

Some Discussions on EU Agricultural Export Subsidies in GTAP 7 Data Base

Summarized by Badri Narayanan G.

In all the pre-releases of version 7, we have been using the EU agricultural export subsidies for the year 2002. However, David Laborde pointed out that 2004 data is available in the “Financial report on the European Agricultural Guidance and Guarantee Fund” (FREAGGF). Also, Hans Jensen mentioned that there have been some WTO notifications that provide this data for 2004. Therefore, we had two options to revise this data and we decided to use the FREAGGF data after detailed discussions summarized in this note.

In FREAGGF, the total payments for all grains had to be split between “wht” and “gro”. David Laborde, based on an in-depth analysis of the weekly reports of the European Commission’s Cereal Management Committee (in French), concluded that “wht” has had no subsidies in 2004 and hence, all these subsidies should go to “gro”. All cereals subsidies went to "other grains" in GTAP, namely barley (average = 16euro/ton for eligible shipments) and oat (average = 29euro/ton for eligible shipments). To substantiate this, Laborde noted some specificities of this aspect that make it difficult to get the good breakdown of EU export subsidies:

- The financial year is not the "crop" year or the year where trade occurs. More important, (also noted by Christophe Gouel), there is no ad-valorem or specific subsidies rate defined in the legislation. There is just a formula (based on export price and intervention price), the intervention price and a cap on per ton subsidy. Therefore, the exact value of the EU restitutions varies from one transaction to another, from one day to another, from one exporter to another. Moreover, due to bilateral trade agreements, some trade relations are excluded from the eligibility for export support.
- In some cases, exporters will even require a subsidy due to special conditions (Sweden Barley exporters in month X will ask to have a support that will derogate with normal rule).
- Last, and this is crucial, substantial portions of European export subsidies are administered through an open market tender process rather than as standing refunds. The European Commission’s Cereal Management Committee convenes weekly to determine the quantity of exports to be subsidized and the value of the refunds per metric ton.

Looking at fundamentals, this aspect becomes even clearer. Until the end of 2004, the dollar-euro exchange rate was not so bad (starting in 2005, the exchange rate issue has become a reason to reactivate support on wheat). Moreover, 2003-04 crop was very bad for the EU (-20% compared to 2004-05). The prices for many French cereals were above the intervention line during between July 2003 and July 2004 and no public intervention and support were needed. Further, for the 2003-04 season, the 10 new EU members were not eligible to export subsidy program.

Hans Jensen, based on the EU notifications to the WTO of export subsidies for the marketing years 2003-04 and 2004-05, suggested that in the marketing year beginning 1 July 2003 wheat had zero subsidised exports, coarse grains 82.1 million Euro. But, in the marketing year beginning 1 July 2004 wheat had 50.4 million euro subsidised exports, coarse grains 180.9 million Euro (2004-05 notification). The marketing year 2003-04 seems to fit best to the cereals subsidy rate that we have been using, but the 2003-04 notification only includes the EU15 before 1 May 2004. So there may be export subsidies to the new EU member countries in this notification, although we do not know

if this is the case for sure. The 2004/2005 notification is for the EU25 and therefore Hans Jensen suggested the use of this notification to calculate the export subsidy rates for the V7 database for all the GTAP commodities because the EU25 is also represented in the AVE tariffs in the V7 database.

However, we decided to incorporate FREAGGF data in the final release of Version 7. Since version 6, with contributions from Hans, we have used the data for EU export subsidies because it was agreed that it was more accurate. The particular issue at hand was the EU underreporting for sugar subsidies (not accounting subsidies related to refined sugar re-exported after being imported raw from ACP countries under preferential agreements). On that basis we have settled for the data from FREAGGF instead of WTO notifications for our calculations judging them to be more accurate. We have done the same thing for the latest submission for version 7. Comments and suggestions are welcome from the board members in this regard.