The June 2003 CAP Reform

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After three weeks of hard bargaining, capped by an all-night session that ended at 7h30, the EU Council of Ministers struck a political agreement on a major reform of the CAP on 26 June 2003.

The reform, formally approved in September 2003, is an important step that will help the CAP meet the future challenges discussed in Chapter 8 of Baldwin and Wyplosz (2003). As EU Farm Commissioner Franz Fischler put it: "This decision marks the beginning of a new era. Our farm policy will fundamentally change. … The bulk of our direct payments will no longer be linked to production. … We are saying goodbye to the old subsidy system which significantly distorts international trade and harms developing countries."

The reform will be introduced from 2004 with some elements delayed until 2007.

Description of the reform

The key elements of the new reform are:

■ DECOUPLING: The introduction of a 'single payment' scheme for EU farmers where the size of the payment is not related to production. Instead the payment is related to the amount of land that is employed in some form of agricultural activity with the euros-per-hectare figure determined by historical payments. In agro-jargon, such payments are referred to as 'decoupled' since they are not linked to production.

o The Commission's proposal for full decoupling of all sectors was rejected during the negotiations so some sectors are not decoupled and others only partially decoupled.

■ CROSS-COMPLIANCE: To get the single payment, farmers must meet certain conditions that aim to improve the CAP's environmental impact, European food safety, and animal welfare; these are called 'cross-compliance' conditions.

■ MODULATION AND RURAL DEVELOPMENT: A modest reduction of single payments will be phased in over the next few years in order to finance more spending on 'rural development'. The reduction, which rises to 5% in 2007, is applied to all farms regardless of size, although the very smallest farms and very remote farms are exempt.

- PRICE FLOOR CUTS WITH COMPENSATION: Significant reforms in the market intervention mechanisms in some sectors where overproduction is a problem (e.g., butter and rice); these are MacSharry-like, i.e. the price floors are lowered but farmers are compensated by higher direct payments.
- MINOR ADJUSTMENTS IN SUPPORT MECHANISMS IN OTHER SECTORS: the general principle of guaranteed price floors is maintained for the big-budget items (e.g. wheat), but some of the miscellaneous subsidies are rolled into the single payment.
- One of the most distorted sectors – sugar – is left completely unreformed.

Summary Evaluation

It is too early to judge the impact of the reforms, indeed even now important details have yet to be worked out. The Commission's original proposal would have had a big impact[1] but last-minute political haggling introduced 'minor' changes that may well offset much of the effect; as is usual in this sort of thing, the devil is in the detail. Moreover, the single payment scheme starts only in 2005 with Member States able to delay implementation until 2007. Of course this assumes that the 2004 enlargement does not trigger a major reform of the CAP, but given the facts cited in Section 5 of Chapter 8 in Baldwin and Wyplosz *The Economics of European Integration* this seems unlikely.

The reforms have already been seen to be a failure in an important way. The driving force behind the June 2003 reform was the WTO's ongoing trade talks, the so-called Doha Development Agenda. Developing countries were reluctant to start new WTO talks and were only convinced when the EU members and other rich nations promised in November 2001 to liberalise agricultural markets as part of the Doha round. With the crucial midterm meeting of ministers scheduled for September 2003 in Cancun Mexico, the EU had to come up with a reform of the CAP that would allow it to fulfil its liberalisation pledge. The Cancun meeting ended in failure and although there is plenty of blame to go around, many observers believe that the meagre liberalisation contained in the CAP reform was at least one major reason for the failure.

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[1] For detailed analysis see "CAP reform - a long-term perspective for sustainable agriculture: Impact analysis," March 2003, http://europa.eu.int/comm/agriculture/capreform/docs/index_en.htm.

How the reforms work

Single Payment mechanism

To explain how it works, consider an example provided by this extract from the 22 September 2003 article by Peter Hetherington in *The Guardian* (a leading British newspaper):

“The harvest has been good for Oliver Walston and many other farmers. … With 2,000 acres (800 hectares) of prime arable land at Thriplow, near Cambridge, Mr Walston runs a medium-sized undertaking … Mr Walston volunteers that he gets around £165,000 annually in subsidies … .“

Under the June 2003 reforms, farmer Walston would report that he got £165,000 in direct payments (about 230,000 euros) for farming wheat on his 800 hectares (the article implies he is growing wheat). This establishes two things. First, that he has 800 eligible hectares and that each of these will attract a single payment of 287.5 euros, which is 230,000 divided by 800 (in fact it is more complicated, but this gives the basic idea).

The key point of the reform is that he gets the €287.5 per hectare regardless of what he grows – he need not continue to grow wheat to get the cash, as was true under the old system (see Baldwin and Wyplosz Chapter 8.3.2 for details of the old system).

