Agriculture-specific negotiations from an EU perspective

Dr. Razeen Sally, Director of ECIPE
Dr. Valentin Zahrnt, Research Associate and Resident Scholar at ECIPE

Paper for the conference on 'Alternative Frameworks for Agricultural Trade Negotiations',
University of Adelaide, 11-12 December 2008

The project on critical mass in agriculture combines two innovations. The first is the idea to negotiate agreements only among a subset of WTO members that are willing to participate, while the benefits of the critical mass agreement are passed on to all WTO members in adherence to the Most-Favored Nation (MFN) principle. This deviates from the practice of consensus decision-making that requires all member states to agree before any agreement can be passed, but stops short of a more aggressive version where the MFN principle is limited to the participants of the critical mass agreement. The second idea is to negotiate a separate deal on agriculture or certain agricultural products instead of pursuing the Single Undertaking approach adopted in the Uruguay Round and the Doha Round. These two innovations are connected, the relevance of the critical mass approach depending on the breadth of negotiations.

At one end are negotiations with tightly delimited agricultural product coverage. In such a case, the critical mass approach can be a crucial advantage over the traditional consensus practice. In each negotiation, it allows leaving aside some states with particular political sensitivities concerning the selected set of products – as long as sufficient trade coverage is attained to attenuate participating states' reluctance to tolerate free riding. Furthermore, it makes the conclusion of negotiations independent of the inertia of the many states that have insignificant trade shares in the selected set of products, a problem that would be even more severe if a multitude of product-specific negotiations were conducted in parallel.

Negotiations with intermediate breadth would link a substantial share of agricultural trade or the entire sector. It would also be possible to add non-trade issues to the package. Finally, this could lead to the other extreme, a Single Undertaking approach subsuming trade in agriculture, industrial goods, and services, as well as additional issues such as intellectual property or trade facilitation. Under such circumstances, a MFN-compliant critical mass option would offer little value. The membership would be unwilling to accept any state with significant trade shares free riding on the entire new Single Undertaking agreement. They would do so not only because they want to safeguard their export interests to that country but also because they would find it difficult to sell such an unbalanced deal at home. As all economically relevant member states would have to be included, they would all want to have a voice in negotiations. There would thus be little change to the current practice of negotiations in concentric circles whose composition is often adapted to the issue at hand; the complexity of achieving agreement among a large number of member states, with many of them having an individual weight in negotiations, would not be reduced. However, the formal option of free riding would imply the danger of legitimizing such behavior internationally and of creating domestic pressures to resort to it. A MFN-compliant critical mass option would therefore inhibit rather than facilitate a Single Undertaking agreement.

This chapter neither attempts to establish rules concerning the functioning of the critical mass approach (such as necessary coverage of import and export shares by the participating states and maximal import and export shares by individual non-participating states), nor to identify products for which those rules might be fulfilled. Instead, it examines the more basic question of whether specific agreements for selected agricultural products or the entire agricultural sector could be concluded. In doing so, the chapter assumes an EU perspective. Here, a warning is in place: It appears that EU decision makers have given little thought to alternative frameworks for WTO negotiations. This implies, first, that much explanation would be necessary before critical mass negotiations in agriculture could take off, and second, that the political evaluation presented in this chapter is necessarily speculative as key actors have not made up their minds themselves.

1. Distribution between EU member states

The EU takes decisions on trade agreements on agricultural goods by qualified majority. Nevertheless, any such agreement would need to gain overwhelming support from EU member states because the Council would be unwilling to pursue a product- or sector-specific trade agreement which is not deemed essential for the EU if it could only be ratified by a contested vote. The distribution of perceived benefits and costs of any agreement would therefore have to be sufficiently balanced across EU member states as to guarantee that no government feels it is losing out; observing that the EU as a whole has an approximately balanced trade account for the products covered is only a weak indicator for the EU's willingness to accept such a deal. The problem is that EU production across member states is highly heterogeneous. Table 1 shows the distribution of production volumes and self-sufficiency rates in cereals and the main kinds of meat for several EU member states – all products where tariffs are high. While France grows almost twice as much cereals as it uses, Dutch production amounts only to a fifth of the country's need for cereals. This heterogeneity would make it difficult to rally a strong majority of EU member states behind any product-specific agreement; only an artfully designed package of several products might sufficiently balance perceived benefits and costs across the EU (while such a package tailor-made to the EU would probably not fit a sufficient number of other WTO member states).[1]

