

*Pellervon taloudellisen tutkimuslaitoksen
työpapereita
Pellervo Economic Research Institute
Working Papers*

N:o 26 (November 1999)

**Pellervo Economic Research Institute Seminar:
“Millennium Round of WTO Negotiations and
International Agricultural Trade”**

November 5, 1999, Helsinki, Finland

Tim Josling

**Professor and Senior Fellow
Institute for International Studies
Stanford University**

Gerard Doornbos

**President of the International Federation
of Agricultural Producers (IFAP)**

Stefan Tangermann

**Professor Institute of Agricultural Economics
University of Göttingen**

Kalevi Hemilä

Minister of Agriculture and Forestry

Helsinki, November 1999

ISBN 952-5299-10-4

ISSN-1455-4623

Pellervo Economic Research Institute Seminar: “Millennium Round of WTO Negotiations and International Agricultural Trade”. Pellervo Economic Research Institute Working papers no. 26. 80 p. ISBN 952-5299-10-4, ISSN-1455-4623.

ABSTRACT: This working paper contains the papers that were presented at the Pellervo Economic Research Institute seminar which focused on Millennium Round of WTO Negotiations and International Agricultural Trade. It was held 5 November 1999 in Helsinki, Finland. In the first paper, Tim Josling discusses both the substantive agenda for the next WTO round of agricultural talks and the frictions that are emerging as countries take their stands. The paper also attempts to identify some of the other issues (e.g., health and food safety, regional trade agreements) and relate them to the core items of the agenda. The second paper by Gerard Doornbos focuses on the aspirations of farmers in the next WTO agricultural trade negotiations. The paper addresses three items: continuation of the reform process, non-trade concerns, and special and differential treatment for developing countries. In the paper by Stefan Tangermann, the current state of affairs is outlined regarding the nature of the EU's WTO commitments in agriculture and the extent to which they constrain the room of manoeuvre in the CAP. In addition, the paper looks at the relationship between Agenda 2000 and the next round of WTO negotiations on agriculture. The final paper by Kalevi Hemilä addresses the position taken by EU ministers of agriculture on the new round of WTO agricultural negotiations.

Key words: WTO, agriculture, trade, liberalisation.

Pellervon taloudellisen tutkimuslaitoksen seminaari: “Millennium Round of WTO Negotiations and International Agricultural Trade”. Pellervon taloudellisen tutkimuslaitoksen työpapereita n:o 26. 80 s. ISBN 952-5299-10-4, ISSN-1455-4623.

TIIVISTELMÄ: Työpaperi koostuu Pellervon taloudellisen tutkimuslaitoksen 5.11.1999 Helsingissä järjestämän seminaarin alustuksista. Seminaarin aiheena oli WTO:n millennium neuvottelukierros ja kansainvälinen maatalouskauppa. Ensimmäisessä osassa Tim Josling tarkastelee seuraavalla WTO-kierroksella maatalouden osalta tärkeiksi muodostuvia asioita ja niitä maiden välisiä ristiriitoja, jotka nousevat esiin neuvotteluissa. Josling pyrkii myös identifioimaan monia muita asioita (terveys ja ruokaturvallisuus, alueelliset kauppasopimukset) ja yhdistämään ne neuvottelukierroksen pääaihealueisiin. Toisessa osassa Gerard Doornbos tuo esiin maataloustuottajien pyrkimykset tulevissa WTO:n maatalousneuvotteluissa. Doornbos nostaa esiin kolme asiakokonaisuutta: kaupan vapauttamisprosessin jatkamisen, ei-kaupalliset näkökohdat ja kehitysmaiden erityisaseman. Kolmannessa osassa Stefan Tangermann esittää EU:n WTO-sitoumukset useille maataloustuotteille ja sen, kuinka sitoumukset rajoittavat EU:n yhteisen maatalouspolitiikan toimintaa. Tangermann analysoi myös Agenda 2000:n ja WTO:n uuden maatalousneuvottelukierroksen välistä suhdetta. Viimeisessä osassa Kalevi Hemilä esittää EU:n maatalousministerien lähtökohdan tuleviin WTO:n maatalousneuvotteluihin.

Avainsanat: WTO, Maatalous, kauppa, vapautuminen

CONTENTS

THE NEXT WTO AGRICULTURAL NEGOTIATIONS: CONFLICTING AGENDAS by Tim Josling

| | | |
|---|---|----|
| 1 | INTRODUCTION..... | 1 |
| 2 | DIFFERENT PERSPECTIVES ON AGRICULTURAL TRADE..... | 3 |
| 3 | THE AGENDA FOR THE AGRICULTURAL NEGOTIATIONS..... | 6 |
| 4 | NON-AGRICULTURAL AGENDAS ITEMS..... | 19 |
| 5 | OTHER INFLUENCES ON THE AGENDA..... | 25 |
| 6 | THE TIMING OF THE NEGOTIATIONS..... | 29 |
| 7 | POSSIBLE OUTCOMES..... | 29 |
| | BIBLIOGRAPHY..... | 31 |

AGRICULTURAL TRADE NEGOTIATIONS IN THE WTO: ASPIRATIONS OF FARMERS by Gerard Doornbos

| | | |
|---|--|----|
| 1 | INTRODUCTION..... | 32 |
| 2 | THE WTO AGRICULTURE AGREEMENT..... | 32 |
| 3 | CONTINUING THE REFORM PROCESS..... | 34 |
| 4 | NON-TRADE CONCERNS – FARMERS, SOCIETY AND GREEN BOX' ISSUE..... | 37 |
| 5 | SANITARY AND PHYTOSANITARY AGREEMENT..... | 42 |
| 6 | HIGHER PRIORITY TO TRADE FROM DEVELOPING COUNTRIES..... | 42 |
| 7 | CONCLUSIONS..... | 47 |

AGENDA 2000 AND THE EU POSITION FOR THE NEXT WTO ROUND

by Stefan Tangermann

| | | |
|---|--|----|
| 1 | INTRODUCTION..... | 48 |
| 2 | THE EUROPEAN UNION'S WTO COMMITMENTS IN AGRICULTURE | 50 |
| 3 | THE RELATIONSHIO BETWEEN AGENDA 2000 AND THE NEXT ROUND OF WTO NEGOTIATIONS | 58 |
| 4 | SPECIFIC NEGOTIATING ISSUES FOR THE EUROPEAN UNION | 65 |
| 5 | CONCLUSIONS | 69 |
| | REFERENCES | 71 |

THE EU PERSPECTIVE ON AGRICULTURAL TRADE LIBERALISATION IN THE WTO: POSITION TAKEN BY EU MINISTERS OF AGRICULTURE

by Kalevi Hemilä.....73

THE NEXT WTO AGRICULTURAL NEGOTIATIONS: CONFLICTING AGENDAS

by Tim Josling

1. INTRODUCTION

The weeks before the Seattle Ministerial are proving interesting. The full extent of the next round of trade negotiations is still undecided. But one thing is clear. Short of a major collapse of the Ministerial, negotiations will go ahead for agriculture. The Uruguay Round Agreement on Agriculture (URAA) mandated further negotiations by the end of 1999. World Trade Organisation (WTO) members agreed "that negotiations for continuing the process [of substantial progressive reductions in support and protection] will be initiated one year before the end of the implementation period [2000]". (Article 20, URAA). Agriculture is thus an integral part of the "Built-in Agenda" which was agreed in the Uruguay Round.

Countries have accordingly begun to formulate their overall approach to the round, and to define their expectations for agriculture. Many have tabled papers in the WTO General Council outlining their positions. One country, Canada, has gone farther down the road, and issued a more specific statement of aims and approaches.¹ In addition, over seventy papers have been prepared in the context of the "Analysis and Information Exchange" process authorized at the Singapore WTO Ministerial and conducted informally by the Committee on Agriculture.² In other words, countries are ready to start the agricultural talks as soon as they get the green light from Seattle. This does not mean that the talks will be easy. However well-prepared the negotiators are, the prospect of stalemate or of minimal progress cannot be ruled out. In particular there are some major differences emerging on the interpretation of agenda items. We are at the stage of "conflicting agendas" in part reflecting national differences and in part tactical considerations. This paper discusses both the substantive agenda for the talks and the frictions that are emerging as countries take their stands. It is too early to predict the outcome of the discussions, but some idea of the timetable can be inferred from the political calendar.

The next "round" of agricultural talks will be different in many respects from the Uruguay Round or its predecessors. In some ways the task of the negotiators will be more clear-cut, in large part because of the transparency introduced by the Uruguay Round Agreement on Agriculture (URAA). Tariff levels are easier to negotiate than non-tariff barriers, and the

¹ "Canada's Initial Negotiating Position on Agriculture," Press Release from Agriculture and Agri-Food Canada, August 19, 1999.

² A decision has apparently been made to ensure that these useful documents will be made publicly available after Seattle.

defined commitments on export subsidies and domestic support can be subject to further cuts without revisiting the definitions. But clear-cut tasks can also focus opposition. There are several countries that would prefer not to pursue the path toward a more open trade system for agriculture, or at least not be pushed in that direction by international pressure. Moreover, as always, negotiations will take place in the context of contemporary events. These events could overshadow and even derail the talks. The agenda already has been influenced by a number of issues that were not on the table during the Uruguay Round. There is no reason to believe that the agenda will stop shifting with the formal start of talks at the end of this year.

The Uruguay Round Agreement on Agriculture (URAA) marked a turning point in agricultural trade policy. Prior to the URAA, national policies were largely unchecked by trade rules. Non-tariff barriers were the norm, implying a lack of transparency in trade and little incentive for the development of competitive exports. Export subsidies made it difficult for competitive exporters to develop markets. Domestic subsidies tilted the playing field in favor of less efficient producers at home and limited the scale of specialization. The URAA established new rules that radically improved the agro-food trade system. Non-tariff barriers were replaced by bound tariffs. Export subsidies have been limited both in the expenditure and the quantity that can benefit from subsidies. Domestic support is now categorized as to whether it is minimally distorting (green box), linked to production controls (blue box) or output-increasing (amber box), and this last is subject to agreed limits.

It is widely accepted that the Agreement on Agriculture did little to liberalize trade in agricultural products and improve market access. Tariffs on agricultural goods are still on average about three times as high as on manufactured goods and continue to distort trade.³ The process of “tariffication” has produced a number of tariffs bound at such high levels that it is difficult to see how they could be reduced by conventional tariff-reduction techniques. Where Tariff Rate Quotas (TRQs) were negotiated to prize open these markets a little, the prospect of quota rents has led governments to agree to a network of bilateral deals and firms to become concerned with market shares. This has in turn exacerbated the problem of competition between state trading enterprises and the private trade. Export subsidies still exist, and are in effect legitimized to the extent of their incorporation in country schedules. The domestic farm policies of the major industrial countries have been required to make only relatively minor changes to bring them into conformity with the Agreement.

In addition to the Agreement on Agriculture, countries negotiated in the Uruguay Round an Agreement on Sanitary and Phytosanitary Standards (SPS Agreement) that was aimed at the misuse of regulations guarding animal, plant and human health for purposes of protecting the incomes of local producers. By requiring scientific justification for standards higher

³ The gap for industrial countries is even greater, where the ratio of agricultural to industrial tariffs is closer to ten-to-one.

than those agreed by international bodies, the SPS Agreement has had the effect of encouraging countries to re-examine their practices in this area. But even in this area there are issues that remain to be clarified before trade can flow unhampered by questionable health barriers. Though there is no requirement to negotiate changes in the SPS Agreement, some countries have indicated that they wish to see modifications.

The overall objective of the next round of agricultural talks will clearly be to continue the progress made at the Uruguay Round. This implies negotiations on improved market access, further constraints on export subsidies and, if exporters get their way, some tightening of the rules for domestic support. But if this is the core agenda, there are a number of other issues which have emerged as a result of the experience with the Uruguay Round Agreement which can be thought of as "extensions" of the URAA core agenda, such as the administration of TRQs and the issues of state trading and of export restrictions. As if this was not enough, several other items are clamoring for a place on the agenda. This paper attempts to identify some of these other "new" issues and relate them to the core items of the agenda. Some of these issues will be dealt with in parallel to the agricultural talks, though not necessarily by the same Committee, and will be part of whatever package emerges. These parallel topics include the sensitive questions of health and food safety along with a number of environmental issues relating to agriculture and biotechnology. Also important to agriculture are the issues of regional trade agreements and preferential trade arrangements. In addition, agriculture could be impacted by talks in seemingly unrelated areas if they prove to be a part of the negotiations. These include the review of intellectual property rules, as well as those on competition and investment. As always, there are a number of more political factors which will condition the pace of the talks, including the changing power relationship between the Parliament and the Commission in the European Union; the lack of "fast track" trade negotiating authority in the US; the imminent accession of China to the WTO; and the newly emerging determination of developing countries to be full partners in the WTO. One should also not forget the impact of the state of commodity markets, which can have a marked effect on the progress of agricultural talks as it impinges on the perceptions and policies of individual countries. Each of these could have a significant bearing on the agricultural talks, and are mentioned briefly below.

2. DIFFERENT PERSPECTIVES ON AGRICULTURAL TRADE

It is possible to distinguish four main perspectives that countries and non-governmental interest groups are bringing to the discussion of agricultural trade in the lead up to the Seattle Ministerial. One perspective is that of the need for continued reform of the trade system for agricultural products. From this perspective the focus of the talks should be on further changes in the trade rules for agricultural products so as to bring these rules into line with those that operate for non-agricultural goods, and a reduction of the levels of protection for temperate zone farm products so as to allow an expansion of trade in these goods. The emphasis of the talks would therefore be on market access for cereals, oilseeds, dairy, sugar

and meat, along with the possible elimination of export subsidies. The major agricultural exporting countries, including the US and the Cairns Group, take this view. They argue that a further significant improvement in market access is necessary, together with an elimination of export subsidies and a tightening of the rules on domestic support. These countries would prefer to keep the post-Seattle agenda focused on these issues and are wary about “new” items that might divert attention from the task at hand. The perspective is clearly in line with WTO tradition and seemed to be the dominant viewpoint until recently.⁴ Even many countries that were unhappy with such an emphasis agreed that that was the agenda. The EU Commission even formulated its internal policy reform (Agenda 2000) on the assumption that this would be the probable outcome of the next round.

However, a second perspective on agricultural trade is rapidly emerging to complicate the life of trade negotiators and absorb the attention of politicians. This is the perspective of the WTO as a body that is responsible for a set of issues related to environmental and food safety impacts of modern agriculture. This is in part a consequence of the globalization of agriculture mentioned above, which brings with it the attention of those that see that trend as needing further regulation. In part it is a reflection of a series of unfortunate food safety incidents that appear to have shaken the faith of consumers in regulators. Global trade rules offer both an additional opportunity to regulate and an additional challenge to local autonomy. Thus the politics of globalization includes groups who see the WTO as having enviable legal instruments to be used to forge environmental policy and those that believe that the organization should be weakened to prevent it impinging on local decisions. Some support for this perspective has been forthcoming from the European Union, in part because it deflects attention from the liberalization of market access as it begins to impinge on sensitive domestic interests, and in part because it faces internal pressures to broaden the agenda. Even the US is implicitly encouraging the broadening of the agenda by promoting more transparency and inclusiveness in the WTO process. But the main thrust is coming from non-governmental organizations for whom the opening of talks on agriculture present an ideal opportunity to discuss their agenda in the public eye.

The issue at the top of the list for these groups is that of the food safety and the environmental impact of transgenic crops, and in particular the conditions under which countries can ban the import of GM foods. The GM issue threatens to overshadow the first part of the talks. Conflicts over trade bans arising from health and environmental regulations would normally be dealt with under the SPS Agreement and the Agreement on Technical Barriers to Trade (TBT).⁵ But the GM issue stretches the interpretation of these agreements and puts

⁴ These countries have some differences among themselves particularly on whether State Trading export monopolies have an unfair advantage in world markets that constitute an export subsidy.

⁵ The SPS Agreement deals specifically with regulations that countries impose to protect the health of plants, animals and people, and requires risk assessments based on scientific evidence. The TBT Agreement covers other types of regulation such as labeling and packaging. In both cases, countries are encouraged to enact regulations that disturb trade as little as possible. Banning GM foods on health grounds would fall under the

excessive strain on the development of international norms that may prove impossible at this early stage of introduction of the technology. Unless a way can be devised to contain the GM issue it could easily derail the process of trade liberalization in agricultural markets.

A third perspective on agricultural trade policy reform is that of its impact on agricultural development in general and the place of developing countries in the trade system in particular. This perspective is gathering importance in part as a result of the increasing interest of developing countries in the WTO and in part as a reflection that the future of much of trade in “traditional” farm commodities will involve the developing countries either as importers or exporters. This perspective is shaped by the views expressed by a group of developing countries concerned with the fact that they derived little benefits from the Uruguay Round but face the prospect of having to make yet further changes to their agricultural trade policies in the next round. This group includes large countries such as India and Pakistan who have to balance participation in trade with strong autarchic domestic forces. The emphasis of this group is to request a correction of what they see as an unbalanced Uruguay Round outcome before being required to participate in further liberalization themselves. Developing countries who take this position have yet to articulate an alternative strategy and may never form a coalition strong enough to influence the agenda, but if they were to be joined by China, supported by Japan, or embraced by the globalization opponents then they could have an impact on the outcome.

A fourth perspective on agricultural trade reform comes from a group of small economies which feel increasingly vulnerable in the global marketplace as well as to those that fear the adverse consequences of market disruption if they continue to open up their economies to trade. Many of these economies are also tied to industrial countries through non-reciprocal preference agreements that have already been ruled contrary to the WTO. For these countries the continuation of multilateral agricultural trade reforms is seen as much a threat as a benefit. They are highly dependent on trade, commonly exporting a small number of commodities, and often have relatively low import barriers. Their concerns are often linked to food security, and include the issues of food aid and of export embargoes, but are more broadly to do with the structure of trade relations. Unless this issue is resolved in the next round there will be an increasing number of trade frictions among these countries and their industrial benefactors. On the other hand the influence of these countries alone may be small, and their importance may rest in their support or otherwise of the positions of their industrial trade partners.

SPS Agreement: labeling of GM foods is a TBT issue. Banning GM organisms on environmental grounds would pose more of a problem for the trade rules as it is not clear on what grounds one could challenge such a policy. (see Nelson, et al, 1999)

5. THE AGENDA FOR THE AGRICULTURAL NEGOTIATIONS

As a result of these various expectations, the agenda for the up-coming WTO negotiations on agricultural trade is becoming rather congested. Those interested in the continued reform of the trade rules emphasize the “core” issues such as the liberalization of market access, the reduction or elimination of export subsidies and the containment of domestic support that is given in a way that distorts trade. The general presumption is that the Uruguay Round set the rules but did not go far toward reducing protection. The main task of the next round is therefore to make a significant step toward the opening up of agricultural markets. These “core” issues are supplemented by others that have largely appeared as a result of the Uruguay Round Agreement on Agriculture. These include the administration of Tariff Rate Quotas (TRQs) and the activities of State Trading Enterprises (STEs), both those that control imports and those that are engaged in export activities.⁶

For those concerned with environmental and food safety issues, by contrast, the “core” issues are of little interest. Instead, a rather different set of agenda items is important. These are closely related to agricultural trade though technically outside the Agreement on Agriculture. These issues include the trade conflicts over Sanitary and Phytosanitary (SPS) measures and the potential conflict over genetically modified foods (GM foods), as well as questions of intellectual property rights. For those concerned with developing country agriculture there are other issues as important as those in the core, including the question as to whether to press for continued “special and differential treatment” in agricultural rules. For those countries concerned about food security, issues such as the need to control the use of export restrictions in times of shortage and the ability of countries to take action against imports that threaten to disrupt markets are important, as are the future of trade preferences.

As if the core agenda and its extensions were not enough, negotiators will be faced with several non-agricultural issues that could determine both the tone and even the content of the agricultural talks. Agriculture is intimately involved in each area, though the main discussions will be outside the agricultural talks. One is the review of the Trade Related Intellectual Property (TRIPS) Agreement, increasingly important to the agricultural sector, and a part of the Built-in Agenda. Another is the issue of trade preferences that will overshadow for many countries the main issues of the agenda for the Round. A third topic is that of regionalism, increasingly significant to agriculture as more regional trade groups incorporate agricultural trade. A fourth subject is that of investment rules, which may find their way onto the agenda if the round is comprehensive in nature. Finally, the large and complex issue of competition, already an aspect of the activities of state trading enterprises, could be a subject for at least initial discussion in the next round.

⁶ Tariff rate quotas were introduced to assure some minimum access in the cases where conversion of non-tariff import measures to tariffs (tariffication) led to very high tariff levels, and also to preserve access under bilaterals and preferential schemes. Many of the non-tariff barriers were being administered by State Trading import agencies, and the TRQs were designed in many cases to open these markets.

5.1.1.1.1.1.1.1.1 Market Access

The market access negotiations will be at the heart of the next agricultural round. The talks will not be a success unless a substantial step is taken to reduce the high levels of agricultural tariffs. With varying degrees of enthusiasm, countries have endorsed the objective of improving market access. The US has called for an “ambitious” target for expansion of market access: the EU admits that its export interests would be served by an opening of markets but cautions that the process will take time.⁷ For the Cairns Group, the negotiations “must result in deep cuts to all tariffs, tariff peaks and tariff escalation”.⁸ Of the major players Japan is naturally the most reticent, contributing the observation that current tariff levels “reflect particular domestic situations” and that these circumstances should be given due consideration in the negotiations.⁹ NGOs are generally less enamored with market access negotiations, associating such liberalization with globalization and the pressure from multinational firms for ever wider markets over which to spread fixed costs. To many of these pressure groups, market access is a part of the problem rather than the solution. Developing countries tend to stress the importance of expanding market access in the products of export interest to themselves.

5.1.1.1.1.1.1.1.1 Modalities for tariff reduction

The techniques of negotiating tariff reductions are well established.¹⁰ One can choose between across-the-board tariff cuts or formulae that cut tariff peaks. One can focus on individual sectors (zero-for-zero arrangements) or agree on comprehensive coverage. One can use the “request and offer” method for identifying demands for market access, multilateralising the results. One can attempt to reduce effective protection by making sure that processed-good tariffs come down at the same rate or faster than those of raw materials. It is unlikely that Ministers meeting in Seattle can agree on the modalities, though one would expect them to specify the broad parameters.

These methods of market access each have some merit but might not be adequate in themselves. This suggests that negotiators might try a “cocktail” of the various modalities.¹¹

⁷ The US position is contained in documents WT/GC/W/107, 115, 286, 287, 288, and 290. The EU paper is WT/GC/W/273. The EU paper contains the intriguing statement that it should “pursue an active market access policy with a view to eliminating barriers to entry in certain third country markets”.

⁸ See the Cairns Group “Vision” statement transmitted to the WTO as WT/L/263, and the subsequent communiqué from the Buenos Aires meeting of the Cairns Group, WT/L/312. The Cairns Group members are Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Indonesia, New Zealand, Paraguay, Philippines, South Africa, Thailand, Uruguay.

⁹ The Japanese paper is document WT/GC/W/220.

¹⁰ For a discussion of tariff reduction options see Josling and Rae (1999).

¹¹ See Josling and Rae (1999) for an elaboration of this technique.

Imagine agricultural tariffs divided into five categories. Low tariffs, those less than five percent, could be reduced to zero, as neither the level of protection nor the revenue collected are likely to be significant. Such nuisance tariffs could be removed with advantage, in agriculture as well as in other areas. Moderate tariffs, of 5-40 percent, could be reduced by a further 36 percent cut, as in the Uruguay Round, or by the same percentage as other tariffs if part of a more general negotiation. The tariffs above 40 percent are probably too high to yield to the same techniques as industrial tariffs: a combination of tariff cuts and TRQ increases may be needed. Thus for tariffs of between 40 and 100 percent, the 36 percent cut could be augmented by an expansion of TRQs. For the tariffs above 100 percent, some variant of the Swiss formula may be needed along with expansion of TRQs. And for those tariffs that are above 300 percent it may make more sense to conduct particular “request and offer” negotiations with principle (potential) suppliers.¹²

5.□.0.□.□.□.□.□□□□□ Other tariff issues

In addition to the task of tariff level reduction, two other aspects of tariff rules will probably be discussed. One is the common phenomenon of bound rates of tariff that are considerably higher than the rates that are applied.¹³ There have been suggestions that these gaps be reduced, for instance by binding the applied rates. But this causes understandable problems for the countries involved, which will argue that the applied rates have not been negotiated in the WTO and therefore to bind these rates would be unfair to those who have undertaken unilateral liberalization. On the other hand, for those countries with such gaps, reducing the bound rate toward the applied rate is a way of getting “credit” for actions already taken.