Cross-compliance

The main condition for receipt of the single payment will be that the farm maintains the compliance with a series of environmental, food safety and animal welfare standards, and that they maintain the land in good environmental and agricultural condition.

Economic Analysis

The economics of decoupling

The June 2003 reforms depart from the situation created by previous reforms, the 1992 MacSharry reforms in particular. To understand what the June 2003 reforms do, it is necessary to understand the MacSharry reforms in detail. These reforms were discussed in Baldwin & Wyplosz 8.3.2; and here we go into greater depth since the additional detail is necessary to fully understand the recent reforms.

MacSharry and decoupling

The first major reform of the CAP came in 1992. This reform, the MacSharry reform, reduced the level of EU price floors and introduced direct payments to farmers as a means of compensating them for the price cuts. For example, in 1992 farmer Walston received a very high price for his wheat. The EU's price floor was 175 euros per tonne while the world price was under 125. (See Box 1 for how the price floor and world price have moved since the 1990s.)

The 1992 reform reduced the wheat price floor substantially (to about 120). This might have significantly lowered the income of farmer Walston and that of his fellow EU wheat farmers, but the reform prevented this by creating a new policy – 'direct area payments'. These paid farmers a certain number of euros per hectares of wheat planted, with the per-hectare amount calculated so the wheat farming incomes stayed approximately unchanged.

Since the payment was not tied to the tonnes of wheat grown, this sort of reform is called 'partial decoupling' (i.e. of payment from production). The key here – and the key to what is different in the June 2003 reform – is the word 'partial'. Farmers still had to grow wheat to get the direct area payment, so the policy stimulated wheat production by keeping some farmers growing wheat when they otherwise would have switched their land to some other usage. The general aim of the June 2003 Single Farm Payment is to move from partial decoupling to full decoupling. Consider how full decoupling works.

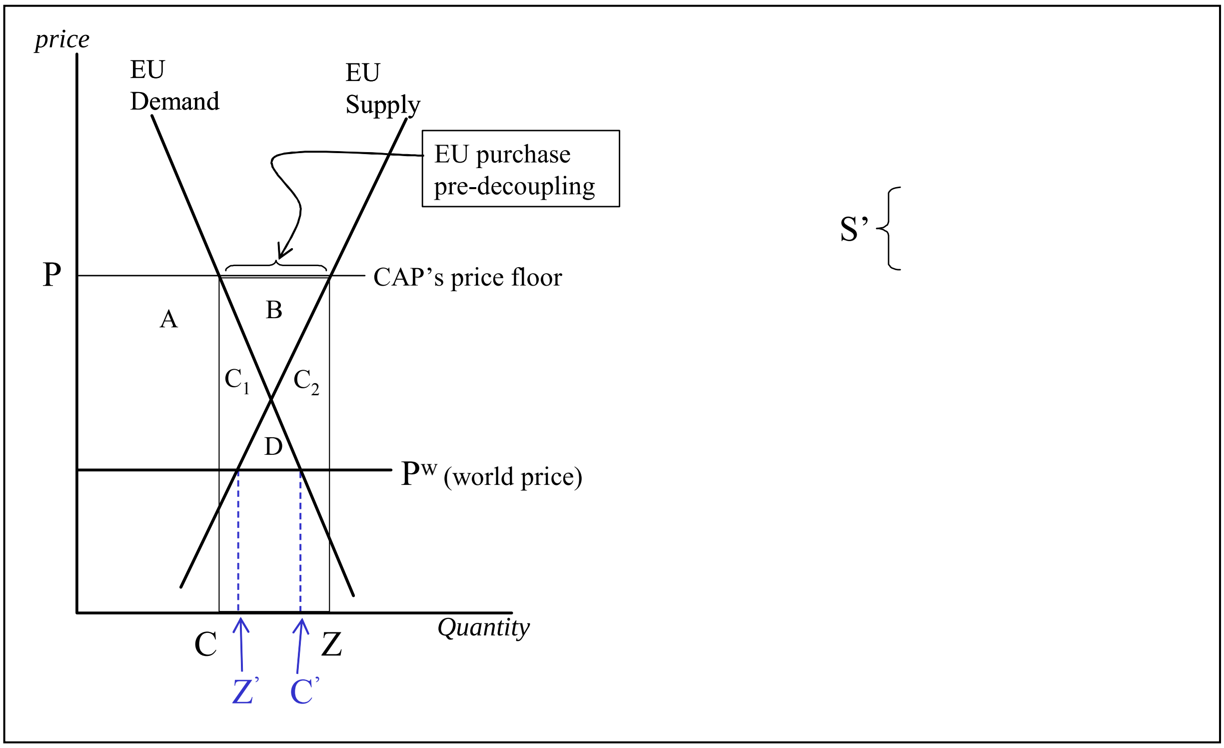
Analysis of pure decoupling

To keep the analysis simple and focused on essentials, consider a 'pure decoupling' where the price floor is completely abandoned (note, however, that the June 2003 reform did retain some price floors). Moreover, we make a few simplifying assumptions that help simplify the analysis without sacrificing insights; the main one is that the world price of wheat is unaffected by the policy change.