A further complication results from the fact that protectionist EU member states have a long record of horse trading. Even if a state would slightly benefit from a given agreement but fear that a subsequent agreement might target products in which it has a strong defensive interest, it would likely resist the agreement in question. In doing so, it would hope to stymie the principle of product-specific liberalization in agriculture as well as to assure itself of the support of other protectionist member states against any agreement to which it would genuinely object.

What about an agreement that would comprise agriculture in its entirety? The balance of production and consumption in agricultural products that enjoy significant tariff protection differs strongly across member states. Several countries where production exceeds consumption would thus lose from lesser tariff-induced price markups on EU agricultural markets. This is a serious problem because EU policy making in agriculture has a long tradition of distributive bargaining over national advantages – in seeming contradiction to the "community interest". As discussed further below, several EU member states have attempted to undermine the EU offer on agricultural liberalization, especially during the July 2008 negotiations in Geneva.

Table 1

[1] The fact that the EU has engaged in a series of sector-specific reforms after the comprehensive 2003 CAP reform does not mean that the EU would also be willing to endorse sectoral liberalization in the WTO. The sector reforms of recent years consist mostly in replacing highly distorting subsidies with compensation through less distorting subsidies. But such compensation would not be politically feasible for tariff cuts.

	Output in 1000 tonnes, 2006				
	Cereals	Bovines	Pigs	Sheep	Poultry
Denmark	8 632	129	1 749	2	170
Germany	43 475	1 193	4 662	43	1 009
Greece	3 804	61	123	75	154
Spain	19 363	671	3 230	227	1 257
France	61 708	1 510	2 263	121	1 722
Italy	20 207	1 111	1 556	59	628
Netherlands	1 750	384	1 265	16	661
Austria	4 460	215	505	0	102
Sweden	4 128	137	264	4	102
United Kingdom	20 878	847	697	330	1 517
	Self-sufficiency in %, 2006				
	Cereals	Cattle	Pigs	Sheep & goats	Poultry
Denmark	106.7	88.6	665.0	28.6	156.8
Germany	106.7	122.9	97.3	52.4	87.4
Greece	76.8	26.4	37.0	84.9	78.6
Spain	69.6	97.6	125.3	108.2	96.3
France	191.5	106.7	107.3	51.2	133.0
Italy	79.1	57.0	66.4	40.7	109.6
Netherlands	21.4	113.9	226.9	87.0	161.1
Austria	100.0	145.8	99.5	83.3	70.1
Sweden	116.9	66.7	89.7	42.4	84.8
United Kingdom	105.6	66.0	51.5	86.7	85.3

Source: data from (Eurostat 2008).

2. Linkages between agricultural interests

Linkages between agricultural products need to be considered when designing negotiating packages. One such linkage exists between products that are substitutes on the market. The producers of competing goods would resist liberalization even if they were not directly targeted by the negotiations. Probably more important are vertical linkages between agricultural raw materials, intermediate goods, and processed goods. In the EU, tariffs are generally high on agricultural raw materials that compete with EU production (e.g. milk, wheat, starch, and sugar). In turn, processing industries call for tariffs and export subsidies to level the playing field with foreign competitors that have access to cheaper raw materials. This complicates specific agreements for processed products (that should in principle be easier to negotiate because products tend to be more differentiated) as long as trade in raw materials is not open.[2]

Another important linkage reaches beyond the WTO Agreement on Agriculture. The EU would not accept an agriculture-only deal that does not include improved protection of Geographical Indications. The Mediterranean countries have much small-scale uncompetitive farming threatened by liberalization, but also many renowned producer regions qualifying for Geographical Indications. Therefore, they have vociferously insisted on a strong EU stance in this regard. Including Geographical Indications would, in turn, open the door for other WTO member states to also include their intellectual property demands, for instance national rights on genetic resources.

