "If there is no Franco-German accord, Europe grinds to a halt" (*The Economist*, 2 November 2002). It may be significant that, as noted above, the strongest proponent of CAP reform, the UK, was on the sidelines during the deals and it was on the other side in regard to Iraq. Clearly, internal member state politics and relationships between different EU countries play an important role in EU policy-making on agriculture.

The role of MS domestic politics is significant in regard to the agreement between the German and French leaders (the situation in France is discussed below). A coalition of the SPD and the Green Party formed Germany's federal government after the 1998 general election, and they established new priorities in regard to agricultural policy. The SPD identified as a concern the unacceptable distributional consequences of the CAP among EU member states. The Green Party focused on environmental issues, including a shift towards sustainable farming and improving animal welfare. The SPD was very concerned about Germany's high share of the EU budget, and it became clear that the government intended to reassess the CAP in general and, in so doing, risk a confrontation with the farmers' union that had enjoyed a cozy relationship with previous governments. The German government was very concerned about its growing national budget problem, and the enlargement of the EU risked big increases in both EU and national budgets, especially for agriculture (Schrader 2003).

After the European Commission presented its proposals for CAP reform in July 2002, the German chancellor insisted that there be a delay in the final decision on the CAP until 2003. He further insisted that: (a) the financial framework agreed at the Berlin Summit in 1999 should remain in place after enlargement, (b) direct payments to farmers in the accession countries - not included in the framework - be financed out of a reduction of direct payments in the EU-15. This remained the position of the German government after the coalition of the SPD and the Greens won the national election in 2002. On the other hand, the French and several southern European countries opposed any cut in direct payments (Schrader 2003). The election also in

2002 of a conservative French government headed by Jacques Chirac stiffened French resistance to CAP reform. In spite of differences, the German and French leaders reached the agreement noted above to limit future CAP spending.

### France's Role in Protecting the CAP

France is well known as the strongest supporter and defender of the CAP among the EU member states. The reasons include the relatively important role agriculture plays in the French economy and the extraordinary influence of farmers, especially cattle farmers, and their organizations in domestic politics. These factors have considerable influence on France's positions on CAP reform. During the June 2003 negotiations of the Council of Agriculture Ministers on the EC proposals for CAP reform, France threatened to use its right of veto in an effort to block further reform.<sup>21</sup>

One reason for France's solid support of the CAP relates to its key role when the Common Agricultural Policy was originally established at a time when there were only six member states in the EEC. A widespread current view is that France defends the CAP because it is the biggest beneficiary, over 9 billion euro or 22.2% of the total in 2001. But these figures need to be put in context. The percentage of EU-15 CAP benefits that France receives is nearly the same as its percentage of EU-15 agricultural output (22.6%) and utilized agricultural area (21.7%). Simply put, France is the EU's biggest agricultural producer, (Glaz and Messerlin 2003)<sup>22</sup> and what it receives from the CAP reflects this fact. The critics reply that France is a leading net beneficiary of the CAP, receiving more in benefits than it pays. While this is correct, as pointed out above, France was a net contributor to the EU budget during the 1995-2001 period. France also has the highest national expenditure on agriculture in the EU.

Farmers' organizations and their leaders have exceptional political influence in France. The most powerful farmers trade union, the *Federation Nationale des Syndicats des Exploitants Agricoles* (FNSEA), served as the sole counterpart on agricultural issues of all French governments from 1945 until the late 1990s. This relationship included day-to-day management of farm policies. One FNSEA president became the Minister of Agriculture and served in Jacques Chirac's government in 1986-1988. A president of the FNSEA branch for young farmers became an adviser to President Chirac in the late 1990s. In 1997 the FNSEA monopoly was slightly weakened when the government began discussions with another trade union, the Farmers Confederation (CP), which was opposed to basic CAP instruments and methods. The CP now represents 25% of French farmers (Glaz and Messerlin 2003). The concept of "co-management" has been developed to a very high level in France (Keeler 1996).

There is also an extraordinary link between French presidents and the *Federation Nationale Bovine* (FNB), an independent trade union restricted to cattle farmers, that may help explain why beef is such a protected commodity under the CAP. Unofficially the FNB is close to the FNSEA. The majority of FNB members are specialist beef producers from Central France who

<sup>21</sup> As noted in chapter 3, EU member states have the option to veto a measure. According to the Luxembourg compromise, an MS can veto a proposal when it considers the proposal a threat to its vital national interests

<sup>22</sup> France leads the EU in the production of cereals (is fifth in the world), is second in milk production after Germany (fifth in the world) (Embassy of France 2003).

produce beef by extensive (grass-based) methods on small farms, often in difficult hilly or mountainous regions. Their income is among the lowest of French farmers, and direct CAP subsidies represented a very high proportion of their income in 2001. During the last 30 years, all French presidents (Georges Pompidou, Valery Giscard d'Estaing, Francois Mitterand and Jacques Chirac) have had very close relations with FNB farmers. The presidents either originally came from Central France, or had been acquainted with the FNB farmers for a long time (Glaz and Messerlin 2003, Stoeckel 2003).<sup>23</sup>

France is the largest EU producer of beef, with one-quarter of total beef production. The “professional farms” specializing in beef in Central France, the FNB members, produce 37% of total French beef. The FNB understands the political advantages it can draw on because its members play a major role in occupying, shaping and managing (*amenagement du territoire*) Central France. The FNB uses its role in “managing territory” in its lobbying efforts to justify keeping tariffs high. Its position is reported to be that high tariffs are needed to restrict imports that, in the trade union’s view, could damage the environment as well as the economy and survival of certain regions. The FNB apparently rejects any “export capacity” for European cattle production, although the meaning of the term “export capacity” and the FNB’s reasons were not explained (Glaz and Messerlin 2003, Stoeckel 2003).

The importance of the “farm vote would make it impossible for French politicians to ignore agricultural interests in the context of any electoral system, but one can infer that the farm lobby derives even more leverage from the system now employed for both the presidency and the national assembly” (Keeler 1996). For example, in the two-ballot direct election system for president, very narrow margins often determine the fate of first ballot candidates. At least two-thirds of farmers generally support the parties or presidential candidates of the moderate right that held national power for most of the post-war period. The ties are particularly close with the *Rassemblement pour la République* (RPR) and its leader, Jacques Chirac. Another feature of the French system enhances the political power of French farmers. France has more local administrative districts, many of them sparsely populated rural communes, than any other EU state. In 1989, 28.5% of French mayors were active farmers (Keeler 1996).

Some European newspapers have consistently blamed Jacques Chirac for the lack of greater reform of the CAP (*The Economist* is a prominent example). This position was said to be counter-productive by some of the French interviewed. Others interviewed maintained that there would never be fundamental CAP reform as long as Jacques Chirac was president of France. Some emphasized that Chirac’s experience as France’s Minister of Agriculture in the early 1970s and his long involvement with CAP issues gave him an overwhelming advantage when discussing or negotiating agriculture issues with other EU heads of state and government. At the March 1999 European Council in Berlin, Chirac was able to significantly water down the Agenda 2000 CAP reform. The agreement with Gerhard Schroeder on the eve of the Council of Agriculture Ministers’ June 2003 negotiations regarding the Commission’s CAP reform

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<sup>23</sup> This paragraph and the preceding paragraph are based on the authors cited. One author of the present report, Michael Halderman, would like to acknowledge the very helpful explanation regarding the important links between beef producers in Central France, farmers’ organizations, politicians and CAP issues provided by Professor Michel Doly, President Conseil Economique et Social Regional (CESR), Auvergne. Professor Doly is a former President of the Universite d’ Auvergne.



proposals was considered by some interviewed as another example. It was during this series of very difficult negotiations on CAP reform in June 2003 that France threatened a veto.

After a diluted CAP reform was agreed at the end of June, *Le Monde* wrote in an editorial that France's flexibility in accepting CAP reform should be congratulated. The newspaper pointedly noted that France's position on EU agricultural policy had become unsustainable, and that for 30 years Jacques Chirac had constantly battled to maintain the CAP. His refusal to change, however, flew in the face of the changes in European agriculture and had placed France at the center of controversy with her current EU partners, her future partners (the accessions countries), the Americans, and poor countries in the WTO. Agricultural issues were thus threatening France's diplomacy vis-à-vis the EU and the rest of the world (*Le Monde* 27 June 2003).

## European Union Institutions

It is at the EU-level of our analytic framework that interstate bargaining takes place in regard to EU agricultural policy-making. Member states present and negotiate their very different views described in the previous section, and illustrated in the *Le Figaro* article in Annex 3. The role of EU institutions is extremely important in regard to EU agricultural policy-making, as these institutions not only mediate between the MS but also promote their own policy preferences. Key EU institutions and some of their relationships are presented in the middle column of Figure 1.

In principle, the Council of Agriculture Ministers (Agriculture Council) makes final decisions regarding EU agricultural policy.<sup>24</sup> Sometimes these decisions are influenced or modified by decisions made by heads of state at the European Council or other meeting (as noted above; see also below). The European Parliament's formal role has been limited to advice in regard to most CAP-related issues, except for specific rural development activities. The Agriculture Council is made up of the agriculture ministers from the 15 EU member states. The special committee on agriculture, management committees for each commodity group (civil servants from national agriculture ministries and from MS permanent representations in Brussels), and their own staff support the ministers. At the recent June 2003 meetings of the council, agriculture ministers from the ten accession countries attended as observers.

Only the European Commission has the right to make proposals that are considered and decided by the Council of Ministers.<sup>25</sup> This means the Commission enjoys the critical role of shaping the agenda. The Commission is also responsible for implementing and enforcing EU policies, providing it with additional authority and influence. For the recent CAP reform, in July 2002 the Commissioner of Agriculture, Franz Fischler, provided the official communication (the Mid-Term Review proposals) that launched the reform process. In January 2003 the Commission provided the relevant legislative proposals.

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<sup>24</sup> In principle there is one Council of Ministers. In reality there are several different Councils dealing with separate policy areas. Each Council acts with equal authority. Of the various Councils, the Council of Agriculture Ministers has responsibility for CAP reform.

<sup>25</sup> A Council of Ministers cannot formally consider any proposal that has not come from the Commission (Article 43 of the Treaty of Rome).

DG Agriculture has the most interaction with the Agriculture Council. It is significant, however, that the full Commission endorses the formal proposals to the Council. As a result, there is an opportunity for input by and Council interaction with, *inter alia*, DG Trade, DG Health, DG Development and DG Environment. Thurston (2002) has argued that this institutional arrangement provides the Commission an advantage in terms of agenda setting for complex, inter-linked policy issues such as those involved in the CAP and its reform. For example, DG Trade can help structure a particular position used in multilateral trade negotiations, and this in turn frames the range of decisions that can be taken in regard to CAP reform. It is very relevant to the present study that the Commission's sponsorship of European integration provides it with a set of policy preferences of its own, not necessarily those of individual member states. These preferences include European integration, maintenance of the single European market, and the promotion of a distinctly European structural policy (Thurston 2002). During the recent struggle over CAP reform, DG Agriculture both set the agenda and pushed Member States toward an overall direction of policy reform that several MS did not initially support.

Generally speaking, some Council of Ministers' decisions require unanimity, but most require qualified majority voting, as is currently the case for CAP reform (see Annex 4 "EU Voting, Population and Representation"). In practice, however, consensus is the goal. Under the present treaty, EU Member States also have the option to veto any measure they consider a threat to their "vital interests." As noted above, it has been widely reported that France used such a veto threat during the June 2003 CAP negotiations. In the past, according to Keeler (1996), the decision rules adopted by the Agriculture Council permitted only incremental change to the CAP. Member States insisted on reaching Agriculture Council decisions through unanimity even when qualified majority voting would have been acceptable under the Rome treaty. The possibility of a veto normally ensured that only minor adjustments to the CAP would be considered. When more serious reform measures were proposed, France and other staunch CAP advocates were not reluctant to make known their willingness to use the veto option. On one occasion Germany used the veto to protect its agricultural interests (Keeler 1996).

Which country holds the rotating EU presidency may sometimes be a significant factor in EU agricultural policy-making. This factor appears to have had an influence on the outcome of the recent effort to reform the CAP. The Greek government held the EU presidency during the first half of 2003. Those involved in the tense agriculture negotiations were well aware of the importance of the end of June deadline. The Greeks had been playing a key role in the negotiations, including tabling compromise proposals in efforts to reach agreement in the final weeks. If a decision were not reached by 30 June, the negotiating equation would be significantly changed as the Italian government would take over the EU presidency. The agreement to reform the CAP was finally reached on 26 June, after an all night session following weeks of negotiations by the European Commission's DG Agriculture and EU member state agriculture ministers and their support staffs. Given the controversies that erupted after the Italian take over of the EU presidency, if agreement had not been reached before the end of June it is impossible to know what the consequences may have been for the CAP negotiations in 2003.

When the Agriculture Council is unable to resolve certain issues, the outstanding matters can be referred to the European Council made up of the heads of state of the 15 EU member countries. This course of action took place at the March 1999 Berlin European Council in regard to the Agenda 2000 CAP reform.

## 4 INTEREST GROUPS, BUDGETS AND THE EU CONSTITUTION

This chapter examines additional forces that drive or retard CAP reform, including the activities and roles of key interest groups, the enlargement of the European Union and possible implications of a constitution. A range of interest groups that attempt to influence relevant EU policy-making are shown along the bottom of Figure 1 in chapter 3. These groups tend to operate at both the member state and EU levels. Farmers and their organizations are certainly important, as are relevant businesses (processors and retailers) and their organizations. The term “advocacy group” is used here to refer to organizations that promote the interests of consumers, the environment, animal welfare and developing countries. (Annex 1 provides a list of many of these actors.)

### Some Important Trends

Before discussing the roles and activities of specific interest groups, it is first useful to identify key trends that are very important to EU agricultural policy-making in general and to CAP reform in particular. One such trend is the tremendous decline in the proportion of the European population employed in agriculture since the CAP was established over 40 years ago. Table 3 (in chapter 3) and Table 7 below show that between 1970 and 2001 the percentage drops include: France, from 13.5% to 4.1%, Germany from 8.6% to 2.6%, Italy from 20.2% to 5.2%, and Spain from 29.5% to 6.5%. The figures in the table for the UK and the Netherlands begin in 1980 and show that employment in agriculture was already quite low at that time with small subsequent declines: the Netherlands from 4.9% to 3.1%, the United Kingdom from 2.4% to 1.4%. Other relevant long term trends include the decline in the share of agriculture in member state GDP, the decline in the total number of agricultural holdings, and the aging of the farming population as the children of farmers go into other occupations. At the same time, many Europeans want to maintain the pastoral rural landscapes that predate the advent of industrialized production of pigs, chickens and other livestock.

The outbreaks of BSE and other livestock diseases have led to heightened European concerns with food safety. Food retailers have reacted by greatly increasing their efforts to provide safe and high quality food. Animal rights activists focusing on certain industrial agricultural production practices in the raising of livestock have hit a sensitive chord in Europe and been able to score major gains. In response to all of these factors, the ministries of agriculture in several EU member states have broadened their responsibilities to include the environment, rural development, food safety, food quality, and animal rights. What was previously the ministry of agriculture in the UK, for example, is now called the Department of Environment, Food and Rural Affairs (DEFRA).

### Interest Group Strategies

Beyond the governmental actors other EU actors—collectively called “interest groups” in this paper— influence EU policy-making. These interest groups are represented along the bottom of Figures 1 and 9 and are not necessarily specific to national, EU-level or international politics. This section and the sections immediately following describe some of their general strategies and evaluate the experiences of some interest groups with CAP reform.

**Table 7:** *Employment in agriculture and other sectors (% of total civilian employment)*

	1970	1980	1990	1998	1999	2000	2001
EU-15	:	:	:	4.7	4.5	4.3	4.2
Austria	18.7	10.6	7.9	6.5	6.2	6.1	5.8
Belgium	5.0	3.2	2.7	2.2	2.4	1.9	1.4
Denmark	11.5	8.1	5.7	3.7	3.3	3.7	3.5
Finland	24.4	13.5	8.4	7.1	6.4	6.2	5.8
France	13.5	8.5	5.6	4.4	4.3	4.2	4.1
Germany	8.6	5.3	3.7	2.8	2.9	2.6	2.6
Greece	40.8	31.3	23.9	17.8	17.0	17.0	16.0
Ireland	27.1	18.3	15.0	9.1	8.6	7.9	7.0
Italy	20.2	14.3	8.8	5.8	5.4	5.2	5.2
Luxembourg	9.7	5.5	3.3	2.9	2.0	2.4	1.5
Netherlands	:	4.9	4.6	3.5	3.2	3.3	3.1
Portugal	:	28.6	18.0	13.7	12.6	12.5	12.9
Spain	29.5	19.3	11.8	7.9	7.4	6.9	6.5
Sweden	8.1	5.1	3.4	3.0	3.0	2.9	2.6
United Kingdom	:	2.4	2.2	1.7	1.6	1.5	1.4
CC – 10	:	:	:	:	:	13.3	13.2
Cyprus	:	:	:	:	4.7	5.4	4.9
Czech Republic	:	:	:	5.6	5.3	5.2	4.9
Estonia	:	:	:	9.5	8.8	7.0	7.1
Hungary	:	:	:	7.3	7.0	6.5	6.1
Latvia	:	:	:	18.7	17.2	14.4	15.1
Lithuania	:	:	:	20.7	21.4	18.4	16.5
Malta	:	:	:	:	:	1.4	2.1
Poland	:	:	:	:	:	18.7	19.2
Slovenia	:	:	:	12.1	10.8	9.6	9.9
Slovakia	:	:	:	:	7.2	6.9	6.3
Bulgaria	:	:	:	:	:	13.2	9.7
Romania	:	:	:	42.0	44.0	45.2	44.4
Turkey	:	:	:	:	:	:	:

Source: DG Agriculture 2003e

### Interest Group Lobbying at the EU Level

Perhaps the most common interest group strategy is lobbying. A key question might be whether such lobbying is more effective at the MS level or the EU level. Answering this question depends on the organization's perception of the policy-making process. If an organization considers intergovernmental bargaining the primary driving force relevant to its concerns, it should focus its pressure at the MS level. On the other hand, if the key factor is the Commission's role as agenda setters and proposal-makers, the organization should focus its energies at the EU level. Both levels are critical for EU agricultural and trade policy. Not only is it important to lobby at both levels, argues Kohler-Koch (1997), it would also "be a short-sighted strategy just to concentrate on one EU institution."

When deciding *where* interest groups should concentrate their lobbying effort it is essential to know *when* they lobby. The three relevant phases in a policy's life are the: (1) problem-defining and agenda-setting stage; (2) actual creation of the policy, which in the case of the CAP involves intergovernmental bargaining; and (3) implementation of the policy.<sup>26</sup>

Several conclusions can be drawn when one considers these phases in tandem with the actual process of EU agricultural policy-making. First, it is very important to lobby EU Member States in all three phases. As the Council of Agriculture Ministers makes the final decisions, the decision-makers take their cues from their own MS government. It is therefore important to lobby the key MS governments both when those involved in the Council deliberations begin to define their positions on the issues *and* during the policy creation phase. As EU Member States are also largely responsible for implementing EU agricultural policy, interest groups can play an important role during the implementation phase by collaborating with the MS government in monitoring and information-sharing. To the extent that EU decisions allow for MS flexibility, a new policy cycle within the member state can be said to have begun. Interest groups can embark on lobbying during a new cycle that is entirely within the Member State. Following the June 2003 agreement on CAP reform, for example, beef farmers and groups representing their interests have been extremely active in lobbying their governments regarding the process and timing of decoupling.

As the EU Council of Ministers can only act on proposals that come from the Commission, it is important for interest groups to obtain and maintain contact with Commission officials.<sup>27</sup> This is particularly the case during the first, agenda-setting and problem-defining stage. Mazey and Richardson (1996) argue that in regard to EU policy-making "it is at the problem-identification and options-search stage of the policy process that lobbying has always been most effective". They cite one EC official as saying that "a contact at a late stage of the policy-making process is disturbing and completely useless."

The Commission is also an important actor following the Council of Ministers' decisions. In a phase of policy-making that rests between the bargaining between EU Member States and actual implementation, the Commission is responsible for preparing the details of the agreement in legal form. Many interest group concerns are technical and detailed and this is precisely where the Commission plays its other important role – filling out the details. Indeed, there is an implied symbiotic relationship between Commission and interest group here, as the Commission staff is relatively small and often "depends on organizations such as interest groups for its expertise" (Mazey and Richardson, 1996).

### Interest Group Lobbying at the International Level

As will be discussed in the next chapter of the report, multilateral trade negotiations, such as the current Doha Round, present the best opportunity to impact EU policymaking. Interest groups

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<sup>26</sup> This is similar in conception to Finnemore and Sikkink's (1998) "norm life cycle" stages. They find that, other things being equal, the influence of transnational advocacy networks (the focus of their research) is generally greater during the first, agenda-setting phase. The networks also have some impact in the third phase, but it is more difficult for them to influence policy-makers during the actual policy creation phase. During implementation (as Risse 2002, also notes) the expertise and cooperation of such groups is often needed for working out the details of a policy, gathering information, and monitoring behavior.