The other aspect of tariff policy is the form of the tariff. The URAA mandated a tariff-only regime, but allowed some countries to concoct complex tariffs that involve reference prices and compound rates.¹⁴ Moreover, the Blair House agreement between the US and the EU obliged the EU to impose a maximum duty-paid price for cereals that acts very much like the variable levies which were outlawed in the agreement. Many countries also would like to insist on the use of ad valorem tariffs rather than specific duties, which have a somewhat more protective impact when prices are low. The US is calling for a simplification of complex tariffs: whether any country will take aim at de facto variable levies and specific tariffs is not so clear.

¹² A variant of this cocktail approach, without the TRQ changes, is explored in Josling and Rae (1999).

¹³ The US paper specifically mentions the “lowering of bound rates to eliminate the disparity between applied and bound rates”.

¹⁴ The EU tariff schedule for fruits and vegetables includes tariffs conditional on whether the offer price is below or above a reference price (IATRC, 1997).

5.0.□.□.□.□.□□□□□ TRQ expansion

One direct way to tackle the problem of the high levels of tariffs resulting from tariffication is to expand the guaranteed market access that forms a part of the provisions of the Agreement on Agriculture. Some position papers (though not that of the US) mention the importance of expanding TRQs in the next round. The Cairns Group paper says that “trade volumes under tariff rate quotas must be increased substantially”. Other countries suggest further improvements in the TRQ system, in addition to the administration of the quotas (discussed below). Canada argues for the elimination of the within-quota tariff whenever the above quota tariff is prohibitive (presumably to ensure that the quotas are filled, rather than merely increasing quota rents at the expense of government revenue). The same paper suggests the introduction of a TRQ whenever tariffs are higher than a specified level, and increasing the product specificity of TRQs.

3.1.4 Administering TRQs

As a number of countries recognize in their position papers, the issue of developing a more uniform system for the administration of the TRQs is one of the most urgent tasks for the new agricultural round. TRQs for agricultural imports have created a new wave of governmental interference with trade through licensing procedures and provided a playground for rent-seeking traders – who will in turn have an incentive to lobby for the continuation of the high above-quota tariffs. The question is how to prevent the TRQs from interfering any more than necessary with the competitive development of trade.

One answer to the question lies in the method of allocation. In some cases allocation is done on a government-to-government basis, usually in accordance with historical market shares. But this perpetuates distortions in trade. To allocate the TRQs to the exporting country government, as is done for instance in the case of US sugar imports, implies a deliberate attempt to influence the pattern of trade in favor of the recipient countries. This has in the past been done to target development aid or reward political friendship. Such non-market allocation schemes may have had their purpose. They do not, however, promote the competitive trade system that is the fundamental goal of the WTO. Efficient producers can make no headway against the assured market shares of the quota holders. Even allocating TRQs by country based on historical market shares does not ensure that the sourcing of supplies for the importer bears any necessary relation to the competitiveness of the supplier.

The simple solution to the efficiency problem is to allow quotas to be auctioned, as has been suggested at various times.¹⁵ This would seem an economically sensible solution to the

¹⁵ Tangermann explores the arguments in favor of auctioning the TRQs (Tangermann, 1997) The issue of auctioning quotas was addressed some years ago by Bergsten and colleagues in the context of US import policy. It is an interesting comment on the lack of economic rationality in trade policy - and the attraction of

problem of the capture of rents and to counteract the incentives to keep the system in place. But this is also a reason why exporters in particular are likely to resist such a move. If the TRQs were auctioned to the exporter the impact would be much like a tariff. The exporter would bid up to the height of the tariff concession for the right to sell in the import market. The capture by the government of the rent through the auction process in effect turns the TRQ into a quasi-tariff, with the height discovered through the auction process. Where the TRQs replace previous access agreements in which the quota was allocated to the exporter, the result of the auction would be to reduce the return from selling into this market. Thus there could be considerable resistance to the auctioning of TRQs.

The type of allocation mechanism that causes most problems, however, is that which gives the import rights to domestic concerns. Exporters feel that they are neither getting assured access (as the agency or firm concerned can choose not to import the product, leading to under-fill of quotas) or that they are not gaining the benefit of the access (in essence not receiving any of the quota rent). In instances where the TRQs have a deliberate purpose, such as the EU arrangements with the African, Caribbean and Pacific countries (ACP) and those of the Mediterranean basin, capture of rents by the importing firms negates much of the benefit of the scheme. When competing domestic producers receive the import entitlements (as has happened in a few cases) then the market access inherent in the TRQs may be elusive.

Any allocation mechanism is subject to criticism. Using historical shares locks in trade, auctions tax the exporter for what is supposed to be market access, and allocation to import agencies encourages rent-seeking. The best solution may in the end be to steadily increase the TRQs, as suggested above, or to reduce the rents by cutting above-quota tariffs, until the issue of how to allocate them is rendered moot.

5.0.□.□.□.□.□□□□□ State Trading Importers

The issue of state trading enterprises that have special or exclusive rights in import markets can be thought of as an extension of the problem of market access. Under WTO articles, state trading importers are not supposed to grant more protection than that given by the bound tariff (Article II:4, GATT 47). Countries could however go further than just ensuring that state trading importers do not give more protection than the bound tariff. It would be possible for instance to link the administration of the TRQs with the import operations of state traders, perhaps converting the TRQ into an obligation to import rather than an opportunity. This could reduce the suspicion that STEs might be responsible for the under-fill of the quotas. At the other extreme one could mandate that all (or a share) of the TRQ be mar-

rents to trading interests - that such a simple device as auctioning quotas has not so far caught on with politicians and policy makers. (Bergsten, et al, 1987)

keted through private channels, thus providing some competition for the STE and allowing price and markup comparisons to be made.

5.1.1.1.1.1.1.1.1 Curbing Export Subsidies

If the high level of protection sets agriculture apart, the widespread use of export subsidies is perhaps the most disruptive element in the operation of world markets. The practice of subsidizing exports of agricultural products has been constrained by the Uruguay Round, but most of the subsidies are allowed to continue in a reduced form. Countries that import agricultural products have been the gainers in economic terms from the subsidies, but even among these countries the disturbance of the domestic market has often caused problems. In the next round of negotiations, it will be more difficult than ever to persuade countries who export agricultural goods with little or no subsidy to allow countries such as the EU and the US to continue their market-distorting practices.

5.00.1.1.1.1.1.1.1 Reducing Export Subsidies

A further push to rein in these subsidies is high on the agenda of the Cairns Group, apparently supported by the US. The Cairns Group paper declares that “there is no justification for maintaining export subsidies”. The US says that members “should agree to pursue an outcome that will result in an elimination of all remaining export subsidies”. Canada adds that export subsidies in agriculture should be eliminated “as quickly as possible”. Developing countries also are generally in favor of the elimination of export subsidies.¹⁶ Only the EU would have great difficulty in agreeing to the dismantlement of export subsidies, though it will come under considerable pressure to do so.

The simplest way to continue the process of reducing the incidence of export subsidies would be to extend the schedule of reductions agreed in the Uruguay Round. As with the market access improvement, this could be done using the same base. This would imply constraining the expenditure on such subsidies by another 36 percent, thus removing 72 percent of the subsidy expenditure that was used in the base period. Continuing the quantity restriction would imply that 40 percent of the volume of subsidized exports would have been removed from the market over the two periods of reform. But since the remaining 60 percent would have to be subsidized with only 29 percent of the expenditure, the disruption that could be caused by such subsidies would be significantly reduced.

The continuation of the process of reduction would be constructive, but elimination of export subsidies altogether would clearly have significant advantages. But the pre-requisites

¹⁶ Pakistan argues for the immediate elimination of “all kinds of export subsidies by the developed countries”.

for dispensing with export subsidies are a renewed confidence in world markets, with firmer and more stable price levels for the major products, and reduced dependence on intervention buying in domestic policies. The former condition itself depends on the success of the Agreement in increasing trade and reducing protection: removing export subsidies may be the only way to create the conditions under which they are not needed. As for domestic programs, it is possible that practice and sentiment in the EU may have moved further away from the use of market support policies to other instruments by the end of the negotiations. If these conditions were met then a new set of negotiations could, say, set a target to phase out export subsidies over a seven-year period.

5..0.□.□.□.□.□□□□□ Disciplines on Export Credits

Beside the question of export subsidies, several problems remain in the area of export competition. In the Uruguay Round, export credits were declared to be a form of export subsidy, but it did not prove possible to agree on constraints. The OECD countries have negotiated a code for non-agricultural export credits that puts limits on credit terms and the length of credit extension, but it has not been possible to include agriculture in this agreement. This leaves this topic as one to be dealt with in the next Round, though some countries have indicated that they do not wish to “pay twice” for getting rid of such policies. It should be possible to agree on the allowable terms for such credit, and hence be able to calculate the magnitude of the subsidy which is involved if softer credit terms are offered. The best way to deal with the subsidy equivalent of such concessionary credit is to charge it against the export subsidy constraints in the schedules

5.00..□.□.□.□.□□□□□ State Trading Exporters

The quantification of export subsidies and their reduction has left more visible the distinction between those countries where exports are privately sold from those where a parastatal controls such exports. There is widespread concern in those countries where trade is by private firms that the state trading enterprises can obtain cheap credit from their governments, offer better terms to buyers, and generally compete unfairly with the private trade. To the extent that these practices could be labeled as export subsidies, the issue is one of monitoring and transparency. But some commonly used devices such as price pooling (giving the producer an average price over several destinations or time periods) are also seen as giving the producer an unfair advantage. It might therefore be a matter for negotiation as to whether any constraints need be placed upon STEs with regard to their producer pricing policies.

The question of single-desk selling agencies for agricultural products is at the heart of this issue. On this there are some clear conflicts between the exporters. The US has indicated that it would like to “strengthen rules ... disciplining activities of state trading enterprises”.

Different marketing practices among exporters are inevitable, and not in themselves undesirable. But international guidance is needed as to which practices of parastatal export agencies are consistent with agreed conditions of competition and which distort that competition. Now that the more clear-cut kinds of export subsidy have been identified and included in the country schedules of allowable subsidies, the main task of the negotiations will be to clarify the definition as regards the actions of state trading exporters.¹⁸ This would ensure that such actions as dual pricing and price pooling, if deemed to be hidden subsidies, could be counted against the schedule for that country.

In the next Round, importers are likely to lead a movement to constrain the ability of exporters to restrict supplies. After all restraints on exports are no less inconsistent with an open trade system than restraints on imports. Export taxes should be included under the same qualifications as quantitative restrictions. The argument has already surfaced in connection with the Food Security Declaration appended to the Uruguay Round Agreement (the Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Program on Least-Developed and Net Food-Importing Developing Countries). It seems inconsistent to leave in place the possibility of export taxes and quantitative restrictions that have an immediate and harmful impact on developing country food importers.

The practice of export taxes and export restraints through quantitative controls can conveniently be thought of as an extension of the issue of export competition. Within the GATT

¹⁷ Of course one can argue about the interpretation of “similar market power”, but it remains true that many Canadian farmers claim that even if they were relieved of the obligation to sell to the CWB they would have to sell to one of a very few US multinational corporations.

¹⁸ In this regard the outcome of the dispute over Canadian dairy exports is useful. The panel report has indicated that the use of special export grades of milk that can be sold at a lower price to processors for export of dairy products constitutes a form of export subsidy under the URAA.

export controls are generally disallowed, though export taxes are deemed innocuous. Article XI of GATT 1947 prohibits quantitative export restrictions but makes an explicit exception for “export prohibitions or restrictions temporarily applied to prevent or relieve critical shortages of foodstuffs or other products essential to the exporting contracting party”. There is a clear conflict between the ability of exporters to withhold supplies to relieve domestic shortages and the reliability of the world market as a source of supplies for importers. The inclusion of stronger disciplines on export taxes and embargoes is likely to be part of the next round of agricultural talks.

Several countries have indicated their views on this matter. Canada indicates that it will seek a ban on “the inclusion of food and feedstuffs in national security embargoes” together with a ban on “export restrictions that would reduce the proportion of the total supply of an agricultural product permitted to be exported compared to the proportion prevailing in a previous representative period”. Japan also argues for strengthening the disciplines concerning export taxes and export restrictions in part to “redress the balance of rights and obligations between exporting and importing countries”. Developing countries have so far focused on other aspects of food security, such as putting “teeth” into the Ministerial Decision. The EU paper does not mention export restrictions and taxes: it was the introduction of export levies in 1995 and 1996 to keep cereal prices from rising on the internal EU market that has reawakened interest in the issue of export restrictions.

5..□.□.□.□.□.□.□□□ Domestic Support

It is one of the ironies of the Uruguay Round that, although the biggest conceptual breakthrough was the acceptance by countries that domestic policies were a legitimate concern of trade talks, the actual disciplines imposed on those policies through the reduction of the Aggregate Measure of Support (AMS) were rather weak. The key question for the next Round is therefore whether to strengthen or abandon the attempt to constrain domestic policies.

The fact that the AMS constraints have not been binding for the large majority of countries does not mean that the constraints on domestic support have been ineffective. The process of re-instrumentation of domestic support programs, away from those that most impede trade, has begun. The institution of the “green box” has in itself been useful in defining this objective. The attraction to countries of adopting “green box” policies is both to guard against challenge from trading partners and to avoid being counted toward the AMS. Thus the AMS constraint is of value even if not particularly onerous.

The slow but fundamental changes that are taking place in the agricultural policies of the major industrial countries need the encouragement and underpinning of international agreements. The changes in these policies have generally been in the direction of improving the climate for agricultural trade, in contrast to the policy changes in the nineteen-sixties

and nineteen-seventies that led to more trade conflicts. The Uruguay Round was able to take advantage of these changes, such as the 1992 Reform of the EU's Common Agricultural Policy (CAP) and to get firm commitments on future policy directions and support levels. But this process of reform is still at an early stage and needs to continue in order to avoid a swing back toward the costly and ineffective policies of earlier times.

5.0.□.□.□.□.□□□□□ Further reductions in AMS

Some WTO members put weight on the reduction in domestic support through the Aggregate Measure of Support (AMS). The US has called for an “ambitious target” to be set for the reduction of support. The Cairns Group points out that the “overall levels of support for agriculture remain far in excess of subsidies available to other industries.” But, as with the US, their target is clearly the trade-distorting (amber box) policies. Canada, however, indicates that it will seek “an overall limit on the amount of domestic support of all types (green, blue and amber). This could prove difficult. The EU has announced that one of its objectives is to defend the blue box (in essence the compensation payments under the MacSharry and Agenda 2000 reforms) so as to avoid challenge to these policies and their scheduled reduction.¹⁹ It missed the chance of changing the nature of these payments to make them compatible with the green box criteria, though this could come at some stage in the negotiations.

The AMS constraints are acknowledged to be the least effective of the Uruguay Round bindings. But this does not mean either that they will not be useful in the future or that a continued reduction would not be appropriate. A continuation from the same base would be a relatively modest move, and yet even that will eventually result in 40 percent of the “coupled” domestic support having been removed or converted into less trade-distorting types of program. But it would be even more effective to “catch up” with the reductions in import barriers and export subsidies. Thus one could envisage an agreed reduction of (say) 52 percent in the expenditure on price-related policies.

5.□.□.□.□.□.□.□□□□□ The future of the Blue Box

The ‘blue box’ containing the US and EU direct payments which were granted exemption from challenges under the Blair House Agreement was a creature of its time, necessary to get agreement to go ahead with the broader Uruguay Round package. It is, however, still a somewhat awkward bilateral deal not appreciated in other parts of the world. Such an anomaly could possibly be removed in the next round. The policies of the US and the EU

¹⁹ As in the case of export subsidies, EU authorities would not be averse to reducing direct payments over time. However, they have not yet found a politically acceptable formula for doing so.

themselves are changing for internal reasons. The US Fair Act goes further than ever before to make the payments to farmers decoupled from output and therefore compatible with the green-box. The EU has considered a similar move as a part of the continued reform started in 1992, as a way of making the CAP consistent with enlargement, but for now the idea has been shelved.²⁰ The task for the New Round will be made much easier if the EU and US have both modified their payments such that they meet the conditions laid down in the green box. The “blue-box” could then be emptied and locked.

5.0.0.0.0.0.0.0.0.0.0.0 Redefining the Green Box

The green box presently contains a number of policy instruments that, while probably less trade distorting than price or income supports still encourage an expansion of output. Sometimes they are related to such otherwise reasonable programs such as crop insurance, but incidentally increase the incentive to produce by reducing risk. Other programs may be indirectly linked with production even though the main reason for payment is not output. This might be true of certain environmental payments, which could lead to an increase in output. But exporters fear that to re-open the definition of the green box might, however, allow countries to argue that it be expanded to include food security policies and non-decoupled support schemes designed to keep farming in certain areas.

This issue of the size of the green box appears to be where much of the pre-negotiation rhetoric is targeted. The argument is usually shrouded in terms of the “multifunctionality” of agriculture. The concept of multifunctionality is not in itself particularly novel, as agriculture has always played a complex role in rural societies, and rural areas have a vital place in national social and political life. But the EU has latched onto the concept as a way of both providing cover in the WTO for policies which it would like to maintain and also providing a rationale for paying farmers in ways that are not tied to commodity output. Exporters are trying to neutralize any impact that the idea might have by pointing out that multifunctionality is neither restricted to Europe (though the EU Commission tends to link it to a European farming model, by implication different from the system of farming in competitor countries) nor indeed to agriculture. Importers are trying to link it to the “non-trade concerns” which are mentioned in Article 20 or the URAA as requiring consideration in planning the reform of the trade system.

The basic question remains “what does multifunctionality mean for trade policy?” On the one hand it could merely be a recognition that a variety of programs will be maintained in most societies which target specific aspects of rural life. For the trade system to be seen to

²⁰ The Agenda 2000 reform of the CAP, agreed earlier this year, did not change the conditions for the direct payments to cereal farmers. Use of the land in program crops is still required. If new members are admitted under these conditions it is difficult to see how the EU could avoid paying the direct payments to their farmers. This would constitute a large part of the budget cost of extending the CAP to new members.

5..□.□.□.□.□.□□□ Health, Safety and Environmental Issues

Among the most controversial of issues which will confront negotiators is that of trade measures to support disparate health, safety and environmental standards. Some of these standards have been around for a long time. Others are new and pose a challenge for the trade system as a result of their novelty. Some reflect increasing sensitivity of consumer and environmental groups to food-related issues. Others arise because firms find the different costs of compliance to have an impact on competitiveness.

Conflicts arising from different sanitary and phytosanitary (SPS) standards have posed problems for the GATT for many years. Under the GATT 1947, sanitary and phytosanitary measures which impinged on trade were covered by Article XX (b), which allows countries to employ trade barriers “necessary to protect human, animal or plant life or health” which would otherwise be illegal so long as “such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or as a disguised restriction on international trade” (Josling, Tangermann and Warley, 1996). But Article XX had no teeth: there was no definition of the criteria by which to judge “necessity”, and there was no specific procedure for settling disputes on such matters. The attempt in the Tokyo Round to improve on this situation through the Agreement on Technical Barriers to Trade (1979), known as the Standards Code, also failed. Though a dispute settlement mechanism was introduced and countries were encouraged to adopt international standards, relatively few countries signed the Code, and a number of basic issues were still unresolved.

3.4.1 The SPS Agreement

Intensive negotiations in the Uruguay Round led eventually to a new SPS Agreement that tried to repair the faults of the existing code. This Agreement defined new criteria that had to be met when imposing regulations on imports more onerous than those agreed in international standards. These included scientific evidence that the measure was needed; assessment of the risks involved; and recognition of the equivalence of different ways of testing and sampling. In addition, the dispute settlement mechanism was considerably strengthened under the WTO to make it easier to obtain an outcome that could not be avoided by the losing party. The force of the SPS Agreement comes in part from the more precise conditions under which standards stricter than international norms can be justified and partly from the strengthened dispute settlement process within the WTO. In this regard, much was expected of the panel report in the Beef-Hormone dispute between the EU on the one hand and Canada and the US on the other. This was widely seen as a test case for the new SPS Agreement.

The SPS Agreement was reviewed earlier this year by the SPS Committee, which found no reason to suggest modifications. The US and the Cairns Group are not likely to wish to tamper with a hard-won agreement that has “science” at its core. The EU however has let it be known that a few amendments would not be out of place. The desire to build in the reaction to consumer confidence is natural: presumably it could be argued that the beef-hormone case would be rendered moot by a well-crafted clause written into a revised SPS Agreement. The question as to whether the trade system can tolerate regulations that take into account subjective or irrational consumer demand shifts is one of the most contentious issues in trade policy between the US and the EU.

5.00..□.□.□.□.□□□□□ Handling the GMO Issue

One particularly contentious issue that is directly relevant to the global agri-food system is the extent to which the use of genetically modified organisms (GMOs) is harmful to the environment or indeed to consumer health. Concerns with transgenic crops, such as those with herbicide resistance built into their genetic make-up, have centered around the possibility of unpredictable crosses with wild species and hence the development of herbicide resistant weeds. Those with genetically-manipulated insect resistance give rise to concerns about the development of resistant insects and about collateral damage to harmless or beneficial insects. Clearly there needs to be vigilance to avoid the undesirable side-effects of otherwise useful technology. Other fears are that consumers that suffer from plant-related allergies may react to the presence of genes from those plants to which they are allergic (IPC, 1998). The most commonly recommended remedy for preventing such problems is adequate labeling, but even this creates problems for public policy.

That the GMO issue will come up in the trade talks is inevitable. How it can be resolved, or at least channeled in a way that does not impede other areas of the talks is less certain. The US has suggested that “additional approaches that address market access issues for biotechnology products” be pursued. Canada has suggested a Working Party to look at all aspect of the GM issue, presumably including labeling and import restrictions, as a way of dealing with the issue directly. The EU has positioned itself to take the view that existing agreements (such as the SPS and TBT Agreements) may need to be revised in the light of the challenge of GMOs. The exporters have been trying to coordinate their positions, through the Cairns Group and through bilateral talks. The Asia Pacific Economic Cooperation (APEC) ministers have also been discussing the development of a coordinated plan for the regulation of trade in GMOs. The apparent aim at the moment is to isolate the EU on this issue rather to engage it in a trade forum.

5..0.□.□.□.□.□□□□□ Animal Welfare

Creeping up behind GMOs as the next controversial issue is that of animal welfare. Few topics engender public outrage, at least in Northern Europe, and pose more serious problems of international regulation. Farmers in Europe are already having to modify their farming practices to meet new animal welfare standards. They are naturally arguing that it would be “unfair” to leave them to compete with producers who do not have to meet the same standards. The issue will revolve around whether some degree of protection at the border is allowable to compensate for the extra costs, whether border controls can keep out goods produced under conditions considered unsuitable by the importing country, and whether direct assistance can be given to domestic farmers who are burdened by such regulations without such assistance being considered “yellow box” support. In this respect, the animal welfare debate may become part of the discussion on environmental programs, where the same choices apply. But the animal welfare issue could also take on some of the aspects of the GMO controversy, if genetically modified animal products start to be marketed.

5. NON-AGRICULTURAL AGENDAS ITEMS

One aspect of the globalization of the agri-food sector that was emphasized above is that the range of trade rules that impinge on the sector has expanded significantly. Even if the prospect of talks on investment and competition policy is more distant, the review of the Trade Related Intellectual Property (TRIPS) Agreement will ensure that issues of interest to agriculture will be on the table in other parts of the negotiations.

4.1 Intellectual Property and Agriculture

Among the newer aspects of international trade policy is the setting up of rules regarding intellectual property. The emergence of international rules predates the GATT Uruguay Round, with the establishment of the World Intellectual Property Organization (WIPO), but there was insufficient incentive for countries without intellectual property protection to join. But the breakthrough came in the Uruguay Round when the negotiating countries signed the Trade Related Intellectual Property (TRIPS) agreement. TRIPS brought a degree of harmonization to the disparate treatment of patents, copyrights and trademarks in various trading countries.

4.1.1 Input Industries and Intellectual Property

One important area of the food and agricultural sector where the rules on intellectual property are significant is in the input industries. The seed sector, in particular, has already made use of such international facilities to try to reclaim some revenue from farmers. The ability to patent plant varieties has been controversial topic for some years. Now one has the possibility to patent particular manipulations of genetic material such as is at the root of biotechnology. This would give a much greater chance for companies to license new varieties to others to plant.²¹ This is of concern among some who fear that the highly concentrated seed industry could extract considerable profits from farmers world wide, as they would have to pay from season to season for planting even their own retained seed.

