Multilateral trade negotiations and the CAP

Giovanni Anania
(University of Calabria)

Working Paper 09/10

is a Research Project on “European Union policies, economic and trade integration processes and WTO negotiations” financed by the Italian Ministry of Education, University and Research (Scientific Research Programs of National Relevance, 2007).

Information about the project, the partners involved and its outputs can be found at

http://www.ecostat.unical.it/anania/PUE&PIEC.htm.
MULTILATERAL TRADE NEGOTIATIONS AND THE CAP*  

Giovanni Anania  

Department of Economics and Statistics, University of Calabria, Italy  
(ganania@unical.it)  

(April 2009)  

Abstract  

The focus of the paper is on the developments so far and the future of the negotiations on agriculture in the WTO Doha Development Agenda round from the perspective of the European Union. The first part of the paper discusses what happened in the two parallel processes, domestic agricultural policy reform in the EU and WTO negotiations, identifying the linkages between CAP reform decisions and developments in the EU negotiation positions. The second part of the paper discusses further changes expected in the relatively near future in the CAP and in relevant EU trade policies, and what one should expect from WTO negotiations. Our main point is that changes in EU agricultural policy (mostly motivated by domestic concerns), while they have not removed farm support nor made the CAP effective and efficient, have had a significant effect in terms of reducing its distortionary effects on markets, though more on the domestic than on the international ones. Unlike in the Uruguay round negotiations (when the MacSharry reform was decided towards the end of the round), the timing and extent of the changes in the CAP since the start of the round have made it possible for the EU to be a credible actor in the DDA round and put forward sensible negotiating proposals. Regardless of what happens in WTO negotiations, the CAP might undergo further significant changes in the future. Successful developments in preferential trade agreements involving the EU for which negotiations are already under way, and the increased export capacity of countries benefiting from these agreements as well as from the existing ones, may contribute to a significant further opening of EU agro-food markets.

* Paper presented at the Conference “The Faculty of Economics of Siena University remembers Secondo Tarditi: International Trade Liberalization and EU Agricultural and Consumer Policies” (Siena, 21 October 2008). I am grateful to Fabrizio De Filippis, Maria Rosaria Pupo D’Andrea, Luca Salvatici and Margherita Scoppola for their helpful comments on earlier drafts of the paper. Financial support received by the “Agricultural Trade Agreements (TRADEAG)” (Specific Targeted Research Project, Contract no. 513666) and the “New Issues in Agricultural, Food and Bio-energy Trade (AGFOODTRADE)” (Small and Medium-scale Focused Research Project, Grant Agreement no. 212036) research projects funded by the European Commission, and by the “European Union policies, economic and trade integration processes and WTO negotiations” research project funded by the Italian Ministry of Education, University and Research (Scientific Research Programs of National Relevance 2007) is gratefully acknowledged. The views expressed in this paper are the sole responsibility of the author and do not necessarily reflect those of the European Commission. The paper is an updated, extended and revised version of an invited paper I presented at the 51st Annual Conference of the Australian Agricultural and Resource Economics Society (AARES) (Queenstown, New Zealand, 13-16 February 2007) (Anania, 2007a and 2007b).
Multilateral trade negotiations and the CAP

1. Introduction

The future of the Doha Development Agenda (DDA) round of WTO remains uncertain. Will an agreement ever be reached? If there is a successful completion of the round, when will it occur? Will the agreement on agriculture be “ambitious”, or will it bring very little, if any, liberalization to agro-food trade?

At the same time as multilateral negotiations were going nowhere, agricultural and rural development policies in the EU were changing, and changing in the direction most third countries desired (although possibly not at the speed nor to the extent they would have perhaps wished). The 2003 Fischler reform of the EU Common Agricultural Policy (CAP), which “fully decoupled” a large part of the public support enjoyed by the European farm sector, was the most important single step in the reform process of the CAP which began in the late 1980s. Nor did the reform process stop in 2003; since then all sectors which had hitherto remained untouched by the Fischler reform have undergone similar policy changes and the decisions taken in November 2008 at the end of the “health check” of the CAP took the market reorientation process of EU agricultural policies a step further. Moreover, additional relevant policy changes are expected to be considered in the near future.

The paper discusses the past and the future of CAP reforms and of DDA WTO negotiations on agriculture and the linkages between the two parallel processes: CAP reforms and developments in the EU negotiation positions in the round. The first part is devoted to the past, analyzing changes since the start of the DDA round in the CAP and EU trade preferences to developing countries, and how the round has developed over the years. The second part of the paper discusses possible further changes expected in the relatively near future in the CAP and in EU trade policies, and what might, or might not, happen in the WTO negotiations and why.

2. The changing CAP: from the MacSharry reform to the Health Check

The CAP has been undergoing continuous reform since the early 1980s. At that time pressure for reform came almost entirely from concerns over its financial cost, which was spiralling out of control and becoming unsustainable. Over the years other forces have come into play, due to a stronger and wider awareness of the ineffectiveness of the CAP even in reaching its (out of date) stated goals; of its inadequacy with respect to the new demands for policy intervention arising from subsequent enlargements of the EU as well as of the rapid changes in European agricultures and rural areas; of the inequity of the distribution of support it generated; of the overexploitation of natural resources and of the environmental damage this induced; of growing competition from other sectors for EU budget
Multilateral trade negotiations and the CAP

financial resources; and of the growing international pressure for a reduction of its distortionary effects.

Developments in the CAP have not occurred at a steady speed over the years and, until recently, policy reforms did not extend over all sectors in a consistent and equitable manner. After a series of sector-specific policy adjustments (including the introduction of production quotas for sugar and milk, voluntary set aside and “automatic stabilizers” aimed to keep budget expenditure in each sector within prefixed limits), which have often been decided under strong contingent budgetary pressure, the first structural change in the design of the CAP occurred with the 1992 MacSharry reform; this, among other things, significantly reduced price support for beef and arable crops and introduced partially decoupled “compensatory” payments. The MacSharry reform linked a significant portion of CAP support to land allocation, rather than production, to “what”, rather than to “how much”, farms produced. The 1999 Agenda 2000 reform moved the MacSharry reform one step ahead, by further decreasing price support for beef and arable crops and increasing partially decoupled “compensatory” payments, and by increasing milk quotas and reducing price support for dairy products (but, at the same time, postponing the implementation of these policy changes by a few years).

When the Agenda 2000 reform was introduced, a decision was made for a “Mid term review” of its effectiveness; at the time nobody anticipated that this mid term review could become the most important step ever made in the reform process of the CAP: the June 2003 Fischler reform.

The main element of the Fischler reform was the introduction of the Single Farm Payment (SFP). In simple terms, every farm was to receive a yearly payment equal to the average yearly direct payments for arable crops and meat received in the 2000-2002 reference period (plus, subsequently, those decided but not immediately implemented for milk); the payment was independent from what the farm produced, as long as the land used each year to claim its SFP entitlements was either farmed to produce anything apart from fruit, vegetables and permanent crops, or was left idle (in this case, conditional on maintaining the land in good agricultural and environmental condition).

EU-15 member states were given the option, called “regionalization”, to pay all farmers, no matter what they did or do produce, the same flat per hectare aid (obtained by dividing all payments made in the reference period in that region by the agricultural land). Where the SFP has been based on farm-specific historical payments the choice was to “freeze” the historical distribution of support; where the “regionalization” option was applied, a redistribution of support among farms took place. UK, Finland and Germany decided to progressively adopt the

1 However, unlike in 1992 with the MacSharry reform, this time the increase in direct payments was lower than the amount necessary to fully compensate farms for the additional reduction in price support.
“regionalization” option, while Denmark and Sweden decided for a hybrid system (part of the payments was based on farm-specific historical entitlements, part was a flat per hectare payment). The 10 new member states entering the EU in 2004 had no choice but to apply flat per hectare payments to be paid to farmers no matter what they produced or produce.

The Fischler reform included two other important elements:

- the transfer of up to 5 per cent of the financial resources which were to be distributed as farm payments to rural development policies; this is called “modulation”, because the transfer is not uniform across all farms (in fact, €5,000 of each farm’s direct payment are exempt from the transfer cut); and

- the fact that, in order to receive the SFP they are entitled to, farms must comply with a set of regulations regarding food safety, environmental protection and animal welfare and maintaining uncultivated land in good agronomical condition (this is referred to as “cross compliance”).

The 2003 Fischler reform contained key decisions on the dairy sector, which modified those taken in 1999 with the Agenda 2000 reform but not yet implemented: milk quotas were confirmed until 2015, but dairy price support was drastically reduced by progressively cutting butter and skimmed milk powder intervention prices by 25 and 15 per cent, respectively, by 2007/08, and by limiting by 2008 butter market withdrawals to 30,000 t. Dairy farms were partially compensated for the reduction of intervention prices by decoupled direct payments which were to become part of the SFP. The motivation and impact of these decisions are evident if one considers the evolution of public dairy stocks accumulated as a result of intervention (Figure 1). In 2003 both butter and skimmed milk powder stocks held in public hands exceeded 200,000 t; the progressive reduction of intervention prices, coupled with relatively high market prices, led to a decline in the amount of milk products removed from the market and accumulated in public stocks.

Between 2003 and 2008 the Common Market Organizations (CMOs) for olive oil, tobacco, cotton, sugar, wine, fruit and vegetables and bananas were reformed, extending to these sectors the principles of the 2003 Fischler reform; direct payments were decoupled and included in the SFP. No exceptions were left on what could be produced on the land used to claim SFP entitlements.

---

2 The possibility for a country to apply “modulation” on a voluntary basis was introduced as part of Agenda 2000; the Fischler reform made it compulsory.

3 Intervention for dairy products was reactivated in March 2009 as a result of the severe drop in domestic and international prices (no intervention buying for butter had occurred since 2006); the 30,000 t limit for butter intervention has been rapidly met and the Commission, due to the particularly severe market conditions, has decided to buy additional quantities but using a tender system, i.e. at prices lower than the intervention one.

4 For bananas this is true only for payments to producers not located in the outermost regions.
These CAP reforms, considered altogether, are important in many respects: by decoupling most of CAP support they induced a market reorientation of domestic prices and production decisions by EU farmers and, as a result, a marked reduction in domestic and world market distortions associated with the CAP; in addition, they helped reduce the pressure of European agriculture on environmental resources and increased the efficiency of farm income support. If the MacSharry reform moved the CAP from a fully coupled support linked to “how much” the farm produced to a “partially coupled” support linked to “what” the farm produced, the Fischler reforms decoupled support by linking it to “farming and land management activities”.

These policy changes were by no means marginal, either in terms of the reduction in support, or in terms of the reduction of the distortionary effects of the CAP. Figure 2 shows changes in CAP support in the almost 20 years between 1986-88 and 2005-07, from before the MacSharry reform of 1992, to immediately after the start of the implementation of the 2003 Fischler reform, using indicators calculated annually by OECD (OECD, various years): the per cent Producer Support Estimate

---

*Certain payments remained coupled because of environmental and socio-economic concerns (these include payments for durum wheat, rice and nuts); in addition, member states could choose not to include a fraction of some of the direct payments in the SFP.*
G. Anania

(\%PSE); the per cent Consumer Support Estimate (\%CSE); and the sum of the most production- and trade-distorting forms of support as a share of the PSE.\textsuperscript{6}

Figure 2 - Evolution of EU CAP support between 1986-88 and 2005-07.


