The WTO and FTAA Negotiations – A European Union Perspective

David Blandford[1]

Abstract

The European Union's willingness (and ability) to sign the Agreement on Agriculture, which resulted from the Uruguay Round of trade negotiations, was closely linked to internal political developments – particularly the struggle over the reform of the Common Agricultural Policy. The EU's position on agriculture in the current WTO negotiations is again influenced strongly by internal political factors. Key agricultural sectors, in particular dairy and sugar – largely untouched by previous changes in domestic and international trade policies, face significant structural problems. Budgetary constraints, which are likely to become more severe with the expansion of the Union from fifteen to twenty-five countries, are adding to pressures for reform. In contrast, several recent well-publicized animal disease and food safety incidents, such as foot and mouth and BSE, have heightened public concern about the direction of change in the EU's food and agricultural system, and the future role of international trade. Public sentiment is turning against a "cheap food" policy, towards one which lays greater stress on the environmental role of agriculture, animal welfare and food safety. This is reflected in the Union's negotiating position in the WTO. That position continues to be constrained by the fierce opposition of some EU member states to further reform of the Common Agricultural Policy. For the European Union, therefore, a politically acceptable outcome in the WTO negotiations will need to balance a reduction in protection with measures that permit broader public concerns about food, agriculture and trade to be addressed. Key areas of emphasis will be the use of so-called green box measures and product standards, in addition to market access and export subsidy issues.

Introduction

This paper reviews the European Union's (EU) position on agriculture in the current Doha round of trade negotiations under the World Trade Organization (WTO) and provides background information on that position. It also addresses EU efforts to expand regional and bilateral trade agreements and their relationship to EU agricultural trade policy.

Background to the EU's Negotiating Position in the Doha Round

Developments in the Common Agricultural Policy (CAP) have been a major driving force behind the European Union's approach to trade negotiations. For thirty years after its introduction in 1962, the CAP relied primarily on price supports and border protection to support farm incomes. As productivity and agricultural output increased, export subsidies were increasingly used to dispose of domestic surpluses.

[1] Professor and Head, Department of Agricultural Economics and Rural Sociology, The Pennsylvania State University, University Park, PA 16802. (dblandford@psu.edu).

Various measures, such as quotas and taxes, were used in an attempt to control the growth of surpluses. Little progress was made in multilateral trade negotiations on agricultural products under the General Agreement on Tariffs and Trade until the Uruguay Round that began in 1986.

In 1992 the European Union adopted a package of reforms to the CAP that began to shift the emphasis from market price support to direct payments, which were used to compensate for reductions in support prices. Additional supply control measures were introduced. These reforms were important for reaching an agreement under the Uruguay Round, since they made it feasible for the EU to accept reductions in trade-distorting (amber box) domestic support and limitations on export subsidies. The Union's direct payments were accommodated in the Agreement on Agriculture (AoA) through the identification of a special category of support (the so-called "blue box" category), which temporarily exempted payments linked to production restraints from countervailing duties or other trade remedies.

In 1999 a second package of reforms (Agenda 2000) was adopted by the EU. This is a six-year package designed to facilitate the process of enlargement of the Union through the absorption of new members, primarily in Central and Eastern Europe, and to facilitate renewed agricultural negotiations in the WTO. Agenda 2000 involved further reductions in support prices for beef and grains and milk (the latter are delayed until 2005). The grain price decrease was partially offset by an increase in direct payments; supply controls (set-aside) for arable crops were tightened; direct payments for oilseeds were reduced. The decrease in the support price for beef was partially offset by an increase in direct payments. The delayed reduction in the milk support price is partially offset by higher milk production quotas.

In July 2002, a mid-term review of Agenda 2000 by the European Commission proposed additional policy reforms (European Commission, 2002a). A modified set of proposals was issued in January 2003. These would require a further cut in the support prices for grain, with the largest effects

being for rice (a 60% reduction) and rye (support price eliminated). Support prices for butter and skim milk powder would be reduced; production quotas would be increased; there would also be an increase in direct payments. The most innovative part of the proposal is the replacement of current product-specific direct payments by a largely decoupled whole-farm payment. A maximum would be placed on direct payments to large farms. Overall spending on coupled and decoupled payments would be progressively reduced. The resulting savings would be allocated to rural development, environmental programs, food safety and quality, and animal welfare programs.[2]

Some of the effects of the changes made to the CAP can be seen from table 1, which contains data from the Organization for Economic Cooperation and Development (OECD) on commodity specific and total support provided to EU agriculture. Commodity-specific support (the producer support estimate) was 15 percent higher on average for 1999-2001 compared to 1968-88, but the percentage support (relative to the value of production) fell from 42 percent to 36 percent. In line with the shift away from market price support to direct payments, the difference between internal EU prices and world prices narrowed. EU prices at the farm level were 38 percent higher on average than world prices in 1999-2001, compared to 87 percent in 1986-88. Total support (commodity and non-commodity specific support) fell as a percentage of GDP (from 2.6 percent to 1.5 percent), and the proportion of this provided through implicit taxes on consumers as a result of higher prices declined from 75 percent to 64 percent. An increased proportion of support was provided by taxpayers in the form of direct payments.

Despite these changes, prices for some agricultural commodities in the EU remain substantially above international prices. According to the OECD estimates, for 1999-2001 average prices for beef and veal at the consumer level were more than four times world prices, sugar prices were more than double those on world markets. Wheat and oilseeds prices were at or close to world market levels – the decline

[2] This summary does not include all the suggested changes, for a comprehensive list and comparison to Agenda 2000 see European Commission, 2003.

in wheat prices is particularly pronounced. EU prices of the other livestock products, including milk, were significantly above world levels. The CAP continues to consume a large proportion of the EU's budget (table 2). After declining from 54 percent of the budget in 1999 to 43 percent in 2001, the proportion has risen to a projected 48 percent in 2003. Of the total expenditures of €47.2 billion in 2002, €44.2 billion or 94 percent went on price and income support (guarantee expenditures), and only 6 percent on structural and rural development measures.[3]

In October 2002, France and Germany reached an agreement to freeze expenditures under the CAP at 2006 levels through 2013. This was endorsed by the other member states. The agreement was a precursor to the Copenhagen summit in December 2003 at which negotiations on membership of the Union were concluded with ten candidate countries (Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia). These countries are scheduled to join the Union in 2004. The freeze on CAP expenditures will mean that the agricultural costs of EU expansion will have to be absorbed within a fixed budget, and this will probably require reductions in payments to farmers in existing EU member countries. Upon joining the EU, farmers in the accession countries will receive 25 percent of the direct income subsidies of existing members. Parity will be reached by 2013.