We start with Figure 1, which shows the situation where the price floor is above the world price (the situation pre-MacSharry reform). The policy of decoupling removes the price floor and this has the following effects on prices and quantities:

- The domestic price in the EU falls to the world price, P^W
- Production falls from Z to Z' since this is now where marginal cost equals the market price (now P^W)
- Consumption rises from C to C'
- EU dumping on world market stops (enforcing the price floor required the EU to buy Z-C; to reduce the cost of this, the EU dumped, i.e. sold below cost, what it bought on the world market
- EU becomes an importer of food, with imports equal to C'-Z'.

Figure 1: Analysis of pure decoupling



The impact on welfare and budgetary outlays are:

- Consumer surplus rises by $A+C_1+D$
- Producer surplus falls by $A+B+C_1$, but in compensation, farmers get a direct payment
- Supposing that the direct payment is calculated to exactly offset the loss in producer surplus, the cost of the direct payment is $A+B+C_1$

■ Budget outlays related to the price floor drop to zero from the amount indicated by the areas $B+C_1+C_2+D$ (enforcing the price support required the EU to buy Z-C, which cost P times the quantity bought, but the EU dumped, i.e. sold below cost, what it bought on the world market at price P^w, so the net cost was $P-P^w$ times the quantity bought)

■ The net budgetary impact is $A+B+C_1-(B+C_1+C_2+D)$, which equals $A-C_2-D$. This is almost surely positive since even in the worst years, the amount that the EU bought (i.e. Z-C) was only a small fraction of C, so we know that area A is very large compared to $B+C_1+C_2+D$

■ Overall welfare impact is positive since adding the gain to consumers $(A+C_1+D)$ and subtracting the loss to farmers (zero since the direct payment offsets the producer surplus loss) and the net budgetary cost $(A-C_2-D)$, we get that the net welfare effect is C_1+C_2.

Our conclusion that decoupling is welfare improving is quite general. The basic reason is that a price floor is a very inefficient policy tool. The price floor's basic aim is to boost farm incomes; its impact on production is a side-effect. The direct payment allows the EU to give money to farmers without distorting the efficiency of the market mechanism. It should thus not be a surprise that decoupling can save the EU money, make the consumer better off and all this without harming farmers. Moving from price floors to decoupled payments is a switch to a more efficient policy instrument.

Analysis of what the June 2003 reforms added

In the simple analysis above, the farmer planted wheat both before and after the decoupling. Indeed, under the MacSharry reforms, farmers only received the direct payments if they continued to grow wheat.

The big change in the June 2003 reform is that now farmers can do whatever they want with the land, as long as they keep it in good shape and respect the 'cross-compliance' criteria that concern environment standards, etc.

How would this change things? Well, as Figure 2 shows, growing wheat is not necessarily the best use of farmland. This example illustrates what a typical British farm could earn per hectare according to agricultural use. The numbers suggest that once receipt of the direct payment is no longer linked to planting wheat, farmers might change to raising beef. Of course, such a switch would be complex and expensive, but the main point is that under full decoupling, farmers – like other producers in the market system – would decide what and how much to produce on the basis of market signals instead of subsidies.

