

The Millennium Round: Europe and the World  
**AGRICULTURE AND THE WTO**  
**TRUE LOVE OR SHOT-GUN WEDDING?<sup>♫</sup>**  
*by Tomás García Azcárate<sup>1</sup> and Marina Mastrostefano<sup>2</sup>*

## 1. Introduction

The Uruguay Round<sup>3</sup> (UR) was the first GATT negotiation that involved the whole agricultural sector, and for this reason it is often recalled as the round of “Bringing Agriculture into the GATT”. Why after so many years of special regime of trade protectionism it was decided to reconcile agriculture with some international discipline on tariff and trade? Was this a spontaneous evolution or was something forced by the events? In other words, between agriculture and the GATT was true love or a shot-gun wedding?

In reality at the beginning agriculture was forced to enter into some discipline. During the late Seventies, early Eighties, international markets were challenged by a strong period of economic turbulence, and the impact of the global recession on trade balances was increased by the arising EU-US trade conflict, when the international hegemony of the US was challenged by the growing role of the EU.

All the participants in the meeting launching the Round in Punta del Este in 1986 agreed that there was an urgent need to reduce the uncertainty and instability that plagued world agricultural markets. The main goal was to correct distortions, especially those linked to structural surpluses, and have market access governed by strengthened and more operationally effective GATT rules and disciplines.

The EU and the US marked the round from the start, and three major topics remained present throughout the 7 years of negotiations: Internal Support to agriculture, Export Subsidies to domestic exporter of agricultural

<sup>♫</sup> The authors thank all the colleagues who contributed with their daily work to building an understanding of the WTO and related issues addressed in these pages. A special thank you to Mary Brown, for her invaluable work on documentation, and for suggesting the title which, as it was argued by R. P. Benedict, is often the only intriguing part of a journal article. The paper does not reflect the position of the EU Commission, and the authors accept full responsibility for all errors and omissions.

<sup>1</sup> Head of the Analysis and Overall Approach Unit, General Directorate for Agriculture and Rural Development, European Commission; “Maître de Conférence”, Institut d’Etudes Européennes – Université Libre de Bruxelles.

<sup>2</sup> Prof. of Agricultural Economics - University of Cassino – Italy. Temporarily appointed at the European Commission, General Directorate for Agriculture and Rural Development, Unit of Analysis and Overall Approach.

<sup>3</sup> The Uruguay Round was the eighth round of multilateral negotiations under GATT. It opened in Punta del Este, Uruguay on September 1986 and ended with an agreement reached by 117 countries (the GATT signatories plus 4 observers, including China) in Geneva on December 1993. The official signing of this document took place in Marrakech, Morocco, on April 1994. The final Act of the Uruguay Round also includes an agreement establishing the World Trade Organisation (WTO) to strengthen the institutional framework that presides over world economic relations.

commodities, and Market Access concerning the different issues of border protection. (Mainly “most favourite nation” tariff and import access through import quota at preferential tariffs).

The EU and the US started out the negotiations on opposite positions. The US, supported by the Cairns Group<sup>4</sup> led by Australia and New Zealand, launched a propagandistic proposal, so called “zero option”, of a total elimination of any support to agriculture. The EU, followed by Japan and the Scandinavian countries, defended a gradual reduction of domestic support, up to the level required to restore market equilibrium, and to be implemented in parallel so to avoid that stocks would pile up.

A common understanding was reached after 2.643 day of negotiations. The Uruguay Round came to a close with an Agreement on Agriculture encompassing the progressive reduction of internal support, export subsidies and tariff, and for the gradual opening of import quota at preferential tariffs. The implementation period of the agreement was decided to be the 6 years between the 1995 and the 2000.

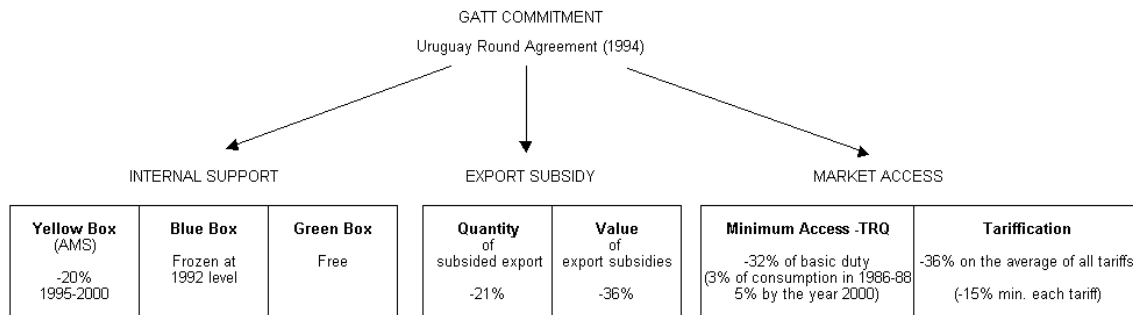
Now that this time is almost expired we are confronted with crucial questions regarding the future. In November 1999 a new round, labelled “The Millennium Round” was meant to be launched in Seattle at the 3rd WTO Ministerial Conference. The EU Agriculture Council of 27 September 1999 adopted a series of conclusions on the Millennium Round. Although Seattle failed to launch a full round, we learned from that experience that society is worried by the impact of globalisation on the environment, health, social standards and cultural diversity. The EU has for a long time shared these concerns and made clear that a fresh round of agricultural negotiations cannot deal only with the traditional agricultural trade issues.