<sup>27</sup> This sentence describes the formal system. In addition, member states attempt to informally influence on the Commission.

can and do attempt to influence EU trading partners and relevant international organizations (such as the WTO, OIE, and Codex). They can use these institutions and actors to help set the EU policy-making agenda. The development of international trade rules today largely takes place in the context of the WTO. But the WTO itself is intergovernmental; non-state actors have no legal standing. And non-state actors have little access to WTO meetings and negotiations (although certain aspects of this has been changing).

The discussion on EU-level interest group politics is largely relevant to the international level, especially in its conceptualization of the 3-phase norm/policy life-cycle. One key difference is that the WTO as an institution has less capacity than the European Commission. While the WTO Secretariat plays some role in agenda-setting, much more is left up to the participating countries. Thus the Secretariat is a less attractive entry-point than is the European Commission. In terms of actual policy creation and in terms of policy implementation, it is the governments that matter. Anyone who wants to influence the outcome of the negotiation process must, at some point, influence the states making the decisions.

#### A Range of Strategies

Advocacy group strategies span a range that includes the relatively peaceful provision of information to the potentially violent attempts to block WTO negotiations from even occurring. One effective strategy during the agenda-setting stage is to obtain public support. This is an important difference from the strategies of business interests that do not generally desire such publicity. Risse (2002) cites three potential strategies for this bargaining phase: 1) lobbying in powerful domestic states (such as the EU or US); 2) creating a coalition with intergovernmental organizations; and 3) creating a coalition with smaller states providing latter with knowledge and “information power.” During the implementation phase interest groups are likely to have more success. Advocacy groups can play an important role in aiding the implementation of policy, and through this practice, influence the direction of the actual policy itself. To a certain extent this is the strength of such organizations as Amnesty International (for human rights) and Transparency International (for corruption).

Advocacy groups have important strengths, relying in part on public perception. They are seen as legitimate, as “do-gooders”, as fighting a “crusade”, according to one recent survey (Lombardo 2000). They effectively exploit “politically correct” thinking, have strong economic support and high source credibility says the same report. This can be compared to the low trust and confidence in governments and business. A recent report by One World Trust on a Gallup international poll supports these views. Many advocacy groups have extremely flexible organizational structures, something that can be an advantage when faced with hierarchical states. One such advantage is that “networks are agile and accurate in communicating complex information toward a shared understanding of a global issue that affects them all in similar ways” (Krut 1997). They can take full-advantage of information-age technology available to them. Information-sharing capabilities can have utility at both local and global levels, coordinating multiple groups of individuals at the international level in an attempt to affect change at either the local or global level.

The CAP is facing increasing pressures for reform from its trading partners, from specific business interests, from advocacy groups, and from its unsustainable impact on the EU budget. Nevertheless, this does not mean that the CAP will quickly disappear, nor does it mean that those

who wish for CAP reform are likely to get what they want. Those interested in changing EU policy can learn from previous successes and failures. The next three sections of the chapter describe some of these. First, there are the farmers interests who have demonstrated their ability over the years to gain disproportionate representation in the policy-making process. Second, there is the increasingly adept manner in which food and beverage industry interests insert themselves into the policy-making process. Finally, there are the varying experiences of advocacy groups. There is, for instance, the recent experience of consumer groups who, acting on recent food safety crises, have been effective at making the CAP more responsive to their food safety concerns. The quickness of the EU response, arguably, came from the overwhelming force of public opinion and the cooperation of agriculture and industry once they realized that public concern could also impact their sales. In some respects this contrasts with the experience of the animal welfare and environmental advocacy groups. Long-term engagement with the EU policy process, and their links to powerful political parties (in the case of environmentalists), has been of great benefit to them.

### **The Strength of Farmers' and Agricultural Interests**

The strength of European farmers' organizations and agricultural interests has been critical to the manner in which the CAP has developed over the decades and why efforts to reform the CAP have been so limited. Farmers and other agricultural interests have taken a deep interest in the Common Agricultural Policy because it directly affects their livelihoods and their future. It is normal for those so directly affected by policies to want to be involved in the formulation of those policies, and to try to maintain the policies that benefit them in the face of pressure from other interest groups.

But what explains the extraordinary, continued success of a declining number of European farmers, combined with other agricultural interest groups, to obtain and maintain such favorable policies? The short answer is that the groups directly benefiting from the CAP are very well organized and keenly focused on protecting their interests. Those who pay for the CAP, taxpayers and consumers, are only indirectly affected by the CAP and do not have such cohesive, well organized groups promoting their interests. Significant reform of the CAP would have huge impact on EU farmers and agricultural interests, but it would have little direct influence on the many millions of European consumers and taxpayers.

The conclusions presented above, reached during the course of the interviews for this study, are similar to the findings of research by Peter Evans on international bargaining and domestic politics.<sup>28</sup> In a comparative analysis of the "conditions of failure," Evans identified strikingly similar structures of domestic interests in unsuccessful negotiations on issues ranging from oil to semiconductors:

"In each case, potential gains are diffuse, but costs are borne by a concentrated group which is highly organized. Each of these groups is also "disproportionately enfranchised," either because they have politically privileged positions in the ratification

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<sup>28</sup> These conclusions are also similar to the views of Thurston 2002, Keeler 1996 and others. The quotation concerning Evans' research findings is from Keeler 1996.

process or because their cooperation is essential to the implementation of the agreement itself.”

There is little doubt that for many years the “disproportionate enfranchisement” of agricultural interests at both the member state and EU levels played a key role in preventing deeper reform of the CAP.

Discussing the situation that prevailed during the 1980s and early 1990s, Keeler provided considerable evidence of what he called “agricultural power in the European Community” (Keeler 1996). He noted that the small percentage of the population employed in agriculture masks the fact that the electorate includes not only active farmers but also retired farmers, spouses of farmers, voting age children of farmers, and former farmers now in other occupations. At the EU level, Keeler stressed that the Committee of Agricultural Producers’ Organizations (COPA) was the most firmly established umbrella organization in Brussels with 45 full time staff. COPA’s clout in Brussels largely reflected and derived from the extraordinary organizational capacity of farmers unions in the member states which tended to recruit members largely through the provision of vital services. Keeler argued that four institutional factors at the EU level favored agricultural interests: (1) the policy legacy, reflecting conditions when the CAP was established; (2) EC decision rules under which member states insisted on reaching CAP decisions through unanimous vote when qualified majority voting would have been acceptable; (3) bargaining dynamics, as the technical nature of the issues insulated bargaining and the common financing formula removed the discipline found within MS; (4) bureaucratic interests, as fundamental reform of the CAP would have to be prepared and implemented by the same officials who personally benefited from the agricultural sectors disproportionate status within the EU.

During interviews it became clear that the Brussels-based *Union Européenne du Commerce du Betail et de la Viande* (UECBV) had strong member state organizations, and it was said to have contacts at high political levels. So effective were these contacts, according to individuals not directly connected to the organization, that the UECBV was said to have achieved significant gains for its members, for example during the final negotiations regarding the Agenda 2000 CAP reform.

The strength of farmers’ organizations and agricultural interests is also very important at the member state level. It was noted above that the close relationship that existed for decades in Germany between the government and agricultural interests was shattered after the 1998 elections. The situations vary somewhat by country as there are differences in regard to: political parties, alliances, and coalitions; agricultural products that are exported to other EU MS and beyond, as well as agricultural products that are imported from other MS or from outside the EU. (The specific features of MS domestic politics and their relationships with agricultural interests in the EU-15 are beyond the scope of this report). Although farmers’ interests remain quite consistent, the political alliances and coalitions change over time. Keeler (1996) argued that the policy-making process related to the CAP is arguably more important and structurally more biased in favor of agricultural interests at the member state than at the EU level. Organized agricultural interests can try to persuade a national government to veto a deal in the EU Agriculture Council, press for special compensation when EU level deals impose hardship, refuse to cooperate in the policy implementation process, and make government officials pay electorally for accepting objectionable CAP agreements. Organized agriculture enjoys a



uniquely privileged relationship with the officials of ‘its’ ministry” within most MS, and the agricultural ministry grants official recognition to the dominant farmers’ union (and sometimes to related organizations) and provides the union with exclusive access to national level decision-makers. The dominant national farmers unions do not need to lobby national officials; instead they “co-manage” the affairs of the agricultural sector (Keeler 1996).

However, some of the key trends identified above have and continue to reduce the influence of farmers and their organizations in EU policy-making, particularly in northern Europe. Two additional factors appear to be weakening the traditional influence and clout of farmers. The first is increased division among farmers regarding the CAP. Farmers do not benefit equally from the CAP. The Commission’s own figures suggest that roughly eighty percent of total CAP financial support goes to only 20% of the farms. In some member states, such as the UK, there seems to be clear evidence that larger farms do better with current policy. One figure often quoted in the press was that the smallest 40% of Europe’s farms receive only 8% of the subsidies (Meade 2003). A recent OECD report (2003b) has found this situation to be a general trend across OECD countries as agricultural subsidies fail to reach those who need them most. Some small farmers came out in favor of CAP reform in 2003, not because they wanted to see the CAP undermined or abolished, but because they sought a more favorable outcome. In many parts of Europe they allied themselves with rural groups and environmentalists who saw in these small farmers a way to “preserve the landscape”.<sup>29</sup>

### **The Food and Beverage Industry Strengthens the Pro-Reform Constituency**

The situation in Europe is changing, and in recent years pressures from various groups to reform the CAP have been mounting. The increasing power of the food and beverage industry is strengthening the pro-reform constituency, reducing the influence of farmers and their organizations.

The food and beverage industry is a threat to the status quo because it is in its interest to change certain parts of the CAP, because of its importance to the EU economy, and possibly because of its political clout. Significantly, food-manufacturing interests can run counter to those of farmers. As it is in the food processing industry’s interest to secure low-cost inputs, reduced prices in agricultural products benefits them.<sup>30</sup> (Retailers, as buyers of agricultural products, also benefit from policy changes that reduce prices.) Indeed, DG Enterprise represents the food industry and has identified two relevant barriers to EU industrial competitiveness: (a) high prices of domestic agricultural raw materials and (b) tariff and non-tariff barriers to third country market access. Both barriers have their roots in the CAP (DG Enterprise 2001).

Also running counter to farmer interests may be the increasing vertical integration - the process of increasingly sharing economic and financial interests along the food processing chain from

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<sup>29</sup> Rabinowicz 2000 provides one explanation why such coalitions may exist. For instance, in May 2002, the environmental and agricultural associations EURONATUR, BUND (German Association for the Environment and Nature Conservation), and German Small Farmers’ Association (AbL) announced a common platform for reform of EU agricultural policy (Federal Environmental Agency, 2002).

<sup>30</sup> At the EU level the Confederation of the Food and Drink Industries of the European Union (CIAA) represents most major European companies—including Nestle. It is notable that just prior to the June 2003 Council of Agricultural Ministers meetings the CIAA came out in support of CAP reform.

farmer to consumer – within the food industry. One economic reason for this trend is that vertical integration can reduce transaction costs. From a regulatory point of view there are other benefits as well. Quality verification, especially in meat and particularly with requests for labeling that include farm of origin, can require high levels of vertical coordination (Swinback and Tanner 1996). Such vertical integration, it has been argued, often places farmer interests behind the interests of those at the end of the food chain closest to the consumer.

As exporters, the food industry is especially sensitive to any change to the current export subsidy regime that could reduce their competitiveness abroad. GATT rules on export subsidies were different for primary agricultural products versus processed products, and within processed products there were some differences in treatment between first and second stage processing. In 1983 a GATT panel ruled that second stage processors – specifically targeting those manufacturing pasta – should not receive export subsidies. The EU attempted to ignore that ruling. Part of the EU logic has been that the processors need compensation for the high prices of raw materials created by the CAP. Under the Uruguay Round's Agreement on Agriculture, processors gained a small reprieve as it effectively legitimized the use of such subsidies while establishing some limits to their use (Swinback and Tanner 1996). Processors facing the possibility of reduced export subsidies under the current Doha Round have reason to desire changes in the CAP that can improve their competitiveness in other ways.

However, it is significant that the June 2003 agreements on reform did not include changes to the export subsidy regime. It is possible that this is in part reflective of the influence of industry lobbying, particularly by the Confederation of Food and Drink Industries. It is notable that in a 19 June 2003 speech to that organization Pascal Lamy, the EU Commissioner for Trade, identified himself, Commissioner Fischler and Commissioner Erkki Liikanen (Enterprise and Information Society Commissioner) as sympathetic to the CIAA's concerns. Specifically, he told them:

"...you are aware that your leverage increases on your three interlocutors when you are united. Owing to those clear positions, we know where us, as negotiators, have to go or where we cannot go. And your supports, or your positions, are reinforcing ours. Even if it is obvious that the industry's position cannot always be reflected at 100% in the European position"<sup>31</sup>

Some observers have cited such a coalition of business interests and EU leaders as evidence that the EU CAP policy-making process can no longer simply be considered as captured by farmer interests (for instance, Berthelot, 2003).

In sum, when considering trade policy preferences, business interests are often disaggregated into import-competing and export-oriented enterprises. The typical expectation is that an import-competing enterprise will favor protectionist measures whereas the export-oriented enterprise will favor greater trade liberalization. Roughly, this does describe differences between farmers (EU producers of primary agricultural products) and the EU food industry. EU farmers are (relatively) import-competing, already there is a negative balance of trade and –through such

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<sup>31</sup> Translated by Berthelot (2003).

groups as COPA and COGECA – they do actively lobby the EU and its Member States to retain the CAP and its protectionist-oriented policies.

In contrast, the EU food industry is (relatively) export-oriented and there is a positive balance of trade in processed food products. The agri-foodstuffs industry in France, for instance, has the highest turnover of any of France's industrial sectors. France is the leading exporter and second largest producer in the EU, with a trade surplus of 8.84 billion euros (Embassy of France 2003). The major industry association –the Confederation of the Food and Drink Industries of the European Union (CIAA) – does support a reform of the CAP and EU trade policy that would liberalize agricultural trade. Nestle has lobbied for CAP reform at the EU level. It and other multinational corporations also participate in the International Food and Agricultural Trade Policy Council (IPC) that lobby at the WTO level for similar pro-industry trade policies.

However, while the interests of the food and beverage industry may at times run counter to those of farmers it is not the case that their interests coincide with those of developing countries. There are at least two issue areas where this is true. First, it is the dairy processing industry that manufactures the SMP and receives the export subsidies that many advocacy groups claim hurt developing countries (see chapters 2 and 5).<sup>32</sup> Second, while the industry may wish to open the EU market to the raw agricultural products of developing countries, they also lobby the EU to restrict market access on processed or value-added goods. Such “tariff escalation”, it has been argued, reduces the ability of developing countries to develop an industry complementary to their existing productive capabilities and that could provide a route out of poverty for many (FAO 2003a).

## The Varying Impact of Advocacy Groups

Advocacy groups promoting the interests of consumers, the environment, animal welfare and developing countries have had varying levels of impact on EU policy-making related to the CAP. Unlike business and farmer interests, advocacy groups attempt to influence policy-making to fit their typically ideological goals regarding the common good (Risse, 2002). Another important difference is their orientation toward what Kohler-Koch (1997) calls the “functional segmentation” of the EU system. That is, business and farmer interests tend to be fixed features in policy-making in a given issue area whereas advocacy groups tend to be more broad-based. Such a difference could give business and farmer interests an advantage, for example by institutionalized patterns of consultation of farmer interests.

Estimates of the CAP's total cost to EU consumers and taxpayers range from €50 – 90 billion for the EU-15 (DEFRA 2002, Thurston 2002). The costs include high prices for agricultural products, less choice than in a market oriented system, and the cost of the CAP itself. As consumer interests are not well organized around agricultural issues, as noted above, consumers tend to have considerable difficulty influencing policy-makers (Young 1997). On the other hand, it is rational for farmers to invest their energy in defending a policy regime that provides them with such substantial benefits. The costs to consumers and taxpayers are more diffuse and difficult to quantify (Thurston 2002, Colman 2001). Consumers' interests were little heard in

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<sup>32</sup> Advocacy groups argue that the direct beneficiaries of more than one billion euros a year in export subsidies are not the EU milk producers but dairy processing and trading companies.

previous efforts to achieve CAP reform. Recently, however, some attention was paid to consumer voices regarding food safety concerns. While there is little evidence that the recent reform package will lead to lower food prices, it may well lead to safer food supplies. The Consumer Association's reaction to June 2003 CAP reform was that it was a "tragic missed opportunity" and once again the consumers will have to pay (*Financial Times*, 27 June 2003).

The BSE crisis, and the attention consumers paid it, had a profound impact on agricultural policy in Germany. The government replaced the SPD agriculture minister, who supported conventional farming practices, with a new minister from the Green Party. The new minister instituted major policy changes including support for organic farming and animal welfare. Top officials in the ministry retired and the scientific advisory committee was dismissed. To reflect the new emphases and responsibilities, the ministry was renamed the Ministry for Consumer Protection, Nutrition and Agriculture. (Schrader)

Environmental groups have had somewhat more success than consumers in achieving their CAP reform goals. Largely due to the nature of the electoral systems, Green parties have a voice in most EU member states and in the European Parliament. For example, it is clear that environmental concerns represented by the Green Party have played an influential role in changing the direction of agricultural policy and practice in Germany. Green parties share of the vote in Europe is about 10%, and they have promoted environmental issues in other EU-15 countries and in the European Parliament. For a variety of reasons, many other European political parties have expressed or demonstrated their concern for environmental issues. A key reason is that many Europeans (especially young people, defined in terms of both body and spirit) consider environmental issues particularly important, and the relatively large Green parties and a variety of advocacy groups promote their concerns. Environmentalists first direct success in CAP reform came with the MacSharry reforms of 1992 which, as discussed above, created the second pillar of the CAP. Agri-environmental policy was further advanced in the Agenda 2000 and June 2003 reforms.

A wide range of groups supports animal welfare issues, particularly in the UK and northern Europe. Animal welfare advocates have been active in Europe for many years, and they played a major role in the passage of a number of animal welfare related conventions by the Council of Europe. These advocacy groups focus intense efforts on a narrow range of issues, a key reason they have had much greater impact on EU policy-making than consumers and taxpayers. Animal welfare groups widely perceive the recent CAP reforms as in line with their interests. Although animal welfare issues within Europe do not yet directly impact developing countries that export animal products to the EU, this situation appears to be changing. The EU itself has lobbied for the inclusion of animal welfare issues as NTCs on the WTO agenda for the Doha round.

Pro-developing country advocacy groups have become very visible in recent years in their interrelated efforts to reform the CAP and promote trade they argue would be fairer to developing countries. Sharp criticism of the CAP by one such advocacy NGO was presented in chapter 2. Several of the NGOs concerned have established groups to strengthen their advocacy efforts. The groups include Eurostep, based in Brussels and comprised of over 20 European NGOs, and the Trade Justice Movement made up of British NGOs. Oxfam's Make Trade Fair campaign has been very effective in raising awareness of the pro-developing country advocacy groups' concerns. Oxfam International, a confederation of 12 development agencies which work in 120 countries throughout the developing world, has offices in Brussels, Geneva, New York

and an advocacy office in Washington DC. Reports by Oxfam are reported as gospel by some journalists. Virtually everyone contacted during the course of the research for this study was aware of Oxfam's general positions regarding the CAP and related trade issues. It was clear that some EC staff were stung by criticisms from advocacy NGOs such as Oxfam and Cafod. Others interviewed asked rhetorically: if there were no Oxfam, or other similar advocacy groups, who would effectively advocate for the rights of the poor in developing countries vis a vis the powerful in developed countries?<sup>33</sup>

Several advocacy groups promoting the interests of developing countries considered the DG Agriculture 2002 proposals for CAP reform to be grossly inadequate, and they were very disappointed by the reforms agreed by the EU Agriculture Council in June 2003. Oxfam, for example, described the June agreement as a "disaster for the poor" (Oxfam 2003, *International Herald Tribune*, 28 June 2003). While these advocacy groups have been quite successful in raising awareness of developing country issues, particularly in the UK and northern Europe, they have had negligible impact on CAP reform.

Oxfam's success in making its positions widely known is a result of its work and lobbying at all four relevant levels: EU member states, the EU itself, the international level, and in developing countries. In 2003 three interest groups advocating very different issues formed an alliance in their efforts to promote reform of the CAP: (1) Oxfam, pro-developing country; (2) World Wildlife Fund (WWF), environmental issues; and (3) the European Consumers Organization (BEUC). This kind of alliance between advocacy groups representing very different constituencies and interests may prove to be significant in future efforts to reform the CAP.

For several years the EU has argued that it has responded to many of these long-term trends and societal concerns by modifying the CAP. DG Agriculture described the Agenda 2000 reforms as driven by the need to: (a) make the EU farm sector more competitive in the face of increasingly open global trading regimes, (b) respond to society's concerns about the relationship between farming and the environment, (c) develop new strategies aimed at promoting the economic potential of the rural areas (DG Agriculture 2002b). DG Agriculture described the June 2003 CAP reform as: (a) geared towards consumers' and taxpayers' interests while continuing to assist farmers; (b) safeguarding the rural economy and environment; (c) keeping budgetary costs stable and manageable; (d) helping in negotiating a WTO agriculture agreement that meets the needs of EU agriculture and society. It announced that EU consumers and taxpayers would receive more transparency and better value for their money. All farmers receiving direct payments will become subject to "compulsory cross-compliance" under which a priorities list of 18 statutory European standards in the fields of environment, food safety, and animal health and welfare have been established. Farmers will be sanctioned if they do not respect the standards (DG Agriculture 2003c).

