Schrader, Jörg-Volker

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by

Jörg-Volker Schrader

Institut für Weltwirtschaft an der Universität Kiel
The Kiel Institute of World Economics

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Kiel Institute of World Economics
Department III
Duesternbrooker Weg 120, D-2300 Kiel 1

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Introduction

Apart from demand and supply conditions, todays EC trade in agricultural products is determined not only by classical trade policy instruments, e.g. customs or quotas, but in addition by numerous internal instruments influencing consumption, production and storage. The protective character originates from specific sectoral policy goals having a long tradition in most of the six founding members of the EC. With the first and second enlargement of the EC the protective effects on third countries (trade diversion) aggravated not only because of the geographical extension, but because more and more products had been included in the protective system, respectively protection rates for some products had been increased due to demands of new member countries. During this process conflicts in objectives between internal producer demands and that of trade partners, being not members of the EC, became apparent. They were tackled in different ways, depending on the commodities and countries involved. Trade relations with developed countries, competing on markets for basic food commodities, e.g. grains, sugar, beef and milk products became increasingly impaired and the first serious attempt for a general reduction of trade barriers is only now undertaken in the GATT-Uruguay Round. Trade policy towards DCs was characterized by more cooperative approaches. The reasons are twofold. First, and most importantly, agricultural commodities produced in DCs are substitutes to EC-produced goods only to a small extent, either in production or in consumption. Secondly, there are some political commitments towards DCs in general or with respect to specific country groups such as the former colonies of France and the UK (now ACP-countries) or the mediterranean countries, where in the latter case geopolitical objectives are on the background of trade concessions.

In the following the major rules and exceptions for EC trade with DCs in unprocessed agricultural commodities will be outlined in some detail and then an overview will be given over more recent estimates of the impact of these regulations. What follows finally is a short discussion of positions and options in the Uruguay Round with respect to agriculture.

1 Systems and Exceptions

When discussing EC trade policies towards developing countries in the field of agricultural commodities some remarks with respect to the scope and coverage of the analysis are necessary. As mentioned before, the EC has no uniform consistent trade policy regime. Rather there is the Common Agricultural Policy (CAP) covering the vaste majority of products grown within the EC. The CAP encompasses different market intervention systems depending on the product and - in addition - with numerous exceptions in trade regulations, often for single products and countries. The other broad group of commodities, not included in the CAP, are tropical fruits and beverages, spices and agricultural raw materials for industrial use. For these products GATT regulations and the different preference systems for DCs in general or certain groups of DCs are relevant. A group of commodities in between these two basic categories are grain substitutes such as oilseeds, oilcakes, grain by-products (e.g. bran, corn gluten feed, maize germ oilcake), citrus pulp or other protein feeding stuffs for which trade is relatively liberal and in accordance with GATT rules while EC production of close substitutes or even the same products (some oilseeds) is highly protected.

Not all regulations can be discussed. What is considered important will be defined in a pragmatic way, because even standard statistical criteria such as export shares for certain commodities and/or countries might be misleading since a low share could be just the result of the regulation in question and vice versa. Furthermore, a clear cut definition of 'trade policy' and 'towards developing countries' is not possible, if trade and transfer <u>effects</u> for DCs are to be analysed. Again, a pragmatic definition including all policy measures having major trade or transfer effects seems to be adequate, since measures directed towards developed countries will also have - via substituion in production and trade diversion - significant effects on DCs.

1.1 The Common Agricultural Policy (CAP)

With two minor exceptions - potatoes and alcohol - the markets of all commodities produced within the EC are regulated in one or the other way by Common Market Organisations. Since all organisations are ruled by the basic principles of 'market unity', 'community preference' and 'common financial responsibility' the basic feature of the CAP is protective. However, the resulting internal allocation of resources and ,therefore, the trade effects for different commodities depend greatly on the intruments applied and the policy pursued. Of major relevance are the yearly decisions on prices taken by the Council of Ministers. The highly complex and differentiated market regulations for agricultural products could be classified into four broad categories[1]:

- Internal market support prices combined with external protection by levies and/or customs duties. Relevant for most cereals, sugar, milk, beef and veal, pig meat, certain fruit and vegetables, table wine and fishery products, covering more than 70 p.c. of total agricultural production.
- Internal support prices for producers and liberal trade[2], i.e. deficiency payment systems with low prices (for consumers respectively the processing industry) for olive oil (with certain specification), some oilseeds, tobacco, mutton and raisins covering about 3 per cent of production.
- External protection exclusively for flowers, wine other than table wine, other fruit and vegetables, eggs and poultry, covering about 25 per cent of production.
- Flat rate aid based on acreage or output for durum wheat, cotton-, flax- and hempseed, hops, silkworms, seeds and dehydrated fodder, covering about 1 per cent of production.

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[1] For a detailed presentation and discussion of the EC market regulations for agricultural products see OECD, 1987; BAE, 1985; Agra-Europe, Nr. 27/1985 and Nr. 44/1985 Dokumentation. Here the numbers of the respective EC regulations could be found.

[2] For several products the common customs tariff is applied for others (e.g. bran) an import levy or a customs quota combined with a VER (manioc) is introduced.

This classification is not unequivocal in the sense that the instruments of each category are the only ones applied to the commodities included in the category. Since the dominating objective of the CAP is the protection of producers, not surprisingly, the common feature of all four 'systems' is the increase of producer incomes above free market levels. Since this is brought about by price support or production-tied aid, it increases internal production and reduces imports or/and pushes (subsidized) exports above free trade levels. Nevertheless, the broad variety of instruments applied leads to different effects on quantities traded and on world market prices which should be discussed in some length.

1. The core instruments of the levy system are threshold prices at the border and an intervention price both derived from the target price, fixed by the yearly decisions of the Council of Ministers. The intervention price, at which all quantities could be sold to market authorities, functions as a guaranteed minimum price. The levy, fixed frequently by market authorities for imports to the EC, amounts to the difference between lowest offer prices (grain; but not for fruit and vegetables, pig meat, poultry, eggs) and the threshold price. For exports the price difference between (usually higher) EC and world market prices is compensated by export subsidies (restitutions) which could be differentiated with respect to country of destination. Export subsidies and their regional differentiation in particular, are the cause of permanent quarrel in GATT panels and a major point in the agricultural section of the Uruguay Round.

Increasing degrees of selfsufficiency as a logical consequence of the support system, shifting the EC from a net importer to a net exporter for most basic food commodities, lead to a continuous sharp increase in budgetary costs of the agricultural policy. To curb this spending, additional instruments for supply control had been implemented. In addition to sugar, where a slightly flexible quota system was applied since the beginning of the common market, production quotas were introduced for milk producers in 1984. Moreover, guarantee thresholds for total EC production were applied for cereals (first time 1982/83), milk (1977/78, combined with a co-responsibility levy) and oilseeds (rape seed 1982/83). If this quantity is surpassed by the actual production, automatic cuts in guarantee prices should have been the consequence. However, these mechanisms were hardly applied consequently until 1988.