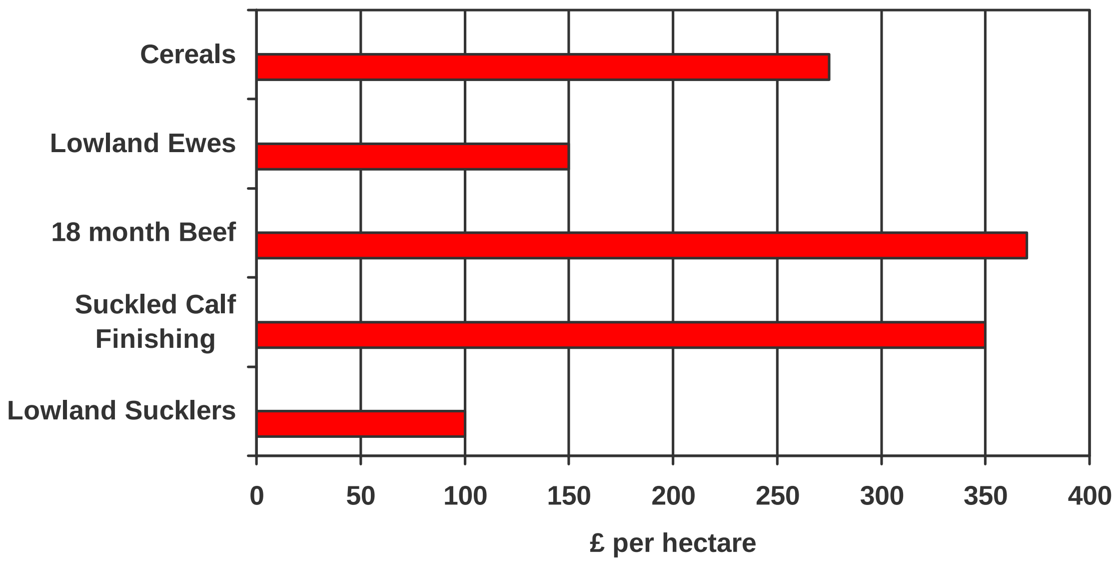
It is certainly too early to know how the bulk of farmers will react, but here are some quotes cited by DEFRA (the British Department for Environment, Food and Rural Affaires):

I will convert my 1200 acres of arable to grass and establish an extensive beef system.
– a large, well established Kent farmer, April 2003
I will sell most of my sucklers and just ranch and outwinter the few needed to keep receiving the decoupled payment
– a well briefed Essex Coast ESA farmer, April 2003
These proposals will drive down rentals values – arable land without entitlements will fall to £20 per acre
– a dairy/arable farmer in East Mids, May 2003
DEFRA (2003)

Importantly, the size of the direct payment is calculated to make the farmers just as well off after the reform, so again the June 2003 reform could, in principle, lead to a win-win situation. The farmers are no worse off and the EU saves some money by avoiding overproduction that it has to dispose of in some way.

Another crucial aspect of this further decoupling concerns the trade effects – our next topic.

Figure 2: Illustrative gross reward to various agricultural activities



Source: UK government (Defra), www.seeda.co.uk/rural_issues/Common_Agricultural_Policy/docs/CAPSeminar31.7.03.ppt

Trade implications

As pointed out in the textbook (section 8.4.2), the price floor policy reduces EU imports and thus shifts the world import demand curve (MD) inwards while EU dumping shifts the world export supply (MS) outwards. Both aspects reduce the world price for wheat – something that naturally upsets other wheat producers in the world.

A critical implication of the decoupling was to reduce the extent to which the CAP distorts international trade. The CAP has always been criticised as harming farmers in non-EU nations by encouraging over production, but the on-going WTO trade talks, called the Doha Development Agenda, committed the EU and the US, inter alia, to making their agricultural regimes less distortionary. Although it is difficult to judge without detailed empirical studies (which are likely to emerge sometime next year), it seems that the main elements of the June 2003 reform do not radically reduce the CAP's distortionary impact. It does not remove the price floor in the main sectors, it does not limit export subsidies, and it had almost no impact on the farm products that are of the greatest interest to poor nations – sugar and cotton in particular.

WTO implications

The main motive for the June 2003 reforms was to prepare the EU's negotiating position in the ongoing WTO talks called the Doha development round. As the textbook discussed, the EU and other developed nations pledged to open up their markets to agricultural goods and to reduce trade-distorting policies. The June 2003 reforms were aimed at allowing the EU to claim that most of the CAP's support to farmers was decoupled from production and thus non-trade distorting. In a sense, decoupling is a way of protecting the CAP from pressures from abroad.

If the June reform had indeed fully decoupled CAP payments, there would be little the rest of the world could complain about. After all, almost every nation in the world pays certain favoured groups, be they artists, scientists, handicapped workers, retirees, or farmers. Under WTO rules, such payments are not a problem as long as they do not distort production and trade. In a sense, decoupling is a way of protecting the CAP from pressures from abroad.

Unfortunately, the reforms that were actually adopted did not fully decouple the payments and some of the sectors – sugar, etc. – that are of greatest interest to the developing world were left unreformed. As the breakdown of the WTO talks in Cancun showed, the EU reform was manifestly not enough to get the Doha round concluded (although the weakness of the EU's reform was certainly not the only cause).

The US Department of Agriculture's quick evaluation of the EU's June 2003 reforms go some way to explaining why. The decoupling "is best summarised as falling into three categories: payments that will not be decoupled at all, payments that will be partially decoupled and payments that will be decoupled later. (USDA 2003)" Similarly, the strong negative reaction of pro-developing nation NGOs to the June 2003 reforms shows that many experts believed the recent reforms were not sufficiently pro-developing nations; see Box 3.