In addition to budgetary matters, agricultural policies in the European Union have been influenced by increasing public concern over food and agriculture. An indication of the nature of such concern is provided by regular surveys of public opinion on the CAP conducted on behalf of the European Commission. In the most recent survey, conducted in 2001, roughly 9 out of 10 people questioned expressed the opinion that the leading objectives for agricultural policy in the Union should be to ensure that agricultural products are healthy and safe and to promote respect for the environment.

[3] It should be noted that the guidance section is only one of a number of funds that are oriented to reducing regional disparities and promoting structural adjustment in the Union. The issue of "economic and social cohesion" has become an increasingly important issue in the EU, and the focus of increased policy attention.

Interestingly, however, only about 4 in 10 of those questioned thought that the CAP actually performed "rather well" in achieving these goals (European Commission, 2001).

Public concerns are reflected in the concept of "multifunctionality", which identifies agriculture as a source of a range of non-commodity outputs or attributes in addition to food and agricultural commodities. Although the definition of these outputs is difficult to pin down, several issues have become increasingly prominent in the debate on agricultural policy in the Union. These are: the relationship between agriculture and the environment, food quality and safety, and animal welfare. There is insufficient space to provide a comprehensive treatment of each of these complex issues in the Union, but a few brief observations can be made:

- The EU's environmental focus has been primarily on how to reward farmers for positive contributions to landscape, cultural heritage and environmental quality. Addressing the negative environmental effects of agriculture, such as pollution, has received far less emphasis. Member states have developed a range of national programs to promote the supply of environmental services (e.g., the protection of wildlife). In terms of the CAP, the primary emphasis has been on the use of direct payments to encourage an appropriate supply of environmental services.
- Food quality and safety have become increasingly important issues in the wake of a number of key events – in particular the outbreak of bovine spongiform encephalopathy (BSE or "mad cow disease), and foot and mouth disease. Public concerns over the safety of food derived from genetically modified organisms (GMOs) have added to policy pressures in this area and led to a moratorium on the approval of most GM seeds. The EU has also banned the use of bovine somatotropin (rBST) in milk production, because of concerns about human health and animal welfare, and banned imports of beef produced using growth hormones. Regulations have been introduced to ban or restrict the use of various types of antibiotics in meat production. At the EU level, the emphasis in the food quality and safety area

has been on the use of regulations (including standards and labeling) and the potential use of payments to compensate producers for the costs of meeting such standards. At the same time, EU farmers are increasingly aware of the need to increase value-added in production and of the potential impact of product differentiation on profitability. This has resulted in pressure to protect "named products" that are typically associated with particular geographic areas.

- Animal welfare standards have been tightened progressively in the EU. Certain types of production systems have been banned or are being phased-out, and there is a general move towards less intensive systems of production ("extensification") in the animal industries. As is the case for food quality and safety, a major emphasis in this area has been on the use of regulations and the potential use of direct payments to compensate producers for the costs of meeting higher standards.

Developments in domestic agricultural policies, and the debate on the future of these policies, shape the Union's attitude to trade negotiations in the WTO and underpin its proposals for further trade liberalization. The EU's primarily objective is to ensures that a new agreement on agriculture should not undermine the CAP, and should permit the EU sufficient flexibility to address increasingly important "non-trade concerns".

The EU Position on Agriculture in the Doha Round

The European Union's proposals for agriculture (see summary in table 3) represent a continuation of the approach devised in the Uruguay Round (UR) with modifications to accommodate non-trade concerns (European Commission, 2002b).[4] The same implementation periods for a new agreement would be used as in the UR – 6 years for developed countries and 10 years for developing countries. The proposals for agriculture also contain elements of special and differential treatment for developing countries (table 3).

[4] The European Commission negotiates trade agreements for the European Union. In all WTO texts, reference is made to proposals by the European Communities or the European Community. In this paper, I shall use European Union and EU for the sake of simplicity.

Market Access

With respect to **tariffs** the EU proposes a simple average reduction in bound tariffs, with a minimum reduction per tariff line in line with the approach adopted in the UR. The EU does not favor more aggressive tariff reductions, such as those embodied in the Swiss Formula approach in the US proposal.[5]

Table 4 shows the simple average MFN tariffs by two-digit Harmonized System (HS) codes for food and agricultural products in the European Union, and the maximum tariff at the 8-digit HS level within each 2-digit grouping.[6] The commodity groups are listed in descending order with respect to the size of the average tariff in 2002. As may be seen, cereals and related products, dairy products, meat, and sugar have the highest average tariffs, ranging from 21 percent to 39 percent on average. The highest individual tariff of 210 percent is in the dairy products group. The final row of the table shows that the simple average tariff for all products (agricultural and non-agricultural) is 6.4 percent; 18 of the 27 two-digit agricultural groups have average tariffs that are above that level. This illustrates the relatively high protection for agricultural products as a whole in the EU.

The table also contains illustrative calculations of the impact of a simple average reduction in tariffs – the preferred EU approach, and the application of the Swiss Formula – the preferred US approach. The EU has proposed a repeat of the reductions made as a result of the Uruguay round of 36 percent on average, with a minimum of 15 percent per tariff line. For the purposes of illustration I have used this 36 percent average tariff reduction, but applied to all tariffs, and the Swiss 25 proposed by the United States. The resulting calculations for the Swiss Formula are an accurate reflection of the impact of that approach on final tariffs, but the simple average calculations most likely overestimate the

[5] The Swiss Formula is $T_1 = (T_o * a) / (T_o + a)$ where T_1 is the new tariff; T_o is the current tariff; a is a coefficient to be applied and defines the maximum tariff after reduction. Thus with a coefficient of 25 a 50-percent tariff would be reduced to 16.7 percent, or a 67-percent reduction. A 10-percent tariff would be reduced to 7.1 percent, or a 30-percent reduction. No tariff would be over 25 percent. The resulting tariffs have only a 9-point disparity whereas the previous tariffs had a 40-point disparity.