For several commodities, e.g. beef and veal, live cattle, fruit and vegetables variable levies on imports were combined with a customs duty. The levy amounts to the difference between offer price plus customs duty and the guide price (cattle and veal) or the reference price[3] (fruit and vegetables). Of particular relevance with respect to imports is the fact that price competition between foreign suppliers is eliminated in the case of fruit and vegetables, because price differentials in individual offers at the border are levelled by variable levies. In principal the same effect is achieved for pig meat, eggs and poultry, when the undercutting of the 'sluice-gate' price, an administratively fixed minimum offer price, is matched by an extra countervailing surcharge.

Apart from these principal instruments applied on markets with internal and trade intervention, numerous other regulations as e.g. premiums for consumers (olive oil) or producers (cattle) processing aids (oranges) etc. are applied but cannot be discussed further. Major exceptions of the application of the trade regime are preferential quotas for imports of live cattle and beef which were fixed at 210 000 head live cattle and 186 486 t

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3 Reference prices are calculated on the basis of EC production costs. They are fixed only for the marketing season of the respective product. The products covered are (1) cherries, cucumbers, zucchinis, plums and (2) peaches, pears, apples, table grapes, oranges, mandarines, lemons, tomatoes, cauliflowers (since 1982/83), apricots and aubergines. Whereas the first group belongs to the third category of commodities mentioned above (external protection only), for the latter group (category (2)) which is considered of particular importance for producers, 'base' prices and 'buying in' prices are fixed. Base prices represent a price level which producers should 'normally' obtain on the markets. 'Buying in' prices are in the range of 40-70 per cent of the base prices, depending on the commodity.

of beef in 1988. The latter's share in EEC's total beef consumption amounts to only 2,7 per cent (Schnoor, 1989, p. 15), but it is of special relevance for certain countries and will be discussed below in more detail. The same holds for an import quota of 1,3 mill. t white sugar equivalent from ACP countries and preferential trade agreements with Mediterranean Countries which are important for fruit and vegetables.

2. The second category with internal support prices and liberal trade encompasses quite heterogenous products and a multitude of instruments. They include variable slaughter subsidies, subsidies for ewes[4] (sheep and goat meat) and processing aid, paid to the first buyer of oilseeds. The general consequence of having a deficiency payment system for certain products while markets for close subsitutes are highly protected are severe distortions in the consumption and trade structure. This is of particular importance for the markets of grain and grain substitutes, i.e. oilcakes and other protein feeding stuff in combination with manioc. In compound feed expensive grain is substituted to a large extent by sheaper components. From 1978 (EC-9) to 1987 (EC-12) the import quantity of grain substitutes increased from 12 mill. t to 18 mill. t (grain by-products, manioc, citrus pulp) and that of soybean and soybean cake from 18 to 22 mill. t (Agrarbericht 1988, p. 124; USDA, oilseeds). At the same time the EC's trade balance for grain shifted from a net import of 12 mill. t to a net export of 17 mill. t (1987/88) and is estimated at a surplus of 26,6 mill. t in 1989/90 (USDA, Grains). Beside the United States as the major exporter of soybean and other protein feeding stuff, Brazil and Argentina for soybeans and Thailand as the by far dominating exporter of manioc have particular interests in this EC trade arrangements which are on the agenda of the ongoing GATT negotiations. However, with respect to the relatively liberal EC import regime for grain substitutes, it is worthwhile to note that the EC still seeks to limit the import of grain substitutes. The agricultural lobby demands tariffs on

[4] In addition to this producer subsidies there is an external customs duty of 20 p.c. (ad valorem) bound in GATT.

imports of oilseeds and there is an import substitution policy consisting of above average protection of EC-produced protein feeding stuff (oilseeds, peas, beans, etc.) and high premiums for using EC-produced commodities (oilcakes, milk powder) in compound feed.

3. External protection as the only protective instrument is relevant for certain fruits and vegetables for which no internal intervention system exists. The customs duty applied varies between 4 and 21 per cent, depending besides on the season and on the processing stage of the commodity in question (OECD, 1987, p. 186). A definite other group of commodities belonging to this category are poultry and eggs. The border protection is brought about by a levy which consists of two components. The first component is the difference between the feed costs per unit at world market and EC prices and the second is a 7 per cent duty on the sluice gate price (calculated minimum production costs under world market condition). A supplementary amount is charged on offers below the sluice gate price.

4. Flat rate aid based on acreage or output is the main or only instrument for a number of commodities mentioned on p. 3. For durum wheat it is an additional support measure only since the conventional levy system, described above, applies. In general flat rate aid has principally the same effects on trade as deficiency payment systems. The quantitative impact depends on the policy pursued and is directed towards import substitution. The number of commodities covered by this policy has expanded since the foundation of the EC mostly as a consequence of the second enlargement by Mediterranean Countries. They are growing products which are of minor importance to the old member countries.

Summarizing the brief outline of the basic systems of the CAP given above, some preliminary conclusions could be drawn on potential trade and price effects with respect to non-member countries. Given the general policy objective to protect producers (raise producer income) the principal effects are an increase in production[5] and exports, shrinking imports and depressed prices on world markets. However, besides the economic conditions differing between commodities, the various systems itself applied to different commodities have an impact on the outcome. The levy-system is the most perfect system shielding the internal market against developments on international markets. Since the EC has high shares in most markets, prices on world markets not only have been depressed, but in addition, instability has been increased as a consequence of the variable levy which stabilizes the internal prices. Beyond that, competition between foreign suppliers is reduced on that markets, where the levy is not based on the minimum offer price, but is defined just as the difference between given offer and regulated EC-price. Compared to this system, markets regulated by flat rate aid or external customs duties only are much less delinked from world markets since consumers and producers within the EC could react on fluctuations of world market prices. To a limited extent this is also true for a deficiency payment system since at least consumers and processing industries of raw products are confronted with changing market conditions. Given the same level of effective protection for producers of different commodities, trade effects are smaller in a deficiency payment system or under flat rate aid than in the case of levies or customs duties. Nominal rates of protection are lower in the first case, and internal consumption higher than in the latter cases. Similar effective rates and nominal rates of

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5 Policies increasing farmers income without raising production are theoretically possible in two ways. (1) Paying direct income transfers to farmers which give no incentive for production increases. This kind of policy, heavily debated among agricultural economists for decades entered the debate in ongoing GATT negotiations under the term 'decoupling', i.e. decoupling price and income policy. Although several instruments which could have an reduced impact on production compared to price policy are known and sometimes even applied, transfers to farmers which are neutral with respect to production are not known in practice. (2) As the by far dominating instrument is - up to now - the producer price, the combination with production quotas is a straight forward way to limit production increases and resulting trade effects. Letting aside negative internal allocative and distributional effects, a precondition for efficient application is the controllability of supply, which is given only for few commodities.

protection for close substitutes in production and consumption limit the allocative distortions. In reality, diverging effective rates and extremely different nominal rates for close substitutes, brought about by the CAP, lead to an aggravation of trade distortions for a given average protection as, e.g. discussed above for grain and substitutes.