\textsuperscript{6} The %PSE is “\textit{the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, measured at the farm gate level, arising from policy measures that support agriculture}” as a share of gross farm receipts. The %CSE is “\textit{the annual monetary value of gross transfers to (from) consumers of agricultural commodities, measured at the farm gate level, arising from policy measures that support agriculture}” as a share of consumer expenditure at the farm gate; if negative, the CSE measures the burden on consumers of agricultural policies, from higher prices and consumer charges. “Most production- and trade-distorting forms of support” are given here by “\textit{market price support}”, “\textit{payments based on output}” and “\textit{payments based on input use}”, as defined by the OECD.
The Figure clearly show the effects of CAP reforms before the Fischler reform and the significant effects of the latter in the first few years of its implementation. Developments in the CAP between 86-88 and 03-04 resulted in a reduction of the support provided to the agricultural sector (which declined from 41% of gross farm receipts to 35%), in a reduction of the implicit taxation of consumers (for every euro EU consumers spent on food the implicit taxation due to agricultural policies dropped from 37 cents to 20), and in a reduction of the distortionary effect of the CAP on production and trade, specifically due to its re-instrumentation (the share of the support linked to the most distortionary policy instruments declined from 97% to 67%). Changes in the CAP were more pronounced in terms of the reduction of the distortionary effects and implicit consumer taxation, than in terms of reduction in farm support. The start of the implementation of the Fischler reform induced a further significant step forward in this process; support to agriculture declined in 05-07 to 29% of gross farm receipts, implicit consumer taxation dropped to 14%, and the share of support linked to the most production and trade distortionary policy instruments fell to 54%.

Figure 3 shows the changes in the amount and composition of CAP expenditure between 1980 and 2007; from 1980 to 1992 CAP expenditure, which was, at the time, providing fully coupled support, increased rapidly; the MacSharry reform in 1992 and Agenda 2000 in 1999 introduced and then increased “partially decoupled” direct payments and severely reduced policy interventions generating market price support; as a consequence of the reduction in market price support, export subsidy expenditure declined as well; over the same years there was a gradual expansion of financial resources devoted to rural development policies. With the Fischler reform most of the direct payments were replaced by decoupled ones; the further marked reorientation of domestic prices induced another reduction in the expenditure for market support policy instruments and export subsidies. Overall expenditure for the CAP in monetary terms increased over time, albeit at a declining rate, while falling since the early 1990s as a percentage of EU GDP (from 0.6% to less than 0.4%); finally, in assessing the developments of CAP expenditure one should not forget that, over the same years, the EU expanded from 10 members to 12 (1986), 15 (1995), 25 (2004) and, eventually, 27 (2007).

Many thought that the CAP reform process would be put on hold for a time, while the Fischler reforms were fully implemented (for dairy this was to occur in 2008/09) so as to leave time to show their effects. Yet in 2006 Commissioner Mariann Fischer Boel launched an initiative to perform by 2008 a “health check” of the CAP. The initiative led to the November 2008 decisions by the Council; it is fair to say that the “health check” essentially completed the Fischler reform process by: decoupling virtually all direct payments which member states, at the time, were

---

7 The implementation of all aspects of the reform was to be completed in 2008/09 (when the expansion of milk quotas was to be fully implemented); member states could choose to introduce the SFP, the most important policy change in the reformed CAP, in 2005, 2006 or 2007.
given the option to maintain coupled;\(^8\) progressively expanding milk quotas, with the aim of making them no longer binding by 2015 (with a clear view to eliminate them at that point); eliminating mandatory set aside; doubling the percentage of modulation, transferring more financial resources from direct farm payments to rural development policies; eliminating - or further limiting, depending on the commodity - minimum price support provided by intervention; and giving member states the possibility to regionalize direct payments. The SFP is to be progressively introduced in EU-12, by 2013 in EU-10 and 2019 in Bulgaria and Romania. In 2013 the SFP is expected to absorb more than 95 per cent of CAP expenditure for market price and income support, the “pillar I” of the CAP.\(^9\)

Figure 3 -- Evolution of CAP expenditure between 1980 and 2007.

![Evolution of CAP expenditure between 1980 and 2007.](image)

Source: EU Commission.

But have changes in the CAP led to increased imports? Figure 4 provide information on how EU agricultural trade with the rest of the world (i.e. excluding

\(^8\) By 2012 the following will be decoupled (if and where they are still coupled): direct payments for olive oil, durum wheat, protein crops, rice, potato starch, nuts and some of the payments for beef and veal; the only direct payments which will member states are allowed to maintain coupled are per head payments for sucker cows and sheep and ewes.

Multilateral trade negotiations and the CAP

Intra-EU trade evolved between 1996 and 2007. Between 1996 and 2003 both EU-15 imports and exports increased, but the latter increased at a greater rate and, as a result, the EU net trade position improved. The 2004 enlargement lowered extra-EU exports and imports, and the EU-25 became again a significant net importer; however, it became a net exporter only two years later, in 2006. In 2007, with the enlargement to Bulgaria and Romania, both imports and exports increased and the EU become again a net importer of agricultural goods. Looking over the entire time period, it is clear that the competitiveness of EU agriculture on both domestic and international markets increased over the years. In most recent years, despite the very strong euro, imports do not show a marked increase and the export growth rate is higher than that of imports.

Figure 4 - European Union. Agricultural and agro-food products. Imports, exports and net trade position (excluding intra EU trade) (96-03: EU-15; 04-06: EU-25; 07 EU-27; billion euro).

Source: Eurostat.

But were the changes in the CAP supposed to increase imports? Beside the introduction of the Everything But Arms (EBA) initiative, whose effects have so far been limited (but whose effectiveness should be evaluated in a longer time horizon), and, more recently, of the Economic Partnership Agreements (EPA), over the past 15 years or so changes in EU border policies have been mostly confined to the three subsequent enlargements of the EU, from EU-12 to EU-27. From the point of view of third countries, these had “trade diversion” effects, which means
fewer enlarged EU imports and exports from and to third countries.\footnote{Under Article XXIV of GATT the “trade diversion” effects of EU enlargements are to be compensated by trade concessions which are negotiated bilaterally. However, even if these concessions are fully compensatory of the static trade reducing effect of the enlargements, they are not from a dynamic point of view.} The observed partial market reorientation of EU domestic prices as a result of the subsequent policy reforms translated mostly into increased consumption and food industry uses of domestic production. In fact, because of the decline in domestic prices in the absence of a parallel reduction in border protection, domestic policy reforms, everything else held constant, actually resulted in a \textit{decline} in the relative price competitiveness of imports on the EU market.

Nevertheless, the benefits for third countries from the progressive reforms of the CAP are real and significant, albeit mostly limited to higher world prices and lower EU competition in third markets as a result of the reduction of its export supply, including lower subsidized exports and sales of intervention stocks on the world market.

The CAP which emerged from the reforms since 2003 is much less distortionary for domestic and world markets than it was before, but it is certainly not an efficient and effective policy; despite the “regionalization” option and “modulation”, it did not change the distribution of support among farmers in EU-15 countries significantly, which remains highly skewed and socially not equitable; despite the huge amount of resources it still absorbs, the CAP appears incapable of providing adequate answers to the quite different, legitimate from society’s point of view, policy demands emerging from agricultures, both in EU-15 countries and new member states. Inconsistencies and contradictions in the CAP are the price which had to be paid over the years to build the necessary consensus to make policy reforms possible.\footnote{The political economy behind CAP reforms decision making is addressed in Ackrill, Kay and Morgan (2008), Cunha and Swinbank (2009), Daugbjerg and Swinbank (2007), Mahé and Roe (1996), Moyer and Josling (2002), Pokrivcak, Crombez and Swinnen (2006), and in several of the contributions in Swinnen (2008).}

The speed of change of the CAP may not be anything to shout about, but the fact remains that since the MacSharry reform in 1992 the CAP has been slowly but surely moving in the right direction, with no stops or U-turns.

3. EU preferential trade agreements

The EU has a large set of bilateral, regional and plurilateral preferential trade agreements in place, which include unilateral and reciprocal concessions (OECD, 2005); the overlapping and marked differences in the depth and width of trade preferences (i.e. in the preferential margins and in the number of countries and products these apply to) granted by the EU justify the fact that its preferential trade policy is often referred to as a “spaghetti bowl”, to use an expression originally used by Jagdish Bhagwati (1995).
EU agro-food imports from developing countries account for more than 60 per cent of the total, but only 20 per cent enter the EU subject to a non zero MFN tariff, whereas the share of US agro-food imports from developing countries, for example, is 47 per cent, although virtually none of them pay a non zero MFN tariff (Bureau, Chakir and Gallezot, 2007).

While in the past assessments of preferential trade concessions were sceptical about their effectiveness in increasing exports from developing countries, more recent studies tend to agree that the effects are smaller than hoped but, nevertheless, they are positive and of some value (Bureau, Chakir and Gallezot, 2007; Candau and Jean, 2005; Cardamone, 2007; OECD, 2005). In addition, trade preferences should be assessed in a dynamic framework, as the degree of utilization of preferential trade concessions increases as developing countries’ capacity to overcome non-tariff barriers, such as public and private minimum quality standards, grows with time.

The most important EU preferential trade schemes are EBA, EPA, GSP (the Generalized System of Preferences) and “GSP plus”, and those under the Euro-Mediterranean Partnership Agreements. The 2001 EBA initiative provides wider and deeper concessions; it grants exports of “everything but arms and ammunitions” from 49 least developed countries duty- and quota-free access to the EU market. EPA does essentially the same thing for EU imports from ACP (Africa, Caribbean and Pacific) countries.12 Not all agro-food products benefit from the preferences granted under the GSP and “GSP plus” schemes, although the latter, introduced in 2006, significantly widens the spectrum of agro-food products covered. Finally, the bilateral Association Agreements the EU signed with many Mediterranean countries13 within the 1995 Barcelona framework are aimed at making the countries facing the Mediterranean sea a free trade area by 2010; however, trade in agro-food products is excluded from the liberalization process and only limited additional preferential concessions have been granted in the bilateral agreements (Alvarez-Coque, 2002; Alvarez-Coque et al., 2006).

4. The EU and the WTO negotiations on agriculture: from Seattle to the current impasse

4.1 From Seattle (1999) to Doha (2001)

The third WTO Ministerial Conference held in Seattle at the end of 1999 was meant to launch the new round but ended in failure; however, agriculture was not

---

12 On 1 January 2008 the EU implemented the Economic Partnership Agreements it negotiated with many ACP countries; these are actually “interim” agreements, with the exception of the one signed with the Caribbean CARIFORUM countries. The EPA will progressively remove barriers to trade between the EU and several groupings of ACP countries, creating free trade areas which are expected to be compatible with WTO rules. All agricultural exports from ACP countries which have successfully concluded the negotiations are now allowed duty- and quota-free access to the EU.

13 Algeria, Egypt, Jordan, Israel, Lebanon, Morocco, Palestinian Authority and Tunisia; the agreement with Syria is being negotiated.
among the main reasons for the lack of an agreement. Seattle will be mostly remembered because of the unexpected number of vocal protesters who brought to the attention of a worldwide public a number of social issues and concerns, usually not very high on the agenda of multilateral negotiations. Despite the failure, because of the commitment contained in the 1994 Uruguay round agreement to start a new round of multinational negotiations on agriculture and services by the end of 1999, negotiations formally started on these two areas; however, nothing really happened until the Doha Ministerial in November 2001, as countries were unwilling to start negotiations before a broader agenda, allowing for trade-offs between “benefits” and “costs” deriving from commitments in different areas of the negotiations, had been agreed upon. The agreement to start a new round of negotiations that would go beyond agriculture and services came at the November 2001 Ministerial in Doha. The fact that it took place only two months after the September 11 events certainly helped finding an agreement, as nobody was willing to bear the responsibility for another failure in such a tense climate for international relations. The round was labelled “Doha Development Agenda” and the opening paragraphs of the final Declaration contained quite strong pro-development language: “International trade can play a major role in the promotion of economic development and the alleviation of poverty. … The majority of WTO members are developing countries. We seek to place their needs and interests at the heart of the Work Programme adopted in this Declaration” (WTO, 2001: 1). How much of the development bias of the Declaration was genuine and how much was the “usual” rhetoric by developed countries, in order to secure the support of developing and least developed member countries for the final Declaration of the Ministerial and to get the round started, is open to discussion. Nevertheless, the Declaration certainly did raise the expectations of developing countries as to their role in the negotiations and in the drafting of the final agreement.