[6] The EU uses both ad valorem and specific tariffs. The latter were converted to ad valorem equivalents by the WTO Secretariat.

reduction in tariffs. This is because the UR approach specifies an average reduction and a minimum per tariff line. This allows countries to behave strategically across the entire range of products by reducing small tariffs by large percentages and large tariffs by the agreed minimum. In the table the average 36 percent reduction is assumed to be applied by the EU to all tariffs within each 2-digit HS grouping – an extremely unlikely outcome. To provide an indication of a more realistic outcome, I have also calculated the average and maximum tariffs under the assumption of a 15 reduction for each category of food and agricultural products.

Despite their limitations, the calculations in the table illustrate clearly why the EU prefers a continuation of the UR approach to tariff reductions. The maximum tariff (in the dairy product group) would be reduced from 210 percent to 157 percent under the simple average reduction of 36 percent, and to 178 percent under the more likely 15 percent reduction. By contrast, under Swiss-25 the maximum tariff falls to 22 percent. As was noted earlier with respect to table 1, EU market prices are substantially above those on world markets for a number of commodities, most particularly beef and veal, milk and sugar. The calculations in table 4 indicate that the continuation of the UR approach to tariff reduction would permit the EU to maintain high levels of tariff protection for these sensitive commodities.

With respect to **Tariff Rate Quotas** (TRQs) the EU proposes that these should be continued, but it has proposed that rules on the allocation of TRQs should be clarified and that greater transparency should be achieved. A study by the International Agricultural Trade Research Consortium (IATRC) examines the various methods used to administer TRQs and substantial differences in quota fill rates within and among countries (IATRC, 2001a). The study indicates that the EU has 87 TRQs; roughly two-fifths of these provide for a continuation of preferential access to the EU market on a bilateral basis. The average fill rate for EU TRQs for1995-98 was 72 percent; there has been a tendency for rates to increase over time. By comparison, the average fill rate for the 41 TRQs in the United States was 59

percent (Table 4.1, page 43). The IATRC study indicates that the EU has been relatively transparent in its administration of TRQs, but has not adopted allocation methods, such as auctioning, that could increase economic efficiency in filling quotas. The study also concludes that increases in EU TRQs could be effective in liberalizing EU trade, but the EU has not proposed any such increase in the current trade negotiations.

The European Union has included new proposals under the market access heading relating to **geographical indications**. The EU proposes that "appropriate provisions be implemented (a) to guarantee effective protection against usurpation of names for agricultural products and foodstuffs; (b) to protect the right to use geographical indications or designations of origin; and (c) to guarantee consumer protection and fair competition through regulation of labeling."

Geographical indications (GIs) are covered in the 1994 UR agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). TRIPS established standards for geographical indications, which are defined in Article 22(1) as "indications which identify a good as originating in the territory of a Member, or a region or locality in that territory, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographic origin." In essence, TRIPS prevents the use of a GI that would mislead the public as to the geographical origin of a good, or would constitute an act of unfair competition. The TRIPs agreement provides a higher level of protection for wine and spirits, where GIs are particularly important for some EU countries. There are exceptions specified in the Agreement to cover cases in which a GI has become a "generic" name in a WTO country – although there are differences of opinion among countries as to what qualifies as generic. The TRIPS agreement called for a review of the application of the GI provisions and this has been underway since 1999. Little progress has been made.

The EU aim is to strengthen its exclusive rights over terms of geographical reference in order to protect its trade interests in valuable exports. This would be achieved through the extension of the higher level of protection currently afforded to wines and spirits to a broader range of agricultural products. A number of other countries support this idea, for example India has proposed such protection for basmati rice. It appears that what the EU is seeking is a system which would create clear obligations by WTO members to grant exclusive rights for individual geographical indications. Thus, the EU has been pressing for an international register that would have a mandatory effect in that notification of a GI would require it to be protected elsewhere. Under such a system, other countries would be required to grant exclusive rights over the GI to producers in the notifying country, unless these were determined to be invalid under the WTO's dispute settlement process. A number of countries, including the United States are resisting the introduction of such a system

The final market access proposal by the EU relates to **special safeguards** (SSG). The Union would like to continue this provision, which allowed special safeguard duties to be imposed to counter import surges for products for which border protection was "tafiffied" in the AoA, during its implementation period. In an analysis of market access issues in the current negotiations by the IATRC, it is noted that of the 137 WTO members that notified TRQs, only 38 reserved to right to use the SSG, and that the percentage of tariff lines covered in the EU was 31 percent. This may be compared to just 9 percent in the United States (IATRC, 2001b). Product coverage in the EU is concentrated in meat and dairy products, and fruits and vegetables. The IATRC indicates that of the 436 price-based actions reported to the WTO over the five year period following 1995 roughly one tenth were EU actions; the United States accounted for over one half. However, the EU accounted for almost 60 percent of the 213 volume-based actions. The principal products affected by these actions were fruit (particularly citrus) and vegetables (particularly tomatoes). The IATRC report concludes that the principal use of SSG,

together with other policy measures and regional trade agreements, was to regulate the internal market for perishable fruit and vegetables.

Export Competition

Export competition is a key issue for the EU, because of its traditional reliance on the use of export subsidies to dispose of products that could not be sold on the domestic market without depressing prices. The EU has indicated that it is willing to negotiation reductions in **export subsidies**, providing that other alleged forms of export subsidization are covered in a new agreement. The EU has made specific proposals for these.

The AoA (article 10.2) specified that "Members undertake to work toward the development of internationally agreed disciplines to govern the provision of export credits, export credit guarantees or insurance programs and, after agreement on such disciplines, to provide export credits, export credit guarantees or insurance programs only in conformity therewith." As part of its comprehensive proposal for the Doha round, the EU has proposed that **export credits** be covered by specific WTO rules and disciplines, and that these be reduced in line with any reduction in export subsidies.

Analysis by the OECD indicates that from 1995-98 the United States provided 46 percent of the total export credits among fifteen OECD countries for which data were available. The $12.8 billion in export credits translates into 5.2 percent of the value of exports for the period considered. Roughly one third of the credits were used for bulk cereals. The OECD estimates that the subsidy element in US export credit programs is the highest of the countries analyzed, but that this amounted to only 6.6 percent of the total value of credits provided in 1998 (OECD, 2000).