1.2 EC-Trade in Agricultural Commodities under GATT-Rules

Whereas the greater part of the EC <u>production</u> is covered purely by a levy system[6], in relation to <u>imports</u> of agricultural commodities this is - due to the system and the price policy pursued - a shrinking part of about 15 per cent; 43 per cent of imports were subject to customs duties and 42 p.c. are totally excempt (OECD, 1987, p. 85). Imports not regulated by a variable levy system fall under the 'Common Customs Tariff' (CCT). CCT includes MFN tariffs, some quantitative concessions for beef imports (Schnoor, 1989, p. 16) and several more general arrangements for trade in meat and dairy products (OECD, 1987, p. 28). The MFN rates vary according to the product and the season for certain fruits and vegetables. With respect to their impact on EC imports, they are of hardly any (beef) or at most minor importance for commodities, for which additional levies are charged. For other products covered by the CAP, their impact depends on EC measures effecting internal supply and demand of the same product or close substitutes[7] in production or consumption.

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6 As discussed above, there are several products where a variable levy plus a customs duty apply e.g. for live cattle and beef and fruit and vegetables. The definition of 'levy-systems' might be not unequivocal since e.g. the system for fruit and vegetables is frequently not included. But even if the 'countervailing charge' levied on imports is officially not called a levy, it functions in the same way as the variable levies in the other market organizations.

7 The classification of import products being competing or non-competing (OECD, 1987, p. 188) is not particularly helpful as far as, e.g. oilseeds are classified 'non-competing' but in reality are competing not only in consumption (compound feed and vegetable oils) but also in production.

Table: EC MFN Rates for Agricultural Commodities,
- per cent -

Product Category	MFN Tariff Rate
beef, cattle	20 (quotas applied)
mutton	20
vegetables, fresh or chilled	4-21
fruit provisionally preserved, but unsuitable in that state for immediate consumption	5.5-16
bananas	20 (but applied only for BENELUX countries)
vegetable oils	5-15
spices	5-25
coffee, unroasted	5
tea	0
cocoa beans	3
oilseeds, oilcake	0
grain substitutes	
- corn gluten	0
- citrus pulp	0
- bran	subject to a levy
- manioc	6 (for restricted quantity VER's with main exporters)
raw cotton	0
sisal fibres	0
natural rubber	0

Source: Amelung, Langhammer 1989, p. 45; Menzler-Hokkanen, 1988. p. 90.

The main characteristics of the CCT tariff structure are:

- Low or zero rates for tropical beverages and industrial raw materials;
- Low or zero rates for grain substitutes such as oilseeds and -cakes, manioc and protein feeding stuff;
- Medium rates for fruit, vegetables, vegetable oils and spices;
- High rates for certain animals or animal products, but which will have a minor or no impact on trade.

The low rates for the first three product categories give rise to tariff escalation with increasing stage of processing[8], which is not shown in the table, since only raw materials are listed. Concerning tropical beverages internal consumption taxes are more important than trade measures for EC consumption and imports. They differ widely between member countries and reach 40 per cent for coffee in Germany (Cable, 1989, p. 14) and 110 per cent for cocoa in Denmark and are limited to the regular VAT in other countries.

Low or zero rates for oilseeds and other grain substitutes constitute the price the EC had to pay to trading partners for accepting the EC variable levy system in combination with export subsidies, which in principle are not allowed under GATT rules. Because of high budgetary costs as a consequence of the diverging protection rates for grain and substitutes, the EC several times tried to negotiate a revision of these bindings, including that for vegetable oils (see chapter 3 below).

A special regulation has been implemented for manioc which was originally covered by the levy system of the grain market. But the levy was bound to a maximum of 6 per cent of the cif value in the Kennedy Round. With imports from Thailand growing sharply, the EC negotiated a cooperation agreement with Thailand in 1982 of which the core was a VER on manioc exports till 1990[9]. Finally it should be noticed that in all agricultural regulations a safeguard clause is included which enables the Community to promptly adopt in exceptional circumstances any measures needed to defend the EC market against "serious" disturbance (OECD, 1987, p. 84).

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8 For a principal analysis and empirical evidence for cocoa, soya and palm oil see Dihm, 1989, Tangermann, 1989. For a comparison of tariff rates for tea, cocoa and coffee and respective processed goods see Menzler-Hokkanen, 1988, p. 94.

9 The quantities which could be exported to the EC at a 6 per cent ad valorem tariff were 1982-1984: 5 mill. t p.a., 1985-1986: 4.5 mill. t p.a. and 5.5 mill. t since 1986. The total EC customs quota for all countries for 1989 is 6.825 mill. t (Agra Europe Nr. 34/89, part III, p. 7-8). For details of the regulations and legal aspects (GATT) see Hartwig/Tangermann, 1987, Menzler-Hokkanen, 1987, p. 103, and Sathirathai/Siamvalla, 1987.

Some special concessions were given for beef and cattle imports, including imports of 211 000 live cattle from Austria, Switzerland, Yugoslavia at reduced customs duties and zero or reduced levies (1988). 65 000 t of beef as an GATT import quota for frozen beef, 504 000 t baby beef from Yugoslavia and 34 000 t 'Hilton'-beef (Schnoor, 1989, p. 16). The additional ACP-preferences will be discussed below. The potential impact of the CCT tariff structure and of CAP regulations on DCs or certain country groups and some other countries is further modified by preferences and concessions. The most important ones will be analyzed in the subsequent section.

1.3 Preferences by Country Groups, Countries and Commodities

1.3.1 The General System of Preferences (GSP)

The EC's General System of Preferences was implemented on 1 July 1971. It is primarily intended to stimulate exports from DCs[10]. Although its stated objective was to promote the industrialization of DCs, a limited number of processed and semi-processed agricultural goods were made eligible for the GSP from the beginning. Until 1980 the list has been expanded to more than 300 and in 1983, 385 agricultural products were covered by the GSP (OECD, 1987, p. 26). In addition to DCs and overseas territories some other countries such as the PR of China and Romania were made eligible for preferences. Whereas for industrial goods the GSP provides for duty free imports, for agricultural goods the duties are only partially removed in general. Only imports from LLDCs have completely been free of duties since 1977. Other than for industrial countries, there are no quantitative restrictions except for two types of raw tobacco, canned pine apple, cocoa butter and instant coffee. The GSP preferential treatment for fishmeal, raisins, coffee freed of caffeine and clover seed, with a reduced rate for fishmeal and zero rates for the other products is valid for LLDCs only. All preferential concessions are subject

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10 For a detailed description and analysis see Weston et al., 1980 and Weinmüller, 1984, p. 83.

to a safe guard clause to prevent damage to EC internal markets (Weinmüller, p. 85).

