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Agriculture and Rural Development

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**RESEARCH FOR AGRI
COMMITTEE - THE INTERACTIONS
BETWEEN THE EU'S EXTERNAL
ACTION AND THE COMMON
AGRICULTURAL POLICY**

STUDY



DIRECTORATE-GENERAL FOR INTERNAL POLICIES
POLICY DEPARTMENT B: STRUCTURAL AND COHESION POLICIES

AGRICULTURE AND RURAL DEVELOPMENT

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This document was requested by the European Parliament's Committee on Agriculture and Rural Development.

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Abstract

The CAP has been strongly influenced by the EU's External Actions. The various Enlargements, and trade policies to favour its neighbours to both the East and South, and for its former colonies, have left their mark. However it is external pressures through the GATT/WTO that have had the most defining effect. Current pressures stem from a new generation of Free Trade agreements, the need to reduce agriculture's greenhouse gas emissions, and to respond to Brexit.

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LIST OF ABBREVIATIONS

- ACP** African, Caribbean, Pacific
- AMS** Aggregate Measurement of Support
- CAP** Common Agricultural Policy
- CEECs** Central and Eastern European countries
- CETA** Comprehensive Economic and Trade Agreement [*with Canada*]
- DCFTA** Deep and Comprehensive Free Trade Agreement
- DG AGRI** Directorate General for Agriculture and Rural Development
- DG ECHO** Directorate General for Humanitarian Aid and Civil Protection
- EBA** Everything but Arms
- EEC** European Economic Community
- EFA** Ecological focus area
- EFTA** European Free Trade Association
- ENP** European Neighbourhood Policy
- EPA** European Partnership Agreement
- EU** European Union
- EUA** European unit of account
- FAO** Food and Agriculture Organization of the United Nations
- FTA** Free trade agreement
- GATT** General Agreement on Tariffs and Trade
- GHG** Greenhouse gas
- GSP** Generalised Scheme/System of Preferences
- IDA** International Dairy Agreement
- IGA** International Grains Agreement

- ILUC** Indirect land-use change
- ISA** International Sugar Agreement
- ISDS** Investor-state dispute settlement
- LDC** Least-developed country
- LULUCF** Land use, land use change, and forestry
- MEP** Member of the European Parliament
- Mercosur** Mercado Común del Sur (*Common Market of the Southern Cone*)
- MFN** Most-favoured-nation
- OTDS** Overall Trade Distorting Support
- PCD** Policy Coherence for Development
- RTA** Regional trade agreement
- TEU** Treaty on European Union
- TPP** Trans-Pacific Partnership
- TREU** Treaty on the Functioning of the European Union
- TRQ** Tariff Rate Quota
- TTIP** Transatlantic Trade and Investment Partnership [*with the USA*]
- UK** United Kingdom
- UNCTAD** United Nations Conference on Trade and Development
- US/USA** United States/ of America
- WFP** World Food Programme
- WTO** World Trade Organization

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EXECUTIVE SUMMARY

The CAP of the mid-2010s is clearly rather different from its initial construct of the 1960s. Documenting changes to a policy is a relatively easy task. **Identifying the causal factors that prompted change is, on the other hand, rather more difficult.** Nonetheless the remit of this In-depth Analysis was to identify how the EU's External Actions —its trade policies and other international obligations, its aid for neighbouring states and developing countries, etc.— have influenced the evolution of the CAP, and to suggest how such influences might impact on the post-2020 CAP. The focus of the report is on the EU's support for agriculture and rural areas as expressed in Pillars I and II of the CAP.

Section 2 focuses in particular on two key reforms that fundamentally changed the way the EU supports its farmers and rural areas: the MacSharry reform of 1992, and the Fischler reform of 2003. Whilst the CAP of the 1960s and 1970s was almost exclusively concerned with market-price support, using intervention buying, export subsidies, etc., today's CAP is more pluralistic. Farm income support is still a major preoccupation (*arguably the major preoccupation*), but payments are largely decoupled from production. Environmental objectives are built into both Pillars of the CAP, as is support for the rural economy.

Section 3, dealing with first GATT and then the WTO, is perhaps the core of the report. Prior to the Uruguay Round the CAP was more influenced by GATT obligations than is commonly recognised. GATT tariff Bindings on the starch- and protein-rich ingredients that were used to formulate 'cereal substitutes' for example did mean that the EU was inhibited from 'rebalancing' the CAP by applying to these imports trade measures comparable to those for cereals. Nonetheless the Uruguay Round was a pivotal development. To further its wider trade interests, the EU did accept that it had to make changes to the CAP (in the MacSharry reform), and thereafter accept WTO disciplines, and adhere to adverse rulings from the new WTO Dispute Settlement system, on the future design of policy. This influence, together the push for a new settlement in the Doha Round, continued to act as a driver of CAP reform through to 2008. However, with no end to the Doha Round in sight, WTO rules had very little leverage on the CAP's 2013 recalibration. WTO constraints are also woven into the discussions of Sections 4, 5, 6 and 7.

The various Enlargements of the EU, discussed in **Section 4**, have probably had more influence on the CAP that is usually recognised. They helped shaped the regionalization of policy, and strengthen its environmental and rural development dimensions for example.

The EU is proud of its support for developing countries (**Section 5**), and its Neighbourhood policies with countries around the Mediterranean Basin and on its Eastern flank (**Section 6**). Providing privileged access for agricultural products from these origins has, however, always been somewhat problematic for the EU's producers of competing goods: a tension that continues. One development that clearly fed into the debate over the 2005/6 sugar reform was the decision to offer to the Least-developed Countries, duty and quota free access for virtually all products: the Everything but Arms initiative.

The EU always had a complex web of preferential trade agreements, as outlined in Sections 5 and 6 but, with the lack of progress in the Doha Round, developed and the more-developed developing countries around the world began to explore ways of to further liberalise trade on a *bilateral* basis (**Section 7**). Thus the EU is now embarked on negotiations of a number of Deep and Comprehensive Free Trade Area (DCFTA) agreements, some of which can open up markets for EU agri-food exports (e.g. South

Korea, Japan) whilst others (Canada, USA, Mercosur) imply increased imports of beef, sugar, etc., into the EU. If implemented, this new generation of DCFTAs would probably have a more immediate impact on EU market prices than the steep tariff reductions that would eventually follow a settlement of the Doha Round.

Section 8 discusses the EU's long-standing leadership of international efforts to combat global warming, and the commitments it entered into at the Paris Climate Conference. The CAP for a brief period directly supported the production of biomass for biofuel production, but it would be wrong to suggest that its biofuel policy is a surrogate for the CAP. The 2013 recalibration of the CAP, with its greening component, was premised inter alia on the need to reduce agriculture's greenhouse gas (GHG) emissions, but critics suggest that much of this was rhetoric. More will certainly need to be done in the post-2020 CAP.

Section 9 asks what external pressures will influence debate over the post-2020 CAP. It reiterates the need to strengthen the CAP's greening provisions, suggests that WTO constraints will probably not be a major factor, but warns that volatile geopolitical developments on the EU's Southern or Eastern flanks could trigger demands for improved access for agri-food products from these origins. The report ends with a warning that the UK electorate's vote to leave the EU ('Brexit'), possibly as early as 2018, also has implications for the CAP.

1. INTRODUCTION

KEY FINDING

- This In-depth Analysis examines how the EU's external actions have impacted on support for EU agriculture and rural areas through Pillars I and II of the CAP, and how they might do so in the future. A major problem is that the counterfactual —i.e. how the CAP would have evolved had the EU not adopted these external actions— is to a large extent unknowable.

This In-depth Analysis on 'The Interactions between the EU's External Action and the Common Agricultural Policy' was commissioned for the European Parliament's Committee on Agriculture and Rural Development. In particular the commissioning brief suggested that the analysis should focus on 'the influence of the EU's action on the international scene on the evolution of the CAP'.

Title V, Chapter 1, of the *Treaty on European Union* (TEU) sets out some overarching provisions to apply to the EU's External Action. It specifies that: 'The Union's action on the international scene shall be guided by the principles which have inspired its own creation, development and enlargement, and which it seeks to advance in the wider world: democracy, the rule of law, the universality and indivisibility of human rights and fundamental freedoms, respect for human dignity, the principles of equality and solidarity, and respect for the principles of the United Nations Charter and international law' (Article 21(1) TEU).

The Union is to 'define and pursue common policies and actions, and ... work for a high degree of cooperation in all fields of international relations, in order to:

- (a) *safeguard its values, fundamental interests, security, independence and integrity;*
- (b) *consolidate and support democracy, the rule of law, human rights and the principles of international law;*
- (c) *preserve peace, prevent conflicts and strengthen international security, in accordance with the purposes and principles of the United Nations Charter, with the principles of the Helsinki Final Act and with the aims of the Charter of Paris, including those relating to external borders;*
- (d) *foster the sustainable economic, social and environmental development of developing countries, with the primary aim of eradicating poverty;*
- (e) *encourage the integration of all countries into the world economy, including through the progressive abolition of restrictions on international trade;*
- (f) *help develop international measures to preserve and improve the quality of the environment and the sustainable management of global natural resources, in order to ensure sustainable development;*
- (g) *assist populations, countries and regions confronting natural or man-made disasters; and*
- (h) *promote an international system based on stronger multilateral cooperation and good global governance* (Article 21(2) TEU).

Many of these objectives — particularly those listed at d, e, f and g— have a clear agricultural, food, or rural land use dimension, and thus have potential implications for the CAP.

Not only is the Union to ‘respect the principles and pursue the objectives set out [above] in the development and implementation of the different areas of the Union’s external action’, but this also applies to ‘the external aspects of its other policies’. Moreover, the Union is tasked with ensuring ‘consistency between the different areas of its external action and between these and its other policies’ (Article 21(3) TEU). Again, these requirements clearly touch upon the CAP. Part V of the *Treaty on the Functioning of the European Union* (TFEU) sets out in more detail the scope of the EU’s External Action.

It should be emphasised that the focus of this In-depth Analysis is rather different to a number of earlier studies. Matthews (2008), and others, for example have discussed the CAP’s policy coherence with regard to the EU’s objective of fostering ‘the sustainable economic, social and environmental development of developing countries’ (point d in the earlier list). **This report reverses the discussion to ask how the Union’s external actions** (e.g. its commercial policies pursued through its membership of the World Trade Organization (WTO), its aid to developing countries, etc.) **have impacted on the CAP, and how they might do so in the future.** A major problem that this, and any similar analysis faces is that **the counterfactual** —i.e. how the CAP would have evolved had the EU not adopted these external actions— **is to a large extent unknowable.**

The report is structured as follows. After an outline of the evolution of the CAP, Section 3 discusses the influence the international trade negotiations and rules in the GATT/WTO have had on the development of the CAP. The GATT/WTO dimension recurs throughout, particularly in discussing the succession of EU enlargements (Section 4), aid for developing countries (Section 5), its Neighbourhood policies (Section 6), and the new generation of Free Trade Area (FTA) agreements (Section 7). Section 8 deals with CAP dimensions of the EU’s response to global warming, and Section 9 concludes.

It should perhaps be emphasised that **the focus of this report is EU support for agriculture and rural areas as expressed in Pillars I and II of the CAP, and associated trade policies.** Although there is some discussion of biofuels, regulatory issues (e.g. sanitary and phytosanitary measures, Geographical Indications of Origin, etc.) are only mentioned in passing. The report has focused on those international agreements and commitments considered most important in determining Pillars I and II of the CAP, but it should be noted that the EU is, or has been, party to many other arrangements with relevance for European agriculture, for example the International Olive Council.

2. SOME KEY DEVELOPMENTS IN THE CAP

KEY FINDINGS

- The CAP as originally developed in the 1960s and 1970s focussed on market price support, rather than restructuring and modernising European agriculture.
- In 1992 the MacSharry reform began a process of decoupling support, and enabled the EU to conclude the Uruguay Round of trade negotiations.
- Wider concerns about the environment, and rural development, led the EU to develop Pillar II of the CAP, and the concept of multifunctionality.

The *Treaty establishing the European Economic Community* (EEC), signed in 1957 and the basis of today's EU, clearly specified that the common market would include agriculture, and that the EEC would establish a 'common policy in the sphere of agriculture' (EEC Articles 38 and 3).¹ The form that Common Agricultural Policy (CAP) would take was not clear at the time, and it took some years of fractious negotiations before the policy was in place (see for example Knudsen, 2009; and Josling & Swinbank, 2013).

2.1. The CAP of the 1960s & 70s

The CAP that emerged from these discussions was little influenced by the EU's external critics (see Section 3 on GATT and the WTO for discussion of this). **It had two policy strands. First, in an attempt to maintain farm incomes, an extensive system of market interventions was put in place to support market prices.** Although details (and terminology) varied from product to product, this 'Old' CAP can be characterised as being **based around three policy instruments** (Harris, Swinbank & Wilkinson, 1983). A system of **high import tariffs**, often in the form of *variable import levies* that bridged the gap between a fluctuating world market price and a politically determined *threshold price*, ensured that cheap imports could not undercut domestic production and that an element of *Community Preference* prevailed. Then, for many products, an **intervention price** was fixed. If market prices were weakening, product could be sold into intervention at these fixed prices, and added to intervention stocks. This led to mounting stocks of butter, skim milk powder, beef, cereals, etc., that attracted considerable opprobrium. The original idea had been that intervention would act as a market-balancing device, with occasional sales into intervention to strengthen market prices, offset by sales out of intervention to curb soaring prices, but —with ever increasing production— stocks accumulated. Thus the third element in the equation was **a mechanism to dispose of surplus stocks on world markets**: either intervention stocks sold at a loss, or —when private traders exported to approved destinations— with the aid of export refunds (aka subsidies). Food Aid to developing countries was also seen as a surplus disposal mechanism at this time (see Section 5.1 of this report).

¹ In the remainder of this text we use 'EU' rather than 'EEC' (or even 'EC') even when the latter would have been the correct terminology of the time. For quotations and references, however, the original formulation is retained.

The second strand —rather poorly developed (and funded) in the initial years— **was a structural policy, to help improve the efficiency of European agriculture through the consolidation of fragmented holdings, their enlargement, and other on-farm and off-farm investments** (Fennell, 1979: chapters 11 and 12). Had structural policy achieved its objective of significantly improving the efficiency of European agriculture, and hence enhanced farm incomes, then the role of market price support could have been reduced. But structural policy did not develop in this way.

Technological change (and investment) undoubtedly boosted crop and animal yields and reduced labour requirements, as did improved farm structures and management techniques. **But support prices had been set too high, incentivising surplus production.** A German academic later said of the 1964 price settlement for cereals that:

German price demands enforced an average increase of 18 per cent in the EEC, which implied a 30 per cent increase in France ... In order to be able to carry their price demands through, these two countries had to accept the counter-demands of other countries, which sought compensation in many areas. Thus was started the disastrous development of more and more regulation and intervention ... , the end result of which can only be described as an escalation of protectionist devices (Priebe, 1972: 6).

The imbalance between the two strands of policy is indicated by the 1979 budget which shows expenditure on market price support of 8.8 billion European units of account (EUA), with 1.4 billion spent on export refunds on cereals alone, compared to just less than 0.4 billion EUA on structural policy (Fennell, 1979: 84, 86).²

2.2. 1973 Enlargement

The 1973 Enlargement to include Denmark, Ireland and the United Kingdom, and subsequent enlargements, have in the main treated the CAP as part of the EU's *acquis communautaire* that newcomers had to accept, but there have been some consequential changes to the CAP that will be discussed more fully in Section 4. In one example, following this first Enlargement, the structural policy's original focus on improving the economic efficiency of European agriculture was softened, and a more differentiated, regionalised, approach was adopted. As Fennell (1979: 181) notes, the 1975 Directive *on mountain and hill farming and farming in certain less-favoured areas* was prompted in part by the EU's response to a request raised by the UK during the accession negotiations. In particular the EU acknowledged that: 'The special conditions obtaining in certain areas of the enlarged Community may ... require action with a view to attempting to resolve the problems raised by these special conditions and, in particular, to preserve reasonable incomes for farmers in such areas' (*Declarations on Hill Farming*, in *European Communities*, 1973: 1495). This concern about the regional diversity of European agriculture is still evident today.