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<sup>33</sup> Some interviewed who shared Oxfam's basic premises and views at the same time contended that some Oxfam research reports were analytically weak, or incomplete, and should be strengthened if the organization wanted to more effectively promote its views. Inadequate resources was seen as a possible reason for what was described as weak analysis.

## Enlargement

The addition of 10 new member states represents an enormous challenge for the EU. Most of the accession countries that will join the EU in May 2004 are from eastern and central Europe<sup>34</sup>. It is anticipated that Bulgaria and Romania will accede in 2007, and that Turkey will join later (see Annex 4). While there has been a good deal of speculation about the impact of enlargement on the CAP and on livestock production in the newly expanded EU, most analysts predict very little change in overall production, consumption and trade trends. Additionally, steps have been taken to contain future CAP expenditure, as evident in the Chirac-Schroeder deal to “cap the CAP” and more general concerns about the EU budget.

### Complications Posed by the CAP to the Accession Process

To facilitate the accession process, the EU has formed a number of agreements with the candidate countries but these only partially cover trade in agricultural and food products. Recent bilateral agreements on further trade concessions are seen as important instruments to gradually liberalize bilateral trade in preparation for the full integration of the candidate countries into the EU’s agricultural markets. Accession partnerships currently being negotiated concern measures to be taken by each candidate country to prepare for accession and to identify areas where EU financial assistance is required. The Commission adopted an enlargement strategy paper in November 2000 that includes negotiations for additional reciprocal trade concessions in regard to agricultural products (DG Agriculture 2002b).

A key question of the accession negotiations concerns how the agricultural sectors of the accession countries will be integrated into the CAP. In January 2002 the Commission presented an “Issues Paper” covering direct payments, quotas and other supply management instruments such as maximum guaranteed areas (MGAs) and maximum guaranteed quantities (MGQs), rural development policies, and other proposals for discussion with the Council. The EU considers that progress has been made in all the candidate countries, but that the restructuring of the agriculture and food industries is far from complete. In regard to the difficult issue of direct payments to farmers, the Commission proposed starting direct payments at a low level combined with intensified support for restructuring, particularly in regard to rural development activities. In regard to production supply management, the Commission proposed to base production quotas on recent reference periods. For milk, for example, the reference period would be 1997-1999; more recent figures would be taken into consideration where they exist. Building on work done under SAPARD (the Special Accession Program for Agriculture and Rural Development established for the candidate countries in the period leading up to accession) an enhanced rural development strategy was introduced to deal with the structural problems in the rural areas of the candidate countries.<sup>35</sup> A wide range of additional rural development measures will be financed by the EAGGF. The Instrument for Structural Policies for Pre-Accession (IPSA) established in 1999 funds environmental infrastructure projects, to bring them up to EU standards, and

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<sup>34</sup> The ten accession countries: Cyprus, Estonia, Latvia, Lithuania, Malta, Poland, Hungary, the Czech Republic, Slovakia, Slovenia.

<sup>35</sup> The rural development measures would include: early retirement schemes for farmers; support for less favored areas or areas with environmental restrictions; agri-environmental programs; afforestation of agricultural land; specific measures for semi-subsistence farms; setting up producer groups; technical assistance.

improvements in transport infrastructure in an effort to enable the expanded single market to function smoothly (DG Agriculture 2002b).

Major efforts have been made since 2000 to further liberalize agricultural trade. Negotiations with candidate countries that began in December 2001 aimed to extend the trade liberalization process to the more sensitive sectors, to products for which an internal CAP support system is applied, coupled with high border protection. These sensitive sectors include cereals, dairy, beef and sheep meat. (DG Agriculture 2002b)

There has been particular concern about the CAP-related implications of Poland's entry into the EU. With a population nearing 40 million, Poland alone represents more than half the total population of the 10 accession countries. Farmers make up nearly 20% of Poland's workforce, a higher percentage than any other accession country and five times greater than the EU-15 average. (See Table 10 in chapter 5) Poland has very large populations of pigs and cattle (Weiler et al. 2003), and it ranks fourth in the world in the production of pigmeat, and fifth in the production of milk and butter (see Table 4). Romania, slated for entry into the EU in 2007, also has large populations of livestock. With a human population over 22 million, 44% of Romania's work force is employed in agriculture. The question of how the CAP will be applied to Poland and Romania remains unanswered.

#### Agricultural Production and Trade in an Enlarged EU

The general view is that the addition of the 10 candidate countries will not add to the current agricultural surpluses in the EU as a whole. As farming in the candidate countries is much less productive than in the EU-15, this situation might change over time if the agriculture sectors in central and eastern Europe become more efficient. A decade ago it was believed that agricultural production in Central European countries would increase dramatically, but this has not happened. Recent predictions by the Commission and other researchers suggest decreased production of dairy and beef in the candidate countries in the coming years.

A Commission report on long term production and consumption prospects for agricultural products for the 10 candidate countries for the 2001-2008 period predicted that the decrease in production of dairy and beef was expected to continue, in spite of increased productivity rates per animal. The number of dairy cows was expected to decline rapidly over the next few years, resulting in decreased exports of dairy products. Among dairy products, only cheese was expected to gradually recover in subsequent years. Beef and veal production share the same downward production trends as dairy products because they depend on the size of the dairy cattle population. The Commission study concluded that the central European countries would become net importers of beef and veal.<sup>36</sup> It also predicted that the overall effects of the production and consumption trends in the accession countries would be limited in western Europe. The predictions did not consider the implications of a single market in an enlarged EU (Massink and Meester 2002).

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<sup>36</sup> DG Agriculture, 2001. This report covers long term production and consumption prospects for agricultural products in the EU-15 and in the 10 candidate countries. The predictions are based on assumptions of continued status quo on policies and do not take into account the possibility of policy changes resulting from enlargement, from new WTO arrangements or of changes in exchange rates. The interpretation of this report is from Massink and Meester, 2002.

A study by the Dutch Agricultural Economics Research Institute (LEI) did take into consideration the anticipated effects of a single market under an enlarged EU. The LEI study predicted that one of the main consequences of such an enlarged market would be even more concentrated trade in agricultural products within an enlarged EU, at the expense of traditional trade relations with third countries. Each country in the EU was predicted to make better use of its own comparative advantage. The resulting shifts in production would particularly affect highly protected products such as sugar, dairy and beef. Such shifts were expected in all candidate countries. The LEI study further predicted that increased agricultural production in the candidate countries would have only marginal effects on production levels in the EU-15. By implication there would not be extreme concentration on primary production in Central Europe and on distribution and processing in Western Europe (Massink and Meester2002).<sup>37</sup>

DG Agriculture's recent study predicts the impact of enlargement on agricultural production, consumption, and marketable surpluses for the 2003-2010 period to be limited. Using Agenda 2000 reforms as their baseline, they expect that for beef all three aspects of the market will be relatively stable for the new EU-25. Total milk production may actually decrease. Only cheese is expected to benefit from the new market environment (DG Agriculture 2003d).<sup>38</sup>

#### A Deal to Cap the CAP

The "deal" to limit CAP spending for the 2007-2013 period agreed by Jacques Chirac and Gerhard Schroeder at a European summit meeting in October 2002, discussed above, has significant implications. Agricultural spending will continue at the 2006 limit plus an increase of 1% annually. This ceiling on spending will mean a reduction in real terms.<sup>39</sup> The agreement between these leaders was very important in regard to future financing of the EU enlargement. The two men appear to have concluded that it would be too expensive for the EU to continue providing CAP benefits similar to those being provided within the EU-15 to an enlarged EU with 25 member states. This decision based on budgetary concerns may well have a major impact on the future of the CAP in the enlarged EU, as it will lead to increased competition for the available resources.<sup>40</sup>

#### Continued Budgetary Pressures

The EU budget is small in relation to national budgets, as expenditure is limited to a maximum of 1.27% of GDP compared to total government expenditure in the EU of 44.4% of GDP in 2001. The restriction could only be changed by unanimous agreement of the member states. Although relatively small, the EU expenditure has been important in the poorer member states

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<sup>37</sup> The LEI calculations do not apply Agenda 2000 decisions to the candidate countries (no direct income support and no production quota for sugar and dairy products).

<sup>38</sup> See also the impact assessments of the January 2003 legislative proposals for CAP reform, which were later watered down by the agreement of June 2003, and the OECD (2003c) predictions.

<sup>39</sup> Assuming inflation continues at current rates; in a period of deflation, real expenditures would rise.

<sup>40</sup> Prior to negotiations during the past year, several academic articles suggested that enlargement will have the general affect of reducing the support given to current EU farmers through the CAP. The primary reason for this being that politicians of the current EU members will have lower preferences for agricultural protection in the new and expanded CAP than in the current CAP (De Gorter et al. 2000)



and in the poorer regions of the wealthier members states, and also for agriculture (Economist Intelligence Unit 2003).

In recent years some in Europe have held that the addition to the EU of the new countries in central and eastern Europe would put enormous strain on the EU budget as the accession countries are poor, have weak economies, are beset by environmental and corruption problems, and will want to benefit as much as possible from the CAP. EU support to the accession countries would inevitably cause strains within the EU-15, according to this view, as less money would be available for Greece, Spain, Portugal and southern Italy. Increased EU attention to the accession countries would also mean less money would be available for development assistance activities in the third world, and perhaps less concern with the needs of developing countries in multilateral trade negotiations. Similar concerns were expressed by some of the individuals interviewed but not, perhaps significantly, by Commission staff. Those working for the Commission with whom these issues were discussed maintained that no such pressures existed as the relevant decisions had been made, at Council meetings for example, and the relevant budgets agreed well into the future. As shown in the following paragraph, those interviewed outside the Commission may have demonstrated “thinking outside the box.”

A report by an independent High Level Group presented in July 2003 proposed fundamental changes in how the EU budget should be divided between different sectors. The group, chaired by Andre Sapir of the University of Brussels, had been requested by the EC president Romano Prodi to prepare the report. The recommended reforms included drastically reducing spending on the CAP to 10% of the current level, and the re-nationalization to EU member states of many CAP functions. The group looked at the agriculture sector in the context of overall EU priorities. From this perspective, the authors concluded that major cuts in the agriculture budget were necessary to revive economic growth and promote employment in an enlarged EU. The resulting savings, in the group’s view, could be better spent in research and development, education, cross-border infrastructure, economic cohesion between regions, and economic restructuring. The reduction in spending on the CAP was justified by four reasons, the most important being that the CAP simply did not deliver in terms of promoting the economic well being of the EU. The speed and widespread nature of the highly critical reaction to the proposals by senior EU officials and others indicates the importance and sensitivity of the issues surrounding CAP reform. (See Annex 5 for additional information on the Sapir Group report.)

## **A Constitution for the EU**

The Convention on the Future of Europe presented a draft constitutional treaty in July 2003. There are indications in the draft constitution that the European Parliament might obtain the right to get involved in determining agricultural legislation. If this happens, it might significantly change how EU agricultural policy, and therefore LLP policy, is made. Involvement by the EP would introduce a new set of actors and forces into CAP policy-making. In addition, debate and negotiations regarding the proposed constitution have revealed existing and potential cleavages within an enlarged EU that could affect future CAP policy-making.

Valery Giscard d’Estang, a former president of France, chaired the convention. It was anticipated by many (and remains the expectation of some) that a constitutional treaty would replace the current legal framework of the EU that consists of the Rome, Maastricht, Amsterdam

and Nice treaties; the Single European Act; and treaty amendments. An Inter-Governmental Conference began work in early October 2003 to finalize treaty negotiations but agreement was not reached by the end of the year. The draft constitution proposed establishing new EU positions of president and foreign minister, as well as increased the powers of the European parliament. One of the contentious issues to be determined before this or any draft treaty is approved concerns the voting rights of the 25 member states, important in regard to qualified majority voting. All 25 MS have to ratify the constitutional treaty for it to become effective. If the July draft treaty had been approved by the IGC, some MS expected to ratify by parliamentary vote while other MS planned to hold referenda. What would happen if one or more MS fail to ratify the constitution remains an open question.

The debate regarding the draft constitution in late 2003 exacerbated some of the existing strains and fault lines between the 25 member states of the enlarged EU. The six founder members of the European Economic Community (EEC) - Belgium, France, Germany, Italy, Luxembourg, the Netherlands - seemed willing to accept the bulk of the draft constitution.<sup>41</sup> Most of the smaller countries among the 25 were concerned that not every MS would be a full member of the Commission, and they worried that the new position of president would primarily benefit the big member states. There were also divisions between countries that are in the eurozone and the three MS that are still outside: Denmark, Sweden and the UK. Plus, there were sharp tensions between the small countries that participate in the single currency and have remained within the limits of the stability pact and France and Germany that have not met the strict spending limits. There were also deep divisions over defense policy and relations with the United States. Most of the accession countries agreed with the UK, Italy and Spain regarding the US invasion of Iraq, in sharp contrast to France and Germany, and this division has implications for an EU defense policy.

Any of the tensions noted above could have implications for future EU agricultural policy-making. However, a fundamental tension within Europe related to the CAP was identified earlier in this chapter: reform of the CAP is in the interests of the net-payers to reduce their costs, while the net beneficiaries seem bent on maintaining their CAP benefits as long as possible. The accession of 10 new countries will add to the budgetary strains between the 25 members states discussed above, and the poor southern MS (or parts of MS) of the current EU-15 may end up competing for EU funds with the new central and eastern European members.

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<sup>41</sup> Denmark, Ireland and the UK joined the European Communities (EC) in 1973; Greece joined in 1981; Portugal and Spain join in 1986; Austria, Finland and Sweden joined the EU in 1995.

## 5 INTERNATIONAL TRADE ISSUES

The European Union plays a major role in the global trade of LLPs. The Doha Round of multilateral trade negotiations is particularly relevant to EU policy-making regarding its Common Agricultural Policy. In 2003 the Doha negotiations on agriculture essentially forced the EU to reform the CAP in order to strengthen the EU's negotiating position before the September 2003 WTO Ministerial meeting in Cancun. This chapter examines the EU's international trade in beef and dairy, including charges made against the EU by pro-developing country advocates reported in chapter 2. There is also discussion of the EU's policy-making process concerning international agricultural trade. For the purposes of this study, four categories of developing countries are identified and their very different objectives in the Doha Round noted. Brief answers are provided regarding whether the poor in developing countries can expect to benefit from trade liberalization in beef and dairy, and the impact of sanitary and phytosanitary standards on poor LLP producers in developing countries is examined. The chapter closes with a discussion regarding the lack of coherence between EU policies concerning agriculture, trade and development cooperation.

**Table 8:** *The EU share of the world market in 2000*

	World Production (1000 t)	World Trade <sup>a</sup> (1000 t)	Proportion of Production Traded (%)	% of World Trade		
				Imported by EU	Exported by EU	Net EU Share of World Trade <sup>b</sup>
Total Milk	583,701	838	0.1	35.9	22.8	-13.1
Butter	7,313	824	11.3	13.5	21.2	7.6
Cheese	16,417	1,423	8.7	11.6	35.8	24.2
Milk powder (skimmed & whole)	5,933	2,859	48.2	3.3	32.5	29.2
Total meat (except offal), including:	233,536	17,164	7.3	7.5	16.6	9.2
- Beef and veal	56,684	5,717	10.1	6.7	10.9	4.2
- Pigmeat	89,712	3,289	3.7	1.9	36.1	34.2
- Poultrymeat	68,405	7,143	10.4	5.4	14.3	8.9
Eggs	55,518	481	0.9	5.0	19.1	14.1

Source: European Commission (January 2003)

<sup>a</sup>Exports (excluding intra-EU trade) and excluding processed products

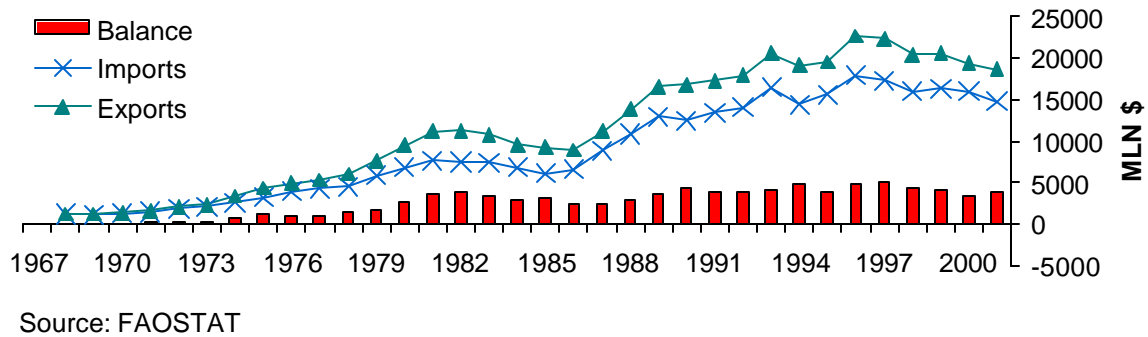
<sup>b</sup>Net balance EU trade/world trade

### EU Trade in Beef and Dairy

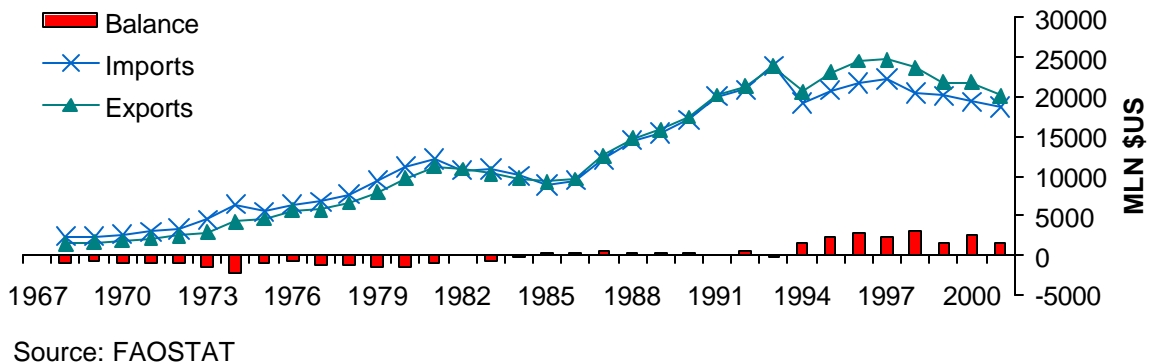
Approximately one-fifth of world trade involves the European Union. In terms of agricultural products, the EU is the world's largest importer and second largest exporter (WTO 2003). As noted in chapter 1, from 1997-2001 the EU was the largest producer of key dairy products (milk,

butter, skimmed milk powder and whole milk powder) and the second largest producer of beef and veal. Table 7 above shows the EU's share of global trade in several LLPs for the year 2000 (excluding intra-EU trade). In only one commodity, milk, did the EU import more than it exported. In contrast, the EU dominated international trade in milk powder.

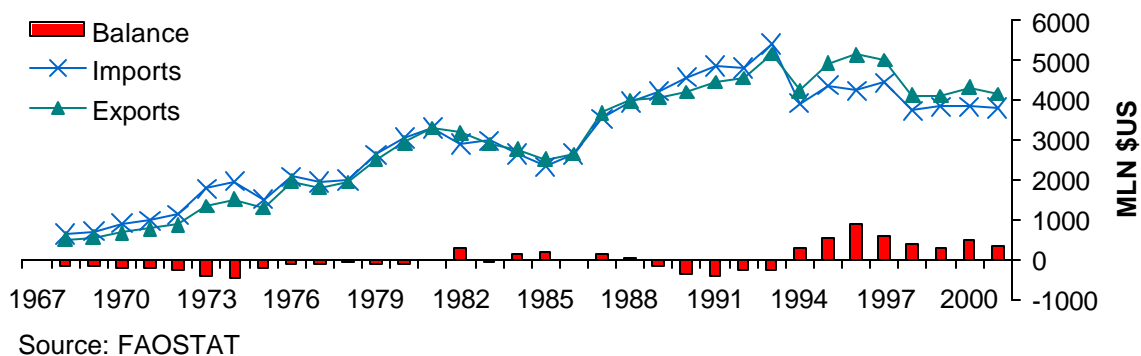
**Figure 4:** *EU Trade in Dairy (1967-2000)*



**Figure 5:** *EU Trade in Meat and Meat Preparations (1967-2000)*

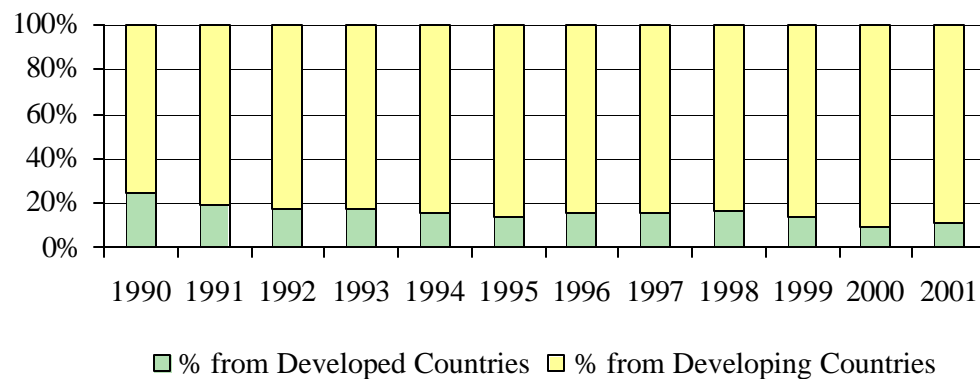


**Figure 6:** *EU Trade in Live Animals (1967-2000)*



EU global market shares in 2000 for dairy, meat and meat preparations, and for live animals were close to what they had been in 1991 (EC 2002). But during the 1990s the EU achieved its most positive trade balances in these commodities, after climbing from low bases in 1967 (see Figures 4, 5 and 6).