Comparing MFN to GSP rates the same pattern as for MFN (CCT) rates itself becomes obvious: the higher the degree of processing, the smaller the preferential margin[11]. With respect to agricultural raw materials preferential margins are necessarily small on average since MFN rates for major commodity groups are often zero. What remains are slight reductions in the range of 1-2 per cent points for vegetable oils and fats and about 9 percentage points for spices (1982, unweighted; Menzler-Hokkanen, 1988, p. 76). For raw coffee the margin is in general 0.5 per cent (1987, Amelung/Langhammer, p. 45) while 5 percentage points apply to LLDCs. For cocoa beans the GSP rate is zero. The reductions for fruit and vegetables (fresh or chilled) are of particular relevance for the Mediterranean Countries and will be discussed below.

Trade effects to be expected are very limited for two reasons: First, the GSP does not eliminate tariff escalation, which therefore, continues to impede imports of vegetable oils and other processed or semi-processed agricultural products. Secondly DCs are the only suppliers of a large part of the commodities involved and the price elasticity of demand for these commodities is quite low in the EC.

1.3.2 The Lomé Convention

Out of the different parts of the Lomé Convention only the trade regulations with respect to agricultural commodities will be discussed. The basic principle (Article 2) of the Convention, that 'products originating in the ACP states shall be imported into the Community free of customs duties and charges having equivalent effects', is modified by section 2 of the same article to the effect that ACP countries are granted only restricted access to EC markets regulated by the CAP. These are in fact al-

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11 See Amelung/Langhammer, 1989, p. 45; Menzler-Hokkanen, 1987, p. 76.

most all markets for agricultural commodities produced within the EC. What results is a broad classification of products into three categories (Koester/Herrmann, 1987, p. 11):

- Products originating in ACP countries which can be imported duty-free to the EC. These products are not produced within the EC.
- Products imported from ACP countries which are covered by the CAP receive a product specific rather low preference margin.
- Products covered by a special trade arrangement which offers sizable preferences for some or all ACP exporters. These products are either CAP products like sugar and beef or non-CAP products like bananas and rum.

Concerning the first category, it follows from the above discussion of the GSP that duty-free access to the EC has hardly any impact for agricultural raw products since the GSP and even the MFN rates are very low if not zero. What remains are preference margins for some processed categories of cocoa and coffee as well as for vegetable oils. GSP rates for these products amount up to 13 per cent for some kinds of palm oil and palm kernel oil. A few other examples are pineapples and tobacco[12].

Preferences for ACP countries on CAP products are very limited. For grains (corn, sorghum, millet, rice) a reduced levy applies. Since the reduction, e.g. for corn is 1,81 ECU per ton only and most markets are in a surplus position, hardly any effect could be expected. The same holds true for beef and most fruit and vegetables for which the border protection includes customs duties plus a levy (see 1.1). Reduced or zero preferential customs duties for these products will be offset by increased levies or additional countervailing charges (fruit and vegetables), so that the system is redundant, at least in surplus situations[13].

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[12] For details see Amelung/Langhammer, p. 45 and Koester/ Herrmann, p. 13. Estimates for the value of ACP-preferences for all countries could be found in "The Courier", No. 109 (May-June 1988), pp. 5-10 (The Lomé trade arrangements - What do they do for the ACP's?).

[13] For beef see v. Massow, 1984, p. 62, for details on fruit and vegetables see Weinmüller, p. 110.

The special trade arrangements such as these for sugar, beef, bananas and rum are based on a philosophy which is definite different from the more general preferences granted to all ACP countries. Traditional trade relations with a few countries were given a special status with rigid quantitative and price regulations.

Sugar

The EC sugar protocol which was negotiated already for Lomé I, was given a special status insofar as no period of validity was specified[14]. There are 21 eligible countries/territories with a total import quota of 1,3 mill. t white sugar equivalent. This quota amounts to about 12 per cent of total EC consumption and was equivalent to an import share of about 75 per cent in 1987/88. For this quantity suppliers receive at least the EC guarantee price which is politically fixed yearly by the council of ministers (see section 1.1). This quasi indexation of a raw material price is an unique element in North-South trade relations. The allocation of the total quota to preferred countries was extremely lopsided. In 1979 ten countries received about 95 per cent of the total, five of them held a share of 91 per cent[15]. The share of quotas in production shows the relative significance of the protocol for individual countries. Four countries are allowed to sell 50 per cent or more on EC markets, Mauritius even more than 70 per cent, whereas the share is negligible for Kenya and India.

Beef

Beside some GATT quotas on frozen beef live cattle and 'Hilton' beef (see section 1.2) the EC allocated special export quotas for beef to five ACP countries (Botswana, Kenya, Madagascar, Swaziland and Zimbabwe). Imports from these countries are duty free except for a surcharge of 10 per cent of the regular import

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[14] For details of the contents and an evaluation see Gruber, 1987a, pp. 84; Koester/Herrmann, 1987, pp. 35; Koch, 1989.

[15] See Koester/Herrmann, p. 77; for shifts of quotas between preferred countries and the underlying regulations see Gruber, 1987a, pp. 90.

levy. Preferences are granted under the condition that the exporting states charge a duty of 90 per cent (of the levy) on exports. The proceeds of this duty are to be used for promoting the internal cattle industry (Schnoor, 1989, p. 19). The total quota was set at 38 100 t in 1988. Major beneficiary was Botswana with a quota of nearly 19 000 t. The share of ACP-imports in total EC beef imports fluctuates between 3 and 5 per cent, and that in EC-consumption around 0,4 per cent. However, the share of the quotas in production and exports of the eligible countries frequently surpass 50 per cent with heavy annual fluctuations (Schnoor, 1989, p. 51; Koester/Herrmann, 1987, p. 43).

