

## Position of the EU in the WTO agricultural negotiations

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## The UR Agreement on Agriculture

- The Uruguay Round negotiations in agriculture were not easy and went beyond traditional import access problems.
- Negotiators considered disciplines with regard to all measures affecting trade in agriculture, including domestic agricultural policies and the subsidization of agricultural exports.
- The Agreement on Agriculture comprises specific commitments to reduce support and protection in the areas of domestic support, export subsidies and market access.

### Pillars of the WTO Agreement on Agriculture:

- Market access
- “Tariffication”
- Tariff quotas
- Tariff reductions
- Special safeguard provision
- Domestic support
- Export subsidies
- Continuation of the reform process

### Market Access

- Tariff measures
- Non-tariff measures
  - Quantitative
  - Non-quantitative
- → “Tariffication”

### “Tariffication”

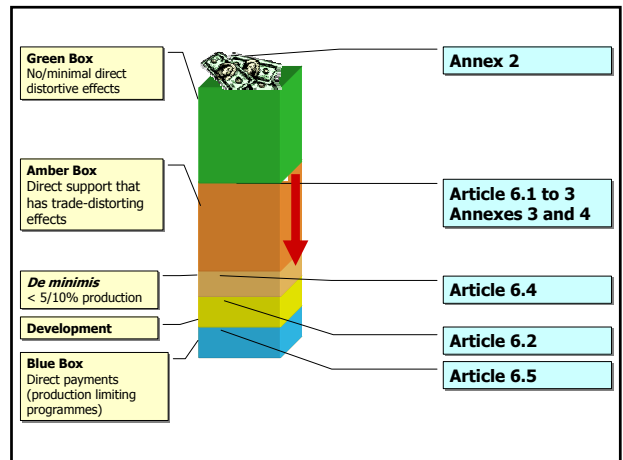
- Article 4 (Agreement on Agriculture)
- Footnote
- → Tariff equivalents
  - GATT (1947):
    - Prohibition of quantitative restrictions
    - Exemption of agriculture
  - Agreement on Agriculture (1994)
    - Tariffication = agriculture no longer exempt
  - Explanatory note (Annex 1A)

### Tariff Quotas

- MFN rate
- “Preferential” rate for a determined quantity = Tariff quota (TQ)
  - TQ is not a quantitative restriction
- Current access
- Minimum access
  - 3% of consumption (5% at the end of the transition period)

## Tariff Reductions

- Average reduction
  - Developed countries: 36%
  - Developing countries: 24%
  - LDCs: no reduction
- Minimum reduction per tariff line
  - Developed countries: 15%
  - Developing countries: 10%
  - LDCs: no reduction



## Domestic Support

- Aggregate Measurement of Support - AMS
  - Annual average 1986-1988
- Reduction commitments
  - AMS reduction
    - Developed countries: 20%
    - Developing countries: 20%
    - LDC: no reduction
  - Transition period
    - Developed countries: 6 years
    - Developing countries: 10 years
    - LDCs: no reduction

## Export Subsidies

- Total amount of export subsidies
  - Annual average 1986-1988
- Reduction commitments
  - Reduction of total amounts
    - Developed countries: 36%
    - Developing countries: 24%
    - LDCs: no reduction

## Export Subsidies

- Total volume of subsidized products
  - Annualized average 1986-1988
- Reduction commitments
  - Reduction of total volume
    - Developed countries: 21%
    - Developing countries: 14%
    - LDCs: no reduction

## Continuation of the Reform Process

- Objective
  - Substantial progressive reductions in support and protection
- Means
  - Negotiations (beginning 1 year before the end of the implementation period)
  - Specified in Doha (2001)
- Article 20 (Agreement on Agriculture)

## General position of the EU in 2000 (Agriculture Council: 20-21 November 2000)

- **Market access:**
- The formula for tariff reductions should be a commitment as to the **overall average reduction of bound tariffs and a minimum reduction per tariff line** (as was the case in UR)
- **Export competition:**
- officially **supported export credits** should be covered by specific WTO rules → to move officially supported export credits towards usual commercial practice;
- **food aid** should be given in fully grant form; & a code of conduct covering food aid operations should be established;
- operation of **State Trading Enterprises (STEs)**, cross-subsidisation, price-pooling and other unfair trade practices in exports should be abolished.

