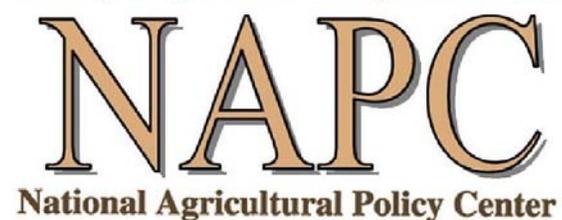


Ministry of Agriculture and Agrarian Reform



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# **Agricultural Support Policies in EU for Selected Products**

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## **Introduction**

There is often still much debate what a subsidy is or, more specifically, what it should be. On the one hand, this discussion reflects the evolution of the subsidy concept but on the other hand, the debate has also contributed to confusion what a subsidy is and what it is not. A subsidy was initially regarded a payment or a tax concession from the government, but later extended to include policies that create transfers through the market mechanism. Some would also argue that the non-internalization of external costs should be regarded a social subsidy. Recently, it is suggested to capture this conceptual diversity by referring to subsidies as the externalization of costs. Governments provide support to agriculture in a myriad of ways: direct payments, research grants, loan programs, storage programs, and so forth.

## **Who loses from Europe's agricultural subsidies?**

The beneficiaries of agricultural subsidies are clearly recognized by European policy-maker. But the million who bear the brunt of the impact of these subsidies are dispersed, hidden, and ignored. The most losers are farmer in developing countries.

## **The Economic Impacts of Subsidies**

Subsidies can potentially generate both direct and indirect economic effects. In agriculture, direct effects include the influence on growth and location patterns, investment, and trade. Economic theory predicts that agricultural subsidies will increase output, depress world prices, disrupt international markets, and reduce economic efficiency. Agricultural subsidies can also lead to indirect effects on both upstream and downstream industries, such as the input (e.g., agro-chemicals) and transformation (e.g., processed food) industries. In return, direct subsidies to the upstream and downstream industries can also affect agricultural production and trade. Taking into account transport subsidies would increase the aggregate impact of subsidies on agricultural trade. Specific categories of subsidies generate different economic effects, depending on their point of impact and inherent dynamics.

## **Sugar**

The European Union's sugar policy supports producer prices at levels which are well above international prices through a combination of Production Quotas, Import Controls and Export Refunds. There are two types of Production quota: A and B, with the major difference between the two being the value of the levies applied. The original purpose of the quota system was threefold, namely to limit the total quantity of sugar that could potentially be imported into the EU sugar market; to limit the potential costs of intervention purchases; and to guarantee each member state a certain share of the EU sugar market.

The total sugar production quota for the EU-25 in 2004 is 17, 4 Million Ton of White Sugar Equivalent (WSE)<sup>1</sup>. Member States are free to produce above quota levels, but to avoid the negative impact that this out-of-quota sugar (C sugar) might have on domestic prices; it must be entirely exported outside the EU market and, further, does not receive any support in terms of export refunds. Importantly, the EU sugar policy incorporates the EU/ACP Sugar Protocol signed in 1975, which provides ACP (African, Caribbean and Pacific Group of States) countries with a total exemption from import duties on sugar for an indefinite duration. This measure is

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<sup>1</sup> Every 1 ton wight sugar equal 1,078 ton from raw sugar

limited to agreed quantities (1,294,700 ton of WSE) of sugar imported from ACP country signatories of the sugar protocol.

The European Commission made a proposal for the reform of the EU sugar regime in July 2004. The proposal calls for a significant reduction of the institutional support price (20% by July 2005 and 33% by July 2007). A reference price will be introduced with the intention of establishing a new minimum price for sugar beet producers, with partial compensation for producers in the form of a direct decoupled payment within the CAP budget limits. This payment will be integrated into the EU single farm payment scheme. Subsidized export quantities will be cut by 2 million tons. The EU sugar sector will be restructured through transferability of quotas between Member States and a sugar factory conversion scheme will be introduced in order to facilitate the necessary adjustments. (FAO- Trade Policy Technical notes. No. 6, 2005)

