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MULTILATERAL NEGOTIATIONS, REGIONAL INTEGRATION PROCESSES AND THE CAP. WHAT'S AHEAD?*

Giovanni Anania (University of Calabria, Italy; ganania@unical.it)

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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, the domestic agricultural policy reform in the EU and the 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 regional trade agreements involving the EU, and the perspectives of the WTO negotiations. The main point made is that the changes in domestic agricultural policy which have occurred in the EU (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 close to the end of the round), the timing and extent of these reforms have made it possible for the EU to be a credible actor in the DDA round and put forward sensible negotiating proposals. The CAP is expected to go through further significant changes in the near future which, regardless of what happens in the WTO negotiations, will bring a further market reorientation of EU agriculture and a reduction in trade distortions. Successful developments in preferential trade agreements involving the EU for which negotiations are already well under way may contribute to a significant increase in the opening of EU agro-food markets.

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 had been changing, and had been changing in the direction most third countries desired (although possibly not at the speed nor to the extent they would have wished). The 2003 Fischler reform of the EU Common Agricultural Policy (CAP), which “fully decoupled” most of the public support enjoyed by the European farm sector, was the most

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important single step in the reform process of the CAP which has been on-going since the late '80s. The reform process did not stop in 2003; since then all sectors which had remained untouched by the reform have undergone, or are currently undergoing, similar policy changes, and further relevant policy changes will be considered in the near future even for the policies which have been reformed.

The paper discusses the past and the future of CAP reform and of the DDA WTO negotiations on agriculture and the linkages between the two parallel processes: CAP reform decisions and developments in the EU negotiation positions in the round. The first part is devoted to the past, analyzing recent changes in the CAP and EU trade preferences to developing countries, and how the WTO round 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 trade agreements involving the EU, and what could, or could not, happen in the WTO negotiations and why.

2. The Fischler reform of the CAP

The CAP has been subject to a continuous reform process since the early '80s. At that time pressure for reform came almost entirely from concerns regarding its financial costs, which were growing out of control and quickly becoming unsustainable. Over the years other forces came 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 as a result of the subsequent enlargements of the EU as well as of rapidly changing 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 over the use of the EU budget financial resources; and of the growing international pressure for a reduction of its distortionary effects.

Developments in the CAP did not occur at a steady speed over the years and, until recently, policy reforms did not extend over all sectors in a consistent manner nor to the same extent. After a series of sector-specific policy adjustments (including the introduction of production quotas for sugar and milk, voluntary set aside and "automatic stabilizers" meant to keep budget expenditure in each sector within pre-fixed limits), which have often been decided under strong contingent budget 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,¹ 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).

These policy changes were not marginal, neither in terms of the reduction in support, nor in terms of the reduction of the distortionary effects of the CAP. In Figure 1 changes in CAP support in the 17 years between 1986-88 and 2003-05, from before the MacSharry reform of 1992, to immediately before the implementation of the 2003 Fischler reform, are shown based on indicators calculated annually by OECD;² three indicators are used: the per cent Producer Support Estimate (%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.³ Developments in the CAP in those

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.

² OECD, various years.

³ The %PSE is "*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

years resulted in a reduction of the support provided to the agricultural sector (which declined from 41% of gross farm receipts to 34%), 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 19), 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 63%). Changes were more pronounced in terms of the reduction of the distortionary effects of the CAP and of the implicit taxation of consumers it induces, than in terms of reduction in farm support. Figure 2 shows the changes in the amount and composition of CAP expenditure between 1980 and 2003; 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 a gradual expansion of financial resources devoted to rural development policies took place.

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 end up being 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). Keeping things simple, every farm was to receive a yearly payment equal to the average yearly arable crop and meat direct payments it had received in the 2000-2002 reference period (plus, later on, those decided but not yet implemented for milk), irrespective of what it produces, as long as the land used each year to claim the SFP entitlements is either farmed to produce anything apart from fruit, vegetables and permanent crops, or is left idle (in this case, conditional to maintaining the land in good agronomical conditions). After the June 2003 reform direct payments for olive oil, tobacco, cotton, sugar and some of those for bananas were decoupled and included in the SFP as well, and the land used to produce these products became eligible for claiming SFP entitlements.⁴

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.⁵ 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 transferring 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),⁶ and the fact that, in order

receipts. The %CSE is “*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 “*market price support*”, “*payments based on output*” and “*payments based on input use*”, as defined by the OECD.

⁴ This is why sometimes reference is made to the Fischler reforms, rather than to the Fischler reform.

⁵ UK, Finland and Germany decided to progressively adopt the “regionalization” option, while Denmark and Sweden decided for a hybrid system (part of the payments are based on farm-specific historical entitlements, part are flat per hectare payments).

⁶ 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.

to receive the SFP they are entitled to, farms must comply with a set of existing regulations regarding food safety, environmental protection and animal welfare and with maintaining the land which is not farmed in good agronomical conditions (this is referred to as “cross compliance”).

The 2003 Fischler reform contained relevant decisions regarding 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 are partially compensated for the reduction of intervention prices by decoupled direct payments which will be part of the SFP. The motivation and impact of these decisions are evident if one considers the evolution of dairy public stocks accumulated as a result of intervention (Figure 3). In 2003 both butter and skimmed milk powder stocks held in public hands exceeded 200,000 t; the progressive reduction of intervention prices led to a decline in the amount of milk products removed from the market and accumulated in public stocks.

The Fischler reforms are important in many respects: by decoupling most of CAP support⁷ it induced a market reorientation of domestic prices and production decisions by EU farmers and, as a result, a significative reduction in domestic and world market distortions associated with the CAP; in addition, it helped reduce the pressure of European agriculture on environmental resources and increased the efficiency of farm income policy 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 reform decoupled support by linking it to “*farming and land management activities*”. In 2013 the SFP is expected to absorb between 90 and 95 per cent of the CAP expenditure for market price and income support (the “pillar I” of the CAP, “pillar II” being rural development policies). Figure 4 gives an idea of what Figure 1 will possibly look like around 2013 as a result of the Fischler reforms; these reforms will affect the level of support, the implicit taxation of consumers resulting from the CAP and its distortionary effects, but, as was the case for the policy changes in the ‘90s, the impact will be much more pronounced in terms of the reduction of the distortionary effects of the CAP than in terms of the reduction in farm support.⁸

But have changes in the CAP translated into increased imports ? Let’s consider Australia and New Zealand. Figures 5 and 6 provide synthetic information on how agro-food exports⁹ by these two countries to the EU-15 evolved between 1990 and 2005. The share of total Australian agro-food exports going to the EU-15 increased significantly over these 15 years, while, at the same time, the share of total Australian exports to the EU over those to all destinations declined. As a result, the ratio between the two shares, which gives the Balassa index (1965),¹⁰ increased, suggesting that something possibly happened which increased the specific competitiveness of Australian agro-food exports in the EU market. However, this does not seem to be the case for New Zealand, where agro-

⁷ Certain payments remained coupled because of environmental and socio-economical concerns (these include payments for durum wheat, rice and nuts); in addition, countries could choose not to include in the SFP a fraction of some of the direct payments.

⁸ Extended analyses of the MacSharry, Agenda 2000 and Fischler reforms of the CAP, of their motivations as well as their expected impacts are in Bascou, Londero and Münch (2006), DATAR-ARL (2003), De Benedictis, De Filippis and Salvatici (1994), Frandsen and Walter-Jørgensen (2006), Ingersent, Rayner and Hine (1998), Moyer and Josling (2002); analyses of their sectoral market effects include Anania (2001), Bouamara Mechemache and Réquillart (2000), Conforti and Rapsomanikis (2005), Gohin and Bureau (2006), Guyomard, Baudry and Carpentier (1996), Moro and Sckokai (1999), Oude Lansink and Peerlings (1996), Sckokai and Moro (2006), van Meijl and van Tongeren (2002) and contributions in Arfini (2005).

⁹ SITC codes 0 (Food and live animals) and 11 (Beverages).

¹⁰ The Balassa index is an index of revealed sectoral comparative advantage; when it is less than one it signals a country’s comparative disadvantage in the sector considered, while a comparative advantage is associated to values greater than one

food and total export shares appear to move together and to remain relatively stable over the years. Looking at what happened to Australian and New Zealand exports to the EU one remains dubious if the significant domestic policy changes which occurred in the '90s did actually change much as regards increased access to the EU market.

But were the changes in the CAP supposed to increase imports? Beside the introduction of the EBA initiative, whose effects have so far been limited (but whose effectiveness should be evaluated in a longer time horizon), 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, and their “trade diversion” effects, which means fewer imports from third countries.¹¹ 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 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 supply¹² for those commodities which have been more affected by the reforms so far.

The CAP which resulted from the Fischler reforms is certainly not an efficient and effective policy intervention: 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 unjustifiable on social equity grounds; despite the huge amount of resources it still absorbs, it appears incapable of providing adequate answers to the quite different - legitimate from a society’s point of view - policy demands emerging from agricultures, both in the EU-15 countries, on one side, and new member states, on the other. Inconsistencies and contradictions in the CAP are the price which had to be paid over the years in order to build the necessary consensus to make policy reforms possible.¹³

The speed of change may not be anything to shout about, but the fact remains that in the past 15 years the CAP has been 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 granted by the EU justify the fact that its preferential trade policy is often referred to as a “spaghetti bowl”.

EU agro-food imports from developing countries account for more than 60 per cent of the total and only 20 per cent of them enter the EU subject to a non zero MFN tariff (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, 2006).

While in the past assessments of preferential trade concessions were sceptical about the significance of their effectiveness in increasing developing country exports, more recent studies tend to agree that the effects are smaller than expected but, nevertheless, they are positive and of some value. In addition, trade preferences should be assessed in a dynamic framework, as the

¹¹ Under Article XXIV of GATT the “trade diversion” effect is 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 enlargement, they are not from a dynamic point of view.

¹² Including subsidized exports and sales of intervention stocks on the world market.

¹³ The political economy behind CAP reforms decision making is discussed in Moyer and Josling (2002), Mahé and Roe (1996), and Pokrivcak, Crombez and Swinnen (2006).

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 over time.