2.3. The 1992 and Subsequent CAP Reforms through to 2008

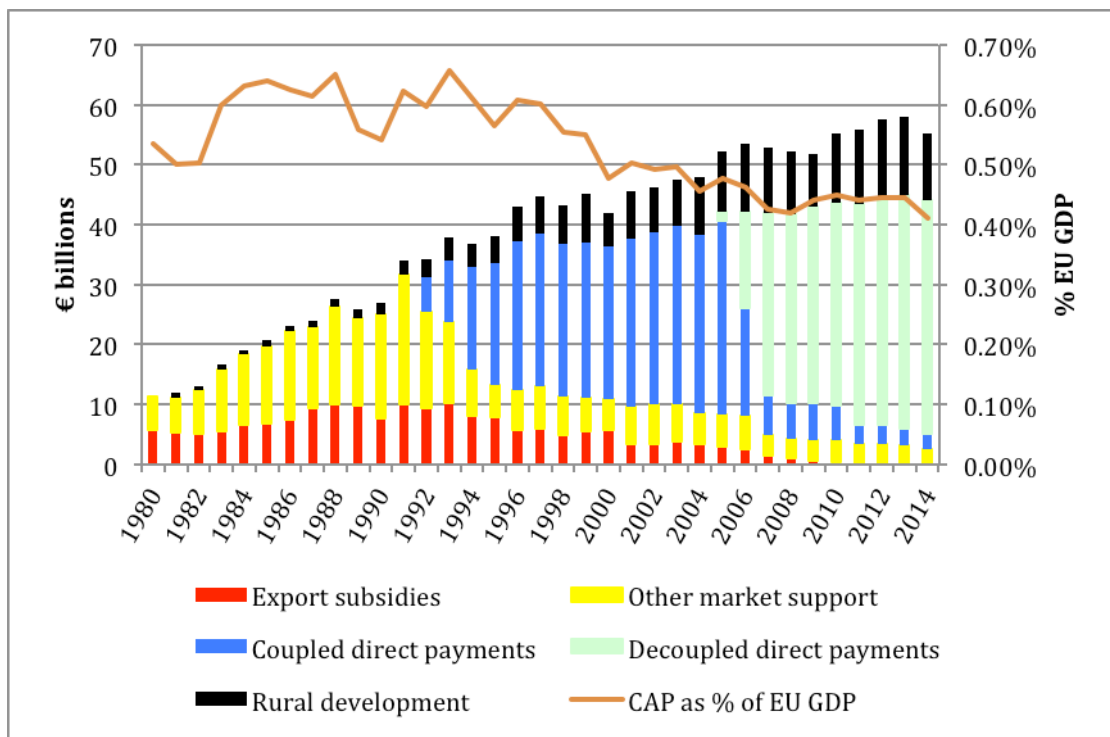
The World Food Crisis of the early 1970s —when 'the insularity of importing countries such as the EEC exacerbated the amplitude of the price movements' (Josling & Tangermann, 2015: 44)— provided temporary relief for the CAP, because for a while its support prices looked modest in comparison with world market levels, intervention stocks could be sold-off without financial loss, and surplus production could be exported without subsidy. However,

² It should be noted, however, that market price support was 100% funded through the Guarantee Section of the European Agricultural Guidance and Guarantee Fund, whereas structural policy was co-funded by the EU (through the Guidance Section) and the Member State concerned.

when world prices subsequently fell, whilst EU agricultural production continued to grow at a faster pace than consumption, budgetary pressures again came to the fore, intervention stocks again accumulated, and the EU's trade partners again complained that their exports faced unfair competition.

The EU's attempts throughout the 1980s to constrain agricultural production involved the imposition of quotas on milk production in 1984 (Petit *et al.*, 1987), voluntary (i.e. farmers were paid) set-aside for cereals in 1988, and various attempts to reduce support prices, in particular in the Budget Stabilizer package agreed in 1988 (Kay, 1998). Then, early in 1991, following an impasse in the Uruguay Round negotiations at the GATT Ministerial meeting in December 1990, Ray MacSharry, the then Commissioner for Agriculture and Rural Development, proposed rather radical changes to the CAP that, with some modifications, were adopted by the Council of Ministers in May 1992 (Cunha with Swinbank, 2011: Chapter 5).

Figure 1: EU Budget Expenditure on the CAP, 1980-2014, in €billion and as a percentage of EU GDP, current prices



Source: Data compiled and kindly supplied by the Directorate General for Agriculture and Rural Development

The MacSharry reforms began the process of decoupling support for farmers. For example the support price for cereals was reduced and, by way of compensation, farmers became eligible for arable area payments based on the area of eligible land planted to cereals and oilseeds on the farm, but not on the farm's actual tonnage of crop produced. In the Agenda 2000 reform in 1999 the MacSharry package was deepened and extended. **In the Fischler reforms of 2003 a further decoupling of support was achieved,** with — in the default option— the Single Payment Scheme no longer linked to areas sown to crops, or the number of livestock kept. Instead farms continued to receive their historic entitlements provided they had the requisite area of farmland at their disposal and they respected the rules on cross compliance (for the various options available to Member States

see Swinbank & Daugbjerg, 2006).³ Later the 2003 reforms were extended to most other products, either under Franz Fischler's leadership (in 2004) or that of his successor Mariann Fischer Boel. The latter's 'Health Check' of 2008 resulted in further decoupling of CAP support (Daugbjerg & Swinbank, 2011). Consequently **by 2014 the bulk of CAP support under Pillar I** (export refunds, market price support, and coupled and decoupled direct payments, as shown in Figure 1) **was decoupled**.

2.4. Environmental Concerns

As well as this decoupling of support, the EU's old structural policy, and support for farming in disadvantaged regions, evolved into what was to become known as Pillar II of the CAP (Rural Development) which would include support for the environment and broader goals of rural development. Environmental concerns date back to the 1980s, or even earlier. In 1985, for example, the Commission acknowledged that intensive farming caused environmental damage and pollution and went on to argue that as well as ' "passive" protection of the environment' there needed to be 'a policy designed to promote farming practices which conserve the rural environment and protect specific sites' (Commission of the European Communities, 1985: 51). Subsequently the 1992 (MacSharry) reform included an agri-environmental regulation as one of its Accompanying Measures (Lowe and Whitby, 1997: 294–5).

The Commission's 1988 communication on *The Future of Rural Society* acknowledged that although 'agriculture is still one of rural society's main components ... it no longer plays a dominant economic role in the Community.' Thus the Commission identified a need 'to preserve a European rural development model based on the promotion of family farms and on balanced regional planning' (Commission of the European Communities, 1988: 17; 67). Indeed Ray MacSharry subsequently served as the EU's Commissioner for Agriculture and Rural Development (1989-1992). Although the conclusions of *The European Conference on Rural Development* (1996), convened by Franz Fischler (newly appointed as Commissioner for Agriculture and Rural Development), were never formally endorsed by the Council of Ministers, the Cork conference was indicative of the likely evolution of future policy. Lowe, Buller & Ward (2002: 2) suggest that this reluctance of agricultural ministers to countenance a reduction in spending on CAP support, in favour of switching funds to rural development, led to the development of the two Pillars of the CAP in the 1999 reform: 'Fischler ... sought to detach the promotion of rural policy from the question of CAP reform: the two ... should proceed in parallel but separately.' Despite this emphasis on *Rural Development*, under the first Rural Development Regulation (2000-2006) 38% of the available funds in Pillar II were to be spent on improving the competitiveness of European agriculture, 52% on environmental measures, and a mere 10% on rural development (European Commission, 2003: 5).

At the same time the EU was developing its concepts of **multifunctionality** and the **European Model of Agriculture**. For example, in its proposals for the 1999 (Agenda 2000) reform the Commission had said:

The fundamental difference between the European model and that of our major competitors lies in the multifunctional nature of Europe's agriculture and the part it plays in the economy and the environment, in society and in preserving the landscape, whence the need to maintain farming throughout Europe and to safeguard farmers' incomes (Commission of the European Communities, 1998: 8).

³ A similar support mechanism —the Single Area Payment Scheme— applied in most of the new Member States from 2004.

2.5. What Prompted the 1992 Reform: Budget Pressure or the GATT/WTO?

After thirty years of policy immobility (a phrase used by Garzon, 2006: 21) what was it that prompted the series of policy changes that began in 1992, and extended to the Health Check in 2008? Individual policy-makers and lobbyists were undoubtedly influenced by a whole gamut of factors, but **in the academic literature the dominant explanatory forces for the 1992 reform are usually listed as: i) the burgeoning budgetary cost of the policy**, the focus of much discussion in the 1980s; **and ii) pressure exerted by the EU's trade partners in the Uruguay Round of trade negotiations**. For subsequent developments a third contributory factor is often cited: a shift in the dominant paradigm to reflect recognition of agriculture's multifunctional role.

In an early study of the MacSharry reform Kay (1998) suggested that the threat that an emerging budget crisis in the early 1990s would trigger automatic reductions in support prices mandated by the Budget Stabilizer package of 1988 prompted Ministers of Agriculture to opt for the less unacceptable outcome proposed by the Commission. Similarly, in an essay published in 2000, Rieger (2000) had suggested that the main driver of reform had been 'the mounting budget costs of the CAP, and, even more so, the way that market support mechanisms had perversely redistributed incomes to farmers.' In a revised version published some years later, however, he wrote: 'The new politics of international trade relations have probably had more impact on CAP reform than intra-EU budgetary pressures and internal factors' (Rieger, 2005: 2005: 180). Ackrill (2005: 481) combines the two in expressing his view that: 'The 1992 reform was forced on the Council by a combination of exogenous pressure from GATT negotiations, and, endogenously, MacSharry threatening an uncompensated 11% price cut under the stabilizer mechanism'.

Arlindo Cunha, who chaired the Farm Council in May 1992, takes a more nuanced view. He suggests that 'Whilst budget pressures were considered, to some extent, to be a motivating force prompting the Commission to put forward its reform proposals, they were mostly absent from the Council's preoccupations during the negotiations and, consequently, the final outcome. By contrast, GATT pressures played an effective role throughout the process' (Cunha with Swinbank, 2011: 90-1).

Having agreed the MacSharry reform the next task was to negotiate, with the USA, an acceptable framework for the emerging *WTO Agreement on Agriculture* before the Uruguay Round could be concluded. A crucial element in this was the need to protect the newly agreed area and headage payments from future challenge in the WTO. In early 1992, in parallel with the on-going CAP reform discussions, an informal understanding was reached about the establishment of a *blue box* category of farm support.⁴ When the US and EU negotiators met in Washington in November 1992, 'This informal understanding became a formal deal in the Blair House Accord ..., opening the way to closure of the agricultural negotiations and the round' (Cunha with Swinbank, 2011: 92).

Conclusion of the Uruguay Round, and acceptance of the WTO's package of agreements, including its *Agreement on Agriculture* and its Dispute Settlement provisions, meant that WTO rules would continue to influence the future development of the CAP, as discussed in the next Section. As Snyder (2012: 487, emphasis added) has noted, 'the WTO Agreement on Agriculture was decisive in crystallizing pressures for reform at a particular time *and in determining the range of acceptable policy instruments*.' Tangermann (2004: 40) notes more forcibly that: 'The

⁴ See Section 3 for an explanation of the blue box.

Uruguay Round has not only resulted in new legal rules and quantitative reduction commitments in the areas of market access, domestic support and export competition. It has also affected the nature of the policy debate in agriculture. The WTO has become a relevant factor in agricultural policy making'.

Garzon (2006: 178) also agrees that 'in 1992 and 2003, the international trade dimension exerted a strong positive pressure for change on the CAP. This pressure shape[d] the content of reform through the interpretation by policy makers of what policies might successfully be enshrined in a GATT or a WTO agreement.' She notes, nonetheless, that:

The market liberal paradigm was ... not entirely adopted. It was adjusted to particular EU values and needs like environmental protection and food safety, as well as to the preoccupation with the socio-economic viability of rural areas. This is the multifunctional paradigm ... (p. 180).

3. GATT AND THE WTO: TRADE NEGOTIATIONS AND DISPUTE SETTLEMENT

KEY FINDINGS

- Prior to the Uruguay Round, GATT rules had little impact on the CAP, although EU policy makers did not entirely ignore GATT constraints.
- The Uruguay Round was a Single Undertaking, which meant that agriculture (and the CAP) could not be side-lined.
- The quest for a Uruguay Round Agreement was an important factor driving the 1992 (MacSharry) reform; but the process was interactive and the nature and extent of the CAP reform influenced in turn the WTO Agreement on Agriculture.
- Subsequent CAP reforms, particularly that in 2003, were to a large extent driven by WTO pressures and the EU's desire to have a proactive negotiating stance in the Doha Round.
- The WTO ruling against the EU's use of export subsidies on sugar had an important impact on the 2005/6 sugar reform.
- Export subsidies will be banned from 2020; and the EU no longer restricts food exports when world market prices soar.
- As a result of past reforms and higher world market prices the EU currently has ample scope to switch support from the green to the amber box, perhaps by some recoupling of income support in the post-2020 CAP, or re-designing its agri-environmental schemes
- A successful conclusion to the Doha Round would probably not trigger further CAP reform, but could result in a re-examination of the WTO-legality of the EU's decoupled payments.

All six of the EU's founding Member States were Contracting Parties to the *General Agreement on Tariffs and Trade* (GATT),⁵ which later evolved into the *World Trade Organization* (WTO). A basic principle in GATT is that its Contracting Parties should not discriminate between trade partners: Most-Favoured-Nation (MFN) Treatment. There are, however, three major exceptions to this basis principle that will be referred to repeatedly in this report, and consequently they are outlined in Box 1.

GATT disciplines extended to trade in all goods, although there were significant derogations for agriculture, and those disciplines that were operative were only laxly enforced (Daugbjerg & Swinbank, 2009; Josling, Tangermann & Warley, 1996). With the conclusion of the Uruguay Round (1986-1994), the adoption of the *Agreement on Agriculture* and other new disciplines, and the creation of the WTO, tightened constraints applied.

⁵ WTO Secretariat, 'Members and Observers' at: https://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm, last accessed 15 April 2016.

Box 1 Three Important Exemptions from GATT's MFN principle

A key component of the WTO/GATT system of trade rules is the **most-favoured-nation (MFN) principle**. GATT Article I specifies that *'With respect to customs duties and charges of any kind imposed on or in connection with importation ..., any advantage, favour, privilege or immunity granted by any contracting party to any product originating in ... any other country shall be accorded immediately and unconditionally to the like product originating in ... the territories of all other contracting parties.'* This means that the importing state cannot apply different tariffs on imports of a particular product originating in other WTO Members: all such imports must be treated equally.⁶

There are three significant exceptions to the basic MFN rule. *First*, **GATT Article XXIV makes provision for the creation and expansion of customs unions** (such as the EU) **and free trade areas** (FTAs). In WTO parlance, customs unions and FTAs are collectively referred to as Regional Trade Agreements (RTAs). With both, products produced within the RTA can circulate freely within the RTA without payment of customs duties, etc. The key difference between a customs union and an FTA is that, with the former, the members of the customs union also apply a common external tariff. Having paid the common external tariff, products are placed in free circulation and can move anywhere within the customs union. In an FTA, however, members continue to apply their own border measures, and only products *originating* within the FTA enjoy free circulation.

Second, dating from the 1970s, developing countries can be treated more favourably than developed countries provided *all* developing countries at a similar level of development are treated equally. Thus the EU has its **Generalised Scheme of Preferences (GSP)** offering lower tariff barriers than the full MFN tariff. These provisions will be discussed in Section 5.3.

Third, as a result of the Uruguay Round, and subsequent negotiations in the WTO, the EU (and many other WTO Members) extend **Tariff Rate Quotas (TRQs)** on certain products to named trading partners. TRQs specify a maximum quantity of product that can be imported from that origin at a reduced tariff (often 0%) while imports that are not covered by the TRQ would pay the full MFN tariff.⁷

3.1. The Dillon, Kennedy and Tokyo Rounds

The **Dillon Round (1960-62)** of trade negotiations in GATT was in part prompted by the creation of the EEC's *custom union*, with its common external tariffs. GATT's other Contracting Parties invoked GATT Article XXIV:6 to seek compensation for trade advantages they claimed to have lost as a result of the adoption of those common external tariffs (Daugbjerg & Swinbank, 2009: 76). Discussions on agriculture were complicated, however, because the EU had not yet finalised the CAP, let alone determined its levels of price support or border protection. One outcome, nonetheless, did have an impact on the evolving CAP. **Soybeans** were, at the time, not seen to be of particular interest for the future CAP and so the EU did agree with the USA —its 'principle supplier'— to fix a zero duty on this product (GATT, 1989: paragraphs 9 & 10). This subsequently had

⁶ The terms customs *duties* and customs *tariffs* are used interchangeably in the literature and in this Report.

⁷ Another outcome of the Uruguay Round was that countries were obliged to open 'minimum access' TRQs, to be allocated on an MFN basis to the generality of WTO Members, in cases when the volume of imports had previously been very low.

repercussions for the way the EU would support its oilseed producers—a policy developed in the wake of the brief US embargo on the export of soybeans in 1973 (Cooper, 1987)—and lead to a major trade dispute with the USA that was only resolved in the Uruguay Round (1986-94) trade negotiations.