A "gentleman's agreement" on the use of officially supported export credits with repayment terms of two years or more was concluded through the OECD in 1978. Negotiations have been underway since 1998 to refine this agreement with a view to it forming the basis for a WTO agreement.

Although some progress has been made in the OECD, a consensus has not been reached. While there seems to be general acceptance that export credits should be covered under a new WTO agreement, the distinguishing feature of the EU approach is that the entire value of export credits should be considered as equivalent to export subsidies and should be subject to agreed reductions in volume and value.

Article 10.4 of the AoA covers the provision of **food aid**, requiring: "(a) that the provision of international food aid is not tied directly or indirectly to commercial exports of agricultural products to recipient countries; (b) that international food aid transactions, including bilateral food aid which is monetized, shall be carried out in accordance with the FAO 'Principles of Surplus Disposal and Consultative Obligations', including, where appropriate, the system of Usual Marketing Requirements (UMRs); and (c) that such aid shall be provided to the extent possible in fully grant form or on terms no less concessional than those provided for in Article IV of the Food Aid Convention 1986." The United States is the largest donor of food aid. In the 1990s, it provided 40-60 percent of total donation annually (IATRC, 2001c). The EU proposes that in a new WTO agreement on agriculture, food aid should only be provided in grant form. It also proposes that there be prior mandatory notification of the provision of aid. It also calls for a clear definition of the type of operations that constitute aid in order to ensure that it does not damage food production and marketing capacities in recipient countries.

Finally, the EU has a proposal on the operation of **State Trade Enterprises** (STEs). The proposal is that cross-subsidization, price pooling and "other unfair trading practices" be abolished. It also included mandatory notification with respect to acquisition costs and export pricing.

EU proposals on export competition are clearly intended to balance any further reductions that it would be required to make in its **export subsidies**. From 1995-1998, WTO members spent over $27 billion on such subsidies and the EU accounted for 89 percent of those expenditures (IATRC, 2001c). This may be compared to the less than 2 percent share for the United States. In the past, the majority of

the EU's exports of wheat, coarse grains, beef and dairy products have required export subsidies. Subsidies have also been used for wine and alcohol. Reforms of the CAP have had a significant effect on the gap between domestic and international prices, particularly for grains, and a relatively weak Euro exchange made EU exports more competitive in the 1990s. The implications may be seen by the change in the nominal protection coefficient for wheat in table 1. Total export subsidies fell from €10 billion or 25 percent of the value of EU farm exports in 1992 to less than €3 billion or 5 percent in 2001. However, as noted earlier, internal prices for some products are still substantially above those in international markets (again, as indicated by the nominal protection coefficients in table 1), requiring that subsidies be paid if domestic surpluses are disposed of on world markets. The appreciation of the Euro since 2001 has made this a more important issue. Further reductions in the permitted volume and value of subsidized exports would require the Union either to reduce its internal market prices in order to reduce domestic surpluses, or to tighten supply controls, such as those used for milk. The EU has proposed an average reduction of 45 percent in budgetary outlays on export subsidies and "a substantial reduction" in the volume of subsidized exports.

Domestic Support

The future of WTO disciplines on domestic support is of increasing concern to the European Union. Reforms to the CAP have tended to reduce reliance on price supports, and increase reliance on direct payments. As the agenda for agriculture broadens to cover environmental and other issues, such as animal welfare, reliance on direct subsidies is likely to increase.

The EU has proposed a significant reduction in **trade-distorting (amber box) support** through a reduction in the Aggregate Measure of Support (AMS). The EU has proposed a reduction of 55 percent from the final level of commitments in the AoA. The base AMS for the EU was €80.98 billion and that at the end of the UR implementation period was €67.16 billion (or roughly $74 billion at current

exchange rates).[7] This compares to a based AMS for the United States of $23.99 billion and a final AMS of $19.1 billion. Under the EU proposal the EU AMS would decline to roughly €30 billion and the US AMS to less than $9 billion.

The EU has been critical of increases in the proportion of the permitted AMS used by the United States, particularly as a result of the 2002 Farm Act. Under that Act US amber box support is projected to be close to the WTO ceiling, and could exceed it if world prices are low. The EU also proposes that specific disciplines be applied to amber box subsidies that vary in response to changes in market prices. The EU argues that such measures "boost export performance", i.e., are a disguised form of export subsidy. The EU proposal relates specifically to U.S. counter-cyclical income supports for major field crops.[8] The EU proposal would put pressure on the United States to change its agricultural support policies. It seems reasonable to assume that the AMS reduction proposed by the EU could be achieved under its existing policies, i.e., the Agenda 2000 version of the CAP, and without any of the additional changes proposed in the Mid-term Review.

The EU has also proposed that the "de minimis" exemption clause for developed countries be eliminated. Article 6.4 of the AoA permits developed countries to exclude from their reduction commitment any product specific support that is less than 5 percent of the value of production of any given commodity, and any non-commodity specific support that is less than 5 percent of the total value of agricultural production. If adopted, that provision could have significant implications for the United States, since roughly $20 billion of U.S. support is excluded from reduction under the de minimis provision.

[7] Astute readers will note that this does equal the 20 percent reduction agreed in the UR. The EU claimed credit for actions taken since 1986, such that the actual reduction from the base level was 17 percent.
[8] The commodities covered are wheat, corn, grain sorghum, barley, oats, rice, upland cotton, soybeans, minor oilseeds, and peanuts.

Finally, the EU has proposed that the definition of non product-specific domestic support be clarified to exclude support that is related to the type or volume of production, prices or factors of production employed. This would essentially increase the threshold under which such support would be considered to be decoupled or minimally production and trade distorting. Some the recent innovations in U.S. farm policy, such as countercyclical income payments, could be affected by such a clarification.

The EU has proposed that the **blue box** category of payments be continued. The EU argues that blue box payments, which are those made under production-limiting programs, are less trade distorting than amber box measures, even if there is a requirement to produce in order to receive the payment. As indicated above, payments linked to land use and livestock numbers were introduced as part of the 1992 reform of the Common Agricultural Policy and were intended to compensate farmers for reductions in price supports. Under Agenda 2000 they are a continuing feature of the CAP, and the Union obviously wishes to safeguard its ability to continue to use these payments, and to exempt them from reductions. If the proposals of the MTR were adopted, i.e., the replacement of product-specific by whole-farm payments, it is highly likely that EU direct payments would qualify as green box, and so the continuation of the blue box could be a non-issue. The EU has signaled a willingness to negotiate on detailed rules for the non-amber boxes of support.