## Rice

Rice farmers are eligible to receive direct payments on a maximum paddy production volume of 2.4 million tons (close to 90% of production), of € 177 (US\$ 216) per ton, of which € 102 (US\$ 124) in the form of a “single farm payment” and € 75 (US\$ 91) as a “crop specific aid”, both based on historical (2000-2002) production rights. The single farm payment is linked to the respect of the environment, animal welfare and quality standards under the principle of “cross-compliance”. a reduction of the rice intervention price by 50% (to bring it into line with world market prices by 2004/5); The paddy intervention prices are set at € 150 (US\$ 183) per ton. Government procurement purchases are subject to a ceiling of 75000 ton per season. . (FAO-Trade Policy Technical notes, No.12)

**Table1:** Consequences of reform measures in EU Rice sector

	<b>96/97</b>	<b>97/98</b>	<b>98/99</b>	<b>99/00+</b>
<b>Intervention price €/ton</b>	351.00	333.45	315.90	298.35
<b>Direct payments €/ton</b>	0	17.55	35.1	52.65

## Cotton

Under the CAP, support is given to cotton growers based on the difference between the market price and a guide (i.e. support) price. Advance payments, which are made to ginneries who pass the subsidy to growers in the form of higher prices, are on estimates of seed cotton production. EU provide subsidy to 782.000 ton to Greece and 249.000 ton to Spain EU cotton producers received more than twice the world price of cotton. Note that even in periods of high prices, EU cotton producers receive support since the amount allocated to the cotton sector must be disbursed. In addition to output subsidies EU cotton producers receive subsidies on inputs such as credit for machinery purchase, insurance, and publicly financed irrigation. (BAFFES,2004) The European Union’s cotton regime also has a significant and measurable impact (€ 0.8 billion) in subsidies spent annually (mainly to Greece, Spain and Portugal),

**Table 2 :** EU aid to cotton production (Million Euro)

<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
740	800	761	903	855	733	804	871

Source: Directorate – General for Agriculture, the cotton sector –EU

## Wheat

Subsidies have led to surplus production and dumping in developing countries, exacerbating the problems of their small farmers. Wheat provides a classic example of the damage subsidies can do. Wheat is a staple food crop in many parts of the world. The US, EU, China and India dominate world wheat production with about half of all wheat (and wheat flour) traded on world markets coming from the EU and US.

The EU has historically ensured that returns to its wheat farmers are artificially high. Farmers in the EU have been encouraged to produce wheat with a combination of market price support - including through intervention buying and export subsidies - and direct payments. Both contribute to overproduction and surpluses. Under intervention buying, the European Commission sets a minimum price for certain commodities, including wheat. The intervention price has historically been higher than the world price. Storage agencies in each EU member country are obliged to purchase farm produce in oversupply at this price. According to OECD statistics the value of EU wheat producer's subsidies achieve \$9.5 Pillion in last few years comparing with \$ 5 in USA. The share of producer subsidy reached 48 % in EU and 46 % in USA.

**Table3:** EU 25 wheat area, yield, production

Wheat	Area1000 H			Yield 1000k/H			Production 1000 ton		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
	19,400	18,279	19,236	5,93	5,37	6,51	114,956	98,234	125,235

Source: [http:// europa.eu.int](http://europa.eu.int)

## Dairy:

The 2003 reforms will cut butter prices by 25 percent and milk powder prices by 15 percent over a 3-year period beginning in 2005. Intervention purchases of butter will be limited to 30,000 metric tons annually.

## Beef and veal:

The 2003 reforms provide member states with alternatives for supporting beef and veal: a 100% decoupled payment based on 2000-02 historical payments, a 100% coupled payment for the number of sucker cows, up to 40-percent coupled payment for slaughter of heifers, and/or a 75% coupled payment for special male bovines.

## Conclusion

Developing countries suffering from support policies of developed countries, EU support its agricultural sector in different ways such as direct payments, research grants, loan programs, storage programs this subsidies case a lot of problems for developing countries ,for example , sugar dumping. EU should decrease all kinds of subsidies that not correspondent with WTO rules depends on the agreement of ministries conference that hold in Hong Kong on latest 2005. In general EU subsidy policies tend to support rural development policies as alternative way for rural people who will suffer from reduce the price of their commodities.

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