Despite the aspirations of the USA, which by the 1960s was regretting its earlier insistence on special treatment for agriculture in GATT and was now seeking to liberalise farm trade, the EU was unwilling to engage in significant changes to the CAP in either the **Kennedy (1963-7) or Tokyo (1973-9) Rounds**. During the Kennedy Round, however, the EU did offer to bind its margin of support for farm products in its *montant de soutien* proposal. This proposal was complex, and not easy to decipher. The margin of support would be 'equal to the difference between the price of the product on the international market and the remuneration actually obtained by the . . . producer' (GATT 1964: paragraph 18). The EU pointed out that, if adopted, 'by binding its own amount of support it would limit considerably ... the existing scope of its [*variable import*] levy mechanism' (GATT, 1964: paragraph 25). Quite how this would have affected the subsequent development of the CAP we do not speculate here. The Americans rejected the proposal and effectively brought an end to the Kennedy Round discussions on farm trade liberalisation (Curzon & Curzon, 1976: 180).

The Kennedy Round did lead to a renegotiated International Grains Agreement (IGA), but Josling and Tangermann (2015: 32) report that this 'was a sad compromise and did not survive the test of the market.' The IGA included a Food Aid Convention, to which the EU did accede, and to which we will return in Section 5.1. But the EU did not accept the International Sugar Agreement (ISA) of 1968—which Kenyon and Lee (2006: 27) suggest was 'one of the more successful and commercially valuable commodity agreements'—and consequently the ISA's 'utility and effectiveness' declined as 'subsidised exports of sugar from the EC mounted.'

3.2. GATT Disputes

The CAP was repeatedly discussed in GATT; and various aspects of the CAP were challenged in formal GATT disputes before arbitration panels, but with little impact on the CAP. In 1978, for example, Australia and Brazil complained about the EU's use of export subsidies on sugar. However they were rebuffed, for 'Despite what seemed to be an extraordinary increase in export sales of European sugar due to the subsidy, the panel said it was unable to find that the EC had taken more than an equitable share' of the world market (Hudec, 1998: 9).

In the Tokyo Round a new Subsidies Code was agreed by a sub-group of GATT Contracting Parties, including the USA and the EU. This, in particular, involved tighter disciplines on export subsidies. But as Hudec (1998: 10) observed:

The United States tried to enforce its new rule in a 1981 complaint against EC export subsidies on wheat flour. As before, the EC contested each and every element of the legal claim with intense vigor. And once again despite another large increase in the volume of EC exports, the panel was unable to find that EC exports had "displaced", "undercut" or "taken more than an equitable share". With the defeat of the United States complaint, GATT member governments tended to write off the possibility of ever successfully challenging anyone's export subsidies. From 1985 on, the United States decided that the only way to resist the EC subsidy program was to engage in subsidy wars, which the U.S. did to the considerable discomfort of non-subsidizing third-country exporters.

In other cases brought by the US against elements of the CAP —*Pasta* (1981–3), *Canned Fruit* (1982–5) and *Citrus* (1982–5)— the EU was forced to block adoption of the panels' reports to avoid changes to the CAP (Daugbjerg & Swinbank, 2009: 79-80). In the 'old' GATT, panel reports were only 'adopted', and hence enforced, if agreed by *both* parties to the dispute.

The EU did, however, accept in January 1990 the recommendation of one important panel. This had been established in 1988 —with the Uruguay Round already underway— to examine a US complaint that **the EU's support arrangements for oilseeds** infringed: i) GATT's national treatment provisions and ii), by encouraging the production of oilseeds in the EU, had the effect of nullifying or impairing the tariff bindings the EU had entered into in the Dillon Round. The EU hoped to remedy or regularise the situation in a Uruguay Round package. But the Uruguay Round was not concluded in December 1990 as planned, and so a new support scheme for oilseeds was enacted in October 1991. That still failed to satisfy the Americans, and the original GATT panel was reconvened. This concluded that the 'benefits accruing to the United States . . . in respect of the zero tariff bindings for oilseeds . . . continue to be impaired by the production subsidy scheme' (GATT, 1992: paragraph 90). Thus the oilseeds dispute rumbled on. The Americans refused to accept the EU's proposals, and **the threat of trade sanctions helped bring the EU to the Blair House negotiations in November 1992, which launched the final push to finalise the Round** (Daugbjerg & Swinbank, 2009: 150-1, 155-6).

Although it is difficult to identify specific instances of the CAP being directly influenced by international pressures prior to the Uruguay Round, more subtle indirect effects can be identified, particularly with regard to exports. New Zealand and EU officials, for example, met regularly to exchange information on the international dairy market (Harris, Swinbank & Wilkinson, 1983: 100), and helped establish the International Dairy Arrangement (IDA) in the Tokyo Round. The IDA provided for minimum export prices for butter, skim milk powder, and some hard cheeses, but it 'contained no enforcement mechanisms' and so it could not 'prevent the collapse in world prices' in the early 1980s (Josling, Tangermann & Warley, 1996: 92).

In the 'Old' CAP export refunds were frequently differentiated by destination, to reflect differences in transport costs, local market conditions, and political sensitivities in the intended market. As Harris, Swinbank & Wilkinson (1983: 99-100) report: 'In the case of the USA ... the Commission has had to exercise considerable restraint to avoid the imposition of countervailing duties [*which could have been invoked by the USA under GATT rules*]. No refund is fixed for skimmed milk powder to this destination.' **Similarly, in 1985 Frans Andriessen, then EU Commissioner for Agriculture, gave Australia an assurance that the EU would not grant export refunds on its beef sales to Japan and other markets in East Asia.** The *Andriessen Assurance* was apparently renewed in the Uruguay Round (Kenyon & Lee, 2006: 49, 227).

The Dillon Round bindings that led to the oilseeds dispute outlined above also fed into a related trade tension over 'rebalancing'. Not only had the EU entered into GATT bindings on soya and other oilseeds, but it had done so on protein-rich **maize-gluten feed** and carbohydrate rich **manioc** (also known as cassava), a root crop grown in the tropics. Animal feed compounders found ways to mix vegetable proteins (e.g. soya meal or maize gluten feed) with starchy manioc to produce acceptable animal feeds. Thus the CAP's high price regime for cereals encouraged the import of these (in EU terms) cheaper '**cereal substitutes**', displacing highly priced cereals from animal feed rations (Buchholz, 1984). The EU sought to close these loopholes in the CAP's protective mechanism by 'concluding so-called "voluntary" export restraint agreements for manioc' with Thailand and the other

major suppliers (Hartmann, 1991: 59), but convincing the US to reduce its exports of soya meal and maize-gluten feed was more problematic. **So GATT rules were a constraint.** In the Uruguay Round the EU proposed a rebalancing of protection, but this was rebuffed (Josling, Tangermann & Warley, 1996: 174).

3.3. The Uruguay Round and Subsequent CAP Reform

Why was the Uruguay Round different from those earlier GATT rounds, in which the EU had made virtually no concessions on the CAP? Launched in 1986, **the Uruguay Round's ambitious liberalisation agenda was dominated by the USA and the EU**—although others, notably Australia and other members of the Cairns Group, played important parts (Kenyon & Lee, 2006). It was a **Single Undertaking**, in which nothing was agreed until everything was agreed, through which the Americans and Europeans hoped to obtain significant liberalisation in trade in services, an agreement on intellectual property rights, and a more effective dispute settlement system. The new WTO was to displace the old GATT (although GATT was re-enacted as a core component of the new family of WTO agreements), and all members of this new body (the WTO) were to accept *all* its disciplines (Steinberg, 2002; Daugbjerg & Swinbank, 2009: 90-3). The GATT membership switched *en masse* to the WTO, many other countries have since joined, and none have quit the organization.

To further its ambitions the EU needed to accept that **an agreement on agricultural trade, and support, would have to be an important component of the Uruguay Round**; although whether farm ministers quite recognised this before the breakdown of the GATT Ministerial Meeting in Brussels in December 1990 is uncertain. **But it is important to stress that pressures were not unidirectional: the Agreement on Agriculture, of course, had been tailored to accommodate the post-MacSharry reform CAP.** Consequently no further changes to the CAP were for the time being required (apart from a switch in border protection from variable import levies to the bound tariffs now listed in the EU's tariff schedule: i.e. tariffication). **The EU respected its new commitments to limit export subsidies and domestic support, and complied with a WTO Dispute panel ruling against its use of export subsidies on sugar** (see Box 2). Some aspects of the banana dispute are discussed in Section 5.

In a series of papers this author has argued that **the GATT/WTO dimension remained an important driver behind the succession of CAP reforms through to 2008, particularly the 2003 Fischler reform** (e.g. Daugbjerg & Swinbank, 2009, 2011 & 2016), **and that it was the lack of a WTO driver that led to a rather different outcome for the post-2013 CAP** (Swinbank, 2015a). Initially the EU had been a reluctant participant in the Doha Round (launched in 2001), but with the successful conclusion of the Fischler reform it was able to adopt a much more proactive approach. As a senior DG Agriculture official would later remark:

Our major contribution is and remains our 2003 CAP reform. It has been and it remains in our interest to make the best use of this negotiating capital: thanks to our past reforms, and as part of an overall package deal, we can accept a steep reduction in the ceiling on our trade-distorting subsidies, the elimination of our export subsidies and a significant reduction of our border protection (Demarty, 2009: 14).

Others, whilst acknowledging the importance of the Doha Round negotiations have, however, emphasised other dynamics. Swinnen (2008b: 162), for example, characterised the range of factors leading to the 2003 reform as a 'perfect storm'. He suggests that 'the main pressures ... were the WTO and other trade negotiations, the budget, food safety and

environmental concerns and to a much lesser extent eastern enlargement.’ We discuss Eastern Enlargement in Section 4.3.

Box 2: The Sugar Dispute, and Sugar Reform

In 2002 Australia, Brazil and Thailand challenged the EU’s export subsidies on sugar and in 2005 won their case. On two counts the EU’s exports of subsidised sugar were found to exceed its WTO commitment, established at the time the Uruguay Round was finalised in Marrakesh in 1994. In particular exports of sugar in excess of sugar producers’ quota entitlements, on which export refunds had not been paid (known as C sugar), were nonetheless deemed to have been subsidised, and thus should have counted as subsidised exports. In addition, the export of a quantity of sugar equivalent to the EU’s preferential imports of sugar from the ACP (African, Caribbean and Pacific) states and India had also wrongly been excluded from its declaration of subsidised exports. The EU was obliged to curb its exports by 22 May 2006, which it just about managed (Daugbjerg & Swinbank, 2009: 114-5).

Poletti & De Bièvre (2014: 1191) write: ‘compliance was forthcoming surprisingly quickly. Indeed, the EU adopted an extensive reform of its sugar regime, substantially complying with the far-reaching requirements of the WTO ruling.’ Garzon (2007: 13) concluded that the ruling, together with greater market access for the least-developed countries (LDCs) under the Everything but Arms (EBA) initiative—which we discuss in Section 5.3—was ‘a direct cause’ of the 2005/6 sugar reform. Ackrill & Kay (2011: 86) concluded that, although the ruling ‘was not sufficient, by itself, to explain fully the reform implemented’, it ‘was a key factor that, with EBA and sugar’s exceptionalism, led finally to reform of the last major unreformed sector under the CAP.’

3.4. Decoupling

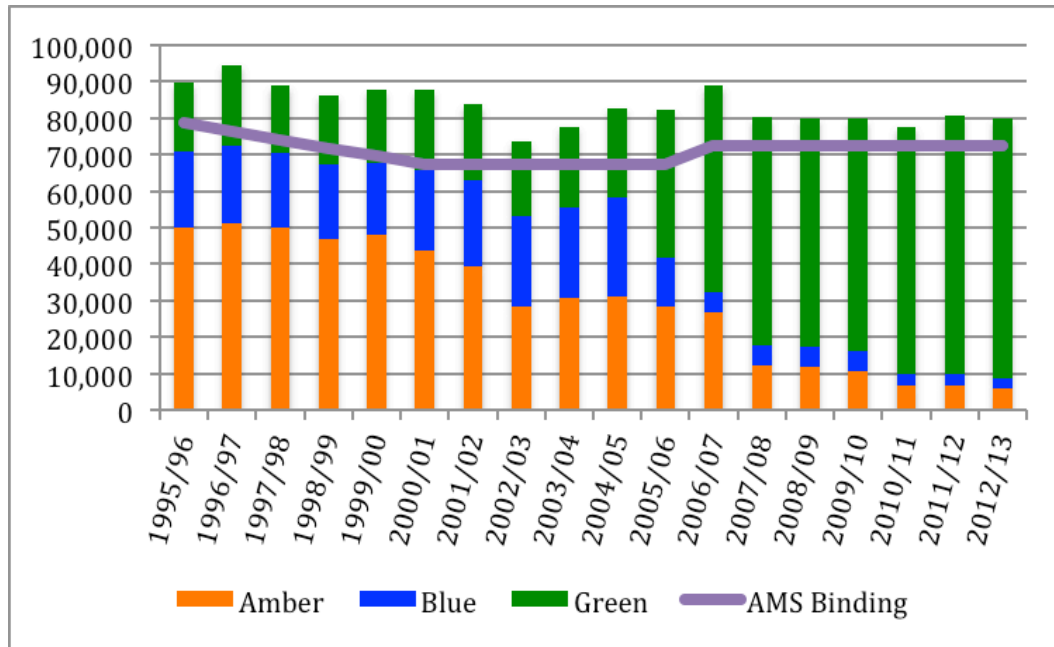
The extent to which the succession of CAP reforms has changed the ‘colour’ of the EU’s domestic support for agriculture is evident in Figure 2. These declarations to the WTO began in 1995, and already reflect the fact that, following the 1992 reform, some support for EU agriculture took the form of area and headage payments that the EU declared as Blue box support. See Box 3 for an explanation of Green, Blue and Amber Box support.

The 1999 reform led to a further fall in Amber Box support, and an increase in the Blue Box. The 2003 reform turned the blue-boxed area and headage payments into the more decoupled Single Payment Scheme, which the EU declared as Green Box support. Subsequent policy changes—olive oil, cotton, wine, fruit and vegetables, sugar, etc.—led to further reductions in amber box support, and offsetting increases in decoupled, green box, payments. **In the Uruguay Round the EU had agreed to limit its annual level of Amber Box support to €67.2 billion by the end of a transitional period** (the line labelled AMS Binding in Figure 2): following the 2004 and 2007 accessions this was raised to €72.2 billion. As can be seen from Figure 2, the level of amber box support falls well short of the EU’s AMS binding.

As Bureau & Mahé (2008: 30) noted: ‘Thanks to the 2003 reform, the EU has a large degree of freedom to accept significant cuts in its present maximum Aggregate Measures of Support. Domestic support provisions [*in a Doha Agreement*] are unlikely to require large changes in the CAP.’ The 2008 blueprint for a Doha agreement had included a proposal to reduce the EU’s AMS binding by 70% (i.e. to €21,673 million for EU27), together with an 80% reduction in a wider measure of Overall Trade Distorting Support (OTDS). Josling and

Swinbank (2011: 90) calculated that the EU's OTDS binding would be €23,812 million. In November/December 2012, during the debate on the post-2013 CAP, the level of support the EU declared for 2009/10 —before the decoupling effects of the 2008 Health Check had fed through— was a current AMS of €8,764 million (which would have been €10,165.8 million had the *de minimis* allowance been set at zero), and blue box expenditure of €5,323.6 million (WTO, 2012). **Consequently, with no end to the Doha Round in sight, it is not very surprising that WTO constraints had little influence on the 2013 reform** (Swinbank, 2015a).

Figure 2: EU Notifications of Domestic Farm Support, € million



Source: EU submissions to the WTO in the G/AG/N/EEC/ (later G/AG/N/EU/) document series. The AMS binding is the maximum level of Amber Box support available to the EU.

Box 3: The Categories of Domestic Support

For developed countries there are three categories of 'domestic support measures in favour of agricultural producers'. Measures that 'have no, or at most minimal, trade distorting effects or effects on production', and meet other criteria, are exempt from further WTO disciplines (the so-called **Green Box**). Direct payments under production limiting programmes are not subject to reductions in domestic support, provided certain criteria are met (the **Blue Box**): the EU declared its area and headage payments under this heading. All other domestic support (after allowance for *de minimis* payments) would be subject to reduction commitments: the **Amber Box** or **Aggregate Measurement of Support (AMS)**. For a definitive discussion see Brink (2011).

There are of course a number of MEPs, Member States, and analysts that believe decoupling has gone too far. The Mouvement pour une Organisation Mondiale de l'Agriculture for instance, suggests that the EU has been too responsive to a neo-liberal agenda in claiming that 'since agriculture was included in the ... WTO in 1995, we have witnessed a process toward unregulated liberalization of international trade ...' (Momagri, 2015: 8). It advocates a redeployment of the greater part of the Pillar I budget 'toward instruments to manage agricultural markets and farmers' incomes according to a counter-cyclical rationale' (p. 26).

3.5. Export Refunds

Initially the Uruguay Round's export subsidy constraints were an important factor that the European Commission had to take into consideration in managing the CAP. Unlike the AMS Binding, which is a single aggregate covering the entire agricultural sector, individual limits were in place for specific products (e.g. butter) on both expenditure and the volume of subsidised exports. For processed products ('incorporated products' in WTO parlance) in particular this meant that the availability of subsidy payments had to be rationed (Daugbjerg & Swinbank, 2009: 67).