The DDA round was launched with a very limited agenda; relevant and potentially highly controversial issues which had been discussed as possible areas of negotiation, such as trade and labour standards and trade and environment, were left out from the agenda of the round, while the decision whether to include the so called Singapore issues was postponed to the next Ministerial.


Real negotiations started after the Doha Ministerial, albeit slowly. In July 2002 the EU Commission produced the “Communication” which initiated the mid term review of Agenda 2000; meanwhile, the 2001 EBA initiative (which granted duty-free and quota-free market access to imports “different from arms and

---

14 Although street protesters included several groups with their own, quite narrow, special interests.
15 These are: “trade and investments”, i.e. introducing a framework to secure transparent, stable and predictable conditions for long-term cross-border investments; “trade and competition policy”; “transparency in government procurement”; and “trade facilitation”, i.e. expediting the movement, release and clearance of imported goods.
ammunitions” from all least developed countries) was progressively implemented, even for the most “sensitive” agricultural products. These policy developments made it possible for the EU, albeit belatedly, to table its proposal for the “modalities” in January 2003; this included:

(a) a Uruguay round type tariff reduction (average tariff reduction of 36% with a minimum tariff reduction of 15%), with, in addition, (i) duty-free and quota-free access for exports from least developed countries to developed and most advanced developing countries, and (ii) duty-free access for developing countries’ agricultural exports to developed countries to represent no less than 50% of their total imports from the same countries;

(b) a 45% reduction of the export subsidy expenditure and “substantial” cuts in the volume of subsidized exports;

(c) a 60% reduction of domestic support falling in the “amber box”, with the “blue box” left unchanged.

The March 31 2003 deadline for the agreement on the “modalities” contained in the Doha Declaration went by unmet. In June 2003 the EU approved the Fischler reform which, as discussed above, proved to be, not only much more than a mid term fine tuning of the Agenda 2000 reform, but the most important step ever made in the CAP reform process. It is crucial to recognise the importance of the timing of the EBA initiative and the Fischler reform with respect to the DDA negotiations. If these policy changes were to have been part of an effective negotiation strategy, they should have been introduced toward the end, or after the conclusion, of the round, in order to use these significant policy reforms as part of the final offers by the EU in the round. On the contrary, the two decisions were taken when it was felt they were needed on account of domestic policy concerns (the Fischler reform) and international relation considerations (the EBA initiative), regardless of the dynamics of the ongoing DDA negotiations. From this perspective it was evident that all the other parties would take the trade liberalization associated with these reforms for granted, and would not give the EU any credit at all in the negotiations for their contribution towards lowering policy distortions in agricultural markets. Nevertheless, this made it possible - contrary to what had happened in the Uruguay round, when the MacSharry reform of the CAP occurred during the last stages of the negotiations - for the EU in the DDA round to put forward credible and responsible proposals on agriculture, rather than rhetorical gambits.

16 The implementation for bananas started in 2002 and was completed in 2006; for sugar and rice started in 2006 and was completed in 2009.
17 The “modalities” are the rules defining country commitments; these are then spelled out in detail in each country’s “schedules”, which are part of the final agreement.
18 The Uruguay round agreement reduced the volume of subsidized exports by 21% and the export subsidy expenditure by 36%.
19 Not long after, in July 2003, the EU proposed to reduce the support in the “blue box” by 60% as well, thereby implying the elimination of the “blue box” exemption.
In August 2003, as a result of an explicit request in the Montreal Mini-
ministerial meeting the previous month, the EU and the US tabled a joint proposal
for a framework agreement to provide a basis for discussion in the forthcoming
Cancún Ministerial. This proposal was followed only seven days later by another
proposal from an aggregation of countries which was new on the stage of
multilateral negotiations, the G-20, a group of medium and large size developing
countries, mostly net exporters. The EU-US joint proposal was well designed in
terms of a possible base for an agreement in Cancún, as it did not contain any
element defining the extent in terms of trade liberalization of the commitments to
be decided, but it was limited only to the reduction formulas to be used (the extent
of the liberalization was to be defined by the parameters to be inserted in the
formulas, to be fixed at a later stage of the negotiations, and had little to do with
the formulas themselves). A similar approach was taken in the design of the
proposal by the G-20, with the exception of the proposed commitments on
domestic support. However, this meant that there were two alternative proposals on
the table in the run up to the Cancún negotiation and that they could not be
comparatively assessed to determine which of the two would produce deeper trade
liberalization (they were proposals on how to reduce trade distortions, not on by
how much); of course, the marked differences between the G-20 requests and those
of many of the developed countries would have emerged had the negotiation
moved into the discussion of the parameters to be inserted in the formulas chosen.

The Ministerial in Cancún failed to reach an agreement. The deadlock occurred
on the “Singapore issues”. While the EU accepted not to include in the agenda of
the round the two most controversial ones from the point of view of the developing
countries - “trade and investments” and “trade and competition policy” - the
African Union, an aggregation of some of the poorest countries in the world, and
Japan and South Korea remained firm in their demands: the former asking for no
Singapore issue to be included in the agenda of the negotiations, while the latter
two wanted all of them to be included. Once the EU had agreed not to require
“trade and investments” and “trade and competition policy” to be included in the
agenda for the round, the stand by developing countries not to accept the remaining
two, which were much less far reaching, did not have any plausible justification
other than that of wanting the Ministerial to fail, leaving no room for a possible
compromise. In fact, the EU could not accept all Singapore issues to be excluded
from the agenda of the round, because this would have greatly reduced the
credibility of its negotiating stand in the future, and this was clear to all parties.

Agriculture was not the cause of the failure of the Ministerial, but it could have
been had the confrontation got to it. Different opinions emerged afterwards on
what would have happened in this case. Had the negotiations in Cancún moved to

---

20 16 countries at the time, their number has changed over the time reaching at one point 22;
nevertheless, they are still referred to as the G-20. The group includes Argentina, Brazil, Chile, China,
Cuba, Egypt, India, Indonesia, Mexico, Pakistan, Paraguay, Philippines, South Africa and Venezuela.
Multilateral trade negotiations and the CAP

agriculture, it is doubtful that the EU would have shown the same flexibility as on the “Singapore issues”. Were developing countries to show the same negotiating rigidity on agricultural export subsidies as on the “Singapore issues”, then definitely no agreement would have been possible on agriculture, as the EU was certainly not ready at that time to agree on their elimination.

For the first time in WTO history, in Cancún the confrontation was between developed and developing countries (with some free riding…), rather than between developed countries. Developing countries decided to take the fact that the round was to be centred around a “Development Agenda” seriously, and to call the developed countries’ bluff by asking for much more than what many of them were really ready to give and, by so doing, to drive the Ministerial to end in failure; with a forward looking strategy in mind, they wanted to give a strong signal that times had changed and they were ready to exert the negotiating power of the largest and more developed among them, resulting from their increased economic role and the new scenario of international relations. On the other hand, developed countries, including the EU, arrived in Cancún ready for a “business as usual” negotiation, largely underestimating the difficulties of the new negotiation climate awaiting them.


For several months after the Cancún Ministerial nothing happened. The US progressively distanced itself from the joint proposal it had designed with the EU and tried to shift (or, better, sent signals it was ready to shift) its focus from multilateral negotiations to regional trade agreements.

A decision was taken to restart the negotiations from agriculture, bypassing the impasse on the “Singapore issues”. The negotiation strategy did not change and countries went back to discussing the formulas first, leaving the negotiations on the parameters for later. This choice made decision making in the negotiation process difficult because countries were not able to assess “costs” and “benefits” of what was being proposed; negotiations were time consuming and frustrating as it was clear that the possibility of reaching an agreement was rather slim. On the contrary, the approach taken in the Uruguay round was to negotiate at the same time the formulas and the parameters, thereby allowing for a comparative assessment of the proposals on the table. Two alternative hypotheses may explain what happened after Cancún: that all major players in the negotiations tacitly agreed to negotiate formulas only first in order to postpone the final stages of the negotiations because of a widespread perception that no agreement could be reached at the time; or that the negotiation strategy was induced by some of the main actors, who did not want to face, at that time, what they expected to be the difficult (for them) final stages of the negotiations.

On 31 December 2003 the “peace clause” contained in the Uruguay round Agreement on agriculture (URAA) expired, opening up the possibility for many
EU policy instruments, including export subsidies, to be successfully challenged as illegal under WTO rules (Steinberg and Josling, 2003). In May 2004 Pascal Lamy and Franz Fischler - at the time EU Commissioners for Trade and Agriculture, respectively - wrote a letter to all their WTO counterparts to inform them that the EU was ready to accept to have only one “Singapore issue” included in the negotiating agenda (“trade facilitation”, the less controversial one), and, most importantly, to include in the final agreement a date for the elimination of export subsidies, as long as the same applied to all forms of indirect export subsidization as well.

The EU was in the front row of the debate regarding export subsidies (its export subsidy expenditure accounts for around 90 per cent of the total across all countries) and their elimination had been indicated as a priority for the outcome of the round by most of the other countries. Because of the importance most countries gave to the final agreement including the commitment to eliminate export subsidies in agriculture and because of the rigidity shown by some developing countries on the “Singapore issues”, the move by the EU was a very important step towards restarting negotiations. However, it was not a very effective move from a negotiating point of view; in fact, not only did it come too early in the negotiations, but it also was “given away” without obtaining anything in return from the other countries; for example, this could have been the right time for the EU to obtain the extension to all food products of the on-going negotiations at the TRIPS table regarding the introduction of a register of protected denominations of origin for wines and spirits.

Meanwhile, the negotiations regained momentum and the importance of the role of the so-called Five Interested Parties (US, EU, Australia, Brazil and India) in the search for an agreement became widely recognised. At the General Council meeting at the end of July 2004 in Geneva a “framework agreement” was reached to re-start the negotiations (WTO, 2004). The most important achievement in Geneva was that an agreement was reached, per se; this was a strong political signal confirming the legitimacy of the WTO as an institution after the failure of the Cancún Ministerial. As a matter of fact the “framework agreement” did not include any relevant decision and was much less ambitious than the agreement which (beforehand) many thought could have been reached in Cancún on the basis of the joint US-EU proposal; not only did the “framework” not provide any detail on the formulas to be used to define the commitments, but it listed many flexibilities to be included in the modalities, so as to allow developed countries to protect their policies for the most sensitive products from the commitments

21 In the weeks immediately following the Cancún Ministerial many expressed the concern that, because of decisions requiring the consensus of all member countries, it was impossible for the WTO to function under the current setting of international trade relations. Pascal Lamy, who was to became its Director General (a possibility evidently he was not contemplating at the time...), leaving Cancún defined the WTO a “medieval” institution; few days later he felt the need to correct himself and stated that actually the WTO was not a “medieval” institution, but, rather, a “neolithic” one…
Multilateral trade negotiations and the CAP
entailed in any final agreement. It was not without reason that the agreement did not dare to set an end date for the round.


