Journal of Agricultural and Applied Economics, 32,2(August 2000):197–202

Agriculture in the WTO: A European Union Perspective

Tassos Haniotis

The failure of the Seattle Ministerial to launch a new Round of Multilateral Trade Negotiations raised a series of essential questions concerning the future of the World Trade Organization (WTO). This is only natural, considering the expectations that were raised before the Ministerial, the unprecedented extent of public discontent (albeit of various, often opposing tendencies), and the at-this-stage uncertain follow-up.

A detailed discussion of these issues goes beyond the scope of this session, but it is important to keep in mind that although negotiations on agriculture (and on services) will have to take place based on the in-built agenda of the Uruguay Round Agreement (URA), these negotiations will not take place in a vacuum. Rather, they would have to start with the outcome of the Seattle Ministerial as a background and with the need to draw some concrete conclusions from its experience. In this respect it is interesting to briefly mention the European Union general priorities for the next WTO round, which have not changed since Seattle.

Central in these priorities is the preference for a comprehensive trade round with a time-bound framework. Such a round would allow for the necessary trade-off among sectors and interests that would enable WTO participants to meet the commonly defined objectives of further trade liberalization with substantive and balanced results.

This cannot be achieved, however, without a strengthened developmental role and capacity of the WTO, and it cannot be achieved without the WTO addressing wider issues (such as the relationship between trade and public health or environment). Seattle confirmed the necessity of dealing with these issues, although the manner by which this can be achieved is anything but agreed upon. Despite the inherent difficulties of this task, however, it is essential to recognize that meeting this objective would strengthen the WTO multilateral system in the long term.

Agricultural Negotiations

The EU expects agriculture negotiations to strike a balance between fundamental trade reform (by reduction of both border protection and domestic and export support) and issues that reflect a follow-up on decisions taken in 1994. In this view, the long-term objective of creating a market-oriented agricultural trading system should also entail special treatment for developing countries and for dealing with non-trade concerns.

The mandate of Article 20 of the Uruguay Round Agreement on Agriculture (URAA) provides the point of departure for achieving the above objective. Disagreements about the speed or extent of reform are natural in the beginning of negotiations (although the effort to turn the agenda into an end-result often complicates things). However one views Article 20, it is clear that it sets a long-term objective of substantial, progressive reductions in support and protection, resulting in fundamental reform, while at the same time addressing the above-mentioned wider issues based on the same mandate.

Agricultural Counselor, European Commission Delegation to the US.

Domestic Support

The URAA provided specific instruments that classified measures of domestic support according to the level of trade distortion that they introduce, and specified the level of reduction that should apply to measures grouped in the most trade-distorting category of farm policies. These measures fall under the three "boxes" of the URAA.

Non-trade distorting policies (such as environmental or research payments) are not subject to any limitations or reduction and are classified in the green box. Blue box payments are payments made in conjunction with supply control, but not subject to limitations if linked to fixed area, yield or animals. Finally, the amber box includes trade-distorting payments that are subject to 20 percent reduction by 2000.

Naturally, the next agreement would have to answer the question of whether any of the specific instruments provided in the Agreement itself need to be adapted. The EU does not feel that a major review of the specific instruments provided in the URAA is necessary or desirable. This position does not rule out some updating of the blue and green boxes, but it stresses the continuation of the present distinction of policies according to their degree of trade-distortion as the essential element in determining adherence to the desired move away from support linked to prices or products towards more transparent and non-distorting support policies.

The EU also feels that two other elements of the URAA must be included in a new agreement. The first concerns the need, recognized by the peace clause, to provide legal security for the outcome of the negotiation, just as it did in the Uruguay Round agricultural negotiation. The second refers to the Special Safeguard Clause, which represents a key constituent of agricultural liberalization agreed in the last Round, having enabled abnormally low price offers or import surges to be dealt with without frequent recourse to more disruptive action under the general Safeguard Clause. A similar provision for the future should therefore be in the general interest of all members.

Recent Developments in Domestic Support

On domestic support, both the US and EU have followed a similar pattern of respecting their commitments during the first half of the implementation period. Commitments on domestic support stemming from the Uruguay Agreement on Agriculture (URA) reflect the history of previous farm policies of both the EU and the US. As a result, US policies tend to be geared towards more "green box" type of measures (food donation programs, etc.) in domestic support, and heavier dependence on export credits on the export side. EU policies have a more balanced distribution among the various levels of domestic support (green, blue or amber box), and depend heavily on export subsidies. But the most important element from the agreement is the fact that, irrespective of the initial level of support or trade distortion, these policies fell under the same rules and disciplines that led them towards trade liberalization.

However, recent developments on both sides move in opposite directions. Both sides faced the same negative farm price developments. Yet EU policies have shifted towards less price-related policies (which distort trade more) towards more direct aid (blue box) measures. In addition, domestic budgetary constraints have kept, and will continue to keep, EU farm budgetary expenditures declining (in real terms).

