

**Europe and United States  
Agricultural Policy  
Negotiations Issues**

**American Agricultural Economic  
Association Symposium  
Chicago, August 2001**

## Speakers and Topics

Moderator: John Beghin, Iowa State U.

1. The WTO Context for Considering Policy Issues -  
Daniel Sumner, UC Davis
2. Measures of Trade Distortion for EU and US  
Luca Salvatici, U. of Rome, La Sapienza
3. Comparison of EU and US Grain Policy  
Bruno Henry de Frahan, UC Louvain
4. Evolution of US and EU Policy on SPS Issues  
Jean-Christophe Bureau, INRA, Paris

**Europe and United States  
Negotiations Issues: the WTO  
Context**

**AAEA Symposium  
Chicago, August 2001**

**Daniel A. Sumner**

# Historical background

- International agricultural trade is not new.
- Trade is fundamental “nation” is a later invention.
- Agricultural trade has often led to conflict

*“The WTO is the only international body dealing with the rules of trade between nations. At its heart are the WTO agreements, the legal ground-rules for international commerce and for trade policy. The agreements have three main objectives: to help trade flow as freely as possible, to achieve further liberalization gradually through negotiation, and to set up an impartial means of settling disputes.”*

# WTO Relative to Other Groups

- Voluntary organization of ‘nations’
- Decisions by consensus
- No official special status for “powerful” nations
- But, obviously, some nations carry more weight than others, even if the only action is to leave the organization

# WTO Principles

- Most favored nation treatment
  - all WTO members must be treated equally (except free trade agreement and benefits for poor countries)
- National treatment
  - must treat imports and domestic goods equally
- Bound tariffs and other commitments
- Consultations for dispute
  - Provisions waived with compensation





# Multifunctionality

- There are external costs or benefits to farming
- Obviously legitimate
- Applies to agriculture and many other activities
- Invented to justify high prices for powerful interests
- Excuse for protectionism
- Objectives may be addressed directly, not through trade barriers

# Major parts to the agriculture Uruguay Round Agreement

1. Improved Access
2. Export subsidy
3. Domestic support  
(SPS, dispute settlement,  
agreements in other areas)



# Slave Labor?

## A discussion on the World Trade Organization

The International Relations Student Association invites all students to attend this discussion on the pros and cons of the WTO. Two speakers will lead this discussion: **Professor Sumner** from the Econ Department, and **Aaron King**, a UCD student protestor who attended the anti-WTO demonstration at Seattle.

**Wednesday, Feb. 23<sup>rd</sup>**  
**6-7pm, 151 Olson Hall**

Questions? Email Nigel at: [japhis14@aol.com](mailto:japhis14@aol.com)

# Comparisons of US and EU Commodity Policy with Implications for WTO Negotiations

Measures of Trade Distortion for EU and US  
(Luca Salvatici, University of Roma “La  
Sapienza”)