[2] Even without tariffs on animal fodder, EU meat and dairy producers will argue that the EU's restrictions on genetically modified feedstuff put them at a competitive disadvantage that needs to be offset through trade measures.

3. The link to non-agricultural interests

The linkage between EU agricultural policy reform and non-agricultural concessions by other states – on industrial goods, services, and intellectual property – was a decisive factor in convincing the EU to accept the Uruguay Round Agreement on Agriculture. The linkage tilted the balance of welfare and domestic political effects in favor of making agriculture an integral part of the WTO. This was the case especially in Germany, which eventually came down in favor of the 1992 Common Agricultural Policy (CAP) reform that resolved the WTO deadlock over agriculture. By the same token, the perspective of foreign market access in industrial goods and services was essential for the EU to make its offers on trade liberalization in agriculture, notably on tariffs where domestic pressure for reform was weak.

How would governments perceive the link to these non-agricultural economic interests, and which positions would the respective pressure groups take in the case of agriculture-specific negotiations? First, non-agricultural business interests are in principle in favor of agricultural liberalization in order to lower taxes and reduce overall price levels and thus production costs in Europe. But these interests are too diffuse and weak to take an active role in shaping CAP reform. Their main interest in agriculture is the strategic linkage to foreign market access in industrial goods and services. Therefore, they would likely give a cool reception to agriculture-specific negotiations that would undermine the EU's bargaining power on other issues that are of greater interest to them.

Second, EU member states and the Commission are already concerned about spending all of the EU's bargaining chips in the Doha Round without getting equivalent concessions from emerging countries in return, leaving the EU with little leverage in future rounds. These concerns would become more acute if negotiations were conducted solely on agriculture.

Third, many in the EU believe that the EU has made the greatest concessions of any major trading player during the Doha Round – especially in agriculture. It has agreed to an ambitious progressive tariff-cutting formula, despite its high, concentrated agricultural tariffs; it has offered the removal of export subsidies, of which it is the heaviest user; it reformed its domestic subsidies significantly in 2003 and continued subsequently with several sector reforms. By contrast, the US passed expensive, trade-distorting farm bills in 2002 and 2008. And developing countries have managed to negotiate lesser cuts (even though they start from higher bound levels of protection). This exasperation would complicate an agriculture-specific deal that would be perceived as an unfair reward for defensive, inflexible negotiating strategies in the WTO.

4. The role of multifunctionality objectives

The debate about the multifunctionality of agriculture shapes EU policy-making. Agriculture is seen to preserve open spaces, enhance scenic variety, and maintain traditional landscape characteristics that carry cultural significance. Similarly, agriculture is appreciated for promoting biodiversity, for instance by offering a habitat to species that depend on (traditional) farming. Finally, the volatility of food prices and the food crisis in many developing countries have reinvigorated the argument that a high degree of self-sufficiency is necessary to assure the EU's food security.

This discourse is pervasive among EU institutions, member states, farmers' federations, NGOs, and the media. Many actors use multifunctionality objectives to ask for CAP reform that targets subsidies on socially valued services that are not remunerated on the market. Such a reform would, as a side effect, reduce the production- and trade-distorting effects of the CAP. But protectionist interests still manage to convince many decision makers and large swathes of the public that inefficient and distorting policies are necessary to attain multifunctionality objectives. Indeed, it is the belief that the CAP serves multifunctionality objectives that explains much of the popular support for the CAP.[3]

A specific agreement that comprises all of agriculture would run into the same criticisms that have been aimed at the Doha Round, namely concerns about rural job losses, a deepening income divide between urban and rural areas, large scale land abandonment with resulting habitat loss, and the decline of a distinctive countryside culture.[4] It is an open question, however, how product-specific negotiations would fare. On the one hand, opponents would certainly attempt to muster the full weight of the EU's supposedly threatened multifunctionality objectives against the limited economic benefits possibly to be reaped from a product-specific agreement. On the other hand, it is possible that a product-specific agreement would receive a more sober analysis by decision makers and less attention from a general public susceptible to protectionist propaganda. A debate on 'agriculture' is likely to differ from a series of debates on 'garlic, fresh or chilled' or 'mushroom of the genus Agaricus'. In this regard, boiling agriculture down to a number of technical negotiations that stir up fewer passions among protectionist lobbies and the public could be a way forward.