The aim of this paper is to give a little contribution to the understanding of the WTO issues relating to the agricultural sector. In the first chapter the results achieved with the UR agreement on agriculture will be recalled, together with a qualification of the main issues which accompanied the implementation of the commitments. The second chapter is dedicated to a reflection, from a European perspective, on the possible and desirable developments of the future negotiations.

## **2. The Uruguay Round and the Agreement on Agriculture of 1994**

<sup>4</sup> Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, Philippines, Thailand and Uruguay

As it was briefly mentioned before, at the end of the UR Agriculture was committed on three main areas: Internal Support, Export Subsidies, Market Access. The chart below offers a synthetic picture of the Agreement on Agriculture of 1994.



The presentation in this chapter has been structured in order to offer a briefing of the different issues linked to the implementation of the UR in these three areas and to highlight the specific problems encountered when putting into force the different part of the Agreement. Of course, not all the commitments were equally binding, and not all the countries experienced the same problems. For obvious reasons, in the following analysis a particular attention is dedicated to the Agreement seen from the point of view of the EU with some comparisons to the US situation.

## 2.1 Internal Support

Following the UR Agreement domestic policies for agriculture were classified in three *boxes* according to their degree of trade distortion. A first group in the so-called *green box*, included policy measures labelled “minimally trade distortive”, that is addressed to the agricultural sector but clearly targeted to agri-environmental, social and rural development objectives. These policies were not committed to any reduction, and WTO Member Countries were free to increase this kind of payments. A second group, classified in the *blue box*, encompassed internal support targeted to farmers, but not coupled to agricultural prices and production level. Also for this kind of support there are no commitments on reduction, but the idea was that the *blue box* should be a transitional tool to allow compensatory payments to agricultural producers meanwhile they adapt to price reductions.

Finally, policies directly influencing the level of production and trade (e.g. price support, output subsidies, etc.) were measured by the Aggregate Measurement of Support (AMS) reported in the *amber box*. The WTO members were committed to reduce the value of the AMS calculated for the

base period (1986/88) by 20% over the 6 years of the implementation period (1995-2001).

In the case of the EU, the 1992 CAP reform, by moving part of the price support into *blue box* type direct payments, had already reduced the AMS below the target when the Uruguay Round was signed. Later on, with the FAIR Act 1996 also the US reformed their domestic support for agriculture and moved all their *blue box* policies into the *green box*. As a result, in general the level of commitments relating to the internal support did not prove to be binding.

The following table and graph offer an opportunity to visualise a colourful synthesis of the evolution of domestic policies in the EU and the US, as classified in WTO terms, during the implementation period. The year 1997/98 is the latest official notification available in both countries.

| base year             |         |         |         |         |          | base year             |         |         |         |         |  |
|-----------------------|---------|---------|---------|---------|----------|-----------------------|---------|---------|---------|---------|--|
| 1986/88               |         |         |         |         |          | 1986/88               |         |         |         |         |  |
| 1995/96               | 1996/97 | 1997/98 | 1998/99 | 1999/00 | bio US\$ | 1995/96               | 1996/97 | 1997/98 | 1998/99 | 1999/00 |  |
| Amber box commitments |         |         |         |         |          | Amber box commitments |         |         |         |         |  |
| 81                    |         |         |         |         |          | 22                    |         |         |         |         |  |
| 67                    |         |         |         |         |          | 17                    |         |         |         |         |  |

It is worthwhile to recall that the notable amount of *blue box* support implemented by the EU was increased from the 1<sup>st</sup> of January of the current year to compensate farmers for the further price cut operated by Agenda 2000. Thus, if we want to imagine how the EU notification would look like after the full implementation of the new reform, we should think about three *boxes* of similar size (approx. 25-30 bio € each) providing various payments and support to agriculture, environment and the rural sector. To mention this point is important for the implications it could have on future negotiations. Despite economic understanding suggests that moving from price support to direct payments reduces markets distortion, there is already a strong pressure in

international debate for the elimination of the *blue box* on the basis of the fact that it was originally meant to be transitional tool.

Opposite to the progressive tendency of the EU to evenly distribute the support among the three boxes, it is the attitude of the US that classifies about 90% of domestic agricultural policy in the *green box*. This big amount of this support (about 45 bio US\$) stresses the importance of deepening into the analysis of individual measures to ensure that policies classified as *green* are appropriate to this category. An important question here would be to investigate up to what extend measures like "Domestic food aid" -which covers about 70% of the total value of the US *green box*- have spillovers effects on the market and grant a domestic outlet for agricultural producers.

