Impacts of the EU’s Berlin Accord on World Agriculture

During the Berlin European Council meeting in March 1999, European Union (EU) heads of state reached an agreement on the political and financial guidelines of the Agenda 2000 reforms (reforms to the EU’s Common Agricultural Policy [CAP]). The guidelines, called the Berlin Accord, were officially adopted by the Council two months later.

The initial Agenda 2000 reform proposal was drafted in 1997, and after several revisions, the proposal now constitutes the most comprehensive plan for reform of the CAP since the “MacSharry” reforms in 1991-92. As with the MacSharry reforms, the Agenda 2000 proposal is intended to reduce support for commodities through market interventions and increase support to farmers through direct payments.

Main Components of the Berlin Accord

The cereal intervention price is reduced by 15 percent in two equal steps, with the first reduction occurring during the 2000/01 marketing year. Cereals producers will be compensated for the price support reduction by increasing compensation payments from 54.34 to 63 euros per metric ton. The base rate for compulsory set-aside is 10 percent through the 2006/07 marketing year. Direct payments to oilseed producers will be progressively reduced to the level for cereals by the 2002/03 marketing year. Protein crops will receive a direct payment of 9.5 euros per metric ton in addition to the basic direct payment.

The beef intervention price is reduced by 20 percent over a three-year period starting from 2000. Beef producers will be compensated for the decline in market prices by a phased increase in the special premiums for steers, bulls, and suckler cows to 300, 210, and 200 euros per head, respectively. In addition, a slaughter premium is introduced, paying 80 euros per head for adult animals and 50 euros per head for calves. Finally, the extensification premium is increased to encourage reduced stocking densities.

Impact Analysis

The commodity policy changes described above were implemented in the FAPRI international agricultural policy model, and the model simulated the Agenda 2000 reforms through the 2008/09 crop year. The simulation results are compared to the 1999 FAPRI world agricultural baseline (see FAPRI Staff Report 2-99) to assess the impacts of the policy changes on European and international agricultural markets.

Crops

Impacts on the EU: The impacts on the crop sector largely depend on the assumed EU set-aside rate, both in the baseline and the Berlin Accord analysis. In the baseline, the set-aside rate was raised from 10 percent in 1999/00 to 15 percent in 2008/09 based on market conditions. For the Berlin Accord scenario, a 10 percent set-aside is maintained throughout the period, as indicated in the accord.

With a set-aside rate of 10 percent for 2000/01 and 2001/02, both in the baseline and the scenario, the Berlin Accord is not projected to have any significant impact on crop production. Total crop area declines slightly during this period, due to an increase in voluntary set-aside area in response to the lower intervention price. After 2001, the total area devoted to cereals and oilseed crops increases because the set-aside rate is below the baseline level.
The 2 percent reduction in set-aside each year between 2002 and 2004 and the 5 percent reduction between 2005 and 2008 increases crop area by little over 1 and 3 percent, respectively (see Figure 1). Most of the rise in total area is likely to go to wheat because the expected net return for wheat does not decline as much as for corn and barley. The addition of less productive land in production and lower prices cause a small decline in EU cereal yield.

A modest change is projected for domestic use of cereals, with feed use rising mainly because of lower prices. In the baseline, EU wheat stock rises steadily until 2005/06 because weaker world prices restrict EU exports to the maximum level allowed by the Uruguay Round Agreement on Agriculture (URAA). After 2005, commercial exports expand as the world price strengthens. However, under the Berlin Accord, the decline in the intervention price enables the EU to export wheat without subsidy from 2001/02, and commercial exports expand above the baseline levels (see Figure 2). The increase in wheat exports results in a steady reduction of the cereal intervention stock.

By equalizing the direct payments for both cereals and oilseeds, the Berlin Accord puts an end to restrictions on oilseed plantings contained in the Blair House Agreement; thus, planting decisions should be driven by market factors. Based on relative returns, oilseed area is projected to decline in the Berlin Accord scenario.

Impacts on the U.S. and World Markets: Implementation of the Berlin Accord is likely to expand EU exports and reduce world prices for most crops. However, changes in world market prices are likely to be small. The United States and the EU compete most heavily in the world wheat markets. Because the EU would produce and export more wheat under the Berlin Accord, the world reference prices for wheat are expected to decline by an average of 2 to 3 percent (see Figure 3). Similarly, U.S. wheat exports are likely to fall by 2 to 3 percent. In addition to the United States, wheat exports by other major exporters such as Argentina, Australia, and Canada also decline by 1 to 2 percent. Unlike wheat, U.S. corn and soybean prices are projected to fall by less than 1 percent. The reduction in EU oilseed production increases U.S. soybean and meal exports slightly under the Berlin Accord.