5. Instrument coverage

Up to this point, four factors have been discussed: the distribution of perceived benefits and costs between EU member states, linkages between agricultural interests, links to non-agricultural stakes, and the role of multifunctionality objectives. They have been seen to shape the chances of an agriculture-specific agreement differently depending on the product coverage of the deal. Another dimension, not tackled so far, is the agricultural policy instruments regulated by WTO agreements. Clearly, the prospects for an agriculture-specific agreement differ across policy instruments.

Chances are best for an agreement on export support. The European Commission and several member states would like to abolish export subsidies that do not fit into the market-oriented tool box of the future CAP. Furthermore, NGOs have discredited this instrument on the grounds that it harms the global poor. But farmers argue that the EU must not disarm unilaterally, leaving them on an uneven playing field on world markets where key competitors receive some form of export support. This demand for reciprocity has been entrenched through the Doha negotiations where the EU has been demanding corresponding disciplines on other forms of export support, such as export credits and State Trading Enterprises that favor exports, in exchange for removing its export subsidies.

Another policy instrument for which an agriculture-specific agreement might be reachable from the EU perspective is Amber and Blue Box support. The European Commission, which unsuccessfully tried to decouple all domestic support in 2003, succeeded in the current 'Health Check' reform of the CAP to further reduce the list of products entitled for payments on output, cultivated area, or livestock numbers. But it also introduced new flexibility for EU member states to re-couple some of their generally decoupled CAP allocations. Negotiations on an agriculture-specific agreement might add the necessary momentum for fully decoupling subsidies. Such an agreement would, however, have to draw a difficult line with regard to targeted area and headage payments, such as the EU's Less Favored Area payment that stimulates farming, especially in mountain regions. Defining which subsidies are permissible because they achieve a sufficient level of targeting – for instance by setting an upper limit for the share of a country's territory that can be considered as disadvantaged – would be a challenge for such negotiations.

Perspectives are dim for cutting those (presumed) Green Box payments that distort trade without serving efficiently any domestic policy objective, notably the decoupled income aid provided through the

---

[3] See (Eurobarometer 2008).

[4] See the EU's leading farm federation's statements at http://www.copa-cogeca.be.

Single Farm Payment. The EU takes pride in having transferred most of its subsidies to the Single Farm Payment or the Second Pillar of the CAP, consisting of rural development and environmental payments. It is difficult to imagine that agriculture-specific WTO negotiations could convince the EU to abandon its Single Farm Payment and to better target this money to socially valued services provided by agriculture. But it might be possible to improve Green Box disciplines on selected subsidies – such as clarifying and tightening disciplines on payments for income insurance and income safety nets that protect farmers against individual income losses, or investment aids for producers that suffer from 'objectively demonstrated structural disadvantages'. Since current WTO disciplines are vague and an increasing share of subsidies is channeled through such measures, minimizing their trade-distorting effects is an important objective.[5]

It is difficult to envision substantial cuts to high tariffs. This is the blind spot of many reform promoters. Finance ministers value tariffs for generating revenues and providing 'costless' protection to farmers. Cutting tariffs would make farmers even more dependent on subsidies and give additional strength to the argument that subsidies are justified to compensate farmers for compliance with strict EU standards. Environmentalists fear that tariff reductions would lead to land abandonment and subsequent habitat loss for wildlife, as well as pressure on European farmers to further intensify production methods to stay competitive. On an international level, tariff cuts are feared to cause more polluting transportation and the expansion of ecologically irresponsible farming in developing countries. Lower tariffs would also shrink the preference margin that the EU could grant on products that have been produced with high environmental production standards. Finally, development NGOs are satisfied with the EU's new Generalized System of Preferences and the Everything But Arms initiative, and fear that MFN-tariff cuts would harm the poor by eroding preference margins. A different kind of problem with tariff cuts is that complete phasing out is hardly realistic for any of the products where liberalization could unlock substantial additional trade. A clear focal point for negotiations would be missing, and states would likely fall into the same quagmire of exceptions as in the Doha Round.

