The Evian Group Economic Order in the Global Era

Webletter – July 2003

The Poker Game of Agriculture: how far has CAP reform changed the game?

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On the eve of Cancun, two issues have emerged as a test of WTO Members' ability to move multilateral trade negotiations forward. The first is access to medicines, and the second is farm trade liberalization. In both cases, deadlines set by the Doha Development Agenda (DDA) were missed because of serious domestic political concerns expressed by one or the other of the trade super-powers. But expectations are high for Cancun, with developing countries making it clear that, absent any progress on both files, the future of the Doha round is in jeopardy. However, with a few weeks remaining before Cancun, negotiators are still far apart on key issues.

Expectations have risen with the agreed reform of the European Union's (EU) common agricultural policy (CAP), that will profoundly change the European way of supporting the farm sector. However, while a positive and necessary step, it is not sufficient to ensure success of the wider negotiations. Four main factors need to be taken into account.

First, suspicion still surrounds the EU position on agriculture, with the EU's trading partners not certain how this reform will affect the ability and willingness of the EU to make more concessions. The impact of the reforms on overall European farm production is uncertain: decoupling is partial and will only take place after 2006 for some countries like France (i.e. after the French elections in 2007), and some key products (e.g. meat, sugar) are also largely spared. The EU's trading partners are also waiting to see how this reform will translate into new proposals in Geneva. But the EU is now waiting for others to make the first move, stating that it will not table any new negotiating proposals until just before, or at, Cancun. With no players showing their hands, the stage is set for a tough game at Cancun.

Second, the reform of the CAP is focused on decoupling (i.e. the replacement of trade-distortive subsidies by "green box" subsidies[1]) and reduction of domestic farm support. This is fundamental to accomplish sustainable farming in Europe. However, while tackling domestic support, it does not address the other core elements of the negotiations - export subsidies and market access. Market access issues, in particular the choice of tariff reduction formula, will be the hardest nut to crack for the negotiators. A compromise needs to be found between supporters of the Swiss formula (all tariffs cut to a maximum 25%) and defenders of the Uruguay Round formula (linear tariff reduction, with a 36% cut on average, and a minimum 15% cut per tariff line). A hybrid approach put forward by the Chair of the negotiations, while criticized by all, provoked consideration of acceptable alternatives, but agreement remains elusive. Other key problems include: what to do about tariff peaks and tariff escalation, which affect developing countries' ability to diversify their production and

[1] The green box refers to domestic support measures that have no impact – or a minimal impact – on trade, and include direct income supports for farmers that are decoupled from production levels or prices. These subsidies are allowed without limits, and can serve for example environmental protection, disease control or food security purposes.

climb the value-added scale; whether to allow developing countries to exclude certain products from liberalization or to have access to a more flexible safeguard to allow them to suspend commitments; and trade preferences.

Agreement on market access has also been complicated by links to the other issues on the negotiating table – domestic support and export subsidies. The EU refused to have the modalities of market opening discussed without any parallel commitment of the US to reduce their more diversified supports, such as export credits and food aid, and discussions have also expanded into the definition criteria of the 3 different boxes (green, blue and amber)[2] of domestic support. These, perhaps inevitable links, have necessarily delayed the whole process.

Third, in addition to the three pillars – market access, domestic support and export subsidies – a range of non trade concerns (e.g., geographical indications (GIs), animal welfare, food quality and safety) are on the table in the negotiations. The CAP reform was partially "to better address concerns about food safety and quality, help farmers to adapt to the introduction of demanding standards based on EU legislation, and promote high standards of animal welfare" (EC website). "Non-trade farm concerns" are essential. However, the multiplication of standards and other conditions attached to farm imports threaten to become new obstacles to legitimate trade if they are abused. These potential non-tariff barriers will certainly be the bulk of future farm trade negotiations. So far, each trade super-power has tried to extend its own rules throughout its own spheres of influence (the EU promoting GIs while negotiating free-trade agreements, and the US doing the same with genetically modified organisms (GMOs)). Absent any multilateral discipline on non-trade farm concerns, two dangers await. First, a multiplication of domestic or regional rules and standards could lead to a balkanization of disciplines and a further segmentation of markets. Second, WTO Members could be tempted to flip on the dispute settlement system the burden of deciding controversial issues, such as the level of precaution authorized in the assessment of sanitary and phytosanitary (SPS) measures. However, it is not the role of the panels or the Appellate Body to add to or diminish the rights and obligations of the Members. It is the responsibility of the Members to negotiate and agree on multilateral disciplines or acknowledge the absence of such disciplines and, consequently, that those matters lie outside the present competence of the WTO.

Fourth, the politics of multilateral trade negotiations have changed, and an agreement between the major trade powers is not enough anymore. Agriculture is a key element of the Doha round promise to deliver results for developing countries. Three quarters of world's poor live in rural areas, and an increase in farm income is essential to poverty alleviation in the poorest countries. Although developing countries would be the main beneficiaries of farm trade liberalization, associated adjustment costs should not be neglected (an increase in farm trade prices could hurt poor consumers and contribute to the deterioration of net food-importing countries' balance of payments). Therefore, the pace and level of liberalization should be adjusted and liberalization should be linked to adjustment programs and public aid, with a focus on capacity building and diversification of production. Developing countries realized that concessions made by the major trade powers on agriculture during the Uruguay Round were mostly illusory, due in particular to the overestimated baseline tariff rates on which reductions were made. Systems of preferences also confine them to a world of illusion, because gains accruing through them are limited (including because of restrictive rules of

[2] At present stage, the blue box comprises direct payments to farmers tied to an obligation to limit production. The WTO members have to notify that they are using or have used this box. The amber box refers to domestic support measures that distort production and trade. The total value of these measures had to be reduced along the lines of the Uruguay Round Agreement on Agriculture, and should be reduced further.

origin), while they result in diversion effects and a non-optimal allocation of resources and production (increasing developing countries' vulnerability vis-à-vis fluctuations of commodity prices). It is time to reinforce multilateralism within unilateralism, and have a closer look at systems of preferences. Recent initiatives, such as the proposal of Burkina Faso on cotton, or the cotton case itself, prove that developing countries, including in Africa, now use the WTO to defend their interests. It is impossible to make abstraction of three quarters of the WTO membership.

The game is not over. The CAP reform is a just small step for the WTO negotiations, and the WTO negotiations are just a small step for agricultural reform.