Further, all the ad hoc extra-payments that the US implemented in the latest year for several bio \$ are probably going to be notified as green in the future, although no serious analysis has been made yet of their real impact on production and trade.<sup>5</sup>

## 2.2 Export subsidies

The commitments agreed in the area of export competition were the linear reductions, over the implementation period, of 21% of volume of subsidized export, and 36% of value of export subsidies, calculated with regard to the 1986/90 base period.<sup>6</sup>

In the EU, like in other countries, export subsidies commitments were the most binding constrains among the outcomes of the Uruguay Round. The extent to which this was the case, though, differs significantly among products and years. The next table shows the evolution of the use export subsidies, against the commitments, for the 20 categories of products defined in the GATT agreement 1994. Also in this case, being the source the official notifications to the WTO, the latest year available is 1998.

A first thing to note is that, with the main exception of wine, the quantity limit is proving to be more restrictive than the limit on the outlay. For products like olive oil, cheese, other dairy, beef, poultry meat, wine and fresh fruit and vegetable, exports refunds came in the first year very close to commitments level.

During the following years these products -with the addition of rice- needed in many cases all the allowed restitution plus the credit they accumulated from

<sup>5</sup> As a consequence of these kind of concerns some countries of the Cairns group, and in particular Australia, started to challenge the rules and the possible distortive impact of green box payments.

<sup>6</sup> A certain amount of leeway in choosing the base period for calculating the progressive amounts of reductions was granted by the so called *front loading* arrangement which enabled the EU to export additional amounts of a number of commodities like wheat, cheese, beef, poultry, eggs, and tobacco.

the unused subsidies in previous years. Further, for the need to respect commitments the EU reduced or eliminated for certain destinations export subsidies for a number of dairy products, as well as certain types of poultry and pork products.

For cereals the favourable international prices in 1995/96 meant that only part of the EU export required subsidisation. However, already in the second year the amount of subsidised export came closer to the commitment level.

| Export Subsidies | Quantities | Outlays |
|------------------|------------|---------|
| % use of annual  |            |         |

Since allowable quantities and outlays decline over the implementation period, and taking in account that in 2000 no credits from previous years are allowed, the export subsidies constraints tended to become more and more binding. This is especially the case for those products that utilised the front loading arrangement. Knowing the situation on internal and international markets it is easy to guess, although notifications are not yet available, the

difficulties that products like cheese, beef and other, are encountering to meet their final commitments.

### 2.3 Market Access

One of the main result reached during the Uruguay Round was that non-tariff barriers (e.g. import quota, voluntary export restraint or technical barriers) were transformed into tariff equivalents calculated as the difference between domestic and international prices in the 1986/88 reference period. This operation was labelled *tariffication*. These new bound tariffs (as well as other tariffs) must be reduced over the implementation period by 36% of the simple average of the entire set of tariff equivalents, with a 15% minimum rate of reduction for each tariff line.

It is widely recognised that this part of the agreements did not prove to create real troubles during its implementation. The main reason for such a mild impact is that in the years chosen as reference period for tariffication (1986/88) domestic prices were very high and international prices very low, so that the new bound tariffs obtained were the largest possible and their reduction not harmful.<sup>7</sup>

In addition to the agreement on tariffs, the UR agreement provided also commitments on *minimum access* opportunities for import under tariff reduced by 32% of the basic duty (TRQ). The TRQ must be 3% of consumption in 1986/88 for each group of products, raised to 5% by the end of the implementation period<sup>8</sup>. Further, the preferential import tariff concessions granted before the UR, labelled *current access*, must be maintained at least at the 1986/88 levels.

On the basis of the classification proposed by the WTO for *minimum* and *current* access the EU schedules include 85 TRQ. Following the information supplied by the WTO secretariat the average filling rate for the whole aggregate of EU TRQs was about 75% at the beginning of the implementation period (against a 65% on the average of all WTO member countries) and increased in the following years.

The next table breakdowns the implementation between 1995 and 1999 of TRQ grouped by similar products in the EU and the US. The data show that the EU filling rate for TRQs has been high for cereals, dairy products, meat, and for fruit and vegetables, and that in respect with these important products, the EU behaved better than the US. And in general terms the problem of a

<sup>7</sup> This practice was labelled *dirty* tariffication and the overestimated part of the duty was defined as the amount of *water* in the tariff. Further, countries managed reductions such that tariffs for particularly sensitive products were reduced by the 15% minimum allowed. In many cases new bound tariffs are prohibitive like the old non-tariff barriers.

<sup>8</sup> Exceptions to the discipline of market access are applied if the import volume exceeds a specific threshold level or import prices fall below a trigger level (*safeguard clause*). The EU, was invoked this clause in the price form, for example in the case of sugar.

more substantial use of preferential import quotas is still an important issue for several WTO member countries. Many elements influence the rate of filling of TRQs like the level of competition in the markets, the level of tradability of quotas and licenses between exporting and importing countries/firms, the amount and the distribution of the rents generated by the TRQs<sup>9</sup>.