Bananas

Bananas are an important export item for quite a few countries and for some countries the only export commodity. The CCT for bananas is 20 per cent ad valorem including a 100 per cent preference for ACP countries. However, up to date it is implemented only by the Benelux countries. There are highly segregated markets and trade regulations for other member countries of the EC, such as Germany, France, Italy and the United Kingdom which have historical reasons. The main suppliers of the UK are the Windward Islands, Jamaica and Belize, those of France are Martinique, Guadeloupe, Ivory Coast and Cameroon. Italy imports mainly from Somalia and Germany is supplied by Latin American (non-Caribbean) producers (Noichl, 1985, p. 64; Cable, 1989, p. 5). The legal background for the market separation is given by Article 115 of the Rome treaty allowing for a restriction of free circulation of goods and by the Banana Protocol of the Lomé convention. The latter guarantees that "no ACP state will be placed, as regards access to its traditional markets and its advantages on these markets, in a less favourable situation than in the past or at present" (Protocol No. 4, article 1) on the other hand. Thus the special preferences for imports granted by France and the UK are justified by the CAP (for French overseas dominians) and by ACP rules (Stevens, 1988, p. 4). In France the banana market is completely regulated by a parastatal, the 'Comité Interprofessionel Bananiais' (CIB) which ensures an absolute preference for fruit from OD's and ACP countries. In the UK a government committee meets monthly to consider requests for import licences from non-traditional sources (i.e. Central American fruit). Such licences are only issued if Caribbean suppliers are unable to satisfy demand. In Germany the banana market is basically free, given to a duty free import quota of 500 000 t a year a small part of which is set aside for ACP imports. As import quantities for 1987 show, only 5 000 out of a total import of 698 000 t have been imported from non-Latin-American countries (Cable, 1989, p. 5). The main reason could be seen in substantial cost and price advantages of Latin American producers which range between 20 and 50 per cent (Stevens, 1988, table 2; Guignard, 1983, p. 78). With respect to the completion of the Common Market in 1993 dismantling of internal market restrictions of the EC has to be accomplished. This is likely to have serious repercussions for the traditional exporters to France and the UK unless new measures to protect these producers are taken by the EC.

Rum

ACP rum exports to the EC are governed by Protocol No. 7 of the Lomé Convention, which provides for duty free quotas on the basis of the largest quantities imported over the previous three years, and above that, allows for yearly increases of 40 per cent in the UK and of 18 per cent on markets of other member countries. The ACP countries frequently were not able to exploit their quotas (Koester/Herrmann, 1987, p. 32; Weinmüller, 1984, p. 114).

1.3.3 Agreements with Mediterranean Countries

The common core of the basically bilateral agreements[16], which were the result of the 1972 EC-plan for a global Mediterranean policy, is the free access to Community markets for manufactured exports (except sensitive products) plus some concessions for

[16] The countries included are: cooperation agreements with Algeria, Tunisia, Marocco (Maghreb) from 1976 and with Egypt, Jordan, Syria, Lebanon (Mashrek) from 1977. Association agreements with Malta (1971) and Cyprus (1973), Turkey (1964); free trade agreement with Israel (1975) and a special cooperation agreement with Yugoslavia (1980).

agricultural commodities[17]. The latter have been negotiated by the mediterranean countries (and conceded by the EC) to protect their traditional export markets in the EC, which were increasingly endangered by the results of the CAP. The commodities of particular importance were fruit and vegetables, some of which have quite a high share in total exports of some countries, as the following data (per cent) show for 1982 (Musto, 1988, p. 64).

citrus fruit	Marocco: 7,3; Israel: 7,0
olive oil	Tunisia: 8,9
tomatoes	Marocco: 3,6

The EC concessions mainly comprise reductions in customs duties in the range of 30-80 per cent, and the rate is zero for some minor non-competing products such as spices (Weinmüller, pp. 126; Musto, p. 62). Since the normal EC market regulations (the reference price system, a licensing system and the option of temporary import restrictions) nevertheless apply (see section 1.2), a clear advantage for producers in member countries have been maintained. This became particular important after the Southern Enlargement of the EC, when beside Portugal and Greece an important producer like Spain, with a large production potential, entered the EC. The anticipated trade diversion on the markets of fruit and vegetables with potentially severe consequences for the Mediterranean non-member countries led to adapted trade and cooperation agreements with the above mentioned countries (except Malta and Syria) signed on 1 september 1988 (EG-Kommission, 1989, p. 127). The main new element is the implementation of duty-free-import quotas, which are to be determined on the basis of average previous exports calculated for a number of representative years (Musto, 1988, pp. 74). Since the regulations of the EC market order have not been changed, however, the extent of trade diversion to be expected, depends - not the least - on the price policy pursued by the EC. Preferential treatment, of Mediterranean Contries will, nontheless, have a detrimental effect on the exports of fruit and vegetables of other suppliers to the EC, in particular the United States.

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17 For a discussion of the political and economical background and the development of the EC policy towards mediterranean countries see Pomfret, 1986.

2 Impact on Developing Countries

2.1 Some Methodological Problems

To establish the impact of EC-agricultural policies on DCs, reguires some methodological remarks with respect to type and coverage of studies available. In particular two main questions have to be addressed:

- Which EC-agricultural policies have an impact on DCs? The theoretical or qualitative answer seems to be straight forward: all of them. However, against the background of the policy outline given above, it becomes plausible to assume that the quantitative impact in terms of trade-, transfer- or welfare effects differs markedly. Although the GSP, the Lomé Convention, the Meditarranean policy and several other agreements between the EC and different DCs are 'DC specific' their aggregate impact is dominated by the CAP. Since within the CAP the price policy is dominating, the vast majority of empirical studies is concerned with the effects of the EC-market and price policy[18]. This leads to the second question.
- What are the relative advantages/disadvantages with respect to the comprehensiveness of studies, e.g. numbers of policies and/or countries (regions) included in the empirical analysis?

First, given a certain technical limit of the dimension of a model, there is a well known trade-off between the extent of details included and, e.g. the number of policy intruments, sectors, regional unities and linkages explicitly modelled. A highly aggregated global agricultural sector model could miss important details with respect to a very heterogeneous intrasectoral protection structure and, therefore, will give biased welfare estimates. On the other hand, the same is true for a detailed agricultural sector model without endogeneous closure with

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18 Realizing that not only price policy but e.g. structural-, agricultural social- and even regional policies have distorting effects on the allocation of resources, the OECD by now publishes yearly estimates of producer- and consumer subsidy equivalents as a more comprehensive indicator for distortions in the agricultural sector of OECD countries (OECD, 1989).

the non-agricultural sectors and with exogeneous exchange rates, if the agricultural sector has an important share in the economy.

Secondly, given the EC agricultural policy as an heterogeneous set of policies in itself and as an integral part of globally interdependent policy actions, two other analytical problems arise. The results of partial approaches assuming isolated national policy actions, would be misleading, if reactions (retaliation) of other countries (trading partners) appear to be likely. A unilateral liberalization of the CAP is extremely unlikely; if at all it would be undertaken in close reciprocity at least with the major competitor, namely the United States.