## General position of the EU in 2000 (2)

- **Domestic support:**
- **further reduction in the Total AMS** starting from the bound level, by a further strengthening of the rules concerning non-product specific domestic support, and by a reduction of the "de minimis" clause for developed countries;
- the concept of the "**blue**" and "**green**" boxes should be **maintained**, as well as the general rules and disciplines applying to them, but they are prepared to discuss the detailed rules on domestic support.
- the criteria to be met by measures that fall into the "**green box**" be revisited to ensure minimal trade distortion
- ensuring appropriate coverage of measures **specific discipline be applied to variable "amber box"** (subsidies which boost export performance through providing compensation for variations in market prices).

## General position of the EU in 2000 (3)

- **Non-trade concerns:**
- the **multifunctional role** of agriculture, which, includes its contribution to sustainable development and the protection of environment, should be recognised,
- the sustained **vitality** of rural areas and **poverty alleviation** should be recognised.
- **Food safety** is another important objective.
- **Consumer concerns** related to the production and processing of products could also be met by providing more information through the development of labelling schemes.
- to ensure that trade liberalisation does not undermine protection of the **welfare of animals**.

## General position of the EU in 2000 (4)

- **Developing Countries/Special and differential treatment**
- To provide **duty-free access to essentially all products** from the least-developed countries, **including** agricultural products.
- The developed countries and the wealthiest developing countries should provide **significant trade preferences** to developing countries, (in particular the least-developed)
- An **examination is** undertaken on ways to ensure that these trade preferences are rendered **stable and predictable**;
- The **domestic support** measures that promote the sustainable vitality of rural areas and the food security concerns of developing countries as a means of poverty alleviation are of great importance → The EC propose that other ways are examined in order to provide the necessary flexibility to developing countries to address these concerns, notably through a **revision of the de minimis clause for developing countries**.

## Starting position: level of import duties in agriculture

Table 1: Bound and applied tariffs on agricultural products

	MFN bound tariffs	MFN applied tariffs
	%	%
Developed Countries	51	48
Developing Countries	57	20
Least-Developed Countries	79	17

Source: UNCTAD<sup>3</sup>

## Tariffs in the EU

	MFN bound rate	MFN applied rate	Lomé + LDC + MFN	Lomé + GSP + MFN	LDC + MFN
<b>Simple average tariffs</b>					
Total	7.0	6.9	1.8	1.9	1.9
WTO Agriculture <sup>a</sup>	17.4	17.3	9.5	10.3	10.3
WTO Non-agriculture	4.6	4.5	0.0	0.0	0.0

Annex 1 of the WTO Agreement on Agriculture defines the scope of agriculture as HS Chapters 01 to 24 less fish and fish products (Chapter 3), plus selected items from Chapters 29, 33, 35, 38, 41, 43, 50, 51, 52 and 53.

## Starting position: Total support estimate (TSE) provided by OECD countries

Country	Total support estimate (TSE) (percentage of GDP)		Total support estimate (TSE) in million euro		Share of countries in total support for agriculture	
	1986-1988	2000-2002	1986-1988	2002	1986	2002
Australia	0.8	0.3	1 533	1 307	0.6%	0.4%
Canada	1.7	0.8	6 541	6 334	2.6%	1.9%
Czech Rep.	4.4	1.7	1 127	1 259	0.4%	0.4%
European Union	2.7	1.3	100 624	119 438	39.8%	35.4%
Hungary	2.5	2.9	733	1 953	0.3%	0.6%
Iceland	5.1	1.6	232	148	0.1%	0.0%
Japan	2.3	1.4	52 133	59 087	20.6%	17.5%
Korea, Rep.	9.3	4.5	11 902	22 292	4.7%	6.6%
Mexico	0.6	1.4	1 379	9 452	0.5%	2.8%
New Zealand	1.7	0.3	545	201	0.2%	0.1%
Norway	3.4	1.5	2 817	3 040	1.1%	0.9%
Poland	2.2	1.3	1 391	2 533	0.5%	0.8%
Slovak Rep.	4.2	1.6	498	410	0.2%	0.1%
Switzerland	3.9	2	5 775	5 863	2.3%	1.7%
Turkey	3.6	4.1	2 888	8 205	1.1%	2.4%
United States	1.4	0.9	62 804	95 785	24.8%	28.4%
OECD average	2.3	1.2	252 922	337 307	100.0%	100.0%

Source: *Agricultural Policies*, 2003, p. 229-230.