The succession of CAP reforms, reducing support prices and freezing them in nominal terms, together with much more buoyant world market prices from the mid-2000s, saw the use of export refunds much diminished, although they remained a formal part of the CAP even after the 2013 reform. At the outset of the Doha Round, export subsidies were one of the contentious issues, with the EU defending their use. As the negotiations progressed, and the policy significance of export subsidies declined, the EU switched its position. At the Nairobi Ministerial Conference in December 2015 developed countries agreed to eliminate their remaining export subsidy entitlements for most products with immediate effect, with the remainder to go by the end of 2020 (WTO, 2015b: paragraph 6; Díaz-Bonilla & Hepburn: 2016).

3.6. Export Restrictions

The WTO does not have particularly strict rules on the use of export taxes or other restrictions on exports, and the proposals on the table in the Doha Round are limited (Meilke, 2008). In the past there were provisions for export taxes to be paid on export of CAP goods or products containing CAP goods. During the World Food Crisis of the 1970s variable export levies were charged on cereals and sugar in an attempt to keep EU consumer prices down, and for sugar import subsidies were in place (Harris, Swinbank & Wilkinson, 1983: 50). However in the 2000s, with world market prices again higher than EU prices, similar provisions were not implemented. Indeed in 2008 the Commission implicitly criticised other countries that had taxed or restricted the export of cereals and rice in pointing out that these measures 'further tighten international agricultural markets to the detriment especially of food importing developing countries' (Commission of the European Communities, 2008: 5). **In effect, external considerations *did* impinge on the EU's management of the CAP.**

3.7. Green Box Measures

Green Box measures need to comply with the WTO provisions set out in Annex 2 to the *Agreement on Agriculture*. In particular they have to 'meet the fundamental requirement that they have no, or at most minimal, trade-distorting effects or effects on production', and a series of programme specific criteria. Other WTO Members can challenge measures that they believe do not comply and, if that challenge is upheld through the WTO's Dispute Settlement procedures, the offending Member can be ordered to bring its policies into line with WTO requirements. Consequently WTO Members try hard to ensure that their programmes *do* comply. If particular policies do not qualify for the green box, then by default they must be Amber (or possibly Blue) Box measures.

The EU's declaration of Green Box support (co-funded by the EU and its Member States) for the marketing year 2012/13 amounted to €71.1 billion, as detailed in Table 1. For the EU the largest expenditure item is the decoupled income support payments (and the similar Single Area Payment Scheme) discussed above. Elsewhere I have queried whether the EU's past and present decoupled income support schemes could be challenged (e.g. Swinbank, 2015: 209). They are, for example, annual payments that appear to be 'related to, or

based on, the factors of production employed in any year after the base period' (i.e. the land at a farm's disposal). As such, they would appear to infringe the requirements of the Green Box. But this does not matter, for even if the whole of this expenditure was declared as Amber Box support, the EU would still be below its AMS Binding as can readily be seen in Figure 2. **Unless and until that AMS Binding is sharply reduced** (with a conclusion of the Doha Round for example), **and a successful challenge is then mounted, the EU has no pressing need to change its policy.**

Similar issues arise in relation to the other measures listed in Table 1. Public support for 'income insurance and income safety-net programmes' must follow the provisions of paragraph 7 if it is to count as Green, rather than Amber Box support, for example. Consequently, in its advocacy of insurance schemes, the 2011 Deß report stressed the need for such schemes to conform to WTO rules and be WTO-compliant (European Parliament, 2011, paragraphs 56 & 57).

Table 1: EU Declaration of Green Box Measures, Marketing Year 2012/13

<i>Measure</i>	<i>€ million</i>
(a) General Services	8,807.0
(b) Public Stockholding	1.0
(c) Domestic Food Aid	940.8
(d) Decoupled Income Support	32,780.2
(e) Income Insurance	37.8
(f) Natural Disasters	775.3
(g) Producer Retirement Programmes	720.4
(h) Resource Retirement Programmes	401.4
(i) Investment Aids	6,641.5
(j) Environmental Programmes	8,869.1
(k) Regional Assistance Programmes	4,452.3
(l) Other (Single Area Payment Scheme)	6,713.3
Total	71,140.0

Source: WTO (2015a)

Eligible environmental payments must be 'limited to the extra costs or loss of income involved' in complying with a 'clearly-defined government environmental or conservation programme and be dependent on the fulfilment of specific conditions under the government programme' (paragraph 12 of Annex 2). Hasund & Johansson (2016) have suggested that the EU's environmental schemes have paid undue deference to WTO provisions. They argue that a 'socially efficient design' would revolve around results-based environmental schemes with payments linked to the social value of the public goods produced, rather than to the present practice of schemes that are management-based with payments linked to the cost of compliance. They point out that **results- or value-based payments are not prohibited by the Green Box provisions**, but have to be 'limited to the extra costs or loss of income involved' to qualify as Green, rather than Amber, Box support. 'That said' they note, 'the EU has a very large margin (many billions of euros) ... As long as the [AMS] ceiling is respected, there are no restrictions in the WTO Agreement on Agriculture on how large the payments per hectare may be' (p. 4).

3.8. Concluding Comments

Although the GATT/WTO was a very important factor driving the series of CAP reforms from 1992 to 2008, including the sugar reform of 2005/6, it is currently a spent force. The decoupling of farm support brought about in those reforms, the attempt to align farm policies with WTO strictures, and increased world market prices, means **there is now little scope or incentive for WTO Members to challenge any aspect of the**

EU's support programmes (including those sheltering in the Green Box). Indeed, with its current AMS bindings, the EU could backtrack on past reforms, and engage in more recoupling of support than was attempted in the 2013 reform (Daugbjerg & Swinbank, 2016); or adopt agri-environmental (and other erstwhile green box) programmes that give rise to Amber Box support, as advocated by Hasund & Johansson (2016). Whether it will attempt to do so for the post-2020 CAP remains an open question. **For the moment the main trade-related driver of further CAP reform will be the bilateral trade initiatives** (particularly Deep and Comprehensive Free Trade Agreements) on which the EU is engaged, that will be discussed in subsequent Sections.

However other WTO provisions may well give rise to WTO challenges that impinge on the EU's farm sector, relating for example to intellectual property rights (e.g. Geographical Indications of Origin), Sanitary and Phytosanitary Measures (including EU rules on Genetically Modified Organisms), and its trade defence mechanisms (e.g. the recent WTO ruling against the EU's use of anti-dumping provisions against biodiesel from Argentina. See *Agra Facts*, No. 23.16: 2).

4. ENLARGEMENT —AND 'BREXIT'

KEY FINDINGS

- Although new entrants are expected to accept the existing body of EU legislation (its *acquis communautaire*), the CAP has been adapted to address the needs and requests of acceding states. Inclusion of cotton in the CAP regime, the sugar protocol attached to the Lomé Convention, and the CAP's greater emphasis on the environment and rural development, are cases in point.
- Eastern enlargement did not *directly* lead to major changes in the CAP. The 2003 Fischler reform left in place the basic principle of supporting farmers' incomes with direct income payments. However there may have been an *indirect* effect, influencing the European Commission's thinking on decoupling support payments in the 2003 reform. Moreover, the CAP budget was now more thinly spread over a larger number of recipients.
- The accession of Turkey, *thought highly unlikely*, would add significantly to the EU's agricultural area and workforce, and to the budget cost of Pillars I and II support.
- The UK's accession to the then EEC had implications for the CAP, and similarly we might expect that Brexit will influence the future development of policy.

Successive enlargements of the EU have impacted in a number of ways on the CAP, and upon the dynamics of CAP policy-making. The latter theme will not be explored in this text other than noting that enlargement from the original 6 to today's 28 Member States, and the injection of new individuals with different ideas and perceptions, has doubtless had its effect. Perhaps the most notable new decision-maker was Franz Fischler, who moved seamlessly from being Austria's Minister of Agriculture, in charge of Austria's accession negotiations, to EU Commissioner for Agriculture and Rural Development, and was 'recognised by friend and foe as the architect of the most radical reforms of the CAP' according to Swinnen (2008a: 1).

4.1. Denmark, Ireland and the United Kingdom

In Section 2 we noted that the accession of the UK led to a differentiated approach in the CAP with the adoption of the Hill Farming Directive. The UK's accession negotiations were also complicated by the county's heavy dependence on imports of food, and its attempts to secure guaranteed access to the protected EU market for, in particular, New Zealand dairy products and lamb, and cane sugar from its past and present colonies.

On sugar, initially it was agreed that the UK could continue until 28 February 1975 with its import arrangements under the Commonwealth Sugar Agreement. But then, with the backdrop of a world-wide surge in sugar prices, the EU adopted a new sugar policy in October 1974 and guaranteed access for 1.4 million tonnes of raw cane sugar from African, Caribbean and Pacific (ACP) states, in a Protocol attached to the first **Lomé Convention** of 1975 (discussed in Section 5.2). Webb (1977: 222) writes: 'The sugar Protocol ... is something of a landmark in the Communities' attitude towards its agricultural trade responsibilities to the less developed world ... breaching the normally secure defences of the CAP against outside supplies ...'

Protocol 18 authorised continued importation of guaranteed quantities of New Zealand butter and cheese, at guaranteed prices, until 1977, with the possibility of extending that

period for butter.⁸ In the UK's 1974-75 'renegotiation' of its terms of membership, this was one isolated example where a change resulted. The price guarantee for butter was increased, and the period extended (Miller, 2015: 13). In the Uruguay Round this became one of the current access Tariff Rate Quotas (TRQs) that the EU included in its Schedule of Commitments.

Whilst the UK was primarily concerned about imports, Denmark and Ireland were eager to ensure they retained their access to the British market, and—in the case of Denmark—regain access to Germany (Tracy, 1982: 314).

4.2. Greece, Portugal and Spain

The Greek application for membership (in 1975), and those of Portugal and Spain in 1977, were instrumental in prompting the EU to re-examine its support for Mediterranean agriculture and address 'the apparent neglect of the south' (Fennell, 1997: 261). The resulting 'Mediterranean initiative was a package of structural measures, enacted in 1978 and 1979, ... and the strengthening of some of the market regimes to provide greater internal support and frontier protection for the producers of typically Mediterranean commodities' (p. 263).

Cotton had never been listed as an agricultural product in the Annex to the Treaty detailing the coverage of the CAP (and still is not listed in Annex I of the TFEU to this day). Cotton, however, was an important crop in Greece (and for Portugal and Spain too). Consequently Protocol 4 to the Act of Accession of the Hellenic Republic specified that: 'A system shall be introduced in the Community particularly to: –support the production of cotton in regions of the Community where it is important for the agricultural economy, –permit the producers concerned to earn a fair income, –stabilize the market by structural improvements at the level of supply and marketing.'⁹ **Thus cotton became, *de facto*, a CAP product.**

Accession of Portugal and Spain led to a trade dispute between the EU and the USA over access to the Spanish market for maize and sorghum, which was not resolved by GATT Article XXIV:6 negotiations. Following accession, Spain had applied the CAP's variable import levy mechanism on cereals, whilst the USA insisted it had 'rights to continuing full compensation, particularly for the loss of tariff bindings on maize and sorghum' (Commission of the European Communities, 1990: 1). As a temporary measure, in 1987 the EU had agreed annual TRQs of 2 million tonnes of maize and 0.3 tonnes of sorghum for a transitional period to the end of 1990, with the expectation that by then a solution would have been found in the Uruguay Round negotiations. But with no progress on the latter, the USA threatened to withdraw tariff concessions enjoyed by the EU from January 1991. Back at the negotiating table the agreement was extended; and ultimately these TRQs were included in the EU's Schedule of Commitments agreed in Marrakech.

The accession of Austria, Finland and Sweden in 1995 reinforced the regional dimensions of the CAP because of the 'prevalence of disadvantaged areas' in all three (Kola, Hofreither & Rabinowicz, 2000: 153). This resulted in amended criteria for the Hill Farming Directive, and additional support for Nordic farmers north of the 62nd parallel.

⁸ Protocol No 18 on the import of butter and cheese into the United Kingdom (European Communities, 1973: 1399-1401).

⁹ *Official Journal of the European Communities*, L291, 19 November 1979: 174.

4.3. Eastern Enlargement

Enlargement of the EU to embrace 2 small Mediterranean states (Cyprus and Malta) and 10 Central and Eastern European countries (CEECs) in 2004 and 2007, and later Croatia, was associated with two CAP reforms: Agenda 2000 in 1999, and the Fischler reform in 2003.

As reported in Swinbank & Tanner (2001: 202-3), the collapse of the Soviet empire in the early 1990s triggered a substantial growth in regional trade agreements in Europe. This led, for example, to the Nordic/Alpine accession of 1995, mentioned above, and the realignment of EU-EFTA relations; the formation of a customs union between the Czech and Slovak Republics following the dissolution of Czechoslovakia; and the creation of a Central European Free Trade Agreement and a Baltic Free Trade Agreement. Moreover **the EU concluded a series of Europe Agreements with the 10 CEECs, which were seen as the first step towards eventual EU membership.**

Accession of the CEECs, it was feared, would place considerable strain on the EU's budget, its institutions, and its policies. Matthews (1996: 497), however, was one author who argued that 'it is unlikely that there will be any budgetary need to further reform Europe's agricultural policy to accommodate the CEECs', suggesting: 'even though the budget constraint on EU farm policy may disappear, other factors, such as GATT disciplines and concern about agriculture's impact on the environment, will remain as pressures for further CAP reform.'

Nonetheless **a major review by the European Commission —Agenda 2000— was undertaken, and published in July 1997.** The Luxembourg meeting of the European Council in December 1997 then launched the accession negotiations with all 10 CEECs, and Cyprus (Phinnemore, 2002). **The proposals for CAP reform contained in Agenda 2000 were eventually settled at the Berlin meeting of the European Council in March 1999** (Ackrill, 2000).

The Agenda 2000 CAP reform widened and deepened the approach taken by Ray MacSharry in 1992, and introduced Pillar II into the CAP, but it was not widely perceived to be a radical reform. Serger (2001: 156-7) concluded:

Internationally, the next WTO round of trade negotiations had not even begun. At EU level, enlargement was either too remote or not a priority for all Member States. Budget restraint, paradoxically, operated as an obstacle against, not in favor of change. The weakened position of the Commission, following the scandals and resignation, further undermined any ... pressures for reform that might have existed, but it did not make or break the outcome. Overall, the absence of sufficient ... pressures for reform left the field wide open for national interests to dominate the negotiations.

One major CAP issue that arose during the accession negotiations was the future role of the area and headage payments introduced by the MacSharry reforms in 1992, and augmented in 1999 by Agenda 2000. Were these temporary payments to compensate farms for revenue losses occasioned by these reforms—in which case why extend them to CEEC farmers who had not experienced these losses?— or should they be seen as a permanent form of CAP income support available to all EU farms? (see Burrell, 2009).

However, by 2002 those favouring the former view—that area and headage payments were a temporary compensation that would have to be phased out— had lost the argument. Having stated that 'in a longer term perspective there will be no two-tier

agricultural policy in the EU but one Common Agricultural Policy for all Member States', the European Commission then conceded that although 'direct payments were introduced initially to compensate for support price cuts, they have lost part of their compensatory character after 10 years of implementation and have instead become simple direct income payments' (Commission of the European Communities, 2002: 4).

Extending the direct income system then in place to the new Member States presented administrative difficulties for many of them. Thus a simplified version of the Single Payment Scheme, known as the Single Area Payment Scheme, was phased in over a 10-year period (Daugbjerg & Swinbank, 2004), *but* with a level of funding that the new Member States judged too low (Wenberg, 2010). The latter concern was partially addressed in the 2013 recalibration of the CAP with some shifting of budget funds ('external convergence') between Member States (Swinnen, 2015: 458-9).

Thus **the Eastern enlargement did not directly lead to major changes in the CAP**. The 2003 reform left in place the basic principle of supporting farmers' incomes with direct income payments, as did the policy changes introduced for the post-2013 CAP. **Nonetheless it may be that there was an indirect effect. Might it be that the recognition** in January 2002 in the *Issues* paper (Commission of the European Communities, 2002) **that direct payments could not be denied the new Member States, coupled with the need to apply a simplified scheme, influenced the European Commission's thinking on the possibility of further decoupling EU15 support payments in the 2003 reform?** As Daugbjerg (2009: 405) was to remark: 'Introducing decoupled payments in the new member states would make it easier to argue that the principle should be extended to the old member states'.

4.4. Turkey and Other Candidates

The candidate countries are: Albania, The former Yugoslav Republic of Macedonia, Montenegro, Serbia and Turkey.¹⁰ In addition Bosnia and Herzegovina 'was identified as a potential candidate for EU membership during the Thessaloniki European Council summit in June 2003',¹¹ and there is a Stabilisation and Association Agreement between the EU and Kosovo.