The most important EU preferential trade schemes are EBA, GSP (the Generalized System of Preferences) and "GSP plus", and those under the Cotonou and 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. Not all agro-food products benefit from the preferences granted under the GSP and "GSP plus" schemes, although the latter, introduced in 2006, widens significantly the spectrum of agro-food products which are covered. Most preferential tariffs for agro-food products are set at zero in the 2000 Cotonou agreement between the EU and the 78 ACP (African, Caribbean and Pacific) countries, but exclusions and binding volume restrictions on preferential imports exist for EU "sensitive" agro-food products. Finally, the bilateral Association Agreements the EU signed with many Mediterranean countries¹⁴ within the 1995 Barcelona framework are aimed at making 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 are 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 "suspension"

4.1 From Seattle (1999) to Doha (2001)

The III WTO Ministerial Conference held in Seattle at the end of 1999 was meant to launch the new round but ended in a failure, but agriculture was not among the main reasons for not reaching an agreement. Seattle will be mostly remembered because of the vocal protesters showing up in unexpected numbers and raising to the attention of a worldwide public a number of relevant social issues and concerns, usually not very high on the agenda of multilateral negotiations.¹⁵ Despite the failure, because of the commitment which was part of 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 going 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 played a role in the fact that an agreement was found, as nobody was willing to bear the responsibility for another failure in such tense setting for international relations. The round was labelled "*Doha Development Agenda*" (DDA) and the opening paragraphs of the final Declaration contain quite a 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.*"¹⁶ How much of the development bias of the Declaration was genuine and how much was the "usual" rhetoric used by developed countries, meant 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 expectations by developing countries as regards their role in the negotiations and in the writing of the final agreement.

¹⁴ Algeria, Egypt, Jordan, Israel, Lebanon, Morocco, Palestinian Authority and Tunisia; the agreement with Syria is being negotiated.

¹⁵ Although street protesters included several groups whose concerns were their own, quite narrow, special interests.

¹⁶ WTO (2001, p.1).

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 issues¹⁷ was postponed to the next Ministerial.

4.2 From Doha (2001) to Cancún (2003)

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 EU Everything But Arms (EBA) initiative, which granted duty-free and quota-free market access to imports “different from arms and ammunitions” from all least developed countries, was being progressively implemented, even for the most “sensitive” agricultural products.¹⁸ These policy developments made it possible for the EU in January of 2003, although late with respect to the agreed time schedule, to table its proposal for the “modalities”; 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;¹⁹
- (c) a 60% reduction of domestic support falling in the “amber box”, with the “blue box” left unchanged.²⁰

The March 31 2003 deadline to agree on the “modalities” contained in the Doha Declaration went 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 also 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 be part of an effective negotiation strategy, they should have been introduced toward the end, or after the conclusion, of the round, to use the significant policy reform they imply 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 on going DDA negotiations. From this point of view it was evident that all other parties were to take the trade liberalization associated with these reforms for granted, and were not going to 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 rhetoric gambits.

In August 2003, as a result of an explicit request in the Montreal Mini-ministerial meeting the month before, the EU and the US tabled a joint proposal for a framework agreement which was meant to provide a basis for discussion in the upcoming Cancún Ministerial. This proposal was

¹⁷ 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 goods.

¹⁸ The implementation for bananas started in 2002 and was completed in 2006.

¹⁹ The Uruguay round agreement reduced the volume of subsidized exports by 21% and the export subsidy expenditure by 36%.

²⁰ 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.

followed only seven days later by a 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.²¹ The EU-US joint proposal was well designed in terms of being 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 negotiated at a later stage, 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 two alternative proposals were on the table going into the Cancún negotiation and that they could not be comparatively assessed to determine which of the two would produce a deeper trade liberalization (they were proposals on *how* to reduce trade distortions, not on *by how much*); of course, the strong 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 standstill 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 asking the former for no Singapore issue to be included in the agenda of the negotiations, and the latter two for 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 to drive the Ministerial to failure, without being willing to look 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 strongly 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 likely have been the reason for the failure had the confrontation got to it. Different opinions emerged afterwards on what could have happened in this case. Had the negotiations in Cancún moved to 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 than 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 seriously the fact that the round was to be centred around a “Development Agenda”, and to call the developed countries’ bluff by asking for much more than what many of them were ready to give and, by so doing, to drive the Ministerial to a 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 international relations scenario. 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 they were going to face.

²¹ 16 countries at the time, their number 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.

4.3 From Cancún (2003) to Geneva (2004)

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 negotiation from agriculture, bypassing the impasse on the “Singapore issues”. The negotiation strategy was not changed with respect to the one emerged before the Cancún Ministerial and countries went back to discuss 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 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, allowing a comparative assessment of the proposals put on the table. Two hypotheses may explain what happened in this respect after Cancún: that all major players in the negotiations agreed (implicitly) 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, second, that the negotiation strategy was induced by some of the main players, 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 expired, opening up the possibility for many EU policy instruments, including export subsidies, to be successfully challenged as being 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”, clearly 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 was to occur for all forms of indirect export subsidization as well.

The EU was on 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 helping restart negotiations. However, it was not an effective move if one looks at it from a negotiating point of view; in fact, not only did it come too early in the negotiations, but also it 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 legitimization of the WTO as an institution after the failure of the Cancún Ministerial.²² As a matter of fact the “framework agreement” did not include any relevant decision

²² In the weeks immediately following the Cancún Ministerial many raised the concern that, because of its decision making being based on 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 become its Director General (a possibility

and was much less ambitious than the agreement which (beforehand) many thought could have been reached in Cancún using the US-EU joint proposal as a basis; not only does the “framework” not provide any detail on the formulas to be used to define the commitments, but it lists many flexibilities to be included in the modalities, meant to allow developed countries to protect their policies for the most sensitive products from the commitments dictated by any final agreement. It was not without reason that the agreement did not dare to mention any expected end date for the round.

4.4 From Geneva (2004) to the suspension of the negotiations (2006)

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 find a solution for 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, not only was unable to produce the expected “first approximation” of the modalities, but indeed 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 the time in the round when a real effort was made, at the political and the technical level, to find the 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%, but 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 TRQs to be calculated as a percentage of current imports, rather than consumption as in the Uruguay Round Agreement on Agriculture (URAA) (which 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).²³

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 could be accepted at the time by the most important players, from both developed and developing countries. However, the decision was made not to allow a second Ministerial in a row end in a failure, but to approve in Hong Kong a declaration which signalled that countries were working together toward finding a solution to the evident impasse in the negotiations, even if it was clear to all parties that no political solution to this impasse was in sight. The only steps forward in the negotiations on agriculture contained in the final Ministerial Declaration (WTO, 2005b) were (a) the agreement to provide duty-free and quota-free access, although with some limitations, to exports from least developed countries and (b) the agreement on the “end date” for all forms of export subsidization in agriculture, which was set for

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...

²³ Before the “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.

31 December 2013.²⁴ 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; results from 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 come to an end by the end of 2006. 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 countries became mostly concerned 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 to a later date to lower its “media noise” and, as a result, to contain its impact on international relations as well as on the WTO as an institution.

4.5 What are the main “defensive” and “offensive” issues in the negotiations on agriculture for the EU?

Let’s start from the “defensive” issues.

The cost for the EU of the elimination of its export subsidies is not very high. Using the wording by Hoeckman and Messerlin (2006, p. 208), the EU is “*selling its WTO partners a rapidly “depreciating” asset*”. Half of EU export subsidy expenditure in the 95/96-02/03 period went to two groups of products only, dairy (33.3 per cent) and beef (18.4); when export subsidies for wheat and coarse grains, sugar and processed products are added, the expenditure reaches 90 per cent of the total. Over the same period the overall EU export subsidy expenditure was less than 50 per cent of the maximum allowed under the URAA (28 per cent in 01/02, increasing to 42 per cent in 02/03 mostly as a result of the stronger euro); if we ignore export subsidy expenditure for rice and sugar - which, because of EBA, are to become unfeasible²⁵ - the percentage drops to 37.8 per cent; and then the impact of the Fischler reform on export subsidies for dairy products (lower domestic prices will result from the reduction of intervention prices, the stringent limit imposed on the volume of butter withdrawn from the market and the expansion of milk production quotas) needs to be accounted for (in 02/03 export subsidies for these products alone accounted for 50 per cent of total EU export subsidy expenditure; rice and sugar for an additional 10 per cent).

Although allowed under the URAA, the EU has not been using export subsidies for olive oil, tobacco and rapeseed for several years now. The “bindingness” of the URAA constraints on subsidized exports and export subsidy expenditure is visualized in Figure 7 (where “red” means that in that year at least one of the two constraints was binding, “yellow” that at least one was close to be binding, and “green” that neither one of the two constraints constituted a problem). In all cases where one of the two constraints becomes binding this should imply a downward pressure on the domestic price; however, in most cases unsubsidized exports take place in addition to the subsidized ones, and the former appear to increase as the latter become constrained by the URAA commitments, raising doubts whether export subsidies are a necessary condition for EU exports to be competitive on the world market²⁶ (Figures 8, 9 and 10 show subsidized and unsubsidized EU

²⁴ Actually this decision was not 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.

²⁵ The implementation of the EBA initiative for sugar and rice started in 2006 and is to be completed by 2009.

²⁶ Swinbank (2005) raises a specific concern regarding the possible negative impact of the elimination of export subsidies for the competitiveness of processed food industries.

exports for “cheeses”, “other milk products” and “fresh fruits and vegetables”, three of the commodity aggregates which most often faced binding export subsidy constraints).

In 2004 export subsidy expenditure accounted for 7.4 per cent of the EU budget for agricultural and rural development policies; because of the stringent constraints the CAP budget is subject to and the possibility of them becoming binding, internal pressures is growing to shift financial resources currently absorbed by export subsidies to other CAP policy instruments.

The January 2007 proposal by the Commission for the reform of the Common Market Organization (CMO) for fruit and vegetables includes the immediate abolition of export subsidies for these commodities, regardless of the future of the DDA round and of the timing the agreement, if any, will dictate for the elimination of export subsidies.²⁷

In Figure 11 support in the “amber” and “blue” boxes between 95/96 (when the URAA started being implemented) and 03/04 (i.e. before the implementation of the Fischler reform, which started in 2005) is shown against the maximum “amber” box support (AMS) allowed under the URAA. Although of little interest at this point, it is worth pointing to the fact that in all years the sum of EU support contained in the “amber” and “blue” boxes remained below the maximum allowed level of the AMS, which means that the EU could have satisfied its domestic support commitments even if the “blue” box exemption did not exist. In 00/01 and 01/02 the AMS was 65 and 59 per cent of maximum allowed, and dropped in 02/03 and 03/04 well below 50 per cent as a result of the implementation of Agenda 2000.²⁸ The 2003 Fischler reform and the reforms introduced after that for the CMOs for tobacco, olive oil, cotton, bananas and sugar will progressively move between 2005 and 2009 most of the CAP support left in the “amber” and “blue” boxes into the SFP; the expected outcomes of the reform of the CMOs for wine and fruit and vegetables will move some more “amber” box support into the SFP. It is reasonable to assume that in 2013 between 90 and 95 per cent of “Pillar I” CAP expenditure will be absorbed by the SFP. “Modulation” will shift an additional, though small, portion of support from the “amber” to the “green” box and the 2004 and 2007 enlargements, because the maximum allowed CAP budget expenditure has not been (and will not be) adjusted, will determine a further reduction of support in EU-15.