## Produces subsidy estimate (PSE) in OECD countries (per farmer, per hectare and % of total farm receipts)

Country	PSE in € ' 000 per full time farmer		PSE in € ' per hectare of agricultural land		Share of market price support in PSE		In % of total farm receipts	
	1986-88	2002	1986-88	2002	1986-88	2002	1986-88	2002
Australia	3	3	3	2	47	0	9	4
Canada	10	12	69	65	49	46	34	20
Czech Rep.	3	8	256	269	93	75	31	28
European Union	9	18	644	775	86	57	40	36
Hungary	1	7	115	281	75	60	16	29
Iceland	23	29	92	68	87	48	75	63
Japan	12	22	8306	9579	90	90	61	59
Korea, Rep.	7	24	4884	9911	99	91	70	66
Mexico	n.c.	1	-1	79	n.c.	66	0	22
New Zealand	4	1	32	7	19	78	11	1
Norway	26	47	2551	2680	48	45	70	71
Poland	0	1	63	120	66	68	11	14
Slovak Rep.	2	4	180	146	45	35	28	21
Switzerland	31	34	3032	3392	82	58	76	75
Turkey	n.c.	n.c.	67	161	66	75	15	23
United States	15	16	90	100	47	39	25	18
OECD average	9	11	167	193	77	63	25	18

Source: *Agricultural Policies*, 2003, p. 213-214, 217-218 and 219-221.

## Importance of PSEs for different OECD countries

- The share of state support in total receipts of farmers is the largest in Switzerland (75%), Norway (71%), Korea (66%), Iceland (63%) and Japan (59%).
- These countries (with the exception of Iceland) provide the largest producer support per hectare: Korea (€911), Japan (€9579), Switzerland (€3392) and Norway (€2680).
- The same five countries provide also the largest subsidies in terms of € thousand per full time farmer: Norway (47), Switzerland (34), Iceland (29), Korea (24) and Japan (22).
- All five countries and the EU are among the **strongest opponents** of further radical liberalization of trade in agriculture.

## Economic factors influencing EU position for Cancun

- The accession of new countries will require to increase support under (CAP), because the level of support among prospective members (esp. in Poland and Slovak Republic) is by far lower.
- On the other hand the constraint on common budget is becoming obvious.
- The level of support, although very high, is now closer to that of the United States. The share of TSE as a percentage of GDP in the EU is equal to 1.3%, and 0.9% in the U.S. The subsidies per full time farmer are equal to € 18 thousand in the EU and €'000 16 in U.S.
- That is probably why the **US and the EU**, for the first time in multilateral negotiations, prepared a common proposal on trade liberalization in agriculture.

## No success in Cancun

- The new round of multilateral negotiations did not start at the Fifth Ministerial Conference of WTO in Cancun (end of September 2003).
- The tensions, which existed already at the Seattle Conference (1999), were not solved and did not allow to start new "millennium" round.
- One of the most difficult points of a next round was, as usual, liberalization of agricultural trade.

## Alternative liberalization proposals under Doha for Cancun

- The first one, circulated in March 2003, was prepared by Mr. Harbinson, Chairman of the WTO Committee on Agriculture.
- In mid-August 2003 the **EU and the US** jointly proposed a modalities framework for further reform in agriculture. It reflected a compromise between earlier US and EU proposals.
- The joint proposal galvanized reaction from other WTO members. The counter-proposal was submitted by **16 developing countries** in September 2003 and gained support of other four developing members (20 developing countries).
- On the other hand a revised **draft Cancun** Ministerial text from the WTO General Council was circulated by the end of August.

## Early EU proposal

- A continuation of the UR approach, a 36 per cent average cut in bound tariffs with a minimum 15 per cent cut in each tariff line (EC 2002). (Presumably: developing countries should implement 2/3 of these reductions) → inherent flexibility. (unweighted average)
- Export subsidies: A reduction of an average 45 per cent in expenditure. (averaging provides flexibility)
- To maintain the amber, blue and green boxes essentially unchanged and reducing the amber box AMS by 55 per cent. The green box criteria would be expanded to encompass so-called non-trade concerns (rural development, environment ...). At present the EU's AMS expenditure is not a binding constraint, but may become so.
- A flexible green box allows support to be switched from the non-exempt amber to the exempt green box, as decided in June 2003 by the EC in its reform of the CAP, (increasing direct income support).
- EU proposes eliminating the *de minimis* provision (the most distorting) in developed countries.