Similar problems could arise even at the national level, if single policy intruments and/or markets are to be analysed. Findings may be misleading if policy measures are closely linked and - correspondingly - narrow substitution possibilities exist between different product and factor markets. An example for the first case is the logical link between the CAP on the one hand and the agricultural provisions in the Lomé Convention or Mediterranean policy on the other. A complete dismantling of the CAP would make special regulations for sugar or beef exports to the EC superfluous, i.e. the analysis of a liberalization of the CAP should include the termination of related Lomé and other special provisions. The second case concerns the analysis of a single commodity market with close substitutability in consumption or production to other markets. Given significantly differing protection rates for substitutes, the estimation of the social cost curve - diverging from the private cost curve (supply curve) for the commodity in question - is difficult. Very often, even a theoretical (qualitative) answer with regard to the direction of the effects of e.g. a reduction of the border protection on welfare is difficult to deduct. Against the background of these very general qualifications a cautious interpretation of available empirical studies seems indispensable[19]. Out of the set of policies described above, the GSP and general preferences resul-

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19 A review of more recent empirical work could be found in Winters (1987), Demekas et al. (1988), Valdés, 1987.

ting for members of the Lomé Convention would not be discussed explicitly as major trade- or welfare effects can not be expected.

2.2 CAP and the Level and Volatility of World Market Prices

The vast majority of agricultural commodities cultivated within the EC is covered by CAP regulations. Since the dominating objective is income protection of farmers and producer price protection is still the main intrument, the most important direct and indirect effects on trade partners - compared to a reference system without CAP - are as follows:

- The EC net exports of agricultural commodities (net imports) are higher (lower); the magnitude depends, in addition to supply and demand conditions, on the nominal (for consumers) and effective rates (for producers) of protection, which vary widely between commodities and over time. Since these rates are about zero for grain substitutes, the trade effects have the opposite direction in this case.
- As a consequence world market prices for agricultural commodities are depressed on average (across commodities and over time).

Lower world market prices lead in the first round and under 'ceteris paribus' conditions to welfare gains for net importers and to losses for exporters of agricultural commodities. However, this general theoretical result is difficult to verify empirically even within this partial framework of agricultural markets. It demands internationally linked country models with demand and supply conditions disaggregated for commodities produced, consumed and traded because this as well as the national protection structure varies widely between countries. Simplifications - to avoid complexity - by analysing e.g. trade liberalization for country groups could produce misleading results. This is especially valid, if demand and supply functions are not modelled explicitly and rather net export- or import functions are estimated. For reasons mentioned above the derivation of trade- and welfare effects from single commodity models is even more questionable (Gans, 1989, pp. 14).

But even multicommodity multicountry sector models cannot catch the effects of policy changes in the agricultural sector on the non-agricultural economy which comprise e.g. changes in product and factor markets, in income and the foreign balance and exchange rate. This is of particular relevance if policy changes are large and/or the agricultural sector has an important share in the economy. Both of it has to be assumed discussing the consequences of the dismantling of CAP on DCs, since the first would be true for the EC[20] and the latter for DCs. The adequate approach to fulfill the above requirements would be the linkage of general equilibrium models for all countries (regions). What could be expected theoretically compared to results of single sector models is a - in general - more positive effect of CAP liberalization on third countries, since the large efficiency gains to be expected within the EC[21] would be partly passed to trade partners through increased demand for imports and higher exports of non-agricultural commodities with respective price effects on world markets.

In the following the results of only a few studies, which, with respect to comprehensiveness and disaggregation come near to the

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20 The most comprehensive and actual overview on protection of the agricultural sector in OECD countries could be found in OECD, 1989. On the concept used - the calculation of producer and consumer subsidy equivalents - see OECD and Tangermann et al., 1987.

21 Conservative estimates of the economic costs of the CAP point to a range from 11 billion ECU for 1978 (BAE, 1985, p. 107) to 24 billion US-$ for 1985 (Tyers and Anderson, 1986). A more recent estimate from the same authors for the average of 1980-82 figures at 8.9 1985 billion US-$ (Tyers, Anderson, 1988, p. 211). These estimates differ widely because of
(1) from year to year fluctuating world market prices and US-$ exchange rates;
(2) differing commodity and policy coverage;
(3) differing types of models, assumptions and methodology.
For a more thorough discussion see Winters, 1987 and Demekas et al., 1988.

requirements described above, could be discussed. First, estimates of welfare effects will be presented and thereafter problems of price instability, which actually has to be seen as one aspect of the welfare argument, will be outlined. One of the most detailed agricultural single sector, multicountry models for which frequently updated simulation results are presented, is that of Tyers/Anderson[22]. It involves 30 countries or country groups and differentiates 7 major commodities, which account for about half of world food trade. Not included are soybeans and other feed grain substitutes, a shortcoming with respect to the important intrasectoral distortions in the protection structure of the EC. The model has dynamic elements and is partly stochastic as production uncertainty is included. Policy is to a certain extent endogenized; the same is true for stockholding. Another shortcoming and a potential reason for underestimating welfare gains of DCs is the ommission of certain tropical commodities (Valdés, 1987, p. 583).

The major effects derived for a phased liberalization of the EC policy on world market prices, trade and welfare have the theoretical expected direction. World market prices would rise because EC net exports decline. The net welfare gain for the EC per year (average 1980-82) would amount to 8.9 billion 1985 US-$. The magnitude lies within the range of estimates mentioned above, but should be a definite underestimation in so far, as e.g. only price protection is abolished and important commodity groups such as grain substitutes, fruit and vegetables are not included. The aggregated impact on DCs is a welfare loss of 2.3 billion 1985 US-$, which could be higher for the same reasons. If one rates an isolated liberalization by the EC implausible[23] and, therefore, liberalization of the agricultural policy in all industrial market economies is simulated, the result for DCs again is a loss of 2.3 billion US-$. However, the world as a whole would gain in the

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[22] Here the version described in Tyers/Anderson, 1988 is discussed.

[23] Isolated liberalization might even have detrimental effects. For a discussion of 'disharmonies' between US and EC agricultural policy see Koester et al., 1988.

order of 16.2 billion US-$, which would give room for compensation. The reason for the unaltered result for DCs is the level and structure of protection applied by other important ex- and importers, i.e. the United States and Japan. Since the main welfare losses for DCs are brought about by increasing world grain prices, the effect of an inclusion of the US is very small because the protection rates are low and in addition combined with supply restrictions (set aside programs).

Estimates by other authors with comparable models have yielded similar results. A liberalization of the CAP would bring about small losses for DCs as a group (Matthews, 1985). The results vary necessarily depending on assumptions particularly made with respect to supply and demand reactions. Although small on average the losses or gains for individual countries could be substantial. Lomé countries being major beneficiaries of preferential import regulations for beef and sugar, would loose their advantages with a termination of EC price protection. Other examples for 'loosers' of a CAP liberalization are the exporters of manioc, particularly Thailand. The net income gain for this country because of the dramatic increase in EC demand caused by the CAP is estimated at 110 mill. US-§ for 1980 (Nelson, 1988, p. 60).