An issue that is not on the Doha Agenda but that has been very visible during the food price surge in the first half of 2008 is export restrictions. It would be appealing to address this problem through specific negotiations, especially because it has not yet become an object of multilateral bartering with countries linking disciplines on export restrictions to certain other concessions. The EU would certainly support such a proposal, as the 2008 price hikes have created discontent among consumers and accelerated inflation. But the EU has the purchasing power to cover its need on the world market even if some countries' export restrictions drive up prices; and, in the worst-case-scenario, it is not dependent on world markets to assure its food security. Disciplining export restrictions is thus not a priority for which the EU would be willing to pay a price in the form of significant market access liberalization – while the least developed countries most threatened by food insecurity have little to offer in exchange for more reliable supply.

6. Conclusion

The outlook for an agreement with comprehensive coverage of policy instruments and including the entire agricultural sector is gloomy. Governments in several EU member states would fear losing from such an agreement; non-agricultural business interests would not be enthusiastic; concerns about giving away bargaining chips for future negotiations would spread; and general opinion would resist the idea that

[5] See (Blandford and Josling 2007) and (Diakosavvas 2003) for criticism of current Green Box disciplines.

overly defensive and inflexible positions in the Doha Round should subsequently be rewarded with an agriculture-only cherry-picking agreement. In particular, Geographical Indications would have to be part of any agreement on agriculture, which would incline other WTO member states to add further issues to the basket.

The coalition of nine EU member states – France, Italy, Ireland, Poland, Hungary, Greece, Portugal, Lithuania, and Cyprus – that threatened not to ratify an agreement with the modalities discussed at the WTO ministerial meeting in July in Geneva, would probably strongly resist an agriculture-only deal. The repeated calls from business interests for a more balanced Doha deal, complaining in particular that the EU does not receive sufficient concessions from emerging countries, also indicates that the EU negotiated very close to its bottom line.[6] Negotiations exclusively on agriculture would release politicians not only from the domestic pressure exerted by non-agricultural stakeholders but also from the international pressure that builds up during a full-blown WTO trade round (and that was influential in particular during the run-up to the Hong Kong ministerial when the EU was criticized for its defensive position on agriculture).

Prospects for highly product-specific agreements that comprise a small set of tariff lines are also poor. Such negotiations might have the advantage of escaping the heavy rhetoric against abandoning European farmers, letting rural areas fall into decay, and endangering food security. But it would be difficult to find many such packages that would be acceptable to (almost) all EU member states – given their heterogeneous production structures – and that do not require parallel reforms of other products.[7] Furthermore, the EU might come to see them as a distraction from more serious trade negotiations and abstain from them to underline their commitment to a substantial trade deal. As the EU moratorium on free trade agreements under Trade Commissioner Pascal Lamy has shown, such systemic considerations matter for EU trade policy making.

Therefore, it is worthwhile not only to explore whether several policy instruments could be reformed on a product basis but also whether agreements on specific instruments could be found that apply to the entire agricultural sector. Instrument-specific agreements could include the complete removal of export support or output subsidies or the tightening of some Green Box criteria. Such negotiations could stimulate a debate about the relative efficiency of policy instruments instead of market access volumes gained and conceded. This, in turn, would help to make a critical mass approach with some free-riding more acceptable; in particular, participants in such agreements could form an avant-garde of states committed to domestically efficient and internationally responsible instruments.