Economic analysis of modulation (payment cuts)

One measure of the political difficulty of a reform is the language used. When usual or made-up words, like 'modulation', are used to describe commonplace things, one can be sure that the discussions were hard fought and this CAP reform certainly was – involving name calling and nastiness rarely seen in EU proceedings (see Box 2).

Modulation refers to the gradual reduction in the single farm payments. The Commission's original proposals called for a fairly substantial reduction that would have risen to 19% by 2012; 6% would have helped finance rural development and the rest would have been used to finance further reforms of the CAP, for example the massively distorted sugar sector.

The June 2003 reform, however, modulates the payments by 3% (by starting in 2005) with the figure rising to 5% in 2007. And the money thus saved can only be used for rural development.

For the most part, the cut is shared by all but very small farms, and farms in very remote regions also get a break. The cuts apply only to payments in excess of €5,000, so farmers that receive only modest sums will see very little cut, while for the large, efficient farms that often receive hundreds of thousands of euros a year will see their payments cut by almost the full percentage. The Commission estimates that eventually €1.2 billion per year will be shifted to rural development by this means.

Who bears the burden of modulation?

The economic impact of cutting the payments are not straightforward. Put simply, the payments are tied to having land so ultimately the payments are a subsidy to owning land. What we show here is the pay cut or 'modulation' will mainly affect landowners, not farmers. As the Chapter 8 pointed out, about 40% of EU farmland is farmed by someone other than the owner, so the distinction between farmers and landowners is important.

To see this, consider a second example from *The Guardian* article cited above, the case of farmer Kendal. The article continues: "Further west in Bedfordshire, Peter Kendall, chairman of the NFU's cereals committee, farms 3,300 acres - 1,500 on his own land and the remainder as a contractor."

Woburn Abbey
(http://www.woburnabbey.co.uk/)

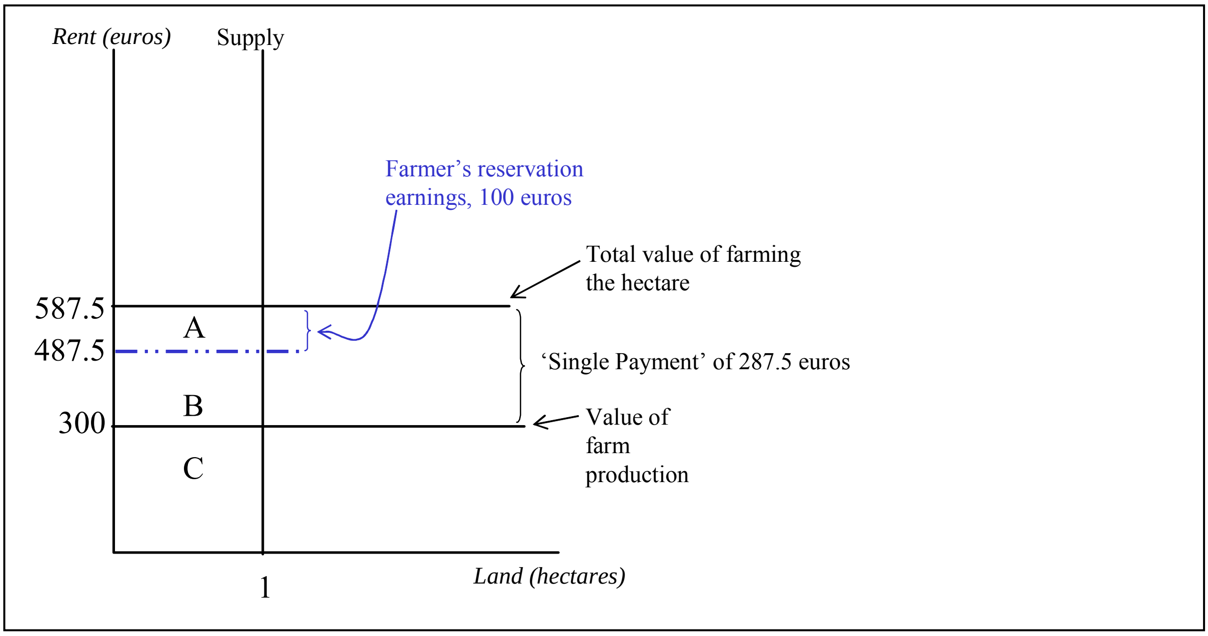
To be concrete, let us imagine that farmer Kendall rents the extra 1,800 acres, and to make things vivid, suppose he rents from the Duke of Bedfordshire (who does little farming himself but lives in Bedfordshire, in fact, in a very nice home called Woburn Abbey, see the picture). What rent would farmer Kendall pay to the Duke? Supposing land is a competitive market, the rent will equal the value of the land's marginal product, but what is that?