Despite several high level political meetings, involving all kinds of bilateral and group gatherings, not much happened in the months immediately after the July 2004 Geneva “framework agreement” in terms of identifying common ground to overcome the many outstanding issues in the negotiations on agriculture. At the end of July 2005 Tim Groser, Chair of the Negotiating Committee on Agriculture at the time, was unable to produce the expected “first approximation” of the modalities and had to admit that negotiations on agriculture were stalled (WTO, 2005a). Despite the evident difficulties and the increasing concerns about the possibility that the round was not going to see a conclusion within a reasonable time horizon (Anania and Bureau, 2005), negotiations seemed to gain momentum again in Fall 2005, in preparation for the Hong Kong Ministerial; this was probably one of the few times in the round when real efforts were made, at the political and the technical level, to find grounds for a possible agreement. In October the EU made further steps forward in its negotiating stand by offering a 70% cut in its own “amber box” support (while asking for a 60% reduction for the US one, a cut of an order of magnitude that, coupled with the proposed cut in the de minimis support by 80%, the US was not in a position to accept) and a 60% cut of its tariffs above 90%, at the same time as contemplating a generous self allocation of “sensitive” products coupled with very little increase in market access for them. In fact, the EU proposal for “sensitive” products was: up to 8 per cent of tariff lines to be self-selected as “sensitive” (although room for negotiation certainly existed for this percentage to be set at a significantly lower level); the tariff reduction to be between two thirds and one third of that which would have been applied had the line not been identified as “sensitive”; and for the volume of the “tariff rate quotas” (TRQs) to be calculated as a percentage of current imports, rather than consumption as in the URAA (which, unless the percentage exceeds 100 per cent, would actually mean no market access expansion at all, but simply transforming tariff revenue into quota rents, i.e. transferring financial resources from member country budgets to private agents, most likely located in the exporting countries).22

In the event the efforts did not yield any result, as it became evident that no common ground existed among the levels of ambition of the agreements which the most important players, both developed and developing countries, felt acceptable at the time. However, a decision was made not to allow a second Ministerial in a row end in a failure, and to approve in Hong Kong a declaration which signalled that countries were working together towards finding a solution to the evident impasse in the negotiations, even if it was clear to all parties that such solution was not in

22 Before the new “suspension” in July 2006 the EU was sending signals it was ready to accept the volume of TRQs for “sensitive” products to be 2.5-3 per cent of domestic consumption.
sight. The only steps forward in the negotiations on agriculture contained in the final Ministerial Declaration (WTO, 2005b) were the agreement to provide duty-free and quota-free access, with certain limitations, to exports from least developed countries, and the agreement on the “end date” for all forms of export subsidization in agriculture, which was set for 31 December 2013.23 The Declaration called for the agricultural “modalities” to be completed by the end of April 2006, the “schedules” for the end of July of the same year and for the DDA round to be concluded by the end of 2006, deadlines which few believed could be met.24 Not much happened after the Ministerial; the stall was political and no political pressure suddenly emerged to overcome the impasse. As a matter of fact, after the Ministerial there was an evident slow down of technical and political meetings and the main concern of the major players in the negotiations was not to find themselves in the position to be blamed for the failure in sight. Not surprisingly, at the end of July the General Council had to acknowledge the fact that no progress had been made towards an agreement and that the negotiations were - if not formally, de facto - suspended. It is reasonable to say that the failure in the negotiations had taken place in December 2005, in the weeks preceding the Hong Kong Ministerial, and that a consensus emerged to postpone the failure becoming explicit till a later date to lower the “media noise” and, as a result, to limit its impact on international relations as well as on the WTO as an institution.

Contrary to what had happened after the Ministerial in Cancún, the July 2006 suspension of negotiations did not raise reciprocal vocal accusations of responsibility for the failure; a possible explanation is that, unlike Cancún, in this case the failure did not catch anybody by surprise. In early Fall of 2006 many claimed that an agreement could be reached by April 2007, in order to make it possible for the US administration to obtain a limited extension of the Trade Promotion Authority (TPA) and have the agreement approved by the Congress before the TPA expired. Even ignoring the negotiation problems which would have had to be solved in the few months between the November 2006 US mid term elections and April, the probability of an agreement in this time window was very slim. In fact, it would have meant negotiations taking place at the same time as the debate on the US Farm Bill (to enter into force in 2008 it had to be approved before the September 2007 sowings). I doubt whether the US Administration (or any administration…) would be willing to negotiate, at the same time, the multilateral commitments and the domestic policy decisions which could be constrained by those commitments. The linkages between the two negotiations are evident and

23 Actually this decision was not really a result of the Ministerial; at the end of the G8 meeting early in July 2005 Prime Minister Tony Blair and President George Bush both told the press that an agreement had been reached for ending export subsidies by 2010, although no reference to this decision appeared in the official joint final statement and the EU Commission never confirmed (nor questioned…) the existence of such an agreement.

24 The results of a poll taken at that time by the University of Adelaide in January 2006 show that only 2% of the negotiators believed it was possible to have the modalities by April and none of them believed the round could be concluded by the end of 2006.
political common sense points towards making the Farm Bill decisions first, without having to feel (explicitly, at least) the pressure coming from the multilateral negotiations. In other words, reaching an agreement by April was not an option. This might have been well received in France as well, where Presidential elections were to be held in May 2007.

The meeting in Potsdam (18-21 June 2007) of Brazil, India, the EU and the US was an important step in the DDA round. Potsdam could have been for this round what the Blair House agreement between the EU and the US had been for the Uruguay round, a deal on the main elements of the final agreement among some of the main actors in the negotiations, which could constitute the basis for the final negotiations involving all members of WTO. On the contrary, the Potsdam meeting broke down earlier than anticipated without any agreement and was defined by all actors involved, without beating about the bush, as a failure.

The rupture occurred in the negotiations on agriculture, although the distance between the positions in the negotiations on market access for non agricultural products (NAMA) was as wide as that on agriculture. The US and the EU accused Brazil and India of being intransigent in their demand for larger concessions on domestic support and market access in the negotiations on agriculture, without being willing to make concessions of the same “ambition” in the negotiations on market access for non agricultural products (India) and agricultural products (both). Brazil and India accused the US of refusing to accept significant reductions in domestic support for agriculture.

As a matter of fact, in Potsdam two possible types of agreements could have been reached, at least in theory: an “ambitious” agreement or a “non ambitious” one. By “non ambitious” agreement I mean an agreement containing commitments which are only apparently significant (i.e., for the EU in agriculture, an average reduction of agricultural tariffs by 50%, a reduction by 50% of domestic support and the elimination of export subsidies), while they imply no change whatsoever for the policies in place. Nevertheless, a “non ambitious” agreement would not be entirely without value; it would lock-in significant policy reforms which have been introduced based on domestic considerations, ensuring that they cannot be reversed in the future, and would save the legitimacy and the role of the WTO, which is an important asset for reducing transaction costs in international trade disputes and providing a relatively smooth and predictable functioning of international agro-food markets. An “ambitious” agreement, on the contrary, is an agreement which would be able to force trade distorting countries to change their policies, however small those changes might be. An “ambitious” agreement would be such that, for example, the US would agree to limit with respect to the past domestic support granted to farmers in the event of a significant drop in market prices; the EU would accept commitments implying a reduction in applied tariffs even for its more sensitive products; and higher income developing countries would accept to reduce applied import tariffs for agriculture as well as non agricultural products.
What actually impeded an agreement in Potsdam? The US could not accept an “ambitious” agreement, i.e. an agreement which would have constrained domestic agricultural support not to exceed levels which had been exceeded in recent years. The decision process on the new Farm Bill exactly in those days was entering its crucial phase; it was probably no coincidence that on day two of the meeting in Potsdam the committee of the House of Representative working on the Farm Bill unanimously passed a resolution asking not to modify any of the provisions related to farm support with respect to the previous Farm Bill. The US could not accept in Potsdam an “ambitious” agreement and this was clear to everybody.

What then happened is that India and Brazil decided not to accept the only option left on the table, that of an “non ambitious” agreement. There are two, in my opinion, possible explanations for their decision: they decided either that no agreement was preferable to a “non ambitious” agreement, or that by not accepting a “non ambitious” agreement in Potsdam they would be better placed to obtain a more advantageous agreement later on.

The EU was ready to sign a “non ambitious” agreement, but sent signals of its willingness to accept a relatively “ambitious” agreement as well; i.e. that it was ready to consider an agreement including commitments in agriculture somewhat more demanding than what some member states (particularly France) were ready to accept, provided they obtained in exchange a significant expansion of market access for non agricultural products in larger and relatively more advanced developing countries. In a joint statement to the press at the end of the meeting in Potsdam, Commissioners Fischer Boel and Mandelson declared that the EU had offered to cut, on average, its bound agricultural tariffs by more than half; sources close to the negotiations suggest that in Potsdam for the first time the EU appeared willing to consider a reduction by 70% of its largest bound tariffs in agriculture. Of course, ex post it is impossible to assess whether the EU was sincere or merely bluffing, in the knowledge that, on one hand, the US could not accept an “ambitious” agreement and, on the other, Brazil and India were unwilling to make concessions on NAMA in exchange for a slight increase in their access to EU agricultural markets.


Not much happened in the negotiations for few months after the fiasco in Potsdam. Between July 2007 and July 2008 Crawford Falconer, the chair of the committee where agricultural negotiations take place, produced four revisions of the draft “modalities” (in July 2007, and in February, May and July 2008). Unlike from what had happened in the Uruguay round, these drafts did not attempt to resolve outstanding issues; they simply took stock of what had been agreed and of the narrowing of the distance between country positions, if any.

---

On July 21 2008 all countries, many represented at the Ministerial level, convened in Geneva for a meeting to find a compromise to conclude the round. Feelings at the start of the meeting were not very optimistic. Even Pascal Lamy, the Director General of WTO, who has no choice but to be optimistic, on the eve of the meeting assessed the chances of reaching an agreement as being “only slightly above 50%.” The meeting lasted nine days and ended up as the longest ever in WTO history at such a high level. On many issues negotiations made significant steps forward, identifying the main elements for a possible compromise; the list of these issues includes the percentage reduction of agricultural tariffs above 75%; a tariff cap; the number of “sensitive” products; “special” products; tropical products; preference erosion; bananas and, possibly, the percentage reduction of domestic support in the US. However, the meeting collapsed with no solution in sight over an equally long list of issues, including tariff “simplification”; the introduction of new TRQs for “sensitive” products; the Special Safeguard Mechanism (SSM); the cotton initiative; geographical indications (GI) and NAMA.

Negotiations broke down because of the inability to find a compromise on the SSM. It is worth discussing this issue in some detail. The SSM gives the possibility to developing countries to increase tariffs above current bound levels (i.e. above Uruguay round bound tariffs, those which are to be reduced as a result of the market access component of the DDA agreement), only on a temporary basis, if an increase in imports and/or a drop in price occurs which would put domestic producers “in serious peril”. As a matter of fact, there had been no meaningful negotiation on the SSM before the July 2008 meeting in Geneva and it was clear to everybody that the SSM was among the issues which could cause the meeting to end in failure. In fact, immediately before the gathering India made it clear that the SSM issue was linked to the “survival and poverty” of its farmers and was “not an issue for negotiation.” India proposed a SSM triggered by a 10% increase in imports with maximum applied tariffs equal to 140% of the Uruguay round bound level; the US proposed the SSM to be triggered by a 40% price increase. Negotiations on the SSM lasted four days, with several compromise proposals put on the table by Lamy as well as other countries, all of which were rejected both by India and the US. On July 28 Lamy proposed the SSM to be triggered by the decision of a panel finding that changed market conditions were inducing serious, factually verifiable, damage in terms of the survival of domestic population; India was ready to accept the proposal, but the US refused. A proposal was made to move the negotiations to other issues and to come back to the SSM later, but the US refused; it was evident at that point that the US did not want the meeting to end on an issue in which they were to find themselves on the back foot, in a difficult defensive position, e.g. cotton, rather than on an offensive one, such as the SSM.

---

26 Many believe that the acceptance by the US of a reduction of its maximum allowed domestic support which would have the potential to constrain farm support deriving from the provisions of the new Farm Bill in the case of low prices, was a bluff, knowing that no compromise was possible on some of the other outstanding issues.
On July 29 other proposals to find a compromise on SSM were made, but were rejected by both India and the US and the negotiations were suspended.

It is important to recognise that the SSM is not a technical issue. It is reasonable to expect a 10% increase in imports as a result of the agreement reached on agricultural tariffs reduction; this means that the SSM proposed by India would translate, under expected market developments, in the DDA round yielding a reduction in developing countries agricultural market access, rather than in an expansion. This suggests that the SSM proposed by India was more a safeguard mechanism from the DDA round per se, than from larger than expected increases in imports; hence, the US stand on this issue would appear justified. In addition, an increase in imports, per se, does not imply problems for the domestic market; where is the problem calling for increased protection if imports increase when the domestic price remains stable (for example, as a result of unfavourable domestic climatic conditions)? If domestic producers are the concern, then attention should be on a fall in price, not on a surge in imports; if domestic consumers are the concern (but this, based on its negotiating stand, does not seem to be the case for India), then the attention should be on price increases and lower supply (total supply, domestic supply plus imports) on the domestic market. Paradoxically, the negotiations in Geneva never touched on the issue of what the change in price triggering the SSM was to be.

