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Agriculture and the WTO: Lessons from Europe

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

USDA Agricultural Outlook Forum 2004: "Ensuring a Healthy
Food Supply"

Arlington, Virginia, 19 February 2004

Secretary Veneman, Dear Ann,

Ladies and Gentlemen,

If I had been speaking before dinner, I perhaps would not have been so bold as to propose to you, on an empty stomach, that I could come here tonight with some lessons from Europe. What, you might say, could Franz Fischler possibly teach us on agricultural policy? Is this some kind of after dinner joke? The CAP may be an education, yes, but it's hardly the sort of system we'd put our children through, is it? And where do those Europeans get off on telling us what to do?

But I'm not here to tell you what to do. Not in so many words anyway. What I want to do tonight is not so much teach you a lesson, as it is discuss some of the lessons we Europeans have had to take heed of ourselves, on agricultural policy and, in particular, on agricultural support.

Ladies and Gentlemen:

I am the first to admit that there are many points on which America and Europe are divided by what sometimes may appear as an ocean of difference. But equally, there are many points on which we are closer than we sometimes think. And the issue of farm support is certainly one on which we are united, at least in the eyes of the rest of the international community.

Because whilst we might follow, not to say argue over, different patterns, we both recognise the importance of, and fully intend to carry on, supporting our farmers in the many and varied roles they play, be it conservation, be it the guarantee of healthy and nutritious food, or the upkeep and regeneration of our rural areas.

And where we in Europe met our first hurdle, was not only in the amount of support we afforded, but also in the type. We had followed a pattern that was unsustainable, that was not environmentally friendly, that compromised quality in the drive for quantity, and one that operated almost exclusively, on an inward-looking basis. We had, if you like, tried to go to university without passing through High School first.

We soon learned, albeit sometimes the hard way, that certain things matter. That consumers matter, that production methods matter, that the value of our rural areas matter, and that the importance of giving taxpayers value for money matters. Indeed, your whole conference is geared towards "ensuring a healthy food supply".

I'm sure that you didn't just intend this to be taken in its literal sense, and that for you, just as for us, the 'healthy supply' refers to sustainability, quality, and welfare, just as much as it does to the end product.

And so began our process of reform, first in 1992, then again in 1999, and most recently, the one that proved many of our sceptics wrong, only last year. The philosophy has remained the same throughout:

1. To bridge the gap between world and domestic prices;
2. To give farmers and taxpayers a better deal; and
3. To secure agriculture as an industry for the long-term.

And although the results have not been the same in every sector, the pattern is clear.

In cereals, where reform started earlier, the cumulative drop in price support has, in general, been more than 46% since 1992 (for durum wheat the respective figure is 57%), whilst rye intervention has been abolished altogether. In rice, the intervention price will have dropped to 50% of its original level from 2004.

In beef, the intervention price has been abolished, while the safety net price lies at 53% of the pre-reform support price, and in dairy, the intervention price for skimmed milk powder will have dropped by 15%, and that for butter by 25%.

You get the picture I'm sure.

But then we had the problem that, had the drop in support been left to stand alone, our farmers would have seen a significant drop in farm income, which brings me to my second point: the type of support. So here, to compensate our farmers, we needed to introduce direct payments, but the claim I hear too often is that shifting our support from product to producer has not had an impact on trade distortion.

False, and here again, cereals provide the best proof, because throughout the decade of reform, yield growth has slowed down, area ceilings were not reached, and yet internal demand increased impressively. But this is not the only example, because all analysis we have seen indicates a similar trend in all the reformed sectors, even if the extent differs from study to study. In short, the various CAP reforms have spelled less trade distortion and fewer export subsidies, whilst allowing a greater margin for tariff reductions in the context of an overall WTO agreement.

But reforms have not only been about securing a fair deal for our farmers, they've also been about giving better value for money, which is why we've now made support explicitly linked to various environmental, animal welfare and safety standards. Precisely because European consumers want to know exactly what they get, and exactly where it has come from.

We also live in an age where conservation has been pushed to the forefront. Everyday our attention is drawn to the fact that our natural resources are expendable as another species of plant or animal comes in danger of extinction, and so reform had to secure agriculture in the long-term, not only financially, but also environmentally: the reason behind our so-called 'cross-compliance', and the reason behind our boost in rural development support.

These are all things that are important to European citizens; they are all things that they cherish, which brings me to my second lesson, the geography of reform, or mapping out an appropriate direction for our support model to take.

Ladies and Gentlemen:

CAP reform is not a one-stop shuttle. I am sure, or I hope at least, that the same also goes for the American Farm Bill. Just as science and nature evolve, so too must agricultural policy.