The EU has proposed that the **green box** category of payments be continued. Such payments are supposed to be minimally production and trade distorting. The EU would like to expand the coverage under the green box to address some of its non-trade concerns, such as "the protection of the environment, the sustained vitality of rural areas and poverty alleviation, food security for developing countries and animal welfare."

The Peace Clause

Provisions under Article 13 of the AoA exempted WTO members from actions taken under countervailing duty proceedings, or initiating dispute settlement proceedings against green box subsidies until the end of 2003. Members were also required to exercise due restraint in initiating countervailing duty investigations with regard to amber and blue box subsidies. Under the peace clause, challenges to amber box subsidies may not be initiated unless spending for a particular commodity exceeds that in the 1992 marketing year.

The EU has proposed that the "peace clause" be a part of any new agreement on agriculture. This is seen as a complementary to the specific support measures permitted under the AoA, in particular, the continuation of the blue box category of support.

Developing Countries

The EU has placed considerable stress on the need to provide special and differential treatment for developing countries in the current negotiations. The major proposals by the EU with respect to agriculture are:

1. Provision of stable and predictable trade preferences, particularly for the least-developed countries. All developed and advanced developing countries are to provide duty-free and quota-free access for all imports from least-developed countries, with at least 50% of imports from developing countries by developed countries being duty free. There should be a reduction of tariff escalation for products of particular interest to developing countries.
2. Exemption from reduction commitments of appropriate (minimally trade distorting) measures to promote "sustainable vitality" of rural areas and food security.
3. Revision of the de minimis clause for developing countries to provide flexibility in addressing the concerns under proposal 2.

4. Intensification of all forms of technical assistance, particularly in the areas of implementation and use of WTO agreements.
5. Allowed usage of special safeguards for sensitive food products.

The Union has been trying to promote its image as a proponent of the interests of developing countries. The emphasis on trade preferences, rather than more general trade liberalization, is consistent with its past and recent actions in this area. For example, in 2001 the EU approved its "everything but arms" duty and quota free access for all products, except arms, from the 48 poorest countries. Under pressure from farm lobbies, particularly the sugar lobby, the elimination of duties on sugar (and rice) will be phased in by 2009. The elimination of duties on bananas will be phased in by 2006. Imports are also subject to safeguard provisions and rules of origin. EU activities with respect to preferential trade agreements are discussed in more detail below.

The focus on special exemptions for developing countries, particularly in the area of rural development, is consistent with the Union's aims of obtaining special treatment for its own policies in that area. However, the EU has been unwilling to embrace a broad application of special treatment for food security, which Japan and some other non-EU countries in Europe, particularly Norway, have been seeking.

Other Proposals

The EU has made some additional proposals relating to issues of **food safety** and **animal welfare**. For food safety, the EU proposes that countries should be able to apply the precautionary principle in determining whether imports should be allowed. Recognizing the possibility that this may give rise to disguised restrictions to trade, it also proposes that the application of the principle should be clarified. The EU also proposes that labeling schemes should be permitted, but that these should be covered by the WTO. For animal welfare, the Union proposes the development of a multilateral agreements dealing

with the protection of animal welfare; the use of labeling; and the ability to provide compensation for the extra costs of meeting welfare standards under the green box.

In both of these areas, the EU proposals reflect the direction in which EU policies have been heading as discussed earlier, i.e., the development and application of higher product standards that are more costly to achieve and which require protection from unfettered competition from imports in order to be maintained.

The EU: Regional and Preferential Trade Agreements

The European Union has expanded the scope and number of its regional and preferential trade agreements, particularly since the 1990s. The types of agreements currently in existence, and the countries involved, are summarized in table 5.

In its early days, EU preferential agreements were limited to **overseas countries and territories (OCT)** of member states and to their former colonies. The EU granted duty-free access on all products originating from the OCT on a non-reciprocal basis since 1963, subject to a safeguard provision. The membership of the OCT group has expanded with the enlargement of the Union. Similarly, the origin of the current **African, Caribbean and Pacific (ACP) Partnership** dates back to the first Yaoundé Convention with 18 former colonies and territories in 1963; this was followed by Yaoundé II in 1969. After the accession of the United Kingdom to the Community in 1973, came the first Lomé Convention, signed in 1975 (with 46 countries); Lomé II in 1979 (58 countries); Lomé III in 1984 (65 countries); and Lomé IV in 1989 (68 countries, expanded to 70 in 1995). Under the ACP agreements, the EU granted non-reciprocal preferential access for many exports, but in the latest version integration agreements are to be concluded with the partnership countries, i.e., agreements that involve mutual tariff concessions. Negotiations on these partnership agreements are scheduled to be concluded by 2008. According to the

EU, the resulting agreements will build upon the rules of the WTO, but will eliminate all barriers to trade between the ACP and the EU and establish closer integration between the economies of the partners (European Commission, 2002c).

Preferential agreements with developing countries, beyond those included in the ACP group, were expanded through the introduction of the **Generalized System of Preferences (GSP)** in 1971. Quotas and ceilings for individual countries and products were applied until 1995. Since then, quantitative limitations have not been used; instead tariff preferences vary according to the sensitivity of products on the EU market. The EU's GSP scheme, which currently extends to 143 independent countries and 36 dependent countries and territories, has been modified to take account of the "Everything-but-Arms" initiative, which grants duty-free access for all products (except for arms), with certain exceptions (rice, bananas and sugar), for which transitional arrangements apply.

In the 1970s, the EU began to develop cooperation agreements with **Mediterranean countries**, providing for non-reciprocal preferential access. The agreements involved more or less duty-free access for industrial products (with safeguards) and limited concessions for agricultural products. The agreements are in the process of being replaced by Euro-Mediterranean association agreements, which involve a greater degree of liberalization by the EU partner. Their objective is to create a Euro-Mediterranean free trade area by 2010. Typically there are fewer concessions on agricultural products than industrial products. The also EU concluded a number of **free trade agreements** (e.g., with Iceland and Norway) and **customs unions** (Andorra and San Marino) with neighboring countries from the early 1970s onwards. These have typically excluded agricultural products. It also concluded a cooperation agreement with the six members of the Gulf Cooperation Council in 1988, but discussions on the creation of a free trade agreement made little progress.