## Final EU-US joint proposal

- The initial proposals were very different in their level of ambition. The US proposal was more liberal than the EU proposal;
- The EU and the US tried to bridge their differences and agreed on a compromise that combines the ambitious Swiss formula and the conservative UR approach.
- After submitting their joint paper both countries stressed that the missing numbers should be ambitious. The blended market access formula, however, gives countries lot of flexibility (therefore it seems to be much more in line with the conservative EU approach).
- The reason for that is that the fallback option for the WTO negotiations is the status quo.
- Since agreements are based on consensus the concerns of the most protectionist countries like, Chinese Taipei, Iceland, Japan, Norway and Switzerland have to be taken into account.

## An attempt to evaluate proposals: Cancun compromise scenario ?

- In developed countries:
- A reduction in bound out-quota tariffs of 60 per cent where the initial tariffs higher than 90 per cent, 50 (initial tariff between 15 and 90), 40 (initial tariff smaller than 15),
- An 80 per cent reduction of export subsidies, a 60 percent reduction of domestic support in developed countries.
- In developing countries:
- A 40 per cent reduction where the initial tariff are higher than 120 per cent, 35 (initial tariff between 60 and 120), 30 (initial tariff between 20 and 60), 25 (initial tariff smaller than 20),
- A 70 per cent reduction of export subsidies, a 20 per cent reduction of domestic support. A 20 per cent expansion of import quotas in developed and developing countries.
- No changes in least developed countries.

## Estimated economic implications resulting from a “compromise” Cancun scenario (in US\$ million)

Group of countries	Consumer surplus	Producer surplus	Government revenue	Export revenue	Welfare
Developed	34 735	-24 403	1 652	1 189	11 983
Developing	-18 023	19 204	-140	16 557	1 040
Least developed	-2 455	2 230	26	1 254	-199
Group of 20	-11 558	12 097	381	10 951	920
Cairns	-7 090	8 900	217	8 297	2 027
European Union	23 940	-22 399	4 081	-6 039	5 623
United States	-4 950	5 845	-49	3 941	846
<b>World</b>	<b>14 256</b>	<b>-2 970</b>	<b>1 538</b>	<b>19 001</b>	<b>12 824</b>

Source: Peters, Vanzetti, 2003, p. 21-23.

## Likely trade & welfare effects of compromise scenario

- The trade liberalization will decrease subsidized exports (receiving now less) and expand liberalized imports (→ depress world prices by 3.1 %)
- Highly protected sectors such as dairy products, sugar, beef, and vegetable oils are the most affected ones. Small price changes for tropical products.
- Exporters, initially not receiving export subsidies, will gain from higher world prices, whereas importers will lose → likely large distributional effects among economic agents. → more effective producers from 20 developing countries, Cairns group and the US, will gain.
- Less efficient EU producers, receiving now subsidies, will lose.
- The prospective situation of consumers is very different:
  - a. They may gain a lot in the EU (€24 billion) & in other developed countries.
  - b. The consumers in developing countries may lose up to €18 billion.
  - c. Also, consumers in least developed countries may lose about €2.5 billion.
- The welfare effects are reflecting net changes between producer surplus, consumer surplus and government revenues.

## Likely trade & welfare effects of compromise scenario

- The whole world may gain (net welfare) about €13 billion in the long run.
- The largest welfare gains will appear in developed countries (€12 billion) and especially in the EU and Cairns countries.
- Developing countries will gain only about €1 billion whereas the least developed countries, being net food importers, may lose about €200 mill.
- Usually governments attach higher weight to producer surplus than to the consumer one. That's why it is so difficult for the EU to accept ambitious trade liberalization proposals, despite important net welfare gains.
- The same political constraint exist in other countries providing large support to agriculture (Switzerland, Norway, Korea and Japan).
- On the other hand Cairns group and 20 developing countries asked for ambitious trade liberalization for their producers, although welfare gains for majority of developing countries are not large.
- The strong opposition can also come from least developed countries. (e.g. Burkina Faso, Benin, Chad and Mali in Cancun contested vigorously & asked for total elimination of subsidies provided to cotton producers).