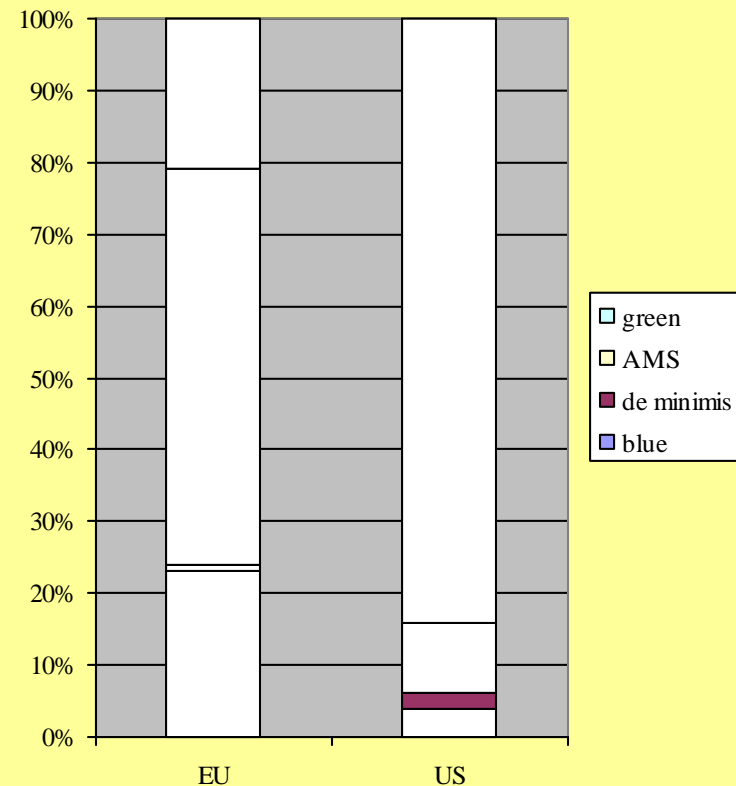
# Trade distortions indicators

- Domestic support:
  - Aggregate Measurement of Support (WTO notifications) / Producer Support Estimates (Oecd)
- Border measures:
  - Export subsidies (WTO notifications)
  - Tariffs (WTO schedules)

# Domestic support composition

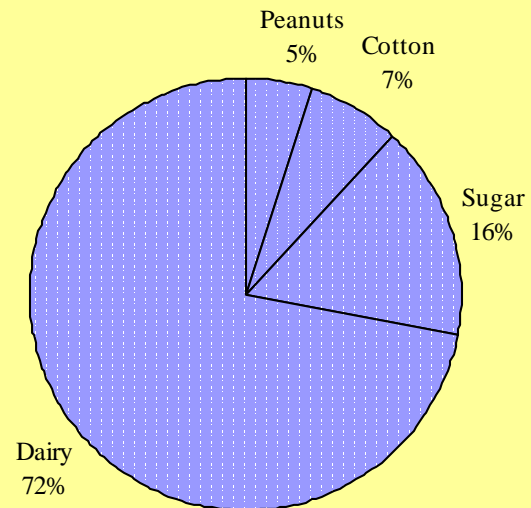
- In contrast to the PSE, the AMS measures only the domestic support that is *amber* (subject to WTO disciplines)

Source: Oecd, 1995-98  
WTO notifications

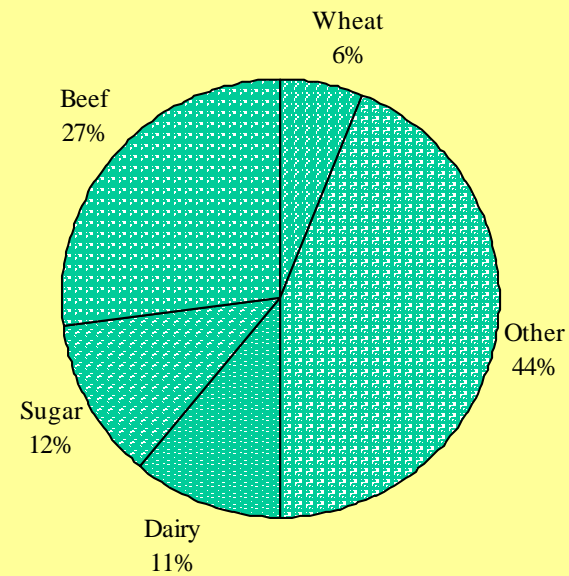


# A closer look to the AMS (1997)

US



EU



# Domestic support: general issues

- Since the PSE largely exceeds the AMS (EU: \$105 vs. 56 billion; US: \$51 vs. 6 billion) do we need more stringent criteria for the *blue* and *green* boxes?
- Since different types of amber box programs affect production and trade differently, do we need more (than three) boxes?



# Domestic support: negotiating issues

- Given the uneven distribution of support across commodities, it seems *unlikely* that product-specific commitments will be accepted
- Given the differences in the absolute (and relative) levels of support, the US ask for a *level playing field* (i.e., final bound level equal to a fixed percentage of the members' value of total agricultural production)

# Export subsidies

It is an European issue (1998: EU \$5968 million, US \$147 million), isn't it?