An issue that proved to be problematic along these years, and has been used to explain why quotas remain often unfilled, is the complexity of TRQs administration procedures. Although some attempts to analyse this question and to propose some solution has been recently done, it still has to be agreed between members a neutral and economically satisfactory method of allocation of TRQ licenses (Auctioning, First-come-first-served, etc.).

|         |                |     |     |     |               |     |     |     |     |     |
|---------|----------------|-----|-----|-----|---------------|-----|-----|-----|-----|-----|
| Average | European Union |     |     |     | United States |     |     |     |     |     |
| filling | 199            | 199 | 199 | 199 | 1999          | 199 | 199 | 199 | 199 | 199 |

199



199                    199   199 199   199                    19   19   199   199   199 1999  
                             199                                    9    9    199  
                             9

199

199 19 19 199  
9 9 199

19 199 199 199 199  
9  
19  
99

199

199 1999

199

199 19

9

199

19 199 199 199 199

9

199

|                 |          |          |          |         |          |         |          |          |          |          |
|-----------------|----------|----------|----------|---------|----------|---------|----------|----------|----------|----------|
| 199             | 199      | 199      | 19       | 199     | 19       |         |          |          |          |          |
|                 |          | 19       | 9        | 199     | 9        |         |          |          |          |          |
|                 |          | 9        |          |         | 19       |         |          |          |          |          |
|                 |          |          |          |         | 9        |         |          |          |          |          |
| rate<br>of TRQs | 5        | 6        | 7        | 8       | (e)      | 5       | 6        | 7        | 8        | 9        |
| Cereals         | 62<br>%  | 56<br>%  | 57<br>%  | 62<br>% | 82%      | 65<br>% | 18<br>%  | 21%      | 14<br>%  | 8%       |
| Oilseeds        | -        | -        | -        | -       | -        | 98<br>% | 100<br>% | 100<br>% | 100<br>% | 100<br>% |
| Sugar           | 100<br>% | 100<br>% | 100<br>% | n.a.    | 100<br>% | 53<br>% | 53<br>%  | 80%      | 100<br>% | 67<br>%  |
| Dairy           | 98<br>%  | 92<br>%  | 99<br>%  | 92<br>% | 93%      | 45<br>% | 64<br>%  | 62%      | 72<br>%  | 83<br>%  |
| Meat            | 84<br>%  | 78<br>%  | 71<br>%  | 76<br>% | 73%      | 66<br>% | 59<br>%  | 69%      | 71<br>%  | 74<br>%  |
| Eggs            | 44<br>%  | 49<br>%  | 43<br>%  | n.a.    | 26%      | -       | -        | -        | -        | -        |
| Beverages       | -        | -        | 8%       | 2%      | 25%      | -       | -        | -        | -        | -        |
| Fruit,<br>Veg.  | 58<br>%  | 65<br>%  | 68<br>%  | 64<br>% | 91%      | n.a.    | 41<br>%  | 49%      | 44<br>%  | 41<br>%  |
| Tobacco         | -        | -        | -        | -       | -        | n.a.    | 77<br>%  | 52%      | 49<br>%  | n.a.     |
| Fibres          | -        | -        | -        | -       | -        | 14<br>% | 2%       |          | 33<br>%  | n.a.     |

<sup>9</sup> "Rents" refers to the excess profits created by the import quota above and beyond "tariff revenue" that accrues to the government.

|         |   |   |   |   |   |    |    |     |    |    |
|---------|---|---|---|---|---|----|----|-----|----|----|
| Coffee, | - | - | - | - | - | 47 | 44 | 52% | 58 | 66 |
| etc.    | - | - | - | - | - | 47 | 44 | 52% | 58 | 66 |
|         |   |   |   |   |   | %  | %  |     | %  | %  |

Further, in some countries State Trading Enterprises and Marketing Boards actively involve governments in trade and this can have a major effect upon the administration of a TRQs whether as an importer or exporter.

For all these reasons, TRQs are often indicated as the area of the agreement that needs the most urgent revision for reducing the differences between *within quota* tariffs and *above quota* tariffs and for developing a more uniform system for the administration.

### 3. The launch of the Millennium Round: where do we go from Seattle?

Now the implementation period of the Uruguay Round is almost expired, and despite the difficulties encountered during the Seattle meeting in November 1999, a new round of talks for agriculture has informally been launched. Consequently, many questions are heating up in the interest of the researchers and on political agenda. In this chapter we will try -again very briefly- to list and discuss the main ones.

Probably the most classical question we can hear around during these days is “does the EU have enough margins for a successful new round with a negotiating mandate based on the Agenda 2000?” Needless to say this a question that nobody at the moment can seriously answer. A lot of the future developments will depend on the international economic and political situation, and from the position taken by the other member countries in the WTO arena, including the emerging group of developing countries, leaded by India, which were basically absent in the previous round.