To evaluate these general results for DCs, three aspects must be discussed in greater detail.

(1) A liberalization of the CAP would have to start from a situation, characterized by seriously depressed world market prices as a consequence of protectionist policies in ICs and even NICs. Because of a long period of adjustment to low world market prices for food commodities, production and the degree of self-sufficiency are much lower in DCs than they would be under liberal market conditions. The situation is frequently aggravated by indirect effects on the agricultural sector from other (in particular) import substitution policies in the non-agricultural sectors[24]. Such non agricultural

[24] For a discussion of the problem and empirical evidence see Krueger et al., 1988.

policies imply a tax on the agricultural sector, in particular the exporting branch, and lead to a negative effective protection. Whether this policy has been encouraged by low world market prices and, therefore, low returns to agriculture is not clear. In any case the low food production is the cause of the calculated welfare losses for DCs as the result of a liberalization of the CAP. Increasing world market prices could, however, stimulate food production in food importing countries and bring about a reversal of food trade flows for many countries (Hartmann, Schmitz, 1987, pp. 346), which would be even more pronounced if detrimental policies pertaining to other sectors are corrected. What follows is a certain likelihood of overestimating the negative impact of food price increases on the world market on DCs when only first round effects are accounted for. Similarily, an analysis which includes in addition a liberalization of DCs policies, but is limited to agricultural sector policies, would not give reliable results (Valdés, 1987, p. 582).

(2) Another likely reason for biased welfare estimates with respect to a CAP liberalization is the effect of the CAP on price instability. As will be argued below, more stable world market prices could be expected. These would reduce risk for producers directly or would make national or international stabilization schemes, which are all but costless, at least partly unnecessary. Hence, more price stability is (ceteris paribus) likely to reduce costs and increase production, reduce world market prices and increase global welfare. Although these effects are widely accepted among analysts, the quantitative dimension is difficult to measure and, therefore, is usually not included in welfare estimates.

(3) The most important shortcoming of models discussed so far is their missing interfacing with the rest of the economy. A pronounced efficiency and income gain within the EC should have second round effects on trading partners. These would be triggered through increased demand for imports as well as higher internal production and exports by the EC with favourable terms of trade effects for non EC countries. This macroeconomic dynamic effects of liberalization would become the

more important, the more the protection system of the EC - as was observed - shifts from a simple border protection to numerous internal interventions without having similar direct effects on trade partners as the original policy.

Because of the complexity required to model all the intersectoral and international relations necessary to trace the above effects, only few modelling efforts have been undertaken to date. In their internationally linked general equilibrium model Burniaux and Waelbroeck (1988) basically confirm the effects of a liberalization on agricultural markets derived from other modelling efforts. In addition, they analyze the macroeconomic linkages and arrive at the conclusion, that even DCs would achieve net income gains on aggregate were the agricultural policy to be liberalized in Europe. This result is not supported by simulations with the food model of IIASA (Parikh et al. 1988). DCs continue to loose as a group. Although this modelling effort comprises internationally linked models with detailed agricultural sectors, the dynamic macroeconomic effects of a CAP liberalization (see (3) above) might not be captured adequately, since the non-agricultural economy is aggregated to only one commodity. In addition, both other arguments mentioned above, which could lead to an underestimation of the welfare increases, seem to be valid, too. However, the IIASA work concentrates on distributional aspects within DCs (hunger!) which cannot be discussed in this context.

Price instability

Finally, a dismantling of the CAP system with variable levies and export restitutions respectively would lead to more stable world market prices since shortages and gluts could be smoothed out over a much larger numbers of agents. This result is theoretically plausible and unanimously supported by respective empirical studies[25]. However, some reservations must be made. First, discretionary government stock and trade policy as well as adequate

[25] For an overwiew and some qualifications see Winters, 1987, p. 41.

formulations for producer reactions have to be included in the analysis. Government could have eliminated or, at least, reduced detrimental effect of the CAP trade system on stability of world market prices. On the other hand, lagged producer reactions on prices could lead to cyclical price patterns which, e.g. were observed on the world sugar market. An unhindered reaction of EC producers to world market prices could have increased cyclical price fluctuations (Schrader, 1982). Nevertheless, the results of adequate empirical analysis show significant destabilizing effects of the CAP in ex post simulations, which have been particular strong on the markets for wheat and ruminant meat (Tyers/ Anderson, 1988, p. 207).

2.3 Special Trade Arrangements

In the following the likely impact of some special EC measures on DCs will be analyzed. The approach is essentially partial, i.e. not trying to work out all the interdependencies of the real world. This should be kept in mind when assessing the results from various studies.

<u>The Lomé Sugar protocol</u>

The concession of the EC granted under the Lomé sugar Protocol, i.e. imports of 1.3 mill. t of sugar (white sugar equivalent) per year free of duties or levies from ACP countries at EC interventions prices, could basically be understood as a product tied income transfer to eligible countries. In fact, this transfer could become negative at times when the EC sugar price is below the world market level since the regulations include an obligation for delivery. The magnitude of the transfer per country depends on the multiple of the quota allocated and the price differential between EC and world market price (which fluctuates widely). The cost of freight, loading and insurance have to be substracted, to arrive at the net transfer value. As long as one assumes that global production and consumption remain unchanged by the protocol, the calculation is straight-forward. The maximum total transfer calculated along these lines has been estimated at nearly 200 mill. ECU for 1981/82 (Koester/Hermann, 1987, p. 41), which could be considered a 'normal' year with respect to price differentials.

The distribution of quota rents between beneficiaries is extremely uneven not only in absolute terms but also per capita and particularly if the latter figures are related to income measures such as per capita GNP in the respective countries[26]. These distributional effects cannot be justified given the goal of official development policies to help the poor. The sugar policy is not costless, even under the assumption of unchanged production and consumption. The costs of the arbitrary shipments of sugar initiated by the regulations have to be covered on a global scale. Moreover, the assumption of unchanged production in eligible countries seems unjustified, since several governments pay prices to producers, which lie above their shadow price (world market price). The additional production caused by this policy will depress world market prices with detrimental effects particularly for non-eligible sugar exporters (World Bank, 1986, p. 143). However, the isolated global allocative effects of the sugar protocol have to be judged with caution. It is difficult to assess what the EC internal sugar (price) policy would look like if there would not be an obligatory import of 1.3 mill. tons of sugar per year. Globally speaking it is safe to state, though, that quantitative restrictions of trade will allways distort the allocation of production and consumption between countries and cause losses of efficiency.