The manner by which European agriculture evolved in recent years, and is expected to evolve over the next years, towards more market orientation without compromising the multifunctionality to which Europeans are deeply attached, is probably best evaluated if one looks at budgetary expenditures of the CAP. Although clearly direct payments have increased (this was after all the intention of the reform), they have become more predictable, transparent and fixed (Table 1). This is in sharp contrast to the previous experience of the CAP.

To the surprise of the close observer of

Table 1. EU and US Budgetary Outlays for Farm Commodity Programs

	1996	1997	1998	1999	2000e
EU (billion ECU/EUR)					
Market support	24.959	25.653	25.628	25.907	25.756
Direct payments	6.591	7.074	6.446	6.418	6.149
Export programs	5.705	5.884	4.827	5.498	5.409
Other programs	1.852	2.065	1.847	2.617	3.587
Total EU	39.107	40.676	38.748	40.440	40.901
US (billion US dollars)					
Market support	0.666	0.697	2.759	8.385	15.765
Direct payments	5.141	6.320	5.672	5.476	5.049
Export programs	−0.353	0.159	0.252	0.488	0.774
Other programs	−0.808	0.080	1.460	4.874	5.373
Total US	4.646	7.256	10.143	19.223	26.961
1 ECU/EUR = US$:	1.252	1.131	1.123	1.067	n/a

Source: European Commission, USDA. *Note:* Fiscal year data (starting Oct 1 in the US, Oct 15 in the EU). US outlays are CCC expenditures (negative figures represent net savings). EU other programs are only rural development programs.

farm policy issues, it is also in sharp contrast to developments on this side of the Atlantic. In the US, two successive farm relief packages, coupled with the increase in loan program costs and the extension of the previous dairy policy support, have even put into question the ability of the US to stay within GATT constraints on domestic support for crop-year 1999. What is interesting in the US case is that the framework of Agricultural Market Transition Act (AMTA) payments was used to compensate producers for losses linked to a drop in current market prices. This policy mechanism was supposed to be decoupled (from both current production *and* prices), and classified under the "green box" (although this classification was contested by the EU because of certain restrictions in production).

Here again existing rules allow for a very clear distinction between trade distorting and non-trade distorting policies. It is questionable that these rules were developed in order to allow this mechanism to respond to unfavorable market conditions.

As measured in terms of *dollars per farmer* (the recipient, after all, of domestic support) EU commodity program direct payments (which account for over 90 percent of the EU farm budget) have stayed rather flat (around $5000 per farmer). The same US payments, on the other hand, have increased from $2000 in 1996 to over $12,000 in fiscal 2000.

It is important to keep these developments in perspective because it is not only the absolute level of domestic support that could be seen from various different angles and thus come under different interpretations, that counts. What is also essential from a policy point of view is the consistency of policy reform both in terms of extent and direction.

EU Agricultural Policy Orientation

The EU position to request that WTO rules address the multi-functional role of agriculture is often portrayed as a "protectionist trick" that would allow the EU to justify subsidizing its farming sector. This point ignores the fact that no matter how each WTO member chooses to define its domestic support policies these would have to be judged based on the same clearly defined criteria. Only a debate on the specific impact of specific measures, not on semantics, would provide a clear idea of how each WTO member fulfils the mutually agreed commitments.

If this approach is taken, then the debate on the European model of agriculture (*models* would be the most appropriate term given the diversity of EU agriculture) would have to be put in a different perspective. This "model" has been defined by the EU Council in such an explicit manner that it leaves little space for misunderstandings. It basically describes a general set of objectives:

- a competitive agricultural sector which can gradually face up to world markets without being over-subsidized
- production methods which are sound and environmentally friendly, able to supply quality products that the public wants
- diversity in the forms of agriculture, which maintain visual amenities and support rural communities
- simplicity in agricultural policy, and sharing of responsibilities between the European Commission and EU member-states
- justification of (farm) support through the provision of services that the public expects farmers to provide

All of the above objectives fall clearly within the scope of Article 20 of the URAA, and reflect generally accepted policy targets (where the specific choice of policy instrument can be classified based on URAA rules). In fact, the debate about the European model of agriculture is nothing more than a reflection of the fact that within the EU the relevant agricultural policy question is not *if* but *how* to support agriculture (a point that is becoming again increasingly relevant in the US).

This debate focused on the specific policy tools applied within the EU and their potential impact domestically (efficiency in achieving objectives, distribution impacts, budgetary implications) and internationally (compatibility with WTO rules, trade impact). The EU was faced with a basic choice between two approaches: making increasingly rigorous supply management the core of the CAP market policy or adapting the policy to make the EU agriculture more competitive.