This explains why, as long as it can be assumed that the SFP can be put in the “green” box, the EU was in the position to propose in October 2005 a cut by 70% of its own domestic support falling in the “amber” and “blue” boxes. In Figure 12 estimates by ICONE of the “overhang” for both the overall trade-distorting support (OTDS) and support falling in the “amber box” for both the EU (in 2008) and the US (in 2004) is represented; policy changes which have been decided allow the EU to implement cuts by 78 and 72 per cent of its OTDS and AMS without having to undertake any further policy reform.²⁹ In addition, the changes in the CAP which can be foreseen in the near future (which will be discussed below) will imply a further reduction in support and an increase of the share of CAP expenditure which will fall in the SFP; this will make it possible for the EU to face even larger cuts in its OTDS and AMS.

²⁷ “For fruits and vegetables, the impact and the role of export refunds have been analyzed. Their economic impact has considerably decreased. Indeed, exports with refunds represent less than one third of total exports. The value of exports refunds is situated between 0.8 and 8.9% of the price of the products in questions. It has therefore been considered that better use can be made of the funds allocated to this instrument and it is proposed to abolish export refunds.” (CEC, 2007, p. 6).

²⁸ The AMS notified by the EU in 03/04 refers to the EU-25, while the maximum constraint is still the one for the EU-15 (this is because the commitments for the EU-25, now EU-27, have not yet been agreed). This means that the AMS for EU-15 only is an even smaller percentage of the maximum allowed.

²⁹ A similar conclusion is reached in Brink (2005) and Martin and Anderson (2006), while a slightly less optimistic view is expressed in Butault and Bureau (2006). Westhoff, Brown and Hart (2005) correctly suggest that point estimates of support may be misleading in assessing expected compliance of WTO commitments and that the estimated distribution of expected support should be used instead.

But is the SFP really a policy instrument whose support is fully decoupled from production? The answer to this question is no, for more than one reason. The most evident one is the fact that farmers are not allowed to grow fruit and vegetables and permanent crops apart from olives on the land they can use to claim their SFP; this constraint, by itself, makes the support provided through the SFP not fully decoupled. However, had this constraint not been in place (and were not in place some time into the future), the SFP would still not be a fully decoupled policy instrument. In fact, for example, because of its certainty, the SFP changes the uncertainty distribution of total farm income, and, in so doing, affects production decisions by farmers who are not risk neutral.³⁰ The fact is that policy instruments providing fully decoupled income support do not exist; policies need to be evaluated on their degree of decoupling, not on the basis of their being fully decoupled or not. The SFP is not fully decoupled, but it certainly is a much more decoupled and much less market distortive policy instrument than the partially decoupled direct farm payments linked to land use introduced in the CAP in 1992 with the MacSharry reform.

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,³¹ until the conclusion in 2005 of the WTO dispute on the “upland cotton” case brought by Brazil against the US sent a clear, very different, message (Matthews, 2006; Swinbank, 2005; and Swinbank and Tranter, 2005). In fact, as explained above, farmers can claim the SFP they are entitled to as long as they grow whatever they want, *except vegetables and permanent crops different from olives*, similarly to what was the case for the payments to US farmers which have been found - on this basis, among others - contrary to WTO rules in the cotton dispute. This obviously makes the “box classification” of the SFP a very sensitive issue for the EU; the strategy it adopted to deal with it is twofold: remove the existing restrictions on land use in the rules governing the SFP (this is included in the January 2007 Commission reform proposal for the CMO for fruit and vegetables), and ensure the “review and clarification” of the definition of the “green” box which has been agreed to be part of the negotiations will yield provisions in the agreement which will shelter the “greenness” of the SFP from the risk of disputes.

Market access commitments are the area which raises more “defensive” concerns in the EU. Despite the reforms which have been decided, significantly lower, but, nevertheless, positive border protection is still needed to defend the market price support deriving from domestic policy instruments apart from the SFP³² which are still in place.

In addition, border protection may have an effect on farm income support *per se*, independently from that of the domestic policy instruments; this effect is more relevant than in the past as a result of the domestic policy reforms.³³ Lower intervention prices will cause domestic

³⁰ Sckokai and Moro (2006).

³¹ 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*” (Agreement on Agriculture, Annex 2, paragraph 1).

³² It would also be needed to protect the effectiveness and feasibility of export subsidies, but this role of border protection will become irrelevant as export subsidies are progressively eliminated if an agreement is reached.

³³ 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 its “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

prices to decline, although not by the same extent; increased milk production quotas and strict constraints on the volume of butter withdrawn from the market at the intervention price 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 tariff reduction to be applied in each of them, but what the treatment of the “sensitive” products is going to be: *how many? how low the out-of-quota tariff reduction? how large the TRQs? how low the in-quota tariff?* Many studies converge on pointing out that the decisions made with respect to the “sensitive” products will largely determine 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.³⁴ The last official proposal put forward by the EU, tabled in October 2005, although far from what the EU could eventually accept, implied very little increase in market access for “sensitive” products (and allowed far too many tariff lines to be classified as “sensitive”). The more recent, but informal, June 2006 proposal would have yielded an overall average tariff cut close to 50 per cent (the figures mentioned by different sources were 48.3 and 51 per cent)³⁵ although leaving untouched the 60 per cent cut to be applied to tariff lines above 90 per cent contained in the previous proposal; this proposal has been said to include 5 per cent as the maximum percentage of tariff lines which could be self-designed as “sensitive” products and the volume of the TRQs to be calculated as a percentage of imports rather than consumption.

The 2004 “framework agreement” states that “*the issue of preference erosion will be addressed*” (WTO, 2004, paragraph 44),³⁶ which many interpret 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.³⁷ Because of the relevance of the lowest tariff in determining the degree of market protection, should the agreement call for preferential tariffs be reduced so as to leave preferential margins unchanged, this might determine, in the short term and, even more, in the medium one, an increase of EU imports of specific products from developing countries benefiting from trade preferential treatment which could be potentially larger than the increase in imports from developed countries. This is why the commitment to “address” in the agreement the negative effect on the beneficiary countries of the “preference erosion” resulting from the reduction of MFN tariffs is a serious “defensive” concern for the EU. Negotiations on this issue have not started yet.

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

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 the member countries; in the case of the negotiations on agriculture this mandate is very strict; it says that the agreement has to be compatible with the reforms of the CAP which have been already decided. The

domestic 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.

³⁴ Anderson and Martin (2005), Anderson, Martin and van der Mensbrugge (2006), Cluff and Vanzetti (2005), Jean, Laborde and Martin (2006), Martin and Anderson (2006) and Vanzetti and Peters (2007).

³⁵ While average tariff cuts are easy to understand and to “sell” to the general public as well as policy makers, their usefulness as a synthetic index of the impact of a tariff reduction on market access remains questionable (Bach and Martin, 2001; Bureau and Salvatici, 2004).

³⁶ For a discussion of the preference erosion issue in the context of the round see Bouët, Fontagné and Jean (2006).

³⁷ Some go as far to claim compensation should be given to those countries whose preferential tariffs are already zero or so low that cannot be lowered by an amount which would leave the preferential margin unchanged.

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 within the boundary of the mandate it has been 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 by the Commission, namely those related to market access, might not be consistent with the mandate. The conditional is used here because, while the tariff reductions offered 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, not knowing what the agreement will say for “sensitive” products makes it impossible to assess the extent of the actual market opening or of the downward pressure on prices and farm incomes induced. If actual border protection is significantly lowered because of the lower intervention price and limits on volumes which can be withdrawn from the market at these prices, it will translate into a significant reduction of domestic price support, and the impact of the agreement will be felt by the farms (rather than on the EU budget, as a result of larger market withdrawals at intervention prices).

Moving to 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 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.

An important “offensive” issue for the EU – which is more important than many are inclined to believe - is the granting of multilateral protection to agro-food denominations of origin (or geographical indications (GI), in WTO language). From a (southern) European perspective the 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 ‘90s 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 what they intend to buy and are ready to pay more for (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). 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 at the time significant opposition, 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. Preventing the use of denominations of origin which became generic names (as it can 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 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.

This is an issue which has been moving up and down the negotiating priorities of the EU. The Doha Declaration included the introduction of a register of protected denominations for wines and spirits in the agenda of the TRIPS negotiations, while the issue of extending similar protection to all food products has since then remained among those on which consensus has not been reached. The TRIPS negotiations for the introduction of a register for protected denominations of origin for wines and spirits has been stalled for many years now; the EU and others have been asking for the introduction of a list of denominations which are given multilateral protection by all WTO

members, while the US, Australia, New Zealand and others propose 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. The EU has always 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 the 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 to its 41 most valuable food Protected Denominations of Origin (rather than for all, current and future, protected denominations),³⁸ but this proposal received very little attention. By putting forward such a proposal the EU weakened its negotiating position at the TRIPS table, where it was aiming at obtaining multilateral protection for all its denominations of origin.

5. What's ahead?

5.1 What lies ahead for the CAP?

Despite the radical changes in the policy instrumentation of the CAP introduced by the Fischler reforms, it did not shape a CAP which is likely to last long into the future. Several internal developments should be considered in order to assess the changes in the CAP which may happen in the next few years and which may change both, the level of support provided to EU farmers and the policy instruments used: further enlargements of the EU; the reform underway of the CMOs for wine and for fruit and vegetables; the 2008/2009 “full review” of EU spending and the “simplification” and “health check” initiatives.

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 in Bulgaria and Romania in 2004 was 8.2 and 12.2 per cent, respectively, vs. 1.6 per cent in the EU-25, the share of agriculture in total employment was 10.7 and 32.6, vs. 5 per cent in the EU-25. 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 many of the Balkan countries will likely materialize within the next decade or so (although the difficulties over Turkey might effect the speed of this process).

The EU is currently discussing how to reform its policies for wine and fruits and vegetables, with final decisions expected, possibly, in winter 2007/08 and late spring/early autumn 2007, respectively. The reform proposals by the Commission, as was the case with the reforms undertaken in recent years in other sectors which remained untouched by the June 2003 Fischler reform (such as tobacco, olive oil, cotton and sugar) are fully consistent with the latter, and include, among other things, the decoupling of payments for processed fruit and vegetables (which are fully coupled under the current policy) and the elimination of subsidized distillation as a mean to support domestic price of wine by removing excess production from the market (in 03/04 this practice involved 8.5 per cent of the wine produced in the EU, but had reached 14.3 per cent two years before).

³⁸ Protected denominations (PDOs and PGIs) for agro-food products in the EU exceed 700, with 200 more currently undergoing the registration process.