4.1.2 Geographical Labels

A second linkage between agriculture and intellectual property is in the area of geographical trademarks and appellations. It is widely held that such geographical labels help the consumer to pick a brand on which they can rely. It is also possible that the same useful information can have the effect of inhibiting competition and earning scarcity rents for the holder of the patent. But, regardless of the merits of particular systems of labeling, some form of brand identification is an important part of the trade system in foods as in other areas. The EU is particularly keen to see an extension of the protection for geographical appellations (it does not wish to consider them as mere trade marks) as a reflection of the commercially important name recognition of many European food specialties. In any package of measures, some further protection of this type could have a useful role as an issue that the EU can sell to its domestic constituents.

²¹ Though plant breeders rights have been recognized since the 1930s in the US, it has proved impossible to patent improvements that come through selection in the field (landrace crosses) and not easy to see the justification for doing so. But when the improvement comes in the laboratory, as a result of using particular genetic material in a biotech process, the case for restricting unlicensed use increases.

4.2 The Trade Preference Issue

Though not on the formal negotiating agenda, the topic of trade preferences, and more generally the issue of regional trade groups within the trade system, will be not far beneath the surface. Trade preferences have a long history in agriculture. Countries in Europe (particularly France, the United Kingdom and the Netherlands) have kept close commercial ties with their former colonies based on preferential access to their markets. These ties were assumed by the EU under successive Lomé Conventions, and the current one is due to expire at the end of this year. The EU has suggested significant changes in the agreement, in part to try to avoid the perpetuation of a dependency relationship based on the export of a small number of commodities with limited market prospects. The Lomé Convention is in any case likely to change markedly in the coming years: it has been declared to be in contravention of international trade rules.²² The EU was granted a waiver until the year 2000 from the obligation to bring the Lomé Convention into conformity with the WTO rules. If such a waiver is still required after that year it will have to be renewed annually.²³

Developing countries face a dilemma in the area of trade preferences. On the one hand many developing countries benefit from them. On the other hand, most of them grant preferences at the expense of other developing countries. Benefits to exporters under the schemes gain valuable access and higher prices but get locked into particular markets and products. Those exporters that have not had extensive preferences have in many cases outperformed those that have had such access. Moreover, preferences that are given unilaterally by the importer do not have the same guarantees as trade access under the WTO. Investors may remain wary of the future of some of the commodity preference schemes.

Illustrative of the preference issue is the conflict over trade in bananas. A WTO panel found that several of the mechanisms used to allocate banana imports under the EU's regime of quantitative restrictions violated international trade rules. The dispute has put banana exporting countries at odds with each other and led to the (mistaken) view that the WTO is being used to undermine the economies of the smaller islands which are heavily dependent

²² The first banana panel raised the issue of the legality of the Convention under the GATT. The Convention could hardly be justified as a part of a Free Trade Area, under Article XXIV of the GATT as it was non-reciprocal. ACP countries did not have to grant duty-free access to the products of Europe. Preferences are also allowed under the so-called "enabling clause" for giving advantages to developing countries. But the justification of the Lomé Convention as a manifestation of "special and differential treatment" in favor of developing countries, encouraged by the GATT, was rendered doubtful by the fact that many developing countries (in Asia, mostly) did not qualify for ACP assistance and trade benefits.

²³ The EU is not the only body to grant trade preferences. The US runs regional preferences for Central America and the Caribbean under the Caribbean Basin Initiative and other schemes. Though these cover more products than the EU protocols, they are also not WTO-compatible Free Trade Areas nor non-discriminatory development assistance. They also have required a WTO waiver, and will eventually become reciprocal free trade schemes.

on the crop for export earnings. The banana issue is the most contentious trade policy issue for the Caribbean and Central American regions.

The EU has promised a new set of regulations that should prove to be more WTO-consistent. The urgency is that an unresolved banana issue will be a problem for the EU as it enters into negotiations with its WTO partners. The EU will, if the beef hormone dispute is not rapidly settled, be saddled with the burden of two adverse rulings by panels with which it has not yet complied. But the solution of the banana problem itself could eventually be settled in the negotiations, just as the long-running oilseed dispute was settled in a package (at Blair House) along with the final agreement on agriculture in the Uruguay Round

4.3 The Challenge of Regionalism

The most significant challenge to the WTO comes from the success of a parallel means of trade liberalization, that within regional trade pacts. The recent growth of regionalism, unlike many of the earlier regional trade pacts has significant implications for agriculture. Many regional trade agreements have in the past left agriculture out of the free-trade provisions, in deference to the political sensitivity of the sector and the potential conflict with domestic policy objectives. The situation is rapidly changing. NAFTA, MERCOSUR, the Andean Pact, CARICOM and the CER between Australia and New Zealand all include agriculture in their free trade provisions. The countries of Central Europe have included agriculture fully in the Baltic Free Trade Area (BFTA) and in a more limited way in the Central European Free Trade Area (CEFTA). The Europe Agreements, which aim for free trade between the Central and Eastern European countries and the EU, also include agriculture albeit with some temporary quantitative limits. In Asia the process has gone less far: the countries of ASEAN have been unwilling to incorporate agriculture as an integral part of their free trade area (AFTA), though some commodities are included. To the extent that these agreements do include agriculture, this gives them a new significance in the process of liberalizing agricultural trade and necessitates some coordination with the multilateral process.

The fact that the new brand of regional trade agreement includes agricultural trade within the bloc is clearly a mixed blessing. It carries with it the danger that high cost production will be sheltered and supported in these trade blocs, as Europe's regime of free trade within the EU has done. But this arose because of the high level of support and protection at the border. Today's new regional blocs seem to have learned the lesson. In other blocs trade creation seems to have been the dominant effect, helped in large part by the domestic policy reforms that have gone hand in hand with the regional trade pacts. Freer regional trade in agricultural products seems therefore in most cases to be consistent with, and hence a step towards, global trade liberalization. The only major qualification is that each member of a Regional Trade Agreement should reduce tariffs on third-country agricultural trade so as

not to increase regional preferences and hence generate trade diversion. This could either be done jointly through agreement with other members on external protection, in the case of a customs union, or independently through unilateral liberalization in the case of a free trade area. Multilateral negotiations become the best way to keep down the level of protection against non-partner imports so as to avoid trade diversion. If both internal and external protection is progressively removed the regional and the multilateral paths in effect go hand-in-hand toward the same goal.

The potential conflicts between regional and multilateral trade agreements urgently need to be resolved. In the case of agriculture the next WTO round should integrate global and regional liberalization processes. This could be done by establishing targets for multilateral agricultural trade liberalization that are consistent with those already announced within the regional and supra-regional groups. Negotiations could even be facilitated by the adoption of collective positions by regional blocs, though one would need to avoid the proliferation of different states in the negotiations themselves. The multilateral talks could incorporate these supra-regional negotiations as ways of achieving the global targets and focus on the relationship among such groups and between those groups and outside countries.

Three possible ways could be explored to strengthen the complementarity between regional and global trade rules. Each of these steps supports the multilateral system without provoking a direct clash with the forces that are working for regional trade integration.²⁴ First, the existing WTO rules on the acceptability of free trade areas and customs unions could be applied more rigorously. The requirement that “substantially all trade” be covered should be clarified. Omitting a major sector of the economy such as agriculture should not be possible, and even omitting a handful of sensitive commodities should only be allowed if the existing (and potential) trade in those products is negligible. Moreover, the rule could be further strengthened by agreeing that the exemption is of a temporary nature, and that in time all trade would be covered.

Second, as a condition of the free trade area or customs union being accepted by other WTO members, the countries participating should be required to ensure that other countries are not adversely affected. This should be done primarily through reductions in the tariff levels against third countries. Presently, countries can ask for compensation if tariffs go up, but the most common cause of trade diversion arises from a switch in suppliers that can take place even if no tariffs increase. It would be useful to require reduction in applied tariffs when regional trade blocs are set up or expanded.

The third step that could usefully be taken at the multilateral level is to ask the Committee on Agriculture, in conjunction with the Committee that oversees free trade areas and customs unions, to report on the activities of these blocs in the light of the process of multilat-

²⁴ For an elaboration of these arguments see Josling, 1998.

eral trade reform. Such reporting could include monitoring of trade flows and preference levels, as well as policy changes that have significance for the multilateral system. Circumstances where a conflict between regional and global liberalization and trade reform is likely could be identified and discussed. Trade blocs would in this way be obliged to defend their actions in the light of the application of global rules and objectives. Other countries would have an opportunity to question such developments rather than relying exclusively on the dispute settlement process to challenge cases of conflicts. Such additional ongoing scrutiny would greatly improve understanding about the magnitude of the conflict between regional and multilateral trade processes and rules in agriculture.

4.4 Foreign Investment and Agriculture

The global system, whether in agro-food products or in automobiles or computers, depends on foreign investment. But global investment also requires rules, and these are not yet fully developed. Several issues are at stake in the area of investment: assurance the host country authorities that the assets owned by foreigners will not be expropriated, that earnings from investments can be taken out of the country, and that there will not be undue restrictions (such as requirements to use domestic inputs or to export a share of outputs) on the foreign operation. Firms have alternatives, and countries that maintain policies that are not investment-friendly may lose the opportunity to participate in the global division of labor. The global reach of food retailing and processing similarly requires the assurance that facilities abroad will not be expropriated and that undue restrictions are not placed on the repatriation of earnings.

Some start to the forging of a more transparent investment environment was made in the Uruguay Round, with the Agreement on Trade Related Investment Measures. More recently, the OECD countries have been trying to work out a Multilateral Agreement on Investment (MAI). At present the MAI is moribund, a victim in part of unfavorable reactions from the non-OECD countries. But the EU has promised to raise the issue again for inclusion in the next Round of trade talks. Developing countries are generally wary of negotiating on a topic where they consider that they have little to gain and something (at least in policy flexibility) to lose. Agricultural issue have not been prominent in the investment rule debate, but the outcome of these negotiations will clearly have an impact on the agro-food sector.

4.5 Competition Policy

The third and more profound set of related issues is the need for international rules on competition policy. It could be argued that a global trade system needs global competition laws, but this argument has had little effect so far on trade policy discussions. Whilst some are calling for full-scale negotiations on international competition policy, others maintain that

the most one can do is to make sure that each trading country has its own anti-trust policy in place. But the minimalist approach is unlikely to be satisfactory as a long-term solution by itself. The best policy for curbing misuse of market power in any one country is an open trade system. But the very openness of the trade system allows large firms to develop market power in the world market. Global competition policy will eventually focus more on market power in world markets than about enforcing competition policy in each national market.

The issue of competition is at the heart of the conflict over state trading. Without market power the state trader can do little.²⁵ If markets are contestable, the agency that imports cannot sell for more on the domestic market than a private trader who buys at world prices and pays a tariff. An export STE can only buy products to sell abroad if it pays the same price that private traders would pay. It has no incentive to sell below world prices, other than to remove inventories or to develop markets: in this respect it acts the same as a private firm. It is the ability to block other imports or to act as the exclusive sales agent for farmers that set parastatals apart from other marketing agencies. But it is difficult to see how one can develop effective disciplines on competition among agricultural enterprises without tackling the problem across all sectors.

Parastatal agencies in agriculture are of course only one set of institutions that might eventually fall under the watchful eye of the WTO. Concentration of economic power is not confined to public agencies given monopoly rights in importing or exporting. Private firms can have significant market power to influence prices. Should there be any rules relating to the use of market power in international markets? What are the dangers that the rules are trying to prevent? Is the problem the withholding of supplies to raise the price of commodities? This seems relatively unlikely in the case of basic foods, but could happen with vital supply components. Or is the problem one of dumping and market disruption? The incorporation of anti-dumping rules in a set of more comprehensive competition regulations is the object of many trade economists. Whatever is agreed will have significant implications for global agriculture.

5. OTHER INFLUENCES ON THE AGENDA

Some of the most important items are not even on the agenda. One of these is the question of China's membership, which could still be under negotiation by the time of the Seattle Ministerial. A somewhat different issue is that of the debate which is continuing in many quarters on the costs and benefits of globalization. The Round will act as a focus for those who are discontented with the process of liberalization and its role in promoting global markets. Trade officials are taking seriously the need to engage the public in an attempt to

²⁵ The relationship between market power and STEs is emphasized in Josling (1998).

convince domestic constituencies of the value of continuing the process. Agriculture and food issues promise to have a prominent place in this debate. Finally, the exogenous forces of weather, crop failure and other market perturbations will also play a role, though in what way is not entirely clear.

5.1 Expanding Membership of the WTO

The application of China for re-entry into the WTO (it withdrew from GATT membership in 1950) poses very significant problems and enormous possibilities for agricultural trade, as for many other aspects of the international trade system. The opportunities are the result of the huge market potential and the strong economic growth. China could undoubtedly become a major player in agricultural markets: the issue is under what conditions and rules will such trade take place. Besides issues of market access, Chinese accession raise fundamental systemic questions such the behavior of the state trading entities in China and indeed the extent to which the government controls, albeit indirectly, all trade decisions in that country. As a major player in agricultural trade markets, the terms under which China should be allowed into the World Trade Organization (WTO) will have a significant impact on the rules that can be set for other countries with parastatal agencies active in the market.

Recent resumption of the bilateral talks between China and the US has given new hope that a resolution to the problem is near. Elements within the Chinese government that are favorably inclined to the continued opening up of the economy have apparently prevailed, and have presented a package that offers major concessions to the demands of the US and Europe which could provide the basis for membership by the end of this year. The generally liberal thrust of the Chinese offer could be of significance in the agricultural talks. China is reported to have agreed not to use export subsidies. Domestic support levels are also to be bound at low levels. Tariffs of a modest level will leave that country far more open than any of the other Asian importing nations, and almost as low as the most liberal members of the Cairns Group. This could have an impact on the talks. The prospect of a large open market in China is likely to encourage other countries to gear their agricultural policy toward exports.

Russia has also requested to join the WTO, along with the Ukraine and several other parts of the former Soviet Union. The problems that will emerge when these negotiations get underway will have some of the same features as the talks with China. Other countries will be concerned with the role of the state and the extent to which exports can be subsidized or imports restricted by non-transparent state action. However, some of these countries have made major political reforms that make them “open” and less likely to cause fundamental conflict with WTO rules. For these, one might anticipate somewhat more speedy negotiations than have been the case with China. They could even enter the WTO within the next year or two. But this is not true in the case of Russia. Until such time as that country devel-

ops a stable administrative system capable of implementing WTO rules and obligations, it may have to content with “observer” status.

5.2 The Politics of Globalization

The globalization of the food and agricultural sectors that has taken place over the past two decades has changed the relationship between trade policy and the agricultural sector in critical ways. Among these is the fact that agriculture has been caught up in the politics of globalization. Nowhere is that more clearly seen than in the area of health, safety and environmental standards. The political setting in which discussions of the SPS Agreement will take place, both with respect to the impact of globalization and with regard to the role of developing countries, could in part determine the future of the agreement. The WTO Council will be under pressure from NGOs to address the issue of the impact of globalization on the environment, on income distribution and on national sovereignty. One aspect of this pressure will be related to food safety. The politics of food safety has been transformed by a chain of events that has sensitized public interest groups, particularly in Europe, to the question of the reliability of the food system. Starting with problems arising from the misuse of hormones in animal feed in Europe in the 1970s, through adulterated wine and vegetable oil in the 1980s to the BSE outbreak and the dioxin scare of the 1990s, a series of unfortunate health problems has convinced consumers and consumer watchdog groups that the regulatory systems are not always adequate. In addition, scientific bodies have also lost credibility in some countries in part as a result of the evolution of knowledge about the effects of the health effects of certain chemicals. Most important, politicians have become discredited as a source of assurance. Transferring responsibility to the international level does not seem to have helped establish credibility. There is a widespread public perception that international rules are imposing lower standards on countries through the insistence on science-based risk assessment.²⁶

What does this mean for international trade policy? Though there is little evidence that increased international trade in agricultural goods and foodstuffs has had any deleterious impact on food safety, the tendency is always present to make the link between importing food products from overseas and more lax health and environmental standards. As a consequence, food scares often have more than proportional impact on trade. Export interests are unlikely to be sympathetic to the “irrational” views of foreign consumers, who should learn to trust the authorities, even though their own consumers can be equally unpredictable. Exporting governments support this rational view, in particular since they don’t have to face elections in the importing countries. From the standpoint of the politics of globalization, this

²⁶ It is arguable whether environmental groups really fear a “race to the bottom” or merely a loss of influence as decisions are removed from local and national control to the international arena, where the multinational firms may be presumed to have more influence.

plays into the hands of those who paint multinational companies as insensitive and mercenary. Thus at the Seattle meeting, where another act in the drama will be played out, governments are going to have to show enough concern about food safety to avoid losing the initiative to those who will use food scares to convince the public that global food systems are stacked against the consumer interest.

5.3 World Market Conditions and Trade Talks

One of the intriguing questions about trade liberalization in agriculture is the relationship between trade talks and world market conditions. On the one hand it was clear from the experience of the mid-1980s that a period of low commodity prices concentrated the attention of agricultural politicians and brought the financial departments of governments to the view that they had to reform farm policies. The export subsidy war was becoming too expensive. But the pressure was off by 1990, as prices recovered. Reform succeeded in the mid-1990s in part because world prices were firm, and farmers felt they could live without the safety net of government purchases.²⁷ But commodity prices tumbled again in 1998 and no immediate sign of recovery is at hand. The US launched a financial rescue package last year and is following it up with more relief this year. These emergency packages, whether or not strictly in the “green box” have certainly been in response to low prices, and thus must have some effect of keeping up production. It will be less easy for the US to argue that its policy is now fully decoupled from prices and hence is production-neutral. On the other hand the low prices have threatened a further budget crisis in the EU, in particular in the face of an imminent enlargement, and made yet another CAP reform package likely in the next three years.

The interests of developing countries might also seem to be tied to world price movements. At times of high prices, food importers look for reliable food supplies both on commercial and concessional terms. In the 1970s this translated into a focus on international agreements, food aid and storage programs. Trade liberalization was delayed as countries geared up for shortages. But developing countries would also seem to be reluctant to liberalize when world prices are low, as in the mid-1980s, as domestic producers fear international competition. Some liberalization is possible at times of rapid currency devaluation during a period of adequate world supplies. Conversely it may be most difficult to reform policies when world prices firm and strong exchange rates keep import prices high. No-one knows for sure how world prices will develop over the course of the Millennium/Seattle Round, but economic recovery in Asia together with any crop shortages could provide a positive backdrop for the conclusion of the next set of agricultural negotiations.

²⁷ Farmers in both the US and the EU did rather well out of reform, gaining initially from the compensation payments at a time when world prices were high (see Orden, Paarlberg and Roe, 1999).

6. THE TIMING OF THE NEGOTIATIONS

There are a few fixed points that give an indication as to the timing of the agricultural talks. The URAA itself mandated negotiations on agriculture to be started before the end of the transition period, i.e. in 1999. But starting the talks does not mean that they will move fast or far without further incentives or deadlines. It would be useful to get the talks off to a fast start, as soon as negotiating authority is received by the major actors, but there will always be elections or market developments which make it a bad time for some country or other to agree to liberalization. One of the few deadlines is 2003, when the Peace Clause expires. Thereafter, unless the Peace Clause is renewed, the general WTO rules governing subsidies and dumping will apply to agriculture. This will presumably give a useful boost to negotiations if they are not complete by that date. The promise to renew the Peace Clause may also be a useful incentive for countries such as the EU to continue reforms.

Does this mean that there will be little incentive to finish the negotiations once they have started? The US in particular is concerned that the incentives to delay are removed. Hence the proposal, supported both by the US and the EU, for a time limit of three years. This conveniently coincides with both the expiry of the Peace Clause and the end of the current US Farm Bill, as well as the date that the EU has set for a review of some of its own measures.

Perhaps the main determinant of the timing and ambitiousness of the agricultural talks, however, is the decision as to whether they should be a part of a large, multi-sector negotiation or whether they will be self-contained. Most commentators argue that a negotiation that only included agriculture would be difficult to conclude. Countries that felt that they stood to lose would have no offsetting gains in other areas. However, no agreement has yet been reached on the scope for the next round, and so it is uncertain what “package” will be possible.

7. POSSIBLE OUTCOMES

From the viewpoint of continuing the process of agricultural trade reform, the next round will be judged a considerable success if it accomplishes the following objectives.

- First, the average level of agricultural tariffs should be cut by at least as much as in the Uruguay Round (i.e. 36 percent over six years).
- Secondly, the high tariffs should be reduced by more than the average, either through the use of a formula or by request-and-offer negotiations on tariff peaks.
- Third, TRQs should be expanded so as to give meaningful access increases where tariffs are still prohibitively high, and their allocation regularized by agreeing on ways to distribute quotas to encourage rather than discourage trade.
- Fourthly, export subsidies should again be cut and an agreement reached in principle to phase them out altogether.

- Fifth, the agreement on export subsidies should specifically include export credits and subsidies given indirectly by single-desk sellers.
- Sixth, export restrictions and embargoes should be disciplined with the objective of avoiding adverse impacts on developing food importers and increasing trust in the reliability of food supplies.
- Seventh, reductions should continue in the level of trade-distorting domestic support (“amber box”) and the category of payments linked to acreage control (“blue box”) should be eliminated. But acceptable (“green box”) policies should be encouraged and these should continue to be sheltered from WTO challenge.
- Eighth, the SPS Agreement should remain unaltered as the set of rules dealing with objective health and safety regulations. Countries could however request temporary waivers from its provisions if “consumer concerns” not supported by scientific evidence threatened to disrupt trade flows.

Agreement on such a package will not be easy. The first part of the negotiations may well be spent posturing and attempting to re-define the agenda to influence the outcome. Much of the debate could revolve around the nature of non-trade concerns and the related concept of multifunctionality. The US and the Cairns Group will try to avoid diluting the green box with environmental and animal welfare payments, but may in the end have to concede. The EU will find it difficult to agree to the elimination of export subsidies and may insist on a long phase-out period. The blue box will also be used as a bargaining device, with the EU insisting that it must be retained. Japan will find it very difficult to agree to deep cuts in mega-tariffs unless it changes radically its domestic agricultural and food policies.

Any WTO action has to be acceptable to all its members. In the past the leadership has fallen to the developed countries, and more particularly the US and the EU. This is rapidly changing. In particular, developing countries will play more important role in the next round. This is clearly appropriate: they should be a full partner in the continuation of agricultural trade reform. As major producers and traders of agricultural products, they need to feel that they are beneficiaries of this reform. But in addition these countries must also participate more actively in the market opening by bringing down the high ceiling bindings and giving up the remaining non-tariff trade barriers. This would also involve assurances by developed countries to resist policies which cause market disruption and threats to food security. Preferential schemes for commodity exports also need to be consolidated within regular trade agreements and differential treatment rules revised to encourage full participation in trade liberalization as soon as possible. The next round may focus as much on the integration of developing countries fully into the trade system as the more traditional conflicts among industrial countries.

BIBLIOGRAPHY

- Bergsten, C. Fred, *et al* (1987) Auction Quotas and United States Trade Policy, Institute for International Economics Policy Analysis Series, No. 20, September
- Coleman, William, and Stefan Tangermann (1997), "Linked Games, International Mediators and Agricultural Trade", paper presented at the IATRC Annual Meeting, December
- International Agricultural Trade Research Consortium (1997), "Implementation of the Uruguay Round Agreement on Agriculture and Issues for the Next Round of Agricultural Negotiations". IATRC Commissioned Paper No. 12, November.
- International Policy Council (1998), "Plant Biotechnology and Global Food Production: Trade Implications", IPC Position Paper No. 7
- Josling, Tim, Stefan Tangermann and Thorald K. Warley (1996), Agriculture in the GATT, Macmillan Press, London.
- Josling, Tim (1998), Agricultural Trade Policy: Completing the Reform, Institute for International Economics, Washington D.C., April.
- Josling, Tim and Allan Rae (1999), "Multilateral Market Access Issues for the Next Round of Agricultural Negotiations", paper for the World Bank Conference on the Next Round of Agricultural Talks, Geneva, October 1-2, 1999
- Nelson, Gerald, *et al* (1999), "The Economics and Politics of Genetically Modified Organisms in Agriculture", University of Illinois-Urbana Champaign Experiment Station Bulletin No. 809, November
- Orden, David, Robert Paarlberg and Terry Roe (1999), Policy Reform in American Agriculture: Analysis and Prognosis, University of Chicago Press, Chicago
- Swinbank, Alan, and Carolyn Tanner (1996), Farm Policy and Trade Conflict: The Uruguay Round and Cap Reform, University of Michigan Press, Ann Arbor
- Tangermann, Stefan (1997), "A Developed Country Perspective of the Agenda for the Next WTO Round of Agricultural Trade Negotiations" (Paper presented at a seminar in the Institute of Graduate Studies, Geneva), March 3.