**Figure 7:** *EU Beef Imports (FAO 2003b)*



**Table 9:** *EU Beef Imports (FAO 2003b)*

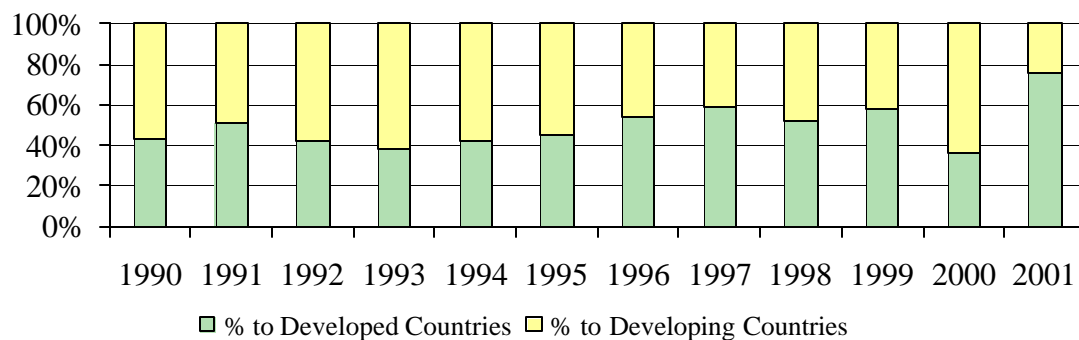
<b>Share of total trade:</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
Developed (excluding EU Intra- trade)	24.3	19.1	17.0	17.2	15.3	13.4	15.7	15.5	16.2	13.8	9.6	11.4
Developing, including:	75.7	80.9	83.0	82.8	84.7	86.6	84.3	84.5	83.8	86.2	90.4	88.6
- Africa Dev.ing	7.3	11.7	13.1	16.2	16.8	15.8	12.9	14.1	14.4	12.4	11.3	15.5
- Asia Dev.ing	0.4	0.1	0.2	0.2	0.1	0.1	0.3	0.2	0.1	0.1	0.2	0.4
- America Dev.ing	91.9	88.2	86.7	83.5	83.1	83.9	83.2	83.2	84.5	87.3	88.4	83.7
LDC	0.0	0.0	0.2	0.4	0.4	0.8	0.4	0.2	0.1	0.0	0.0	0.0
EU Candidate Accession	7.9	6.3	6.5	6.6	6.2	4.4	4.3	4.0	4.9	4.8	4.5	4.7

Because of the CAP and related EU trade policies, as noted in chapter 2, there have been serious charges against the EU of dumping agricultural products and restricting market access. The EU response to such charges includes the point that in 2000 the EU's imports from developing countries were nearly €36 billion, more than the total average imports from developing countries into the United States, Japan, Australia and New Zealand combined (EC 2003b). It also points out that "The EU absorbs around 85% of Africa's agricultural exports and 45% of Latin America's, and it is the largest importer of agricultural products from Least Developed Countries (LDCs)" (EC 2003b). The information in Figures 7 and 8 (and Tables 8 and 9) clearly

demonstrates that developing countries as a category export far more beef to the EU than do developed countries, and that during the 1990s the EU exported large amounts of beef to developing countries (the situation changed dramatically in 2001). As discussed below, well over 80% of the beef the EU imported from developing countries between 1990-2001 came from Latin America.

In its defense the EU also points to its Everything But Arms (EBA) initiative adopted in March 2001. The EBA provides tariff and quota free access to the EU market for 49 Least Developed Countries. There is no doubt that the EBA is an important step in assisting poor developing countries. However, critics charge that the EU has delayed the elimination of import restrictions for commodities particularly important to LDC trade including bananas, sugar, and rice.<sup>42</sup>

**Figure 8:** EU Beef Exports (FAO 2003b)



**Table 10:** EU Beef Exports (FAO 2003b)

<b>Share of total trade:</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
Developed (excluding EU Intra- trade)	42.9	50.6	42.5	38.2	42.0	44.6	53.6	59.2	51.8	57.6	36.4	75.9
Developing, including:	57.1	49.4	57.5	61.8	58.0	55.4	46.4	40.8	48.2	42.4	63.6	24.1
- Africa Dev.ing	32.0	37.4	46.0	43.6	41.4	41.7	43.9	49.8	55.2	60.9	48.5	27.9
- Asia Dev.ing	55.1	34.1	40.6	44.6	47.1	46.9	41.2	43.9	39.4	33.8	38.0	31.4
- America Dev.ing	8.7	13.5	12.3	9.4	8.8	8.7	7.0	2.2	2.5	2.4	2.7	3.6
LDC	3.6	4.2	4.9	4.0	3.3	2.5	2.4	2.1	1.9	1.7	3.9	3.3
EU Candidate Accession	2.1	4.7	6.9	6.8	8.9	5.7	4.2	3.9	4.2	2.8	5.2	2.6

<sup>42</sup> The EU has also included safeguard provisions for such products that involve reintroducing higher tariffs on imports originating from a developing country if such imports cause serious disruption to EU markets.

## EU Policy-Making Regarding International Trade

The analytic approach taken in the present study to EU policy-making regarding international trade parallels the three-level framework used in regard to the CAP in chapter 3. On the far left-hand side of Figure 9 are the EU Member States (the first level of analysis). Their governments provide the key decision makers, including the members of the EU's Council of Ministers and the national trade officials that sit on the EU's "Article 133 Committee." At the member state level, various bodies debate the objectives to be achieved during negotiations, press for specific aims and approve agreements. Within member states, various ministries formulate their trade goals.

The divisions among the EU-15 regarding international agricultural trade are similar to those regarding the CAP discussed in chapter 3. A key reason is that the CAP includes the most important items on the agricultural trade agenda. Parallel to its defense of the CAP, France is a strong voice in the EU against significant change in current WTO rules on global agricultural trade. During the Uruguay Round, France was a major reason for the near collapse of the negotiations (Swinback and Tanner 1996). But, of course, no individual EU member state can unilaterally create trade policy because all trade negotiations with extra-EU parties take place through the EU system.

Within the EU (the second level of analysis), the decision-making process regarding trade policy resembles that for the CAP. The Commission is charged with developing the proposals, and the Council of Ministers makes decisions based on these proposals.<sup>43</sup> A key difference is that the Commission plays an additional external role as trade negotiator. Within the Commission, DG Trade takes the lead role and coordinates activities, although other Directorate-Generals are actively involved in the policy areas related to their interests. In the on-going Doha Round agricultural trade negotiations, DG Agriculture and DG Enterprise (representing food and beverage industry interests) among others, are playing active roles.<sup>44</sup> The current arrangement represents a significant change as during the General Agreement on Tariffs and Trade (GATT) negotiations DG Agriculture was the lead DG representing EC interests regarding agricultural trade, whereas in all other areas the DG for External Affairs exercised lead responsibility during these negotiations (the role currently played by DG Trade). The European Parliament occasionally plays a role in the current EU policy-making process regarding international trade, as its assent may be required to conclude a trade agreement (see Article 300 of the EEC Treaty).

Interest groups actively lobby MS governments and EU level institutions regarding their trade policy concerns. Most of the EU interest groups concerned with reform of agricultural trade

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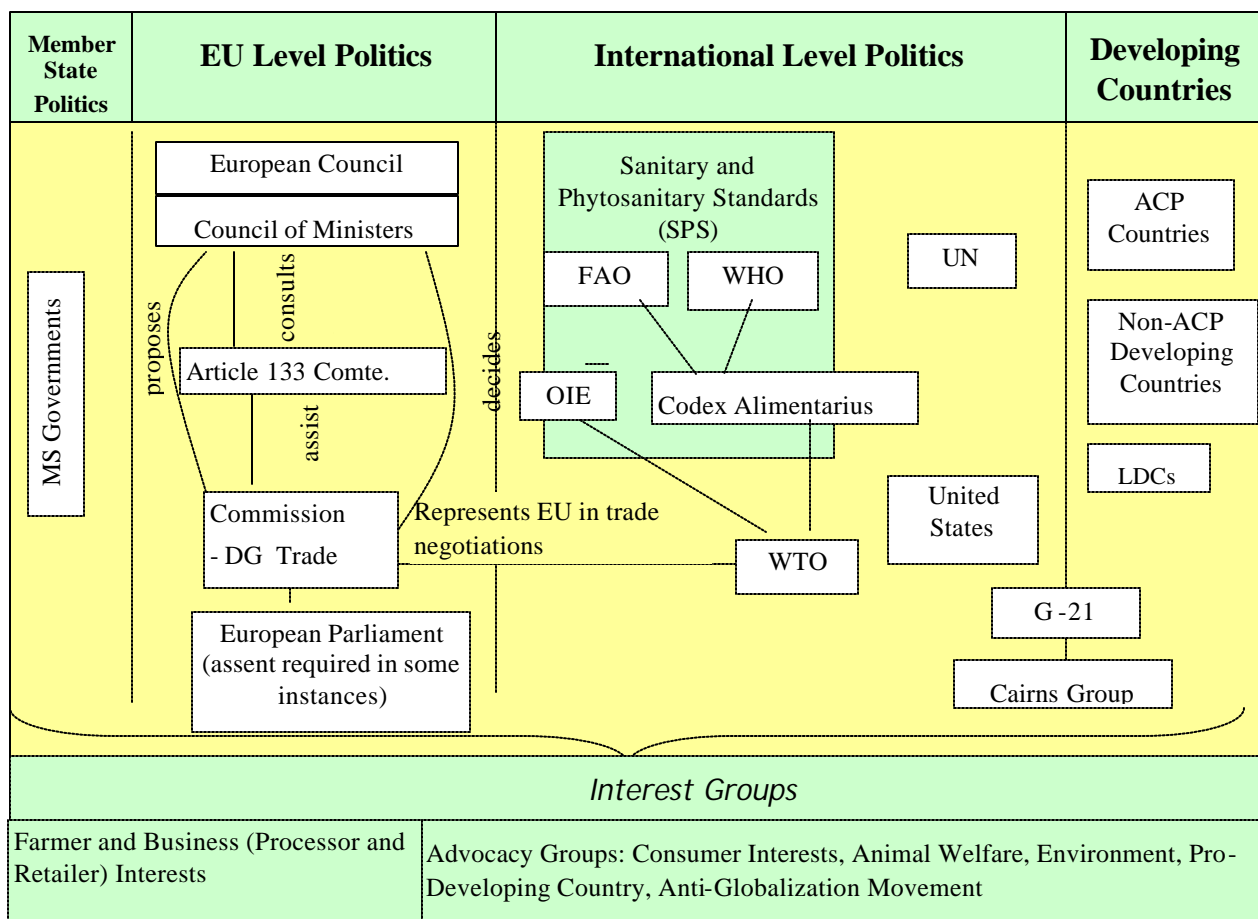
<sup>43</sup> The Council of Ministers formally determines the EU's negotiating 'mandate', using qualified majority voting (QMV) (See Chapter 3). Unanimity is required in certain cases. For instance, Article 133, paragraph 6 of the EEC Treaty, includes the clause: "*agreements relating to trade in cultural and audiovisual services, educational services, and social and human health services, shall fall within the shared competence of the Community and its Member States... such agreements shall require the common accord of the Member States.*"

<sup>44</sup> Another difference is that both Council and Commission share the responsibility of ensuring compatibility between international agreements and internal law. Article 113 (now 133) of the EEC Treaty that establishes these competences also calls for the formation of a 'special committee', now known as the Article 133 Committee, to facilitate this Council-Commission relationship.

policy are the same as those interested in CAP reform, and they tend to pursue the same strategies described in chapter 3. At the EU level, some of this activity is institutionalized. In the Commission's words, it "implements a policy of transparency and broad, open dialogue with stakeholders, *inter alia* by organizing regular meeting sessions with representatives of interest groups and civil society including representatives from industry, the social partners, and the NGO community" (WTO 2002b).

## The Doha Round of Multilateral Trade Negotiations

All European Union trade agreements, including those granting preferential access to EU markets to specific countries and groups of countries, are governed by rules formulated within the context of the World Trade Organization. Established in 1995 with the conclusion of the Uruguay Round of the GATT, the WTO functions as a facilitator to achieve multilateral agreement on international trade issues. The WTO also provides a mechanism for member countries to resolve trade disputes. Currently, the WTO is coordinating the Doha Round of trade negotiations launched in November 2001. (The following discussion of the Doha round is the third level of analysis, and key actors are depicted in Figure 9.)



**Figure 9:** EU Trade Policy and the Doha Round



The Uruguay Round was the first round of multilateral trade negotiations to effectively include the agricultural sector. In so doing it created the framework for current negotiations, was the inspiration for one of the most important current trade alliances (the Cairns Group), and was a transition point for developing country participation in the GATT/WTO regime. Concerning agriculture, the Uruguay Round produced four key agreements: the *Agreement on Agriculture* (AoA), the set of concessions and commitments of member states to three pillars of agricultural trade reform, a Ministerial *Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries*, and an Agreement on Sanitary and Phytosanitary Measures (SPS).

The current Doha Round of agricultural negotiations aims to achieve significant breakthroughs on the “three pillars” set out in the Agreement on Agriculture:

- substantial improvements in market access (reductions in tariffs)
- reductions of, with a view to phasing out, all forms of export subsidies
- substantial reductions in trade-distorting domestic support.

Developing countries were disappointed by the results of the Uruguay Round, and they made increased liberalization of agricultural trade their top priority in the current round. Only major advances in agricultural trade issues will make it possible for the Doha Round to fulfill its claim to be a “development round.” The Doha Round is a “single undertaking” in which nothing is agreed until everything is agreed. If there is no agreement on agriculture the entire round will be in jeopardy. There is a looming threat as the Uruguay Round produced a “peace clause” under which agricultural trade disputes were taken off the negotiating table. The peace clause expired on 31 December 2003, and several sensitive trade disputes could flare up.

Virtually no progress has been made in the multilateral agricultural negotiations in the nearly two years since the Doha Round began.<sup>45</sup> Those involved in the agricultural negotiations at the WTO in Geneva were not even able to reach agreement on the “modalities”<sup>46</sup> for the talks by the deadline of 31 March 2003. The differences between the positions of the various countries and trading groups were too great to be effectively bridged. The agricultural negotiations made little progress in subsequent months. During this period, most of the blame for the lack of progress was directed at the EU for its failure to significantly reform the Common Agriculture Policy.

There was intense pressure on the EU to reform the CAP from both developed and developing countries involved in the Doha Round negotiations. This pressure was directed at the EU in general, at the Commission and at the 15 member states. When the ministers of agriculture from the EU-15 member states met in June 2003 they were confronted with the fact that if the CAP were not effectively reformed the EU would be in an extremely weak bargaining position at the September 2003 WTO Ministerial meeting in Cancun. A key argument was that the EU needed to change the CAP so that the EU could conform to proposals regarding domestic support made by the chairman of the WTO agricultural negotiations in Geneva. The Council of Ministers finally agreed on reform of the CAP on 26 June, after failing to reach agreement in full council

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<sup>45</sup> As the research for this report ended in August 2003, the WTO Ministerial Meeting held in Cancun in September 2003 is not covered.

<sup>46</sup> “Modalities” are basic positions by the negotiating parties involved which provide the framework within which negotiations are conducted. Modalities for these negotiations cover, for example, tariff reduction formulas.

meetings during the previous weeks. If it were not for the intense pressure resulting from the Doha Round, it is unlikely that the CAP would have been modified to the extent it was.

The June CAP reform directly addressed only the third pillar of the Doha agricultural negotiations. By breaking the link between subsidies and production, under WTO rules the EU will be able to shift its domestic agricultural support from a “trade distorting” category to a “non-trade distorting” category. The reform did not directly address market access, the first pillar, or export subsidies, the second pillar. Critics concluded that the reforms agreed were inadequate, and it was widely noted that the result of the negotiations was a diluted version of the Agricultural Commissioner’s proposals. The *Economist* wrote that the EU’s farm reforms may have been radical by the Commission’s “undemanding standards but will not be enough to satisfy the rest of the world,” and that the reforms of the “EU’s insane farm policies” needed to go a lot further and faster (*Economist* 28 June 2003). But it is very significant that the Commission and pro-CAP reform member states were able to use pressure from the Doha Round to get the Council of Ministers of the EU-15 to agree to make the fundamental change of de-linking domestic agricultural support from production.

There is another very important link between the recent CAP reform and the Doha Round of farm talks. When the EU agriculture ministers agreed to reform the CAP at the end of June 2003 they established political guidelines that set the subsidy cuts they approved as the Commission’s outer limit for the Doha Round of WTO agriculture negotiations. The Council of Ministers stressed that the “margin of maneuver” in the Doha negotiations provided by the CAP reform “can only be used on condition of equivalent agricultural concessions from our WTO partners.” The EU pointedly noted that the fact that it had made its reforms early in the negotiating process did not mean it would make additional concessions (*Inside US Trade* 4 July 2003, EU 2003a).

To some degree, the EU’s political guidelines based on the CAP reform may have been a bargaining tactic during the Doha Round. But there was certainly strong resistance by some member states to agree during the Doha negotiations to any concessions beyond those allowed by the June CAP reform. Under the circumstances, it will be a difficult challenge for those trying to successfully conclude the overall Doha Round of negotiations to convince France and some other member states to make further concessions on agriculture. However, the collapse of the talks at Cancun in September 2003 may well provide an opportunity for pro-reform EU member states to re-open discussion at a later date on these issues.<sup>47</sup> A key actor involved is the EU’s Trade Commissioner, Pascal Lamy, himself French. The fact that Lamy is a Socialist and thought to have a poor relationship with Jacques Chirac, a staunch defender of the CAP, indicates yet another layer of political factors in the relationship between the Commission and member states in regard to EU agricultural policy-making.

Further negotiations on agriculture during the Doha Round represent the best possibility of reforming the CAP in ways that could benefit developing countries in general and enhance efforts to utilize livestock to help reduce poverty in developing countries. Multilateral trade

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<sup>47</sup> Update: in November 2003 the Commission sent an official Communication to the Council, the European Parliament, and to the Economic and Social Committee entitled “Reviving the Doha Development Agenda Negotiations – the EU Perspective” (European Commission, 2003c). Several of the parties involved, including the EU, US and developing countries, have expressed strong interest in reviving the Doha Round of multilateral trade negotiations.

negotiations represent the most important and effective way for non-EU actors to influence EU agricultural and trade policy. Such negotiations are particularly important for developing countries as, with a few key exceptions (including the newly created Group of 21, see below), they have very limited influence in bilateral trade negotiations with the EU and other developed countries.

It is also significant that multilateral negotiations and hence CAP reform can be driven by factors that have little to do with agriculture. During the Uruguay Round it has been suggested that business interests in France seeking to achieve their own objectives pressured the French government of the time to give in to demands for CAP reform so that the round could be completed under the “single undertaking” rule. In 2003 many observers concluded even before the failure in of the September WTO ministerial meeting in Cancun that one component of overall EU strategy during the Doha Round of trade talks included linking any agreement to further liberalize agriculture to developing country agreement for negotiations on investment and the other ‘Singapore issues’ (competition rules, transparency in government procurement and trade facilitation). While during the Uruguay Round non-agricultural factors appear to have played a key role in producing agreement and promoting CAP reform, the EU’s insistence on the Singapore issues during the Cancun meeting is widely regarded as one of the reasons for the collapse of the talks.

The United States and the European Union have dominated previous multilateral trade negotiations, often to the dismay of smaller countries. In a bilateral effort to move forward on the agricultural negotiations and prevent deadlock in Cancun, on 13 August 2003 the EU and US announced a framework for a joint approach on agricultural issues. (EU Institutions Press Release, 14 August 2003). The Cairns Group, established during the Uruguay Round, is another key actor in the current WTO agricultural negotiations. Made up of 17 developed and developing countries (including Argentina, Australia, Brazil and Canada), this group promotes the most liberal trade policies of any country or bloc.<sup>48</sup> Agricultural exports are very important for the members of the Cairns Group.

Largely in response to the joint US-EU agreement in August regarding the modalities for the Doha agriculture negotiations, a new grouping of developing countries emerged and became known as the “Group of 21.” This new alliance includes some of the most influential developing countries in the WTO. Led by Brazil, the group includes India, China and South Africa.<sup>49</sup> The Group of 21 played a very important role in regard to the agricultural negotiations shortly before and during the Cancun Ministerial meeting, and has been unfairly criticized by some as the cause of the collapse of the meeting.

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<sup>48</sup> Cairns Group members: Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand and Uruguay.