Of the candidate countries Turkey is by far the largest, posing the biggest challenge to the CAP. Turkish accession would add considerably to the EU28's agricultural area and workforce (Burrell, 2005). Although Turkish membership in the near future looks highly unlikely, as it would require the approval of *all* Member States and of the European Parliament, rapidly moving political events on the EU's Eastern or Southern flanks could potentially catapult Turkey into early membership, or prompt the EU to adopt significant changes to the existing customs union agreement.

Turkey applied for Associate Membership of the then EEC in 1959, and has had an Association Agreement since December 1964 that foresaw the eventual establishment of a customs union. In 1987 Turkey applied for membership, and in 1999 was officially recognised as a candidate country. Meanwhile, by Decision 1/95 of the Association Council,

¹⁰ http://ec.europa.eu/economy_finance/international/non_eu/candidate/index_en.htm, accessed 9 May 2016.

¹¹ http://ec.europa.eu/enlargement/countries/detailed-country-information/bosnia-herzegovina/index_en.htm, accessed 9 May 2016.

the EU-Turkey Customs Union entered into effect on 1 January 1996 (Larson *et al.*, 2015).¹²

There are two points about Decision 1/95 that are particularly relevant for the present report. First, that Article 25(2) states: 'The Community shall take account as far as possible of Turkish agriculture's interests when developing its agricultural policy and shall notify Turkey of the relevant Commission proposals and the decisions taken on the basis of these proposals.' Despite this commitment, this author is not aware of Turkish agriculture's interests having had any substantive influence on the evolution of the CAP.

Second that the Customs Union did (and still does) not apply to products covered by the CAP (and listed in what was then Annex II, now Annex I, to the Treaty), although there was an elimination of the customs duties (but not the agricultural component) on processed foods. A subsequent Decision gave some tariff concessions, often within TRQs, on a number of CAP products.¹³ Following the Uruguay Round, tariffs on CAP products are either *ad valorem duties* (e.g. on fruits and vegetables) or *specific duties* (typically when a *variable import levy* had been converted into a fixed sum—for example €419 per tonne on white sugar). As a result of Decision 1/98, most *ad valorem* duties on Turkish imports into the EU were eliminated, and there were some concessions on *specific* duties on CAP products. Larsen *et al.* (2015: 17-8) are perhaps overly sanguine when they comment: 'The decades-long process of willowing down agricultural trade barriers has brought about a *de facto* free trade agreement between the EU and Turkey. Processed food items fall within the Customs Union, and the barriers that do remain on primary agricultural goods have been hollowed out by tariff reductions and special exceptions.'

If a closer economic relationship between Turkey and the EU is to be sought, perhaps a two-stage process could be envisaged. First, bringing CAP products fully into the customs union. This would involve removing the remaining tariffs on trade between the two parties, and Turkey adopting the EU's common external tariff. It is difficult to predict what, if any, pressures for change to the CAP this would cause. Grethe (2005: 24) suggests that the

effects of Turkish accession on EU agricultural markets are likely to be relatively small. It is mainly the EU that would gain additional export opportunities for cereals and animal products. The effect of full market integration on Turkish agricultural exports to the EU will probably be limited to a few fruit and vegetable products because of the comprehensive preferential market access for Turkish products already in place, coupled with high transportation costs and significant quality differences.

However, the second step, of extending the Single Market and the CAP to Turkey, would be more momentous. The Single Market would require Turkey to fully apply EU rules regarding food hygiene, veterinary measures, etc. (Larsen *et al.*, 2015: 20). **Extending the current CAP to Turkey, could result in a significant increase in the CAP budget for the basic payment scheme and rural development, and perhaps lead to a major review of the CAP.**

¹² 'Decision No 1/95 of the EC-Turkey Association Council of 22 December 1995 on implementing the final phase of the Customs Union', *Official Journal of the European Communities*, L35, 13 February 1996.

¹³ 'Decision No 1/98 of the EC-Turkey Association Council of 25 February 1998 on the trade regime for agricultural products', *Official Journal of the European Communities*, L86, 20 March 1998.

4.5. Brexit

On 23 June 2016, in a referendum on the UK's membership of the EU, 51.9% of the votes cast by the British public were to leave the EU.¹⁴ The Prime Minister, David Cameron, immediately announced that he would resign as soon as a successor could be chosen. Although the vote itself had no direct effect, it is expected that the next Prime Minister will respect the wishes of the public and, at an appropriate time, invoke Article 50 of the TEU. The UK's accession to the then EEC had implications for the CAP, and similarly we might expect that Brexit will influence the future development of policy.

Once the UK notifies the European Council of its intention to withdraw, the clock begins to tick. Article 50 is concerned with the negotiation and conclusion of an agreement with the State concerned (in this instance the UK), and 'the arrangements for its withdrawal.' Brexit will occur on a date to be agreed by the EU and the UK or, failing that, two years after the notification of its intention to withdraw 'unless the European Council, in agreement with the Member State concerned, unanimously decides to extend this period.' Thus the UK could have left by 2018. This would surely impact negotiations over the post-2020 Multi-annual Financial Framework and the post-2020 CAP. Indeed, the UK would probably have little appetite to be involved in these negotiations. Nor, probably, would it wish to elect a new group of MEPs in May 2019, or negotiate the composition of a new College of Commissioners later that year.

There are perhaps three ways in which Brexit might impact on the future CAP. First there will be a squeeze on EU budget funds once the UK's net contribution to the EU budget is removed, unless the UK can be persuaded to pay a sizeable fee of comparable magnitude to secure access to the Single Market, as do members of the European Economic Area. Matthews (2016: 18) points out that the UK's net contribution has averaged about €6 billion per annum in recent years. Although this is not hypothecated to particular budget lines, and the sum is a relatively small part of an overall budget of €155 billion for 2016, its loss will have to be accommodated within the post-2020 budget which could result in a reduced CAP settlement.

Second, trade flows are likely to be impacted, which could influence market prices in particular regions and products. Trade will continue of course —this is not a repeat of the Russian trade embargo— but the terms under which that trade will be conducted are uncertain. In Swinbank (2016) I outlined at least eleven different EU-UK agri-food trade scenarios following Brexit, ranging from a customs union replicating current trade arrangements (which seems highly unlikely) through to no formal arrangement, with the EU and the UK trading as MFN partners in the WTO system. Agri-food trade concerns are unlikely to have much leverage on these negotiations, which will likely be dominated by wider economic and political objectives.

Ireland's agri-food sector has close links with the British market and will watch the negotiations closely. Donnellan & Hanrahan (2016: 53) conclude that 'Brexit would almost certainly have negative implications for the Irish dairy and beef sectors.' Suppose for example —admittedly a rather extreme position— that: i) the EU and the UK failed to negotiate a FTA that included free movement of beef, ii) that the UK reverted to the EU's current MFN tariff on beef which it would then have to apply to Irish imports, but iii) that the

¹⁴ The Electoral Commission, 'Official result of the EU Referendum is declared by Electoral Commission in Manchester', <http://www.electoralcommission.org.uk/i-am-a/journalist/electoral-commission-media-centre/news-releases-referendums/official-result-of-the-eu-referendum-is-declared-by-electoral-commission-in-manchester>, accessed 24 June 2016.

UK nonetheless negotiated a FTA with Mercosur that did allow Brazilian beef duty-free access. Under these circumstances Irish beef is unlikely to be saleable in the UK.

The third potential impact stems from the UK's influence on the shape of the CAP. Matthews (2016: 17) for example claims that: 'The UK has been a pro-reform voice in the Agriculture Council on CAP issues (although less so in the European Parliament)'; and goes on to suggest that 'Brexit would strengthen those voices among Member States and parliamentarians who wish to roll back some of the recent reforms and to give a greater focus to farm income support through strengthened public safety-nets and greater public intervention on markets.' Whether the UK really has had much impact on the CAP in recent years is, however, a debatable proposition (Swinbank, 2015b), and consequently the loss of its voice in the Council and European Parliament might be little noticed.

5. PREFERENCES AND AID FOR DEVELOPING COUNTRIES

KEY FINDINGS

- The EU never used Food Aid for surplus disposal to the extent the USA did, and under the Food Assistance Convention aid is not normally tied to European farm supplies.
- The EU gave preferential access to its markets for exports originating in neighbouring Mediterranean states and former colonies.
- The Lomé Convention was controversial. Critics claimed it was not GATT compliant either as an FTA or under the Generalised System of Preferences. It is being replaced by a series of Economic Partnership Agreements.
- *Everything but Arms* offers duty and quota free access to all products originating in LDCs. From a CAP perspective, the most important agricultural goods are bananas, rice and sugar.
- The European Commission has claimed that as a result of past reforms 'many elements have been introduced into the CAP that makes it more compatible and coherent with the EU's development objectives'.

From the outset the EU attempted to give preferential access to its markets for exports originating in neighbouring states around the Mediterranean (some of which would later become EU member) and to its former colonies and dependent territories overseas. These policies were often contested in GATT, and have evolved considerably over the years. Consequently this Section has a strong historical theme, linking back to Section 3 on GATT and the WTO, and Section 4 on Enlargement, but with links also to forthcoming Sections. This Section also discusses food aid and humanitarian food assistance.

Article 208 TFEU obliges the EU to 'take account of the objectives of development cooperation in the policies that it implements which are likely to affect developing countries.' This is reflected in its annual reports on **Policy Coherence for Development** (PCD). Initially twelve main areas for PCD were identified, but these are now clustered as five 'strategic challenges': i) Trade and Finance, ii) Climate Change, iii) Food Security, iv) Migration, and v) Security (European Commission, 2015a: 12).

Moreover the EU is committed to the **United Nations' Sustainable Development Goals**, embodied in the UN's *2030 Agenda for Sustainable Development* adopted in September 2015 (European Commission, 2015h), which follow on from the Millennium Development Goals established in 2000. Goal 2 is to 'End hunger, achieve food security and improved nutrition and promote sustainable agriculture' by 2030. The EU has said that it is 'determined to fully implement the 2030 Agenda, across the range of its internal and external policies *aligning its own policies and actions to the objectives of the Agenda*. In doing so, the EU remains committed to global solidarity and will support the implementation efforts in countries most in need' (European Commission, 2015h, emphasis added).

But, as noted in Section 1, the purpose of this report is not to question whether the CAP has helped or hindered the EU in its quest to ‘foster the sustainable economic, social and environmental development of developing countries, with the primary aim of eradicating poverty’ —the focus of many past studies critical of the CAP— or to ‘assist populations, countries and regions confronting natural or man-made disasters’ (Article 21(2) TEU), but instead to attempt to identify how these elements of the EU’s External Action have impinged upon the evolution of the CAP.

5.1. From Food Aid to Humanitarian Food Assistance

Until 1968 the EU’s involvement in Food Aid was very limited, although the EU had been party to the UN’s World Food Programme established in 1963. Food Aid had largely been associated with the USA’s PL480 programme, which was widely characterised as a surplus disposal mechanism (Cathie, 1997). But in the 1960s the USA was keen to ensure that others bore part of the burden of supporting world markets. The outcome was the Food Aid Convention (FAC), signed in the closing phases of the Kennedy Round, which bound both exporting and importing states to supply an annual quantity of 4.5 million tonnes of wheat (or its equivalent). The USA’s share of this was 42%, whilst of the then importers the EU’s share was 23% and that of the United Kingdom 5% (Josling, Tangermann & Warley, 1996: 67). Importing donor members could use cash to buy grain from other members of the Convention (Clapp, 2012: 21).

Whilst the EU’s initial entrée into supplying Food Aid was at the behest of the USA in the Kennedy Round, the subsequent development of policy responded more to the requirements of its clients. Cathie (1997: 24) rather generously suggests that the EU’s ‘food aid programme was never overtly a surplus agricultural disposal programme whereas the US programme saw a “marriage of convenience” between the interests of US agricultural producers and ... foreign aid assistance.’ Others were more critical, particularly of the EU’s use of its surplus milk supplies as food aid (see the discussion in Clapp, 2012: 48-9). Over time, however, the emphasis switched from the provision of tied aid (i.e. food sourced from the EU) to financial assistance ‘for local and regional food purchases’; and DG AGRI lost its responsibility for managing the programme. In 2007 the Directorate General for Humanitarian Aid and Civil Protection (DG ECHO) assumed control (Clapp, 2012: 53-4).

The Food Aid Convention has been renewed on a number of occasions. **Its latest incarnation is the *Food Assistance Convention* that came into force on 1 January 2013** with the EU, and several EU member states, numbered among its signatories. As Echols (2013: 354) notes, ‘The use of “assistance” instead of “aid” in the title signals a change in approach from fixed commodity donations to offering a series of options for assisting communities address their particular food needs and goals.’

In March 2016 the EU adopted a ‘€30 million programme to provide 350 000 Syrian children with drinking milk.’ The funding had first been announced in September 2015 (*Agra Facts*, No.67-15, 15 September 2015) and came from a ‘€500 million support package for European farmers’, DG ECHO reported, and noted: ‘It will be used to buy milk which should originate in the EU.’¹⁵ *Agra Facts* (No.23-16, 30 March 2016) pointed out, the intention is that UHT milk is ‘bought from European producers at market prices’, for distribution in ‘all countries where internally displaced persons, refugees or other vulnerable

¹⁵ DG ECHO, ‘EU to provide 350 000 Syrian children with milk’: http://ec.europa.eu/echo/news/eu-provide-milk-350-000-syrian-children_en, accessed 29 April 2016.

people affected by humanitarian crises may need nutritional assistance in the form of distribution of dairy products', with Syria expected to be the main recipient.

DG ECHO's humanitarian partner, the World Food Programme (WFP), will arrange for the purchase of this milk through their procurement and delivery system. This would also be the basis of other shipments of European products, as in-kind allocations are made on the basis of tenders, although products are more usually sourced locally or regionally.¹⁶

5.2. Lomé and Cotonou

On French insistence, the Treaty of Rome had provided for preferential treatment of imports from the colonial territories of the Member States and, as some of these former colonies gained their independence, access was maintained through the **Yaoundé Convention**. Concessions were subsequently extended to other African countries (Kenya, Uganda and Tanzania), and in 1972 Mauritius acceded to the Yaoundé convention. With the accession of the UK to the EU in 1973, however, new arrangements were needed and this resulted in the **Lomé Convention**, signed in the capital of Togo in February 1975. This extended preferences to members of the British Commonwealth, and some others, in Africa, the Caribbean and the Pacific (the ACP States) (Pomfret, 1986: 9-10; Harris *et al.*, 1978: 1).

The Lomé Convention was controversial from the outset. There had been a long history of the EU striving to offer special access arrangements for its neighbours in the Mediterranean, and its former colonies in Africa, in the face of US opposition. Hudec (1987: 68) suggests that Lomé was 'manifestly GATT-illegal', although it was tolerated by the USA because —unlike Yaoundé— **it did not require the ACP states to grant reverse preferences to the EU**. For Lomé to qualify as a Free Trade Area (FTA) under GATT Article XXIV both the EU and the ACP states would have had to grant duty-free access on substantially all the bilateral trade between the parties. But the EU's tariff concessions were not matched by easier access for European goods into the ACP. Nor could Lomé be justified under the 1971 GATT Waiver introducing a **Generalised System of Preferences (GSP)** that allowed developed countries to give preferential access to *all* developing countries (Hudec, 1987: 63-4). Lomé applied only to the ACP, and thus discriminated between developing countries.

Lomé trade concessions on agricultural products were less generous than those on industrial goods. Where the border protection took the form of a conventional customs duty, this was reduced to zero (as on industrial goods), but concessions on the CAP's protective *variable import levy* were much more limited. On maize, for example, the variable import levy was reduced by a 'symbolic 1.5ua/tonne', but by a 'more useful 50% on for millet and grain sorghum' (Harris *et al.*, 1979: 94). For beef, several African States were given TRQs that eliminated the customs duty and reduced the variable import levy by 90%, provided the latter had been offset in the country of origin by an export tax (Harris *et al.*, 1979: 78). **The Sugar Protocol** —not strictly part of Lomé— **gave several ACP states duty-free access for raw cane sugar to the EU market with TRQs that collectively amounted to 1.3 million tonnes** (white sugar equivalent) (Harris, Swinbank & Wilkinson, 1983: 134-5). These arrangements were already mentioned in Section 4, and will be discussed again below.

¹⁶ Email from DG ECHO, 29 April 2016.

Lomé's duty-free deal also meant that ACP **bananas** could now enter the EU without paying the MFN tariff of 20%. However, at the time, the EU's banana market was highly fragmented: Germany had its own particular arrangements; France sought to protect banana producers in its *Départements d'Outre-Mer*; and the UK and Italy had measures in place to give preferential access to their preferred suppliers. Later, with the accession of Greece, Portugal and Spain, there were banana producers in Crete, Madeira and the Canary Islands to consider (McQueen *et al.*, 1998: 160-1).