Preferential beef import quotas

The principal economic evaluation of preferential import quotas for Botswana, Kenya, Madgascar, Swaziland, and Zimbabwe can be

[26] Some values for 1981/82 in ECU:
a) per country: Mauritius 75.8 mill.
Malawi 3.0 mill.
b) per capita, same countries: 79.8
0.5
c) GNP/capita, same countries: 1255
201
(Koester/Herrmann, 1987, p. 41).

carried out along the same lines of the analysis of the sugar protocol[27]. They reflect attempts of the EC to mitigate the detrimental effects of its protectionist policy on some of the traditional poor beef exporting countries in Africa. Quota rents are determined by price differentials between the EC and world markets, actually exported quantities and related shipping costs. Since most of the allocated quotas have not been fully used[28], the effective economic rents are significant smaller than the potential ones, which were estimated to amount to just over 40 mill. ECU gross value for all four countries together in 1979 (Koester/Herrmann, 1987, p. 44). The main beneficiary is Botswana, which has a share of 19,000 tons equal to 50 per cent of the total quota. Similar to ACP sugar producers, it has been shown for beef producers that they get part of the quota rent via higher prices with respective allocational consequences. Although it can hardly be doubted that quota owning countries benefit from the regulation, it is very difficult to establish their net welfare position compared to a liberalized EC beef policy. Respective estimations indicate that beneficiaries are better off with the present regulation but could easily be compensated by other beef exporters, which stand to gain from a liberalization[29] (v. Massow, 1984, pp. 137). What makes things worse is the fact that - similar to the sugar protocol - the distributional consequences among and within DCs are arbitrary.

3 The CAP and the GATT Uruguay Round

Since the publication of the famous book 'World Agriculture in Disarray' by D. Gale Johnson in 1973 the situation has not been

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[27] For a detailed evaluation of beef import quotas, see Massow, 1984; Gruber, 1987b; Schnoor, 1989.

[28] For the details of likely causes see Schnoor, 1989, pp. 42.

[29] Koester/Herrmann (p. 45) argue that Kenya would be better off with free trade.

improved but rather worsened[30]. The development in world agriculture is characterized by - often high and strongly diverging protection rates between countries and commodities

- permanent and increasing violation of multilateral trade rules (e.g. MFN GATT-rules) and their substitution by bilateral agreements between countries and country groups, and as a consequence
- increasing distortions in the global allocation of resources and trade flows.

In former GATT negotiations on the liberalization of trade, agricultural trade was more or less omitted. This issue figures now prominently on the agenda of the ongoing Uruguay Round. The reason is a growing awareness of the damage done particularly to traditional food exporters and to the international trade system by bilateralism in general and by specific trade practices developed by the EC and the US in particular, which are frequently characterized as a trade war.

When consensus was not reached at the Mid-term Review Meeting in Montreal (December 1988) participants of informal consultations reached agreements on some general declarations and objectives in Geneva during spring 1989:

'Agricultural policies should be more responsive to international market signals in order to meet the objective of liberalization of international trade and that support and protection should be progressively reduced and provided in a less distorting manner' (OECD, 1989, P. 65). And, 'a reform process should be initiated through the negotiation of commitments on support and protection and through the establishment of strengthened and more operationally GATT rules and disciplines'. Some long terms objectives are explicitly mentioned, for which proposals should be submitted by participants till December 1989:

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30 The recent reduction (1987-1989) of high positive protection rates is merely a consequence of temporarily increased world market prices; these are not caused by a change in policies but by random production short falls in North America.

(1) the terms and use of an aggregate measurement of support;

(2) strengthened and more operationally effective GATT rules and disciplines;

(3) the modalities of special and differential treatment for developing countries;

(4) sanitary and phytosanitary regulations and the related work programme;

(5) tariffication, decoupled income support, and other ways to adapt support and protection;

(6) ways to take account of the possible negative effects of the reform process on net food-importing developing countries.

In addition, participants agreed on rules with respect to short term actions of trade partners till the end of the negotiation. Such are: trade partners 'ensure that current domestic and export support and protection levels in the agricultural sector are not exceeded' and 'that tariff and non-tariff market access barriers in force at the date of this decision are not subsequently intensified in relation to import of agricultural products, including processed agricultural products'.

These very general declarations and objectives point in the direction of a more efficient allocation of resources on the global scale. With respect to objective (1) visible progress has been reached, since the concept and use of PSE and CSE as a measure of support is widely accepted, even if some questions e.g. which national policies should be included and whether there should be given a rebate for production control measures (e.g. area set aside programs, production quotas) is still on debate. Objectives

(3) and (6) reflect in particular the likely impact of a liberalization on DC's. As has been discussed above the estimated negative impact of a liberalization on food importers should be judged with caution. Moreover, the special and differential treatment of DC's in the field of trade policy have to be viewed sceptically given the background of experiences in the past decades (Bhagwati et al., 1987).

However, to date no ways have been disigned to realize the commonly agreed reduction of protection and the liberalization of trade. Several academic proposals on an adequate calculation and later stepwise reduction of PSE's and CSE's or the transformation of all kind of protectionist measures into tariffs[31], which could be bound in the GATT and equally be reduced by negotiations have not been adopted.

The reason for the present deadlock in GATT negotiations with respect to agriculture has mainly to be seen in the still controvers positions of the EC and the US[32]. The US in there latest proposal returned to earlier positions, which basically opts for free trade after a transition period of 10 years; export subsidies should be abolished within 5 years. After the transition period only that internal measures, which have minor impact on

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31 For an overview and the discussion of technical and political problems see Wissenschaftlicher Beirat 1988, pp. 30.

32 For a discussion of a possible coordinated liberalization of agricultural trade and its advantages see Tangermann 1988, Koester 1988 and International Agricultural Trade Research Consortium, 1990.

production and trade should be allowed, e.g. direct income payments or environmental protection programmes. The EC on the other hand, only after tedious internal quarrel, proposed a reduction in the aggregate support of 30 per cent till 1996. Since the reference year is 1986, a year with a very high support level, the proposed reduction is very small related to the effective level of 1989. In addition it is proposed to give LDC's a special treatment. This is in accordance with a proposal of the 'Cairns-Group', which pleads for compensatory measures towards net-food importers among DC's. This suggestion has to be viewed as a compromise since several DC's (e.g. Brasil, Thailand) are members of this group which otherwise represents the interests of important food exporters. As food exporters are suffering from escalating export subsidies paid by the EC and the US, their negotiating stance is close to the US free trade position.

To date, the chance that the negotiations would be terminated with a significant reduction in protection levels and a reorientation towards multilateral GATT rules seem to be faint. The massive agricultural lobby within the EC determines the negotiating position of the EC. It is supported by other countries with high rates of agricultural protection like Japan on the one hand and quite a number of DC's which are beneficiaries of special EC import regulation for sugar and beef or traditional net food importers. The insight that potential winners of a liberalization of agricultural trade could easily compensate potential loosers does not seem to be a sufficient condition for freer trade in agriculture.

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