<sup>49</sup> Members of the “Group of 21” shortly before the Cancun Ministerial meeting: Argentina, Bolivia, Brazil, Chile, China, Colombia, Costa Rica, Cuba, Ecuador, El Salvador, Guatemala, India, Mexico, Pakistan, Paraguay, Peru, Philippines, South Africa, Thailand and Venezuela. Source WT/MIN(03)/W/61

## Trade with Developing Countries

Developing countries make up over three-quarters of the WTO membership. It is up to each WTO member country itself to declare if it is a developing country. There are enormous differences between the various developing countries in terms of population, levels of development, standards of living, kinds and importance of agricultural trade, degree of involvement in WTO negotiations, negotiating power and skill, and many other factors. This section presents four categories of developing countries identified for the purposes of the study and assesses critics' charges that the EU dumped beef and milk in Africa. It explains who is expected to gain and lose from trade liberalization. The following section examines the impact of sanitary and phytosanitary standards on developing countries.

### Four Categories of Developing Countries

The present study of European Union policy-making focuses on trade in beef and dairy between the EU and developing countries. There are well over 100 developing countries at very different levels of development and with enormous differences between them, as noted above. For the purposes of this study, four somewhat overlapping categories of developing countries are identified:

1. South American countries that are major beef exporters (four countries);
2. the African, Caribbean and Pacific (ACP) countries as a group (77 countries);
3. African countries exporting beef to the EU on preferential terms (six countries);
4. the least developed countries (LDCs, 49 countries).

The first category is made up of Argentina, Brazil, Paraguay and Uruguay. These four South American countries are major beef exporters and the main suppliers of imported beef in the EU, as shown in figure 7 and table 8. Brazil and Argentina play prominent roles in international trade and trade negotiations. Brazil has a large, diversified agricultural sector, and its current capacity - and future potential - as an agricultural exporter seems to clearly worry the EU in general and some of the EU member states in particular. Argentina has a worldwide reputation for high levels of beef production, consumption and export. It is well known in some European countries for the exceptionally high quality of the beef it exports and for "Argentine restaurants" specializing in beef. These four countries: (a) make up Mercosur, also known as the Common Market of the South, established in 1991; (b) are members of the Cairns group, the strongest advocate of trade liberalization during the Doha round; (c) three are members of the Group of 21. The chairman of the Group of 21 is Brazil's Foreign Minister, who previously served as Brazil's ambassador to the WTO. The high level of LLP exports and negotiating influence of these four South American developing countries is in sharp contrast to the situation of the other three categories identified here.

The ACP countries were selected as the second category because they represent 77 largely poor developing countries with preferential trade access to and other special treatment from the EU. (The following two categories listed below are made up entirely, category three, or partly of ACP countries.) It was primarily in ACP countries where the activities took place that are presented as criticisms in chapter 2 that the EU (a) dumped subsidized beef exports and thereby destabilized beef production and marketing in West and Southern Africa, and (b) dumped (and continues to dump) subsidized exports of powdered milk thereby undermining dairy production

in developing countries. For many years the ACP countries have had a special relationship with the EU. Under the Lomé Convention signed in Togo in 1975, and its successor treaties, the EC/EU has provided a preferential trade regime, support to stabilize export earnings, financial and technical assistance, and industrial cooperation. Most of the current 77 ACP countries are former colonies with strong economic and other links to their former colonial powers. The Cotonou Agreement signed in June 2000 superseded the Lomé Agreement and provides a new framework for the preferential trade relationships and development assistance activities. In the year 2000 the trade relationship between the EU and ACP states represented only 4% of EU imports and exports, in terms of value. Although trade with ACP countries may not be particularly significant from the perspective of the EU, the preferential trade access to the EU market is extremely important to the ACP states concerned.

The third category is made up of six African ACP countries with the right to export beef and veal to the EU on preferential conditions under a special protocol. Listed in order of the size of their quota the countries are: Botswana, Namibia, Zimbabwe, Madagascar, Swaziland and Kenya. EU imports of beef and veal from these six countries amount to about 3% of the total in value terms and about 2.3% in volume. No recent imports were registered for either Madagascar or Kenya. In the early 1990s Madagascar had fairly significant exports to the EU (FAO 2003b). Currently only two southern African countries (Botswana and Namibia) significantly benefit from this protocol, with small benefits going to Zimbabwe (until recently a major beneficiary) and Swaziland. Although the amounts of beef and veal involved represent a relatively insignificant proportion of total EU imports of these commodities, as is the case for ACP countries in general, access to the EU market is very important for these African beef exporting countries. The high quality cuts of beef from allowed under the protocol command premium prices in the EU, much higher than the EU intervention price for beef. There is only a limited supply of beef that meets the EU's high quality and SPS requirements produced in the southern African countries concerned.

In the fourth category are the 49 least developed countries (as defined by UNCTAD) recognized by the WTO as deserving special consideration. Most of the LDCs are located in Africa and several LDCs are not members of the WTO. All WTO agreements contain special provisions for developing countries, and LDCs receive additional consideration and treatment. The provisions include longer time periods to implement agreements and commitments, measures to increase their trading opportunities, and support to help them build the infrastructure for WTO work, handle disputes and implement technical standards. As shown in tables 8 and 9, between 1990-2001 LDCs exported virtually no beef to the EU and imported about 3% of total EU beef exports.

The WTO also recognizes another category deserving special consideration, the net food-importing developing countries (NFIDCs) currently numbering 23 (not all NFIDCs are LDCs). It is widely recognized that the liberalization of trade in agricultural products, particularly reductions of and the possible elimination of export subsidies, may increase world food prices. Net food importing developing countries (NFIDCs) could be severely affected by such price increases, which could even threaten their food security. The situation of the poor in these countries could deteriorate. A recent OECD (2003a) publication explores potential linkages between agricultural trade and poverty. These and other issues related to NFIDCs are beyond the scope of the present paper.

### Very Different Goals During the Doha Round

The Doha Round of multilateral trade negotiations is very important to all four categories of developing countries, but the different categories also have different objectives in the negotiations. Simulation results using the Global Meat Industry model indicate that, of the world's beef exporting nations, the South American beef exporting countries (our first category) would be the main beneficiaries of the (a) elimination of EU export subsidies for beef, and (b) reduction by the EU of domestic production subsidies to beef producers. If EU production-distorting subsidies were removed, the South American countries would benefit from greatly reduced competition from the EU in the North African and Middle East markets, and they would gain from somewhat higher prices for their exports to the EU itself. The elimination of EU export subsidies would have a slightly greater beneficial impact on the South American countries than the elimination of production subsidies. These countries would benefit from increased trade to the Middle East and North Africa that had been previously supplied by the EU. The removal by the EU of market access barriers would provide major gains for beef exporting countries, particularly the United States, Australia and, to a lesser extent, South American countries (MLA 2002, 2003).

The ACP countries (our second category), on the other hand, are determined to defend their arrangements with the EU that provide them with preferential access to the European market. They point to the fact that agriculture is critically important to their economic development, and that progress on agricultural issues in the Doha round of trade talks "holds the potential to lift millions of people out of poverty" (*Financial Times*, 4 August 2003). ACP countries also want to strengthen the existing provisions provided to developing countries for special and differential treatment. They urge developed countries to reduce agricultural trade barriers, eliminate export subsidies for agricultural products, and strengthen provisions that enable poorer countries to shield domestic markets from foreign competition.

Southern African exporters of beef (our third category) view their preferential access to the lucrative EU market under the beef protocol as very important and worry about the implications of the current Doha Round of multilateral trade negotiations. They have identified several positive features, in particular guaranteed high prices and greatly reduced duties, and are in favor of maintaining and improving the current arrangement. There are indications that these beef exporters are also concerned that reform of the CAP over the past decade has reduced their profit margins. According to a website dealing with ACP-EU issues, the net effect of the CAP reform process has been to reduce EU market prices for beef over the last 10 years, reducing the gap between EU and world market prices. This has reduced the returns to ACP exporters of beef under the beef protocol.<sup>50</sup> The main ACP exporters of beef to EU have been Botswana, Namibia, and Zimbabwe. The beef protocol does not allow additional beef producing countries to enter the market on similarly favorable terms, and it was not possible to determine the degree of support for the few countries benefiting from the beef protocol on the part of other ACP countries.

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<sup>50</sup> See [www.agricta.org/agritrade/beef/executivebrief.htm](http://www.agricta.org/agritrade/beef/executivebrief.htm)

The Least Developed Countries, our fourth category, tend to share the concerns of the ACP group. One key reason for this similarity of interests is that 39 of the 49 recognized LDCs are themselves ACP countries.

#### Assessing the Critics' Charges that the EU Dumped Beef in Africa

Interviews confirmed the charges that the European Union dumped<sup>51</sup> beef in West Africa and South Africa in the 1990s, causing significant harm to local economies (see chapter 2). In the early 1990s the EU experienced high beef production, "requiring" it to export its surplus (especially low-quality) beef. Beef exports in that 1990-1995 period were 1-1.2 million metric tons per year. Current exports, however, are less than half that amount, and only a negligible proportion goes to sub-Saharan Africa. Exports to West and South Africa have been reduced to zero. The existing surplus in the EU beef market is the result of imports of high-quality beef. The EU continues to use export refunds to fund exports of its surplus. Yet the amount currently exported is only about half of that allowed under WTO regulations. The Commission now says that, although it still has export subsidies for beef, it no longer provides export refunds for low quality beef products. Additionally, present and future trends for the 2003-2010 period suggest the EU will produce less than it consumes (see DG Agriculture 2003d). These factors point to a reduced likelihood for future EU dumping of beef in West and South Africa. Nevertheless, there remains concern in Africa (for example among southern African beef exporters) that if conditions change in the future the EU could resume subsidizing the export of low-grade beef to Africa and thereby again significantly disrupt existing production and marketing systems.<sup>52</sup>

#### Will Poor Developing Country Beef Producers Benefit from Increased Access to the EU Market?

If greater access to the EU market for beef is achieved as a result of the Doha Round negotiations, in the view of those interviewed on the subject and of the authors of this report, only a few countries will be able to take advantage of the liberalized situation and export greater amounts of beef to the EU. These will be only the countries currently exporting beef to the EU. There are two key reasons: (1) the sanitary and phytosanitary standards required by the EU and (2) the high quality of beef demanded by European consumers (as discussed below).

Among developing countries, the current beef exporting countries in South America (our first category) will be the greatest beneficiaries of future liberalization in the international beef trade. Of all countries, the most successful current beef suppliers to the EU are Argentina, Uruguay and Brazil. The production and export of beef from these South American countries are dominated by large scale producers that reportedly benefit from various government policies providing favorable access to credit and land.<sup>53</sup> In regard to the southern African countries, the beef and

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<sup>51</sup> The definition of dumping used here: A form of price discrimination by which the export price of the product exported from one country to another is less than the comparable price, in the ordinary course of trade – that is, including transport and related costs – for the like product when destined for consumption in the exporting country (GATT Art. VI). Also defined as sales below the estimated cost of production. The margin of dumping is the difference between the two prices (Hoekman et al 2002).

<sup>52</sup> One argument made to the authors was that, as the end of subsidized beef exports to Africa coincided with BSE and FMD crises which dramatically reduced EU beef supplies, as those supplies bounce back the factors that led the EU to subsidize exports of low grade beef will recur unless binding policy decisions are made to the contrary.

<sup>53</sup> Critics have raised concerns that beef production in some South American countries has negative environmental impacts.

veal exported to the EU is very high quality and commands premium prices on the lucrative European market. The major beneficiaries of beef exported to the EU are those large scale cattle ranchers capable of producing the high quality meat required, as well as others involved in beef processing and export. It is significant that no one interviewed during the course of the present study was convinced that poor beef producers in the South American or southern African countries concerned would benefit directly from their country's increased access to the EU beef market. It is possible, however, that increased beef exports to the EU from these developing countries could help reduce poverty by generating employment, income or other benefits. It is also possible that increased exports might open domestic markets to lower quality beef produced by the poor, although high quality beef that meets international SPS standards could be exported to markets other than the EU if greater access to the EU market was not achieved.

#### Assessing the Critics' Position that the EU Dumped Dairy Products in Developing Countries

There is some controversy regarding the allegations that the EU has and continues to dump subsidized exports of dairy products in developing countries thereby undermining local dairy production systems and livelihoods. The position of Oxfam, Cafod and other advocacy groups that are engaged in a campaign against the dumping of dairy products in developing countries was presented in chapter 2. On the other hand, some individuals interviewed in the course of the research raised questions about the accuracy of the advocacy groups' claims, saying that some of the information presented was incomplete or inaccurate. It needs to be noted that some of those questioning the accuracy of the advocacy groups evidence share with the groups concerned the objective of fair trade for developing countries. A key conclusion from this controversy is that the issues involved are complicated and very contextual, and that careful field research is required to fully understand the interrelated factors.

The authors of the present report conclude that there is convincing evidence that the EU has dumped subsidized exports of dairy products: (1) on world markets thereby reducing world prices, (2) in developing countries, particularly skimmed milk powder. Such dumping in developing countries could undermine local dairy production and marketing systems, thereby reducing or denying local livestock keepers access to local markets. These processes could certainly undermine livelihoods and existing dairy industries, as well as efforts to develop and improve these industries.

Table 7 shows that, according to European Commission statistics, only a tiny percentage (0.1%) of the world's total milk production is traded. However, nearly half (48.2%) of world production of milk powder is traded, and this is the dairy commodity of concern in this controversy. In addition, the EU dominates global trade in milk powder with nearly one-third (29.2%) of the net share (European Commission 2003). As mentioned earlier in the report, the EU supports its dairy industry primarily through the use of export refunds. The European Court of Auditors (ECA, 2003) recently found that for certain dairy products "there were a significant number of occasions when...the EU [internal market] price, after deducting refunds, was lower than the world price." That is, there were times when the EU was supporting its exports for sale at below-world market prices. The ECA also found "no coherent link" between the export refund rate that was set and market prices. The Commission's response to the ECA's report argued that while it is not their policy to defend their market share in a particular country they will pursue "an active export policy" to maintain their place in certain markets.



The logic of the advocacy groups' argument that by dumping dairy products in developing countries the EU is undermining local production and marketing systems is compelling, and there is strong evidence that the EU has dumped dairy products. It is highly relevant that what may seem to be small quantities on a global scale might well be very important in a small developing country market with a fledgling dairy industry. In addition, some of the criticism of the EU policies and practices comes from the advocacy groups' counterparts in developing countries who are very familiar with conditions on the ground. But others argue that by dumping dairy products in developing countries the EU is making nutritional benefits available to consumers, especially in urban areas, at low prices where there are only rudimentary local dairy production and marketing systems. In this controversy, so far little attention has been paid to the fact that establishing and sustaining effective dairy production and marketing systems in developing countries that really benefit poor producers has been elusive. Kenya is a clear example in Africa, and India's success was discussed above.

The strongest evidence supporting the advocacy groups' position is from Jamaica, and was summarized in chapter 2. But the dairy problems of Jamaica have been repeated so often that some interviewed wondered what other evidence exists. The evidence provided by advocacy groups (Oxfam 2002d, Eurostep 1999a) that dumping occurred in other developing countries was not strong, and some individuals with whom the issues were discussed questioned key aspects of specific cases reported in these studies. On the other hand, country case studies done under the present University of California, Berkeley, research project for FAO did show a negative impact from EU milk powder on domestic fresh milk production in Senegal and Vietnam. Clearly, this is an issue that merits further study.

#### Will the Poor in Developing Countries Benefit from the Liberalization of Trade in Dairy Products?

A frequent response to this question from those interviewed was that if world trade were liberalized in regard to dairy products the main beneficiary would be New Zealand, followed by Australia, the United States and other countries. The EU, however, is not expected to gain. It is particularly relevant that the New Zealand company Fonterra accounts for over 30% of the world's net dairy trade (Norgate 2003). A recent OECD (2003c) report suggests that New Zealand should be able to increase its milk production by 26% in 2008, while EU exports of dairy products (especially SMP) are expected to fall. The OECD makes the specific argument that the EU is losing market share directly to Oceania.

New Zealand produces dairy products very efficiently and without subsidies, but that is not the case for many other developed countries that heavily subsidize dairy products. An IFPRI report concluded that the Uruguay Round's Agreement on Agriculture has had very little effect when judged purely on the basis of the level of domestic support for agriculture in general and the dairy sector in particular. Domestic support levels for dairy products in the EU and the US were as high in the second half of the 1990s as in the 1986-1988 base period (Sharma and Gulati 2003).

A senior advisor in the Netherlands Ministry of Agriculture, Nature Management and Fisheries, Gerrit Meester, with a colleague carried out a study on the effects of trade liberalization and EU enlargement on the Dutch agricultural sector (Massink and Meester 2002). In the course of this study he found that it was not likely that free trade conditions would create additional

opportunities for developing countries in European markets (personal communication, April 2003). Some interviewed argued that, if trade in dairy products is liberalized, it would be extremely difficult for poor producers in developing countries to compete effectively with foreign companies such as New Zealand's Fonterra in regional markets and, in some cases, even in their home country market.<sup>54</sup>

### **The Impact of Sanitary & Phytosanitary (SPS) Standards and Quality Requirements on Poor LLP Producers in Developing Countries**

A significant result of the Uruguay Round in regard to trade in LLPs was the *Agreement on the Application of Sanitary and Phytosanitary Measures*. The SPS agreement aims to provide several functions for WTO members, including:

- greater harmonization, transparency, and equivalence among member states with regard to SPS standards
- the information resources necessary to make decisions regarding SPS issues
- protection from scientifically unjustifiable SPS measures
- a more efficient process for handling trade disputes related to such concerns, by handling these concerns through the SPS Committee.

Provisions were also made to take into account the special needs of developing countries, but the points discussed below demonstrate that these special needs have not yet been met.

The WTO itself does not develop SPS standards any more than it does any other aspect of trade policy. Instead, through this agreement and the actions of its SPS Committee and Dispute Settlement Mechanism (DSM), it provides the means for WTO member countries to better coordinate their behavior (Hoekman and Kostecki 2001, WTO 1998). In its Annex A, the SPS agreement identifies organizations competent to establish international standards. The organization most relevant to LLP concerns is the World Organization for Animal Health (OIE). The SPS agreement provides the legal framework for the application of standards, guidelines and recommendations developed under the auspices of the OIE to international trade in animals and animal products. The agreement provides similar legal framework for international standards, guidelines and recommendations established by the FAO/WHO Codex Alimentarius Commission for food safety, including veterinary drugs.<sup>55</sup> (See Annex 6.) Concern has been expressed that some WTO member countries may attempt to achieve their political agendas concerning trade in LLPs through the OIE, thus rendering decision-making difficult for an organization used to reaching decisions on technical and professional bases.<sup>56</sup>

As a consequence of high SPS standards and quality requirements, most poor developing country producers of LLPs have very little opportunity to export their products to the EU market. A key

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<sup>54</sup> India is reported to be making efforts to increase dairy exports to Bangladesh and the Middle East (see chapter 2).

<sup>55</sup> FAO and WHO established the Codex Alimentarius Commission in the early 1960s. The highest priority of the commission is to protect the health of consumers and ensure fair practices in the food trade. The commission works to formulate and harmonize food standards and ensure their global implementation. The commission is open to all member nations and associate members of FAO and WHO. (FAO and WHO)

<sup>56</sup> The OIE is also playing an important role in regard to animal welfare issues.

example is beef and veal producers. Greater or even unrestricted access to the EU beef market would not directly benefit poor producers in developing countries because they cannot meet current SPS standards and quality requirements. Quality is an essential factor because EU customers want quality and are willing to pay for it. Under the Everything But Arms initiative the EU already grants to LDCs complete market access at zero duty for beef, but the producers cannot meet the quality and SPS standards. And there is little likelihood that poor developing country livestock producers will be able to meet these standards any time in the near future. Even the better off southern African beef exporters are concerned by the combination of declining EU prices and the additional costs of exporting beef to the EU market associated with meeting stricter SPS standards.

For the reasons provided above, increased access to the EU market is not directly relevant to poor developing country beef producers or, in general, LLP producers. European consumers expect and require high food safety standards, especially after the BSE and other food safety crises of the 1990s, and the Commission and member states clearly recognize their obligations to protect their citizens.

#### High Costs of Compliance with SPS Standards

Developing countries assumed significant obligations as a result of the Uruguay Round decisions on SPS measures, but the SPS agreement reflects inadequate understanding of the development problems and limited capacity of developing countries to implement the SPS standards. There was little concern for what implementation will cost, how it will be done and whether it will actually promote development. As a result of the Uruguay Round, according to Finger and Schuler (2002), developing countries took on *bound* commitments to implement the SPS agreement in exchange for *unbound* commitments of assistance from developed countries.

The SPS agreement provides governments the right to restrict trade in order to protect human, animal, or plant life or health. At the same time, the agreement limits this right in efforts to prevent disguised restrictions on trade. Trade restrictions must be based on scientific principles and evidence. This implies the need for appropriate testing and analysis. The transparency requirement includes several steps that governments need to take. For a developing country to effectively use the WTO SPS agreement to defend its export rights or justify restricting imports, it will need to upgrade its own SPS system to international standards. Such developing countries will need to meet international standards similar to those already in place in developed countries, who have been in the forefront of establishing the international standards. “Although the SPS agreement does not require that a country’s *domestic* standards meet the agreement’s requirements, it does require that the standards the country applies *at the border* meet those requirements” (Finger and Schuler 2002).