AGRICULTURAL TRADE NEGOTIATIONS IN THE WTO: ASPIRATIONS OF FARMERS

by Gerard Doornbos

1. INTRODUCTION

Five years after the completion of the international trade negotiations that brought agriculture under the disciplines of the World Trade Organization (WTO), governments are preparing a new round of international trade negotiations. These will be launched in Seattle, USA, 30 November to 3 December 1999.

The International Federation of Agricultural Producers (IFAP) as the representative organization of farmers at the world level, unanimously adopted a trade statement at the last World Farmers' Congress in Manila, Philippines, in June 1998, entitled: "Agricultural trade: Concerns and consensus among farmers' organizations", as its input the new trade Round.

Over the last 16 months, more areas of consensus have been added to the statement, particularly in the areas of "green box" issues, and priority areas of attention for developing countries.

It has in membership 85 independent, national farmers' organisations, representing over 500 million farm families worldwide. The major common concern of IFAP member organizations is that all farmers should gain a reasonable income for their work. In many countries, it will not be possible to ensure this without appropriate levels of support.

2. THE WTO AGRICULTURE AGREEMENT

Agriculture came under GATT rules in 1995, as a result of the Uruguay Round agreements. It has been difficult for farmers in many countries to adjust to GATT rules and disciplines, but all appreciate that in an increasingly interdependent world, national policies have to be adjusted to one another in an orderly way.

IFAP believes that farmers need a rules-based system for international trade. It therefore supported the inclusion of agriculture in GATT. However, GATT rules must take into account the special nature of agriculture, and the important role that agriculture plays in all societies.

For IFAP, the liberalization of agricultural trade should not be regarded as an end in itself. Rather, it should serve to ensure that economic growth and greater integration of the world economy fulfils its potential to enhance the livelihoods of family farmers throughout the world, contributes to the eradication of poverty, and promotes an economically, socially and environmentally sustainable path for agricultural development.

WTO agreements should not be used as a pretext by governments to no longer assure sound domestic agricultural policies adapted to specific country conditions. Governments need to jointly guide and direct trade liberalization so that agricultural producers in all countries – industrialized and developing – are able to make economic and social progress.

For many countries, agricultural trade plays - and will continue to play - a crucial role in the development of their economies and in ensuring global food security. The Uruguay Round of multilateral trade negotiations, completed in 1994, strengthened rules and procedures for agricultural trade and should give greater confidence and predictability to the international trading system. It is critical that the process be more participatory, with farmers' organizations being consulted by the WTO in order to give farmers confidence in the system.

A general effect of this new framework of rules and commitments for agriculture has been to refocus domestic policy of member governments of WTO away from traditional mechanisms designed to support farmers and in the direction of less trade-distorting measures.

Given the nature and extent of government intervention in agricultural markets in the past, ongoing deregulation and liberalization are likely to have considerable impact on the structure, composition and type of agricultural production in the future and consequently on the livelihoods of family farmers in most parts of the world. In some cases, these policies may create negative consequences, particularly for small and medium-sized farmers around the world. Unlike other primary industries, agricultural production is carried out by a large number of individual farmers under a considerable variety of climatic and other natural conditions. Therefore, agricultural trade policies must reflect the requirements arising from the unique characteristics of this sector.

The WTO Agreement on Agriculture provides for a continuation of trade negotiations in 1999/2000 - one year before the end of the 6-year implementation period²⁸ - in order to see what further commitments are necessary to achieve “the long-term objective of substantial, progressive reductions in support and protection” to agriculture. Article 20 of the Agreement on Agriculture states that the negotiations would also take into account experience gained during the implementation of the Uruguay Round agreements, the effects of the re-

²⁸ The implementation period for commitments made by developing countries is 10 years (1 January 1995 – 31 December 2004)

duction commitments on world trade in agriculture, non-trade concerns, and special and differential treatment for developing countries. This paper addresses these three items.

3. CONTINUING THE REFORM PROCESS

Overview

The increasing interdependence of economies in a growing, competitive global market place reinforces the need for fair and effective trade rules. The Uruguay Round Agreement on Agriculture requires countries to implement specific commitments which must be fully met by all WTO member countries. As it was the case in the Uruguay Round, it is likely that the next Round will focus on the areas of domestic support, market access and export subsidies. These are dealt with in the following points one by one. It should be stressed however that they are closely interlinked and interrelated. Therefore further progressive actions taken in those areas should be well balanced, rational and fair. In this respect, farmers' organizations in IFAP call attention to the following points:

- o The WTO should be the point of reference for the establishment and implementation of all trade rules.
- o Any agricultural negotiations in the WTO must give due consideration to measures that secure sufficient income levels for farmers in different areas and countries.
- o Credit must be given in the next Round for any liberalization measures taken by countries since the Marrakech agreements were concluded.
- o Agriculture has a multifunctional role in many countries; providing not only agricultural commodities and raw materials but also environmental and conservation services. Further, it contributes to employment generation and to the stability and development of rural areas. Such non-trade concerns must be given due prominence and recognition in the WTO negotiations, and allow domestic governments to deal with these issues in a non-trade distorting way.

Support Policies

Farmers have several concerns arising from the WTO Agreement on Agriculture regarding domestic support. Provision has been made in the 'green box' arrangements to include a number of domestic policies supporting agricultural producer incomes. In particular, farmers' organizations in IFAP:

- o underline the importance of non-trade distorting measures which may include environmental payments, regional support and rural development programs to sustain agriculture and rural communities especially in less favoured and more remote agricultural areas.
- o underscore that, in the light of the important social role played by family farmers, countries must have the ability to continue to support sensitive farm sectors that con-

tribute to the stability of rural communities. This should be done in a non-trade distorting way.

- o insist that with increased use of ‘green box’ measures, these come under scrutiny in the next Round of negotiations. Further clarification on their definition, criteria and conditions of application is necessary. At the same time, definitions will have to be broadened to accommodate non-trade distorting programs which could be minimum revenue insurance programs, and infrastructure programs such as irrigation and drainage programs. Direct and indirect assistance must be more transparent in order to avoid distortions to competition.
- o stress that in many, especially developing countries, severely constrained national budgets could rarely - if ever - extend to any sort of green box payment. In such instances, other WTO compatible measures will be essential to support key farm services and maintain farmers’ incomes, and non-farm jobs. Continued investment in areas such as research, infrastructure, pesticide regulation, resolution of environmental problems and maintenance of internationally recognized, science-based standards and inspection programs are fundamental for increased productivity of agriculture and the smooth functioning of export markets.

Export Subsidies

Farmers worldwide acknowledge that government export subsidies can distort international trade and that there will be pressure to progressively phase them out in future trade negotiations. Farmers’ organizations in IFAP therefore:

- o recommend that where government export subsidies are used partly as an instrument to support farmers’ incomes, that alternative support measures be introduced to replace them;
- o recommend the establishment of effective WTO rules governing the use of government export credit programs, export promotion programs and food aid programs in order to prevent such measures from being used as disguised export subsidies.

Market Access

The Uruguay Round Agreement on Agriculture required countries to implement far-reaching market opening commitments and domestic policy reforms. However, liberalization of agricultural markets may also destabilize fragile rural economies, and undermine the family farm system of agriculture. The aim of increased market access should be to achieve its essential goal to bring economic and social improvement in both food-exporting and food-importing countries, whether developing or industrialized. Farmers’ organizations in IFAP stress that:

- o improved market access for agricultural products is vital for countries heavily reliant on farm-based export industries for their future economic development and growth. Further opening of world markets must be carried out in a balanced fashion, which grants equitable opportunities to all countries in their exports of agricultural products, and

gives due regard to the needs of importing countries. Special consideration should be given to agricultural products - including value-added products - of developing countries.

- o countries should administer tariff rate quotas in a manner such that the intended level of in-quota access is achievable.

Tariff Escalation

World trade into the next century is likely to comprise an increasingly high percentage of value-added agricultural products. These are often subject to higher tariffs, the more advanced is the stage of processing. Farmers' organizations represented in IFAP:

- o request that a major effort be made to negotiate comparable access between the primary and processed forms of a product, while respecting sensitive commodities within each country.

Safeguards

The Agreement on Safeguards has been established in the WTO rules in order to cope with a substantial increase in imports of products causing or threatening to cause serious injury to like products in the domestic industry. Furthermore, a Special Safeguard Clause has been established in the Agreement on Agriculture. Under current rules, significant currency exchange rate fluctuations create trade problems, and subsequently instability in domestic agriculture and farmers' incomes. Farmers' organizations in IFAP therefore suggest that :

- o the safeguard clause should be applied in a proper and timely fashion, under the WTO rules, as a trigger measure to protect farm incomes from substantial increases in imports of agricultural products caused by factors including currency fluctuation.

Dispute Settlement Process

The dispute settlement mechanism is a key feature of the WTO rules. Many international disputes including agricultural issues have been resolved, and are being resolved, by this mechanism. The process and result of dispute settlement should be equitable, transparent, and verified by specialists in the field, and they must not violate any policy enforcement of a sovereign country as long as domestic policy measures of that country are consistent with WTO rules. Farmers' organizations in IFAP urge that:

- o disputes should be resolved in a democratic and transparent way, based upon objective, scientific criteria. However, justifiable domestic policies should be respected and taken into sufficient consideration in any process of WTO dispute settlement.

4. NON-TRADE CONCERNS - FARMERS, SOCIETY AND 'GREEN BOX' ISSUES.

The WTO 'Green Box'

The WTO Agreement on Agriculture seeks to progressively reduce trade-distorting government support payments to agriculture.

Those measures that are deemed to be non-trade distorting, or minimally trade distorting, are exempt from reduction commitments, and can even be increased. Such measures are placed in the 'green box'.

The criteria for 'green box' measures are currently defined as:

- being provided through publicly-funded government programs (including government revenue foregone)
- not involving transfers from consumers, and
- not having the effect of providing price support to farmers.

The 'green box' also contains special allowances with respect to the holding of food security stocks and to domestic food aid.

IFAP strongly supports the continuation of the 'green box' in the upcoming Millennium Round of WTO trade negotiations. The right of nations to run meaningful, non-trade distorting, non-countervailable, domestic farm programs to support their agriculture is recognized and appreciated.

It is also recognized that with that the globalization of agricultural markets, certain domestic support measures distort trade competitiveness among countries. The WTO Agreement on Agriculture requires such trade-distorting measures to be progressively changed to be non-trade distorting, or minimally trade-distorting, if they are to be continued. The 'green box' is therefore essential for member countries in the process of reform of domestic support policies in the direction of market-oriented and non-trade distorting ones.

The WTO 'Blue Box'

IFAP supports the continuation of the 'blue box' through the next round of trade talks. 'Blue box' measures are defined as "direct payments under production-limiting programs". Even though they are not completely decoupled from agricultural production, they are currently not subject to reduction. For many countries, the 'blue box' is an essential means for implementing the WTO Agreement on reducing market price support to farmers at a progressive pace.

Developmental Measures

IFAP supports the continuation of the exemption from domestic support reduction commitments for developmental measures in developing countries. These measures cover direct and indirect assistance for agricultural and rural development, providing that they are an integral part of the development programs of developing countries.

‘De Minimis’ Level of Support

IFAP currently supports the continuation of the ‘*de minimis*’ provision of the Agreement on Agriculture, which exempts from reduction commitments very low levels of trade distorting support in any particular year. This exemption applies to:

product-specific support which does not exceed 5 per cent²⁹ of the total value of production of the agricultural product in question

non-product specific support which is less than 5 per cent of the value of total agricultural production.

Full Flexibility for ‘Green Box’ Support

IFAP believes that governments should have full flexibility in implementing truly non-trade distorting agricultural policy measures. WTO must guarantee fair trade, but not standardization of agricultural policies or production practices.

Agricultural production conditions vary considerably throughout the world, depending upon local climatic, topographical and ecological conditions. Also the expectations of society from their national agricultural sector varies. Flexibility is needed to accommodate the diversity of domestic policies formulated under diverse conditions in each country, so long as these policies do not have the effect of distorting international trade.

Regular notification of the functioning of ‘green box’ support measures must remain a priority for the WTO, in the normal process of exchange of information concerning the implementation of the Agreement on Agriculture.

The WTO Agreement on Agriculture lists twelve types of domestic support measures that are eligible for the ‘green box’. These cover essentially two types of measure, namely:

²⁹ The 5 per cent threshold applies to industrialized countries; developing countries are allowed a threshold of 10 per cent.

- government service programs, and
- direct payments to producers.

IFAP considers that the maintenance of all **government service programs** is essential for the future of agriculture in all countries. These programs do not distort trade. Some flexibility should be allowed in their implementation.

The ‘green box’ also provides for the use of **direct payments to producers**, which are not linked to production. These payments to farmers from government have to meet the condition of not influencing the type or volume of agriculture production. In fact, no production may be required in order of to receive such payments. Direct payments currently allowed by WTO include three types of measures. These are:

- Income support payments
- Structural adjustment assistance, and
- Environmental, and regional assistance payments.

Among the four categories of **income support measures**, IFAP strongly supports the continued inclusion of payments for natural disaster relief in the ‘green box’.

Policy measures are also needed to help farmers manage economic risk. This means developing suitable income safety-net programs, and other risk management tools. The instruments used should be cost-effective in helping to stabilize farmers’ incomes, while at the same time not distorting production or trade.

Direct income payments from government are important instruments for rewarding farmers for certain services provided to society. For farmers in many countries, it will not be possible to gain a reasonable income for their work without appropriate levels of ‘green box’ government support. However, IFAP recognizes that in practice ‘green box’ government support is generally only available to farmers in the industrialized countries.

IFAP is aware that publicly-funded government programs are either not available, or are inadequate, in many countries, particularly developing countries. Under these circumstances, the condition that only publicly-funded government programs are eligible for the ‘green box’ – and therefore cannot be attacked in WTO (non-actionable) - should be reviewed. Recourse should be allowed for the funding by producers themselves from export earnings of safety-net or income-stabilization programs, providing that such schemes are transparent.

Structural adjustment assistance is an important tool for governments to assist farmers to adjust to change. Such assistance does not interfere in the direction of change determined by market forces, but facilitates adaptation to that change in a less brutal way than under market forces alone. IFAP supports the continuation of such measures in the ‘green box’.

As a complement to “producer retirement programs” which are included in the ‘green box’, IFAP would like to see “programs for beginning farmers” also included.

The third category of direct payment programs to producers covers payments for **environmental programs, and regional assistance programs**. These are services relating to the ‘multifunctional’ character of agriculture.

For many countries, supporting the ‘multifunctionality’ of agriculture is a key policy objective. In the context of agricultural policy reform, support for the multifunctionality of agriculture means: promoting a market-oriented agricultural production sector, while at the same time meeting other concerns of society such food security, food safety and quality, environmental protection, and the viability of the rural areas. The OECD meeting of Ministers of Agriculture in March 1998 officially recognized such an objective, providing that the objective is sought in ways which maximize benefits, are most cost efficient and avoid distortion of production and trade.

The services provided by a multifunctional agriculture should be transparent and clearly defined.

There is rarely a commercial market for such services; they are therefore public goods rewarded by government payments.

Several nations have also introduced into the regulatory framework for their agricultural policy, strict rules covering ethical and other considerations on the way agriculture must operate. They cover items such as:

- food safety
- animal welfare
- production and processing methods.

These are legitimate concerns of sovereign nations. However, the application of particularly strict standards raises costs for farmers by imposing requirements that go beyond reasonable notions of good farming practice. They place affected farmers under a severe competitive disadvantage on world markets. In such cases, WTO rules must allow for compensation payments to be made to affected farmers through government programs.

The model for compensating farmers for these constraints should be the same as for payments already included in the ‘green box’ under “environment programs”. In other words, compensation should be limited to the extra costs or income loss caused by those stricter rules.

No Limit on ‘Green Box’ Expenditures

By definition, ‘green box’ measures are expected to be non-trade distorting or minimally trade distorting. IFAP therefore opposes in principle any limits being imposed on the total quantity of funds for ‘green box’ expenditures.

Domestic agricultural policies are being reformed in many countries in accordance with the reform process of the Uruguay Round Agreement on Agriculture (URAA). However, the efforts required of farmers to adjust to new domestic policy measures must not be underestimated. Adjustment assistance will continue to be needed in many countries, and should not be limited if it is non-trade distorting.

Clarification of ‘Green Box’ Criteria

Market price support to farmers, in many but not all WTO member countries, has been reduced significantly under the URAA reform process. Farmers are now more market oriented, and therefore more exposed to the volatility of world market prices. In this situation, a major challenge for policy makers is how to stabilize net farm incomes.

In many countries, farmers will be unable to negotiate direct payments for environmental services - and other characteristics of a multifunctional agriculture - on a permanent basis. However, governments are generally more prepared to inject funds into the rural economy in times of severe economic depression.

Today, such payments in bad years are normally not permitted under WTO ‘green box’ rules, since they distort markets. They can therefore be challenged and countervailed.

More effort needs to be directed towards safety-net programs to stabilize farmers’ incomes. These should be designed in such a way as to not interfere with markets and trade.

WTO rules provide adequate flexibility for ‘decoupled payments’ to producers, but are very restrictive in terms of the use of ‘income insurance’ based programs. Yet direct payment programs are only affordable by the richer countries, whereas income support programs are accessible by countries with fewer financial resources.

IFAP feels that whole farm revenue insurance schemes, as provided for in the ‘green box’, should not be restricted to one model as at present, namely 70 per cent of a previous three-year average. These conditions are not based on any real trade requirements, and so should be re-examined.

Each country’s agriculture reflects its unique geographic and socio-economic circumstances. ‘Green box’ criteria should therefore only be standardized to the extent necessary to ensure that policies are non-trade distorting.

5. SANITARY AND PHYTOSANITARY AGREEMENT

Strict measures must be taken to safeguard human, animal and plant health and to protect the environment. Consumers must have full confidence in the safety and wholesomeness of their food, whether from domestic production or from imports alike. Farmers' organizations in IFAP call attention to the following points:

- o A well-functioning SPS agreement is one of the most critical features of the WTO agreements for all farmers. It is therefore necessary that measures be better defined in order to take into account, on the one hand scientific aspects and on the other hand justifiable demands and requirements of society in the area of acceptability of products.
- o It is essential that the SPS measures should not be used as barriers to trade. However, when scientific opinion is clearly divided, countries should be permitted to apply the precautionary principle with respect to allowing in imports of a particular product.
- o In order to ensure an efficient well-functioning science-based system, standard setting bodies such as the Codex Alimentarius need more resources to meet their new responsibilities under the Uruguay Round agreements, and to allow the Codex process to become more participatory.
- o A faster response from control bodies is necessary to keep up with the rapid pace of technological development, especially at national level. It is in the interest of the public and the environment that more efficient and speedier registration procedures for sanitary and phytosanitary drugs are established.
- o Greater visibility and transparency of the standard-setting process is essential, in order to raise its profile and promote increased farmer and consumer confidence in science-based applications and systems of implementation. In this regard, the existence of an independent approval body is an asset.
- o It is essential that farmers' organizations participate more actively, via their governments, in standard-setting bodies like the Codex Alimentarius and OIE which are reference points for WTO agreements, to ensure that food safety and environmental issues from a farmer perspective are taken into consideration.

6. HIGHER PRIORITY TO TRADE FROM DEVELOPING COUNTRIES

The farm sector is not only the most populous sector in society of many developing countries, but it is also crucial to economic performance, to export earnings, to social cohesion and to food security.

There are serious imbalances in the WTO system against farmers in the developing countries. In order to build up a 'level playing field' in agricultural trade, is essential to rectify these imbalances.

With the signing of the Treaty of Marrakech in 1994 – which marked an end to the last trade Round - many developing countries consolidated commitments on internal support and tariff protection at levels so low that it is very difficult for them to develop their own local agricultural sector. For example, 61 out of 71 developing countries consolidated domestic support levels (AMS) of zero. Even if they wanted to subsidize their agriculture, very few developing countries have the funds to do so. Others are committed by the conditions attached to loans from the World Bank and IMF, as well as by WTO rules, to not raising domestic support above this zero level. In contrast, industrialized countries have negotiated much more flexibility under the WTO Agreement on Agriculture to retain various support mechanisms.

This situation is to the disadvantage of producers in developing countries, so that fair trade competition does not exist at the moment. The result of not having a ‘level playing field’ is continuing poverty in the rural areas, rural exodus and increased dependence of developing countries on imports from the industrialized countries.

Farmers recognize that trade is important for generating economic growth and improving the standard of living of the world's peoples. However, experience over the last five years shows that WTO trade agreements are currently insufficient to contribute to the eradication of poverty, and promote an economically, socially and environmentally sustainable path for agricultural development.

A much higher priority needs to be given to the concerns of developing countries in the new trade round. This is one of the main demands of IFAP.

The agenda for the WTO Millennium Round should include the following concerns of farmers in developing countries, so that the playing field can be made more level.

Market Access

Full open market access must be provided to all the exports from the least-developed countries. There are 41 countries in the ‘least-developed’ category, yet today they only account for 0.5 per cent of world trade. Significant efforts need to be made to integrate these countries into the multilateral trading system.

But the Millennium Round needs to go further.

All developing countries need more marketing opportunities for their exports of both primary and value-added products in the markets of the industrialized countries.

A major effort therefore must be made by industrialized countries to improve market access for the food and agricultural exports of developing countries through:

- reducing import tariffs against their products,

- eliminating tariff escalation on processed and semi-processed agricultural and food products exported by developing countries,
- expanding tariff quotas, and making them more accessible to developing countries, and
- elimination of export subsidies on all products of export interest to developing countries, since they severely disadvantage the competitive position of the developing countries. Very few developing countries are able to pay export subsidies.

Technical Assistance

In the Marrakech agreement, developing countries were promised increases in technical assistance. However, little has been forthcoming in practice.

IFAP requests that, in the new Round of trade negotiations, the support promised to developing countries in the Marrakech agreement be placed on a firm contractual basis. This support is essential to bring laws, policies and technical capacities in the developing countries into line with their commitments in WTO.

Training is needed in the full spectrum of trade-related technical issues from legal and analytical questions to trade and trade-related policy formulation, and strengthening of institutional capacity.

The WTO “Integrated Framework for Least-Developed Countries”, which involves the World Bank and others in technical support for trade in WTO, is a good initiative to help developing countries meet their implementation obligations, and participate in the WTO process. However, the Integrated Framework is desperately under-funded. All the funds for 1999 have already been spent. This is an unsatisfactory situation just when a new trade round is beginning, and need for technical support by developing country negotiators is greatest.

The Millennium Round should include on its agenda, a substantial increase in budgetary resources for technical assistance to developing countries. Further, these funds should come mainly from the WTO regular budget and not from external aid as at present.

Technical assistance is essential to facilitate increased participation of developing countries in both the substance and process of the WTO system to ensure balanced input into the negotiating process. In this respect, a programme of training for developing countries farm leaders should be undertaken to further their understanding of the implications of the Uruguay Round for the farm sector and the technicalities of the agreement so that they are better able to promote their interests in future negotiations.

Special and Differential Treatment for Developing Countries

Since the application of the Marrakech Agreements in 1995, FAO analysis shows that there has been little change in the volume of agricultural exports from developing countries. At the same time however, food imports have been rising rapidly, following liberalization and low tariffs imposed under structural adjustment schemes of the World Bank and the IMF, and consolidated in WTO.

The Marrakech agreements do recognize the specificity of the developing countries. As a result, developing countries have been allowed lower rates of reduction in support and protection, and longer time frames to meet them.

The sequencing and pacing of reforms is critically important, so that smallholder farmers - already handicapped by social and economic constraints - are not exposed to intense competition before infrastructure is improved. Consideration could be given to establishing formal links between the level of assistance received to adjust to the reform process and the speed of opening of their markets. The reduction of overseas development assistance over the last decade must be reversed and the commitment to 0.7 per cent of GNP respected.

However, this is not sufficient to level the playing field with the industrialized countries. More flexibility is needed for developing countries to manage domestic farm policy to address non-trade concerns, such as food security, rural development and poverty eradication. Without this flexibility, it will be very difficult to develop local agriculture so that small farmers can survive, and rural poverty be reduced.

Net food importing developing countries should have the right to protect their internal market when a collapse of world market prices undermines their efforts to develop domestic production. This will not affect international trade, since farmers in these countries practice mainly subsistence agriculture and have no export production.

Agreement on Sanitary and Phytosanitary Measures (SPS)

Sanitary and Phytosanitary standards in many industrialized countries act as a barrier to agricultural exports from developing countries. In spite of Article 10 of the SPS agreement which provides for special treatment for developing countries when setting SPS standards, industrialized countries have made few attempts towards mutual recognition of standards in developing countries.