**Livestock**

The impacts of the Berlin Accord in the livestock sector are dominated by changes in the EU beef market. The phased reduction in the beef intervention price prompts the release of beef intervention stocks, reducing domestic beef prices. The decline in EU beef prices is determined, in part, by how the Commission handles export subsidies. If subsidized beef exports are maintained at the maximum levels allowed under the URAA, domestic beef prices will be supported, counteracting efforts to increase international competitiveness through the reduction in the intervention price. Consequently, it is assumed that the EU Commission will reduce subsidized beef exports as long as industry revenues are as great as under the baseline. The net result is a 6.44 and a 7.42 percent decline in the EU average beef producer price in 2000 and 2001 relative to the baseline projections. EU beef net exports are an average of 150 thousand metric tons below the baseline during those two years.

By 2002 the intervention price reductions are complete, and intervention stocks are eliminated. It is assumed that private beef stocks will replace intervention stocks at a level near 2.5 percent of annual beef consumption. In 2002, EU beef prices are 5 percent below the U.S. price. Although U.S. and European beef are not perfect substitutes on international markets, it is assumed that with the 5 percent price discount, the EU can
export beef without subsidy. The EU will most likely continue to subsidize beef exports to certain markets; however, beef exports will not be constrained by URAA limits. Consequently, EU beef prices move with international prices from 2002 onward, and beef exports exceed the baseline levels five of the seven years from 2002 to 2008. Figure 4 summarizes the movements in the EU and U.S. beef prices and changes in beef exports.

Beef producers in the EU respond to lower prices by decreasing beef production slightly relative to the baseline, averaging 0.5 percent lower. The downward pressures on beef production are offset partially by producer payments, changes in dairy cow inventories, and reductions in feed costs. It is assumed that most direct payments to producers are coupled to production over some range cattle inventories. Though the degree of coupling and the relevant ranges are not known, FAPRI researchers approximate the positive impacts on production by assuming the increases in the special premium to male animals if fully coupled.

Lower beef prices encourage consumers in the EU to increase their consumption of beef between 1.5 and 3 percent over the baseline levels. Substitution effects away from pork and poultry consumption are fully compensated by lower pork and poultry prices. Lower cereal and oilseed prices prompt small increases in EU pork and poultry production, averaging less than 1 percent, inducing an average decline in EU pork and poultry prices of 3.8 to 4 percent relative to the baseline.

**Dairy**

The impacts of the Berlin Accord on the dairy sector are modest during the first five years of the simulation period. The increase in the milk quota in 2000 and 2001 raises milk production by less than 1 percent, depressing the milk price an average of 2.5 percent. The larger increase in the dairy quota beginning in 2005 raises milk production 1.6 percent above the baseline in 2008. As in the baseline, dairy cow inventories are expected to decline throughout the projection period in response to greater output per cow. Nevertheless, the increase in the dairy quota slows the decline in cow inventories, leaving cow numbers 1.52 percent above the baseline levels in 2008.

Butter and skim milk powder (SMP) intervention prices are reduced concurrently with the second increase in the milk quota. The combination of lower market support and increased production pushes the milk price 9.5 percent below the baseline in 2007. Butter and SMP prices decline 10.95 and 11.54 percent, respectively, causing milk processors to shift milk away from butter and SMP production and into cheese and whole milk powder (WMP) production.

EU cheese output rises 3 percent over the baseline, inducing a 7.6 percent decline in the domestic cheese price by 2007. As a consequence, EU cheese exports are projected to rise more than 5 percent over the baseline period. Declines in SMP production coupled with increases in domestic consumption lead to a 17 percent decline in EU SMP exports in 2007. Figure 5 displays the changes in EU dairy product exports expressed in milk equivalent.

**Concluding Remarks**

The CAP reforms resulting from the Berlin Accord are likely to create substantial changes in European agricultural markets. In particular, the implementation of the Berlin Accord will expand cereal production in the EU, lowering wheat prices and enhancing the EU’s ability to export without subsidies. This will lead to lower world wheat prices and also lower U.S. exports. Prices of other crops, such as corn, soybeans, and barley are lower under the Berlin Accord,
though the effects are much smaller than for wheat.

Likewise, policy changes in the livestock and dairy sector will lower beef and dairy product prices between 5 and 15 percent. EU beef exports may no longer be constrained by export subsidy reduction commitments, as EU domestic beef prices fall below the world price. The impact of changes in the EU beef market on U.S. beef prices and exports are small. Expansion in EU milk output will be channeled predominately into cheese production, lowering EU prices and increasing cheese exports.

Note: More detailed results can be obtained from CARD Briefing paper BP-22, 1999, which can be found at CARD’s Web site, http://www.card.iastate.edu.