It follows that any developing country that intends to export LLPs to markets requiring international SPS standards will need to meet these standards at its own border and be able to demonstrate its compliance with these strict standards. It will be very expensive for developing countries develop the capacity to meet and demonstrate compliance with these standards. To export LLPs, demonstrating compliance would require up-grading central and field level veterinary services, establishing or up-grading laboratories and quarantine stations, improving slaughter facilities and processing plants, certifying disease free zones, establishing border inspection posts, and increased training and staff. Producers themselves will have to meet the

costs of complying with certain international SPS regulations; for livestock producers these include but go well beyond vaccinating livestock. If international SPS standards are applied in traditional regional markets, countries exporting to those markets that are unable to comply - or unable to demonstrate compliance - with these standards may encounter serious restrictions on their trade.

The cost of compliance with international SPS standards has become a significant problem for some developing countries, and these countries will need significant, appropriate assistance in developing relevant infrastructure and capacity to be able to certify that specific products meet the requirements (DFID 2003, Finger and Schuler 2002, Henson and Loader 2001, Kassum and Morgan, Netherlands Ministry of Foreign Affairs 2003, Unnevehr and Hirschhorn 2000). The expense involved in upgrading often weak existing systems to the international level raises serious questions in some cases about whether developing the capacity to meet international SPS standards is really in the best interests of certain poor developing countries. In the case of LLPs, the strictness of the certification and traceability requirements will be particularly difficult and expensive to meet. Some of the many other needs of poor countries may have higher priority for the limited resources available.

The EU has particularly strict SPS standards, a reflection of the widespread consumer concern with food safety noted above and the EU's response to consumer protection. The EC has proposed drafting even stricter SPS standards that would cover both European products and imported products from third countries. It is recognized that developing countries, particularly ACP countries, would be particularly affected as most would have difficulty complying with even higher standards for exports of agricultural products to the EU, for example LLP exports. At the time of the interviews there were discussions regarding what kind of support the EU could provide ACP countries to help them deal with these looming problems.

#### Trade in LLPs is Very Different from Trade in Cotton

If multilateral trade rules were fair, the export of cotton from African countries could be an important route out of poverty for millions of poor farmers. The African countries concerned, pro-developing country advocacy groups, several EU member states (including pro-CAP reform Netherlands and anti-CAP reform France) and the EU itself all agree on and support this position in the face of American resistance. In sharp contrast to African cotton farmers who do not face similar SPS measures on their product, the route out of poverty for poor developing country livestock producers does not appear to include the export of LLPs to markets that require international SPS standards.

Domestic and regional markets are currently very important for many poor livestock producers in developing countries. Given that demand for LLPs in developing countries is expected to increase considerably in the next two decades, these domestic and regional markets should become even more important. EU policies and activities that affect these markets are therefore extremely significant. If subsidized exports of EU beef dominate the Middle East and North African markets in the future, for example, this could foreclose or reduce trade opportunities for poor African countries. Generations of poor Eastern African livestock producers have exported sheep, goats and cattle to Saudi Arabia and nearby countries. This long-standing practice is threatened by (among other factors) concerns about livestock disease transmission and increasingly stringent SPS measures based on developed country requirements and practices. In

addition, if trade in beef is liberalized as a result of multilateral negotiations, South American countries, Australia and New Zealand could increase their share of developing country markets, including the Middle East and North Africa. It will not be easy for poor developing country livestock producers to benefit from trade in livestock and livestock products to markets that require international (or other high) SPS standards.

### **Current Status Regarding Policy Coherence**

Concerns were raised in chapter 2 about the lack of coherence between (a) the EU's development cooperation policies and (b) the CAP and related trade policies. Examples were given in that chapter demonstrating that EU exports of heavily subsidized beef to West and South Africa had undermined livestock development activities of the EU itself, as well as the activities of other donors. The Commission has itself recognized the lack of policy coherence between the CAP and development cooperation policy (DG Development 2000).

At the May 2002 Council of Ministers of Development Cooperation, some ministers argued that EU agricultural policy under a reformed CAP must be consistent with EU development policy goals of poverty reduction and sustainable development in developing countries. This effort by ministers of some member states to promote coherence between the CAP and development cooperation policy was reportedly blocked (Cafod 2002). Since that time, the ministers of development cooperation have lost their own council of ministers. Instead, issues dealing with development cooperation are now decided at the Council of Ministers of Foreign Affairs. Those interviewed about this topic suggested that the change had two consequences. While it may be difficult for development cooperation issues to reach the crowded and heavyweight agenda of the foreign affairs council, decisions taken on the issues that do make the agenda should have more clout than before.

Two member states, the UK and the Netherlands, have been particularly active in promoting policy coherence. The Labour government elected in the UK in 1997 strengthened the Department for International Development (DFID) and increased its budget. The 1997 White Paper on International Development represents the government's commitment to the internationally agreed target to reduce by half the proportion of people living in extreme poverty by 2015. The 2000 White Paper on International Development focused on how to manage the process of globalization to benefit poor people. The second (2000) white paper sets out the UK's objectives on trade and development: to make the Doha Round of multilateral trade talks a real "Development Round," one that brings genuine development benefits to developing countries. To achieve these goals, the UK will continue to press for a pro-development EU negotiating position. In addition, DFID has been working with developing countries and other development agencies to help build the capacity of developing countries (in national capitals and in Geneva) to help them more effectively protect and promote their interests in the Doha round. The 2000 paper presented the UK government's policy that it would push for significant CAP reform leading to reduction, as soon as possible, of domestic and export subsidies on EU agricultural products, as well as tariff and non-tariff barriers to imports from developing countries (DFID 2003).

DFID supports research activities on the impact of agricultural trade liberalization on developing countries, and particularly on the poorest and most vulnerable within these countries,<sup>57</sup> and on issues of sustainable development. DFID also works in developing countries to strengthen capacity in agricultural trade and sustainable agricultural (and fisheries) production through bilateral programs and through the activities of international agencies. Before and after the June 2003 CAP reform, UK officials emphasized that in the Doha round of trade negotiations the UK would support only those decisions that would benefit developing countries.

The Netherlands government has set up a Policy Coherence Unit in its Ministry of Foreign Affairs. This may be the only such policy coherence unit in an EU member state, or perhaps in any state. In late 2002 the cabinet approved and sent to parliament a memorandum aimed at improving coherence between the policies of agriculture, trade and development. The Ministry of Agriculture, Nature Management and Fisheries and the Ministry of Development Cooperation prepared the document. The memorandum was presented to parliament by these two ministries in conjunction with the Minister for Foreign Trade and the State Secretary for European Affairs. The document describes the Netherlands' on-going activities aimed at strengthening policy coherence in regard to CAP reform, the WTO negotiations on agriculture, and development cooperation policy intended to give developing countries greater opportunity for trade and development in the agricultural sector. The document clearly states that, to enhance policy coherence, the Netherlands explicitly promotes the interests of developing countries within EU decision-making processes (Netherlands Ministry of Foreign Affairs 2003). The Netherlands government supports relevant research and the activities of international agencies to build capacity in trade related fields in developing countries. The Netherlands promotes sustainable agriculture and related work under its bilateral development cooperation activities in developing countries.

Interviews in April-May 2003 with officials at DFID and DEFRA in London and with the Ministry of Foreign Affairs' Policy Coherence Unit and the Ministry of Agriculture, Nature Management and Fisheries in The Hague confirmed the serious commitment of both governments to policy coherence. The interviews also revealed that the officials were concerned that their own government's efforts were strongly affected by the interplay of political forces within the EU. The officials stressed that major reform of the CAP was essential if their policy coherence objectives were to be significantly advanced during the Doha "development round."

Others interviewed, including those who agreed with and supported the efforts to promote policy coherence, were concerned that development cooperation departments or ministries had little clout within member state governments, and that there was a parallel situation in Brussels where DG Development was said to lack influence vis-à-vis DG Agriculture and DG Trade. One conclusion is that development cooperation lacks a strong domestic constituency within Europe (although the constituency is far stronger in Europe than in the United States) in comparison with the domestic constituency that supports and benefits from agriculture and trade in agricultural products. Oxfam and other pro-developing country advocacy organizations have certainly raised awareness that the CAP and related EU trade policies undermine livelihoods in developing countries, but it appears there is still a very long way to go before significant reforms are

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<sup>57</sup> The FAO's PPLPI that commissioned the present study of EU-policy making is primarily funded by DFID.

achieved. Some interviewed in both the UK and the Netherlands in regard to current efforts to promote policy coherence expressed the view that when under stress (during intense negotiations, for example) the agriculture ministries concerned would support their core constituencies – farmers groups and other agricultural interests. Whether or not that was the case during the recent CAP negotiations, the June 2003 agreement is a very diluted version of Franz Fischler’s July 2002 proposals to reform the CAP.

## 6 CONCLUSIONS AND RECOMMENDATIONS

This study analyzed the political economy of EU policy-making with regard to trade in beef and dairy with developing countries. Previous reforms of the Common Agricultural Policy have been central to the making of relevant EU agriculture and trade policy. In addition, for many years the EU's trade policies have been regulated by multilateral trade agreements; since 1995 by the WTO's multilateral rules, particularly the Agreement on Agriculture. Future change of relevant EU agriculture and trade policy affecting developing countries will require additional reform of the CAP and, if agreement is reached, it is very likely that future CAP reform itself will be affected by the on-going Doha Round of multilateral trade negotiations. The present study explained that the making of EU agriculture and trade policies involves three levels: the EU member state, the EU itself, and the international trading system. We also considered a fourth "level," developing countries, that is affected by EU policy-making. The main actors involved at all four levels are presented in Annex 1.

### Developing Countries Have Different Trade-Related Interests

The numerous developing countries have different needs and interests in regard to trade issues, a reflection of the enormous differences between them in regard to, *inter alia*, population, resources, level of development, current (and potential) involvement in international trade, negotiating experience and capacity. Developing countries comprise more than 75% of WTO membership, and each WTO member itself declares if it is a developing country. For the purposes of this study, four overlapping categories of developing countries were identified (see chapter 5):

1. South American countries that are major beef exporters (four countries)
  2. the African, Caribbean and Pacific (ACP) countries as a group (77 countries)
  3. African countries exporting beef to the EU on preferential terms (six countries)
  4. the least developed countries (LDCs, 49 countries).

The high level of LLP exports and the negotiating influence and skill of the four South American countries (our first category) are in sharp contrast to the situation found in the other three categories. The few African countries exporting beef to the EU under a special arrangement (our third category) is made up entirely of ACP countries (our second category). Most of the LDCs (our fourth category) are also ACP countries. EU policies regarding trade in beef and dairy have different impacts on the different categories of developing countries, and this leads to very different responses.

### EU Policies and Developing Countries

The following examination of EU policies concerning trade in beef and dairy between the EU and developing countries focuses on the "three pillars" of agricultural trade reform of the WTO's Doha Round of trade negotiations:

- reductions of, with a view to phasing out, all forms of export subsidies
- substantial improvements in market access (reductions in tariffs)
- substantial reductions in trade-distorting domestic support.



The June 2003 CAP reform addressed only trade-distorting domestic support, the third pillar. The reform did not directly address export subsidies or market access. Nor did the reform deal with the total amount of support going to agriculture and, as a result, expenditure on the CAP still represents nearly half the total EU budget. When the Council of Agriculture Ministers finally reached agreement to reform the CAP last June, the link to the ongoing WTO trade talks was explicitly described in the press release with the explanation that the reform would strengthen the EU's negotiating hand and the statement: "This reform also sends a strong message to the world. Our new policy is trade friendly. We are saying goodbye to the old subsidy system which significantly distorts international trade and harms developing countries." (EU Institutions Press Release: Luxembourg 26 June 2003.) It is remarkable that the EU publicly admitted that the CAP had caused serious problems to international trade and developing countries. On the other hand, while the reforms agreed last June were an important step, they were so limited that they are unlikely to overcome key problems identified by critics of the CAP.

Several OECD countries have been criticized for their support to agriculture and for their related trade policies. In this report we focus on the EU. The interrelationships between - and the effects of the combination of - the three pillars of WTO agriculture reform are very important, for example in lowering world prices of beef and dairy products. Such reduced prices can themselves undermine production efforts and livelihoods in developing countries. For analytic purposes, however, the three pillars are discussed separately below.

Earlier chapters presented criticisms from various sources of EU policies and practices involving what many consider **unfair export competition**, related to the first WTO pillar listed above. The EU's main method of supporting dairy, for example, is through export subsidies - paid primarily to the processors who export the dairy products, not to the producers. These subsidies have been a key factor leading to the dumping of dairy products, particularly milk powder, in Jamaica and other developing countries. The study found convincing evidence that the EU has dumped milk powder in developing countries. Although the advocacy groups' arguments that this dumping has undermined livelihoods is compelling, there is controversy on the subject as the issues are complicated and very contextual. In regard to beef, the EU was the world's largest exporter of beef for several years, and no other trading bloc or country provides export subsidies for beef. The interviews confirmed the charges that the EU had dumped beef in West Africa in the 1980s and 1990s, and in South Africa in the 1990s. This dumping of heavily subsidized EU beef undermined local production and marketing systems, as well as the policies and activities of various donors and NGOs (including the EU itself, bilateral development assistance programs of EU member states, and European NGOs) that were promoting livestock development and marketing in the regions concerned. In regard to EU dumping of both dairy and beef, what might be small quantities to the EU can be very significant amounts in a developing country. The potential exists for future EU dumping of dairy products and beef in developing countries as long as the EU agricultural production systems continue to reward over-production and export subsidies continue to be paid.

**The EU's restrictions on access to its market**, related to the second WTO pillar listed above, has been criticized by some developing countries, particularly major exporters of agricultural products such as Brazil and Argentina. In contrast, the ACP countries are determined to defend their arrangements with the EU that provide them with preferential access to the European

market. India has criticized the EU for its preferential treatment of ACP states,<sup>58</sup> another example of very different interests among developing countries. The EU has responded to the criticisms regarding market access by noting that it is the largest importer of products from developing countries, taking about 85% of Africa's agricultural exports and 45% of Latin America's. In spite of these statistics and the EU's Everything But Arms initiative, there has been widespread criticism that the EU does not provide fair opportunities for developing countries to export their agricultural products to the EU market.

The South American countries in our first category are strong supporters of liberalizing international trade in agricultural products. Simulation studies have demonstrated that these countries would benefit more than any other beef exporting states (including developed countries) from the (a) elimination of EU export subsidies for beef and (b) reduction by the EU of domestic production subsidies to its own beef producers. Such trade liberalization would enable the South American countries to benefit from greatly reduced competition from the EU in the North African and Middle East beef markets, and they would gain from somewhat higher prices for their beef exports to the EU itself. In sharp contrast, southern African exporters of beef (our third category) view their preferential access to the lucrative EU market under the beef protocol as very important and worry about the implications of the Doha Round of trade talks and of CAP reform.

Significantly, no one interviewed during the course of the present study was convinced that poor beef producers in the South American or southern African countries concerned (our categories 1 and 3) would benefit directly from their country's increased access to the EU beef market. These views are related to the fact that greater - or even unrestricted - access to the EU beef market would not directly benefit poor producers in developing countries because they cannot meet current SPS standards and quality requirements. For example, livestock producers in LDCs already have full access to the EU beef market at zero duty under the EBA initiative but cannot take advantage of it. It is SPS and quality factors, not market access, that prevent such poor from benefiting from trade in beef to the EU market.

**Trends in regard to SPS requirements affecting developing countries** currently exporting or intending to export LLPs may have disturbing consequences for poor livestock producers. If a developing country exports, or plans to export, LLPs to developed country or regional markets that require international or similarly strict SPS standards (increasingly the case as importing countries attempt to protect the health of their own citizens and livestock), the exports will need to meet these high standards.<sup>59</sup> Large scale producers, including agri-business interests who can meet the high SPS standards, may stimulate the government concerned to invest considerable sums of money and other resources to establish the mechanisms to certify the SPS standards required to export LLP products. Because of the strictness of the certification and traceability requirements, however, poor livestock producers will not be in a position to meet these high standards. When international SPS standards required under WTO rules are applied in a

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<sup>58</sup> India has formally requested the WTO to establish a panel to examine conditions for the granting of tariff preferences to developing countries by the EU.

<sup>59</sup> EU SPS standards are higher than international standards, and there are efforts to further strengthen EU SPS standards.

particular regional market, poor livestock producers who have traditionally supplied this market will lose access.

Although access by poor developing country livestock producers to the EU market is not a realistic option, domestic and regional markets are extremely important for them. Regional markets are important, for instance, to the Sahelian producers who were undermined by the EU's heavily subsidized exports of beef to West Africa in the 1980s and 1990s. Both domestic and regional markets should become even more important in the future as demand for LLPs is expected to increase, in part because of what has been called the "livestock revolution" (de Haan et al, 1997; Delgado et al, 1999; Delgado and Narrod, 2002). EU policies that affect developing country domestic and regional LLP markets are therefore extremely significant, for example policies and practices that promote the export of subsidized EU beef to regional markets of long standing importance to developing country producers.

**EU domestic support for agriculture**, related to the third WTO pillar listed above, has been a major target of critics because of its role in stimulating the overproduction of agricultural commodities. The EU made limited progress during the 1990s and in the first part of the present decade to decouple subsidies from production. The June 2003 CAP reform directly addressed this key issue of the Doha agricultural negotiations. By breaking the link between subsidies and production, under WTO rules the EU will be able to shift its domestic agricultural support from a "trade-distorting" category to a "non trade-distorting" category. (The validity of this shift is challenged by some WTO members, including developing countries, with some suggesting that it is a kind of "shell game.") As noted above, the 2003 CAP reform did not directly address the other two WTO pillars, market access and export subsidies. Beef producers have historically been major beneficiaries of the domestic support system, and these producers emerged from the recent reform in comparatively good shape as only 70% decoupling was required of them. Many observers noted that the widely heralded 2003 CAP reform was a very diluted version of the Agriculture Commissioner's original 2002 proposals.

## **Forces For and Against CAP Reform**

The present report identified several forces exerting pressure for and against reform of the Common Agricultural Policy. It is important to note that, over the past 40 years, the CAP has greatly improved conditions for Europe's farmers. During this period there has been very effective support for the CAP from EU farmers, their organizations and other agricultural interests. The French government has been the staunchest supporter of the CAP, a reflection of the political power of agricultural interests in the country. For several decades these various actors within Europe faced little opposition. It was only in the late 1980s, when agriculture gained importance on the GATT agenda and the strain on the EU budget became prominent, that reform of the CAP became possible. The declining strength of agricultural interests – smaller and smaller shares of the European workforce are farmers, and agriculture is of declining importance to EU income – appears to strengthen the likelihood of reform. Today there are several forces pushing for reform of the CAP: the on-going Doha Round of WTO trade negotiations, continued budgetary pressures (some stemming from the impending enlargement of the EU, which also greatly complicates the operation of the CAP), food and beverage industry interests, and increasing pressure from consumer and other advocacy groups.

### The Strength of Farmers' and Agricultural Interests

The strength of European farmers' organizations and other agricultural interests has been critical to the manner in which the CAP has developed over the decades and to why efforts to reform the CAP have been so limited. Farmers and other agricultural interests have been very concerned about the Common Agricultural Policy because it directly affects their livelihoods and their future. It is normal for those so directly affected by policies to want to be involved in the formulation of the policies, and to try to maintain the policies that benefit them in the face of pressure from other interest groups. Those who pay for the CAP, taxpayers and consumers, are only indirectly affected by the CAP and do not have such cohesive, well organized groups promoting their interests. Significant reform of the CAP would have huge impact on EU farmers and other agricultural interests, but it would have little direct influence on the many millions of European consumers and taxpayers. There seems to be little doubt that for many years the "disproportionate enfranchisement" of agricultural interests at both the member state and EU levels played a key role in preventing deeper reform of the CAP (see chapter 4). Mitigating against the strength of farmers, however, is evidence of the decline in their position in the EU: a reduction in the proportion of the population employed in farming, the aging of this population as children of farmers move into other work, and a declining contribution to EU GDP.

#### France's Role in Protecting the CAP

France is well known as the strongest supporter and defender of the CAP among the EU member states. Farmers' organizations and their leaders have exceptional political influence in France. The most powerful farmers' trade union, the *Federation Nationale des Syndicats des Exploitants Agricoles* (FNSEA), served as the sole counterpart on agricultural issues of all French governments from 1945 until the late 1990s. The ties are particularly close with the RPR and its leader, Jacques Chirac. There have also been very close relations between all French presidents over the last 30 years and the *Federation Nationale Bovine*, (FNB) an independent trade union restricted to cattle farmers, most of them from Central France. This may be one reason why beef is such a protected commodity under the CAP (see chapter 3). Another feature of the French system enhances the political power of French farmers. France has more local administrative districts, many of them sparsely populated rural communes, than any other EU member state. In 1989, 28.5% of French mayors were active farmers (Keeler 1996). During the June 2003 negotiations of the EU Council of Agriculture Ministers on the European Commission's proposals for CAP reform, France threatened to use its right of veto in an effort to block additional reform.

#### The Doha Round of Multilateral Trade Negotiations

For more than a decade, multilateral agricultural negotiations have exerted powerful pressure on the EU to modify the Common Agricultural Policy. The WTO's Doha Round of multilateral trade negotiations is currently the most important force driving reform of EU's agricultural and related trade policy.