Substantial financial and technical resources will be needed for developing countries are to implement the 'same', rather than 'equivalent', SPS standards as the industrialized countries. If this is what is required to promote trade, then a commitment to make available the necessary resources needs to be made in Seattle.

Marrakech Decision on the Least-Developed and Net-food Importing Developing Countries

The ministerial decision taken in Marrakech concerning the least-developed and net-food importing countries is, unfortunately, not a binding agreement. Rather it is a statement of good intentions which remain largely unfilled.

In the next Round, IFAP proposes that this 'Decision' be reviewed so as to bridge the gap between intentions and realisations. For example, funding for concessional import facilities could be set up for when domestic food prices in these countries reach a certain level. In addition, IFAP is requesting that other specificities of developing countries should also be included in this protocol e.g. those relating to small island states, landlocked countries, etc.

Intellectual Property Rights

The present system of protection of intellectual property rights does not protect the traditional knowledge of indigenous communities. For example, efforts made by farmers in developing countries to develop local food and medicinal plant varieties over generations.

The new Round of negotiations should set up a multilateral legal framework to effectively protect traditional knowledge of rural communities, particularly farmers' heritage rights.

This can be done in the context of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), which comes up for review in 2000.

Another problem for farmers of the TRIPS agreement concerns transfer of technology. In spite of globalization and trade liberalization, developing countries only account for 6 per cent of global research and development expenditures. Technological developments are still firmly centred in the industrialized countries.

Article 7 of the TRIPS agreement states that "...the protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology...". These are good words, but the required technology transfer is not happening.

This Article needs to be made operational in the new Round.

7. CONCLUSIONS

IFAP supports the development of a coordinated and equitable agricultural trade policy for all farmers. In continuing the reform process in the upcoming WTO negotiations, governments must take into account the special nature of agriculture and its vital contribution to the survival and development of rural economies. In other words, governments should strive to ensure that in the process of trade liberalization full account is taken of all the costs and benefits so that even countries without national comparative advantages can make economic and social programs.

The new trade rules encourage and promote food production among the most economically efficient and capable. This could lead to significant changes in some communities, especially in more marginal farming regions which may require support from their governments to manage the transition.

There is a need therefore, to guide or direct trade liberalization to ensure that balance and equity are built into trade rules so that they contribute towards economically, socially and environmentally sustainable development.

The impact of trade liberalization should be measured in terms of its effects on economic growth - both in industrialized and developing countries - to greater food security, to job creation and stability, to reinforcing a balanced development of rural areas. It should serve to underpin more equitable patterns of progress to ensure that economic growth and greater integration of the world economy fulfils its potential to enhance the welfare and livelihood of family farmers throughout the world, and keep agriculture sustainable.

Whether a country is a net food importer, a net food exporter, developing or industrialized, all have an agricultural potential that can be harnessed by farm families to contribute to world food security. IFAP member organizations strongly support all such efforts to improve world food security. Agricultural trade itself is an important factor in food security, but alone, is not sufficient to ensure it. The greater part of world agricultural production is sold on domestic markets.

As the preparatory work of the WTO leading to the 1999/2000 negotiations begins, farmers' organizations must be fully involved and consulted, not only on specific issues but also on the overall focus and direction. For this, IFAP member organizations must have access through their governments, and IFAP must have direct access (i.e. not through governments) to the WTO so that the views of farmers can be made known.

AGENDA 2000 AND THE EU POSITION FOR THE NEXT WTO ROUND

by Stefan Tangermann

1. INTRODUCTION

The next round of multilateral trade negotiations, the first round under the auspices of the WTO, is due to be initiated in November 1999 at Seattle. The overall agenda for that round will have to be decided at Seattle. At the time of writing (late October 1999) there is still a gulf between the views of those WTO Member that, like the EU, favour a comprehensive round (dubbed Millennium Round by the EU), and the opinions of those that, like the U.S., think the round should not go very far beyond the built-in agenda that have resulted from the Uruguay Round of GATT negotiations. Agriculture falls in the latter category, and will therefore definitely be included in the upcoming round of negotiations. Indeed, one of the major achievements of the Uruguay Round Agreement on Agriculture (URAA) was the resolve to continue the process of agricultural policy reform in the future. In the Uruguay Round negotiations on agriculture, the EU was one of the most difficult negotiating partners for a long time. As a matter of fact, at one stage during the negotiations, EU resistance to a reform of the international trading order for agriculture and to the implied need for changes in its Common Agricultural Policy (CAP) threatened to wreck overall success of the Uruguay Round. It was a masterpiece of political diplomacy when EU Commissioner for Agriculture Ray MacSharry managed to get a major reform of the CAP accepted in the Council of Agriculture Ministers in 1992, arguing that the policy had to be adjusted for purely domestic reasons in the EU. In reality, though, CAP reform of 1992 was largely designed to allow the EU to accept an agreement on agriculture in the GATT which made sense to other major partners in the negotiations, above all the USA.³⁰

Five years down the road from the MacSharry reform, and less than four years after an agreement on agriculture was found in the GATT, in 1997 the EU Commission tabled its blueprint for another round of major CAP reform, in the context of Agenda 2000. This reform package has meanwhile been adopted by the Council and the Summit of the EU, though in a version considerably watered down from the Commission's proposals. Among the reasons given by the Commission for why the CAP had to be adjusted this time was the WTO.³¹ What a change of scenery! A few years ago it would have been absolutely fatal to

³⁰ On the relationships between the Uruguay Round and the MacSharry reform of the CAP, see Swinbank and Tanner (1997), Coleman and Tangermann (1998), and Tangermann (1998a).

³¹ The other major reason for reforming the CAP under Agenda 2000, in addition to all sorts of internal problems with the functioning of the CAP, is the impending Eastern enlargement of the EU. The large set of issues related to that development cannot be discussed here. See Tangermann (1997a).

argue that the CAP needed to be changed because of the GATT. By 1997 this had become a politically respectable reason.

A major factor that has changed in agriculture since the Uruguay Round is the existence now of well defined quantitative WTO commitments for what countries, including the EU, can do in their agricultural policies. In the final stages of the Uruguay Round negotiations, when doubts were raised in the EU over whether the commitments in agriculture that the EU might have to accept in the GATT were compatible with the MacSharry reform of the CAP, the Commission strongly argued that this was the case. At the time that was largely correct, and so far the EU has not yet had major difficulties meeting its commitments in agriculture. However, with more and more reductions to be made the new constraints accepted in the Uruguay Round will begin to bite soon, and it is clear to many observers that this forces changes to the CAP. Agenda 2000 has to be seen in this context. However, given that the next round of WTO talks on agriculture will start soon, it is also important to consider whether Agenda 2000 has prepared the EU well for those negotiations, and what the implications are for the EU position on agriculture for the next WTO round.

In the following Section of this paper, the state of the art will be outlined regarding the nature of the EU's current WTO commitments in agriculture and the extent to which they constrain the room of manoeuvre in the CAP. Against this background, Section 3 then looks at the relationship between Agenda 2000 and the next round of WTO negotiations on agriculture. Some specific issues that are likely to shape the EU agricultural position in the Millennium round are discussed in Section 4, before conclusions are drawn. Rather than dealing with the many complexities and technicalities of the subject and the specific situation of the various agricultural products, this paper adopts a deliberately selective approach and discusses only some issues which illustrate the overall EU position on agriculture.³² The paper also does not outline the provisions of the URAA, and makes no attempt at discussing the whole agenda for the next round of WTO negotiations on agriculture.³³

³² A precursor to this paper (Tangemann, 1999) provides some more technical information. The current paper is largely identical with an article appearing soon in the journal *World Economy* (Tangemann, forthcoming).

³³ For a description and analysis of the URAA, see Josling, Tangemann and Warley (1996). The agenda for the next round of WTO negotiations in agriculture is discussed by Tangemann (1997b) and Josling (1998).

2. THE EUROPEAN UNION'S WTO COMMITMENTS IN AGRICULTURE

Before the Uruguay Round the CAP could essentially be pursued as EC agricultural policy makers saw fit from a purely domestic point of view, and the GATT did not really impose any major constraints on the Community's agricultural market and trade regime. However, in other countries the situation was not much different. GATT rules for agriculture were weak, and governments around the world had found all sorts of ways to circumvent even these weak rules.³⁴ This is exactly why a completely different approach to dealing with agriculture had to be tried in the Uruguay Round. And how successful these negotiations were! Reasonably firm rules, imbedded in the Agreement on Agriculture, were brought to bear on agricultural trade. What is even more important, the quantitative policy commitments in agriculture that all WTO Members have accepted in the Uruguay Round have effectively replaced the vague qualitative clauses on agriculture in the 'old' GATT. All countries now know exactly what they can, and cannot, do in the three areas of market access, export competition and domestic support. However, in spite of these significant overall achievements, the immediate quantitative impact that the Agreement had on agricultural trade was limited at best. The reason is that the new commitments were tailored in a rather generous way. It is only over time, when the agreed reductions have to be made, that the new constraints will begin to be restrictive, with the resulting implications for international agricultural trade. This is well reflected in the commitments the EU has accepted in the Uruguay Round.

As far as **market access** is concerned, the commitments of the EU (like those of most other countries) have indeed turned out to be rather generous so far. The reason is a combination of dirty tariffication³⁵, the special safeguard provisions in the URAA, specific EU arrangements in tariffication, EU policy changes after the base period, and use of preferential trading agreements the EU anyhow has with third countries to fulfill access commitments under the URAA. Only some of these factors can be discussed here, for only selected products.³⁶

In the cereals sector, the price cuts brought about by the MacSharry reform have greatly reduced the level of tariffs required in the EU to protect the intended level of price support. The EU has therefore, responding to pressure from its negotiating partners, agreed not to use the full level of tariff bindings, but to limit the level of tariffs applied so that the duty-included price of imported cereals is no higher than 155 percent of the EU intervention

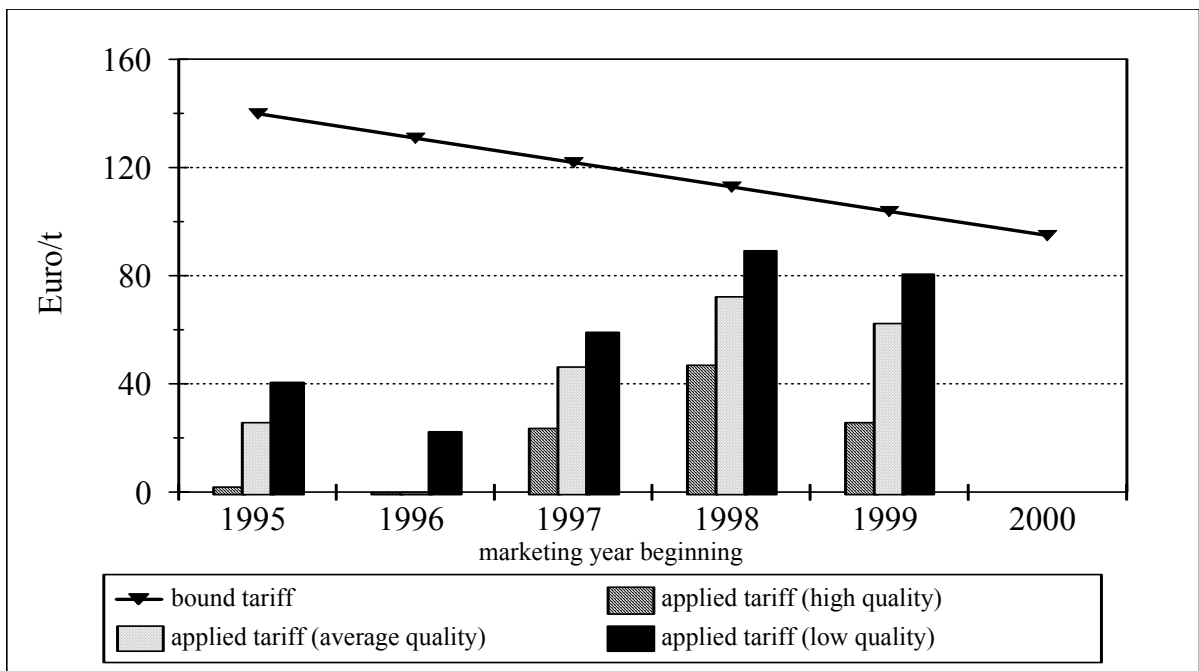
³⁴ See Josling, Warley and Tangermann (1996).

³⁵ The term "dirty tariffication" is used to describe the practice, adopted by many countries, to use statistics such that the tariff equivalents of past non-tariff barriers, and hence the tariffs to be bound as a result of the Uruguay Round, were rather high.

³⁶ For a more detailed discussion, including some comments on the EU's tariff rate quotas in agriculture, see Tangermann et al. (1997).

price.³⁷ The EU therefore cannot make use of its full level of tariff bindings, unless the world price is rather low.³⁸ This provision has meant that in the first years after the Uruguay Round there was a lot of "water" in the EU tariff bindings for cereals. However, with the recent decline of world market prices for cereals, and given the reductions in tariff bindings over time, that water has to a large extent evaporated. For wheat this is illustrated in Figure 1. In this figure, the tariffs actually applied by the EU, under the 155 percent rule, at the beginning of recent crop years (July 1) are compared with the EU's tariff binding for wheat. As the EU intervention price applies equally to all wheat qualities, the 155 percent rule means that the EU applies higher tariffs to low quality wheat than to high quality wheat. As shown in this figure, the tariff actually applied to low quality wheat in 1998 was not much less than the EU's tariff binding for the year 2000. In other words, if world market prices remain as low as they were in 1998 then the EU will soon no longer be able to protect its cereal markets at the intended level. In the case of barley, the EU tariff now contains even less water than in the case of (low quality) wheat, see Figure 2.

Figure 1. Wheat Tariffs in the EU: Tariffs Applied and Tariff Binding

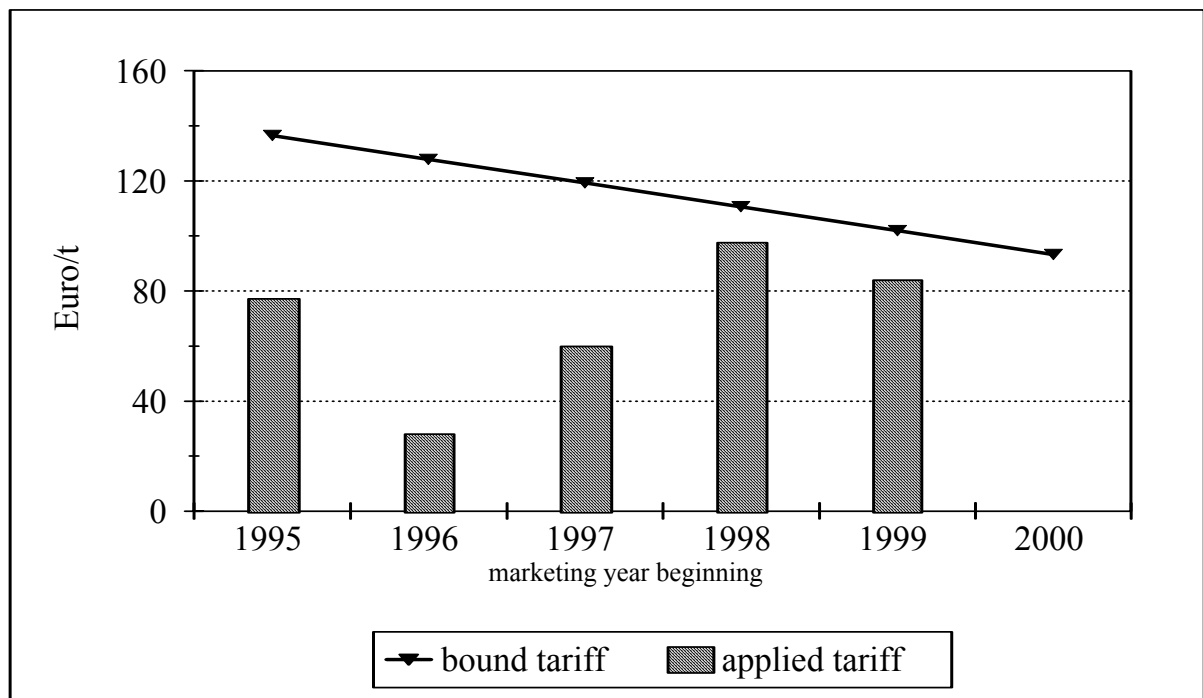


Source: Zentralverband, GATT (1994), author's calculations

³⁷ The percentage of 155 resulted from the traditional ratio between threshold prices and intervention prices in the EU cereals sector.

³⁸ For an analysis of EU tariffication in the cereals sector, see Josling and Tangermann (1995).

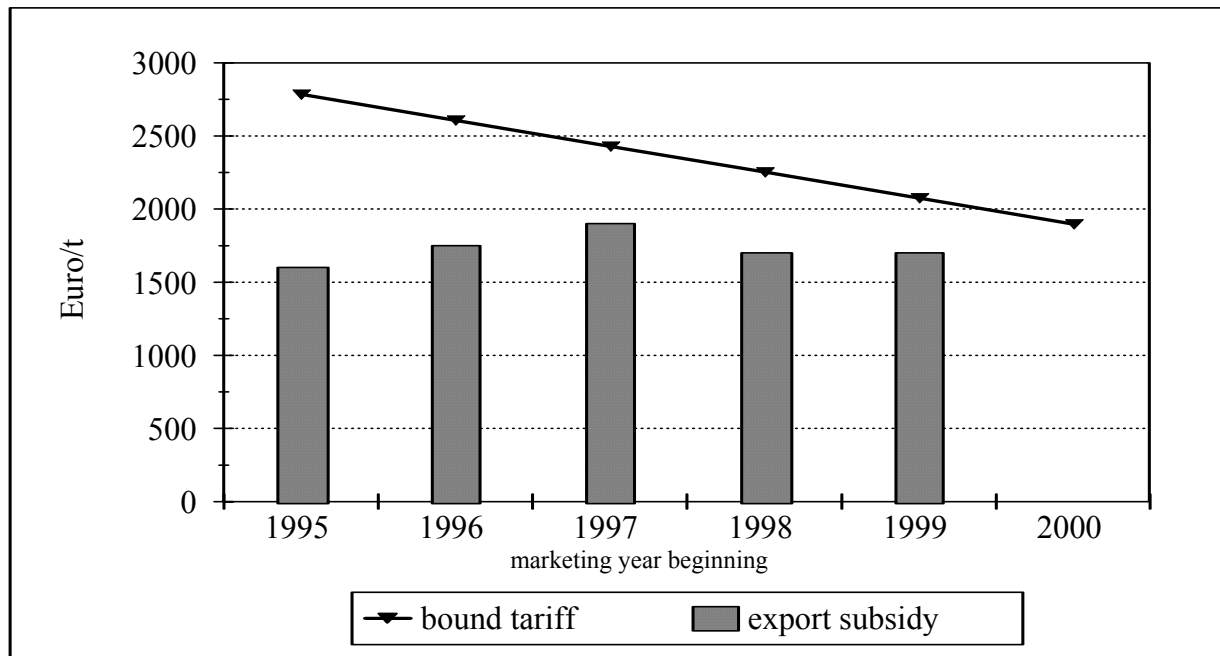
Figure 2: Barley Tariffs in the EU: Tariff Applied and Tariff Binding



Source: Zentralverband, GATT (1994), author's calculations

For other products the legal provisions are different, but the economic nature of the situation is similar. Consider, for example, the relationship between export subsidy per ton and tariff binding for butter (Figure 3). In the year 2000, the EU butter tariff will have to come down to the level of export subsidies granted in the recent past. As an export subsidy can never be higher than the tariff for the same product, because of the possibility of circular trade, this means that the tariff binding will soon constrain the level of price support for butter that the EU can defend through its export subsidy. For skim milk powder, on the other hand, the EU tariff binding still provides a rather comfortable margin of manoeuvre (Figure 4).

Figure 3: EU Butter Tariff: Export Subsidy versus Tariff Binding

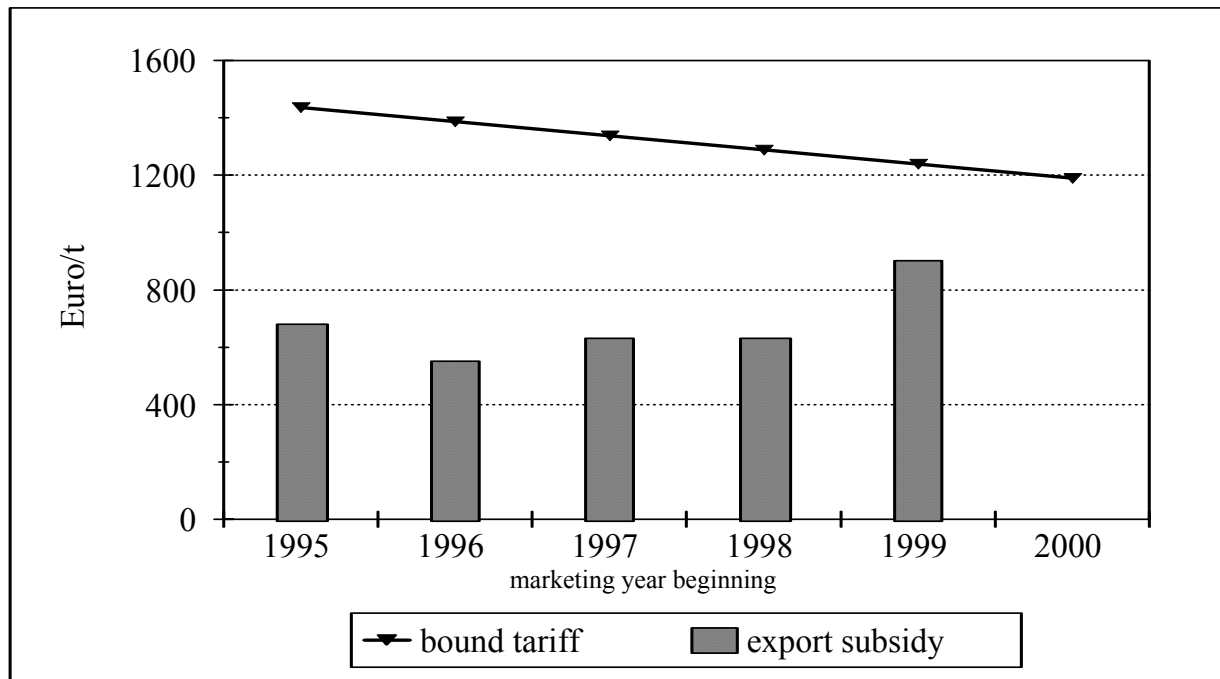


Source: ZMP, GATT (1994), author's calculations

In the area of **domestic support**, the WTO commitments of the EU are, for the time being, less restrictive than in the domain of market access. For the marketing year 1995/96 (the only year for which the EU has so far notified its domestic support to the WTO) the EU has notified a current total aggregate measurement of support (AMS) of ECU 47.5 billion, while the AMS commitment level of the EU for that year stood at ECU 78.7 billion.³⁹ In other words, 40 per cent of the EU's commitment on domestic support went unused. Of course this is a direct result of the combination of the MacSharry reform and the 'blue box' arrangements under the URAA. The substitution of direct payments for price support in the MacSharry reform has greatly reduced the accountable level of domestic support in the EU below that of the reference period, as the blue box allows the EU to exclude these payments from the calculation of its current total AMS (see below, Section 4).

³⁹ WTO Committee on Agriculture (1998a).