Let us suppose that when farmer Kendall does his best, he can grow crops that earn him, say, €300 per hectare after expenses. In addition, he gets the EU's €287.5 (assuming the Duke's land is similar to farmer Walston's), so the maximum farmer Kendall could pay in rent without actually losing money would be €587.5. However, farmer Kendall's time and effort are worth something, so in fact he will not rent the land unless he clears at least €100 per hectare; in economics jargon, €100 is his 'reservation wage', i.e. the wage below which he walks away. Finishing the calculation, we see that the rent can be up to €487.5, i.e. the value generated by the land minus farmer Kendall's reservation wage.

How much would the rent actually be? Well, supposing that there are many potential farmers of the Duke's land (remember from Chapter 8 that about 2% of EU farmers quit farming every year, so there is no shortage of farmers), the Duke is the one with the bargaining power. If he drives a hard bargain, the rent will be €487.5, although maybe a sense of *noblesse oblige* would lead him to charge somewhat less.

All this is illustrated in Figure 1. In the end, the farmer's income works out to 100 euros per hectare rented; the income of the landowning Duke is 487.5 euros per hectare owned. Importantly, the farmer's income is not affected by the size of the payment. If the 'single payment' is increased or decreased, it is the rent, not the renter's income, that adjusts. Alternatively, the Duke can pay farmer Kendall to farm the land so the Duke can collect the payment, but in this case the outcome is the same. He pays farmer Kendall his reservation wage and pockets the rest.

Figure 3: Impact of the single payment on farm incomes and land rents.



Of course, farmer Kendall benefits from the full single-payment on all the 1,500 acres that he owns himself, so modulation will hurt him, but not as much as one might think at first.

References and useful sources for further study

Baldwin, R. and C. Wyplosz (2003). *The Economics of European Integration*, McGraw Hill, London.

Newsletter, Special Edition, *European Commission, Directorate-General for Agriculture*, July 2003, ISSN 1560-1862; on http://europa.eu.int/comm/agriculture/publi/newsletter/index_en.htm

USDA (2003), "*EU CAP Reform deal approved*", *USDA Foreign Agricultural Service, GAIN Report*, *6/26/2003*. on www.fas.usda.gov.

USDA (2003b), "*European Union Trade Policy Monitoring, May Agricultural Council Meeting*", *USDA Foreign Agricultural Service, GAIN Report, 6/4/2003*. on www.fas.usda.gov.

DEFRA (2003). "*CAP Reform: the National Perspective*" powerpoint presentation on http://www.seeda.co.uk/rural_issues/Common_Agricultural_Policy/docs/CAPSeminar31.7.03.ppt

Many documents can be found on the DG Agriculture's website on CAP reform: http://europa.eu.int/comm/agriculture/capreform/index_en.htm

Many useful evaluations can be found on a site run by the US's agricultural ministry (USDA) http://www.useu.be/agri/cap.html

This site provides extensive discussion and review of public documents; the view point is from the ACP nations (developing nations that generally do not like the CAP, but benefit from special EU trade preferences in agriculture).

http://www.agricta.org/agritrade/capreform/index.htm

A set of articles on the reforms can be found on this Irish farmers' site:

http://www.farmersjournal.ie/cap/analysis.shtml

A World Bank paper on the economics of decouple can be downloaded from:

wbln0018.worldbank.org/eurvp/web.nsf/Pages/Paper+by+De+Gorter/$File/DE+GORTER.PDF

And an OECD empirical evaluation of decoupling policies in general (not the June reform specifically):