Although the conflict on the SSM has been often presented as an India-US “battle”, this is certainly not the case. India was representing the interests of several other developing countries, including China and many G-33 net food importers; in particular, China, because of the much smaller gap between its bound and applied tariffs compared to that of India, has an even stronger interest than the latter in an easy trigger and an SSM that allows maximum applied tariffs well above current bounds. On the opposite side, the US were not alone in pushing for a much less generous SSM than the one wanted by India; in fact, many relatively more advanced developing countries net exporters of agro-food products (e.g. many Latin American countries) did not want to lose market opportunities in large, growing developing country markets. The SSM is an issue which involves South-South conflicts, as well as North-South ones.

The meeting collapsed on the negotiations on the SSM, but there where at least three other issues on which negotiations could have broken down: cotton, geographical indications and the “sectoral specific” initiatives under NAMA.

---

27 China bound tariffs are the result of its negotiation to became a member of WTO in 2001, while India self-determined its bound tariffs as a result of the Uruguay round.

28 “Sectoral specific” initiatives “shall aim to reduce, harmonize or, as appropriate, eliminate tariffs, including the reduction or elimination of tariff peaks, high tariff and tariff escalation, over and above that which would be achieved by the formula modality… Participation in sectoral initiatives is on a non-mandatory basis” (WTO 2008b: 5 para. 9). 14 sectoral initiatives are tentatively listed in the December 2008 version of the draft modalities for NAMA, including automotives, industrial
In the negotiations on the “cotton initiative”, the US refused to make any offer before an agreement was reached on market access in agriculture and NAMA; in addition, they made it clear that they would consider a significant reduction in domestic subsidies to cotton producers only if China agreed on a significant reduction in its import tariffs on cotton and cotton-based products. The strategy was transparent: the US were betting on no agreement on the other negotiation issues being reached and, in the worse scenario, trying to shift the blame for failure of the cotton negotiations onto China, by asking for a specific commitment China should not have been asked and was not ready to accept. On the opposite front, Burkina Fasu, Benin, Chad and Mali reiterated their position that if their expectations on cotton were not met, there would not be a DDA round agreement.

The Doha Declaration included the introduction of a register of protected denominations of origins (geographical indications (GI), in WTO jargon) for wines and spirits in the agenda of the TRIPS negotiations. Despite the tough stand taken by the EU (and others) for the final agreement to include the extension of this register to the geographical indications of agro-food products different from wines and spirits, no agreement has been reached on this. In the seven years since the Doha Ministerial no significant step forward has been made in the negotiations on the register for GI for wines and spirits, with all countries remaining firm on their initial positions: the US (and others, including Argentina, Australia, Canada, Chile, Japan and New Zealand) proposing a register of denominations which are to be protected on a voluntary basis, only by those countries who want their own denominations to be protected, and the EU (and others, including Ecuador, India and Switzerland) proposing for participation to be mandatory for all members of WTO. In July 2008 a negotiation group composed of over 100 countries proposed considering “in parallel and on equal footing” in the TRIPS negotiations three issues: the registry for GI of wines and alcoholic beverages; the extension of such a registry to GI for agro-food products different from wines and spirits; and making

machinery, toys, chemical and electronic products (WTO 2008b, Annex 6). “Sectoral specific” initiatives entail introducing in these sectors different rules (and tariffs) which apply to different sets of WTO countries (higher tariffs applied to countries who do not participate in the initiative, zero tariffs, or much lower tariffs, to countries which agree to participate.

The cotton issue was vocally raised at the 2001 Ministerial in Cancún by Burkina Fasu, Benin, Chad and Mali; in August 2004 it had been agreed that reduction of domestic support, export subsidies and market protection for cotton will take place more quickly and more “ambitiously” than for the other commodities.

The EU had tried to put this issue on the agenda of agricultural negotiations; this is because GI are seen as a market promotion tool for quality differentiated food products, and because the EU felt that it would be easier to obtain multilateral protection for GI as part of a compromise in agricultural negotiations. In September 2003, immediately before the Cancún Ministerial, the EU put forward a proposal to include within the agricultural agreement the provision of multilateral protection for its 41 most valuable food Protected Denominations of Origin (rather than for all, current and future, protected denominations), but this proposal received very little attention. Yet, by putting forward such a proposal the EU weakened it negotiating position at the TRIPS table, where it was aiming to obtain multilateral protection for all its denominations of origin.
it mandatory for patent applicants to disclose the origin of genetic resources and/or associated traditional knowledge involved in the invention. In Geneva the US delegation at the TRIPS negotiation table made a rather strong statement: “there is no mandate in this round for an extension to all agro-food products, it is not a good idea and we are not available for discussing it.” Essentially, the message was that the US Trade Representative (USTR) had no mandate to negotiate on the extension of the registry to products other than wines and spirits. The positions did not budge an inch during the negotiations in Geneva. The question one should ask at this point is: if everything else had been eventually settled and a compromise reached for a comprehensive agreement, could Commissioners Mandelson and Fischer Boel have gone back home without a meaningful agreement on GI for all agro-food products? My answer to this question is no. GI had become over the years a politically strategic issue in DDA negotiations for the EU, to be sold on the domestic political market as the result obtained in exchange for agreeing to market access provisions which will reduce domestic market protection for “sensitive” products. Although this may come as a surprise to many, this means that GI should be included in the lists of issues which constitute a stumbling block for the negotiations.

Who is to blame for the failure of the meeting in Geneva? India (and China, Indonesia and others) was unwilling to compromise on the SSM and inflexible on NAMA. The US showed a similar unwillingness to compromise on SSM, no flexibility on NAMA and, very likely, would have shown no flexibility in the search for a compromise on cotton and geographical indications. Some of the requests by the developing countries coincided with concessions developed countries had no intention of granting, in any circumstances, and vice versa; this means that an “ambitious” agreement was not a feasible option. Then, if all countries were willing and in the position to step back on the scope of their offensive requests, the only possible option was a “non ambitious” agreement, but the strong political will needed for this to happen did not materialize.

Not much happened after the failure of the July 2008 meeting in Geneva. The US Presidential election in November put negotiations on hold, and the resignation of Peter Mendelson from his post as EU Commissioner for Trade to enter Gordon Brown’s cabinet in the UK did not help restart the negotiations. The attempt to have a Ministerial in December 2008, following a strong statement at the conclusion of the G-20 meeting in November in Washington for “trade ministers to conclude new Doha texts by Christmas and ensure a WTO trade deal in 2009”, had to be called off by Lamy as it became evident that there was not enough and widespread political will to find a compromise on the main outstanding issues. Meanwhile, Crawford put forward a new revised draft version, the sixth, of the agricultural “modalities”, describing the status of the negotiations on agriculture at that time, i.e. when negotiations were de facto suspended.
4.6 The main “defensive” and “offensive” issues in the negotiations on agriculture for the EU  

Let’s start with the “defensive” issues.

For the EU the cost of the elimination of its export subsidies is not very high. In the words of Hoeckman and Messerlin (2006: 208), the EU is “selling its WTO partners a rapidly “depreciating” asset.” Although allowed under the URAA, the EU is not using export subsidies for olive oil, tobacco and rapeseed for several years now. In the 04/05-06/07 period 62 per cent of EU export subsidy expenditure went to two groups of products only, dairy (39 per cent) and sugar (23 per cent); when export subsidies for processed products are added, the expenditure exceeds 75 per cent of the total. Over the same period overall EU export subsidy expenditure was less than 30 per cent of the maximum allowed under the URAA (it was 35 per cent in 04/05, 26 in 05/06 and 18 in 06/07), despite the strong euro; if we ignore export subsidies for sugar - which, because of EBA, are soon to become not usable - the percentage drops to 20 per cent. The reforms of the fruit and vegetables and wine CMOs included the abolition of export subsidies for these commodities; finally, the impact of the full implementation of the Fischler reform and of the “health check” on export subsidies for dairy products needs to be accounted for (lower domestic prices will result from the reduction of intervention prices, the limits imposed on the volume of intervention for butter and skimmed milk powder and the expansion of milk production quotas).

The “bindingness” of the URAA constraints on subsidized exports and export subsidy expenditure is visualized in Figure 5 (where “red” indicates that in that year at least one of the two constraints was binding, “yellow” that at least one was close to binding, and “green” that neither of the two constraints were problematic). In all cases where one of the two constraints becomes binding this should imply downward pressure on the domestic price; however, in most cases unsubsidized exports occur in addition to subsidized ones, and the former appear to increase as the latter become constrained by the URAA commitments, raising doubts whether for many commodities export subsidies are a necessary condition for EU exports to be competitive on the world market; figures 6, 7 and 8 show subsidized and unsubsidized EU exports since the implementation of the URAA for “cheeses”, “other milk products” and “fresh fruits and vegetables”, three of the commodity aggregates which most often faced binding export subsidy constraints.

---

31 Swinbank (2005) raises specific concerns over the possible negative impact of the elimination of export subsidies for the competitiveness of processed food industries.
Figure 5 - European Union. "Bindingness" of the Uruguay Round Agreement on Agriculture export competition commitments (95/96 – 06/07).

<table>
<thead>
<tr>
<th>Product Category</th>
<th>95/96</th>
<th>96/97</th>
<th>97/98</th>
<th>98/99</th>
<th>99/00</th>
<th>00/01</th>
<th>01/02</th>
<th>02/03</th>
<th>03/04</th>
<th>04/05</th>
<th>05/06</th>
<th>06/07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coarse grains</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rice</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rapeseeds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Olive oil</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sugar</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Butter</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skimmed milk powder</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cheeses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other milk products</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beef meats</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pigmeat</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poultry meat</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eggs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wine</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fruit and vegetables, fresh</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fruit and vegetables, processed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tobacco</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alcohol</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incorporated (processed) products</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Note:* “red” indicates that in that year at least one of the two constraints (that on the volume of subsidized exports and that on export subsidy expenditure) was binding, “yellow” that at least one was close to binding, and “green” that neither of the two constraints was close to binding.

*Source:* based on EU notifications to the WTO.
Figure 6 - European Union. Cheeses: subsidised and unsubsidised exports; maximum subsidised exports commitment. (95/96-06/07; 000 t).

Source: EU notifications to the WTO.

Figure 7 - European Union. Other milk products: subsidised and unsubsidised exports; maximum subsidised exports commitment. (95/96-06/07; 000 t).

Source: EU notifications to the WTO.
Figure 8 - European Union. Fresh fruit and vegetables: subsidised and unsubsidised exports; maximum subsidised exports commitment. (95/96-06/07; 000 t).

Source: EU notifications to the WTO.

In 2007 export subsidies accounted for 3.4 per cent of the European Agricultural Guarantee Fund (EAGF) budget expenditure; because of the increasingly stringent constraints the CAP budget is subject to, internal pressure is growing to shift financial resources currently absorbed by export subsidies to other CAP policy instruments.

At least for the next few years the EU will certainly continue to use export subsidies, when required, for cereals, dairy products, meat and processed products; however, regardless of the fate of the DDA round, it is likely that export subsidies will be eliminated in the foreseeable future.