Many thought that, beside the planned reforms for wine and fruit and vegetables, the CAP reform process would be on hold for a while, for the Fischler reforms to be fully implemented (for the provisions for dairy this will occur in 2008/09) so as to leave time to show their effects. This is definitely not going to be the case. When in December 2005 the European Council approved the “Financial Perspectives” for the 2007-2013 period, 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, p.32); based on the experience of the Agenda 2000 “mid term review”, it was clear that this meant opening up for the possibility of policy changes, either directly or indirectly through a significant change in the financial allocations for agricultural policies. However, pressure for change does not come from outside agriculture only, but from within as well. The new EU Commissioner for Agriculture and Rural Development, Mariann Fischer Boel, launched in 2006 two initiatives, one for the “simplification”, the other to perform by 2008 a “health check” of the CAP. Despite the fact that the two initiatives are being presented as independent from each other, they are clearly not so. The Commissioner admits that the “simplification” she has in mind is twofold, *technical* and *political*; in principle, the simplification is technical, centred around the proposal to create a single Common Market Organization instead of the existing 21, one for each sector, thereby reducing the differences in the rules and policy instruments used in different sectors to a minimum; however, cancelling “unnecessary” differences and exceptions across existing CMOs means redesigning current policies, which obviously has a strong political content. The initial proposal for a Regulation “establishing a common organization of agricultural markets” has been tabled by the Commission in December 2006.

The “health check” initiative has been presented as a means to assess the need for further changes, in principle to be introduced not before 2013; in practice, however, changes could occur much sooner, with the possible exception of the elimination of the milk quotas, which the Fischler reform extended into 2015. However, to allow time for adjustment decisions by farmers, if quotas are abolished by that time, the decision should be taken well before, possibly progressively increasing the quotas between now and 2015, making them by then not binding and, hence, valueless.

As part of the two initiatives all main components of the current CAP will be under scrutiny in 2007 and 2008; reform options mentioned among those which will be considered include: the elimination of set aside, market intervention for cereals³⁹ and milk quotas; revising cross compliance constraints; increasing the percentage of the compulsory “modulation”; full decoupling of farm payments (which would imply the elimination of the exceptions to full decoupling allowed under the Fischler reform, in addition to removing, as part of the reform of the CMO for fruit and vegetables, the constraint not to grow them and other perennial crops on the land used by farms to claim their SFP); making “regionalization” mandatory (i.e. replacing farm payments based on individual historical payments with region-wide flat per hectare payments); and putting “a cap” on farm payments, at one end, and cancelling those below a certain threshold, at the other.

The motivation behind the decision by Commissioner Fischer Boel to launch such an extensive and potentially far reaching review plan for the CAP is probably twofold: the fact that the Fischler reform did not (and could not) generate a CAP able to address the policy needs of diversified and rapidly changing European agricultures effectively; the need to prepare for the internal “attack” to the financial resources devoted to agricultural policies which will take place

³⁹ Public intervention for cereals exists for common and durum wheat, maize sorghum and barley (the intervention price is currently 101.3 €/t for all cereals), while the one for rye was eliminated in 2003. In December 2006 the Commission has proposed the elimination of intervention for maize.

with the “full review” of budget expenditure in 2008/09, by arriving at the appointment with a better and more defensible CAP.

If the most relevant changes on the agenda of the Commissioner become reality, we will have a more equitable (as a result of the “regionalization”) and more market oriented (as a result of the elimination of milk quotas and intervention for cereals) CAP, and a reduction in farm support (as a result of the market reorientation as well as of the increased “modulation”).⁴⁰

This would make for a significantly better CAP, but still not for the CAP which would be needed. Any discussion of the kind of CAP needed is certainly outside the scope of this paper, but if one wants to look beyond 2013 the question emerges of the social justifiability in a mid term perspective of the SFP, even a “regionalized” one, and of the need for innovative policy interventions, meant, for example, to help farms selectively and, more in general, agro-food systems, in the EU-15 as well as in the 12 new member states, cope with the strongly increased price and income variability and with the structural adjustments needed to operate in the more competitive market scenarios.

Finally, what European agricultures and agro-food markets will look like in the future will definitely be directly affected by the decisions regarding the need to increase the use of biofuels to face the energy and climate change crises. The Commission has recently made the proposal to introduce a compulsory 10 per cent share of biofuels over total transport fuel uses in the EU by 2020 (from 1 per cent observed today). Should fossil fuels used for transportation be substituted by domestically produced biofuels only (which is obviously not likely to be the case, but it may be a useful assumption so as to have an extreme reference scenario) a large share of agricultural land in Europe would end up being devoted to biofuel crop production. OECD (2006) estimated that 43 per cent of the land currently devoted to the production of cereals, oilseeds and sugar beet would be needed to produce in the EU biofuels equal to 10 per cent of its current transport energy uses. Schenkel (2007) suggests that substituting 10 per cent of expected consumption of fossil fuels with biofuels by 2020 would take up 38 per cent of European agricultural land; a study commissioned by the European Commission estimates that reaching the target of a 5.75 per cent share of biofuels in domestic transport fuel uses in 2010 would take up, with 58 per cent of needed biofuels produced domestically, 4 per cent of total agricultural land in EU-25 (Scenar 2020, 2007).

5.2 What lies ahead for EU preferential trade agreements?

Two developments in preferential trade agreements seems particularly relevant for the future openness of EU agro-food markets: the Economic Partnership Agreements (EPA) which the EU is negotiating with ACP countries, and the evolution of the Barcelona framework into the European Neighbourhood Policy (ENP).

Unilateral trade preferences currently granted to ACP countries by the EU as part of the Cotonou agreement are made legitimate under WTO rules by a waiver which will expire at the end of 2007. In September 2002 negotiations started to replace by 2008 the Cotonou agreement with a set of agreements between the EU and six regional aggregations of the ACP countries, with preferences extending to all trade and becoming reciprocal (in order to comply with GATT article XXIV), essentially creating free trade areas between the EU and each of the six sets of countries. It is unlikely that any agreement will be reached by 1 January 2008 and it may be the case that liberalization in agro-food products will, once more, receive special treatment in the agreements. Nevertheless, a deepening and widening of the preferences granted to ACP countries, because of their potential in competitively producing agro-food products and because of the foreign direct investments the trade liberalization can induce, will determine a significant increase of agro-food exports from the most advanced ACP countries to the EU.

⁴⁰ This could be somewhat moderated by the decision to partially re-nationalize agricultural policies, allowing member countries to provide domestic farmers with support financed from national budgets.

The Euro-Mediterranean strategy of the EU has been somewhat diverted when the evolution of its relationships with the Mediterranean countries was made part of the more general ENP, involving 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, nevertheless, the full implementation of the Euro-Mediterranean work programme and “*liberalizing agricultural, processed agricultural and fishery products with Mediterranean partners*” is part of the agenda; five Mediterranean countries⁴¹ have already finalized their “action plans” within the new framework. Mediterranean countries are stronger competitors on the EU market than ACP ones; should the liberalization process move 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 an additional step in the direction of reducing the degree of protection of the EU agro-food markets.

Of course, plans for future developments in EU regional integration agreements are not confined to those within the EPA and ENP frameworks, they also include starting or concluding negotiations for many potentially far reaching agreements, such as those with the Mercosur, Russia, China and India.

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 non-preferred exports; this means the increase in market openness will not translate into benefits for all trade partners. How the issue of “preference erosion” will be addressed in the final agreement has already been pointed out as one of the main “defensive” concerns for the EU in the DDA.

5.3 What lies ahead for the WTO negotiations?

Contrary to what happened after the failure of the Cancún Ministerial, the “suspension” of the negotiations in July 2006 was not followed by loud exchanges and reciprocal accusations on who was to blame for the failure; the reason is to be found mostly in the fact that this time the failure did not come as a surprise. To address the issue of what lies ahead, it may be useful to briefly discuss the reasons why it was not possible to find an agreement.

Did the negotiation fail because of the inflexibility of the European Union?... of the US? ...of both? In my opinion the negotiating stand of the EU was not the cause of the “suspension”. The “suspension” has been mostly driven by the impossibility by the US to accept the requests related to the domestic support reduction commitments coming from many developing and developed countries, including the EU. This was due to US domestic policy concerns, because of the sensitivity of farm issues for the upcoming November 2006 mid term elections, which were already expected to be difficult for the Administration, which, as a result, did not have any reason to take unpopular decisions; this was very clear to all actors in the negotiations. At the time, the US “defended” themselves (although not too loudly...) by accusing the EU of being responsible for the “suspension” because of its refusal to accept deeper tariff reductions.

Over the years the EU has progressively offered deeper tariff cuts, with its latest proposal, the June 2006 one, yielding an overall average tariff cut close to 50 per cent. Without knowing the provisions applying to “sensitive” products it is impossible to assess the reduction in market protection associated with the offers (to all of them...); nevertheless, the most recent offers made by the EU appear sufficient to determine relevant cuts in the market protection currently granted to specific products. However, the impossibility for the US, at the time, to assume any decision on domestic support reduction commitments precluded negotiations in the market access area from getting into a more “final stage” mode on “sensitive” products.

⁴¹ Israel, Jordan, Morocco, the Palestinian Authority and Tunisia.

Were 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 150 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 the proposal advantageous with respect to the no-agreement one and still decide not to accept it, thinking they can obtain an even better agreement by 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 negotiating partners. Because of the “suspension” of the negotiations, it is appropriate to ask ourselves the question if the trade liberalizing content of the proposals made by the G-20 and by some of the developed countries was too ambitious,⁴² i.e. identified a possible final agreement which was not included in the set of the feasible agreements (those preferred to the no-agreement option) of some of the countries; these extend 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, which have all been free riding in the negotiations remaining sheltered behind the positions assumed by the US. On the other hand, the opposite view holds true as well: what the US could consider, at least for the time being, as a feasible agreement, was not ambitious enough to be acceptable, at least for the time being, by many other countries.

Was agriculture the reason for the “suspension”? The negotiations on agriculture were not the only reason for the “suspension” of the round. It is true that the status of the negotiations on agriculture was, on its own, capable of blocking the reaching of a “single undertaking” agreement, but negotiations were very far from a conclusion also at the other three main tables of the negotiation: services, TRIPS and NAMA. In TRIPS, as has already been mentioned, the 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 be agreed to all food products, was stalled (and had been stalled for years, as all countries showed no signal of being willing to move an inch from their original negotiation positions on the issue); in the NAMA negotiations no agreement existed even on the formula to be used to calculate tariff reductions. Had a solution to the issues in agriculture been found, I do not think it would have been possible to find a rapid agreement in these negotiations. All the negotiations, not only those on agriculture, were at the time of the “suspension” in July 2006 far from an agreeable solution.