Following the breakup of the Soviet Union, the Union entered into a series of agreements – the **Europe Agreements** – with neighboring countries in Central and Eastern Europe plus the Baltics and Slovenia, to prepare these countries for EU membership. The agreements provided for the phased introduction of free trade in industrial products, and limited coverage for agricultural products. All the EA signatories have negotiated or are in the process of negotiating accession agreements with the Union. Following the break-up of the former Republic of Yugoslavia, **stabilization and association agreements** or **autonomous trade measures** (non-reciprocal preferential access) arrangements were introduced with a number of Balkan countries.

More recently, the Union has looked farther afield in concluding trade agreements. Free trade agreements have been concluded with **Mexico** and **South Africa**. The Mexico agreement, which was concluded in 1999, involves the full liberalization of industrial trade by 2007 and partial liberalization for agricultural products by 2010. The South Africa agreement, which was also signed in 1999, provides for asymmetrical reductions in tariffs, but many key agricultural products are excluded. The EU is pursuing the establishment of trade agreements with **Chile** and **Mercosur**, although agricultural products present a major challenge in the negotiations.

In reviewing the history of EU activities in the area of regional and preferential trade agreements, a number of categories can be identified – those designed to:

1. accommodate the obligations of existing and new members to other countries, such as overseas territories, former colonies, or through previous trade agreements, such as the European Free Trade Area (EFTA);
2. pave the way for eventual membership of the Union;
3. strengthen regional economic and political relationships in non-member Europe, the Mediterranean and the Middle East;

4. meet economic and political objectives with respect to developing countries;
5. expand commercial relationships with middle income countries outside Europe.

The balance in EU trade agreements has tended to shift from non-reciprocal or asymmetrical reduction in EU tariffs, towards more balanced reductions by all parties that are characteristic of free trade areas or customs unions (table 6). In this respect, trade agreements have increasingly been seen as a way of generating mutual advantages for the EU and other countries, rather than the provision of access to the EU market as a form of economic aid. In this respect, the EU's advocacy of an expansion of preferential access for developing countries in the WTO negotiations can not be viewed to be entirely altruistic, but as a way to expand EU access to other markets. If history is any guide, conditions will continue to be attached to agricultural products in order to avoid the domestic political problems that would be created by too rapid an increase in imports of agricultural products by the Union.

Conclusions

The European Union's willingness (and ability) to sign the Agreement on Agriculture, which resulted from the Uruguay Round of trade negotiations, was closely linked to internal political developments – particularly the struggle over the reform of the Common Agricultural Policy. The EU's position on agriculture in the current WTO negotiations is again influenced strongly by internal political factors. Key agricultural sectors, in particular dairy and sugar – largely untouched by previous changes in domestic and international trade policies, face significant structural problems. Budgetary constraints, which are likely to become more severe with the expansion of the Union from fifteen to twenty-five countries, are adding to pressures for reform. In contrast, several recent well-publicized animal disease and food safety incidents, such as foot and mouth and BSE, have heightened public concern about the direction of change in the EU's food and agricultural system, and the future role of international trade. Public sentiment is turning against a "cheap food" policy, towards one which lays greater stress on the

environmental role of agriculture, animal welfare and food safety. This is reflected in the Union's negotiating position in the WTO. That position continues to be constrained by the fierce opposition of some EU member states to further reform of the Common Agricultural Policy. For the European Union, therefore, a politically acceptable outcome in the WTO negotiations will need to balance a reduction in protection with measures that permit broader public concerns about food, agriculture and trade to be addressed. Key areas of emphasis will be the use of so-called green box measures and product standards, in addition to market access and export subsidy issues.

The European Union has been increasingly active in concluding regional and preferential trade agreements. In the early days, these were designed primarily to accommodate the obligations of existing and new members to other countries, such as overseas territories and former colonies. Agreements were also used to provide preferential access for developing countries and to build commercial relationships with countries who were expected to become member of the Union. In more recent agreements, the emphasis has been on more balanced reductions in tariffs by all parties by means of free trade areas or customs unions. The geographical scope of EU bilateral agreements has broadened to include Africa and Latin America. Trade agreements are increasingly viewed by the Union as complementary to its activities in the WTO and as a means of expand its access to selected markets. Agricultural trade has subject to far less liberalization than other sectors in EU trade agreements, thus mirroring developments in the WTO.

Table 1. EU Support for Agriculture

	Average 1986-88	Average 1999-2001
Total Value of Production at the Farm Gate (million Euros)	192,555	248,041
Producer Support Estimate (million Euros)	84,998	103,141
Percentage Producer Support Estimate	42%	36%
Nominal Protection Coefficient (1)	1.87	1.38
Total Support Estimate (million Euros)	99,424	116,978
Total Support as Percent of GDP	2.6%	1.5%
Share of Total Support from Consumers	75%	64%
Nominal Protection Coefficients for Selected Commodities (2)		
Beef and Veal	2.53	4.64
Milk	2.76	1.79
Oilseeds	1.00	1.00
Pigmeat	1.22	1.36
Poultry	1.51	1.85
Sugar	3.32	2.55
Wheat	2.10	1.14

(1) domestic price/international price measured at the producer level
(2) domestic price/international price measured at the consumer level

Source: OECD, Agricultural Policies in OECD Countries: Monitoring and Evaluation, 2002, Paris.

Table 2. Budgetary Expenditure on the Common Agricultural Policy (million €)

	1999	2000	2001	2002	2003P
EU budget	79,249	77,879	101,051	95,656	96,992
Guarantee	39,541	40,467	42,083	44,230	44,781
Guidance	5,580	1,387	3,509	2,957	3,123
Other	146	49	50	55	42
Total	45,267	41,903	45,642	47,242	47,946
Levies	2,391	2,395	1,973	1,893	1,902
Net cost	42,876	39,508	43,669	45,349	46,044
% of budget	54.1%	50.7%	43.2%	47.4%	47.5%

P = projected

Source: Agriculture in the European Union, Statistical and Economic Information, 2002
http://europa.eu.int/comm/agriculture/

Table 3. Summary of EU Proposals for Agriculture in the Doha Round

Market Access
Tariffs – application of the URAA approach of an average reduction of 36 percent with a minimum of 15 percent per tariff line.
TRQs – creation of rules and disciplines to improve transparency and management of TRQS to ensure quota fill.
Geographical Indications – protection of names and use of labeling.
Special Safeguard Clause – continuation.