Once the Doha Round began in November 2001, there was tremendous pressure on the EU from its trading partners to reform the CAP. Criticism of the CAP came from both developed and developing countries. Until the end of June 2003, most of the blame for the failure to make progress on the Doha agricultural negotiations was directed at the EU for its failure to reform its

Common Agricultural Policy. If the 15 European Union agriculture ministers had failed to reform the CAP, the EU would have been in an extremely weak bargaining position at the WTO Ministerial Meeting in Cancun in September 2003. Agriculture is the centerpiece of the Doha Round and, because of the “single undertaking” rule, the round cannot succeed without a significant breakthrough in agriculture. The EU Council of Agriculture Ministers finally agreed on reform of the CAP in late June 2003. If it were not for the intense pressure resulting from the Doha Round, it is unlikely that the CAP would have been modified to the degree that it was. Critics concluded that the reforms agreed were inadequate, however, and the reforms were clearly modest in relation to the Commission’s original proposals. It is possible that the collapse of the Cancun Ministerial meeting last September may provide a new opening for pro-reform groups to push for further reform. Missed deadlines are common in multilateral trade talks, and the previous Uruguay Round took eight years to complete instead of the scheduled three years.

Multilateral trade negotiations under the auspices of the WTO are intended to achieve a global trading system that is based on agreed rules and does not discriminate between countries. The results of such negotiations should be far better for developing countries than bilateral trade deals, in which one powerful trading partner concludes a free trade agreement with another country, or regional free trade agreements. To enable developing countries to gain the most benefit from multilateral negotiations, it will be necessary to build up the capacity of many developing countries to negotiate and implement multilateral trade rules. Without pressure from the multilateral system coordinated by the WTO, it seems unlikely that developing countries will be able to obtain fair trading agreements from either the EU or US.

#### Budgetary Constraints and Enlargement

Maintaining the CAP is increasingly expensive. An indication of the level of concern that agriculture places too heavy a burden on the EU budget was the report by the High Level Group chaired by Andre Sapir, (see chapter 4 and Annex 5). The group considered the agriculture sector in the context of overall EU priorities. A key conclusion was that, in order to revive economic growth and cut unemployment in an enlarged EU, spending on the CAP should be reduced by about 90%. The accession of 10 new countries will certainly be expensive for the EU. Most of the new countries are from central and eastern Europe, and they are much poorer than the current EU-15. The agreement between Gerhard Schroeder and Jacques Chirac in October 2002 to limit CAP spending in the 2007-2013 period (see chapter 3) reflects the serious concerns about how the EU will be able to provide CAP benefits to the ten accession countries. (Some favoring reform believe this agreement undermined efforts to achieve significant CAP reform, as it reduced budgetary pressure.) The agreement means that while the size of the CAP budget will remain roughly constant for several years, the funds will have to be shared with 10 more countries. And, unless there are significant changes, the CAP will probably continue to represent nearly half the total EU budget. Thus the budgetary and political pressures will continue to be daunting.

#### Food and Beverage Industry Interests

The food and beverage industry desires some reform of the CAP and has considerable clout. This industry is the largest manufacturing sector in Europe, and it is the second largest in terms of employment. There is evidence the industry has gained influence among some EU Commission officials. There are at least two reasons why this industry desires CAP reform.

First, EU domestic support for agriculture keeps domestic prices for primary agricultural products artificially high. Since these products are necessary inputs for the food and beverage industry, any change - such as reducing domestic support - that can lower prices would be favored. Second, the desire for cheap primary agricultural products extends to a desire for cheap imports. Thus, it is in the industry's interest to push for greater market access for such products. However, they do not wish to increase market access for processed, value-added items that could compete with them on the EU domestic market. In regard to the EU's trade in dairy and beef with developing countries, it is significant that it is not in the food and beverage industry's interest that export subsidies be reduced. Oxfam has reported that dairy processing and trading companies receive over one billion euros a year in export subsidies. Given this constellation of interests, it should be no surprise that the food and beverage industries' primary association (the CIAA) supported the June 2003 CAP reform.

### Advocacy Group Pressure

Advocacy groups have had varied success in their efforts to reform the CAP. Among the most successful have been animal welfare and environmental organizations. Animal welfare issues are popular in the UK and northern Europe, and they have been promoted for many years by a number of groups. By focusing on a narrow set of concerns over a lengthy period, these advocates have been able to maximize their impact on EU agriculture policy. Pro-developing country advocacy groups have become more visible recently through their efforts to bring about CAP reform and to promote multilateral trade rules more beneficial to developing countries. Oxfam's Make Trade Fair campaign, for example, is well known to those concerned with the issues and to many in the public. While they have succeeded in raising public awareness of the issues, to date the impact of pro-developing country advocates on CAP reform has been minimal.

For many years consumers have been among the least successful interest groups at promoting CAP reform. The BSE and other food related crises, however, have made food safety a very high priority among European consumers. Put simply, Europeans are extremely worried about the safety of what they eat. The outbreaks of BSE and foot and mouth disease among livestock led many consumers to worry about agricultural production practices. This concern appears to have resulted in a decline in the public's sympathy for farmers, particularly those engaged in what are often described as "industrial production practices" relating to livestock. This development represents a major change as, in many European countries, farmers were given special consideration because of their role in overcoming the food shortages after World War II. In addition, given the large proportion of the European population who were farmers only a few decades ago, many non-farmers have relatives or know families who still farm, or they have otherwise sympathized with farmers.

### **The Need for Appropriate Policies in Developing Countries**

Reforming the CAP and achieving multilateral trade rules that are fair to developing countries are both critical to reducing poverty in developing countries. But trade in agriculture is only one element involved in reducing poverty in such countries, both in general and for the livestock dependent poor. Other essential steps include the formulation and implementation of appropriate and effective policies in developing countries themselves. These policies need to be part of a

larger development strategy for each country that includes macroeconomic policy, education, health, infrastructure, governance and rights of access to land and other resources.

## Strategic Entry Points and Recommendations

Improving the prospects of poor developing country livestock producers will require reforming both the CAP and multilateral trade rules. The analysis presented in the present report suggests a number of entry points for making EU policy more responsive to the problem of poverty reduction in developing countries in general and for poor livestock producers in particular. The following pages discuss strategic entry points at the level of the (a) international trading system, (b) EU member state and (c) the European Union itself.

### At the Level of the International Trading System

The evidence and arguments in this report indicate that there are no easy answers for developing countries as a whole regarding multilateral trade negotiations. It is clear that developing countries have very different interests regarding trade policy liberalization. Even if the findings of simulation studies describing the potential gains from trade liberalization presented in the first two chapters of this report are accurate, there will likely be many negative short-term and medium-term effects for some developing countries (especially net food-importers) even while other countries realize gains from increased market access - particularly the already successful agro-exporters such as Brazil and Argentina. There may well be negative implications for developing country consumers as a result of the inevitably more expensive agricultural products. The strategic entry points and recommendations presented below try to take such broad factors into consideration, along with our more specific concerns with trade in beef and dairy.

Reducing poverty among poor livestock producers in developing countries will require action on a number of fronts. The Doha Round of multilateral trade negotiations is critical as it is the most important force driving CAP reform and it provides the best opportunity to achieve a global trading system that has fairer rules for developing countries. Multilateral trade negotiations are also the most effective way for developing countries to have influence on EU policy-making; without such influence, developing country interests will not receive adequate consideration. All of the major parties (the EU, US, G-21, ACP countries, Cairns group) in the Doha Round are committed to restarting the WTO agriculture trade negotiations.

Participating in multilateral trade negotiations is a difficult, complex and expensive task. The EU and US have many skilled specialists and expend enormous resources on the trade talks. Some developing countries have skillful negotiators, and a smaller number of developing countries are able to carry out appropriate technical analysis. The skill and clout of the G-21 at Cancun suggests that an important new force has appeared on the international trade scene.<sup>60</sup> The G-21 made an enormous impact at Cancun, the first time a bloc of developing countries has so effectively confronted the EU and US in multilateral trade negotiations. But it is clear that most poor developing countries need considerable assistance to more effectively determine their own

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<sup>60</sup> The Group of 21 represents over half the world's population and about two-thirds of its farmers, according to representatives of the group speaking at Cancun in September 2003. Among the G-21 are some of the most influential developing countries in the WTO, including Brazil, China, India and South Africa.

best interests and then to promote them. International organizations, the EU itself and some EU member states, NGOs and others are providing support and technical assistance to developing countries in trade matters. There was considerable discussion in the press and elsewhere about the advice provided by various actors to developing countries before and during the Cancun ministerial meeting. Ideological factors and vested interests are sometimes difficult to separate from technical advice. Two general recommendations: *if progress is to be made in the ongoing multilateral trade negotiations involving developing countries, better targeted and more effective technical assistance is required. In addition, poor countries should be assisted to develop forums to allow them to learn of each other's interests and to enable them to build productive alliances.*

In regard to trade in beef and dairy between the EU and developing countries, all three pillars of the Doha agriculture negotiations deserve close attention because of their interrelationships. *Particular focus should be devoted to EU export support for dairy products, especially milk powder, and for beef.* During the present study the authors found a great deal of information regarding the European Union, Commission, EU member states, and a wide range of interest groups. But very little solid information was found regarding the effects of the CAP in developing countries. For example, interviews revealed considerable disagreement regarding whether the EU's subsidized exports of skimmed milk powder actually undermine livelihoods of the poor in developing countries. Policy decisions, as well as more effective advocacy, on such issues require solid information and analysis, but the information appears lacking in regard to this controversial topic. To fill this information gap we recommend a study to: *collect and analyze relevant information on the effects of the EU's subsidized exports of milk powder in selected developing countries, focusing on whether and how such exports undermine livelihoods and hinder efforts to reduce poverty (and, if yes, the key consequences).*

The present study found that poor livestock producers may lose out as a result of the application of international SPS standards. For example, producers who have been supplying developing country markets may lose access to these markets if international level SPS standards are applied. This is another case where sound information is required to provide a basis for informed policy decisions and more effective advocacy. There are ongoing studies and other efforts to determine the relevant effects of the application of SPS standards in selected regional livestock markets in developing countries. We recommend studies that: *focus on whether and how (and, if yes, the results) the SPS standards prevent poor producers from accessing these markets, particularly producers who have accessed these markets for many years.*

There is no question that appropriate SPS standards are important to protect the health and safety of consumers, and that improving access to animal health services in developing countries is essential to improving the health and productivity of the livestock concerned. However, the cost of compliance with international SPS standards has become, and will continue to be, a major concern for developing countries that do (or intend) to export to markets that require international SPS standards. Issues surrounding how these SPS standards can be effectively met are relevant to poor livestock producers in such developing countries, as these countries will need appropriate assistance to develop (and effectively use) the relevant infrastructure to be able to certify that specific products meet the requirements. The great expense involved in upgrading often weak existing systems to the international level raises serious questions in some cases about whether developing the capacity to meet international SPS standards is really in the best



interests of poor developing countries. *Policy decisions and more effective advocacy on these issues require additional information and analysis to determine if the costs of compliance with the international SPS standards are the most appropriate use of scarce resources in specific developing countries.*

Although positive steps have been taken by the WTO, OIE and Codex Alimentarius, additional attention and resources should be focused on developing and implementing more effective forms of representation of and participation by: (a) developing countries in the relevant international standards-setting organizations and in the WTO's SPS committee, and (b) poor livestock producers on the bodies that determine and implement national SPS policy in developing countries. Additional and better targeted technical assistance will be necessary to achieve these objectives.

In regard to another trade issue, *more attention should be given to tariff escalation issues because it is not well understood how great a disincentive such tariff policies are to developing countries that may have the capacity to produce value-added goods.* In particular, consideration should be given to goods related to livestock production that are not necessarily classified as agricultural products. For example, it has been suggested that some developing countries may have a comparative advantage in the production and export of leather. The EU places higher tariffs on leather imports than on imports of raw hides and skins.

#### At the Levels of the EU and the EU Member State

The policy-making processes surrounding EU agriculture and trade policy are complicated and sophisticated. Several powerful actors and forces attempt to achieve their objectives, as explained in chapters 3 and 4. The Common Agricultural Policy has become a very important political, economic and social institution, and efforts to reform the CAP reach the highest levels of European politics. For example, heads of state have intervened at key moments to influence and even alter CAP reform efforts.

The roles of individual leaders such as Chirac and Schroeder, and the role of France as the leading defender of the CAP, are important at the EU level. These political leaders and their governments operate under certain constraints, however, some determined by the structural nature of EU policy-making (see chapter 3). At the member state level of EU politics, it might be useful to consider further the possibilities of pro-CAP reform efforts even in France. Over the years, France has played an extraordinarily influential role in maintaining the position of the CAP. By threatening a veto during the June 2003 negotiations on CAP reform, France clearly demonstrated that it remains the major obstacle to deeper reform. Those interested in reforming the CAP should examine more thoroughly the evidence that disunity exists in the French position. *Closer analysis of politics at the member state level, especially in France, may help identify additional strategic entry points that were beyond the range of the present analysis.*

The experiences of interest groups suggest entry points for those wishing to influence EU policy. As farmers' organizations as well as food and beverage industry interests have demonstrated, it can pay off to develop long-term relationships with Commission officials and key member state politicians. While building such relationships would be useful to advocacy groups as well, it is unlikely that they have the same kind of opportunities. Advocacy groups have been successful at raising awareness of their concerns among the public, however, and it is through public pressure

that they have had their greatest influence on key decision-makers. The successes of environmental and animal rights advocates in influencing CAP reform may be relevant to pro-developing country advocacy groups, although there appears to be more concern within Europe for environmental issues (and animal rights issues in parts of Europe) than for the problems of developing countries.<sup>61</sup> For those involved in advocacy efforts, *long-term strategies focused on raising public awareness may have the best pay-offs*. On a more general note, it would be useful for international organizations to *publicize more widely the findings of key research on relevant policy issues as opinion pieces in leading newspapers, as well as to send policy briefs to the staffs of senior politicians, officials of EU member states and the Commission, members of the European Parliament and others*.

Consumers in the EU have become increasingly concerned with and mobilized around food safety. Public debate in the media and elsewhere about food safety - including concerns about BSE and the introduction of genetically modified organisms - have led to an electorate which has a sophisticated understanding of food safety issues. *It might be possible to tap into this deep European concern with food safety to promote greater concern with the problems of poor agricultural producers in developing countries*. In the run-up to the June 2003 CAP reform negotiations, alliances were formed between consumer groups, pro-developing country advocates, and environmentalists (the BEUC, Oxfam, and WWF). Such alliances may give these advocacy groups the additional influence necessary to more effectively oppose the powerful interests resisting CAP reform.

The CAP reforms achieved so far represent important steps to respond to European societal concerns and to the efforts of advocacy groups in regard to the environment, food safety and animal welfare. The charges that the interrelated CAP and EU trade policies undermine efforts to reduce poverty in developing countries have not yet been seriously addressed by the EU as a whole, although some member states actively promote “policy coherence” in regard to the EU’s agricultural, trade and development cooperation policies. On the basis of the interviews it is clear that the organizations and groups concerned with reducing poverty (in general and, more specifically, among poor livestock producers) in developing countries share many goals with the organizations and units promoting coherence between these three sets of EU policies. At the EU level, DG Development is in the forefront in this field, and the activities of DG Agriculture and DG trade are relevant. At the member state level, the United Kingdom and the Netherlands are leaders in these efforts (see chapters 2 and 5). DFID supports many activities aimed at reducing poverty in developing countries, including better understanding of the role of trade. The Netherlands may be the only country to have established a specific Policy Coherence Unit in its Ministry of Foreign Affairs.<sup>62</sup> *Additional interaction between these organizations may well produce results that help reduce poverty among poor livestock producers in developing countries*.

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<sup>61</sup> To put this point in comparative perspective, in Europe there is much greater interest in and concern for developing countries than there is in the U.S.

<sup>62</sup> The work of the International Center for Trade and Sustainable Development (ICTSD) and the South Centre, both in Geneva, is relevant.

## ANNEX 1 LIST OF MAIN ACTORS

**Table 11:** *List of Main Actors (this list provides examples and is not intended to be complete)*

<b>Actor Category</b>	<b>Examples</b>
<b>EU Member State Level</b>	Agriculture Ministries Foreign Affairs Ministries (including Development Assistance) Trade Ministries Political Parties EU member state relations outside EU institutions
<b>European Union Level</b>	European Council (including individual heads of state) Council of Ministers (particularly Agriculture) Special Committee on Agriculture Article 133 Committee European Commission DG Agriculture DG Trade DG Health Other DGs Consumers' Consultative Council European Parliament
<b>International Level – Organizations</b>	World Trade Organization (WTO) International Financial Institutions World Bank IMF OECD SPS-Related International Organizations World Organization for Animal Health (OIE) Codex Alimentarius (FAO and WHO) United Nations UNCTAD UNDP FAO ILRI IFPRI
<b>International Trading System Level – States and Groups</b>	European Union United States G-8 (developed countries) Cairns Group (developed and developing countries) Group of 21 (developing countries) ACP Group (developing countries)
<b>Research Institutes</b>	Center for International Cooperation in Agronomy and Warm Climate Research (CIRAD, France) Centre for International Economics, Canberra (Australia) Institute for Development Studies, Sussex (UK) Overseas Development Institute (UK) University of Wageningen (Netherlands)

<b>INTEREST GROUPS (active at various and, in some cases, all levels)</b>	
<b>Producer Interests</b>	<p>Livestock producers (EU and developing country, both large-scale and small producers)</p> <p>Farmers' groups and Unions (EU and developing country)</p> <p>Committee of Agricultural Producers' Organizations (COPA) [EU]</p> <p>Union Europeenne du Commerce du Betail et de la Viande (UECBV)(European Livestock and Meat Trading Union) [EU]</p> <p>General Committee for Agricultural Cooperation in the EC (COGECA) [EU]</p> <p>European Dairy Association [EU]</p> <p>Tenant Farmers' Association [EU]</p> <p>Federation Nationale des Syndicats des Exploitants Agricoles (FNSEA) [France]</p> <p>Farmers Confederation (CP) [France]</p> <p>Irish Creamery Milk Suppliers' Association [Ireland]</p> <p>Via Campesina [international]</p>
<b>Processors and Exporters</b>	Confederation of Food and Drink Industries of the EU (CIAA) [EU]
<b>Retailers</b>	<p>Tesco</p> <p>Carrefour</p>
<b>Animal Welfare Advocates</b>	Compassion in World Farming
<b>Labor and human rights</b>	<p>The International Federation of Free Trade Unions (Brussels)</p> <p>Public Citizen Global Trade Watch (US)</p>
<b>Environment</b>	<p>BirdLife International</p> <p>Friends of the Earth</p> <p>Greenpeace</p> <p>Sierra Club (US)</p> <p>World Wildlife Fund (WWF)</p>
<b>Consumer Protection</b>	<p>European Consumer's Organization (BEUC)</p> <p>European Community of Consumer Cooperatives (EURO COOP)</p> <p>UFC –Que Choisir (France)</p>
<b>Advocacy Groups for Developing Countries</b>	<p>International Center for Trade and Sustainable Development (ICTSD) (Geneva))</p> <p>South Centre (Geneva)</p> <p>Catholic Agency for Overseas Development (CAFOD)(UK)</p> <p>Oxfam International</p> <p>Oxfam Netherlands (NOVIB)</p> <p>Oxfam UK</p> <p>Solagral (France)</p>
<b>Newspapers (in the three countries visited for interviews with national officials)</b>	<p>The Economist</p> <p>Financial Times</p> <p>Le Figaro</p> <p>Le Monde</p> <p>NRC Handelsblad</p> <p>Volkskrant</p>
<b>Interest Group Alliances</b>	<p>OXFAM, BEUC, and WWF</p> <p>EURONATUR, BUND (German Association for the Environment and Nature Conservation) and AbL (German Small Farmers' Association)</p>

## ANNEX 2 NOTES ON THEORY

Theoretically, our approach<sup>63</sup> to understanding EU policy-making is close to that of Andrew Moravcsik's well-known thesis of 'liberal intergovernmentalism', but even closer to the 'three-level game' framework that Lee Ann Patterson uses to explain the 1988 and 1992 CAP reforms. Moravcsik's (1993) theory, briefly stated, is that major decisions in European integration take place in two stages. First, national preferences are formed, influenced by the conditions of economic interdependence. Second, at the 'intergovernmental' level of analysis, outcomes are seen as the result of bargaining power and functional incentives (high transaction costs and domestic agenda control). There are at least two limitations to using this theory to understand current EU policy-making (and it should be noted that Moravcsik's theory is meant to explain integration, not policy). The first is that it is too narrow. International factors and actors, those outside the EU, are generally missing from the picture. It may also imply there are steps in policy-formation from the national to the EU level, when in reality the situation is far more complex. The second is that it goes too far in the direction of seeing policy-making as a clash between national interests. An alternative view, that of social constructivists, is that simply being a part of the EU changes the beliefs and preferences of EU Member States and their politicians. In effect, membership alters their very 'being'. This is not our position either. Our position instead is again somewhere in-between. Many individual policy-makers do tend to follow the 'intergovernmentalist' line. Yet many relevant actors are defined by the EU—some were even created as a result of its formation. Their actions cannot be explained on the basis of local preference formation, but must be viewed in a more transnational context. We also note again the important role played by EU institutions, beyond just that of 'setting the rules of the game'.