There may be divergent views about the urgency or scope of adaptation required. But after the Berlin accord on Agenda 2000 it is clear that in the long run only this second alternative, aiming at improved competitiveness, offers a realistic prospect of development for the European agricultural economy. In both major reforms of the Common Agricultural Policy within less than a decade (1992 and 1999), the EU moved in the same direction, making a significant shift from price support and supply control to a more targeted and less distorting agricultural and rural policy. This direction of reform has been developing a consistent and predictable policy line with no *ad hoc* adaptations to market shocks.

There is a clear commitment to move to a market-oriented agricultural policy and the further elimination of trade-distorting measures. If the period of reform as a whole is taken, support prices for cereals will have fallen by 45 percent and beef by 35 percent, and amber box commitments are likely to have fallen by more than half alongside other reductions in trade-distorting measures.

The Effects of Shifting from Price Support to Direct Payments

To date the experience of the shift from price support to direct payments in the reformed sectors has been globally positive. Market balances have been much improved, agricultural incomes have developed favorably, a more rational use of fertilizers and other chemical inputs has been observed and consumers have benefited from lower prices. Part of the support burden has shifted from consumers to taxpayers, while budget expenditure has become more stable and predictable (the volume of direct payments being set) and support to farmers has become more transparent.

Reducing price support has brought farmers more in touch with the market. They are now basing input and output decisions more on market signals (and less on intervention at a guaranteed price), while at the same time direct payments provide a stable basic income. However, this increased market orientation needs to be balanced by direct payments and additional opportunities for on-farm and off-farm sources of income if the EU agricultural sector and rural areas are to adapt to these new challenges. An abrupt elimination of support would threaten the economic and social stability of many intermediate and peripheral regions, where agricultural activity is still important, and could entail serious environmental risk.

Direct payments therefore provide a cushion which allows the farm sector to adjust to a new, more market-oriented environment without major disruptions. These payments have played an important role in encouraging European farmers to adapt to new conditions. The continuation of the blue box, under which these payments are classified, is thus essential for the EU.

Export Competition Issues

This area of the URAA is often portrayed as one referring only to export subsidies, with emphasis on the fact that almost 85 percent of all agricultural exports subsidies are attributed to the EU. There is nothing new or unexpected in this fact. It is a reflection of the structure of previous EU farm policies, with the reformed sectors (cereals, beef and indirectly pork and poultry) clearly indicating the positive impact of CAP reform on the decline of EU export subsidies. EU export subsidies came under strict rules and disciplines, have declined significantly, and are expected to decline even further as a result of the latest CAP reform (even before a new WTO agreement comes into place). The Community is willing to continue to negotiate further reduction of export subsidies, but this presupposes that *all* such support to exports is treated on a common footing.

This means that the commitment to introduce disciplines on agricultural export credits (the major US export policy tool) which formed part of the URAA (Article 10.2) must be respected. Other less transparent forms of export support will also need to be satisfactorily addressed. These include the operation of single desk exporters and the provision of food aid on concessional credit terms (another area of major increase in US measures recently, where US wheat donations accounted for 5.2 million metric tons).

Market Access Issues

The European Union is a major food exporter and the largest food importer in the world. It thus intends to share in the expansion of world trade in agricultural products. The EU will seek to obtain improvements in opportunities for its exporters, *inter alia* through greater clarity in the rules for the management of tariff rate quotas (TRQs), including imports through single desk buyers, and the removal of other unjustified non-tariff barriers. The latter include the protection of geographical indications that ensure EU exports do not face unfair competition from deceitful practices such as the use of well-established EU denominations. The EU also believes that developing countries should get special treatment. For its own part it already offers major preferences and is prepared to extend duty-free access to virtually all imports from the least developed countries.

Non-trade Concerns

A wide range of issues under this heading touches upon different WTO agreements: the Sanitary and Phytosanitary Agreement (SPS), the Agreement on Technical Barriers to Trade (TBT) and the Agreement on Trade-related aspects on Intellectual Property Rights (TRIPS). Of all these issues, undoubtedly the most controversial has been the area of measures related to food safety concerns and their impact on trade. Recent WTO case law has confirmed that non-discriminatory, science-based measures to achieve the level of safety determined by members are in conformity with that agreement. It might be useful to confirm this in a more general manner in order to reassure consumers that the WTO will not be used to force onto the market products about whose safety there are legitimate concerns.

What the EU experience of recent years has demonstrated is that consumer perceptions on issues related to food safety, which undoubtedly have a direct impact on trade, are not viewed by the general public as trade issues but as health issues. Thus measures that aim at incorporating these concerns are not trade impeding. On the contrary, these measures are in the long term trade enhancing.

Conclusion

In both major reforms of the Common Agricultural Policy (1992 and 1999), the EU moved in the same direction, making a significant shift from price support and supply control to a more targeted and less distorting agricultural and rural policy. This direction of reform has been developing a consistent and predictable policy line with no *ad hoc* adaptations to market shocks. If these developments are kept in perspective, then there should be little doubt about the EU's clear commitment to move to a market-oriented agricultural policy and towards further reduction of trade distorting measures.