This market fragmentation was incompatible with the EU's plans to complete the Single Market by 31 December 1992. Reconciling divergent internal and external interests was difficult, and it was not until July 1993 that a new banana regime was in place. This triggered a complaint in GATT, a succession of attempts to bring the regime into compliance with GATT rules, and more challenges in the WTO (see Read, 2005: 112-3, for a useful chronology).

From January 2006 the EU introduced a tariff only trade regime, scrapping its earlier use of TRQs, with an MFN tariff of €176 per tonne; and in December 2006 its domestic support arrangements were replaced by the Single Payment Scheme. But that was not quite the end of the banana saga. According to the European Commission (2013a: 1) the December 2009 Geneva Agreement 'with Latin American suppliers brought to an end the longstanding banana dispute, which soured EU external trade relations for many years.' Further challenges from Colombia and Peru were not settled until late 2012 (European Commission, 2013a: 2). Anania's (2011: 3) view was that: 'As a result of international pressure and the reform of the Common Agricultural Policy, both the EU trade and domestic policy regimes for bananas have undergone major changes in recent years.'

The inauguration of the WTO in January 1995 with its tighter application of the rules of international trade, as reflected in the challenges to the EU's preferential access regime for bananas outlined above, led the EU to conclude that it would have to make alternative trade provisions for its ACP partners. Accordingly, in June 2000 the **Cotonou Agreement** was signed between the ACP and the EU. For the majority of the ACP States the EU's intent was that Cotonou would provide a temporary breathing space for it to continue with its access arrangements for ACP goods whilst it negotiated a number of WTO-compliant Free Trade Area (FTA) agreements with geographical groupings of ACP States. These became known as **Economic Partnership Agreements** (EPA). At the same time the EU committed to granting free access for 'essentially all' goods originating in **least-developed countries** (LDCs) by 2005 (Carbone, 2007: 51). This quickly became known as the **Everything But Arms** (EBA) initiative.

The Sugar Protocol continued to apply until its renunciation by the EU from 1 October 2009. The individual TRQs that had given access to the EU's sugar market for 19 of the ACP States were abolished, and quota and duty free access was granted for *all* ACP states that had signed an Economic Partnership Agreement (EPA), and all LDCs under the EBA (see below), subject to an overall limit on the shipments by the non-LDC suppliers during a transitional period which extended to September 2015. Furthermore, the price guarantee that had applied under the Sugar Protocol was phased out (Garcia-Duran & Casanova, 2009).

5.3. GSP and Everything but Arms (EBA)

The EU has applied a GSP, which it now calls its **Generalised Scheme of Preferences (GSP)**, since the early 1970s, offering lower tariff barriers than the MFN rate. Three levels of concessions apply. The basic GSP offers tariff reductions on about 66% of the EU's tariff lines (European Commission, 2015b: 2). However **a number of 'upper-middle income countries'** (a World Bank definition), **including Argentina, Brazil Thailand and Uruguay, were excluded from the list of beneficiaries from January 2014**. Second, a small group of countries that have ratified and implemented 'core international human and, labour rights, environment and good governance conventions' benefit from enhanced concessions under a scheme known as **GSP+**. Finally, the 49 least-developed countries (LDCs), on an UNCTAD list, benefit from duty and quota free access to the EU market for all products except armaments (including agricultural products) under the EU's **Everything but Arms (EBA)** scheme (European Commission, 2015b). **All three schemes involve complex rules of origin.**

Concessions on agricultural products under the basic GSP, and GSP+, are rather limited. This can be seen as an attempt to augment the value of the concessions it offers on these products to the LDCs through EBA, to the non-LDC ACP states in various EPAs, and to its Mediterranean and Balkan associates.

Quite what prompted the EU to adopt EBA in 2001 is an open question. It might be seen as an attempt by the EU to secure the LDCs' support for the launch of a new round of trade negotiations (the Doha Development Agenda) whilst putting pressure on other developed countries to adopt similar gestures; a philanthropic act on the part of the EU; or even as a Machiavellian move on the part of the European Commission to put pressure on the sugar regime. Whatever its origins, our focus is on the implications of EBA for the CAP. As its name implies, **EBA offers duty and quota free access to all products originating in LDCs, with the exception of armaments. As far as agricultural goods are concerned, the most important products are bananas, rice and sugar**, for which there was a phased introduction with full liberalisation for bananas achieved in 2006, and for sugar and rice from 2009 (Matthews & Gallezot, 2007: 158).

As already suggested in this Report, a number of authors have argued that opening the market in this way was an important factor in prompting the sugar reform of 2005/6. In a speech to the European Parliament's Committee on Agriculture and Rural Development in July 2002 promoting the 2003 CAP reform, Frans Fischler (2002) directly linked EBA with the need to change support arrangements for rice: 'The progressive reduction in import tariffs for rice under the "Everything But Arms" initiative will lead to a dramatic deterioration of conditions on the EU rice market. To my mind, simply to sit and watch as the situation gets steadily worse would be to abdicate our responsibility to the EU's rice farmers. We must therefore act now to reduce the intervention price for rice to world-market levels.' Matthews & Gallezot (2007: 171) agree that, as with sugar, 'a clear link can be made in the case of rice between the reform that took place and concern about the impact of additional EBA imports'.

5.4. CAP Reform and World Food Security

The European Commission's latest PCD report, under the heading 'The Common Agricultural Policy and its contribution to food security', claims that the CAP 'provides an example where critical progress has been made on PCD through the reforms of the last twenty years. In addition to ensuring that food security is assured for EU citizens the CAP and agricultural trade policy are designed to actively benefit farmers and exporters in

developing countries' (European Commission, 2015a: 52). The impact analysis undertaken before the 2013 reform had, it is claimed, a PCD perspective: 'As a result ... , **many elements have been introduced into the CAP that makes it more compatible and coherent with the EU's development objectives**' (p. 53). **Three specific examples are cited: the switch from coupled to decoupled support** that was documented in Section 2 of this report; **the fact that export subsidies had not been used since July 2013; and the extension of sugar quotas to 2017 responding 'in part to requests from ACP suppliers who wanted the existing system to apply as long as possible'** (p. 54).

Whether these changes to the CAP have really been influenced by the EU's PCD concerns, or whether the outcome is more a happy consequence of CAP changes that have been brought about by other drivers of reform and changing economic circumstances, is a more open question that cannot readily be resolved here.

Moreover, *food security* is a multidimensional concept. The FAO's view is that '**Food security exists when all people, at all times, have physical, social and economic access to sufficient, safe and nutritious food which meets their dietary needs and food preferences for an active and healthy life.**'¹⁷ The overall availability of world food supplies is clearly an element in this, and consequently an 'efficient and productive agricultural sector in the EU' (p. 52) has a part to play, but **people can still go hungry if they do not have the means to access available supplies.**

¹⁷ FAO at <http://www.fao.org/economic/ess/ess-fs/en/>, accessed 29 April 2016.

6. NEIGHBOURHOOD POLICY: THE MEDITERRANEAN, EASTERN EUROPE AND THE BALKANS

KEY FINDINGS

- The European Neighbourhood Policy links the EU with 6 Eastern and 10 Southern Partners.
- Between 1958 and 1972 the EU negotiated a series of preferential trade agreements with most Mediterranean states. Successor agreements allow for preferential access for wine, olive oil, citrus, and other fruits and vegetables to the EU, but these arrangements are controversial.
- Following Russia's annexation of Ukraine, and the EU's imposition of economic sanctions against the Russian Federation, Russia has banned the import of some EU agri-food products, which has been in part responsible for depressed market prices. The EU has attempted to support the agricultural sectors most affected with a number of emergency packages.

The EU has always had special links with its nearest neighbours. In the north it eventually found a working trade relationship with members of the European Free Trade Association (EFTA). Here the emphasis was on *excluding* agriculture from the trade arrangements. In the south the EU sought a special relationship with countries around the Mediterranean, in part to embed traditional trade flows in an EU format (for example between Algeria and France), in part to contain the membership aspirations of a number of Mediterranean states (Turkey for example), and in part to stress that the Mediterranean formed a key part of the EU's sphere of influence.

With the collapse of the Soviet empire, and the unification of the two Germanies, attention switched to the EU's Eastern border. Again trade concessions on agricultural and food products were seen as an important factor in helping these former communist regimes switch to market-based economies, and prepare for EU membership. As Smith (2005: 757) has noted, with the 2004 enlargement 'the European Union acquired not just ten new member states but also several new neighbours. At about the same time, it began to flesh out a "European neighbourhood policy", to bring some order to the EU's relations with its old and new neighbours and ensure that the newly enlarged Union would be surrounded by a "ring of friends".'

6.1. The European Neighbourhood Policy

The European Neighbourhood Policy (ENP) currently covers the 16 countries shown in Table 2, of which 12 are said to be 'fully participating ... partners'.

With each of its Eastern partners the EU is in the process of developing Association Agreements, of which an integral part will be a Deep and Comprehensive Free Trade Area (DCFTA), a concept discussed in Section 7. One Association Agreement that has attracted considerably publicity, because of geopolitical controversies with Russia, and the imposition by Russia of trade sanctions against the EU (see below), is that with the Ukraine.¹⁸ This was signed in March 2014, but is not yet ratified (a non-binding referendum in the

¹⁸ The text of the 'Association Agreement between the European Union and its Member States, of the one part, and Ukraine, of the other part' is in the *Official Journal of the European Union*, L161, 29 May 2014.

Netherlands has rejected ratification).¹⁹ Title IV of the Agreement, establishing the DCFTA, has been provisionally applied from 1 January 2016. According to the European Commission, as a result of the DCFTA 'Ukrainian agriculture will benefit from cuts in duties on agricultural and processed agricultural products of almost €400 million.'²⁰

Table 2: The EU's 16 ENP Partners

<i>The Eastern Partnership (6):</i> Armenia, Azerbaijan, Georgia, the Republic of Moldova and Ukraine	<i>Southern Partners (10):</i> Egypt, Israel, Jordan, Lebanon, Morocco, Palestine, Tunisia
Belarus remains outside most of the structures of ENP	Algeria is currently negotiating an ENP action plan Libya and Syria remain outside most of the structures of ENP

Source: adapted from http://eeas.europa.eu/enp/about-us/index_en.htm and associated webpages, accessed 7 May 2016.

6.2. The Mediterranean

Between 1958 and 1972 the EU negotiated a 'rather haphazard' series of preferential trade agreements with most Mediterranean states; but 1972 saw the launch of its **Global Mediterranean Policy** (Gomez, 2002: 341). By 1994 this had become the **Euro-Mediterranean Partnership** based on a series of bilateral agreements between each of the Mediterranean states and the EU. Typically these allowed for free access for manufactured goods to the EU, but restricted access for agricultural products. Over the years the EU's Mediterranean partners have secured **preferential access for their wine, olive oil, citrus, and other fruits and vegetables to the EU**, but with quantities usually constrained by TRQs. As López, García-Álvarez-Coque, & Azcárate (2013: 10) note, 'agriculture is a sensitive issue in the EU Med relations.' Thus at the February 2016 meeting of the Agriculture and Fisheries Council, Italy and Spain reportedly asked for increased protection from imports of Moroccan tomatoes, and expressed concern about proposals to increase duty-free imports of olive oil.²¹ The EU's current strategy is to replace the current generation of trade arrangements with a series of DCFTAs (European Commission, 2015c: 11), but again these would not involve full liberalisation of trade in agri-food products.

6.3. The Ukraine, the Russian Federation, and Trade Sanctions

In November 2013 the then Ukrainian President Viktor Yanukovich vetoed signature of the Ukraine–European Union Association Agreement. This led to a sequence of events. On 21 November demonstrators in Kiev (Kyiv), demanded closer European integration; on 22 February the President fled Kiev; and on 18 March 2014 the Ukrainian territory of Crimea was annexed by the Russian Federation.²² The war in Ukraine continues, with the UK's Foreign Office reporting 'ongoing clashes [*in Eastern and Southern Ukraine*] between Ukrainian armed forces and Russian-backed armed separatists despite a ceasefire.'²³

¹⁹ EurActiv, 'Dutch voters reject EU-Ukraine association', 7 April 2016: <http://www.euractiv.com/section/global-europe/news/dutch-voters-reject-eu-ukraines-association/>

²⁰ Undated pdf file 'Support Package for Ukraine' at http://ec.europa.eu/archives/commission_2010-2014/president/news/archives/2014/03/pdf/20140306-ukraine-package_en.pdf, accessed 9 May 2016.

²¹ 'Italy demands EU protection for tomatoes', *EurActiv* 16 February 2016: <http://www.euractiv.com/section/all/news/italy-demands-eu-protection-for-tomatoes/>

²² https://en.wikipedia.org/wiki/Annexation_of_Crimea_by_the_Russian_Federation, accessed 9 May 2016.

²³ <https://www.gov.uk/foreign-travel-advice/ukraine>, accessed 9 May 2016.

In response to the crisis in the Ukraine the EU imposed a number of sanctions against the Russian Federation (see the annex to Szczepański, 2015, for details), as did other western economies. In August 2014 Russia retaliated by banning, first, the import of various fruits and vegetables from Poland, allegedly for infringement of phytosanitary regulations and 'repeated violations of document requirements' (*Agra Facts*, No.57-14, 30 July 2014), and then a few days later bans or limits on the import of 'certain kinds of agricultural produce, raw materials & food products' from a number of origins that had imposed sanctions against Russia, including the USA and Canada as well as the EU (*Agra Facts*, No.59-14, 8 August 2014). Included in the ban were fruits and vegetables, meats, fish, dairy products, fruits and vegetables, but not baby food (Szczepański, 2015: 3). Russia had been the second most important market for the EU's agri-food exports, accounting for about 9% of total agri-food exports. The Russian sanctions applied to about half of EU agri-food exports to Russia (i.e. excluding cereals, wines, spirits, etc.) (Szczepański, 2015: 6). Both western sanctions against the Russian Federation, and Russia's import ban, remain in force.

The EU's agri-food sector has consistently argued that its economic interests were unfairly jeopardised by policy developments over which it had no control. **But there had been an immediate policy response.** First there was a **€125 million emergency package** to remove certain fruits and vegetables from the market (*Agra Facts*, No.61-14, 22 August 2014), which was quickly exhausted (*Agra Facts*, No.65-14, 10 September 2014), although a new scheme was immediately announced (*Agra Facts*, No.67-14, 17 September 2014). Then **plans for private storage aid for butter, skim milk powder, and certain cheeses** (*Agra Facts*, No.62-14, 29 August 2014). Third, **an increase in the budget to promote sales of EU products in other export destinations** was promised (*Agra Facts*, No.63-14, 3 September 2014). Fourth, **the Baltic States, and Finland, requested additional help for their dairy sectors** (*Agra Facts*, No.74-14, 10 October 2014), which the new College of Commissioners conceded some weeks later (*Agra Facts*, No.85-14, 19 November 2014 & No.91-14, 10 December 2014).

In January 2015 private storage aid was activated for pigmeat (*Agra Facts*, No.15-15, 25 February 2015). In January 2014, following an outbreak of African swine fever in Latvia, Russia had banned the import of pigmeat from the EU (*Agra Facts*, No.08-14, 31 January 2014), prior to the retaliatory measures it applied in August, and depressed market prices were in part linked to this earlier action.²⁴

By July 2015 €220 million had been spent on these various measures since the Russian import ban had been imposed: €150m on fruit & vegetables, €13m for private storage aid for dairy, €40m for dairy farmers in the Baltic States and Finland, and €17m on pigmeat (*Agra Facts*, No.53-15, 13 July 2015). Despite this, in August 2015 the European Commission claimed that EU's agri-food sector had proved 'remarkably resilient'. In most regions, it claimed, 'most of the affected sectors have been able to find alternative markets, either within the EU or beyond' and it stated that 'the value of overall exports have increased by 5% from August 2014 to May 2015.'²⁵ But as the Russian embargo moved into its second year, EU market prices for dairy products and pigmeat in particular remained depressed, prompting a **€500 million support package for agriculture in September 2015** (*Agra Facts*, No.67-15, 15 September 2015).

²⁴ The EU has complained that the Russian Federation infringed a number of WTO provisions, particularly the Agreement on the Application of Sanitary and Phytosanitary Measures (in Case DS475). A panel report is pending: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds475_e.htm, accessed 12 May 2016. But a leaked interim report suggests the EU will win the case (*Agra Facts*, No.11-16, 12 February 2016).

²⁵ 'The Russian ban on EU agricultural products – 12 months on' at: http://ec.europa.eu/agriculture/newsroom/218_en.htm, accessed 11 May 2016.

In June 2016 Russia extended its import ban on selected EU food products until the end of 2017; and the EU's Draft Budget for 2017 was released, which includes €100 million for an extension of the exceptional support measures for fruit and vegetables to counter the effects of the Russian embargo (*Agra Facts*, No.49-16, 1 July 2016).