What failed, the negotiations or the WTO itself? Negotiation failures are certainly not new to WTO - Bruxelles in 1990 in the Uruguay round; Seattle in 1999 and Cancún in 2003 are all examples of Ministerials which ended in failure - and are not a problem *per se*. The problem is given by the fact that the Cancún failure and now 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 150 member countries, are a major part of the problem, because of a changed distribution of power at the table of multilateral negotiations, with a

⁴² What is to be meant by the “level of ambition” of a proposal/agreement? What I would see as an ambitious agreement would include: a reduction of the *current* (rather than bound) levels of domestic support and market protection (including future levels, if these are determined by policy reform decisions which have already been taken but which will apply in the future), the elimination of *all* forms of export subsidization, an *effective* Special and Differential Treatment (S&DT) for least developed countries and a *somewhat less generous* S&DT for the more developed developing countries (among other reasons, to allow for the potential gains associated to increased south-south trade to be fully enjoyed), a solution to the cotton initiative satisfying the requests for policy reform (not merely for technical and financial assistance) by the least developed countries involved, and the introduction of a register providing *effective* multilateral protection to geographical indications for wines and spirits, *as well as for the other food products*. At the other extreme an agreement with a low level of ambition would be one which is able only to lock-in policy reforms which countries have already decided to undertake based on domestic considerations; however, such an agreement would not be without value, as it would assure that significant policy reforms which have taken place 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 assuring a relatively smooth and predictable functioning of international agro-food markets.

more important and determinant role assumed by some of the 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 (what is referred to as the “Blair House agreement”), which was then “multilaterized”, this will certainly not be the case again in the DDA round. The agreement, if any, will have to emerge from a consensus reached in a complex multi-polar setting of aggregations of negotiation interests, which may see among the relevant actors in the latest stages even developing countries beyond the largest and most dynamic ones. 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 specific concerns are satisfactorily met. This legitimates concerns on the need for a change of the rules governing the WTO.

So, what’s next with the DDA round? Since the “suspension” many important actors have made clear their stand on the need to resume the negotiations and numerous meetings have taken place to try to find a way out of the impasse (or, possibly, to be able to say that efforts were made to do so...). In reality, very little has happened and is happening and, at least for the time being, for the reasons discussed below, little can possibly 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, but by an evident political impasse due to the distance separating the sets of the agreements which, at least at the time, some of the main actors in the negotiations found to be politically feasible. Between July 2006 and today no change has emerged to generate the strong political pressure needed to disentangle the current stall; in other words, the political pressure needed is not yet there.

An agreement by April? In early Fall of 2006 many claimed that an agreement could be reached by April this year, 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 expires. Even ignoring the negotiation problems which would have to be solved in the few months between the November mid term elections in the US and April, the probability of an agreement in this time window appears very slim. In fact, this would mean negotiations taking place at the same time as the US Farm Bill is discussed (entering into force in 2008 it has 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 political common sense goes for making the Farm Bill decisions first, without having to feel (explicitly, at least) the pressure coming from the multilateral negotiations. This means reaching an agreement by April is not an option. This might be well received in France as well, where Presidential elections will be held in May 2007.

The negotiations to restart after the approval of the Farm Bill? The approval of the Farm Bill will make it possible for the US to get back to the negotiations ready to make commitments. However, one has to realize that the new Farm Bill will define the space of the feasible agreements the US will be willing to sign; while it is possible that large players do take into account multilateral negotiations in shaping their domestic policy reform decisions, it would be naïve to assume that they will ever sign an agreement which would imply policy changes to be made afterwards. Hence, the new Farm Bill will make the conclusion of the round possible, but, at the same time, it will largely define its level of ambition. The problem at that point will become the acceptability of that level of ambition by the other countries. Predicting what the content of the new Farm Bill is going to be is a difficult task; will it introduce relevant changes in the tools used to support US agriculture, moving to the use of less distorting ones, or will there be little change with respect to the *Farm Security and Rural Investment Act* (FSRIA) of 2002? Some of the proposals which have been made so far (mostly by academics, not by stakeholders...) call for a decoupling and a more

equitable distribution of support among farms and sectors, but the debate preceding the approval of the FSRIA also started with innovative reforming proposals... In addition, the importance for both the Democrats and the Republicans of the rural states in the 2008 Presidential elections makes a Farm Bill not too different from the current one much more likely than one characterized by innovative policy choices which would change the amount and the distribution of support (Blandford, 2006; Thompson, 2006).

Negotiations to restart after the 2008 US Presidential elections? No matter what the new Farm Bill will look like, negotiations will restart only if the Congress agrees to extend the TPA. This cannot be taken for granted; on the contrary, it could well be the case that the Democratic Congress which emerged from the mid term elections last November is unwilling to do so, preferring instead to give fast track negotiating authority to new Administration following the 2008 Presidential elections. If this is the case the “suspension” will become rather long, possibly too long for the other countries to accept to remain *en surplace* in the negotiations for so long.

An exponential increase in the 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 disputes settlement. The EU was 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 a role in the policy change decisions. 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 as a policy tool which can be placed in the “green” box. With the expiration 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.⁴³ It is easy to predict that if the suspension ends up being too long the number of disputes opened by the largest and more dynamic developed countries will rapidly increase. If this happens, one possible concern would be that it would increase the political pressure within developed countries for rewriting the rules of the WTO to reduce its enforcement power in the dispute settlement process.

Toward a definitive failure of the round and the reform of the WTO? For the reasons discussed so far, the possibility of a definitive failure of the round, e.g. that a restart of the negotiations after the “suspension” never materialize, or, less likely, that negotiations restart but no agreement is reached, cannot be excluded. If member countries fail to bring the round to an end, then the issue of reforming the WTO would become unavoidable, either by rewriting its rules, or replacing it with a new multilateral institution. WTO reform without 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 now be willing to rewrite the rules of the WTO so as to prevent them, as well as others, from doing in the future what they have just done. This is why a new institution would

⁴³ 115 WTO disputes have been ruled by the end of 2006. The most important ones involving food and agriculture include alcoholic beverages (1996, 1999; Canada, EU and US against Chile, Japan and Korea), bananas (1997; Ecuador, Guatemala, Honduras, Mexico and US against the EU), dairy (1999, 2001, 2003; US and New Zealand against Canada), hormone-treated meat (1998, 1999; US and Canada against the EU), shrimps (1998; India, Malaysia, Pakistan and Thailand against the US), lamb (2001; Australia and New Zealand against the US), wheat gluten (2001; EU against the US), apples (2003, 2005; US against Japan), grain exports and imports by the Canadian Wheat Board (2004; US against Canada), upland cotton (2005; Brazil against the US), sugar (2005; Australia, Brazil and Thailand against the US), geographical indications (2005; US and Australia against the EU). Among the disputes which do not involve food and agriculture directly, it is important to recognise the one on Foreign Sales Corporations (2000, 2002, 2006; EU against the US), which gave the right to the EU to impose \$4 billion worth of tariffs on its imports from the US of various commodities, a right the EU has refrained so far from exerting.

possibly be the best option. The new WTO might see “basic” rules applied to all member countries and more demanding rules applied with a “variable geography”, only to trading among those countries which agreed to introduce them. 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. A question which seems reasonable to ask at this point is if a “*globalization with no rules*” is to be preferred to the current situation. If WTO is reformed, it is likely that its reform will include a limitation of its enforcement power in the disputes settlement mechanism. 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 these, the least developed ones.

6. Conclusions

There seem to be four main conclusions from the analysis developed in the paper.

Since the early ‘90s 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 public policy intervention. The market reorientation of domestic prices has not translated in increased market access, as border protection in the same years have remained unchanged; the positive effects of these reforms for third country exporters have been limited to the up-ward 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 the CAP reforms a reduction in border protection is needed.

The CAP reforms have been substantial and in the “right” direction from the point of view of WTO negotiations. However, they have been introduced based mostly on 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 to ask for more 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 the negotiations move forward by overcoming some of the impasses it faced, including agreeing not to put on the agenda three of the “Singapore issues” and unilaterally offering that the final agreement include a date for the elimination of export subsidies. The EU proposals have evolved significantly over the length of the negotiations so far: 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 the one in June 2006, which includes: the elimination of export subsidies by 2013, at the latest; a reduction by 70 per cent of EU maximum allowed trade distorting domestic support; an average cut of its bound tariffs of an order of magnitude around 50 per cent, whose effects, however, might be significantly mitigated by the provisions to be agreed regarding “sensitive” products. Were the final agreement not far from this proposal it would no doubt bring little liberalization of EU domestic and trade policies in addition to policy reforms which have been already undertaken and which are shortly to be undertaken. But what would have been the assessment of the “ambition” of the current offer by

the EU had this been an hypothesis made in 1999, at the beginning of the negotiations, of what would the final agreement of the round have looked like?

While the future of the negotiations remains dubious, the CAP is expected to go through further significant changes in the near future. If DDA sees a successful conclusion, the “ambition” of the agreement on agriculture will be largely constrained by the EU reforms (including, possibly, those which will take place in the near future) and the new Farm Bill in the US; these will shape a level of “ambition” of the final agreement which many would judge too low and some 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, we will see more relevant changes in the CAP; successful developments in trade agreements involving the EU for which negotiations are already well under way may contribute to an increasing openness of EU agro-food markets.