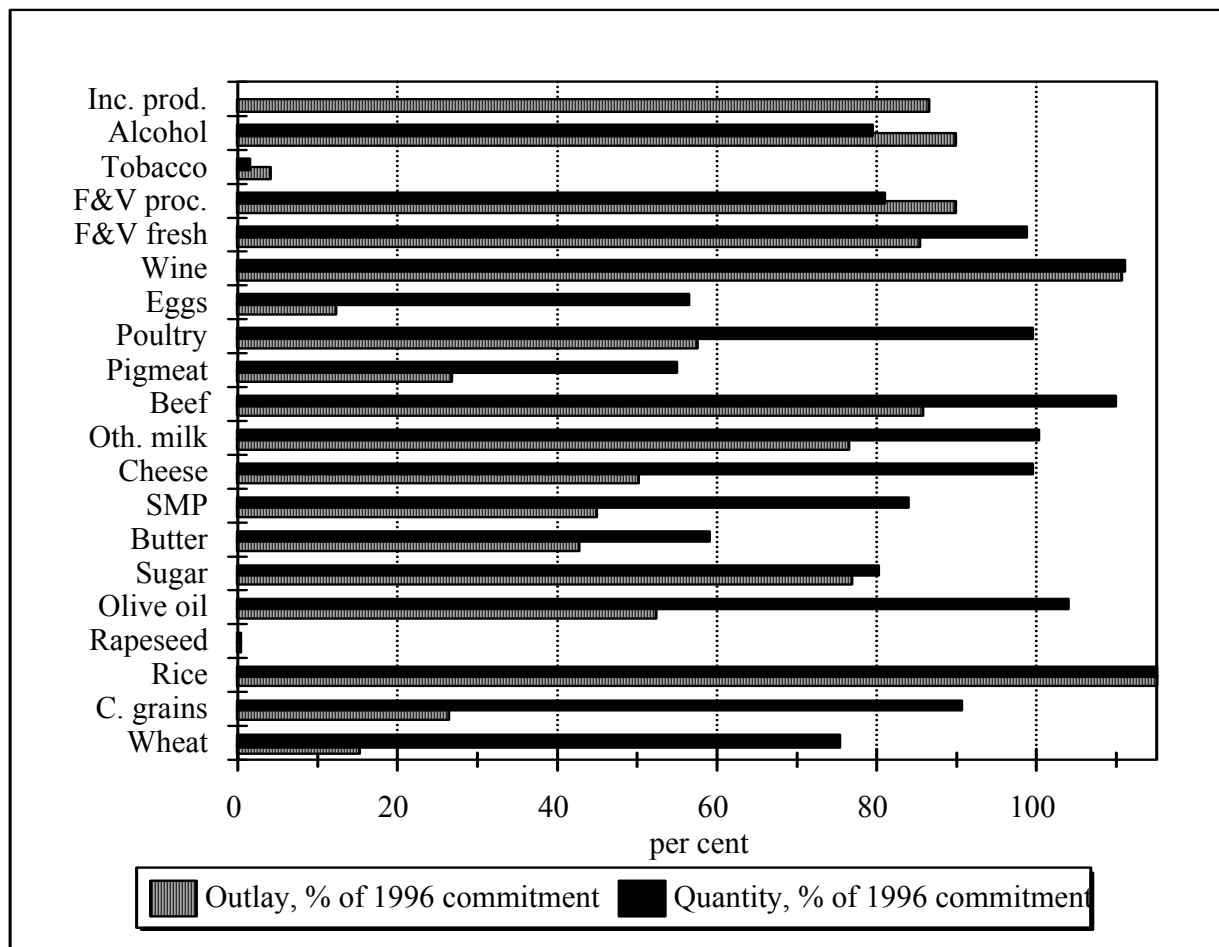
Figure 4: EU Tariff on Skim Milk Powder: Export Subsidy versus Tariff Binding



Source: ZMP, GATT (1994), author's calculations

It is in the area of **export subsidies** that the URAA commitments of the EU begin to bite most strongly, or will bite soon. This is exactly what most negotiators expected during the Uruguay Round negotiations. As a matter of fact, in the first year of the implementation period the EU did not yet have any major difficulty with its new commitments on export subsidies. However, already in the second year (crop year 1996/97, the most recent year for which the EU has so far notified export subsidies to the WTO) subsidised exports of some products were above the basic EU commitment for that year, see Figure 5. Of course, as the EU is always meticulously anxious to honor its GATT/WTO obligations and commitments, there was, in the eyes of the EU, a good legal reason for exceeding its export subsidy commitments in 1996/97, namely the 'credit' resulting from under-utilization of EU export subsidy commitments for the products concerned in the crop year 1995/96. The implication is that adjustments will have to be made in the years to come, at least for the products concerned. At some stage all of the 'credit', if it is considered legally valid at all, will have been consumed. More important, in the final year of the implementation period under the UR Agreement on Agriculture, i.e. in the year 2000, no 'credit' can be used any more, and both quantities of subsidized exports and export subsidy outlays will have to remain within the constraints of the EU's commitments.

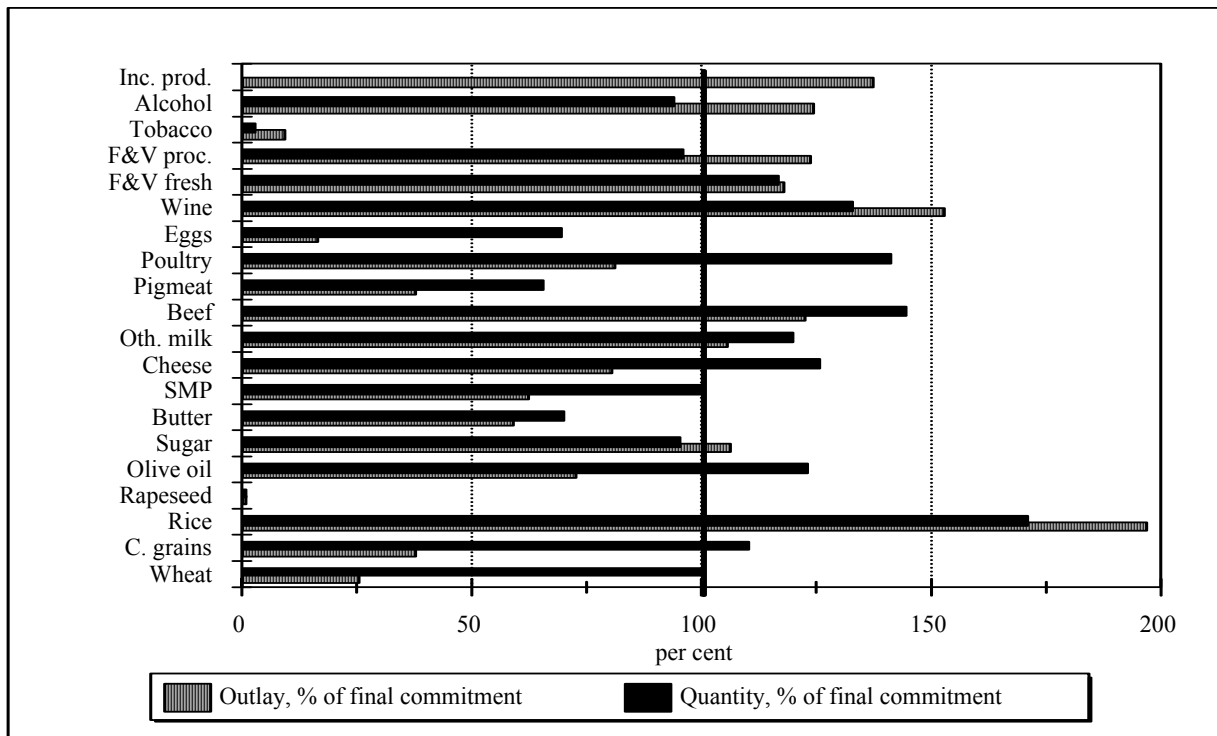
Figure 5. EU Subsidized Exports in 1996/97, Percent of Commitments for 1996



Source: WTO Committee on Agriculture (1998b), author's calculations

Indeed, as the export subsidy commitments decline over time, adjustments in EU market regimes and their implementation will have to be made not only for the products which exceeded basic commitments already in 1996/97, but for a significant number of other products as well. This is obvious if one compares actual subsidized exports and subsidy outlays of 1996/97 with the EU's commitments for the year 2000, as is done in Figure 6. Wherever current EU export subsidies (or, more precisely, EU export subsidies in 1996/97) do not fit into commitments for the year 2000, the EU will have to find a way of restraining subsidized exports in the very near future.

Figure 6. EU Subsidized Exports in 1996/97, Percent of Commitments for 2000



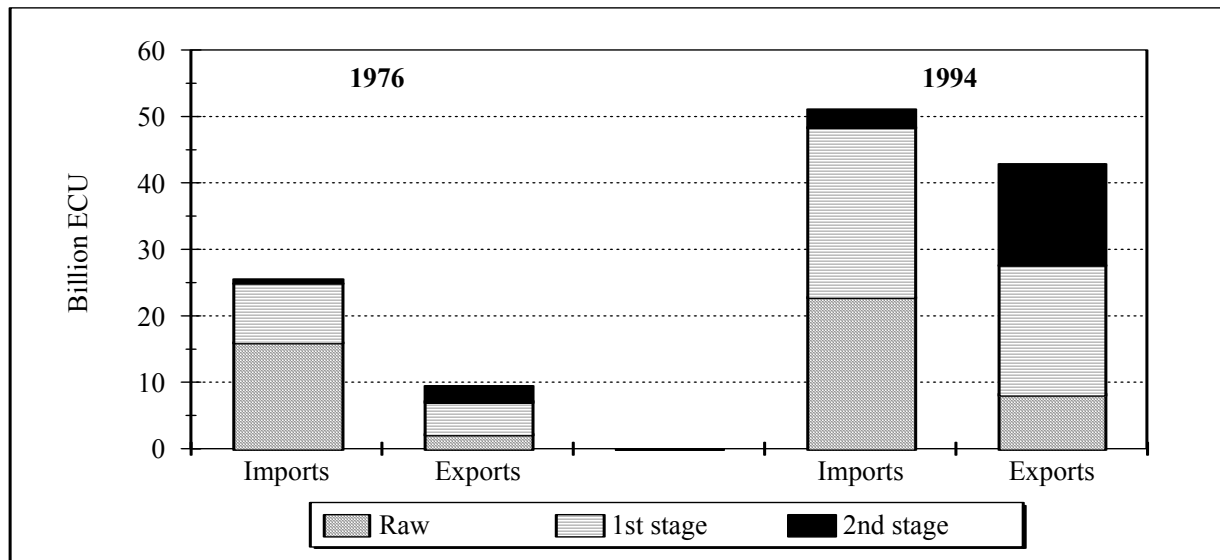
F&V stands for fruit and vegetables, c. grains for coarse grains Source: WTO Committee on Agriculture (1998b), GATT (1994), author's calculations

Noteworthy is, among others, the required reduction of export subsidy expenditure on 'incorporated products', i.e. agricultural commodities incorporated in highly processed foods⁴⁰, by more than a third below actual 1996/97 levels. The reductions that have to be made in this particular sector are about to create a new group of critics of price support under the CAP, i.e. the EU food industry. In the past, that industry was, by and large, neutral vis-à-vis the CAP as the higher prices it has to pay for its raw materials, as a result of agricultural price support in the EU, were compensated (in a more or less exact way) through equivalent import levies and export subsidies for processed foods.⁴¹ In spite of its high prices for agricultural raw materials, Europe was therefore able to expand its exports of processed foods significantly in the past, in the sectors of both lightly processed (first stage) and highly processed (second stage) products, see Figure 7. Of course this also meant a large increase in subsidized exports of processed foods over time, see Figure 8. This trend will now have to come to an end, as a result of the EU's rather restrictive commitments on export subsidy outlays for 'incorporated products'. The EU's food industry is very much aware of this situation, and now joins the camp of those criticizing high price support under the CAP.

⁴⁰ In CAP jargon, these are the so-called Non-Annex II products.

⁴¹ For an analysis of the complex regime the EU uses to compensate producers of processed agricultural products and foods, see Gerken (1997).

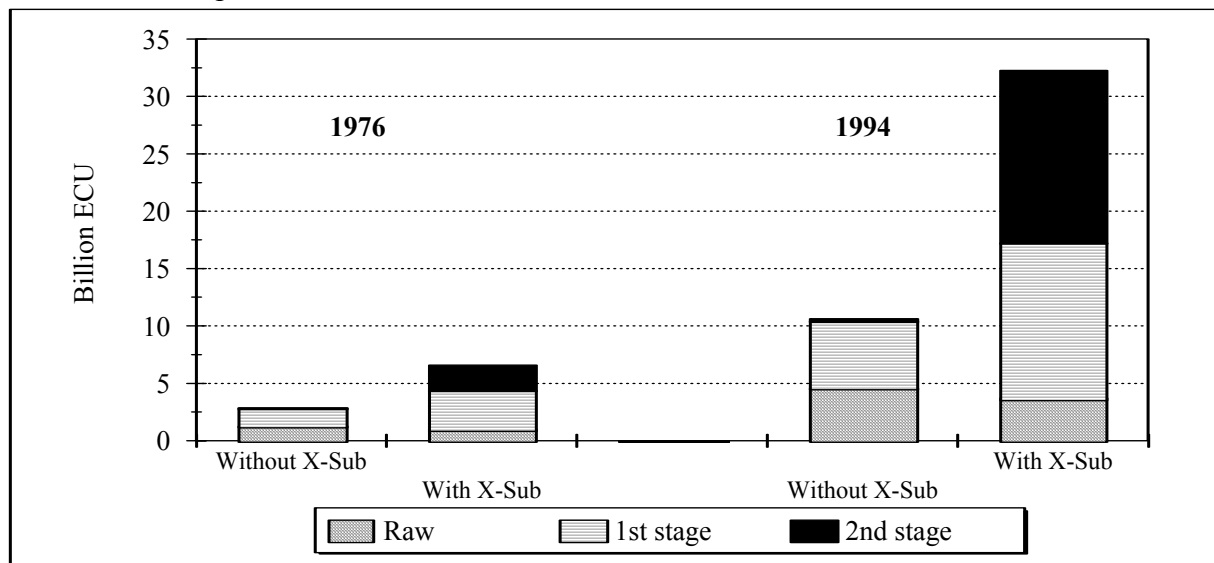
Figure 7. EU Agricultural and Food Trade by Stage of Processing



Source: Gerken (1997)

In summary, the EU experience with the new WTO commitments established under the URAA has been that so far no major problems arose in the areas of market access and domestic support. The export subsidy commitments, though, are beginning to bite, and it becomes increasingly clear in the EU that they are a primary force of future adjustments to the CAP. It is in this context that Agenda 2000 is a key factor for the position of the EU in the next round of WTO negotiations on agriculture.

Figure 8: EU Agricultural and Food Exports by Stage of Processing – With and Without Export Subsidies



X-Sub stands for export subsidies.

Source: Gerken (1997)

3. THE RELATIONSHIP BETWEEN AGENDA 2000 AND THE NEXT ROUND OF WTO NEGOTIATIONS

A number of factors are relevant when considering the relationship between CAP reform and the WTO. First, there is the political issue of whether and how domestic policy reform should be linked with international negotiations. It would have been extremely risky to try and repeat the political trick of the MacSharry reform, i.e. to reform EU policies in parallel with GATT negotiations. Though the WTO is now much more widely (though resistantly) accepted as a factor in the equation of EU agricultural policies, it would still be very difficult to reform the CAP 'under the dictate of the WTO'. From this perspective it was logical to reform the CAP before the start of next WTO round. This has been achieved, by a few months.

But then there is immediately a second issue, namely that of 'advance concessions'. Does the EU not have to fear that its negotiating partners will take any CAP reform already decided before the next round as granted, and demand even more policy adjustments in the subsequent WTO negotiations? Some in the EU feared that this might happen, and used that argument in attempts at fending off the Commission's reform proposals. However, it would appear rather likely, and in any case very sensible, to base further reduction commitments to be agreed in the next round not on the policies actually in place when that round started, but on the commitments already agreed in the URAA. This would not only guard against countries holding back any domestic reform initiatives until the new round of negotiations. It would also do away with the need to agree on cumbersome rules for how to establish the basis from which the new round of reductions starts. In the Uruguay Round, negotiations on these rules (as laid down in the so-called 'Modalities' document, see Josling, Tangemann and Warley, 1996) consumed a lot of time and energy, and neither the rules agreed nor the subsequent process of verifying the individual country offers based on them were successful in terms of avoiding 'dirty tariffication' and other similar practices which resulted in generous commitments. Hence for the next round it is best to start from the URAA commitments already laid down in all WTO members' Schedules. It is likely that this view will prevail in the next round, and therefore there was no reason to be afraid of 'advance concessions'.

The third and most important issue is how to forecast the outcome of the next round of agricultural negotiations in the WTO, and then to derive any necessary adjustments to the CAP from that. Not only is this empirically difficult. It also is bound to end up in some amount of circular reasoning: the outcome of the next round will of course, among others, depend on the EU's position in these negotiations, which will depend on the status of CAP reform at the time, which in turn should ideally foreshadow the outcome of the next round. Some in the EU have tried to overcome this circularity (and to avoid future CAP reforms) by suggesting that the post-Agenda 2000 CAP determines precisely what the EU can accept in the next round. This would appear to be a somewhat biased view of international negotiations, because it essentially suggests that the EU alone can decide on the outcome of the WTO negotiations on agriculture. In any case, most observers expect that the next round will re-

sult in further reduction commitments for tariffs and export subsidies in agriculture, and that this has important implications for the future of the CAP. Let us briefly consider the general nature of these implications before discussing in more detail how Agenda 2000 may have impacted on the position of the EU for the next round.

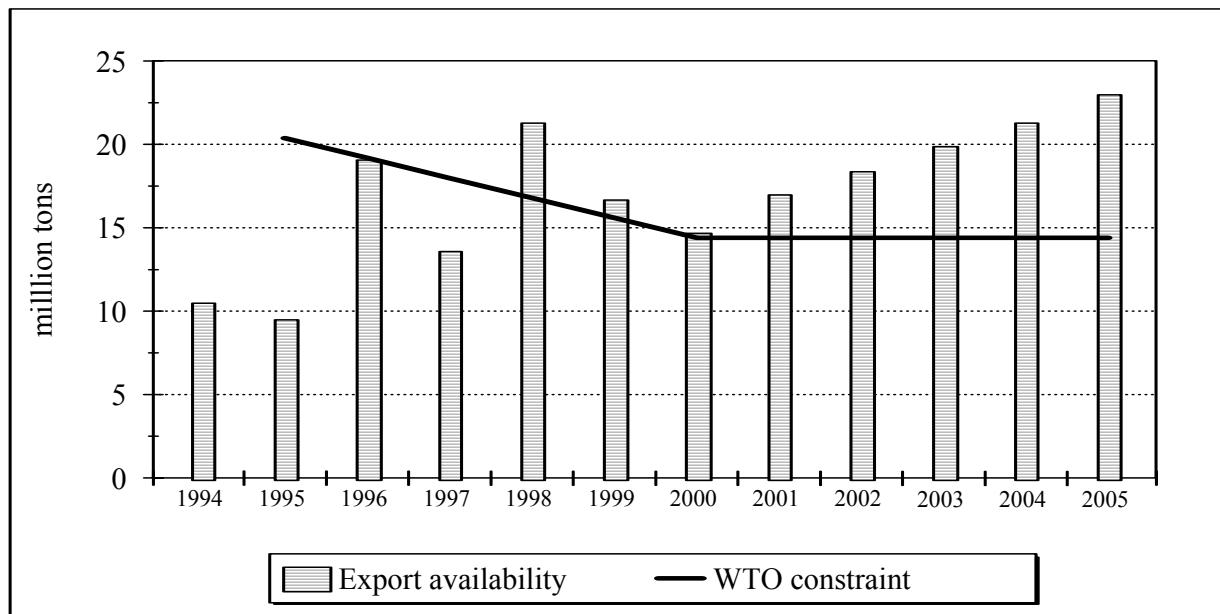
With a continuation of reduction requirements for tariffs, the water that many of them still contain is going to be squeezed out, and at some stage the reduced tariffs will then begin to bite. In more concrete terms, EU intervention prices, which are supposed to continue playing an important role in particular for cereals and the dairy sector, can not be sustained at a level above world market price plus tariff, because produce from the world market would then flow into EU intervention stocks in unlimited quantities. Hence, at some point down the road of tariff reductions the system of intervention prices is undermined, unless these prices are reduced in parallel with the tariffs concerned. This is a threat in particular for EU policies in the dairy and sugar sectors, where institutional prices were not cut under the MacSharry reform.

Of even more immediate and pressing importance is the fact that the current, and even more so any further reduced, export subsidy commitments simply force the Union to adjust its agricultural policies. As shown in the preceding section, these commitments begin to bite now already. The full drama, however, is not even revealed if recent subsidized exports are compared with the existing commitments. EU agricultural output continues to grow in most product sectors, while EU consumption is essentially stagnant (if not declining, as in the case of beef). As a result, export availability is on an upward trend – while the scope for subsidized exports declines. The pressure for policy adjustments, therefore, is likely to grow in many product sectors, not all of which can be discussed here in any detail. However, what this could mean in the cereals sector is shown in Figure 9 for the case of wheat and in Figure 10 for the case of coarse grains.

In these figures, based on the 1998 Commission projections of future developments on agricultural markets in the EU, export availability is compared with the EU's commitments on subsidized exports.⁴² For a moment it is assumed that after the year 2000 this commitment stays at the level reached in that year (which it would do in the absence of an agreement on further reductions). It is obvious that there will be a large amount of cereals output in the EU that can not be exported with subsidies, particularly on the wheat market.

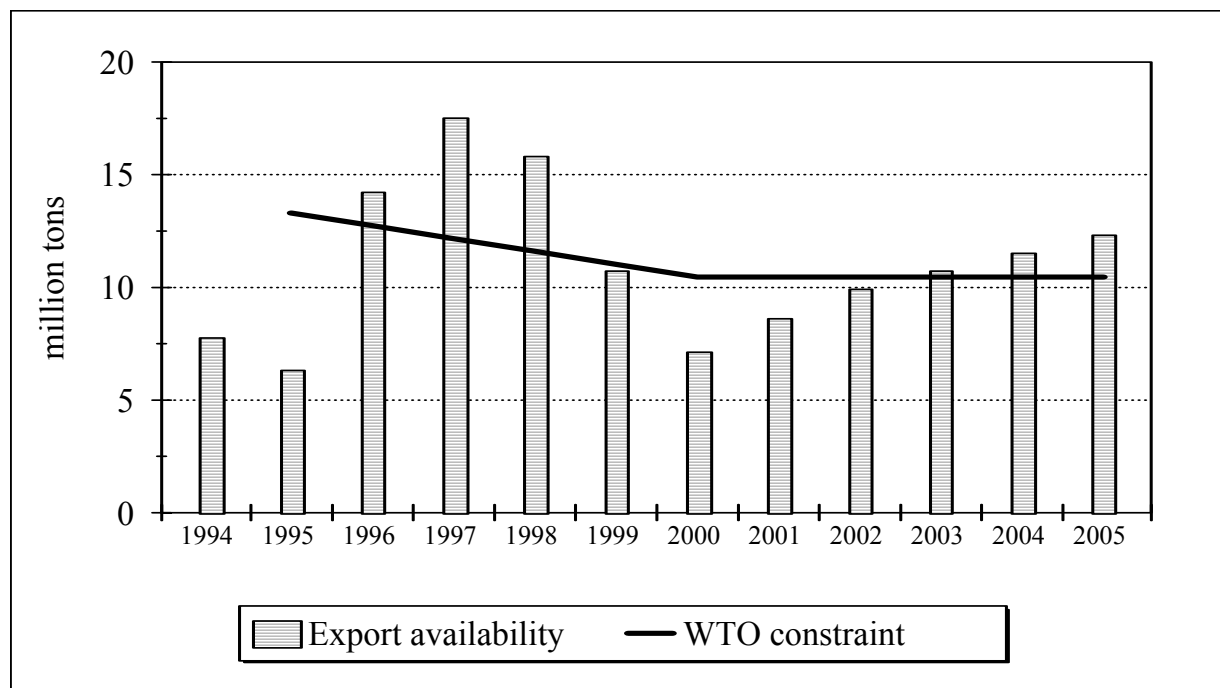
⁴² European Commission (1998b). In the figures, 'export availability' is the excess of projected EU output over projected EU use, plus projected gross imports (most of which come in under the EU's current access commitments) minus food aid (1.5 million tons of wheat). 'WTO constraint' is the EU commitment regarding the volume of subsidized exports (in the case of coarse grains minus 0.4 million tons for potato starch that also belongs in that product group).