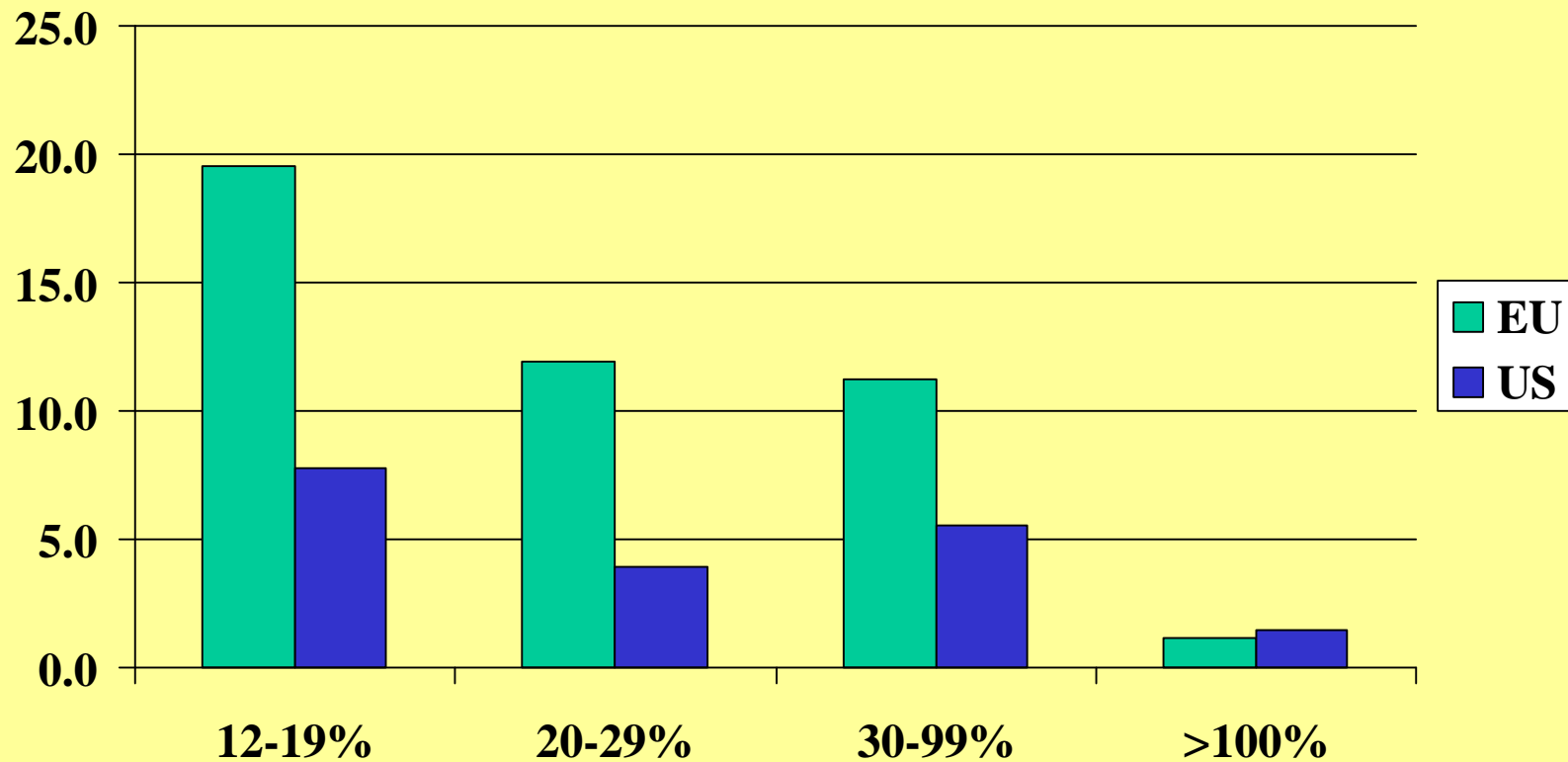
- Export credits as subsidies (US subsidy = 6.6% of export value)
- State trading enterprises: market power, transparency, price discrimination, pooling...
- Food aid: has it been used as a mechanism to dispose of excessive commodity stocks and as a tool for market development?

# Tariffs

- Both the EU and the US have roughly the same percentage of
  - bound tariff lines (100%)
  - duty free tariff lines (35%)
  - lines with specific and compound tariffs (33%)
- ...but the simple average bound tariff is 18% in the EU and 7% in the US.

**WARNING:** the applied (i.e., preferential, in-quota) tariffs are quite different from the bound ones!

# Tariff profiles



# Tariffs: open issues I

- “Water in the tariffs”: should *actual* or *bound* tariffs be negotiated?
- “Dilution”: how much freedom should be left to the governments in implementing the tariff reductions?
  - tariff line commitments vs. average reduction

# Tariffs: open issues II

- “Formulas”: is it more important the tariff *level* (mean) or the tariff *dispersion* (standard deviation)?
  - Uniform reduction vs. Swiss formula
  - Use of theoretically sound tariff indexes (e.g., TRI, MTRI)
- Would the “tariffication” of *non-ad valorem* tariffs be a good idea?