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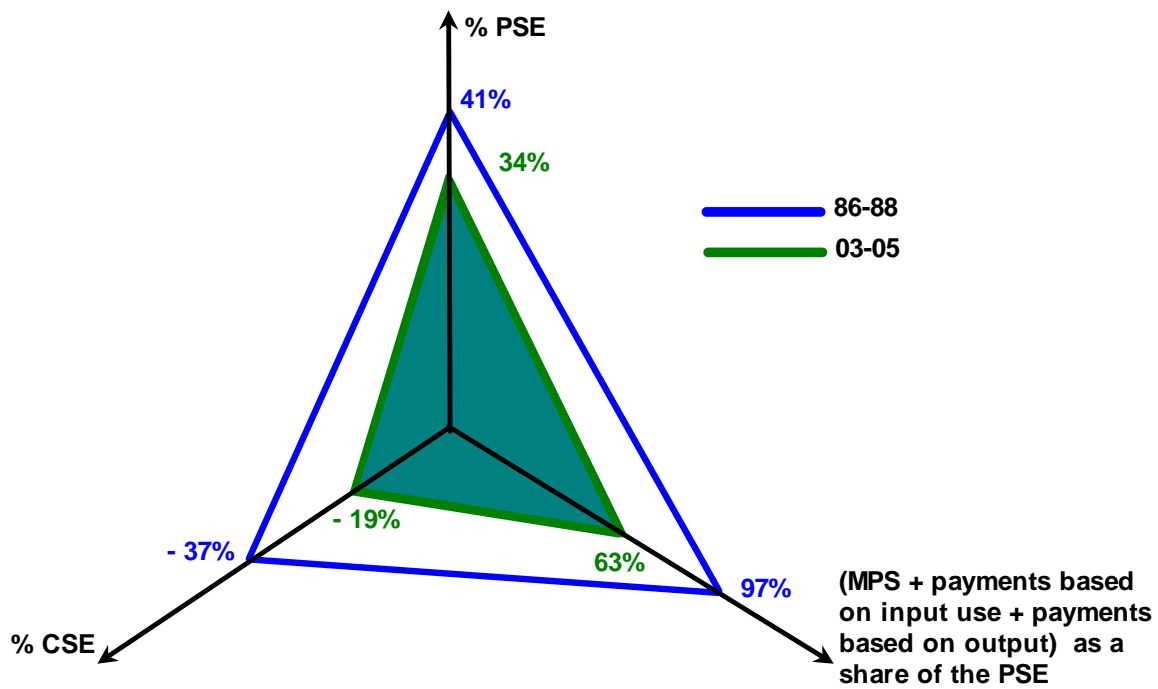
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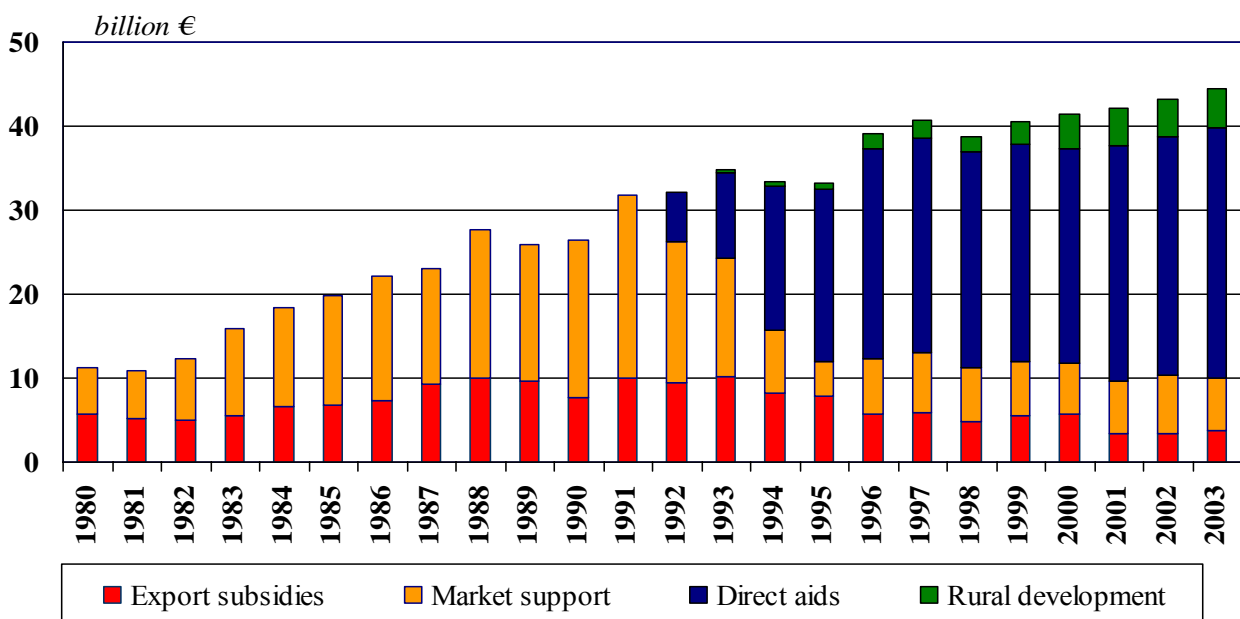
Figure 1 - Evolution of EU CAP support between 1986-88 and 2003-05.



Legenda: PSE Producer Support Estimate.
 CSE: Consumer Support Estimate.
 MPS: Market Price Support.

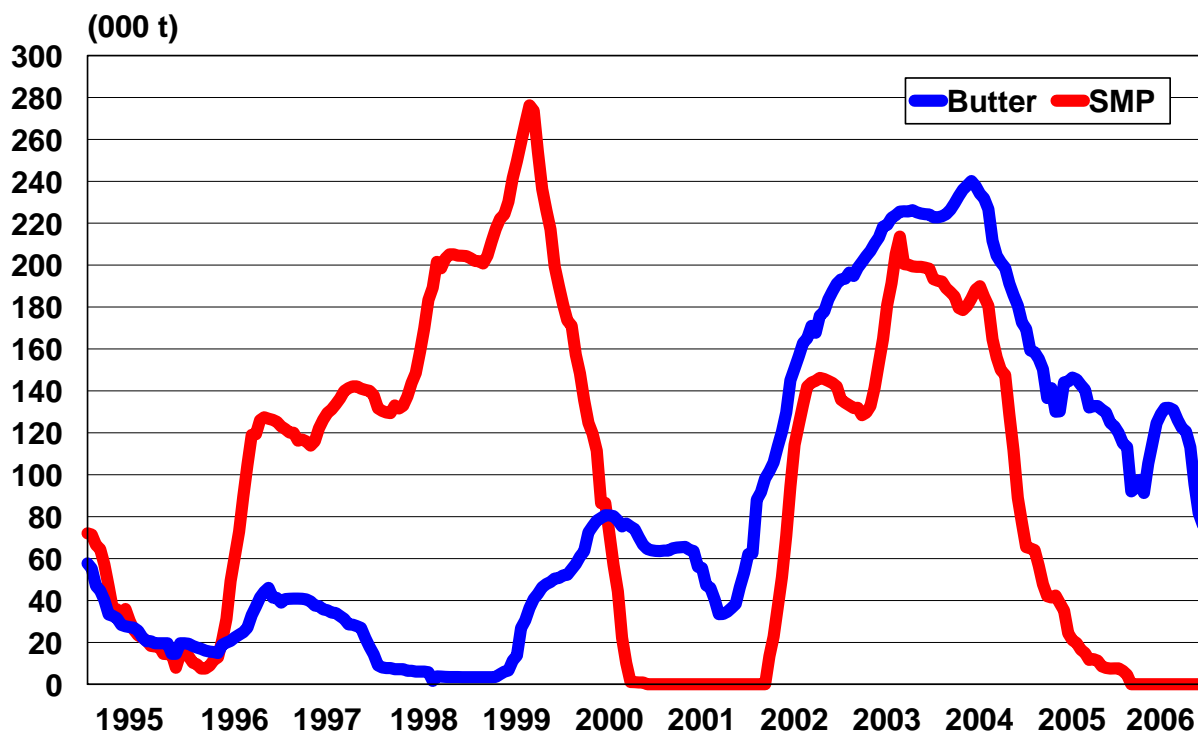
Source: OECD.

Figure 2 - Evolution of CAP expenditure between 1980 and 2003.



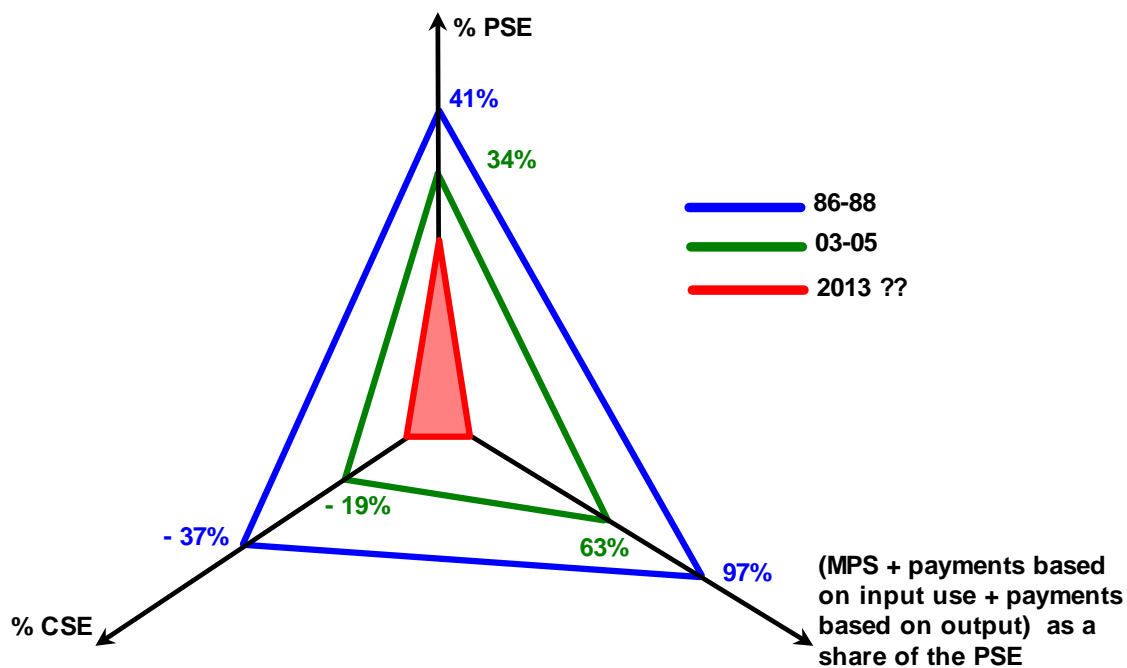
Source: EU Commission.

Figure 3 - European Union. Butter and skimmed milk powder (SMP) public intervention stocks (January 1995 – December 2006).



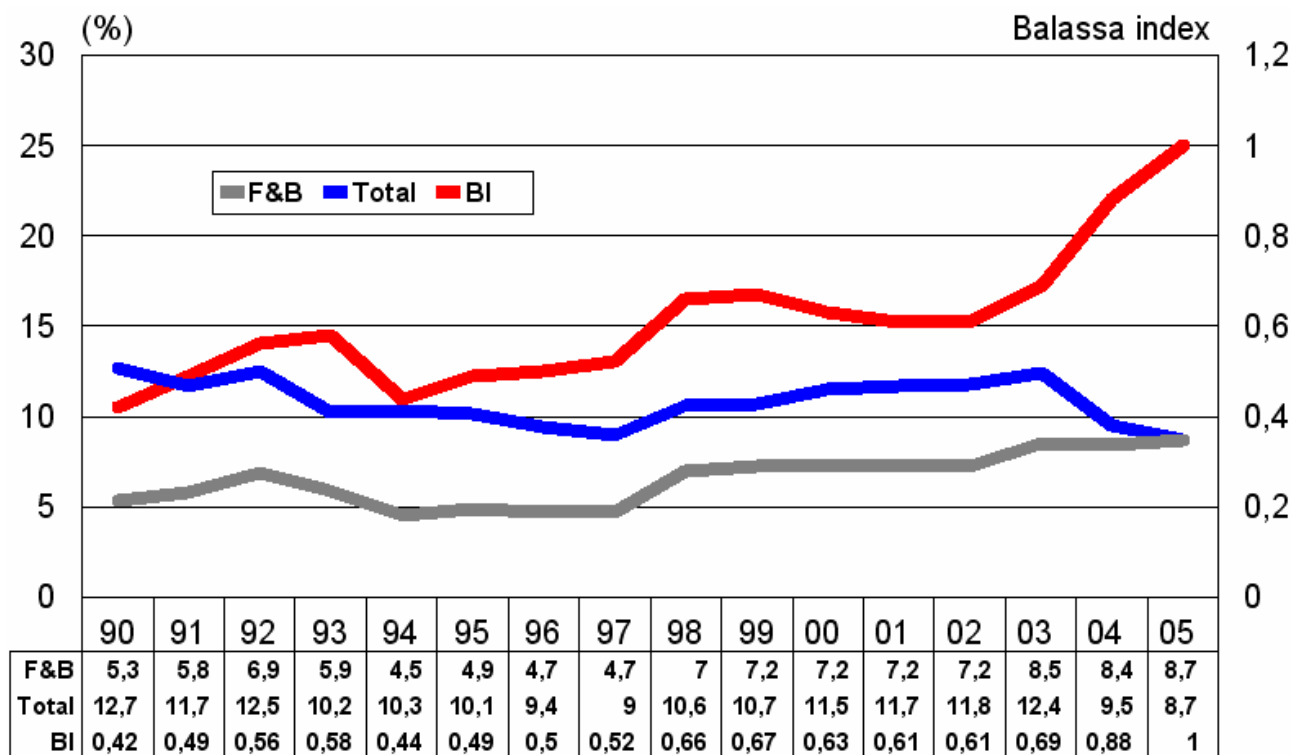
Source: EU Commission.