Figure 9. Export Availability and WTO Constraint on Subsidized Exports: The Case of Wheat



Source: European Commission (1998b), GATT (1994), author's calculations

Figure 10. Export Availability and WTO Constraint on Subsidized Exports: The Case of Coarse Grains



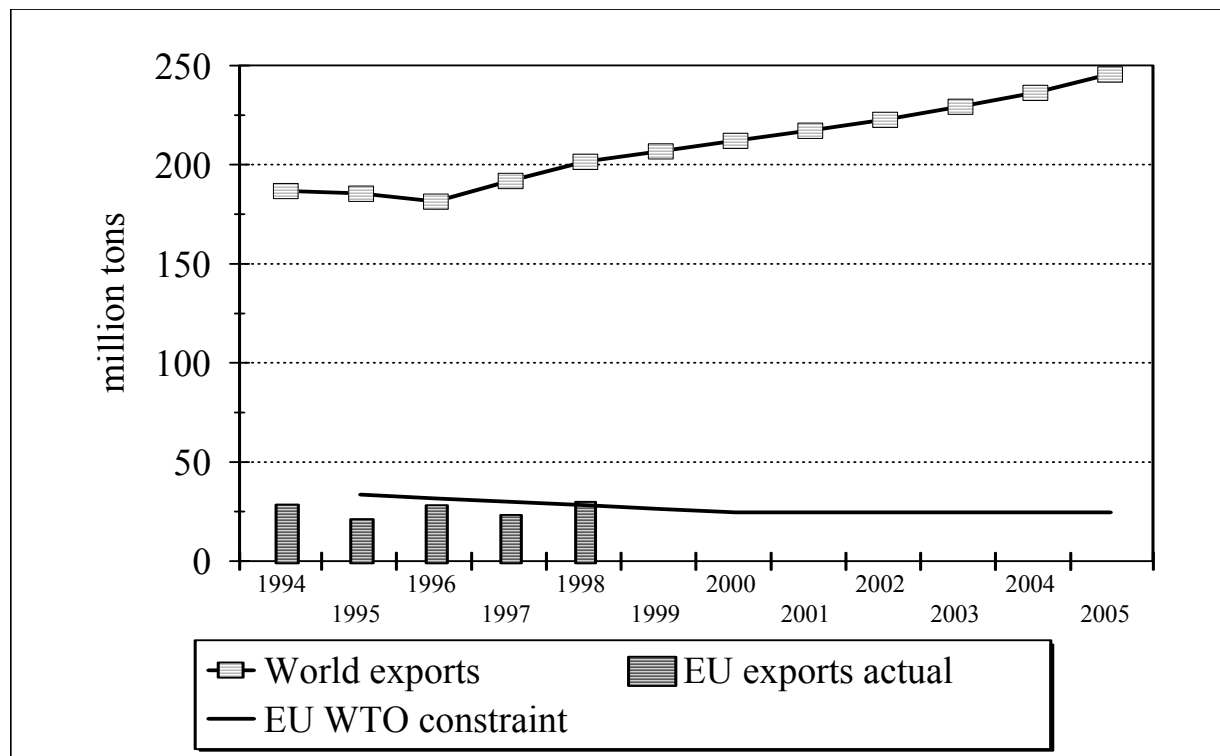
Source: European Commission (1998b), GATT (1994), author's calculations

As long as the EU maintains its current level of price support, the only sustainable policy response then is to raise the level of (quasi) mandatory set-aside of area, in order to reduce

cereals output. In this context it is important to note that the Commission's projections, on which this analysis is based, already assume the current standard rate of set-aside, which is 17.5 percent of base acreage. The actual rate of set-aside would, then, have to go significantly above that level, presumably to something in the area of 25 percent in the year 2005. After that, of course, cereal yields in the EU will continue to grow (and with modern biotechnology the growth rate may actually accelerate). In other words, it is easy to see how under current policy conditions the EU may relatively soon reach a situation where one third of its farmers' base area has to be set-aside. This is definitely not an attractive perspective for EU agricultural policy makers, and many farmers in the EU are also loath to see the strait-jacket of supply controls being tightened more and more.

At the same time, being bound by the WTO constraint on subsidized exports means for the EU that it cannot participate in the expected growth of world markets for agricultural products. For the case of cereals again, the implications of such a development are illustrated in Figure 11. The share of EU gross exports in world cereals trade, which in 1996 stood at 16 percent, would under such conditions fall to ten percent in 2005. In other words, EU farmers would have to cut back domestic production while farmers in other countries can expand supplies to a nicely growing world market.

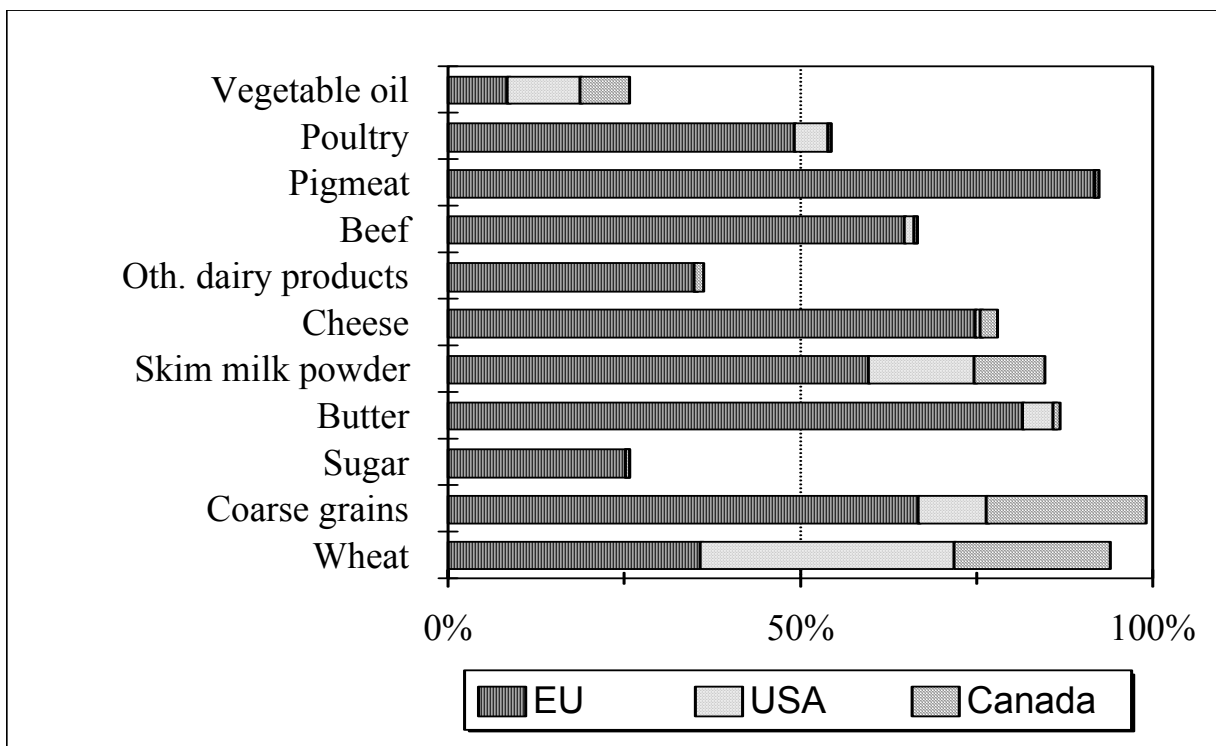
Figure 11. World Market for Cereals and WTO Constraint for the EU



Source: Uhlmann (1999), USDA/ERS (1997), GATT (1994), and author's calculations

At the same time it is clear that in the next WTO round other countries will strongly push the EU towards significant further reductions in the area of export subsidies. Both the United States and the Cairns Group have already made it clear that a significant reduction, if not elimination, of export subsidies is one of their major objectives for the next round. It is clear that the EU is the primary target of negotiations on export subsidies. A look at the relevant figures shows that overall the EU is the single largest holder of 'rights' to export subsidies among all WTO members, see Figure 12. As a matter of fact, some of the other countries holding 'rights' to export subsidies have not fully used them, in particular the U.S. and Canada. As a result, the EU's share in actual expenditure on agricultural export subsidies as notified to the WTO is even larger than its share in commitments, and amounted to 84% of world wide export subsidy expenditure in 1995 (USDA/ERS, 1998). Pressure on the EU to agree to significant further cuts to export subsidies in the next round will therefore be very strong.

Figure 12: Share of the EU, US and Canada in Total Worldwide Export Subsidy Commitments (Quantity) on Selected Agricultural Products for 2000



Source: GATT Secretariat (1994), GATT (1994)

For a number of other major agricultural products the situation is similar as far as the need to adjust EU agricultural policies under the pressure of the WTO commitments is concerned. What does this mean for the EU position on agriculture in the WTO? Let us look at this question from the point of view of the reforms adopted under Agenda 2000.

In the cereals sector, Agenda 2000 has improved the EU negotiating position for the next round, though not solved all problems. The original Commission proposal of a 20 % cut of the intervention price was watered down to 15 % by the Berlin Summit, to be made later than originally proposed by the Commission. According to the Summit decision, the price can be cut more at a later stage 'in the light of market developments'. The price reduction for cereals will allow the EU to agree to sizeable tariff reductions in this sector. If complemented by an additional price cut 'in the light of market developments' it also opens up the possibility that the EU can export wheat without subsidies in most years (Tangermann, 1998b). The WTO constraint on export subsidies for EU wheat could therefore become redundant, and the EU could then agree to an elimination of export subsidies for wheat in the next WTO round. For coarse grains the situation is somewhat less promising. For no good economic reason, the intervention price for coarse grains in the EU is at the same level as that of wheat, though on world markets coarse grains trade at prices significantly below those for wheat. The post-Agenda 2000 intervention price for cereals in the EU, even if the cut goes somewhat beyond the 15 % agreed by the Berlin Summit, is still likely to be above the world market price for coarse grains, at least in most years, and then the EU can export only with subsidies. The EU will therefore remain constrained by its WTO commitments regarding subsidized exports of coarse grains. Any further reductions in the next round would make the situation even worse for the EU, and are therefore likely to be resisted. In short, Agenda 2000 has improved the WTO compatibility of EU policies for cereals, but not completely done away with the need for export subsidies in this sector.

The original Commission proposals for beef under Agenda 2000 foresaw a 30 % cut in the level of price support. The hope, there too, was that this would not only reduce the level of surplus on the EU market, but also allow the EU to ship at least a major share of its beef exports without subsidies. However, the EU Council has decided to limit the beef price cut to 20 %. This means that the EU will not be able to eliminate export subsidies in this sector. At the same time there are limits to the extent that the EU can cut beef tariffs without threatening the sustainability of price support at the level now decided.

In the dairy sector, the cut of intervention prices for butter and skim milk powder by 15 % as proposed by the Commission has been delayed, first by the Council and then even more by the Summit, until a rather late date, i.e. the year 2005. This price cut may, it is hoped, allow the EU to increase the share of its dairy product exports that can be sold in international trade without export subsidies. After all, in the recent past the EU has, in spite of its high level of domestic price support for milk, managed to export a considerable amount of (mainly high quality) dairy products without export subsidies. This share is likely to expand with lower domestic price support on the EU market, and this would make it easier for the EU to meet its WTO constraints on subsidized exports in this sector. However, the price cut agreed in this sector will not be sufficient to allow the EU to export all its surplus of dairy products without export subsidies. Hence, the dairy sector too will make it difficult for the EU to be a forthcoming partner in the negotiations on export subsidies in the next round. At the same time, any further tariff reductions in this sector will soon catch up with the limited

price cut to be made in the EU. EU resistance to accepting significant tariff cuts in the dairy sector could cause difficulties in the next round of WTO negotiations as EU tariffs in this sector are particularly high (above 150 %) and therefore candidates for an attempt at reducing tariff peaks, one of the items on the agenda for the next round of agricultural negotiations.

The same is true for sugar. The EU Commission had not even included sugar in its reform proposals under Agenda 2000, for fear that the sugar sector, where particularly powerful lobbies are active, might otherwise wreck the overall reform package. The EU support price for sugar therefore remains at its excessively high level, and would be brought under pressure if the EU sugar tariff, which is even higher than EU tariffs in the dairy sector, had to be cut significantly as a result of the next WTO round.

In other words, CAP reform under Agenda 2000 has somewhat improved the EU position on agriculture in the WTO, but it has not gone far enough to make it possible for the EU to join the camp of those countries that favour a big step towards liberalising agricultural trade in the next round. It can be argued that Agenda 2000 has done little more than bringing EU policies better in line with the EU's current commitments under the URAA, but not yet prepared the EU well enough for the next round of WTO negotiations. This is particularly true because of some of the changes that the Council and later the Berlin Summit have made to the original Commission proposals. Not only will prices for cereals and beef be cut less than proposed by the Commission, the price cuts will also be made later. This means that most of the price cuts agreed under Agenda 2000 will not be implemented before the next round of WTO negotiations is well underway, if not concluded. It is likely that the EU will find that it has to reform the CAP one more time in order to find agreements with its negotiating partners in the next WTO round. However, to make this next step towards CAP reform politically palatable in the EU will be somewhat difficult, to say the least, if the price cuts from Agenda 2000 have still to be made.

Even though Agenda 2000 has mainly helped the EU to live with its current WTO commitments, it is not completely inconceivable that it may allow the EU to adopt in the next round of WTO negotiations on agriculture a position on some issues that could surprise its negotiating partners. In particular, the EU could potentially become an advocate of a zero-for-zero approach in some product sectors. In the oilseeds sector, the EU anyhow has bound zero tariffs on unprocessed products, and it does not need export subsidies.⁴³ Why should the EU then not be prepared to accept, or even favour, an agreement to eliminate all tariffs and export subsidies in that sector? More surprising, but also potentially possible would be an EU initiative for a zero-for-zero agreement on export subsidies in the cereals sector.

⁴³ Another element of the agricultural package under Agenda 2000 is the harmonization of the direct payments for oilseeds with those for cereals. The explicit aim of that element is to do away with the constraint on the area planted to oilseeds which the EU has to respect under the URAA, according to a clause negotiated in Blair House, as long as the EU grants 'crop specific oilseeds payments'.

With a bit more price cutting for cereals, in particular coarse grains, the EU could put itself in the position of no longer requiring export subsidies in that sector. If this were achieved, the EU would then of course have an interest in seeing other countries renouncing export subsidies for cereals as well. As shown above in Figure 12 this would essentially require agreement with the United States and Canada.

If the EU were to adopt a position like that, it could engage in an offensive strategy on some other issues. As both the U.S. and the Cairns Group have expressed so much interest in eliminating export subsidies, could the EU not consider to make them pay for the EU's willingness to eliminate export subsidies for cereals? And what would the EU like them to pay? A product sector of primary export interest for the EU is the dairy sector. Hence the EU has all reasons to want countries like the U.S. and Canada to open up their markets more widely to dairy product imports from Europe, and to restrain their subsidies on exports to third country markets. A deal of interest to the EU could therefore be an elimination of export subsidies in the cereals sector as a quid pro quo for better access to North American markets for dairy products.

4. SPECIFIC NEGOTIATING ISSUES FOR THE EUROPEAN UNION

While CAP reform under Agenda 2000 affects the EU's general position regarding further reductions in the next round of WTO talks on agriculture, there are a number of more specific issues that will be of importance for the EU in these negotiations. The major items in that category are the future of the blue box, scope for maintaining the 'European Model of Agriculture', and concerns about social, environmental and consumer-related issues.⁴⁴

The blue box is likely to be a contentious issue in the next round. It is an anomaly that does not fit the overall spirit of the Agreement on Agriculture. The blue box essentially was a politically expedient solution in a certain negotiating context, of specific use to its two major protagonists at the time, the United States and the EU. The political base under that solution has been eroded to a significant extent since the U.S. has (arguably) placed its payments in the green box as a result of decoupling under the FAIR Act of 1996.⁴⁵ As a result the EU is now very much isolated on the blue box, with only three other countries making use of that clause (Iceland, Norway and Slovakia). The EU knows that, and also knows that many other countries, including the U.S. and the Cairns Group, have spoken out strongly for an elimination of the blue box in the next round of negotiations. The EU has, therefore,

⁴⁴ Other issues of interest to the EU, such as the peace clause, cannot be discussed here.

⁴⁵ Domestic support is considered "green" (as in traffic lights) if it is provided such that no or only minimal distortions of production and trade result. Under the URAA, such "green" support does not have to be reduced.

already begun to argue strongly for maintaining the blue box, because it believes it needs this provision in order to pursue its policies. More recently, though, the U.S. may have reconsidered its position on the blue box, possibly in the context of the large extra payments made to U.S. farmers in 1998 and, probably, in 1999. The nature of these extra payments is such that even the U.S. Administration appears not to consider them 'blue' and may, therefore, notify them as 'amber'. As a matter of fact, one could possibly argue that because of the link between these extra payments and the basic FAIR Act payments even the latter are no longer 'blue'. Whatever the situation may be in that regard, the document outlining the U.S. position on domestic support in agriculture for the next round, submitted to the WTO General Council in August 1999⁴⁶, does not even mention the blue box. However, even if the U.S. should no longer directly favour elimination of the blue box, it is far from certain whether the respective provisions in the URAA will survive the next round intact.

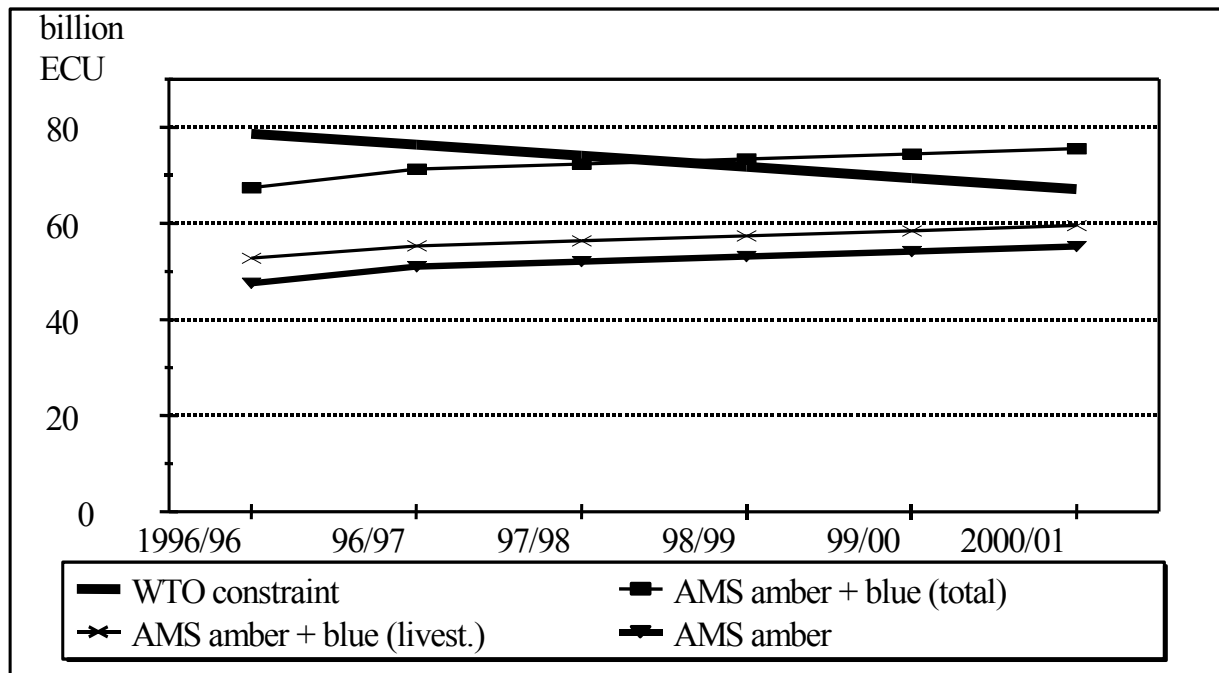
The relevance of the blue box for the EU is illustrated in Figure 13. In this figure, the EU domestic support commitment for the current implementation period is compared with three different AMS levels in the EU. The lowest level is the Current Total AMS ('amber'⁴⁷) as notified by the EU for the years 1995/96 and 1996/97, and projected into the future assuming that it will grow by an annual rate of 2 percent, due to expected growth of EU agricultural production. It is obvious that the EU will probably not have any problems meeting its WTO commitment regarding amber domestic support during the current implementation period, and for some time beyond the year 2000. This will be even more the case after Agenda 2000 is implemented, as amber support declines because of the price cuts, while blue payments increase.⁴⁸ However, if the blue box were to disappear and hence total blue support were to become amber, then the EU would have difficulties meeting its AMS commitment already in 2000, and certainly thereafter. This is clear if one adds total blue support (for crops and livestock) to what currently is amber support (as is done in the uppermost ascending line in the figure). This explains why the EU is so much interested in maintaining the blue box beyond the current implementation period.

⁴⁶ WTO document WT/GC/W/290, 4 August 1999.

⁴⁷ Domestic support that is "amber" (again as in traffic lights) has to be reduced under the URAA.

⁴⁸ This is based on the assumption that the post-Agenda compensation payments meet the blue box criteria. - As the additional payments to be introduced under Agenda 2000 do not fully compensate for the new price cuts, overall AMS (inclusive of blue box payments) in the EU should fall in any case.

Figure 13. Domestic Support in the EU and WTO Constraint



Sources: WTO Committee on Agriculture (1998a), GATT (1994), author's calculations

However, if the EU were pressed, in the next round of negotiations, to give up on the blue box, what could it then do? Two options are particularly relevant. First, the EU could gradually reduce its compensation payments. This is an option that EU agricultural policy makers did not dare to discuss publicly for a long time, as farmers felt they had the right to expect that these payments are 'durable and reliable'. However, the scenery has changed somewhat at one point in the debate on Agenda 2000 when France suddenly suggested exactly this approach in order to reduce the overall budget burden resulting from the CAP. As expected, farmers' responses to this suggestion were hostile, and in the end this option was not included in the package. In any case, reductions in compensation payments forced upon the EU by the WTO would create major political problems in the EU.

A second option for the EU would be to decouple the payments completely from production, so that they can be placed in the green box. For the livestock payments that would be somewhat difficult (though not impossible, and certainly very desirable from an economic point of view) because it would require major changes to current EU provisions. For crop payments, on the other hand, the changes required over and above those already foreseen in Agenda 2000 would be relatively small.⁴⁹ As the crop payments are by far the larger part of the EU's blue box support (see Figure 13), shifting these payments into the green box would

⁴⁹ See Tangermann (1997b). 'Cross-compliance' (the requirement to respect certain environmental criteria in order to be eligible for payments) as proposed in Agenda 2000, is certainly not sufficient to put the payments in the green box. Payments would have to be completely decoupled from land use for given crops.

go a far way to making it possible for the EU to consider accepting an elimination of the blue box. It will be interesting to see how flexible the EU position on this issue can be in the next round of negotiations.

While the blue box issue is pretty straightforward (though not necessarily easy to resolve in the negotiations), it is by far less clear what a new item on the EU shopping list for the next round might imply, namely insistence on the 'European Model of Agriculture'. This phrase is a recent addition to the agricultural policy jargon in the EU, injected into the debate by Commissioner for agriculture Fischler in the context of Agenda 2000. It is often cited these days in public speeches on the future of Europe's agriculture under the 'threats' of Agenda 2000 and the next round of WTO negotiations. In a way it is (implicitly) suggested to be Europe's interpretation of the 'non-trade concerns' as mentioned in Article 20 of the URAA, and of 'multifunctionality' of agriculture as increasingly referred to, in the run-up to the next WTO round, by a number of countries that want to guard against further large reduction commitments. Defending the 'European Model of Agriculture', it is suggested, will be one of the major objectives for the EU in the next round of WTO negotiations on agriculture. What this will mean in terms of concrete arrangements that the EU may advocate in the WTO negotiations has not at all been defined so far. However, in the farming community it is often vaguely interpreted as saying that the EU will resist further reductions in support and protection, or at least will argue for some sort of arrangements that allow Europe to continue safeguarding its farmers' interests.

If one reads Commission statements on the 'European Model of Agriculture' (e.g. European Commission, 1998a) carefully, it appears that the Commission does not really suggest anything that could justify the expectation that Europe might join the camp of those countries which will emphasize 'non-trade concerns' in the WTO negotiations. In a technical sense, the Commission can at best be seen as arguing for more ample use of the green box. An optimistic interpretation of the current emphasis on the 'European Model of Agriculture', therefore, is that this phrase is used to calm down fears in the public debate. It tries to do so by projecting the image of a Brussels Commission that, in spite of working towards reform of the CAP, is prepared to defend the interests of Europe's farmers vis-à-vis the rest of the world. If it achieves that without forcing the EU Commission into a corner in the WTO negotiations, then the invention of the new phrase of the 'European Model of Agriculture' was a clever political move.

However, this is not to say that the EU will not want to discuss issues in the WTO that go beyond tariffs, export subsidies and domestic support. As a matter of fact, in its original text on Agenda 2000 the European Commission (1997, p. I/25) said in regard to the next round of WTO negotiations that 'another, increasingly sensitive, issue is the need to introduce environmental and social standards at international level and to take into account consumer concerns.' Environmental issues and social standards have been discussed in the WTO for some time. Consumer concerns, though, are a more recent item on the agenda. In the European debate, this is of course related to issues such as beef hormones and food containing

substances from genetically modified organisms (GMO). For the time being, and to an increasing extent, some European policy makers have difficulties with the notion that only scientific criteria should justify levels of sanitary and phytosanitary (SPS) protection above those internationally agreed, as stipulated in the WTO SPS Agreement. They argue that subjective consumer concerns also need to be taken into account, and that there should be scope for precautionary action. Of course, in principle the adequate response to consumer concerns is an appropriate labeling requirement. However, in practice there are a number of potential difficulties involved in labeling as well. Moreover, at least in theory the argument can be advanced that under certain conditions the transaction costs involved in labeling can be larger than the (domestic) welfare loss resulting from a ban (domestic and import) on a product considered unsafe by a large majority of consumers. Moreover, given the transitory nature of some scientific findings it can be argued that precaution is an important ingredient into public policies. On the other hand it is only too obvious that policies in this area can easily be abused to protect producer interests, under the guise of consumer concerns. Another similarly complex set of issues relates to animal welfare.

