



# **Change in Global Trade: the CAP and the WTO**

Carsten Daugbjerg

Professor

Department of Political Science

University of Aarhus

Denmark



# This presentation

- The architecture of the WTO agricultural agreement (URAA).
- How does the WTO influence the evolution of the CAP?
- How do WTO agricultural agreements constrain the evolution of the CAP?
- What opportunities for policy innovation do the URAA and a likely Doha agreement provide?



# The Uruguay Round Agreement on Agriculture (URAA)

- Market access
- Export competition
- Domestic support
  
- SPS measures (separate agreement).  
Sorry, another time



# Market access

- ‘tariffication’ of non-tariff barriers
- tariff reduction of 36% over the implementation period 1995-2000 (a simple average of all tariff lines) with a minimum reduction of 15% per tariff line



# Export competition

- bindings, on a commodity specific basis, on the 1986-90 levels of export subsidy expenditure and volume of subsidised exports
- 36% reduction of export subsidy expenditure and of 21% in the volume of subsidised exports over the period 1995-2000



# Domestic support

Support category	Amber box	Blue box	Green box
Definition	<p>All other payments linked to production or to production input (measured as AMS)</p> <p>On the overall 1986-88 level of amber box support, 20% reduction from 1995-200</p>	<p>Partially decoupled 'direct payments under production-limiting programmes'</p> <p>No reduction commitments</p>	<p>Support schemes which have 'no, or at most minimal, trade-distorting effects or effects on production'</p> <p>No reduction commitments</p>
Eksempler	EU price support (eg. dairy and sugar)	EU area and livestock payments	EU single farm payment



# The Doha Round

- Negotiations structured by the three pillars of the URAA (No negotiations on SPS)
- Negotiation brought to a halt in July 2008. Uncertain if or when they will be resumed in 2008
- Most important compromises so far:
  - Export subsidies to be phased out by 2013
  - 70% tariff cut in top band (tariffs above 75%)
  - 54% average tariff cut
  - 4% of tariff lines can be classified 'sensitive products'
  - 70% cut in Overall Trade Distorting Support (amber and blue box and *de minimis*)



# Unresolved issues in Doha Round

- Special safeguard mechanisms for developing countries (an Indian concern)
- Cotton support (a US concern)
- GI's (an EU concern)
- Can a compromise among G7 be extended to Green Room 20-30 delegations, and from Green Room to 153 WTO members?
- Would US Congress ratify? No fast track.
- Single undertaking?



# GATT/ WTO induced CAP reform takes place *before* a WTO agricultural trade agreement is reached

- May 1992 Mac Sharry reform: from high price policy to low price policy to allow US-EU agreement reached in November 1992 .
- Agenda 2000: limited reform, adjustment to WTO agricultural agreement.
- 2003 reform: Blue box under pressure in Doha Round; Reform shifted direct payments into green box, and presumably safeguarded the CAP against cuts in domestic support.
- After the Mac Sharry reform, WTO has increasingly become a legitimate concern in the CAP



# How does the URAA constrain the CAP?

- Very limited real constraints in URAA.
- Import-weighted average agricultural import tariffs, 2001

Economies	URAA bound tariff	Actual applied tariff
Developed	27	14
Developing	48	21
LDC	78	13
World	37	17



# How would a Doha agricultural agreement constrain the evolution of the CAP?

- The Doha Round compromises may have real limiting impact, in particular for EU tariffs, if world prices revert to previous levels.
- EU export subsidies to be phased out by 2013
- Single farm payment scheme assumed to be safeguarded by the green box?
- However, may not a green box payment, ...
- ... but only problematic in relation to Doha agreement.
- This 'box problem' is a result of the fact that the Single Farm Payment Scheme was an exercise in box shifting



# Domestic support

Support category	Amber box	Blue box	Green box
Definition	<p>All other payments linked to production or to production input (measured as AMS)</p> <p>On the overall 1986-88 level of amber box support, 20% reduction from 1995-200</p>	<p>Partially decoupled 'direct payments under production-limiting programmes'</p> <p>No reduction commitments</p>	<p>Support schemes which have 'no, or at most minimal, trade-distorting effects or effects on production'</p> <p>No reduction commitments</p>
Examples	EU price support (eg. dairy and sugar)	EU area and livestock payments	EU single farm payment



# What opportunities for policy innovation does the URAA, provide?

- Overall green box criteria:
  - Public funded government programmes (must not rely on transfers from consumers)
  - Shall not have the effect of providing price support to farmers
  - Policy specific criteria for:
    - Government service programmes
    - Public stockholding for food security purposes
    - Domestic food aid
    - Direct payments for producers
    - Decoupled income support
    - Government participation in income insurance and income safety-net programmes
    - Structural adjustment assistance through producer retirement
    - Structural adjustment assistance through resources retirement
    - *Structural adjustment through investment aid*
    - *Environmental programmes*
    - *Regional assistance programmes*



# Structural adjustment: investment aid

- Clearly defined criteria for who is eligible.
- Objectively structural disadvantages legitimising the aid shall be demonstrated.
- Payment shall not be related to volume or price after the base period
- Aid shall only be given in the period needed for realisation of the investment
- Aid scheme shall not require production of a particular product
- The amount of payments shall be limited to compensate for structural disadvantages only



# Environmental programmes

- Clearly defined criteria to be fulfilled under a government programme
- Payment shall be limited to compensate for the extra costs, or loss of income, involved in complying with programme



# Regional assistance programmes

- Payments shall be limited to producers in disadvantaged regions.
- Region must be a clearly defined geographical area with an economic and administrative identity.
- Payments shall be available only to farmers within the region, but to all producers within the region.
- Assessment of disadvantage must be based on objective and neutral criteria
- A region's difficulties must arise out of more than temporary circumstances.
- Payments shall not be related to volume or price after the base period.
- Payment shall be limited to compensate for the extra costs, or loss of income, involved in producing within the area.
- Where payments are related to production factors, they shall be degressive.
- Objectively structural disadvantages legitimising the aid shall be demonstrated.
- Aid shall only be given in the period needed for realisation of the investment
- Aid scheme shall not require production of a particular product
- Payments shall be limited to compensate for structural disadvantage only



## **Conclusion: General guidelines for policy innovation in rural development programmes?**

- Plenty of room for policy innovation in relation to rural development if these schemes are:
  - Targeted towards clearly defined groups or areas
  - Clearly defined criteria for payments. The disadvantage which the payments are intended to compensate for shall be demonstrated
  - Compensation only for demonstrated structural disadvantages
  - Payments shall not be linked to production (payment shall be tied to base period)
  - Time limitation for investment aid.