However, for the sake of speculation, we can say few words on what kind of problems we can imagine the EU will encounter during the next negotiations. A first step would be reasoning about the three “traditional” topics we analysed before: market access, export competition and domestic support. To play such an exercise we have to fix a number of assumptions. Let’s say that they will be the following: *i)* Internal market prices will be at the level of institutional price set in Agenda 2000. *ii)* The UR commitments will remain fixed during the next round of negotiations at the level of 2000/2001, which also implies that no institutional changes, such the enlargement to Eastern Europe, will take place. *iii)* The international prices for the main agricultural commodities will be those predicted by the main international sources (OECD, FAPRI, etc...). *iv)* There will be no impact of A2000 on world

markets. v) Last but not least, that the exchange rate €-US\$ will continue to fluctuate around the current very low level - that is, EU export on third markets will be facilitate.<sup>10</sup> It is clear that, given the big number of assumptions and their crucial role, the probability that they will be all simultaneously realised is small. However, the common sense suggests that some reasonable indications about the general orientation of the future negotiation can be drawn out of this picture.

Thus, following this approach, we can say that *ceteribus paribus* it seems that the most problematic area will remain export subsidies, in particular for coarse grains, dairy products and possibly pigmeat. The reduction in domestic prices operated by Agenda 2000 in fact risks to be not sufficient to bring unsubsidised exports up to a level that can avoid stocks to pile up. Of course, this situation would be furthering aggravated if we consider that export subsidies are not only our most sensitive area, but also the most challenged by our partners in the WTO. Although we have good reasons to argue that other similar instruments, e.g. the export credits used by the US, also distort international markets and should be brought under the umbrella of the WTO negotiations, it is likely that the EU will have to negotiate a reduction of the amount of export subsidies currently used.

With regard to market access the situation is somehow ambivalent. On one side, any expansion in the preferential import quotas for the products already experiencing export difficulties would further increase the pressure on the internal markets (and negotiations to increase TRQs can also be expected). On the other hand, there would seem to be room for further reductions in the level of bound tariffs for dairy and meats, although a detailed analysis to detect possibly sensitive products would be needed. Further, within the issue of external tariff it must be mentioned the case of the crop sector. In the case of cereals, in fact, the price reduction realised with Agenda 2000, in combination with the Blair House Agreement<sup>11</sup>, may slightly reduce the margin of border protection and consequently complicate the negotiation on bound and applied tariffs under the current intervention system.

Finally, on domestic support the EU should have, in principle, large room of manoeuvre, but a number of issues remain to be clarified. First, although the shift between the *amber* and the *blue box* under Agenda 2000 will reduce the

<sup>10</sup> The hypothesis on the exchange rate is crucial and very sensitive. Even a small change in the €-US\$ exchange rate can have a big impact in the amount of export subsidies needed.

<sup>11</sup> During the Uruguay Round after the introduction of the 1992 CAP reform discussions were launched between the US and the EU to reach a bilateral agreement as a prelude to a final agreement. These discussions culminated in the Blair House Agreement that was reached in Washington in November 1992. One of the point of this package was that, whatever was the level of the MFN tariff the EU would calculate by the *tariffication* exercise, the actual applied tariff on cereals would not have been higher than 155% of the intervention price. As a consequence, by lowering the level of the internal price, Agenda 2000 also reduced level of the external border protection.

overall level of support to agriculture, it remains to be checked if implementing the reform at the level of single product we will still comply with the ruling of the *peace clause*.<sup>12</sup> Second, even if the support in the *amber box* is already far below the committed level and will decrease further, the increase in compensatory payments will force the EU, as it was already mentioned, into a difficult negotiations for defending the *blue box*.

But, if the CAP still present some open questions regarding the attribution of different policies to the right boxes, some substantial problems is also affecting domestic policies implemented in other countries.

During the five years of implementation of the UR, for example, nobody was able to demonstrate that there is a real difference in the impact of the direct payment provided to the US farmers through the flexibility payments and to the EU farmers through compensatory payments. The fact that, following the rules of the UR agreement, the former is classified as *green* and the latter as *blue* only relies on their different implementation systems and *ex-ante* payments' requirements. An increasing number of researches show that these conditions are not sufficient to assess the actual level of distortion associated with agricultural policies, and real evidence seems to confirm that implementation system is not even the most crucial variable affecting the degree of decoupling of various direct payments. Furthermore, the US are currently claiming that also the big amount of payments adopted in the latest years in the framework of the so-called relief packages, will be classified as *green*, according to their implementation rules. These payments, which still have to be notified to the WTO, were estimated for the year 2000 in an amount of about 8,7 bio \$, that is more than the entire US amber notification for 1998. The main parts of these policies were used to counterbalance adverse market conditions, and basically "recoupled" of a notable portion of US agricultural policy<sup>13</sup>. This means that wherever the US would manage to classify these payments in formal WTO terms, they marked a clear step back in respect to the objectives of the Fair Act which was advertised in 1996 as a new era of totally decoupled and progressively phasing down US agricultural policy.

Although it is easy to understand the reasons forcing US politicians into such generosity towards agriculture when getting closer to the presidential election scheduled for the end of this year, it is difficult to guess what will happen

<sup>12</sup> The so called "Peace Clause" (art. 13 of the Agreement on Agriculture) grants a legal protection for internal policies and export subsidies if the support granted to a *specific* commodity do not exceed the level decided during the 1992 marketing year. In the UR agreement it was decided that clause will expire two years after the end of the implementation period (2003) to allow some peaceful time for new negotiation.