www.oecd.org/findDocument/0,2350,en_2649_33727_1_119699_1_1_1,00.html

A more specific study from Cambridge University scholars (for DEFRA) is on

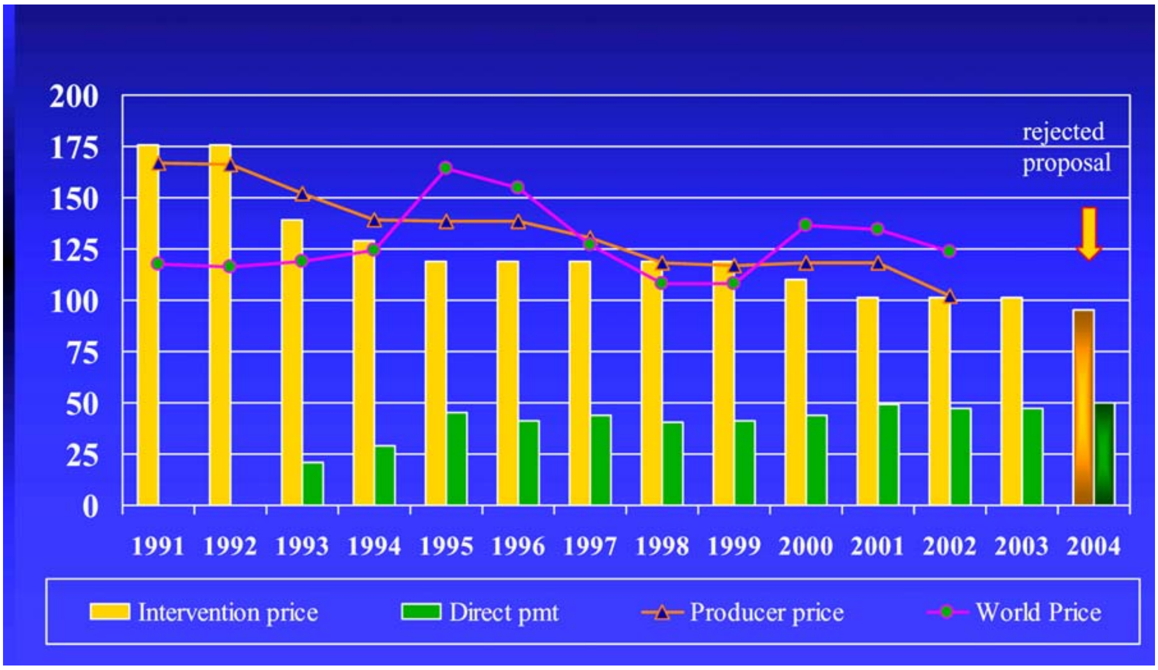
statistics.defra.gov.uk/esg/reports/decoupling/Cambridge.PDF

Box 1: The world wheat price and the CAP's price floor, 1991-2004.

The figure below shows the EU's 'intervention price' (price floor), the world price and the 'producer price', i.e. the price EU farmers actually received. Until the MacSharry reform, the EU's price floor was substantially above the world market price. While many factors affect the world wheat price, the CAP did have a major depressing effect on it. As explained in Figure 8-4 in the textbook, the world price was driven by two aspects, the EU shutting off imports with high tariffs and its dumping of the excess EU production on the world market. The MacSharry reform did little to increase EU imports, but it did greatly reduce the dumping and this helped the world price revive (the emergence of China and its growing taste for wheat also helped).

The price floor was reduced again in 2000 and according to the Commission's proposal for the June 2003 reform, the price floor should have been dropped altogether (this part of the package was dropped, however, at French insistence).

The figure also shows how the price floor cut has been replaced by direct acreage payments. Under the June 2003 reforms, these payments will no longer be tied to the growing of wheat.



Source: European Commission July 2003 presentation by Tassos Haniotis in Washington DC; http://www.eurunion.org/newsweb/news/CAPRefTHBriefing.htm

Box 2: Name-calling and national positions

Since the CAP pays billions of euros to Europe's large, rich farmers and these farmers are extremely well organised politically, any change in the CAP is politically difficult. In particular, Jacques Chirac has always counted on the political support of French farmers. He cannot help but view CAP reform as a threat to his personal political base, in addition to any other concerns he may have. Perhaps this explains why the negotiations leading up to the June 2003 reforms proved so difficult and so nasty.

When the reform was first broached at an October 2002 European Council meeting in Brussels, UK Prime Minister Tony Blair and French President Jacques Chirac got into a heated conversation over the Frenchman's attempt to sideline the reforms. The headline in the British paper, *The Telegraph*, was "Chirac and Blair trade insults over farm reform".[2] The article, by Toby Helm and Philip Delves, states: "The argument flared in front of other EU leaders in the middle of the Brussels meeting after Mr Blair accused M Chirac of trying to renege on a commitment to reform farm policy in 2004. M Chirac … reportedly told Mr Blair: 'You have been very rude and I have never been spoken to like this before.' The problem was that, Mr Blair discovered on arrival at the Brussels meeting that M Chirac and Gerhard Schröder, the German chancellor, had already struck a deal to keep CAP spending at around its present levels until 2013. The Prime Minister was furious not only because he was excluded by Europe's two biggest power brokers, but by what they had decided behind his back. Mr Blair had called for a root and branch reform of CAP and viewed the deal as a ploy by the French to dodge a 1999 commitment by EU leaders for a revamp in 2004."