7. THE NEW GENERATION OF FTAs: 'DEEP AND COMPREHENSIVE'

KEY FINDINGS

- The EU has over 50 RTAs in operation or under negotiation.
- The new generation of DCFTAs under negotiation (with the USA, Mercosur, etc.) would open up agricultural markets both within the EU and in its DCFTA partners.
- There is a rash of initiatives worldwide as countries compete to negotiate new FTAs, hoping to give their exporters a competitive edge.
- One country's negotiating success may act as a precedent for another's expectations (trying to secure a better deal). The *cumulative* effect, of a number of TRQs for example, is likely to depress market prices.

According to the WTO, as of 1 February 2016 267 RTAs (i.e. both customs unions and FTAs) were in force, covering goods, services, and accessions to pre-existing RTAs (for example Croatia's accession to the EU).²⁶ Most WTO Members are party to at least one RTA, and some (e.g. the EU) are members of many. It is thought that it was the inability of WTO Members to conclude the Doha Round of *multilateral* trade negotiations that led to a renewed quest to seek trade liberalisation through *bilateral* negotiations, and to address bilaterally regulatory measures beyond those already governed by the WTO system. Many new RTAs around the world are being negotiated, and a number of these have been dubbed 'mega-regional trade agreements' as they involve a number of countries within a common framework. For example the **Trans-Pacific Partnership** (TPP) incorporates 12 Pacific Rim countries, collectively accounting for 10.4 per cent of world agricultural trade (Jurenas, 2015: 3).

As reported in earlier sections of this In-depth Analysis, in the past the EU's preferential trade regime focussed on the development of WTO compatible FTAs with the EFTA states, neighbouring countries to its East and in the Mediterranean, and EPAs with the non-LDC ACP. However in the last decade a number of other agreements have been implemented (e.g. with **South Korea**, from 2011) or are nearing ratification (e.g. with Canada and the USA), and other initiatives are underway (e.g. Australia and New Zealand), as well as the long stalled negotiations with **Mercosur**. The EU now has over 50 RTAs in operation or under negotiation, as summarised in Figure 3.

The new generation of FTAs that the EU aims to conclude are characterised as **Deep and Comprehensive Free Trade Agreements** (DCFTA). The European Commission explains that: 'on top of removing tariffs', DCFTAs would 'also open up markets on services, investment, public procurement and include regulatory issues'.²⁷ For trade in livestock products and fruit and vegetables these 'regulatory issues' could be particularly important. Moreover, in a recent policy brief the European Commission (2015e: 5) has said that its new approach to trade policy:

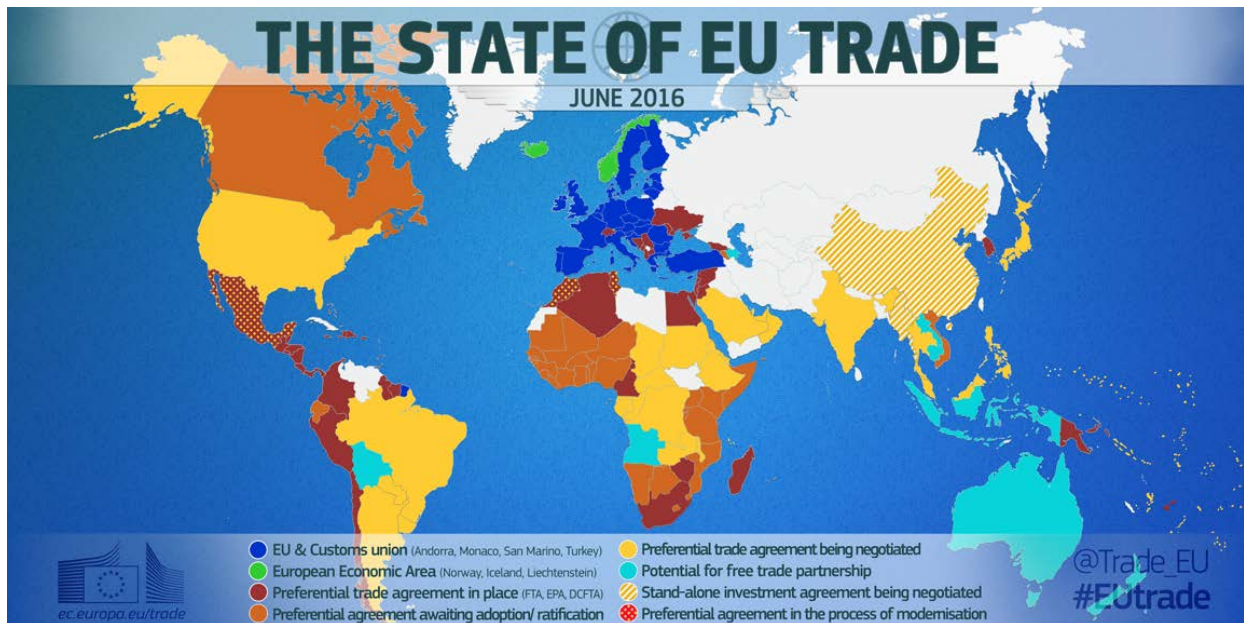
²⁶ WTO website: Regional Trade Agreements https://www.wto.org/english/tratop_e/region_e/region_e.htm, last accessed 21 May 2016.

²⁷ European Commission, DG Trade website: Agreements <http://ec.europa.eu/trade/policy/countries-and-regions/agreements/>, last accessed 21 May 2016.

will safeguard the European social and regulatory model at home. The Commission makes a clear pledge that no trade agreement will ever lower levels of regulatory protection; that any change to levels of protection can only be upward; and that the right [to] regulate will always be protected. ... The new approach also involves using trade agreements ... as levers to promote ... values like sustainable development [,] human rights, fair and ethical trade and ... improve the responsibility of supply chains.

Most of this new generation of FTAs do include some trade in agricultural products but, as with past FTAs, significant exceptions to product coverage will still apply.

Figure 3: The EU's Preferential Trade Agreements



Source: European Commission

In 2014 about 70% by value of the EU's agri-food imports were traded under the WTO's MFN regime, about 5% under GSP (including Everything but Arms), and about 23% under existing FTA agreements, as detailed in Table 3. It will be noted from the Table that some 43% of agri-food imports came in over a zero MFN tariff. This is not particularly surprising. It would have included tropical beverages (such as tea, coffee and cocoa), soybeans (as discussed earlier in the Report) and some cereals subject to a tariff suspension, whatever the origin of the supplies. The tension over the new generation of DCFTAs under negotiation focuses on the 20% of agri-food imports in 2014 that paid the full MFN tariff, particularly when those tariffs were prohibitively high (such as beef, dairy and sugar).

Table 3 The EU's Agri-food Imports by Trade Regime, 2014

Regime	Treatment	% of trade
MFN Regime	Full Duty	20
	TRQ, reduced duty	4
	TRQ, duty-free	2
	Duty-free	43
GSP	Reduced duty	2
	Duty-free	3
FTAs	TRQs	1
	Reduced duty	3
	Duty-free	19

Excludes inward processing relief

Source: adapted from European Commission (2015g)

7.1. Some Examples of the new DCFTAs

The FTA with South Korea, which entered into force in July 2011, was described as the 'first of a new generation of free trade agreements that went further than ever before at lifting trade barriers' (European Commission, 2013b: 5). Although both the EU and South Korea have highly protected farm sectors, South Korea was unlikely to develop significant exports of agri-food products to the EU following tariff liberalisation, whereas the EU's established exports to South Korea were likely to expand. **Rice—a very sensitive sector for South Korea— is excluded from the FTA, and EU exports of Fuji apples, dairy products, and pigmeat, face a mixture of TRQs and long transition periods** (*Official Journal of the European Union*, L127, 14 May 2011).

Negotiations on the **EU-Canada Comprehensive Economic and Trade Agreement (CETA)** were concluded in August 2014, but the agreement now has to be ratified by both parties. The EU hopes that this process can be concluded in 2016, with the agreement coming into force in 2017. As and when the agreement comes into force Canada will immediately allow duty free access for EU products on 90.9% of its agricultural tariff lines, rising to 91.7% after 7 years (European Commission, 2014: 3-4). For its part, the EU will immediately allow duty free access for 92.2% of its agricultural tariffs lines, rising to 93.8% after 7 years. **Trade in poultry and eggs will not be liberalised by either party, and duty-free imports of pork and beef into the EU will be limited by TRQs, as will imports of cheese into Canada.**

Negotiations to establish a **Transatlantic Trade and Investment Partnership (TTIP)** between the EU and the US began in July 2013. It was initially hoped that the negotiations could be concluded within two years, but they are on-going. From the outset opposition was intense. Particular concerns were raised about a lack of transparency (civil society complaints that it was difficult to know what was being negotiated); the proposed Investor-state dispute settlement (ISDS) mechanism; and the fear that regulatory convergence would lead to a lowering of the EU's environmental, food safety, and animal welfare standards.

Although the European Commission said it was committed to transparency, information is still sparse, despite leaks by GreenPeace of the negotiating texts,²⁸ and the fact that MEPs are only able to 'read the "consolidated texts" in a secure reading room at the European Parliament, take handwritten notes and use the information as a basis for their political actions'.²⁹ If there is to be a final agreement, **market access for sensitive products will doubtless be limited by TRQs**, as in the un-ratified CETA with Canada.

For Josling (2015: 490-1), tariff barriers and TRQs are not the major issue, but he suggests that the negotiators have left it rather too late to achieve significant regulatory convergence in this round of negotiations:

There will naturally be a market access component to the TTIP that will have to include agricultural products. Particular sectors of US agriculture would like better access to EU markets, including beef producers, and some EU sectors such as producers of dairy products would hope to gain sales in the US markets. But these are in many ways side issues in a bilateral context. The main focus will be on the regulatory tensions that have irritated agricultural and food sectors in the US and the

²⁸ <https://ttip-leaks.org>, accessed 21 May 2016.

²⁹ 'All MEPs to have access to all confidential TTIP documents', dated 2 December 2015 at <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-%2F%2FEP%2F%2FTEXT%2FBIM-PRESS%2B20151202IPRO5759%2B0%2BDOC%2BXML%2BV0%2F%2FEN&language=EN>.

EU. ... The likely outcome of the TTIP will be to start a process of reconciliation and conflict control in areas of diverse and conflicting regulations. The major stumbling blocks are likely to be livestock growth promoters, the approval of biotech varieties of cereals, the tighter restrictions on the use of place names for foods and the hygienic standards of poultry-processing plants.

As well as its initiatives in the Americas, during the course of 2015 the EU was negotiating with Japan, concluded negotiations with Vietnam, and started the process of negotiating with Australia and New Zealand. But the FTA negotiations that at the time of writing are causing the most concern within European farm circles are those with Mercosur.

7.2. Mercosur

Mercosur (from the Spanish: Mercado Común del Sur, the Common Market of the Southern Cone) is a customs union. Founded by Argentina, Brazil, Paraguay and Uruguay by the Treaty of Asunción in 1991, Venezuela became a member in July 2012. A number of these countries are low-cost agricultural producers, eager to increase their exports; and Brazil has been a leading player in the WTO in both the Doha Round of trade negotiations advocating agricultural trade liberalisation (as one of the leaders of the G-20 group) and in mounting Dispute Settlement cases with the EU (over sugar) and the US (over upland cotton). Brazil alone accounts for 13% by value of the EU's imports of agri-food products, including 57% of its imports of poultry meat (fresh, chilled and frozen), whilst taking only 1% of the EU's agri-food exports (European Commission, 2015f: 16-7). Brazil is eager to gain enhanced access to EU markets for a variety of products, including sugar, biofuel, beef, and poultry.

The negotiations between the EU and Mercosur for an Association Agreement that began in 2000 were in effect suspended for many years. Following elections on 22 November 2015 in Argentina a new centre-right president, Mauricio Macri, took power, and began to reverse the policies initiated by his predecessor, Cristina Fernandez. Thus he pledged to remove immediately the export taxes on wheat and maize, with a phased elimination of the export tax on soya. In his first press conference he is reported to have said: 'We have to recover Mercosur's dynamism', and to 'make progress in the talks with Europe' (*Agra Facts*, No.87-15, 25 November 2015). Thus the Mercosur talks were back on the agenda.

Various offers had been made in 2004, but —with the new initiative underway— on 11 May 2016 both sides tabled revised offers.³⁰ After strong protests by the EU farm lobby, it is understood that the European Commission decided not —at this stage— to offer to open up its sensitive markets for beef and ethanol. Whether the EU will maintain this position as the talks proceed remains to be seen. *Agra Facts* (No.35-16, 13 May 2016) for example has speculated that 'the EU may be forced to play the milk & beef sectors against each other & give up in its beef sector in value terms that which it hopes to gain [*in market access to Mercosur*] in dairy'. Apparently Brazil would like a 150,000 tonne TRQ for beef (*Agra Facts*, No.37-16, 20 May 2016).

7.3. China

China became a member of the WTO in 2001. It is a large, dynamic, growing economy, strongly influencing movements in world commodity prices. The EU does not intend, for the moment, to negotiate a FTA with China —the European Commission (2015e: 31) suggesting that the Chinese economy would first need to undergo 'a range of domestic

³⁰ <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1497>, accessed 21 May 2016.

economic reforms ..., since the purpose of an FTA would necessarily be to establish a level playing field'— focussing instead on an investment agreement. Nor is China one of the countries that has signed TPP.

China has however negotiated a number of FTAs around the world, in Europe (Iceland and Switzerland, with a Norwegian agreement in negotiation), Latin America (Chile) and Asia-Pacific. The extent to which governments jockey for position in negotiating FTAs is apparent in the Australian Government's (2015) comment that 'Until now, the absence of a bilateral FTA with China has meant Australian producers and exporters have faced significant tariffs on agricultural products and have been at a competitive disadvantage to countries that have an FTA with China—including New Zealand, Chile and ASEAN. The China-Australia Free Trade Agreement ... addresses this issue, and also gives Australia a significant advantage over larger players, such as the US, EU and Canada.'

The Commissioner, Phil Hogan, has undertaken a number of trade missions to China and other export destinations, promoting EU agri-food products and seeking removal of restrictive regulatory barriers, particularly for meat and dairy (see *Agra Facts*, No.27-16, 11 April 2016).

7.4. Threats and opportunities

Thus we can see that the negotiation of FTAs is a dynamic activity, with countries jockeying for competitive position for their domestic industries. **An individual FTA can involve both opportunities and threats for EU farmers**, as trade barriers are reduced. It offers greater export opportunities to highly protected markets such as South Korea and Japan, with little offsetting threat of competitive imports. **With low cost producers (e.g. Australia, Mercosur) however the threat of low cost imports into the EU predominates**, *although of course consumers gain from this*. As an offset, export markets may be opened for high quality products: dairy products to Mercosur, GIs, etc.

If the EU and its FTA partners engage in multiple FTAs the situation becomes more complex. In terms of the EU's access to overseas markets, tariff preferences will be eroded as more countries negotiate FTAs with the EU's FTA partner, and those other countries may negotiate better deals. **Regarding access to the EU's market, one country's negotiating success may well act as a precedent for another's expectations** (trying to secure a better deal). Furthermore **the cumulative effect** (of a number of TRQs for high quality beef for example) **is more likely to depress EU market prices**.

In February 2016 the Commissioner for Agriculture and Rural Development announced that the Commission would undertake a study to 'analyse the economic cumulative effects of ongoing and upcoming trade negotiations on the EU agricultural sector', to be completed by Autumn 2016.³¹

7.5. Concluding Comments

There is considerable opposition to the current generation of DCFTAs under negotiation (CETA, TTIP, Mercosur) from both civil society and farm groups, supported by a number of Member States and MEPS, and so it is difficult to form firm conclusions on the likely outcome, or time scale, of the deliberations. Some offer the prospect of better access to overseas markets for EU farm produce—although competitors may gain access ahead of

³¹ 'Economic study on the cumulative effects of trade agreements on the EU agricultural sector', at http://ec.europa.eu/agriculture/trade-analysis/impact-assessment/index_en.htm, accessed 31 May 2016.

the EU, as has been the case in China for example— but **collectively they imply tighter competition in the EU for those CAP products still protected by high tariffs: beef, sugar and ethanol, and dairy products in particular.**

8. GREENHOUSE GASES AND GLOBAL WARMING

KEY FINDINGS

- Although the farm lobby was eager to promote the use of biofuels, there have been relatively few CAP measures to *directly* promote the production of biomass for fuel, and none are operative now.
- Greening of the CAP has been underway since the 1980s, but the 2013 recalibration of the CAP, with its 30% greening component, introduced a new dimension.
- At the Paris Climate Conference the EU committed to reducing its Greenhouse Gas (GHG) emissions by 40% by 2030; but the *global* commitments entered into in Paris will only achieve around 30% of the required reduction if global warming is to be stabilised at +2°C.
- Agriculture's contribution to GHG emission abatement and carbon sequestration, and the role the CAP can play, is likely to figure strongly in the debate over the role of agricultural policy after 2020; but the EU is unlikely to include agriculture in the Emissions Trading Scheme, introduce measures to curb meat consumption, or differentiate between products on the basis of 'food miles', although all these ideas are in the public domain.