Figure 4 - Possible evolution of EU CAP support between 1986-88 and 2013.



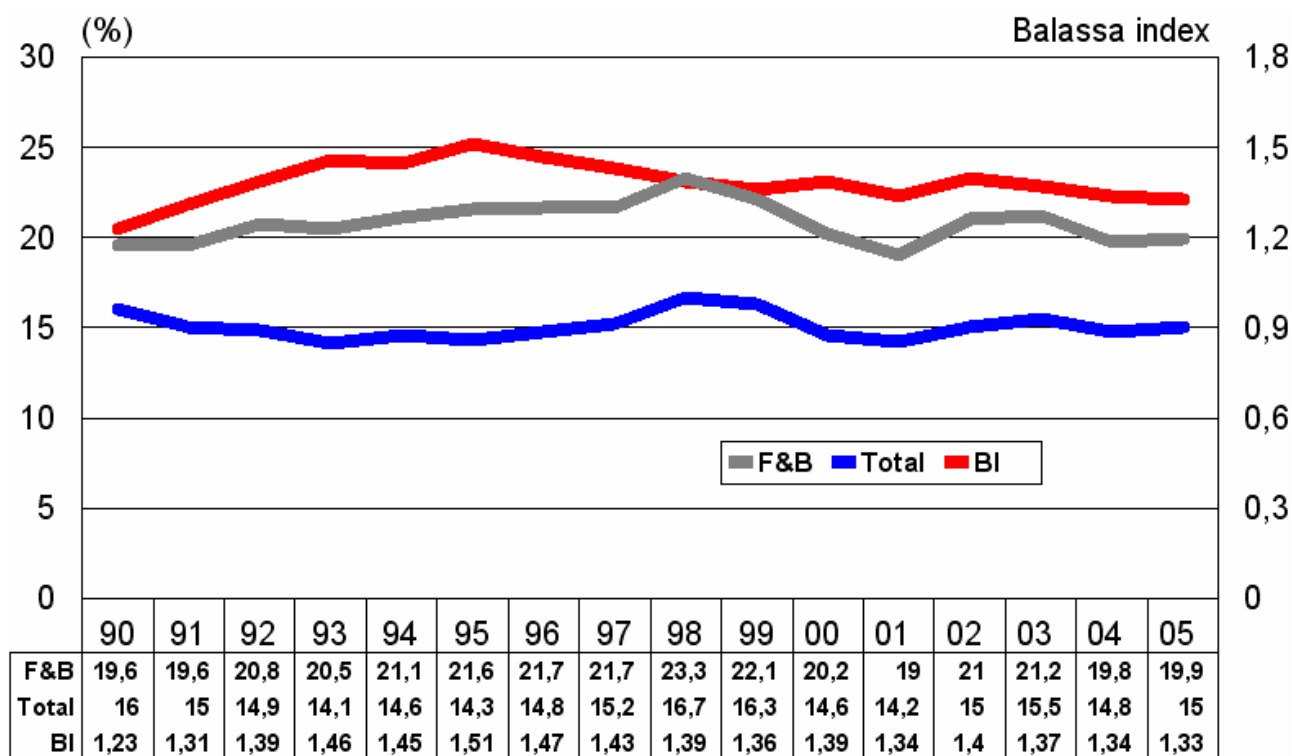
Legenda: PSE Producer Support Estimate.
 CSE: Consumer Support Estimate.
 MPS: Market Price Support.

Figure 5 - Australia. Total and Food and beverage exports to the EU-15 as a percentage of exports to all destinations; Balassa index (1990-2005).



Source: COMTRADE.

Figure 6 - New Zealand. Total and Food and beverage exports to the EU-15 as a percentage of exports to all destinations; Balassa index (1990-2005).



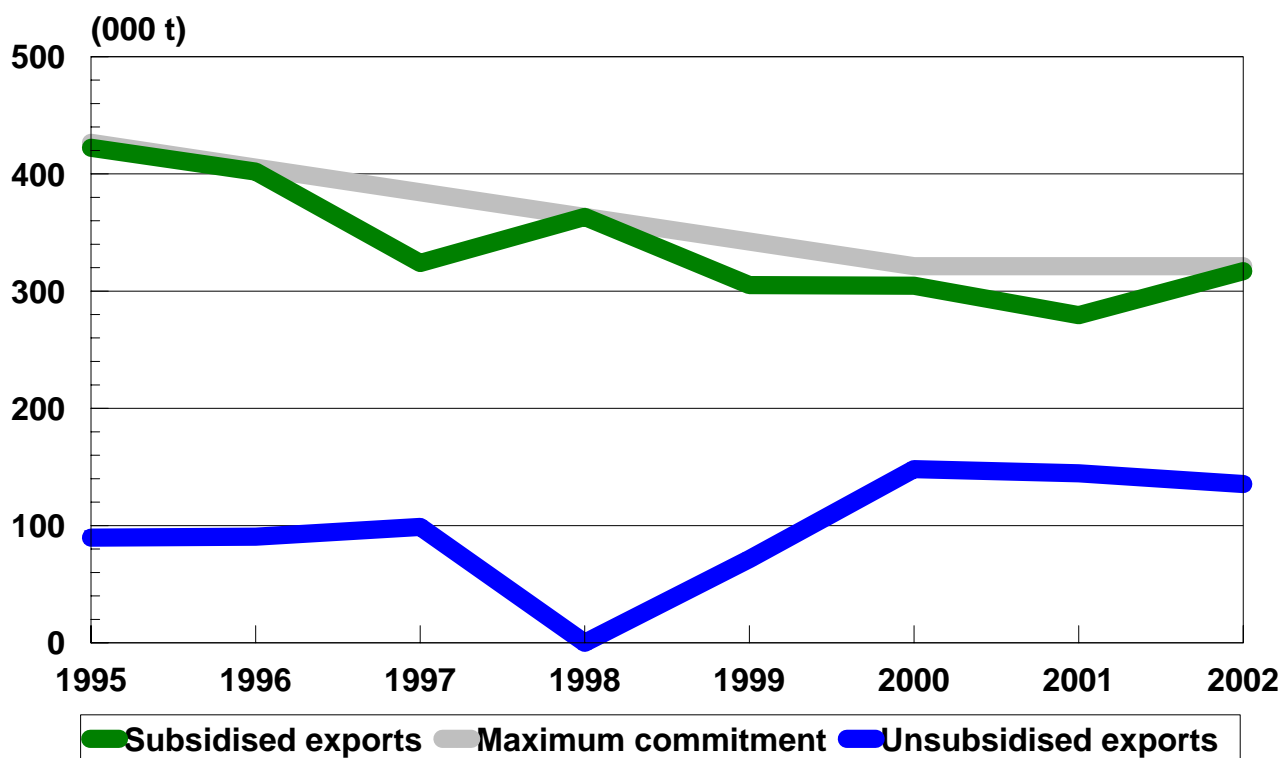
Source: COMTRADE.

Figure 7 - European Union. "Bindingness" of the Uruguay Round Agreement on Agriculture export competition commitments (95/96 - 02/03).

	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03	Maximum outlays commitment from 00/01 on (mill Euro)
Wheat	Green	Green	Green	Green	Yellow	Green	Green	Green	1289,7
Coarse grains	Green	Green	Green	Yellow	Red	Green	Green	Green	1046,9
Rice	Green	Red	Red	Red	Red	Red	Red	Red	36,8
Rapeseeds	Green	Green	Green	Green	Green	Green	Green	Green	27,7
Olive oil	Red	Red	Green	Green	Green	Green	Red	Green	54,3
Sugar	Green	Green	Yellow	Yellow	Green	Green	Red	Green	499,1
Butter	Green	Green	Green	Green	Green	Green	Green	Green	947,8
Skim milk powder	Green	Green	Green	Green	Yellow	Green	Green	Green	275,8
Cheeses	Red	Red	Green	Green	Green	Yellow	Green	Red	341,7
Other milk products	Red	Red	Red	Red	Red	Yellow	Green	Green	697,7
Beef meats	Green	Red	Yellow	Green	Green	Green	Green	Green	1253,6
Pigmeat	Green	Green	Green	Yellow	Yellow	Green	Green	Green	191,3
Poultry meat	Red	Red	Red	Red	Red	Green	Green	Red	90,7
Eggs	Green	Green	Green	Yellow	Yellow	Green	Green	Green	43,7
Wine	Green	Red	Red	Red	Red	Red	Red	Yellow	39,2
Fruit and vegetables, fresh	Red	Red	Red	Red	Red	Red	Yellow	Yellow	52,8
Fruit and vegetables, procsd	Yellow	Green	Green	Green	Green	Green	Green	Green	8,3
Tobacco	Green	Green	Green	Green	Green	Green	Green	Green	40,2
Alcohol	Green	Green	Green	Yellow	Red	Red	Green	Yellow	96,1
Incorporated (processed) products	Green	Green	Yellow	Red	Red	Red	Red	Red	415,0