Export Competition
Rules and disciplines for export credits, food aid and state-trading enterprises to prevent unfair competition, in addition to export subsidies.
Food aid – includes grant form only, code of conduct for operations, mandatory (prior) notification.
STEs – abolition of cross-subsidization, price-pooling and other unfair trade practices for exports. Mandatory notification of acquisition costs and export pricing.
Further reductions of export subsidies on an equal footing to other forms of support. Average reduction of 45 percent in the value of subsidies.

Domestic Support
Further reductions in support, providing that concepts of blue and green boxes are continued. Detailed rules can be revisited.
Reduction in the total AMS from final bound commitments of 55 percent, strengthening of the rules for non-product specific domestic support, and reduction of "de minimis" clause for developing countries.
Specific disciplines for "amber box" subsidies which provide compensation for variations in market prices.
Expansion of green box subsidies to cover protection of the environment, sustained vitality of rural areas and poverty alleviation, food security for developing countries, and animal welfare

Peace Clause
To be continued.

Food Quality
Use of the precautionary principle and labeling schemes.

Animal Welfare
Development of a multilateral agreement dealing with the protection of animal welfare. Compulsory or voluntary labeling. Compensation for the extra costs of meeting welfare standards under the green box.

Developing Countries
Provision of trade preferences. Domestic support for vitality of rural areas and food under the green box exempt from reduction commitments. Revision of the de minimis rule.

Source: European Commission. The EC's Proposal for Modalities in the WTO Agriculture Negotiations. Directorate General for Trade/Directorate General for Agriculture. Ref. 625/02. 16 December, 2002. Brussels.

Table 4. EU Applied MFN Tariffs: Actual 2002 and Potential under Alternative Reduction Formulas

HS code	8 digit lines No.	Description	Imports 2002	Applied MFN tariffs			Tariffs with reduction of					
							---- 36% ---		---- 15% ----		Swiss 25	
				Ave.	Max	SD	Ave	Max	Ave	Max	Ave	Max
			$ bill.	---------- Percent ----------								
10	55	Cereals	1.4	39.2	101.1	27.7	25.1	64.7	33.3	85.9	15.3	20.0
4	175	Dairy prods. birds' eggs, other edible an.prods.	1.0	38.4	209.9	36.8	24.6	134.3	32.6	178.4	15.1	22.3
2	236	Meat & edible meat offal	2.7	28.3	192.2	31.1	18.1	123.0	24.1	163.4	13.3	22.1
11	83	Milling products, malt, starch, inulin, wheat gluten	0.1	22.2	84.4	16.8	14.2	54.0	18.9	71.7	11.8	19.3
17	47	Sugars & sugar confectionery	1.3	21.4	114.4	24.0	13.7	73.2	18.2	97.2	11.5	20.5
20	321	Preps. of vegetables, fruit, nuts or other plant parts	2.7	20.6	146.9	13.2	13.2	94.0	17.5	124.9	11.3	21.4
1	55	Live animals	0.8	20.6	107.8	30.2	13.2	69.0	17.5	91.6	11.3	20.3
16	92	Edible preps. meat, fish, crustaceans, mollusks	2.5	18.5	97.2	11.5	11.8	62.2	15.7	82.6	10.6	19.9
24	30	Tobacco & manufactured tobacco substitutes	1.6	18.3	74.9	21.2	11.7	47.9	15.6	63.7	10.6	18.7
19	51	Preps. of cereal, flour, starch/milk, bakers' wares	0.5	16.4	49.6	10.5	10.5	31.7	13.9	42.2	9.9	16.6
7	108	Edible vegetables & certain roots & tubers	2.4	12.7	150.1	21.3	8.1	96.1	10.8	127.6	8.4	21.4
18	27	Cocoa & cocoa preparations	1.6	11.8	68.9	13.0	7.6	44.1	10.0	58.6	8.0	18.3
3	324	Fish, crustaceans & aquatic invertebrates	8.6	9.8	23.0	5.7	6.3	14.7	8.3	19.6	7.0	12.0
21	42	Miscellaneous edible preparations	1.0	9.6	21.1	5.1	6.1	13.5	8.2	17.9	6.9	11.4
8	128	Edible fruit & nuts, citrus fruit or melon peel	7.3	9.0	118.1	11.5	5.8	75.6	7.7	100.4	6.6	20.6
15	128	Animal/vegetable fats & oils & their clevage prods.	1.7	8.9	75.8	13.2	5.7	48.5	7.6	64.4	6.6	18.8
23	67	Food industry residues & waste, prep. animal feed	5.0	7.0	76.0	13.6	4.5	48.6	6.0	64.6	5.5	18.8
52	162	Cotton	3.7	6.8	8.4	2.3	4.4	5.4	5.8	7.1	5.3	6.3
6	42	Live trees, plants, bulbs, roots, cut flowers, etc.	1.0	6.0	10.9	3.4	3.8	7.0	5.1	9.3	4.8	7.6
22	175	Beverages, spirits & vinegar	2.8	5.5	58.6	9.0	3.5	37.5	4.7	49.8	4.5	17.5
51	80	Wool & animal hair, including yarn & woven fabric	1.8	5.1	9.8	3.8	3.3	6.3	4.3	8.3	4.2	7.0
9	42	Coffee, tea, maté & spices	4.7	3.1	12.5	4.3	2.0	8.0	2.6	10.6	2.8	8.3
41	79	Raw hides and skins (not furskins) and leather	3.3	2.6	6.5	2.7	1.7	4.2	2.2	5.5	2.4	5.2
13	18	Lac, gums, resins & other vegetable saps & extracts	0.4	2.2	19.2	5.1	1.4	12.3	1.9	16.3	2.0	10.9
12	79	Oilseeds, oleag. fruit, misc. grains, seeds, fruit	4.9	1.8	52.3	6.2	1.2	33.5	1.5	44.5	1.7	16.9
5	21	Other products of animal origin	0.8	0.2	5.1	1.1	0.1	3.3	0.2	4.3	0.2	4.2
14	8	Vegetable plaiting materials & other veg. prods.	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	10,400	All products	807.4	6.4	209.9	11.3	4.1	134.3	NA	178.4	5.1	22.3

Source: Based upon data from WTO, Trade Policy Review - European Union, WT/TPR/S/102, 26 June 2002.