In Figure 9 support in the “amber” and “blue” boxes between 95/96 (when the URAA started to be implemented) and 05/06 is shown against the maximum “amber” box support (the Aggregate Measurement of Support, AMS) allowed under the URAA. Although of little relevance at this point, it is worth pointing out that in all years the sum of EU support contained in the “amber” and “blue” boxes remained below the maximum permitted level of the AMS, which means that the

---

32 Export subsidies for dairy products (cheese, butter and milk powder) were not in use from June 2007 to January 2009 as a result of high international prices; they have been reintroduced due to the significant drop in domestic prices.
EU could have satisfied its domestic support commitments even without the “blue” box exemption. The drop in the EU AMS in 02/03 was a result of the implementation of Agenda 2000. In 03/04 and 04/05 the AMS was close to 46 per cent of the maximum; it dropped again in 05/06, to 42 per cent, as a result of the start of the implementation of the 2003 Fischler reform, which moved support from the “blue” (mostly) and “amber” boxes into the “green” one. In addition, the AMS notified by the EU for 03/04, 04/05 and 05/06 refers to the EU-25, while the maximum constraint is still the one for EU-15 (this is because the domestic support commitments for the enlarged EU have not yet been agreed); this means that in the years in question the AMS for EU-15 only is an even smaller percentage of the maximum. Because the maximum allowed CAP budget expenditure has not been (and will not be) adjusted, the 2007 enlargement will determine a further reduction of support in EU-15. Finally, the changes introduced in the CAP after the Fischler reform in the CMOs for tobacco, olive oil, cotton, bananas, sugar, fruits and vegetables, and wine and the further changes introduced in November 2008 as a result of the “health check” (including increased “modulation”) moved additional support from the “amber” and “blue” boxes into the SFP and, as a result, to the “green” box, and will further do so in the next few years.

Figure 9 - European Union. Domestic support reduction commitments: notified AMS, support falling in the "blue box" and margin with respect to the maximum allowed AMS under the Uruguay round Agreement on Agriculture (billion euro; 1995/96 - 2005/06).

<table>
<thead>
<tr>
<th>Year</th>
<th>95/96</th>
<th>96/97</th>
<th>97/98</th>
<th>98/99</th>
<th>99/00</th>
<th>00/01</th>
<th>01/02</th>
<th>02/03</th>
<th>03/04*</th>
<th>04/05*</th>
<th>05/06*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Margin</td>
<td>20,306</td>
<td>3,095</td>
<td>5,182</td>
<td>4,595</td>
<td>5,965</td>
<td>7,282</td>
<td>4,352</td>
<td>11,942</td>
<td>11,497</td>
<td>8,704</td>
<td>25,266</td>
</tr>
<tr>
<td>Blue box</td>
<td>20,365</td>
<td>24,725</td>
<td>29,442</td>
<td>29,505</td>
<td>19,792</td>
<td>22,223</td>
<td>23,276</td>
<td>24,478</td>
<td>27,236</td>
<td>36,808</td>
<td>13,442</td>
</tr>
<tr>
<td>AMS</td>
<td>47,526</td>
<td>51,089</td>
<td>50,194</td>
<td>46,683</td>
<td>47,886</td>
<td>43,654</td>
<td>39,281</td>
<td>38,490</td>
<td>31,214</td>
<td>28,427</td>
<td>78,427</td>
</tr>
<tr>
<td>max AMS</td>
<td>78,672</td>
<td>76,389</td>
<td>74,067</td>
<td>71,765</td>
<td>69,643</td>
<td>67,159</td>
<td>67,159</td>
<td>67,159</td>
<td>67,159</td>
<td>67,159</td>
<td>67,159</td>
</tr>
</tbody>
</table>

*: notifications cover EU-25, maximum allowed AMS is for EU-15.
Source: EU notifications to the WTO.
By 2013 more than 95 per cent of “Pillar I” CAP expenditure is expected to have been absorbed by the SFP. This explains why, as long as the SFP can be put in the “green” box, the EU is in the position to accept an 80 per cent reduction of its Overall Trade Distorting Domestic Support and a 70 per cent reduction of its AMS in six years, and its “blue” box support not to exceed 2.5 per cent of the value of production in a reference period; in fact, it will be able to satisfy these commitments without any further policy change.\textsuperscript{33}

But is the SFP really a policy instrument whose support is fully decoupled from production? The answer to this question is no, but the degree of coupling is very small. It is probably worth recalling that domestic support measures do not have to be fully decoupled in order to be placed in the “green box”, as they “shall meet the fundamental requirement that they have no, or at most minimal, trade distorting effects or effects on production” (WTO, Agreement on Agriculture, Annex 2, paragraph 1). At the time of the Fischler reform and thereafter the EU had comfortably assumed that the SFP was decoupled enough to be legitimately included in the “green” box; then in 2005 the conclusion of the WTO dispute on the “upland cotton” case brought by Brazil against the US sent a clear and very different message (Matthews, 2006; Swinbank, 2005; and Swinbank and Tranter, 2005). In fact, up till then farmers could claim the SFP they were entitled to provided they did not cultivate vegetables and permanent crops different from olives on the land used for their claim, similarly to the payments to US farmers which have been found - on this basis, among others - contrary to WTO rules in the cotton dispute.

This obviously made the “box classification” of the SFP a very sensitive issue for the EU, that adopted a twofold strategy to deal with it.

First, remove all restrictions on land use in the rules governing the SFP (this was completed with the reform of the CMO for fruit and vegetables). Today farmers are allowed to grow whatever they want on the land they use to claim their SFP, or to leave it idle, as long as they keep it in “good agricultural and environmental condition”. Nevertheless, the SFP is still not a fully decoupled policy instrument. In fact, the SFP has a wealth effect and, because of its certainty (at least in the short run), it changes the uncertainty distribution of total farm income; as a result, it effects production decisions by farmers who are not risk neutral.\textsuperscript{34} The fact is that policy instruments providing fully decoupled income

\textsuperscript{33} Similar conclusions are reached in Brink (2006), Jean, Josling and Laborde (2008), Martin and Anderson (2006) and Swinbank (2008); a slightly less optimistic view is expressed in Butault and Bureau (2006). Westhoff, Brown and Hart (2006) correctly suggest that point estimates of support may be misleading in assessing expected compliance of WTO commitments and that the estimated expected distribution of support, considered as a stochastic variable, should be used instead.

\textsuperscript{34} Anton (2006), Féménia, Gohin and Carpentier (2008), Sckokai and Anton (2005), Sckokai and Moro (2006), Rude (2008).
Multilateral trade negotiations and the CAP

support do not exist. Policies need to be evaluated on their degree of decoupling, not on the basis of being fully decoupled or not.

Second, ensure that the “review and clarification” of the definition of the “green” box, which it has been agreed will be part of the DDA negotiations, will yield provisions in the final agreement that will shelter the “greenness” of the SFP from the risk of disputes. There is little doubt that the EU will never agree on a final agreement which does not include provisions to avoid the possibility of the inclusion of the SFP in the “green” box being challenged in a dispute; in this respect, it is very likely that the final agreement, if any, will contain a peace clause, analogous to the one included in the URRAA.

Market access is the area which raises more “defensive” concerns in the EU. As a result of the domestic policy reforms which have been introduced, border protection has a significant role per se in farm income support, apart from that of securing the effectiveness of domestic policy instruments; this effect is more relevant today than in the past as a result of domestic policy reforms. 35 The elimination of intervention for many commodities and lower intervention prices and quantitative limits for those for which it remains in place (e.g. butter and skimmed milk powder) will cause domestic prices to decline; increased milk production quotas will put additional downward pressure on domestic prices for dairy products. The extent of the price drops and, hence, of the impact on farm incomes, will now crucially depend on the degree of border protection.

In market access the main issue for the EU is not the definition of the tiers and the coefficient of tariffs reduction to be applied in each of them, but the treatment of “sensitive” products: how many? how low the out-of-quota tariff reduction? how large the TRQs? how low the in-quota tariff? Many studies converge on the point that decisions made with respect to the “sensitive” products will largely determine

35 The relative level of the border and domestic policy instruments is crucial in assessing if and where the impact of a change in one of the policy tools is to be felt. Consider, for example, a country supporting its producers by imposing a tariff on its imports and guarantying a minimum market price by withdrawing all excess domestic supply at this price, similarly to the EU through “intervention”. Let us assume that the world price is 100, the tariff is 30, the intervention price is 125 and that domestic price in the starting scenario is 130; in this case domestic demand is satisfied by domestic production and imports and no production is removed from the market at the intervention price. Let’s now consider the situation in which the intervention price is reduced to 115; in the simplified representation of the market considered the equilibrium is unaffected, as domestic price remains equal to 130 and is determined solely by the border protection. If the tariff is reduced from 30 to 20, domestic market support declines as price drops to 120, domestic consumption and imports expand while domestic production declines and still no production is sold to intervention at 115. Finally, in the very unlikely case that the tariff is reduced to 10, domestic price drops to 110, only imports are domestically consumed, while the policy supported domestic production price declines by 5 only, as the entire production is sold at the intervention price (115, which is higher than the domestic market price) and ends up in public stocks.
the extent of the reduction in market protection which is where most of the benefits from the agreement on agriculture are expected to come from.\textsuperscript{36}

The 2004 “framework agreement” states that “\textit{the issue of preference erosion will be addressed}” (WTO, 2004, paragraph 44),\textsuperscript{37} which many interpreted as a commitment, should this provision not be already contained in the preferential agreement, to lower preferential tariffs as needed to leave preferential margins unchanged. Because of the relevance of the lowest tariff in determining the degree of market protection, should the agreement call for preferential tariffs to be reduced so as to leave preferential margins unchanged, this might determine, in the short and, even more, in the medium term, an increase of EU imports of specific products from developing countries benefiting from preferential trade which could be potentially larger than the increase in imports from developed countries. However, the current status of negotiations on this specific issue focuses only on postponing bound tariff reductions for products where preferences are more pronounced or realizing them over a longer implementation period (WTO, 2008a: 26-27, para. 149-150).

So, how sensitive would a DDA agreement on agriculture along the lines of a possible compromise based on the proposals on the table today (WTO, 2008a) be for the “defensive” concerns of European agricultures and the CAP? The answer is not very, but possibly somewhat more sensitive than many, inside and outside the EU, tend to think.

EU member countries do not sit at the negotiation tables but are represented by the EU Commission, which negotiates within the limits of a specific mandate defined by member countries;\textsuperscript{38} in the case of the negotiations on agriculture this mandate is very strict; it says that the agreement has to be compatible with the CAP reforms which have been already agreed. The question is: what does “compatible” mean? If compatible means that the agreement does not force the EU to undertake any further policy change and does not induce an increase in budget expenditure, then the offers put forward by the Commission so far certainly remain well within the mandate given. However, if “compatible” means that the agreement not only makes further changes in the CAP unnecessary, but leaves farm incomes unchanged, then the most recent proposals on agriculture, namely those related to market access, (which the Commission signalled it was ready to accept, essentially in exchange for a significant increase in market access for non agricultural


\textsuperscript{37} For a discussion of the preference erosion issue in the context of the round see Bouët, Fontagné and Jean (2006), Lippoldt and Kowalski (2005) and Low, Piermartini and Richtering (2006).

\textsuperscript{38} The issue of the role played by the Commission vs. the member states in the DDA negotiations is addressed in Meunier (2007).
Multilateral trade negotiations and the CAP

products), 39 might not be consistent with the mandate. The conditional is used here because, while the tariff reductions tentatively agreed upon (WTO, 2008a) seem to imply a lowering of current market protection in some of the more protected sectors, and, hence, a reduction in market prices and farm incomes, the fact we do not know what the final agreement will decide for “sensitive” products makes it impossible to assess the extent of the actual market opening and of the downward pressure on prices and farm incomes this will induce. If current EU border protection is significantly lowered, because of the changes introduced in the intervention system, it will translate into a significant reduction of domestic price support, and the impact of the agreement will be felt by farms (rather than, as would have been the case not so long ago, on the EU budget, as a result of larger market withdrawals at relatively high intervention prices).

As regards the “offensive” side, the EU being the world’s largest exporter of agro-food products (and its net trade positions improving over the years), its primary interest in the negotiations on agriculture is to gain increased access to foreign markets and for international trade to remain characterized by a “serene” and predictable climate.