Patterson's three-level framework allows us to move beyond some of these limitations by drawing on Putnam's work with '2-level games':

Putnam describes the players in a two-level game in the following way. At the national level of the game "domestic groups pursue their interests by pressuring the government to adopt favorable policies, and politicians are seeking power by constructing coalitions among those groups." At the international level, Putnam argues that "national governments seek to maximize their own ability to satisfy domestic pressures, while minimizing the adverse consequences of foreign developments." However, in the case of the EC, there is an additional level of play, the Community level, in which member states attempt to achieve domestic goals while simultaneously pursuing cooperative integration. Thus the unique structure of the EC requires that Putnam's two-level game be expanded to a three-level interactive game in which negotiations at the domestic, Community, and international levels affect policy options at each of the other levels.

There are a couple ways in which these levels related to each other. The first is that issue linkage at a higher level can alter feasible outcomes at the domestic level. Patterson and Putnam call this 'synergistic linkage'. The second is that pressure at a higher level (EC or international) can expand the range of agreements that could possibly gain a majority domestically, facilitating agreement. She and Putnam call this 'reverberation' and the range of possible winning agreements a 'win-set'. Moravcsik and Putnam both identify Individual leaders as playing a key role in such linkages, as they are often faced with the challenge of building domestic coalitions while contending with opposition forces to maintain legitimacy. Our analysis sees both France's Chirac and Germany's Schroeder playing such roles.

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<sup>63</sup> One dimension of explanations of EU policy-making can be viewed as a continuum. At one end lies those approaches that tend to treat the European Union as a state (see, for example, the work of Simon Hix). At the other end are those that tend to treat the European Union as an international organization not very unlike the World Trade Organization or WTO. We feel it best to look somewhere in -between.

## ANNEX 3 LE FIGARO ON EU-15 VIEWS OF THE CAP

Brocey, Pierre. "L'épineuse réforme de la PAC" *Le Figaro* (24<sup>th</sup> feb 2003):

### PAC : les dissensions européennes

► Position des Quinze sur les propositions de réforme agricole de la Commission Européenne			
	Appréciation générale	Proposition de découpage	Proposition de modulation
	↓	↓	↓
Autriche	'Base acceptable'	'Scepticisme massif'	'D'accord mais avec des aménagements'
Belgique	'Trop tôt pour juger'	'La commission est trop optimiste'	'Le rythme proposé est trop fort'
Allemagne	'L'Europe a besoin de cette réforme'	Risque de créer un marché des primes'	'Un point central de la réforme'
Danemark	'Un grand pas dans la bonne direction'	'Oui à une suppression progressive des primes'	'Mieux vaut tard que jamais'
Espagne	'Proposition risquée, excessive et intransigeante'	'Évaluation extrêmement négative'	'Cela ne fait aucun sens'
France	'Le travail reste à faire'	'Forte réserve pour ne pas dire opposition totale'	'Inacceptable de décider dès maintenant'
Grèce	'Prudemment positif'	'Beaucoup de questions à préciser'	'La Commission n'est pas assez courageuse'
Irlande	'Aucun choix : c'est le rejet'	'Une initiative disproportionnée'	'Intrinsèquement inéquitable'
Italie	'Ne démantelons pas la PAC'	'Perplexité'	'Une idée au détriment de la qualité de la production'
Luxembourg	'La réforme est anticipée'	'Risque de rente pour les propriétaires'	'Effet négatif sur les revenus'
Pays-Bas	'La réforme est inévitable'	'La Commission a raison'	'Un changement fondamental qui est nécessaire'
Portugal	Crainte d'une rupture du tissu économique et social'	'Inacceptable'	'Une option fondamentale'
Suède	'Il faut aller plus loin encore'	'Il faut aller plus loin dans cette voie'	'Il faut faire plus'
Finlande	'Propositions acceptables dans l'ensemble'	'Très difficile à accepter'	'Regrettable d'en rester là'
Royaume Uni	'La réforme est inéluctable et urgente'	'Une avancée massive'	'Dommage de ne pas commencer tout de suite'

## ANNEX 4 EU VOTING, POPULATION AND REPRESENTATION

**Table 12:** EU Council Voting, Population and European Parliament Representation Under the Treaty of Nice

	Votes		% EU Population		Population (millions)	MEPS	
	Current	Post-Nice	Current	EU-27		Current	Post-Nice
<b>EU Members</b>							
Germany	10	29	21.90	17.05	82.04	99	99
UK	10	29	15.81	12.31	59.25	87	72
France	10	29	15.74	12.25	58.97	87	72
Italy	10	29	15.38	11.97	57.61	87	72
Spain	8	27	10.51	8.18	39.39	64	50
Netherlands	5	13	4.20	3.27	15.76	31	25
Greece	5	12	2.81	2.18	10.53	25	22
Belgium	5	12	2.72	2.12	10.21	25	22
Portugal	5	12	2.66	2.07	9.98	25	22
Sweden	4	10	2.36	1.83	8.85	22	18
Austria	4	10	2.15	1.67	8.08	21	17
Denmark	3	7	1.41	1.10	5.31	16	13
Finland	3	7	1.37	1.07	5.16	16	13
Ireland	3	7	0.99	0.77	3.74	15	12
Luxembourg	2	4	0.11	0.08	0.43	6	6
Subtotal	<b>87</b>	<b>237</b>		<b>77.92</b>	<b>375.31</b>	<b>626</b>	<b>535</b>
<b>EU Accession States</b>							
<b>Poland</b>		27		8.03	38.67		50
<b>Romania</b>		14		4.67	22.49		33
<b>Czech Republic</b>		12		2.13	10.29		20
<b>Hungary</b>		12		2.09	10.09		20
<b>Bulgaria</b>		10		1.71	8.23		17
<b>Slovakia</b>		7		1.12	5.39		13
<b>Lithuania</b>		7		0.76	3.70		12
<b>Latvia</b>		4		0.50	2.44		8
<b>Slovenia</b>		4		0.41	1.98		7
<b>Estonia</b>		4		0.30	1.45		6
<b>Cyprus</b>		4		0.15	0.75		6
<b>Malta</b>		3		0.07	0.38		5
Subtotal		<b>108</b>		<b>21.94</b>	<b>105.86</b>		<b>197</b>
<b>TOTALS</b>	<b>87</b>	<b>345</b>	<b>~100</b>	<b>~100</b>	<b>481.2</b>	<b>626</b>	<b>732</b>
QMV	62 (71.3%)	255 (73.9%)					
Blocking Minority	26	91					

Source: EU 2003b

Notes: Votes for Romania and Bulgaria will come into force upon their accession, which will occur later than the other candidate countries.

The QMV system has often been controversial. With the EU-15, for instance, Luxembourg receives approximately one vote for every 200,000 inhabitants; Germany one vote for every 8,000,000.

### **Independent report calls for massive cuts in CAP spending**

A report released in mid-July 2003 shocked many in Brussels and elsewhere in Europe by its call for an extraordinary change in EU agriculture policy, including drastic spending reductions. The report follows in a tradition of influential think pieces that have shaped EU policy over the years, such as the report that laid the foundations of the single market and the European single currency. It is highly relevant to the present study of EU policy-making that that such critical views regarding the CAP have been (a) publicly presented by reputable group, and (b) so sharply attacked by EU officials and others.

EC president Romano Prodi had requested the report by a panel of independent and prestigious academics last year. Mr Prodi disavowed the report once its contents were released. The “High Level Group,” chaired by Andre Sapir of the University of Brussels, recommended massive cuts in CAP spending and re-nationalization to EU member states of many of the agricultural policy’s functions. The group concluded that, to revive economic growth and cut unemployment in an expanded EU, major savings needed to come from cutting the agriculture budget. The resulting savings could be better used in research and development, education, cross-border infrastructure, spending on economic cohesion between regions, and economic restructuring. Significant structural changes would occur in the agriculture sector. Some elements of the CAP would remain with Brussels while the rest of agricultural spending would be returned to member states. It was recognized that differing levels of subsidies in different countries would produce conflicts with EU law over state aids, as well as disruptions in the internal market.

Under the High Level Group’s proposals, agriculture spending at the EU level would drop from about 50% of the total EU budget at present to only 05%, one-tenth the current level. The reduction in CAP spending was justified by four reasons. One, the present budget share of the CAP was seen as so large that, unless brought under control, no significant reallocation of resources within an EU budget of the current size is possible. Two, the CAP was now a redistributive policy for spreading wealth to farmers instead of an instrument to promote efficiency and production, and the micro-management of such a policy would be better executed at the national level. Three, the heterogeneous nature of farming in an EU of up to 27 members states (with differing landscapes, agriculture structures and levels of relative wealth) would make a “one size fits all” rural policy unworkable. Four, the CAP simply did not deliver in terms of promoting the economic well being of the EU. This last reason was considered the most important. The group recognized the potential for state aid problems and market distortions that would arise from a re-nationalization of agriculture, but suggested that existing competition law could deal with these issues.

The European Commission distanced itself from the High Level Group’s findings, emphasizing that the views were not those of the EC and that no EU money had been paid to the authors. An EC spokesman noted that giving back money and policy management to member states would do much more harm than good. He added that having up to 27 national farm policies would not reduce red tape or improve policy consistency. (*Agra Europe* 18 and 25 July 2003)



## ANNEX 6 EXCERPTS FROM THE SPS AGREEMENT

### Excerpts from Annex A (“Definitions”) of the SPS Agreement

1. *Sanitary or phytosanitary measure* – Any measure applied:
  - a. to protect animal or plant life or health within the territory of the Member from risks arising from the entry, establishment or spread of pests, diseases, disease-carrying organisms or disease-causing organisms;
  - b. to protect human or animal life or health within the territory of the Member from risks arising from additives, contaminants, toxins, or disease-causing organisms in foods, beverages or feedstuffs;
  - c. to protect human life or health within the territory of the Member from risks arising from diseases carried by animals, plants or products thereof, or from the entry, establishment or spread of pests; or
  - d. to prevent or limit other damage within the territory of the Member from entry, establishment or spread of pests.
  
3. *International standards, guidelines and recommendations*
  - a. for food safety, the standards, guidelines and recommendations established by the Codex Alimentarius Commission relating to food additives, veterinary drug and pesticide residues, contaminants, methods of analysis and sampling, and codes and guidelines of hygienic practice;
  - b. for animal health and zoonoses, the standards, guidelines and recommendations developed under the auspices of the International Office of Epizootics;
  - c. for plant health, the international standards, guidelines and recommendations developed under the auspices of the Secretariat of the International Plant Protection Convention in cooperation with regional organizations operating within the framework of the International Plant Protection Convention; and
  - d. for matters not covered by the above organizations, appropriate standards, guidelines and recommendations promulgated by other relevant international organizations open for membership to all Members, as identified by the Committee.
  
5. *Appropriate level of sanitary or phytosanitary protection* – The level of protection deemed appropriate by the Member establishing a sanitary or phytosanitary measure to protect human, animal or plant life or health within its territory.

NOTE: Many Members otherwise refer to this concept as the “acceptable level of risk”

## ANNEX 7 INDIVIDUALS CONSULTED

Interviews were carried out with officials of several organizations including: European Commission (EC), International Food Policy Research Institute (IFPRI), International Fund for Agricultural Development (IFAD), World Organization for Animal Health (Office International des Epizooties, OIE), Organization for Economic Cooperation and Development (OECD), United Nations Food and Agriculture Organization (FAO), World Bank (WB) and the World Trade Organization (WTO). Those interviewed also included individuals: representing the EU, France and the Netherlands at the WTO agricultural negotiations in Geneva; working with development cooperation and/or foreign affairs ministries in France, the Netherlands and the United Kingdom; and in the agriculture ministries of the latter two countries. Others interviewed included individuals working with research organizations, universities and NGOs in Brussels, Geneva, the Netherlands and the UK. As only a few of the individuals interviewed were specialists in LLP trade, many of the discussions dealt with broad issues such as CAP reform and the Doha round of multilateral agricultural negotiations. Michael Halderman carried out the interviews between March-June, 2003.

Oswaldo Agatiello	Programme Coordinator, South-South Trade Promotion Unit, International Trade Centre (UNCTAD/WTO), Geneva
A.M. Akkerman	Deputy Chief Veterinary Officer, Ministry of Agriculture, Nature Management and Fisheries, The Hague
Susanne Ammendrup	Principal Administrator, European Commission, Health and Consumer Protection Directorate-General, Brussels
Jean-Luc Angot	Head, Administrative and Finance Department, World Organisation for Animal Health, OIE, Paris
Peter Bazeley	Livestock Advisor, DFID, UK (by phone)
Cahsai Berhane	Special Assistant, General Secretariat of the African, Caribbean and Pacific Group of States, Brussels
Luisa Bernal	South Centre, Geneva
Kwasi Boahene	Policy Advisor, Netherlands Organisation for International Development Co-operation, Novib/Oxfam Netherlands
Loek Boonekamp	Head of Division, Directorate for Food, Agriculture and Fisheries, OECD, Paris
Henning Bosuener	Europe-aid Co-operation Office, European Commission, East Africa and Horn of Africa, Brussels
Sarah Boulton	Senior Economist, International Trade Department, Department for International Development (DFID), London
Jean Boyazoglu	Head, Regional Activities Department, World Organisation for Animal Health, OIE, Paris
Daniel Bradley	Rural Development, DFID, London
Jonathan Brooks	Division for Agricultural Policies, OECD, Paris
Mariella Cantagalli	European Commission: Agriculture, Fisheries, Biotechnology, Directorate-General for Trade, Brussels

Philippe Chedanne	Bureau of Agricultural Policy and Food Security, Ministry of Foreign Affairs, Paris
Ilaria Chessa	Economist, International Trade Department, Department for International Development (DFID), London
Christopher Delgado	Senior Research Fellow, Markets, Trade and Institutions Division, International Food Policy Research Institute (IFPRI), Washington
Sita Dewkalie	Policy Advisor, Netherlands Organisation for International Development Co-operation, Novib/Oxfam Netherlands
Eugenio Diaz-Bonilla	Senior Research Fellow, Trade and Macroeconomics Division, International Food Policy Research Institute (IFPRI), Washington
Pitou van Dijck	Associate Professor of Economics, University of Amsterdam
Michel Doly	President, Conseil Economique et Social Regional (CESR), Auvergne; former President of the Universite d' Auvergne
Kieran Dooley	Deputy Head of Unit, Milk Products Division, European Commission, Directorate-General for Agriculture, Brussels
Lire Ersado	Food Consumption and Nutrition Division, International Food Policy Research Institute (IFPRI), Washington
Rian Fokker	Policy Advisor, Advocacy and Press Department, Netherlands Organisation for International Development Co-operation, Novib/Oxfam Netherlands, The Hague
Otto Genee	Director, Policy Coherence Unit, Netherlands Ministry of Foreign Affairs, The Hague
Henny Gerner	European Commission, Development Directorate-General, Agriculture, Trade and Commodities, Brussels
Wouter van Ginneken	Coordinator, Extension of Social Protection: Research and Policy Development, Social Security Policy and Development Branch, International Labour Office, Geneva
Jacques de Graaf	Office of the Assistant-Director General, FAO, Rome
Cees de Haan	Senior Livestock Specialist, World Bank, Washington
Leo Hagedoorn	Food and Nutrition Division, FAO, Rome
Simon Hall	Deputy Veterinary Head, International Animal Health Division, Department for Environment, Food and Rural Affairs, (DEFRA), London
Peter Hazell	Director, Development Strategy and Governance Division, International Food Policy Research Institute (IFPRI), Washington
Richard Heaver	Development Consultant, India and UK (met in Berkeley)
Sarah Holden	Livestock Advisor, DFID, UK (by phone)
Liselotte Isaksson	European Commission, Development Policy and Sectoral Issues, Environment/Rural Development, Brussels

Karim Ben Jebara	Head, Animal Health Information Department, World Organisation for Animal Health, OIE, Paris
Jean Louis Jouve	Chief, Food Quality and Standards Service, FAO Rome
Jan Klugkist	Senior Policy Adviser/Deputy Director, Policy Coherence Unit, Netherlands Ministry of Foreign Affairs, The Hague
Panos Konandreas	FAO Liaison Office, Geneva
Francois Le Gall	Senior Livestock Specialist, World Bank, Washington
Thomas Lines	Trade Policy Adviser, Policy Department, OXFAM, Oxford
Martin von Lampe	Administrator, Division of Agricultural Trade & Markets, OECD, Paris
Roald Lapperre	First Secretary, Agriculture, Permanent Mission of the Kingdom of the Netherlands, Geneva
PierLuigi Londero	Adjunct Administrator, European Commission, Agricultural Directorate-General, Brussels
Andre Martin	Agricultural Research, Ministry of Foreign Affairs, Paris
Simon Maxwell	Director, Overseas Development Institute, ODI, London
Gerrit Meester	Agricultural Policy Adviser, Ministry of Agriculture, Nature Management and Fisheries, The Hague
Max Merbis	Economist, Centre for World Food Studies, Amsterdam
George Mills	Consultant, International Trade Centre (UNCTAD/WTO), Geneva
Henk Moll	Agricultural Economist, Wageningen University
Catherine Moreddu	Directorate for Food, Agriculture and Fisheries, OECD, Paris
Nancy Morgan	Commodity Specialist, FAO Rome
C.C.J.M. van der Meijs	Veterinary Counsellor, Royal Netherlands Embassy, Permanent Representation for the Kingdom of the Netherlands, Brussels
Jean-Luc Meriaux	Secretary General, European Livestock and Meat Trading Union, Brussels
Philip Mikos	European Commission, Rural Development and Agriculture, Brussels
Jan Mulder	Member of the European Parliament, European Liberal Democrats, Brussels
Nelson Ndirangu	Counsellor, Permanent Mission of Kenya, Geneva
Jacobus Neeteson	Policy Co-ordinator FAO, Ministry of Agriculture, Nature Management and Fisheries, The Hague
Arend Jan Nell	Livestock Production, International Agricultural Centre, Wageningen
A.J. Oskam	Professor of Social Sciences, University of Wageningen
Cedric Pene	Counsellor, Affaires Agricoles, Delegation Permanente de la France aupres de l'organisation Mondiale du Commerce, Geneve

Majda Petschen	Counsellor, Agriculture and Commodities Division, WTO
Jean-Pierre Pierard	Deputy Head of Delegation of the European Commission in Ethiopia, European Union, Addis Ababa
Shishir Priyadarshi	Counsellor, Development and Economic Research Division, WTO, Geneva
Ineke Puls-van der Kamp	Livestock Production, International Agricultural Centre, Wageningen
Alan Randell	Senior Officer, Joint FAO/WHO Food Standards Programme, FAO Rome
Thorkild Rasmussen	Division Head, European Commission, Agricultural Directorate-General, Brussels
John Ravenhill	Professor, Department of Politics, University of Edinburgh (met in Berkeley)
Bernard Rey	Administrator, European Commission, EuropeAid Office, Brussels
Michael Ryan	Division for Agricultural Policies in Non-Member Economies, OECD, Paris
Jens Schaps	Head of Unit, Agriculture, Fisheries, SPS measures, Biotechnology, European Commission, Brussels
Hans Schiere	International Agricultural Centre, Wageningen
Alejandro Schudel	Head, Scientific and Technical Department, World Organisation for Animal Health, OIE, Paris
Dewan Sibartie	Deputy Head, Scientific and Technical Department, World Organisation for Animal Health, OIE, Paris
Ahmed Sidahmed	Technical Adviser/Focal Point, Livestock and Rangeland Systems, IFAD, Rome
Gretchen Stanton	Senior Counsellor, Agriculture and Commodities Division, WTO, Geneva
Stef Swinnen	Deputy Secretary General, COGEGA, Brussels
Jon Tanner	Livestock Advisor, DFID, London
George Tallard	Administrator, Directorate for Food, Agriculture and Fisheries, OECD, Paris
Alejandro Thiermann	President of International Animal Health Code, World Organization for Animal Health, OIE, Paris
Jesus Zorrilla Torras	Counsellor, Agricultural Affairs, European Union, Geneva
Cherif Toure	Coordinator, Sectoral Coordination Unit, Centre for the Development of Enterprise, Brussels
Peter Ungphakorn	Information Officer, Information and Media Relations Division, WTO, Geneva
Marianne Vaes	Counsellor for Agriculture, Nature Management and Fisheries, Royal Netherlands Embassy, Permanent Representation for the Kingdom of the Netherlands to the European Union, Brussels

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Bernard Vallat	Director General, World Organization for Animal Health, OIE, Paris
Myfanwy van de Velde	Principal Administrator, European Commission, Directorate-General VIII, Cooperation with Africa, The Caribbean and the Pacific – Lome Convention, Brussels
Marcel Vernooij	Head, Multilateral Affairs Department of International Affairs, Ministry of Agriculture, Nature Management and Fisheries, The Hague
Herman Versteijlen	Head of Unit, Milk and Milk Products, European Commission, Directorate-General for Agriculture, Brussels
Stefan Verwer	Policy Officer, Both ENDS Environment and Development Service for NGOs, Amsterdam
Philippe Vialatte	Principal Administrator, Environment/Rural Development, European Commission, Brussels
Alex Werth	Programme Officer, International Law, Agriculture and Services, ICTSD, Geneva
Eric Willems	Administrator, European Commission, Directorate-General for Agriculture, Brussels
David Wilson	Head, International Trade Department, World Organization for Animal Health, OIE, Paris
John Young	Research Fellow, Research and Policy in Development Programme, ODI, London

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