Table 5. Preferential Trade Agreements of the European Union

Europe Agreements: Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia

Association Agreements: Cyprus, Malta, Turkey

Stabilization and Association Agreements: Former Yugoslav Republic of Macedonia (FYROM), Croatia

Euro-Mediterranean Association Agreements: Israel, Morocco, the Palestinian Authority, Tunisia

Cooperation Agreements (Euro-Med Association Agreements concluded, but not in effect, or under negotiation**):** Algeria, Egypt, Jordan, Lebanon, Syria

Other Free-Trade Agreements: Denmark (Faroe Islands), Iceland, Liechtenstein, Mexico, Norway, South Africa, Switzerland

Other Customs Unions: Andorra, San Marino

Association of Overseas Countries and Territories (OCT): *Anguilla*, Antarctica, Aruba, British Antarctic Territory, British Indian Ocean Territory, British Virgin Islands, Cayman Islands, Falkland Islands, French Polynesia, French Southern and Antarctic Territories, Greenland, *Mayotte*, *Montserrat*, Netherlands Antilles, New Caledonia, Pitcairn, *Saint Helena, Ascension Island, Tristan da Cunha*; South Georgia and the South Sandwich Islands, *St. Pierre and Miquelon*, *Turks and Caicos Islands*, *Wallis and Fortuna Islands.*

EU-African, Caribbean and Pacific (ACP) Partnership: *Angola*, Antigua and Barbuda, Bahamas, Barbados, Belize, *Benin*, Botswana, *Burkina Faso*, *Burundi*, Cameroon, *Cap Verde*, *Central African Republic*, *Chad*, *Comoros*, Congo, Cook Islands, *Dem. Rep. of Congo*, Cote d'Ivoire, *Djibouti*, Dominica, Dominican Republic, *Equatorial Guinea*, *Eritrea*, *Ethiopia*, Federated States of Micronesia, Fiji, Gabon, *Gambia*, Ghana, Grenada, *Guinea*, *Guinea-Bissau*, Guyana, *Haiti*, Jamaica, Kenya, *Kiribati*, *Lesotho*, *Liberia*, *Madagascar*, *Malawi*, *Mali*, Marshall Islands, *Mauritania*, Mauritius, *Mozambique*, Namibia, Nauru, *Niger*, Nigeria, Niue Islands, Palau, Papua New Guinea, *Rwanda*, St. Christopher and Nevis, St. Lucia, St. Vincent and the Grenadines, *Samoa*, *Sao Tome and Principe*, *Senegal*, Seychelles, *Sierra Leone*, *Solomon Islands*, *Somalia*, South Africa, *Sudan*, Suriname, Swaziland, *Tanzania*, *Togo*, Tonga, Trinidad and Tobago, *Tuvalu*, *Uganda*, *Vanuatu*, *Zambia*, Zimbabwe

Autonomous Trade Measures for the Western Balkans: Albania, Bosnia-Herzegovina, the Federal Republic of Yugoslavia, Kosovo

Generalized System of Preferences (GSP) only: *Afghanistan*, Argentina, Armenia, Azerbaijan, Bahrain, *Bangladesh*, Belarus, *Bhutan*, Bolivia, Brazil, Brunei Darussalam, *Cambodia*, Chile, People's Republic of China, Colombia, Costa Rica, Cuba, East Timor, Ecuador, El Salvador, Georgia, Guatemala, Honduras, India, Indonesia, Iran, Iraq, Kazakhstan, Kyrgyzstan, Kuwait, *Lao People's Dem. Rep*., Libyan Arab Jamahiriya, Malaysia, *Maldives*, Moldova, Mongolia, *Myanmar*, *Nepal*, Nicaragua, Oman, Pakistan, Panama, Paraguay, Peru, Philippines, Qatar, Russian Federation, Saudi Arabia, Sri Lanka, Tajikistan, Thailand, Turkmenistan, Ukraine, United Arab Emirates, Uruguay, Uzbekistan, Venezuela, Viet Nam, *Yemen*; American Samoa, Bermuda, Bouvet Island, Cocos Islands, Cook Islands, Gibraltar, Guam, Heard and McDonald Islands, Macao, Norfolk Island, Northern Mariana Islands, United States Minor Outlying Islands, Tokelau Islands, Virgin Islands (USA)

Note: Least-developed countries (LDCs) in *italics*.

Source: WTO Secretariat, Trade Policy Review of the European Union, WT/TPR/S/102, 26 June 2002.

Table 6. Classification of EU Preferential Trade Agreements by Type (Existing or in Process)

Customs Union:
1. Andorra
2. Cyprus
3. Malta
4. Turkey

Free Trade:
With countries in the Europe and the Middle East:
1. European Economic Area: Iceland, Liechtenstein, Norway
2. Switzerland
3. Europe Agreements: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia
4. Stabilization and Association Agreements: Albania, Bosnia and Herzegovina, Croatia, Macedonia, Serbia
5. Euro Mediterranean Agreements: Israel, Jordon, Morocco, Palestinian Authority, Tunisia (under negotiation with Algeria, Egypt, Lebanon, Syria)
6. Potential agreement with the Gulf Cooperation Council: Bahrein, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates
7. Partnership and Cooperation Agreements with goal of future FTA: Belarus, Moldova, Russia, Ukraine

Beyond Europe:
1. Western Hemisphere: Chile, Mercosur, Mexico
2. South Africa

Non-reciprocal Trade Preferences:
Agreements:
1. Mediterranean Countries
2. Macedonia
3. ACP Framework Agreement

Autonomous Regimes:
1. Albania, Bosnia-Herzegovina, Croatia, Kosovo, Montenegro
2. Generalized System of Preferences

Source: Based upon information from U.S. Department of Commerce, Trade Information Center, EU Preferential Agreements - Overview http://www.trade.gov/td/tic/

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[9] All the EU documents listed are available through http://europa.eu.int/ and IATRC documents through http://agecon.lib.umn.edu/