The feasibility of agriculture-specific agreements will probably improve over time. First, EU agriculture is becoming more export oriented, and public decision makers but also farm organizations themselves are becoming more aware of the EU's agricultural export interests. Second, already decided CAP reforms will be progressively implemented. Over time, the EU will get accustomed to its new policy mix and feel more at ease with limiting its policy space. Third, the possibility to claim credit for the CAP reform steps undertaken between 2003 and 2008 will fade over time. The EU will thus expect less from its trading partners in exchange for locking in what is has already done unilaterally. Fourth, decision makers' thinking will be less dominated by the Doha Round bargaining spirit. If the round fails or succeeds, decision makers will not expect a new round to be started soon after for which bargaining positions would need to be maintained. This would create leeway for agriculture-specific talks. Hence critical mass in agriculture

[6] See WTO Doha Round: entering into the end game of negotiations - letter from Philippe de Buck to Commissioner Peter Mandelson, 2008-07-17, http://www.businesseurope.eu.

[7] Such a procedure might have a detrimental side-effect: It could cement the status quo in each country's most protected products as the country's export-oriented agricultural interests, which might lobby for reciprocal liberalization, will be partly satisfied through specific WTO agreements. This resembles the danger that regional integration could weaken export-oriented interests' support for WTO negotiations (Levy, 1997).

does not provide an avenue to harvest what has been negotiated in the Doha Round; rather it might become a realistic scenario only after Doha negotiations have been closed. Essentially, it is a post-Doha option.

Alternatives to a MFN-compliant critical mass agreement limited to agriculture deserve further examination. One is a package that clusters several issues of priority interest to the business community, for instance liberalization of selected services sectors, trade facilitation, and the updating of the Information Technology Agreement. A scaled-back agreement on agriculture that simplifies tariffs, removes nuisance tariffs below a threshold (say of 5%), locks in already decided domestic subsidy reforms, and applies the Hong Kong declaration on the removal of export subsidies and duty-free, quota-free access for least developed countries, could be part of such a package. Negotiations clustering priority issues could be done on a critical-mass, MFN-compliant basis.

Another option for negotiating such a cluster-based agenda is *not* to extend the MFN principle to states that do not sign up to a critical mass agreement. This would change the rules of the game much more fundamentally than a MFN-compliant critical mass approach and greatly enhance the chance of seeing substantial liberalization among major trading nations. Interestingly, such an 'exclusive' agreement would not be as aggressive at it might look at first sight and not mean that the rich and powerful would disadvantage the weaker and poorer countries. Many of the benefits would go to states that are not participants. Regarding trade in services and trade facilitation, for instance, participating countries will generally not adopt two policy regimes – one for companies from signatories, the other for companies from non-signatory states – but simply liberalize and improve their regulations applying to all foreign suppliers. The same would be the case with stricter disciplines on trade defense instruments and tighter control of Free Trade Areas and their rules of origin. Also, reductions in subsidies inherently benefit all foreign producers. The only real argument against such an approach would be trade diversion that harms non-signatories. However, this would hurt non-participating least developed countries little as they already enjoy preferential access that could be further extended to compensate them for their preference erosion (or at least to avoid that they compete on less advantageous terms than more developed countries that have signed up to critical mass agreements). In addition, trade diversion between just two sets of countries – signatory and non-signatory states – would likely be much less of a problem than the trade diversion and the administrative difficulties for businesses brought about by the continuing surge of bilateral and small-group preferential trade agreements. Finally, all states could accede to such critical mass agreements on equal terms to prevent trade diversion, something that is not the case with bilateral deals. Therefore, moving toward critical mass agreements with MFN conditional to membership in the agreement is an option to consider seriously rather than dismiss out of hand.

Literature

Blandford, David, and Timothy E. Josling. 2007. Should the Green Box be Modified?: IPC Discussion Paper March 2007.

Diakosavvas, Dimitris. 2003. The Greening of the WTO Green Box: A Quantitative Appraisal of Agri-Environmental Policies in OECD Countries: Paper presented at the Conference: Agricultural policy reform and the WTO: Where are we heading? Capri (Italy), June 23-26, 2003.

Eurobarometer. 2008. Europeans, Agriculture and the Common Agricultural Policy: Special Eurobarometer 299.

Eurostat. 2008. *Food: From Farm to Fork*. Luxembourg: Office for Official Publications of the European Communities.

Levy, Marc A. 1997. A Political-Economy Analysis of Free Trade Agreements. *American Economic Review* 87 (4):506-519.