One important “offensive” issue for the EU - which is more important than many are inclined to believe - is the granting of meaningful multilateral protection to GI for all agro-food products. From a (southern) European perspective the importance of this issue is obvious and does not need much explanation; agro-food products in Europe are often linked to the physical and cultural environment in which they are produced and more and more consumers value the origin of the product as a quality attribute per se. This is why in the early 1990s the EU introduced a regulation to protect denominations of origins for agro-food products. The basic idea is to protect consumers willing to buy a traditional product closely linked to a specific area of production by providing a public guarantee that what they are buying is indeed what they intend to buy and are ready to pay more for. 40 While internal disputes have erupted since then (the best known possibly being those around the use of the denominations “Feta” and “Tokaj”), the introduction of the regulation did not raise significant opposition at the time, as nobody felt it was meant to protect specific interests apart from those of consumers. On the contrary, the demand by the EU for multilateral protection to be granted to denominations of origin has been described by many as an attempt to introduce unfair protectionist barriers by the back door. Preventing the use of denominations of origin which have become generic names (as may be the case for “Parmesan” cheese in the US) or denominations which have been covered by trade marks (as for “Parma ham” in Canada) is out of question. The aim of the EU is to prevent producers far away

39 The EU acknowledged in Geneva it was ready to accept an average cut in its agricultural tariffs of 60 per cent in exchange for other countries improving their offers on NAMA (AgraEurope, Monday July 21, 2008).
40 Origin is a “credence” quality characteristic and the conditions for trust to develop often do not hold, leading to the disappearance of the quality good.
from a specific physical location benefiting by using the name of that place - which has been recognised by national regulation as identifying a specific product, due to the characteristics of the local agro-environment as well as the traditional know-how - in an attempt to induce consumers to believe that their product has something to do with that place, thereby unfairly exploiting the economic value of somewhere else’s and someone else’s reputation. In the first few years of the negotiations the GI issue had been moving up and down in the list of the priorities for the EU, but it has now gained the status of being one of its top priorities for the final agreement of the DDA. Although the economic value of obtaining multilateral protection for the most important Protected Designations of Origin is certainly significant, the explanation for the considerable importance that GI have today in the negotiations for the EU is to be found mostly in the political pressure from the southern member states to have something to “bring home” with the final agreement which can be sold to stakeholders in agriculture as an important “offensive” result (e.g. the DDA agreement not bringing only concessions to the other partners in agriculture in exchange for gains benefiting other sectors).

5. What’s ahead?

5.1 What lies ahead for the CAP?

Since 1 January 2007 the EU includes Bulgaria and Romania, large countries with agricultural sectors which still account for a very sizeable component of their economies; the share of agriculture in the GDP of Bulgaria and Romania in 2006 was 6.2 and 7.2 per cent, respectively, vs. 1.2 per cent in the EU-27; the share of agriculture in total employment was 8.1 and 30.6, vs. 5.9 per cent in the EU-27. Because of the decision taken in October 2002, the budgetary cost of the progressive “phasing-in” of the CAP in these two countries over the ten year period 2007-2016 will have to be financed within the budgetary guidelines for the CAP agreed at that time. Unless budgetary cuts are made in market support payments (and some will certainly occur), this means that SFP payments in EU-25 countries will likely have to be reduced in the years to come to make financial resources available for CAP expenditure in the two new member states; this reduction in support is estimated to be around 3 per cent.

While the negotiation for the enlargement to Turkey seems to have been put on hold, at least for the time being, the enlargement to several of the Balkan countries will likely materialize within the next decade or so, although the difficulties over Turkey might effect the pace of this process.

Despite the radical changes in the policy instrumentation of the CAP introduced by the Fischler reform and completed with the “health check”, these did not shape a CAP which is likely to last long into the future. When in December 2005 the European Council approved the “Financial Perspectives” for the 2007-2013 period,

---

41 The status of “candidate” country is currently held by Croatia and Macedonia.
the agreement included the decision to undertake in 2008/09 a “full, wide ranging review covering all aspects of EU spending, including the CAP.” and “On the basis of such a review, the European Council can take decision on all the subjects covered by the review” (Council of the European Union, 2005: 32); based on the experience of the Agenda 2000 “mid term review”, it was clear that this meant the possibility of policy changes, either directly or indirectly through a significant change in the financial allocations for agricultural policies.

As a matter of fact, the motivation behind the decision by Commissioner Fischer Boel to launch the “health check” initiative was probably twofold: the fact that the Fischler reform did not (and could not) generate a CAP able to address effectively the policy needs of diversified and rapidly changing European agricultures; the need to prepare for the internal “assault” on the financial resources devoted to agricultural policies which was to take place with the “full review” of budget expenditure, by arriving at the appointment with a better and more easily defensible CAP. However, the policy changes introduced by the Council in November 2008 at the end of the “health check” fall short of achieving this second goal. Nevertheless, they generated a potentially more equitable (if countries decide to use the opportunity to “regionalize” or “approximate” direct payments) and a more market oriented CAP - as a result of the elimination of residual coupled payments, the progressive elimination of milk quotas and a reduced and less generous use of intervention (and a reduction in farm support, as a result of the market reorientation as well as of the increased “modulation”). In fact, in order to put the CAP in a stronger position in the budget review process (which, meanwhile, has been delayed from 2008/09 to 2009/10) Commissioner Fischer Boel has already started addressing the needs for the CAP beyond 2013.

Regardless of the budget review process and the treat it poses to the financial resources for the CAP, the point is that we certainly have today a much less distortionary CAP compared with that before the 2003 Fischler reform, but it still not the CAP which is needed. Any discussion of what this would entail is certainly outside the scope of this paper,42 but if one thinks beyond 2013 the issues to be addressed should include: the relevance of the goals set for the CAP in 1957 for the EEC-6, which have never be changed, for the agricultures of the EU-27 in 2013; the social justifiability in a mid term perspective of the SFP, even a “regionalized” one (what is the payment for?); the effectiveness of cross-compliance; the need for innovative policy interventions to help farms cope with increased price and income variability; the need to support farms selectively to help them become competitive, or remain so, in the more market-oriented, less protected environment.

What should be considered is the “phasing-out” over a number of years of current direct payments and, at the same time, the “phasing-in” of new, or re-

designed, policy instruments. This means going beyond the current two pillar articulation of the CAP. Support should not be linked to the status of farmer, or the farmer’s role as caretaker of the rural environment *per se*, but selectively targeted and linked either to an easily and objectively verifiable production of public goods and services, well above the minimum standards set by existing regulations, or to the implementation of a strategy plan of action to remove the factors limiting the competitiveness of the farm. While agricultural policies should be carefully scrutinized to assess their coherence with other strategic policy goals of the EU, we should avoid designing agricultural policies to pursue, …or claim to pursue, social welfare, public health, environmental or energy goals, or the socio-economic development of rural areas; these goals should be left to the specific policies addressing them directly, which will do the job much more efficiently and effectively.

The possible outcome of the budget review process in terms of its implications for the CAP beyond 2013 are difficult to predict; however, it is likely that it will end up becoming a catalyst for the very much needed critical rethinking of the fundamental elements of the current CAP.

5.2 What lies ahead for EU preferential trade agreements?

Developments in preferential trade agreements seems particularly relevant for the future openness of EU agro-food markets.

The Euro-Mediterranean strategy of the EU has been somewhat sidetracked when the evolution of its relationships with the Mediterranean countries was made part of the more general European Neighbourhood Policy (ENP), including under the same umbrella “neighbours” on the Eastern border, such as Belarus, Georgia, Lithuania and Ukraine. Although the ENP framework seems to put less emphasis on trade issues, the full implementation of the Euro-Mediterranean work programme and “liberalizing agricultural, processed agricultural and fishery products with Mediterranean partners” is, nevertheless, part of the agenda. Mediterranean countries are stronger competitors on the EU market than ACP countries and LDC benefiting from duty-free and quota-free market access under the EPA and the EBA initiative; should the liberalization process move ahead as planned and should within the next few years, if not full, at least significant further liberalization of agro-food trade in the Mediterranean become a reality, this will imply a significant additional step towards reducing the degree of protection of EU agro-food markets.

Plans for future developments in EU regional integration agreements are not confined to those within the ENP framework, they also include starting or concluding negotiations for many potentially far reaching preferential trade
agreements, such as those with South Korea, ASEAN, Mercosur, Central America, the Andean Community, Russia, China and India.43

In all these instances, the deepening of the preferential margins will benefit the preferred countries while reducing the relative competitiveness on the EU market of other exporters, both preferred and non-preferred; this means the increase in market openness will not translate into benefits for all trading partners.

5.3 What lies ahead for WTO negotiations?

At the time of writing this paper (April 2009) the DDA round negotiations were de facto suspended; multilateral negotiations never fail, negotiators simply maintain to pretend they continue and finding a conclusion is possible.

In order to address the issue of what lies ahead, it may be useful to briefly discuss the reasons why no agreement was reached in Geneva in July 2008.

Was agriculture the reason for the “stall”? The negotiations on agriculture were not the only reason for the suspension of the round. It is true that negotiations on agriculture (in particular those on the SSM and the “cotton initiative”) were, on their own, capable of blocking a “single undertaking” agreement, but negotiations were far from reaching a conclusion also at two other tables: TRIPS and NAMA. In TRIPS, as has already been mentioned, negotiations on the introduction of a multilateral register for geographical indications for wines and spirits, not to mention that on the extension of the register to all food products, was stalled, and had been stalled for years. In the NAMA negotiations there was no agreement on the introduction of non mandatory “sectoral initiatives”. Although a final agreement can only be reached by jointly considering compromises across all tables, had an agreement on agriculture been found, I do not think it would have been possible to find a rapid agreement in these other negotiations. More time, negotiations, and widespread political will were (and are) needed to free the DDA round from the logjam.

Did the negotiation fail because of the “defensive” inflexibility of the European Union? I believe the negotiating stand of the EU was not among the causes of the “suspension”. Over the years the EU has offered the elimination of export subsidies, has accepted a reduction by 80% of its overall domestic support and progressively offered deeper tariff cuts. The European Union can safely be listed among those willing to conclude the round either with a relatively “ambitious” agreement - bringing significant additional market opportunities in non agricultural goods and cuts in the market protection the EU currently grants to specific agro-food products - or with a “non ambitious” one.

Did the negotiation fail because of the “defensive” inflexibility of the US? One of the main drivers of the suspension was the US refusal to accept the requests

from other countries related to domestic support reduction commitments and to the cotton initiative.

Does the US want or need an agreement? The approval of the US Farm Bill (the Food, Conservation and Energy Act) in June 2008 and the installation of new Administration (the new US Trade Representative, Ron Kirk, was confirmed by the US Congress only in March 2009) puts the US in the position to return to the negotiations ready to make commitments. However, one has to realize that the new Farm Bill, if it allows the Administration to negotiate US commitments on agriculture, at the same time, limits the space of the feasible agreements the US may be willing to sign. The new Farm Bill introduces relatively little change in US farm support policies and appears to have been defined without taking DDA proposals on market access commitments as possible constraints; particularly puzzling in this respect is the new Average Crop Revenue Election (ACRE) programme, which provides farmers who decide to enter the programme with a revenue guarantee calculated with reference to recent years, when prices were unusually high. The claim that the Bill will be modified if its provisions result inconsistent with the final DDA agreement is not convincing; a Congress which passed the Farm Bill with such overwhelming bipartisan majorities (306-110 in the House, 82-13 in the Senate) is unlikely to approve a WTO agreement which would force amendments to be made to that very same Bill. Hence, the new Farm Bill makes the conclusion of the round possible, but, at the same time, it defines its level of ambition. The problem at this point is whether that level of ambition is acceptable to the other countries. The attitude of the new Administration with respect to trade liberalization is still not clear. As Presidential candidate Obama expressed full support for the new Farm Bill and bowed to protectionist pressure by the less competitive US industries. President Obama appears unwilling to take a very strong stand on trade issues at this point, but there are no signs of trade liberalization being a top priority. The choice of Ron Kirk and Tom Vilsack as USTR and Secretary for Agriculture, respectively, seem to identify a team not openly against trade liberalization, but certainly more oriented to listen to “defensive” domestic trade concerns than to “offensive” ones, more to those who want to save their shares of the domestic market than to those who ask for policy intervention to help increase their market shares abroad. In President Obama’s trade policy priorities (USTR 2009) limited attention is given to DDA negotiations and the message is clear: “it will be necessary to correct the imbalance in the current negotiations in which the value of what the United States would be expected to give is well known and easily calculable, whereas the broad flexibilities available to others leaves unclear the value of new opportunities for our workers, farmers, ranchers and businesses.” (USTR, 2009: 3). On the contrary, in listing the priorities, emphasis is given to the need to improve existing trade agreements, the need for the social accountability of trade policies (including taking into account the status, conditions and protections of workers in trade partners, ensuring that “competitiveness is not based on the exploitation of
workers”) and the need to use trade policies to fulfil environmental goals. Finally, despite the good and close relationship which the Administration is going to have with the Congress, one should expect the latter to take (and try to enforce) a more protectionist stand with respect to the President, with some game-playing by the two sides.