Already we have presented proposals for what we refer to as the Mediterranean products – tobacco, olive oil and cotton, and later this year we will also be presenting a carefully considered proposal on reform of the sugar sector.

And this brings me back to the point that how we support matters: the European move from product to producer, first via the blue box, and then via the green box (to speak in WTO terms), is a clear indication that we are dedicated to making decisive, and consistent, progress towards a less trade-distorting world trade system.

Reform has enabled us to make a real commitment to all three pillars of the Doha Agenda: less trade-distorting support, (down by 70% since 1995), fewer export subsidies (down by 65% since 1993), and a greater margin for market access.

And here is another lesson we've learned: that market access matters more for those who have got less. You were quite right to say in your 'Taking stock for the new century' report that "Trade expansion is critical."

But critical for whom?

I would argue that whilst it is 'important' for the developed world, the only countries for whom it is actually 'critical' are the developing ones, in particular the poorest. And this sort of priority list needs to be clearly identified in the negotiations, and this is one point on which I do believe that we can lead the study group.

The 'Everything But Arms' agreement, and the European system of trade preferences are what has contributed to our becoming the largest importer, by far of agricultural products from developing countries. The EU absorbs around 85% of Africa's agricultural exports and 45% of Latin America's.

And I'm pleased that we both now recognise the importance of potentially phasing out export subsidies for products of interest to the developing countries.

But what export subsidies are we talking about?

The EU measures of supporting exports have a trade-distorting impact on trade, and we have never said the contrary. But these have been disciplined already in the previous Round, which failed to discipline, despite specific commitments to the contrary in the Agreement on Agriculture, other forms of export support.

Therefore we insist that when we talk about export subsidies, we should talk about *all* forms of export competition, not just Europe's.

This is after all the clear Doha mandate; explicit in the inclusion of all forms of support for exports, less clear is the timetable for making reductions and whether complete elimination is the aim.

The Doha mandate is also about export credits and surplus disposal in the guise of "food aid", used mainly by the US.

It is about export monopolies, whether Canadian, Australian or from New Zealand. The fact that in a recent dispute both US and Canada could claim victory is an obvious demonstration of the absence of clear WTO rules in this area. It is also about other, less discussed forms of export distortion, as the impact of the differential export tax in Argentina on its soybean trade indicates.

But, ladies and gentlemen, what contribution we make, what contribution you make, is sometimes lost, not only in translation, but also in communication, and this brings me to our final lesson today, which is language.

Because regardless of the geography, or even the economics of reform, if people are unable to express the facts in a clear and concise manner, then not only will the point of reform be lost, but the reality of what it can achieve as well.

Too much has so far been overshadowed by the publication of inaccurate figures to sex up a storyline, and too little of the negotiation has actually focussed on making real progress and moving forward.

For example, I'm sure you are all acquainted with the parable of the well-salaried cow: the argument frequently used by NGOs and the such, that taxpayers in the developed world spend a generous \$300 billion dollars a year on agriculture, or \$2 per day per cow; more, in other words, than many of the world's poorest people daily income.

Equally, I am sure that I don't need to explain to you that this erroneous cow-culation can be put down to the inappropriate use of the Producer Support Estimate (PSE), designed as the OECD rightly says, to measure not taxpayer support, but total support to agriculture, of which taxpayers contribute only a third.

The cow argument, however, is not one that can be isolated in its use against Europe. It applies to all countries, developed or developing, that support their agriculture, either through taxpayer money (the former) or through border protection (the latter).

And just as it provides a colourful distraction from many of the real facts at hand, and the black and white of facts and figures, it also draws public attention away from what we are really trying to work towards, and what our various reforms have achieved so far.

Ladies and Gentlemen:

You know as well as I that reform is not easy; you can understand that what we have achieved over the last year is no mean feat, and I hope that you can appreciate why the EU will not accept to always be pushed that one grade further.

We've taken our exams, people doubted whether we could pass, but when the pressure was on, and a precondition for success in the WTO rested on our shoulders, we lived up to the challenge, and we did what many thought the impossible. We will not accept that our papers go back for a re-mark at this stage.

Neither you nor I can claim to have got everything right in the past. Neither you, nor I, could pretend that we could live without some form of agricultural support policy – not because we wouldn't produce, but because we would produce differently, with different priorities, and with different results; results that are not in the interest of our societies.

And for the WTO negotiations to move forward, we need to focus on this: the hows, the type, and the direction of support, not waste our time discussing the superficialities. We need to move forward, both independently and together. We need to deal with fact not fiction, and we need to move away from the finer details of language to read the moral of the story that sits further below.

It's the old, "you say tomayto, I say tomahto" argument: believing the same thing, but saying, or even doing it, differently.

Thank you for your attention.