This is not the place for a detailed discussion of such issues and possible solutions, which in any case will be extremely difficult to find. However, Europe's negotiating partners are well advised to be aware of the weight that such concerns have in the domestic European debate. They should also consider that in Europe's general public the acceptance of and support for the WTO in general and the SPS Agreement in particular may depend, among others, on the willingness of other countries to take such European concerns seriously. Europe's negotiators, on the other hand, will have to understand that the general public in some other countries does not share such feelings, and that there is a need to prevent concerns of this nature from undermining the open trading system.

5. CONCLUSIONS

In assessing the achievements of the Uruguay Round in agriculture, it should be noted how important the WTO now is as a factor shaping domestic political decisions on the future of Europe's agricultural policies. It can well be argued that the changes made to the CAP under Agenda 2000 were, to a significant extent, conditioned by what EU agricultural policies can, and what they cannot do in the WTO. Much has been said about the lack of success of the Uruguay Round negotiations on agriculture in making a large step towards liberalizing agricultural trade. Such critical comments are justified in the sense that the quantitative commitments agreed in the Uruguay Round, in particular in the areas of market access and domestic support, were such that they did not force many countries in many product sectors to make significant immediate changes in their agricultural policies. However, the parameters for future agricultural policy decisions were changed fundamentally by the URAA. If that has led a major trading block like the EU to adjust its agricultural policies so signifi-

cantly as is the case under Agenda 2000, then the WTO Agreement on Agriculture has, it appears to this author, achieved a lot.

The EU still has to define its position for the next round of WTO talks on agriculture. CAP reform under Agenda 2000, even though watered down by the Council and the Summit relative to the original Commission proposals, has helped the EU to reduce the difficulties it would otherwise have had with its commitments accepted in the Uruguay Round. In that sense it has also contributed to preparing the ground for the next round of WTO negotiations. However, Agenda 2000 has not put the EU in a position where it could accept major steps forward in the next WTO round, such as a general elimination of export subsidies or a drastic levelling of tariff peaks. It is therefore likely that overall the EU will continue to be a difficult negotiating partner in the next round of WTO talks on agriculture. Yet, with some further amendments of the post-Agenda 2000 CAP, such as some additional price cuts for cereals and the decoupling of compensation payments for crops, the EU could make it possible to adopt positions in the next WTO round which could be surprisingly different from those pursued by Europe during large parts of the Uruguay Round. For example, the EU could then offer to accept a sector-specific elimination of export subsidies for cereals and an end to the blue box, in exchange for better access to other countries' markets for dairy products and processed foods. Europe should begin to understand that as a large agricultural exporter it has a strong interest in gaining better access to other countries' agricultural and food markets. In order to achieve that objective it has to be prepared to negotiate meaningful commitments for its own agricultural policies.

Apart from its domestic decisions on CAP reform, Europe's negotiating stance in the next WTO round may also depend on the overall structure of that round. The EU has a strong preference for going beyond agriculture and services, the two major items of the built-in agenda of the WTO for the negotiations that have to start by the year 2000. Europe wants to launch another comprehensive set of WTO negotiations, the Millennium Round. Other countries are not yet convinced that this is the right approach. They fear, among others, that inclusion of other sectors in the negotiations might delay progress on agriculture and services. Such fears may not really be justified. Europe has at least two good reasons for working towards an early conclusion of the next round, clearly spelled out by trade Commissioner Brittan (1999).

First, Europe has a strong interest in extending the URAA peace clause beyond the year 2003, and knows that it has to conclude the agricultural negotiations before that date in order to have a chance of achieving that objective. Second, the EU wants to try and fold the WTO negotiations on EU Eastern enlargement into the Millennium round. Enlargement negotiations with the countries in Central Europe will take some time, but should hopefully be largely concluded by the end of 2003, at least with the current five accession candidates from Central Europe. Pursuing negotiations on enlargement and in the WTO in parallel would, therefore, also speak for trying to conclude the WTO talks in 2003. If this time schedule as intended by the EU is taken seriously, then Europe's negotiating partners should

consider the advantage of being able to find trade-offs between agriculture and other sectors more important than their fears that another comprehensive round of WTO negotiations might take too long. Experience made in the Uruguay Round strongly speaks for negotiating a broader agenda with Europe. After all, it was mainly the prospect of losing in other sectors that finally brought Europe back to the agricultural negotiating table in the Uruguay Round. One would hope that Europe's negotiating partners have learned that lesson.

BIBLIOGRAPHY

- Brittan, Sir Leon (1999), *The Next WTO Negotiations on Agriculture, a European View*. Address delivered at the 53rd Oxford Farming Conference, 5 January 1999.
- Coleman, W.D. and S. Tangermann (1998), *Linked Games, International Organisations, and Agricultural Trade*. Max-Planck-Institut für Gesellschaftsforschung Discussion Paper 98/8 (Köln: Max-Planck-Institut für Gesellschaftsforschung).
- European Commission (1997), *Agenda 2000. For a Stronger and Wider Union*. Bulletin of the European Union, Supplement 5/97 (Brussels: European Commission).
- European Commission (1998a), *'AGENDA 2000' - Commission proposals*. Explanatory Memorandum - The future for European Agriculture. http://europa.eu.int/en/comm/dg06/ag2000/regprop/index_en.htm.
- European Commission (1998b), *Prospects for Agricultural Markets 1998-2005* (Brussels: European Commission).
- GATT (1994). *Schedules of Market Access Concessions*. Electronic version (Geneva: GATT).
- GATT Secretariat (1994), *The Results of the Uruguay Round of Multilateral Trade Negotiations. Market Access for Goods and Services: Overview of the Results* (Geneva: GATT).
- Gerken, A. (1997), *Die Außenhandelspolitik der Europäischen Union bei landwirtschaftlichen Verarbeitungsprodukten. Ausgestaltung, Auswirkungen und Anpassungen an die GATT-Bestimmungen* (Kiel: Vauk Verlag).
- Josling, T. (1998). 'The Uruguay Round Agreement on Agriculture: A Forward Looking Assessment,' Paper presented at the OECD Workshop on Emerging Trade Issues in Agriculture. Paris, 26-27 October 1998. Document COM/AGR/CA/TD/TC/WS(98)100 (Paris: OECD).
- Josling, T. and S. Tangermann (1995), 'Tariffication in the Uruguay Round Agreement on Agriculture: Its Significance for Europe,' in R. Gray, T. Becker and A. Schmitz (eds.), *World Agriculture in a Post-GATT Environment: New Rules, New Strategies* (Saskatoon: University of Saskatchewan Extension Press).
- Josling, T., S. Tangermann, T.K. Warley (1996), *Agriculture in the GATT* (Houndmills, London, and New York: Macmillan and St. Martin's Press).
- Swinbank, A., and C. Tanner (1997), *Farm Policy and Trade Conflict: The Uruguay Round and Common Agricultural Policy Reform* (Ann Arbor).
- Tangermann, S. (1993), 'The Common Agricultural Policy of the European Community in the Context of the GATT,' in Honma, M., Shimizu, A. and H. Funatsu (eds.),

- GATT and Trade Liberalization in Agriculture* (Otaru: Otaru University of Commerce).
- Tangermann, S. (1997a). 'Reforming the CAP: A Prerequisite for Eastern Enlargement,' in Siebert, H. (ed.), *Quo Vadis Europe?* (Kiel: Nomos).
- Tangermann, S. (1997b). *A Developed Country Perspective of the Agenda for the Next WTO Round of Agricultural Negotiations*. PSIO (Program for the Study of International Organization(s)) Occasional Paper, WTO Series Number 5 (Geneva: WTO).
- Tangermann, S. (1997c), *Reformbedarf in der EU-Agrarpolitik und die Agenda 2000*. Diskussionsbeitrag 9704, Institut für Agrarökonomie, Universität Göttingen (Göttingen: IfAO).
- Tangermann, S. (1998a), 'An Ex-post Review of the 1992 MacSharry Reform,' in Ingersent, K.A., A. J. Rayner and R. C. Hine (eds.), *The Reform of the Common Agricultural Policy* (Houndmills, London and New York).
- Tangermann, S. (1998b), *Die Weltagrarmärkte im 21. Jahrhundert: Herausforderungen für die deutsche und europäische Agrarpolitik*. Stiftung Wissenschaft und Politik. SWP-AP3085 (Ebenhausen/Isartal: SWP).
- Tangermann, S. (1999), *The European Union Perspective on Agricultural Trade Liberalization in the WTO*. Department of Agricultural Economics and Business, University of Guelph (Guelph, Ontario: Department of Agricultural Economics and Business).
- Tangermann, S. (forthcoming), *Europe's Agricultural Policies and the Millennium Round*. Forthcoming in *World Economy*.
- Tangermann, S., D. McClatchy, M. Honma, B. Miner, T. Josling, G. Pursell, J. Lee, D. Sumner, D. MacLaren, and A. Valdés (1997), *Implementation of the Uruguay Round Agreement on Agriculture and Issues for the Next Round of Agricultural Negotiations*. IATRC Commissioned Paper No. 12, October 1997.
- Uhlmann, F. (1999), 'Die Märkte für Getreide, Ölsaaten und Kartoffeln'. *Agrarwirtschaft* 48, 12-28.
- USDA/ERS (1997), *International Agricultural Baseline Projections to 2005*. Agricultural Economic Report No. 750 (Washington D.C.: USDA).
- USDA/ERS (1998), *Agriculture in the WTO*. International Agriculture and Trade Reports. Situation and Outlook Series. WRS-98-4. (Washington D.C.: USDA).
- WTO Committee on Agriculture (1998a), *Notification (EEC domestic support 1995/96)*. WTO Dokument G/AG/N/EEC/12 (Geneva: WTO), 8. Mai 1998.
- WTO Committee on Agriculture (1998b), *Notification (EEC export subsidies 1996/97)*. WTO Dokument G/AG/N/EEC/11 (Geneva: WTO), 30. April 1998.
- Zentralverband des Deutschen Getreide-, Futter und Düngemittelhandels e.V., *Informationsdienst* (various issues).
- ZMP (1998), *ZMP Bilanz Milch 1998*, and oral information (Herr Richarts) 14/01/99.

THE EU PERSPECTIVE ON AGRICULTURAL TRADE LIBERALISATION IN THE WTO: POSITION TAKEN BY EU MINISTERS OF AGRICULTURE

by Kalevi Hemilä

First of all, allow me to make some general and theoretical remarks on agricultural trade liberalisation before introducing the EU position on the future round.

Some Pragmatic Remarks on Free Trade

Since David Ricardo presented his theory of comparative advantage as an explanation of foreign trade economists have generally spoken in favour of free trade or, at the very least, for a more liberal trade regime. The advantages of freer trade are often taken for granted in economics textbooks.

Yet governments are often resistant to free trade, or at least require equivalent concessions from their partners in lengthy and complicated tariff reduction rounds. It should also be pointed out that a tariff reduction is always regarded as a concession, i.e. giving away something (tariff protection) for which you have to demand a price (equivalent concession).

If free trade unequivocally increases global welfare, then either governments are singularly ill informed about economics when they fail to follow this advice given by economists or it may be that economists look at the situation in a simplistic way. Why should democratically elected governments refuse to increase welfare?

There are several possible explanations for this situation. One is that real life is much more complicated than the simplified economic models that some academic economists erroneously take to represent the whole of reality. The concept of welfare they use may be too restricted and one-sided. In real life governments are aware that the citizens who elect them attach a high value to the existence of domestic production, agricultural or industrial, as the case may be. The reason is that the existence of domestic production guarantees not only the production of marketable consumer goods but also the production of non-marketable public goods that are highly valued by governments and citizens and may have other positive external effects as well. This is closely related to the concept of multifunctionality to which I will come back later on.

A second problem – which has been recognised by economists – is that a shift from a relatively protected market to a relatively free market always creates not only winners but also losers. It is quite natural that the losers will oppose such a change. Economists argue that

because global welfare increases, the winners can compensate the losers for their losses, and everybody will still be better off.

In theory this simplified model works well. Unfortunately, in real life it is much more difficult to compensate the losers. The increase in global welfare may not be apparent or it will become apparent only after a long time, or the increase in welfare may be difficult or even impossible to calculate. Therefore it may be politically impossible to tax the winners to compensate the losers.

A third point I would like to raise is that many economists excessively emphasise the role of the consumer over that of the producer. Every working man and woman is both a producer and a consumer. And men tend to be more attached to their role of producer than to that of consumer. One reason for this is that work defines the social identity of a man. Even retired persons look back at their work career, not at their past role as consumers.

It is not at all my intention to use the arguments to refute the results of economic analysis and its relevance to trade policy. Economists have made a major contribution to trade liberalisation. But let us recognise that the analysis may be incomplete or sometimes politically irrelevant, and therefore other solutions need to be sought in practice.

Common Agricultural Policy and Trade Liberalisation

Agricultural trade liberalisation has an interesting history. In fact, it was the United States that did not wish to fully include agriculture in the original GATT Agreement, the reason being that the United States dominated the agricultural export market after the war. At the time Europe was a huge net importer, and the U.S. Congress wanted to maintain its freedom to determine agricultural policy.

On the other hand, one can argue that the European Community and later the European Union has been in the avant-garde of agricultural trade liberalisation, and not the last bastion of protectionism.

When agriculture was included in the customs union created by the European Community and the Common Agricultural Policy was created, the result was a completely free agricultural market, first within the community of six, then the community of nine, of twelve and now of fifteen members. Within the next decade new members from Central and Eastern Europe will accede to the Union, and eventually we will have a completely free agricultural market in Europe. This is no mean feat. In its time the common agricultural market and the Common Agricultural Policy were a major innovation and a radical departure from the past.

Nor should we forget the extensive network of preferential agreements that the European Union has concluded with non-member countries, not only with the countries that have ap-

plied for membership, but also with the countries on the southern coast of the Mediterranean. The Lomé Convention – now to be renegotiated – created preferential arrangements with a large number of developing countries, and recently a free trade agreement was signed with South Africa. Preferential agreements are also a way of liberalising agricultural trade.

The Union has also made a major effort in reforming the Common Agricultural Policy, both during the Uruguay Round and in preparation for a new round. The Union has consistently moved from high producer prices towards lower producer prices combined with producer subsidies. When the Agenda 2000 decisions are implemented, cereal prices and pork and poultry prices will be close to world market prices. For some products the prices will remain higher, but replacing a high tariff with a producer subsidy has eliminated one distortion. In addition, the producer subsidies are not based on production but on the use of predetermined production factors, and we will see in the future, with the implementation of the Berlin decisions, a shift to even less distortive forms of subsidies, including agro-environmental payments and support for rural development.

The New WTO Round

Let me now move to discussing the EU position on the coming round.

The European Union, unlike many other WTO members, wants to have a comprehensive round of negotiations covering a wide range of subjects. Agricultural negotiations should take place in this wider framework. This comprehensive round should be a single undertaking. This means in more popular language that nothing is agreed until everything is agreed. If this principle holds for the whole comprehensive round, it holds, of course, even more strictly for the individual negotiation files, such as agriculture. It is also the only way to get meaningful results.

The demand for a comprehensive round does not mean that agriculture would be just a bargaining chip, i.e. that we would be willing to offer large concessions in the agricultural sector in order to get concessions for our interests in other sectors. This would be quite erroneous thinking. The single undertaking means that the agreement on agriculture and on related issues must also be balanced and acceptable to the European Union.

The negotiations on agriculture should be carried out in accordance with article 20 of the Agreement on Agriculture. The European Union is committed to further liberalisation as defined in article 20, but at the same time it is firmly resolved to continue developing the existing European model of agriculture based on its multifunctional character.

The Berlin Decisions

To quote the Council conclusions: *“European agriculture as an economic sector must be versatile, sustainable, competitive and spread throughout Europe, including the regions with specific problems. It must be capable of maintaining the countryside, conserving nature and making a key contribution to the vitality of rural life. It must also be able to respond to consumer concerns and demands regarding food quality and safety, environmental protection and the safeguarding of animal welfare.”*

These objectives cannot be endangered or put at risk by the new round.

The European Union has already made a major effort in passing the revised Agenda 2000 proposals in Berlin. The Berlin European Council decisions not only set strict limits on agricultural budget expenditure but they also imply a major contribution to the success of the round. They constitute the essential elements of the negotiating mandate of the Union. Those who think that they are only a starting-point and that the Union should rapidly undertake a new reform will not only engage themselves in wishful thinking but in the end they will also be severely disappointed. The heads of state and government took their decisions at the European Council after reflection and careful consideration of all aspects of the question.

The European Union is therefore prepared to negotiate on lowering trade barriers in agriculture, bearing in mind that this process is more advanced in some agricultural sectors than in others. However, the Union must obtain in return improvements in market opportunities for its exporters.

Non-Tariff Issues in the Negotiations

Enhanced legal protection for high value-added products whose reputation for quality is guaranteed by geographical origin or indication is an important Community request in this connection. Consumers are ever more concerned about the quality, origin and methods used to produce particular products. Rules and labels on geographical origin and indication provide the guarantee that consumers ask for and for which they are willing to pay a higher price. Therefore it is extremely unjust if businessmen elsewhere try to profit from the good reputation and hard work of producers who have created the additional value. It is even comparable to selling counterfeit goods in the manufacturing sector.

This example already shows that agricultural issues are not limited to the agreement on agriculture. We have to look at other agreements as well, in this particular case the agreement on trade-related aspects of intellectual property rights, but in other cases the agreement on the application of sanitary and phytosanitary measures, the agreement on technical barriers to trade, etc.

Market access involves, of course, tariff rates, reduced-rate tariff quotas, and other instruments agreed to in the Uruguay Round. It is important to note that a major effort during the Uruguay Round went into the tariffication exercise when all measures of border protection were converted into customs tariffs. This time there is just a normal tariff reduction exercise, and we do not have to spend a lot of time on conceptual discussions and on developing new concepts and methods.

The agriculture agreement contains a so-called special safeguard clause. Some countries want to get rid of this instrument, arguing that the general safeguard measures contained in the agreement on subsidies and countervailing duties are sufficient. However, the special safeguard measure was created during the Uruguay Round for the very reason that this instrument was unsuitable for dealing with market disruptions caused by abnormally low prices or sudden import surges. Here we are dealing with perishable commodities, not with industrial products with a long shelf life. Rapid remedies are required in exceptional cases. Consequently, the special safeguard clause or a similar instrument will also be required in the future. Agricultural commodities are different from industrial goods, despite the claims of some of the Cairns Group countries.

Modalities of Support

A major effort during the Uruguay Round went into describing and measuring domestic support for agriculture and into introducing different disciplines on the different forms of support. At the end a very fine balance was struck between the different elements of the agreement and different categories of support: amber, blue and green. To continue to use the traffic light analogy that was used during the Uruguay Round, there was and there is no red box - totally forbidden support. We only have support that is subject to reduction commitments, support that cannot be increased and which is subject to certain conditions and support that can be unlimited if it fulfils certain rather strict conditions. I think we should not introduce any red cards or red traffic lights.

In particular, some countries wish to abolish the possibility of using export subsidies. The new commitments have to be renegotiated, of course, and even if the amount of money spent on export subsidies can be reduced under certain conditions I do not think that you can or should single out parts of the support system. Here again the instrument must be maintained even if its use can be disciplined. The modalities of its use should be reviewed. I should add that all forms of export support must be disciplined and dealt with in the same way, in particular it is imperative to introduce discipline on the use of export credits. Appropriate solutions must also be found to other less transparent forms of export support such as state trading and comparable activities or the provision of food aid.

The blue and green boxes of domestic support must be maintained, or as the Agriculture Council expressed it the concept of blue and green boxes will have to continue. Under this

condition we are also ready to negotiate reductions in support. It is essential, however, that the balance of the present elements of the agreement on agriculture is maintained, and, in particular, of course those which concern modalities relating to domestic support.

We will make more progress in the negotiations if we take a pragmatic approach and build on the work that was already done during the Uruguay Round. During the Uruguay Round some countries started from rather extreme positions of requesting zero tariffs after the implementation period and allowing only so-called decoupled support. The end result was something else.

I would strongly advise our partners not to try to search for ideologically pure solutions. Agricultural commodities are not industrial goods. They require their own rules. No amount of rhetoric or ideological argument will convince us to accept something that remains unacceptable to us. We will not sacrifice European agriculture. Negotiations always end in a compromise if there is to be any result at all. We can build on the present agreement - there is no use in wasting time trying to reinvent the wheel.

Indeed, article 20 of the Agreement on Agriculture is entitled "*Continuation of the Reform Process*" and the text itself recognises that "*the long-term objective of substantial progressive reductions in support and protection resulting in fundamental reform is an ongoing process*". This process does not end with the forthcoming round. It is not the end of history.

With this more limited objective in mind it should be possible to complete the round in 2003. Our farmers should not be kept in continuous uncertainty over what is going to happen in the future by unnecessarily prolonging the negotiations.

But, of course, an appropriate balance has to be struck in the outcome of the negotiations between trade and non-trade issues. Most of these non-trade issues result either from the multifunctional role of agriculture or from attempts to answer the legitimate concerns of the rural world or of consumers.

The Multifunctional Role of Agriculture

Let me say a few words about the multifunctional role of agriculture. Contrary to what some people outside Europe believe, it is not a concept that the devious Europeans have invented in order to be able to continue to subsidise agricultural production to the detriment of non-European agriculture. European agriculture has a genuinely multifunctional role. In the post-war period it was natural that the production aspects dominated agricultural policy discussions, during the nineties there has been a clear shift to wider aspects of supplying benefits to citizens in the form of public goods, including environmental benefits and the sustained vitality of rural areas.

Can you even imagine for a moment that if this genuine multifunctional role did not exist that European taxpayers would be willing to support the present expenditure on agriculture and rural development? Agricultural employment is just a few per cent of total employment in Europe. I can assure you that if it were just a question of purely private economic interests it would be impossible for me to get the present budget funds for agriculture and rural development.

But there is another aspect that is important. Many of the public and private goods that agriculture supplies in fulfilling its multifunctional role are jointly produced. The public goods cannot be produced separately from the agricultural product. If there is no agricultural production, nor are there public goods, such as the agricultural landscape, and agriculture would not fulfil its multifunctional role. And it is for this reason that we have to have a global view of the support mechanisms and commitments. For this reason it is also essential to ensure that progress on trade issues does not damage the ability of those employed in agriculture to supply public goods, in particular as regards the environment and the sustained vitality of rural areas.

Food Quality and Safety

The questions raised about the quality and safety of food should be answered appropriately. Global agricultural trade can be put at risk if we are not able to find solutions that assure consumers that their legitimate concerns about safety and quality are met. It is not sufficient to try to explain to consumers that there is no need to be worried. In a market economy the consumer is king, and he or she decides what he or she buys. But he or she can only exercise this consumer sovereignty if he or she is informed about what the product contains and how and where it was produced. It is easy to lose consumer confidence, but it is difficult to regain it. And it is certainly in the farmers' interest that consumers are satisfied and appreciate the products farmers produce. That is the reason why we also have to devote time to clarifying the precautionary principle in risk assessment and management and improving labelling rules to inform the consumer and trying to answer public concerns about animal welfare.

Incidentally, these very questions about risk, safety, quality, acceptable and ethical production methods et cetera bring a new element into the negotiations. They cannot be analysed and treated in terms of mere obstacles to trade. Nor can legitimate consumer concerns be dealt with by referring to science and scientific results. Science has a central and crucial role when food safety is discussed but we should remember that scientific results are always tentative. New information can change our perception of the world. This very nature of science is what makes the precautionary principle so important when we are dealing with questions of health and living organisms in general.

We will have to make progress on all of these new issues to bring the negotiations to a successful conclusion. A necessary condition for a successful conclusion of the agricultural negotiation will also be the need to provide legal security for the outcome. In the present agreement this took the form of the so-called “peace clause“, article 13 of the agreement that provided the legal security in the sense that other parts of the GATT agreement cannot be used to put in question something that conforms to the agreement on agriculture. A similar instrument is also needed in the future.

To sum up: The European Union wishes to pursue the further liberalisation of agricultural trade also in the context of the WTO, but in an orderly manner and safeguarding the multi-functional role of agriculture.