Serious negotiations will restart only if the Congress agrees to provide the Administration with TPA. This could well be the case, but should not be taken for granted, as both President Obama and the Congress, given the crisis and the domestic pressure for protectionism, may see TPA and multilateral negotiations to conclude the DDA round as a problem. As a matter of fact, the President has already made clear that he is not anxious to ask for TPA, which is a clear signal that the US is in no rush to conclude the round quickly.

Are some of the negotiation positions on agriculture too ambitious? WTO decisions are to be taken by consensus, i.e. a necessary condition for reaching an agreement is that every single one of the 153 member countries finds the proposal for an agreement on the table preferable to the no-agreement alternative. And this is only a necessary condition; in fact, countries can find a proposal advantageous with respect to the no-agreement one and still decide not to accept it, thinking they can obtain an even better agreement through further negotiations. This obviously makes the negotiation process very difficult, even more now that many developing countries, including some of the least developed ones, have become active and effective negotiating partners. Because of the suspension of the negotiations, it is reasonable to wonder whether the trade liberalizing content of proposals made by some developing and developed countries was not too ambitious, i.e. aimed at a final agreement outside the set of the feasible agreements (those preferred to the no-agreement option) for some of the member countries; the list of culprits extends well beyond the US and, possibly, the EU, to include several countries in the G-10 group as well as some of the more protectionist developing countries. On the other hand, the opposite view holds true as well: what the US consider, at least for the time being, as a feasible agreement, could be considered unacceptably unambitious, at least for the time being, by many other countries.

What is at stake, the negotiations or the WTO itself? Negotiation failures are certainly not new to WTO - Brussels in 1990 in the Uruguay round; Seattle in 1999 and Cancun in 2003 are all examples of Ministerials which ended in failure - and are not a problem per se. The problem lies in the fact that the suspension of the negotiations signal the possibility that the rules governing the WTO decision making process, mainly the fact that decisions have to be taken by consensus of all its 153 members, are a major part of the problem, because of the changed distribution of power at the table of multilateral negotiations, with a more important and determinant role assumed by certain developing countries, not to mention the evident tensions on the broader scene of international relations. While the Uruguay round was eventually brought to an end by a bilateral agreement.
between the US and the EU (the so called “Blair House agreement”), which was then “multilateralized”, this will certainly not be the case again in the DDA round. Any agreement will have to emerge from a consensus reached in a complex multipolar setting of aggregations of negotiation interests, which may see in the final stages even developing countries beyond the largest and most dynamic ones playing a key role. In such a difficult environment for international relations, consensus-based decision making rules create a golden opportunity for any country to block an agreement unless its demands are met. Hence the concerns regarding the need for a change of the rules governing the WTO.

So, what’s next with the DDA round? Since July 2008 and the suspension of negotiations which followed, very little has happened and, at least for the time being, for the reasons discussed below, little can happen.

A political impasse needs a political solution. The suspension has been caused not by difficulties in finding a compromise technical solution on the formulas and the parameters of the agreement, but by an evident political impasse due to the distance separating the sets of the agreements which some of the main actors in the negotiations find to be politically feasible (today). Although all the statements routinely made at recent gatherings of G7 (February 2009) and G20 (November 2008) Heads of State, the strong widespread political pressure needed to disentangle the current stall has not emerged. The financial crisis has not only taken the central stage in the political debate, diverting political attention from multilateral trade negotiations, but also generated, everywhere, a strong demand for protectionism. Despite claims that a DDA round agreement is needed now more than ever, the international political climate is not favourable for trade liberalization; it should not be forgotten that in 2007/08, before the explosion of the financial crisis, the spike in many agricultural prices created the perfect world markets scenario to facilitate an agreement, and that was not enough.

An agreement soon? I do not think negotiations are going to resume in the very near future. In addition to all that has just been said, one should consider: the elections in India in May 2009 (which means that it would be difficult for whoever wins to accept only few months after the elections a final agreement along lines significantly different from positions taken during the electoral campaign), the EU Parliamentary elections in June 2009, and the new Commission in place in the Fall. Meanwhile, Crawford Falconer, the chair of the negotiating committee on agriculture since 2005, returned to New Zealand; his term expired in December and was temporarily extended to avoid creating a problem for the negotiations at a crucial stage. The fact that Crawford was now able to leave his post confirms that negotiations are stalled, as it will take some time for David Walker, the new chair, to build up the reputation needed to act as an effective facilitator in the search for an agreement.

An exponential increase in trade disputes? There is little doubt that the main impact of the Uruguay Round for agricultural trade has been due not so much to
the commitments included in the Agreement on Agriculture for domestic support, market access and export subsidies, but rather to the new mechanism for the settlement of disputes. The EU intended to reform its Common Market Organization for sugar anyway (as a result of the EBA initiative and the fact it was an unreasonable and inefficient way of reaching its stated goals), but the WTO ruling did certainly play an important role in the policy changes. The conclusion of the dispute on “upland cotton” against the US sent a clear message to the EU regarding the defensibility of the “decoupled” Single Farm Payment in place at the time as a policy tool which can be placed in the “green” box. With the expiry of the “peace clause” in December 2003 most of the CAP policy instruments could potentially be challenged as inconsistent with WTO rules. All this means that the WTO dispute settlement mechanism has been and will remain a crucial element in assessing the effectiveness of WTO in inducing agricultural policy reforms. It is easy to predict that if the suspension goes on too long the number of disputes opened by developed and the largest and more dynamic developing countries will rapidly increase. If this happens, one possible concern is that it would increase the political pressure within developed countries for rewriting the rules of the WTO to reduce the enforcement power of its dispute settlement process.

*Toward a definitive failure of the round and the reform of the WTO?* The responsibility of the current stalemate in the negotiations cannot be attributed to the WTO and countries did not blame it for what happened; this means that the legitimacy of the WTO as an institution is not in question. For the reasons discussed so far, the possibility of a definitive failure of the round, e.g. that, after the current suspension, negotiations never restart, or that negotiations restart but no agreement is reached, is not very likely, but nor can it be excluded either. If member countries fail to bring the round to an end, then the issue of reforming the WTO will become unavoidable, either by rewriting its rules, or replacing it with a new multilateral institution. A reformed WTO might be based on “basic” rules which would apply to all member countries and more demanding rules applied with a “variable geography”, only to trading among those countries which agree to them. Reforming the WTO without introducing a new institution to replace it may be difficult; in fact, rewriting its rules would again require consensus and it is unlikely that those who blocked an agreement would then be willing to rewrite the rules of the WTO so as to prevent them, as well as others, from doing so again in the future. This is why a new institution would possibly be the best option. However, this would mean the disappearance not only of multilateralism in setting the rules governing international trade, but also of the only truly democratic institution among the main international economic and financial organizations, where decision making is based on consensus, which means that each country, regardless of its demographic, economic or political size has power of veto in the decision making process. Obviously this constitutes, at the same time, the strength and the weakness of the WTO as we know it today. As afore mentioned, if WTO is reformed, this might include a limitation of its enforcement power in the disputes.
settlement mechanism. One question which it seems reasonable to ask at this point is if a “globalization with no rules” is to be preferred to the current situation. I believe those who are bound to lose out most from a reform of the WTO along these lines are developing countries with a significant (current or potential) agro-food export competitiveness that enjoy today limited trade preferences and, among them, the less developed ones.

6. Conclusions

Four main conclusions can be drawn from the analysis developed in the paper.

Since the early 1990s the CAP has undergone significant reforms, the most incisive being the June 2003 Fischler reform. This reform, and those which have been introduced subsequently along the same lines, induced a market reorientation of domestic prices, by drastically reducing distortions in farm decisions and the consumer taxation implicit in the CAP, and by making the distance between domestic and world prices less pronounced. Farm support has been reduced as well, but to a lesser extent and the CAP is still far from being an effective and efficient policy. The market reorientation of domestic prices has not translated in increased market access, as border protection in the same years has remained unchanged; the positive effects of these reforms for third country exporters have been limited to the upward pressure on world prices as a result of the contraction of EU export supply induced by the domestic policy reforms. In order for exporting countries to fully enjoy the positive effects of CAP reforms a reduction in border protection is needed.

CAP reforms have been substantial and in the “right” direction from the point of view of WTO negotiations. However, they have been introduced mostly because of domestic considerations. Had the negotiations been a major driving force in the CAP reform process, changes would not have been made so early in the round and further possible changes would not have been announced so loudly, inducing the other partners at the negotiation tables to take these reforms for granted (in exchange for no concessions on their part!) and ask for additional concessions.

Unlike the Uruguay round, thanks to the subsequent CAP reforms which have been introduced and the EBA initiative, the EU has been able to act in the DDA negotiations on agriculture as a credible and responsible player. The EU has taken unilateral actions to make negotiations move forward by resolving some of the impasses the DDA round faced, including agreeing not to put on the agenda three of the “Singapore issues” and unilaterally offering that the final agreement includes a date for the elimination of export subsidies. EU proposals have evolved significantly over the length of the negotiations: from the initial proposal in January 2003, to the offer to eliminate export subsidies in May 2004, to the offer of October 2005, finally to concessions on the table at the time of the suspension, which include: the elimination of export subsidies; the reduction by 80 per cent of EU maximum allowed overall trade distorting domestic support; an average cut of

G. Anania

42
its bound tariffs above 50 per cent, whose effects, however, might be significantly mitigated by the provisions (to be agreed) regarding “sensitive” products. Were the final agreement be not far from this proposal, it would no doubt bring little liberalization of EU domestic and trade policies in addition to already introduced, albeit in some cases not yet implemented, policy reforms. An interesting question is: what would have been the assessment of the “ambition” of the current offer by the EU had this been an hypothesis made at the beginning of the round of what the final agreement on agriculture would have looked like?

If the DDA round sees a successful conclusion, the “ambition” of the agreement on agriculture will be largely constrained by the EU reforms (including those which may take place in the near future) and, most important, the new Farm Bill in the US; these will shape the level of “ambition” of the final agreement, which many would judge too low and others too high, leaving the door wide open for a conclusion of the round with no-agreement. On the other hand, no matter what the outcome of the round is, additional relevant changes in the CAP will be considered and successful developments in EU trade agreements may contribute to an increasing opening of its agro-food markets.

References


G. Anania


Bureau J.-C., R. Chakir and J. Gallezot (2007), The Utilization of Trade Preferences for Developing Countries in the Agri-Food Sector, Journal of Agricultural Economics, (58).
Multilateral trade negotiations and the CAP


G. Anania

WTO Negotiations and Agricultural Trade Liberalization. The Effect of Developed Countries’ Policies on Developing Countries, CAB International, Wallingford UK.


Vanzetti D. and R. Peters (2007), Reviving the WTO negotiations on agriculture, invited paper, 51st Annual Conference of the Australian Agricultural and

WTO (2001), Ministerial Declaration, Doha, 14 November (WTO/MIN(01)/DEC/1).


WTO (2005a), Committee on Agriculture, Special session. Agricultural Negotiations: Status report II, Looking Forward the Hong Kong Ministerial, Assessment by the Chairman, 1 August (TN/AG/19).


WTO (2008a), Revised draft modalities for agriculture, Committee on agriculture, Special session, Document TN/AG/W/4/Rev.4, 6 December.