<sup>13</sup> Following a term recently invented in the US academic by Prof. H. De Gorter, because of their high degree of coupling with the evolution of market they should in principle be classified as "flashing" amber.

afterwards, when the WTO negotiation will enter in its core phase. At the present moment the US negotiation proposal put on the table in Geneva last June is calling for "...correcting and preventing restrictions and distortions in world agricultural markets"<sup>14</sup>. How the US will make this seriously consistent with the attitude of increasing support to agriculture they shown in latest years, is hard to say.

On the other side of the ocean, the EU is continuing the slow but continuous progresses for transforming the CAP in a comprehensive approach to rural development and viable environment.

The development of the so-called second pillar of the CAP under Agenda 2000, brought a range of measures and programmes under a common rural development regulation, - the accompanying measures to the 1992 reform (agri-environment, early retirement and afforestation), aid for structural adjustment and to young farmers, investment aids, processing and marketing aids, diversification aids and the less favoured areas (LFA) scheme to promote continued agricultural land use and low-input farming systems- and strengthened the Community's green box credentials.

But the effort of the EU is going further, trying to encompass in its policy the interests of the consumers and the whole society above the simple concept of "minimally distortive policy" expressed in the *green box*.

The main example in this direction is the attempt to launch a broader reflection on the multifunctional character of agriculture. This concept has been acknowledged internationally. The OECD Communiqué of the Ministerial meeting of March 1998 states in paragraph 10 that "*because of its multifunctional character, agriculture plays a particularly important role in the economic life of rural areas. There can be a role for policy where there is an absence of effective markets for such public goods, where all the costs and benefits are not internalised. The reform of agricultural policy... including well-targeted policy measures, will enable the sector to contribute to the viability of rural areas and address environmental issues, while enhancing efficient and sustainable resource use in agriculture*". The EU already submitted two informal papers to the WTO describing the concept of multifunctionality from a European perspective and presenting the type of policy instruments envisaged to achieve the different objectives. The effort for developing this approach has been sometimes regarded as an attempt to trick agricultural reform. However, nobody can deny that a seriously implemented the concept of multifunctionality would be crucial in the EU where rural areas and their irreplaceable cultural heritage cover over 80% of the territory, and

<sup>14</sup> The official paper "Proposal for comprehensive long-term agricultural trade reform" submitted by the United States the 23 June 2000 is available on the web site [www.wto.org](http://www.wto.org).



the levels of economic development vary significantly among these rural areas.

Another example of the EU attempt to address broader issues than the ones traditionally involved in the WTO is the discussion launched about Genetically Modified Organisms (GMO). Although a conclusion on this dispute is far to be reached, a serious analytical effort has been already implemented by the services of the European Commission, to take into account consumer concerns and assess the economic impact of these new technologies.

Lastly, the EU fully recognises the need for a special and differential treatment for the developing countries, in particular with regard to agriculture. As regards access to its own market, the Community already plays a major role through the GSP and the Lomé preferences. And it is prepared to go further. Indeed the EC has proposed to ensure duty-free market access no later than the end of the new round of negotiations to essentially all products exported by the least developed countries.

Of course, many other questions could be mentioned among crucial variables which are likely to influence the outcomes of the next WTO negotiation on agriculture, but to be exhaustive was not certainly among the objectives and the possibilities of this brief contribution. What we would like to stress arriving to the conclusion of this paper is that to reinforce international discipline in the agricultural sector and transform the shot-gun wedding into true love, to write new and stricter rules will not be enough. To consolidate the hectic honeymoon agriculture had with the attempt to liberalise trade during the implementation period of the Uruguay Round, the most sensible solution is to continue in the gradual long term process of transforming domestic agricultural policy. Thus, more than dealing with unreliable propositions of sudden and radical changes, which very shortly result in failures and turnings back, the next negotiations should realistically aim at the gradual deepening of the process of "Bringing Agriculture into the GATT" started with Uruguay Round almost fifteen years ago.

With the Fair Act expiring in 2002, the US will be preparing the new internal reform of their agricultural policy in parallel with the WTO negotiations. And the same would happen in the EU for the concomitance with the mid-term review of Agenda 2000 and with the enlargement to Eastern Europe. The hope is that in both cases, the occasion offered by the Millennium Round of progressing also at the international level in the creation of a new comprehensive tool which will contribute to make economic development a sustainable issue, will not be missed.