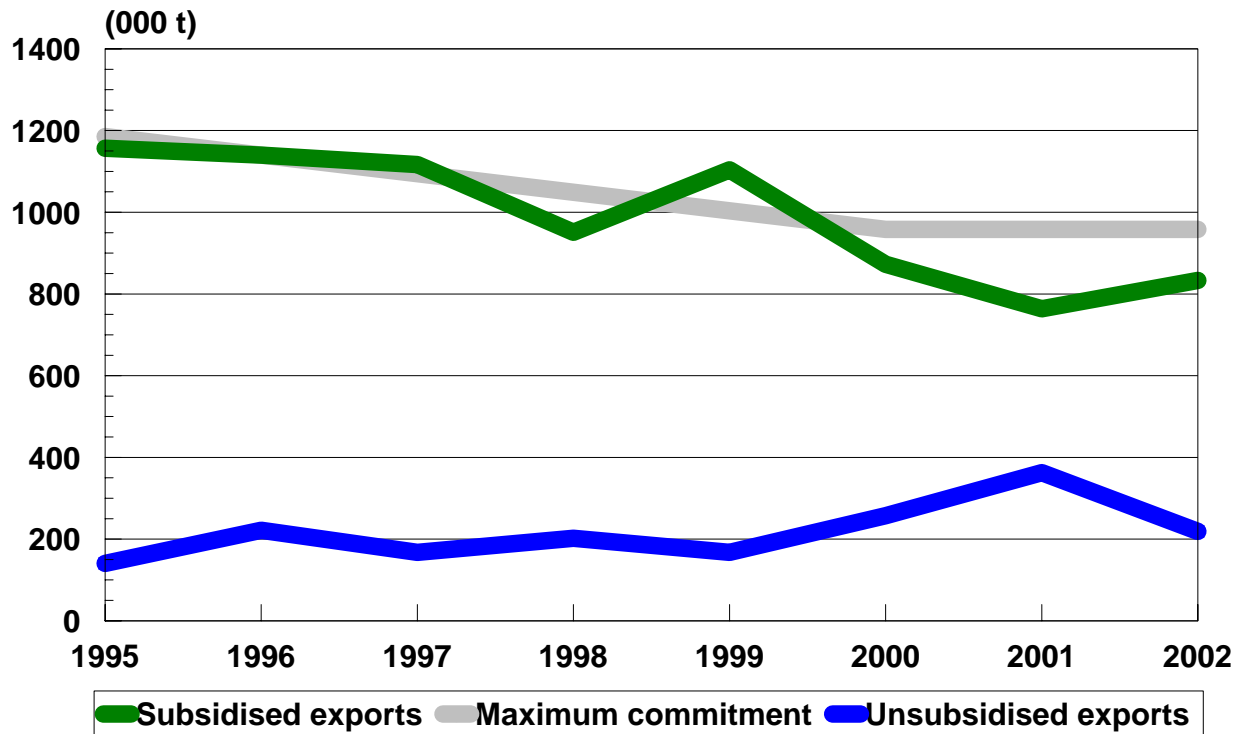
Source: EU notifications to the WTO.

Figure 8 - European Union. Cheeses: subsidised and unsubsidised exports; maximum subsidised exports commitment. (95/96- 02/03; 000 t).



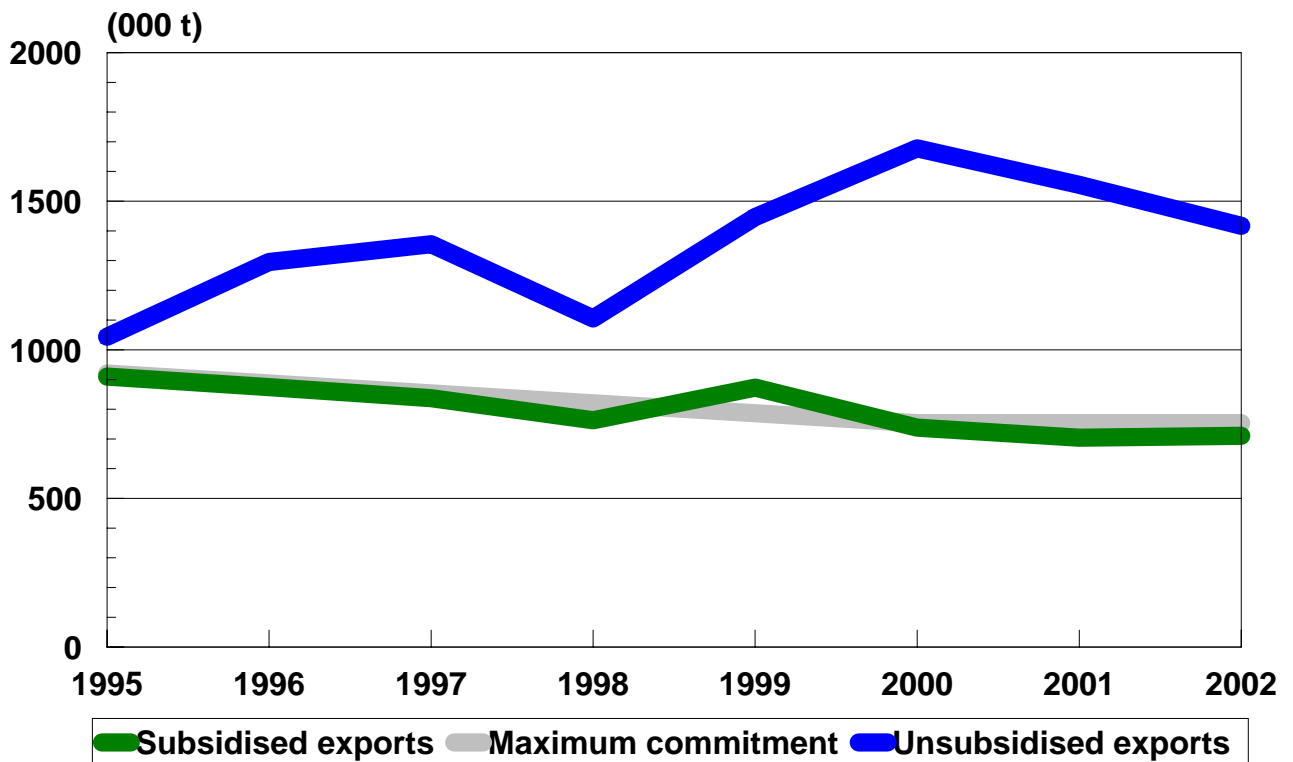
Source: EU notifications to the WTO.

Figure 9 - European Union. Other milk products: subsidised and unsubsidised exports; maximum subsidised exports commitment. (95/96- 02/03; 000 t).



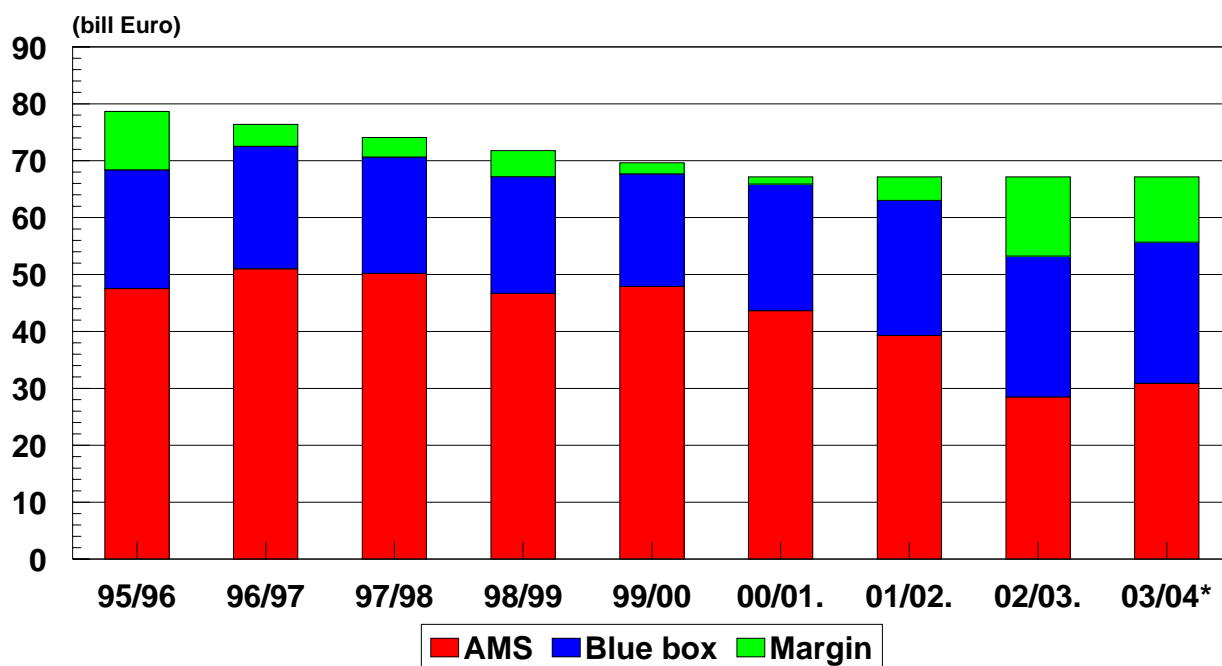
Source: EU notifications to the WTO.

Figure 10 - European Union. Fresh fruit and vegetables: subsidised and unsubsidised exports; maximum subsidised exports commitment. (95/96- 02/03; 000 t).



Source: EU notifications to the WTO.

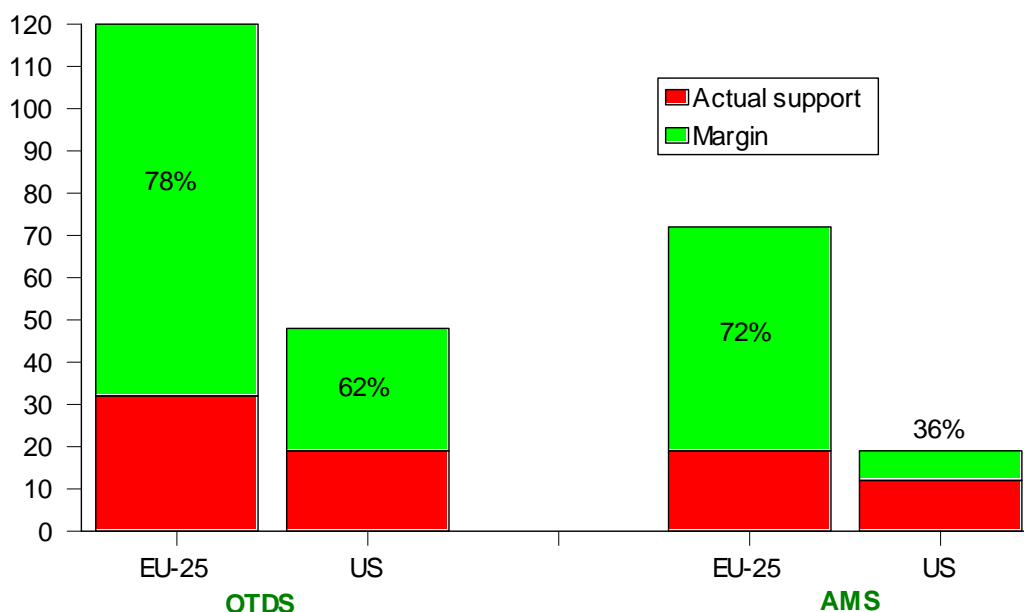
Figure 11 - European Union. Domestic support reduction commitments: notified AMS, support falling in the "blue box" and margin with respect to the maximum allowed AMS under the Uruguay round Agreement on Agriculture (1995/96 - 2003/04).



*: 2003/04 notification includes support after enlargement; price gap calculations are for EU-25 production levels for a 12 month period and include direct payments to 25 member States.

Source: EU notifications to the WTO.

Figure 12 - European Union and United States. Projected margins of reduction (overhang) in the Overall Trade-distorting Support (OTDS) and in the "amber box" support (AMS). (2004 for the US, 2008 for the EU; Euro and US\$ billions).



*: 2003/04 notification includes support after enlargement; price gap calculations are for EU-25 production levels for a 12 month period and include direct payments to 25 member States.

Source: ICONE.