At the June 2003 European Council meeting in Athens, Chirac again tried to prevent the reforms. *The Telegraph* covered this under the headline, "Chirac snubbed in farm dispute". The story states:

"M Chirac astounded fellow leaders by threatening to veto reform of the Common Agricultural Policy unless France got its way. Losing his patience as two weeks of marathon talks by farm ministers in Luxembourg began to turn against France, he switched tack on Thursday night and insisted for the first time that the matter should be dealt with directly by European Union prime ministers. But Costa Simitis, the

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[2] You can find the article by typing the title into the search engine google.

Greek prime minister and summit host, rejected the proposal, saying it should be left to farm ministers properly briefed on the subject. M Chirac's veto threat could cause a major crisis. France does not have a legally binding veto on farm policy since decisions are taken by majority voting. In theory, Paris could invoke 'vital national interests' as a last resort, but this safeguard, known as the Luxembourg Compromise, has fallen into disuse and is not recognised by the European Court. … The proposals, which have the loose backing of the northern "scrap-the-Cap club" of Germany, Britain, Holland, Sweden and Denmark, are intended to cut the link between subsidies and production. Funds would be switched gradually to eco-friendly 'green' agriculture and help for village communities, reducing the excess production that has flooded Third World economies with dumped EU goods. Commission officials said M Chirac, a former farm minister, believed he could outmanoeuvre his colleagues on farm aid, provided he could pin them down at yesterday's summit, without the presence of their key advisers." (21 June 2003, article by Ambrose Evans-Pritchard).

National positions

The national positions of the reform were varied. A report from the US's agriculture department concerning discussions in the Council meetings in May 2003 shows the complexity (see USDA 2003b).

On decoupling, Denmark, the Netherlands and the UK were in favour of full decoupling, with France, Austria and Spain opposing and Belgium, Germany, Luxembourg and Italy favouring partial decoupling. Ireland's position was unclear. When it came to the dairy sector, France, Ireland and Spain rejected the Commission's proposals of cutting price floors and shifting to full decoupling; Italy wanted no quota cuts beyond 2008 and Austria favoured the maintenance of quotas until 2015. Belgium favoured reform in 2006, Denmark favoured reform in 2010; Britain and Germany accepted in full the proposed price cuts, but Finland rejected them. Luxembourg does not want dairy-sector reform while the Netherlands wants full decoupling. When it came to cereals, Denmark, Germany and the UK favoured further cuts, but Austria, Belgium, Finland, France, Ireland and Luxembourg opposed them. Italy favoured partial decoupling while the Netherlands wanted full decoupling. Spain wanted to see intervention buying retained.

Just imagine what these sorts of negotiations are going to be like with 25 member states!

Box 3: Oxfam's negative reaction

The British charity group Oxfam has consistently pushed for pro-developing country liberalisation of the CAP and the US's farm programme. Here is their highly negative reaction the day after the reforms were announced (a 27 June 2003 Press Release from http://www.oxfam.org/eng/pr030627_eu_cap_reform.htm entitled "EU CAP reforms a disaster for the poor"):

"Oxfam International today condemned the European Union's CAP reform proposals saying that they comprehensively fail to stop the EU from dumping farm produce on poor countries and could spell disaster for the world trade talks which begin in September.

Phil Bloomer, Head of Advocacy at Oxfam said: 'These proposals confirm our worst fears, there is nothing to celebrate. European agriculture will still be subsidised to the tune of £30 billion creating vast surpluses that will be dumped on poor countries. The French took Europe's agriculture negotiations hostage and the ransom will be paid by poor farmers who will continue to suffer as a result of EU dumping. It is difficult to see what poor countries will get out of the world trade talks in Cancun this September. Europe had the opportunity to take global leadership on making trade work for the poor, instead it has chosen to stick its head in the sand.'

Negotiations over sugar - a key product for many poor countries - was such a divisive issue that the EU had to take it out of the CAP reform discussions. Reform on milk subsidies was fudged, with the big decisions deferred until 2007.

For example, European dairy giant Arla Foods, which delivers milk to half a million people in Britain every morning, exports some £43 million worth of dairy produce to the Dominican Republic. The European Union gives Arla £11 million in export subsidies to help facilitate these exports which makes Arla's milk 25% cheaper than local produce. As a consequence of this, 10,000 farmers have lost their jobs in the dairy industry in the Dominican Republic over the last twenty years. Nothing in today's deal will stop this from happening.

Bloomer continued: 'Member states have been allowed to protect their own interests. This CAP deal is a failure for the world's poor, member states have added a plethora of caveats and 'get-out' clauses to this agreement, including completely sidestepping the serious problem of dairy dumping by the EU on poor countries.'"