## References<sup>\*</sup>

Benedict, R. "Can we solve the farm problem? An analysis of Federal aid to agriculture" Twentieth Century Fund, New York: 1955  
<http://circuit.sdsu.edu/search/>

Benjamin C., F. Chantreuil, M. Desquilbet, Y. Dronne, A. Gohin, C. Le Mouël, I. Piot-Lepetit. January 1999 "GAMANI" : a model for assessing consequences of CAP reform proposals on grain and livestock sectors" - FAIR5 - CT97 – 3481 Working Paper -  
<http://www.rennes.inra.fr/economie/fair/index.htm>

Bouamra Z., V. Réquillart November 1999 "European dairy spatial equilibrium model" - FAIR5 - CT97 – 3481 Working Paper -  
<http://www.rennes.inra.fr/economie/fair/index.htm>

Bureau J.-C, L. Salvatici, L. Fulponi March 2000 "Measuring trade liberalisation : EU vs. US Commitments under the Uruguay Agreement on Agriculture" - FAIR5 - CT97 – 3481 Working Paper -  
<http://www.rennes.inra.fr/economie/fair/index.htm>

Bureau J.-C., A. Hofstetter, X. Bizot June 2000 "Alternative tariff cuts scenarios, and the effects on EU protection of the agro-food sector" - FAIR5 - CT97 – 3481 Working Paper -  
<http://www.rennes.inra.fr/economie/fair/index.htm>

Bureau J.-C., L. Salvatici, L. Fulponi jun 1999 "Measuring trade liberalisation : European Commitments under the Uruguay Agreement on Agriculture" - FAIR5 - CT97 – 3481 Working Paper -  
<http://www.rennes.inra.fr/economie/fair/index.htm>

Commission of the European Communities - Directorate-General for Agriculture - Info-Paper "Contribution of the European Community on the Multifunctional Character of Agriculture" Communication submitted by the European to the WTO the 23 of July 1999 -  
[http://europa.eu.int/comm/dg06/external/wto/document/ip1\\_en.pdf](http://europa.eu.int/comm/dg06/external/wto/document/ip1_en.pdf)

Commission of the European Communities - Directorate-General for Agriculture - Info-Paper "EC Approach on Agriculture" Communication submitted by the European to the WTO the 23 of July 1999–  
[http://europa.eu.int/comm/dg06/external/wto/document/ip1\\_en.pdf](http://europa.eu.int/comm/dg06/external/wto/document/ip1_en.pdf)

<sup>\*</sup> In order to offer a service to the readers hereafter we report an extensive list of updated references relating to the issue of Agriculture and the WTO although not all of them have been directly used in writing the paper.

Commission of the European Communities. Directorate-General for Agriculture "Economic Impacts of Genetically Modified Crops on the Agri-Food Sector" Working Document - [http://europa.eu.int/comm/dg06/publi/index\\_en.htm](http://europa.eu.int/comm/dg06/publi/index_en.htm)

Fishler Franz EU Commissioner for Agriculture, Rural Development and Fisheries - Press Conference Speaking note WTO - Millennium Round 01/12/1999 Seattle, Washington State, USA  
[http://europa.eu.int/comm/commissioners/fischler/speech\\_en.htm](http://europa.eu.int/comm/commissioners/fischler/speech_en.htm)

Fishler Franz EU Commissioner for Agriculture, Rural Development and Fisheries - "WTO negotiations - agricultural aspects" Informal Hearing with the Non-Governmental Organisations 22/10/1999 Brussels  
[http://europa.eu.int/comm/commissioners/fischler/speech\\_en.htm](http://europa.eu.int/comm/commissioners/fischler/speech_en.htm)

GATT –WTO Secretariat "The Result Of The Uruguay Round Of Multilateral Trade Negotiations - The Legal Text" Geneva- June 1994

Gohin A., F. Chantreuil, H. Guyomard, F. Levert April 2000 "M.E.C.O.P" A Regionalised European Arable Crops' Sector Model" - FAIR5 - CT97 – 3481 Working Paper - <http://www.rennes.inra.fr/economie/fair/index.htm>

Gohin A., H. Guyomard April 2000 "The agenda 2000 CAP reform in the WTO context: Distortionary effects of compensatory payments" - FAIR5 - CT97 – 3481 Working Paper - <http://www.rennes.inra.fr/economie/fair/index.htm>

Gohin A., H. Guyomard, C. Le Mouél February 1999 "Decoupling agricultural income support: economic issues" - FAIR5 - CT97 – 3481 Working Paper - <http://www.rennes.inra.fr/economie/fair/index.htm>

Gohin A., H. Guyomard, C. Le Mouél June 1999 "Measuring the degree of decoupling of alternative internal support policy instruments : the green box issue" - FAIR5 - CT97 – 3481 Working Paper - <http://www.rennes.inra.fr/economie/fair/index.htm>

Gohin A., O. Gorin, H. Guyomard, C. Le Mouél July 98 "Le découplage des mesures de soutien interne des revenus agricoles : définition GATT et interprétation économique". - FAIR5 - CT97 – 3481 Working Paper - <http://www.rennes.inra.fr/economie/fair/index.htm>

Heckelei T., E. Krebs, C. Möllmann, M. Von Lampe February 1998 "Comparative analysis of world market projections with special regard to wheat prices" - FAIR5 - CT97 – 3481 Working Paper - <http://www.rennes.inra.fr/economie/fair/index.htm>

Organisation for Economic Co-operation and Development – “Production, Externalities and Public Good Aspects of Multifunctionality”  
COM/AGR/APM/TD/WP(2000)3