Oberthür & Kelly (2008: 47) have claimed that 'Since the beginning of the 1990s, the EU has assumed a clear leadership position on climate change. It has consistently been the force among the major international actors pushing for the most far-reaching measures to mitigate climate change. In 2007, the EU renewed this leadership by unilaterally committing to cutting its GHG emissions by 20 percent by 2020.'

In October 2014, in the run-up to the December 2015 **Paris Climate Conference**, the European Council (2014) again took the lead in, *inter alia*, committing the EU to meeting its 2020 targets, and then moving on to achieve a '**40% domestic reduction in greenhouse gas emissions by 2030 compared to 1990**' (paragraph 2), and by setting a 'target of at least 27% ... for the share of renewable energy consumed in the EU in 2030' (paragraph 3).³² At the same time it noted that '**the multiple objectives of the agriculture and land use sector, with their lower mitigation potential, should be acknowledged**, as well as the need to ensure coherence between the EU's food security and climate change objectives' (paragraph 2.14). It went on to say: 'The European Council invites the Commission to examine the best means of encouraging the sustainable intensification of food production, while optimising the sector's contribution to greenhouse gas mitigation and sequestration, including through afforestation.'

Our discussion of past, present and future implications for the CAP will be set out under three headings: biofuels and the CAP; greening in the 2013 CAP reform; and implementation of the Paris Agreement.

³² In advance of this, in February 2014 the European Parliament had passed a non-legislative resolution on the European Commission's Green Paper 'A 2030 framework for climate and energy policies': <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2014-0094+0+DOC+xml+v0//EN>

8.1. Biofuels and the CAP

The EU's policies on **biofuels** have been evolving since the 1990s (Swinbank, 2009: 4). Under current legislation —the **Renewable Energy Directive (RED)**, and **Fuel Quality Directive (FQD)** of 2009, as amended— by 2020 each Member State must ensure that at least 10% of its energy use in transport comes from renewable resources. Biofuels are still the major source for this, but the extent to which first-generation biofuels (those produced from food crops) can be used to meet this target is now capped at 7% (with the other 3% coming from other renewables, including second-generation biofuels).³³ Furthermore, minimum greenhouse gas (GHG) emissions savings and other environmental sustainability criteria apply.

Understandably **the farm lobby was eager to promote the use of biofuels**. Thus Switzer (2015: 211), whilst conceding that there were a number of drivers for the development of the EU's biofuels policy, argues that 'there has also been a connection between the promotion of biofuels ... and support for agricultural producers'; and that 'the CAP has played a significant role in the development of the EU's biofuel policy.'

However **there have been relatively few CAP provisions that directly encouraged biomass production for energy purposes, and none are operative now**. Under the MacSharry reforms, set-aside land could be used to grow so-called 'non-food' crops (including crops for bioenergy), but set-aside was abolished in the 2008 Health Check. The Fischler reforms of 2003, with the introduction of the Single Payment Scheme, and subsequent decoupling of support, removed the policy inducement to grow one crop rather than other. Admittedly, **for a brief period coupled payments were available for energy crops** (at €45 per hectare, before reduction coefficients applied when the totality of claims exceeded a base area), but these too were abolished in the Health Check (Swinbank, 2009: 20-1).

Member States have used a variety of support mechanisms to promote the use of renewable energy in transport fuels —subsidies, blending mandates, etc. These must be applied in accordance with WTO rules, including the crucial National Treatment provision.³⁴ **Support for biofuels tends to suck-in imports, raise world market prices and, through displacement of existing crops and expansion of the world's cropped area, lead to Indirect Land-use Change (ILUC)**. Thus EU farmers are not major beneficiaries of the EU's biofuels policy, and consequently **it is probably tendentious to characterize EU support for biofuels as a surrogate for the CAP**. As Bureau & Mahé (2008: 66) note, biofuel policy is a 'particularly ineffective' way to 'transfer income to farmers.'

But some commentators still believe that a badly conceived biofuels policy has been hijacked by the farm lobby to suit its own interests, whilst others suggest that a well-intended but imperfect response to the challenge of GHG emissions has had, as a side effect, some beneficial impact on EU farm businesses. The two policy domains remain linked. As the Dutch Council Presidency has recently remarked:

³³ See Directive (EU) 2015/1513 of the European Parliament and of the Council of 9 September 2015 amending Directive 98/70/EC relating to the quality of petrol and diesel fuels and amending Directive 2009/28/EC on the promotion of the use of energy from renewable sources, *Official Journal of the European Union*, L239, 15 September 2015.

³⁴ In the WTO Argentina has twice queried whether the Member States correctly apply the National Treatment provision in supporting the uptake of biofuels: in August 2012 (DS443) and May 2013 (DS459). See Swinbank & Daugbjerg (2013: 816).

Agriculture is and must be regarded as part of the solution: agriculture can contribute to carbon storage in soils and forests. And agriculture can help other sectors to mitigate their emissions by production of biomass for the development of the bio-economy sector which could replace fossil materials (Council of the European Union, 2016: 3).

8.2. Greening in the 2013 Reform

The greening of the CAP has been underway since the 1980s. Daugbjerg & Swinbank (2016: 277) explore the way 'international trade and greening concerns were gradually added to the policy ... and were consistent with the original objective of supporting farm incomes, but now in much less trade distorting ways.' Pillar 2 (Rural Development) support was available for environmental projects, and from 2003 cross compliance helped ensure that direct payments to farmers were linked to environmental rules. **The 2013 recalibration of the CAP, with its introduction of a 30% greening component of the budget for direct payments, introduced a new dimension.** 'In order to receive the green payment a farm must satisfy three requirements in terms of agricultural practices beneficial for the climate and the environment; these have to do with (a) crop diversification, (b) maintaining existing permanent grassland, and (c) devoting part of the land to so-called "ecological focus areas" (EFAs)' (Anania & Pupo D'Andrea, 2015: 57).

Annex 2B of the Commission's Impact Assessment did set out to 'summarise the information available on the potential to reduce GHG emissions or enhance carbon sequestration of agricultural activities and on the cost-effectiveness of the measures currently being discussed or already available in the CAP' (European Commission, 2011: 1). Hart (2015: 251), however, reported that the greening proposals 'provided no detail on how these measures might work in practice and the impact assessment that accompanied the proposals ... also contained scant information on their likely environmental impacts.' **Other authors suggested that there had been a green-wash, rather than a greening, of policy** (e.g. Erjavec, Lovec & Erjavec. 2015).

The European Commission (2015d: 20) will present the European Parliament and the Council with an interim assessment of the post-2013 CAP in 2018, which will focus 'on policy implementation and first results'. This will be a first opportunity to assess whether greening has contributed in a cost-effective way to the adoption of 'agricultural practices beneficial for the climate and the environment'. Whatever the outcome of that review, **agriculture's contribution to GHG emission abatement and carbon sequestration, and the role the CAP can play, is likely to figure strongly in the debate over the role of agricultural policy after 2020.** The European Commission's (2016: 19) first annual review of greening included details of Member States' implementation of the policy, but little assessment of its impact. On carbon sequestration for example the report simply asserts that the retention of permanent grassland 'contributes to the sequestration of carbon'.

8.3. Implementing the Paris Agreement

In the Paris Agreement —'a momentous breakthrough and a civilising milestone in the history of the international community' according to Messner (2016: 4)— the EU committed to implementing the October 2014 decision of the European Council outlined above: a 40% cut in domestic GHG emissions by 2030 when compared to 1990 (Baker & McKenzie, 2016: 5). More will, however, be required of the global community. **Collectively, the voluntary commitments entered into in Paris 'would only achieve around 30% of the greenhouse gas emissions reductions required to stabilise global warming around**

the 2°C mark 70% of the climate change mitigation target is still to be addressed' (Messner, 2016: 5).

To fulfill its Paris commitment the EU plans to deploy various policy mechanisms, including a revision of its Emissions Trading System (ETS) to produce an overall 43% cut across ETS sectors (compared to a 2005 base) whilst non-ETS sectors (which include agriculture) will need to achieve an overall 30% reduction in GHG emissions (again compared to 2005).³⁵ Quite how these overall reduction targets will be shared among the Member States ("effort sharing") is as yet uncertain. The European Commission is expected to table proposals this summer (Council of the European Union, 2016: 2). The current Effort Sharing Decision for the 10% reduction for non-ETS sectors for 2013-20 requires reductions of up to 20% for some Member States, whilst allowing increases of up to 20% for others.³⁶

Some years ago the FAO (2008: 1) suggested that agriculture and deforestation accounted for a third of global GHG emissions attributable to human activity: in particular about 25% of carbon dioxide, 50% of methane, and 75% of nitrous oxide emissions. Carbon dioxide might be released as land is tilled, as well as from the burning of fossil fuels; methane is produced as animals (particularly cattle) digest their food, and from the anaerobic fermentation of crop residues; and nitrous oxide emissions can result from the application of nitrogenous fertilizers (both organic and inorganic) to crops and grass.

The extent to which agriculture contributes to a country's GHG emissions varies enormously from one Member State to another. Ireland for example has a large grazing livestock sector in comparison to its national economy and overall population size, and a correspondingly large agricultural contribution to non-ETS GHG emissions (Breen, Donnellan & Westhoff, 2010). Understandably such countries want this to be taken into account in the effort sharing decision on non-ETS emissions post 2020. It is intended that the entire Land Use, Land Use Change and Forestry (LULUCF) sector will be included in the new post-2020 non-ETS scheme (Council of the European Union, 2016: 2), raising the prospect that on-farm carbon sequestration, through forestry or 'greening' measures such as those initiated by the 2013 CAP 'reform', could in part offset a Member State's non-ETS emissions. **Research into new agronomic practices and animal husbandry regimes, and their implantation into farming practices, could also help farms reduce GHG emissions.** Unfortunately studies suggest that farms are failing to adopt cost-effective abatement measures (e.g. Moran *et al.*, 2011).

What further policy initiatives might be prompted by the quest to curb GHG emissions in agriculture and the food chain? **Agriculture was included in New Zealand's Emission Trading Scheme** in 2008 (Saunders & Saunders, 2011), **but there seems little immediate prospect of such a development in the EU.** Potentially, however, inclusion would give farms a direct financial incentive to maintain carbon sinks and engage in carbon sequestration.

Another idea was canvassed in a recent report from the respected *Chatham House* think tank. This focused on the level of **GHG emissions from livestock production** and concluded that, worldwide, the increasing consumption trends for animal proteins 'are incompatible with the objective of avoiding dangerous climate change'. The authors argued that there was 'a compelling case for shifting diets, and above all for addressing meat consumption', but lamented that: 'Without government intervention at national and international level, populations are unlikely to reduce their consumption of animal products

³⁵ http://ec.europa.eu/clima/policies/strategies/2030/index_en.htm, accessed 18 May 2016.

³⁶ http://ec.europa.eu/clima/policies/effort/index_en.htm, accessed 18 May 2016.

and there is insufficient incentive for business to reduce supply' (Wellesley, Happer & Froggatt, 2015: vii). Later they suggest: 'Interventions to change the relative prices of foods are likely to be among the most effective in changing consumption patterns. Opportunities include removal of direct or indirect subsidies to the livestock sector, subsidization of plant-based alternatives, or interventions to increase the price of meat and other unsustainable products, such as a carbon tax' (p. x). Again **it seems unlikely that in the foreseeable future the EU would be prepared to tax meat consumption** (although of course various Member States have been experimenting with sugar taxes to change consumption).

A third idea stems from the concept of '**food miles**' (or 'food kilometres' for readers more used to metric measures) and the belief that locally sourced foods have a lower environmental impact than imports from overseas. New Zealand, in particular, has felt threatened by suggestions that consumers should attempt to discriminate between foods on the basis of the distance travelled from farm to plate (Stancu & Smith, 2006), and a lively academic 'industry' has been spawned undertaking life-cycle assessments of products and supply chains. For example, looking at seven food types, Webb *et al.* (2013) address the question: 'Do foods imported into the UK have a greater environmental impact than the same foods produced within the UK?'

It would be perfectly legitimate on the basis of existing WTO rules to resist pressures for further trade liberalisation of product categories that are believed to have a poor food miles profile in terms of GHG emissions, in both multilateral (e.g. Doha Round) and FTA negotiations; but it would be quite another issue to introduce *new* trade barriers, or to differentiate between products on the basis of origin or life-cycle GHG emissions. Such measures would probably be challenged in the WTO.

9. CONCLUDING THOUGHTS

KEY FINDINGS

- The post-2020 CAP will need to tackle agriculture's GHG emissions.
- Completion of the Doha Round would put little immediate pressure on the CAP, but there would be sharp reductions in the high tariffs on a number of agricultural products.
- Completion of the series of trade negotiations underway or contemplated would also increase competition for a number of products (sugar and beef for example).
- The geopolitical situation around the Mediterranean and in the former Soviet empire is dangerously fluid. New trade initiatives with further openings of the EU market for olive oil, wine, and fruits and vegetables, could emerge.
- Negotiation of new EU-UK trade (and financial) arrangements following Brexit will influence determination of the post-2020 CAP.

Today's CAP is clearly rather different from its original construct of the 1960s. But many other policies and circumstances have also changed over the past half-century, for example: Europe's geopolitical construct; the technologies applied both on and off the farm; the growth in world population and increased pressures on the world's environment and finite resources; the increased incomes of Europe's citizens and their changed expectations; and a shift from the Keynesian-style economic policies of the 1960s to today's more market-led approach. **Over that long sweep of history it is almost impossible to determine what were the decisive influences shaping the evolution of the CAP.** Earlier Sections of this report do seem to have identified close correlations, if not causal links, between the EU's pursuit of its external objectives and developments in the CAP, but whether they fundamentally changed the long-term trajectory of policy is more open to doubt. **Perhaps the clearest example of the EU's pursuit of its international agenda impacting on the CAP stems from its membership of the WTO.**

9.1. The Post-2020 CAP

As the EU's institutions begin their preparations for determining the **post-2020 CAP**, which of the EU's external policy actions are most likely to influence the discussions and —more importantly— the outcomes? Perhaps the most pressing need is to implement the EU's commitment in Paris to reduce its GHG emissions by 40% by 2030 (whilst recognising that, collectively the world will need to do more if it is to keep the increase in global temperatures to no more than 2°C). For the CAP this suggests that **there needs to be a thorough assessment of the cost-effectiveness of the greening provisions introduced by the 2013 reform, and its possible revision.** Incentive schemes to compensate farmers for carbon sequestration are another possibility.

With regard to trade negotiations, **completion of the Doha Round would be unlikely to put much immediate pressure on the CAP**, although it would lock-in the decoupling of support brought about by past reforms. *If* the Round is completed, *and if* the EU's Green Box declarations are then challenged, it would be well into the 2020s before the EU would need to reformulate its policies to make them WTO compliant.

If, instead, the Doha Round remains in limbo, the EU retains a large margin of manoeuvre within its AMS binding that would allow an *increase* in its Amber Box support. This, for example, would allow a redesign of its environmental policies (particularly for carbon sequestration), which currently are constrained by the Green Box stricture that payments cannot exceed 'the extra costs or loss of income involved in complying with the government programme'. Moreover, for those critics of decoupling and a neo-liberal agenda, more recoupling of support to boost EU food production could be accommodated within existing AMS constraints. Further WTO Dispute Settlement cases challenging various aspects of the CAP cannot be ruled out, but none are foreseen for the moment.

Completion of the Doha Round would though involve acceptance of a steep reduction of tariffs on a number of highly protected CAP products —sugar, dairy, beef, etc.— and in that respect involve changes to the CAP. But **a similar impact on market prices could result from implementation of the many trade agreements in negotiation or contemplated**: with Canada, the USA, Mercosur and Australia in particular.

The geopolitical tensions around the Mediterranean Basin, and in the former Soviet empire, remain dangerously fluid. New alliances and trade commitments could conceivably emerge. This could result in greater competition on the EU market for fruits and vegetables, olive oil, and wine, but this is probably unlikely to result in modifications to the CAP as such. Such a development would, however, likely reinforce calls to maintain a strong element of basic income support for EU farmers.

Perhaps the biggest challenge the post-2020 CAP faces is that of Brexit, which could occur as soon as 2018. Revised trade arrangements between the UK and its former EU partners will take time to formulate, but if a FTA that excludes agriculture is not put in place this could put severe pressure on market prices in regions that currently have a heavy dependence on the British market (e.g. Irish beef). Moreover, unless the UK can be persuaded to pay a sizeable fee to access the Single Market, the loss of the UK's net contribution to the EU budget might trigger a reconsideration of CAP funding in the post-2020 multi-annual financial settlement.

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