<http://www.oilisnet.oecd.org/graphic/english/home.htm>

Organisation for Economic Co-operation and Development – “A Matrix Approach to Evaluating Policy: Preliminary Findings from PEM Pilot Studies of Crop Policy In the EU, the US, Canada and Mexico”

COM/AGR/CA/TD/TC(99)117/FINAL

<http://www.oilisnet.oecd.org/graphic/english/home.htm>

Veganzones M.A., J-C Bureau, A. Hofstetter, September 1999 “Market access, export subsidies, domestic support and the WTO negotiations: a review and synthesis” - FAIR5 - CT97 - 3481 Working Paper -

<http://www.rennes.inra.fr/economie/fair/index.htm>

Von Lampe, M. May 1998 “The world agricultural trade. “Simulation system WATSIM”. - FAIR5 - CT97 - 3481 Working Paper -

<http://www.rennes.inra.fr/economie/fair/index.htm>

World Trade Organization - Committee on Agriculture - Special Session – “Proposal For Comprehensive Long-Term Agricultural Trade Reform” - Submission From The United States G/AG/NG/W/15 - 23 June 2000

<http://www.wto.org/>

World Trade Organization - Committee on Agriculture - Special Session – “The Blue Box And Other Support Measures To Agriculture” - European Communities Proposal - G/AG/NG/W/17 - 28 June 2000 -

<http://www.wto.org/>

World Trade Organization - Committee on Agriculture - Special Session – “Animal Welfare and Trade in Agriculture” - European Communities Proposal - G/AG/NG/W/19 - 28 June 2000 - <http://www.wto.org/>

World Trade Organization - Committee on Agriculture Special Session “European Communities Proposal - Food Quality – Improvement of Market Access Opportunities” G/AG/NG/W/18 - 28 June 2000

[http://www.wto.org/english/tratop\\_e/agric\\_e/negoti\\_e.htm](http://www.wto.org/english/tratop_e/agric_e/negoti_e.htm)

World Trade Organization – Notifications of Domestic Support, Export Competition, and Market Access – Various Years and Countries -

<http://www.wto.org/wto/ddf/ep/public.html>

World Trade Organization -Background Paper by the Secretariat “Domestic Support” G/AG/NG/S/1 - 13 April 2000 -  
[http://www.wto.org/english/tratop\\_e/agric\\_e/negoti\\_e.htm](http://www.wto.org/english/tratop_e/agric_e/negoti_e.htm)

World Trade Organization -Background Paper by the Secretariat “Export Subsidies” G/AG/NG/S/5 - 11 May 2000-  
[http://www.wto.org/english/tratop\\_e/agric\\_e/negoti\\_e.htm](http://www.wto.org/english/tratop_e/agric_e/negoti_e.htm)

World Trade Organization -Background Paper by the Secretariat “Green Box Measures” G/AG/NG/S/2 - 19 April 2000 -  
[http://www.wto.org/english/tratop\\_e/agric\\_e/negoti\\_e.htm](http://www.wto.org/english/tratop_e/agric_e/negoti_e.htm)

World Trade Organization -Background Paper by the Secretariat “Tariff and other quotas” G/AG/NG/S/7 - 23 May 2000 -  
[http://www.wto.org/english/tratop\\_e/agric\\_e/negoti\\_e.htm](http://www.wto.org/english/tratop_e/agric_e/negoti_e.htm)

World Trade Organization -Background Paper by the Secretariat “Tariff quota administration methods and tariff quota fill” - G/AG/NG/S/8 - 26 May 2000 -  
[http://www.wto.org/english/tratop\\_e/agric\\_e/negoti\\_e.htm](http://www.wto.org/english/tratop_e/agric_e/negoti_e.htm)

**Tomas Garcia Azcarate** is PhD in Agricultural Economics (Polytechnic University of Madrid). Associated Researcher in European Economics in the Spanish CSIC (1981) and Assistant Professor for “European and Agricultural Economics” (1981-1985). He entered the European Commission as civil servant in 1986. Currently, he is Head of the Analysis and Overall Approach Unit, General Directorate for Agriculture and Rural Development, European Commission and “Maître de Conférence”, Institut d’Etudes Européennes – Université Libre de Bruxelles.

**Marina Mastrostefano** is Doctor of Economics, University of Rome "La Sapienza", 1983. Associated Researcher, Department of Public Economics of the University of Rome "La Sapienza" (1984-1986) and since 1986 Professor of Agricultural Economics and Faculty Member of the University of Cassino (Italy). Visiting Professor at the University of California, Davis – USA (1990-1992), working on issues related to the GATT negotiations on Agriculture. Appointed National Expert at the European Commission, General Directorate for Agriculture, for contributing to the analysis of the international aspects of the EU agricultural policy reform (1996-1999). In July 2000 appointed Temporary Agent to the Unit “Analysis and Overall Approach“ of the same

D

i

r

e

c

t

o

r

a

t

e

G

e

n

e

r

a

l

f

o

r

a