Comparisons of US and EU  
Commodity Policy with  
Implications for WTO Negotiations

Comparison of EU and US Grain Policy

Bruno Henry de Frahan

Université catholique de Louvain

# Is EU grain policy converging to US's?

## 1985 Farm Bill:

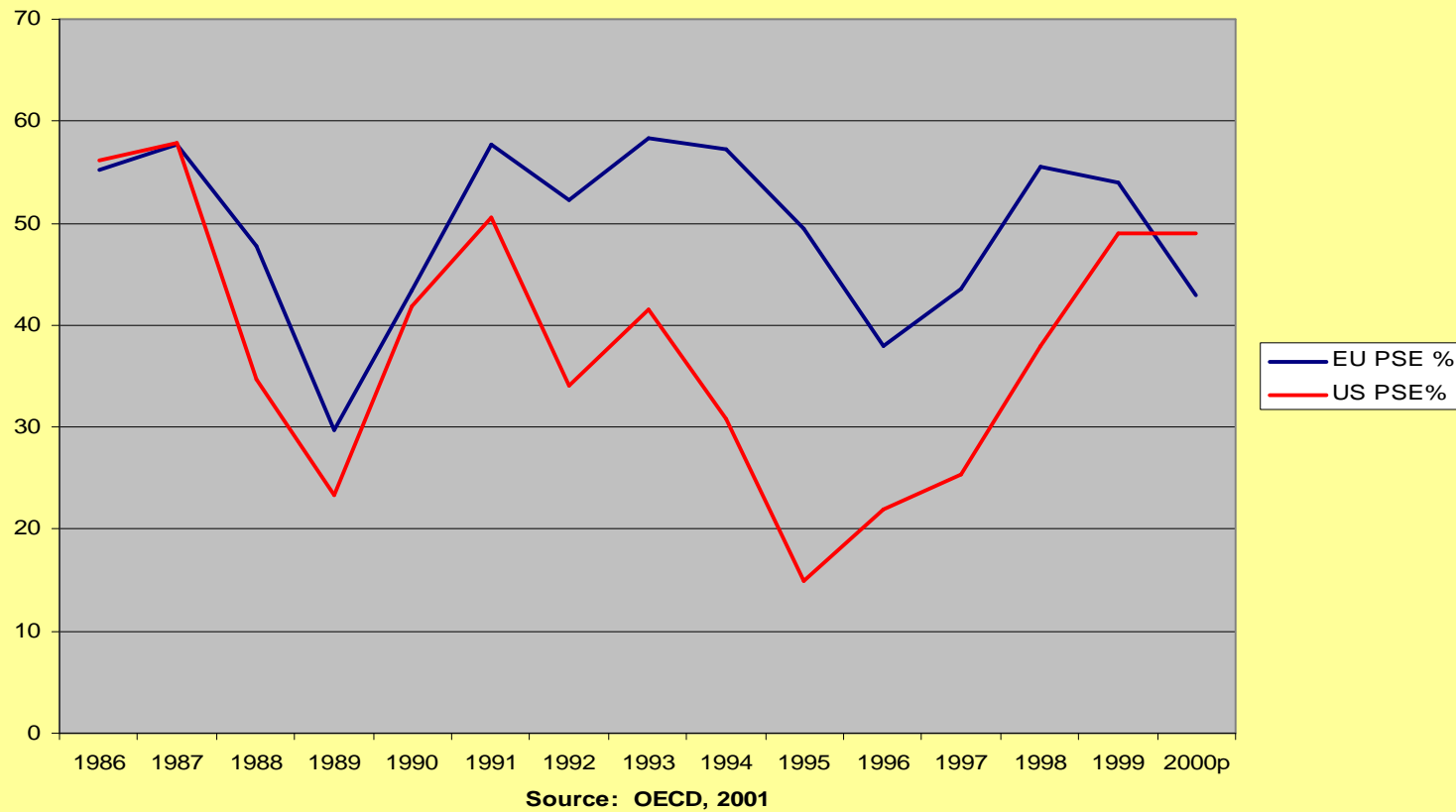
- Wheat loan rate: -41%
- Deficiency payments decoupled from yield
- Mandatory set aside & conservation (CRP)
- Export subsidies(EEP)

## 1992 CAP Reform:

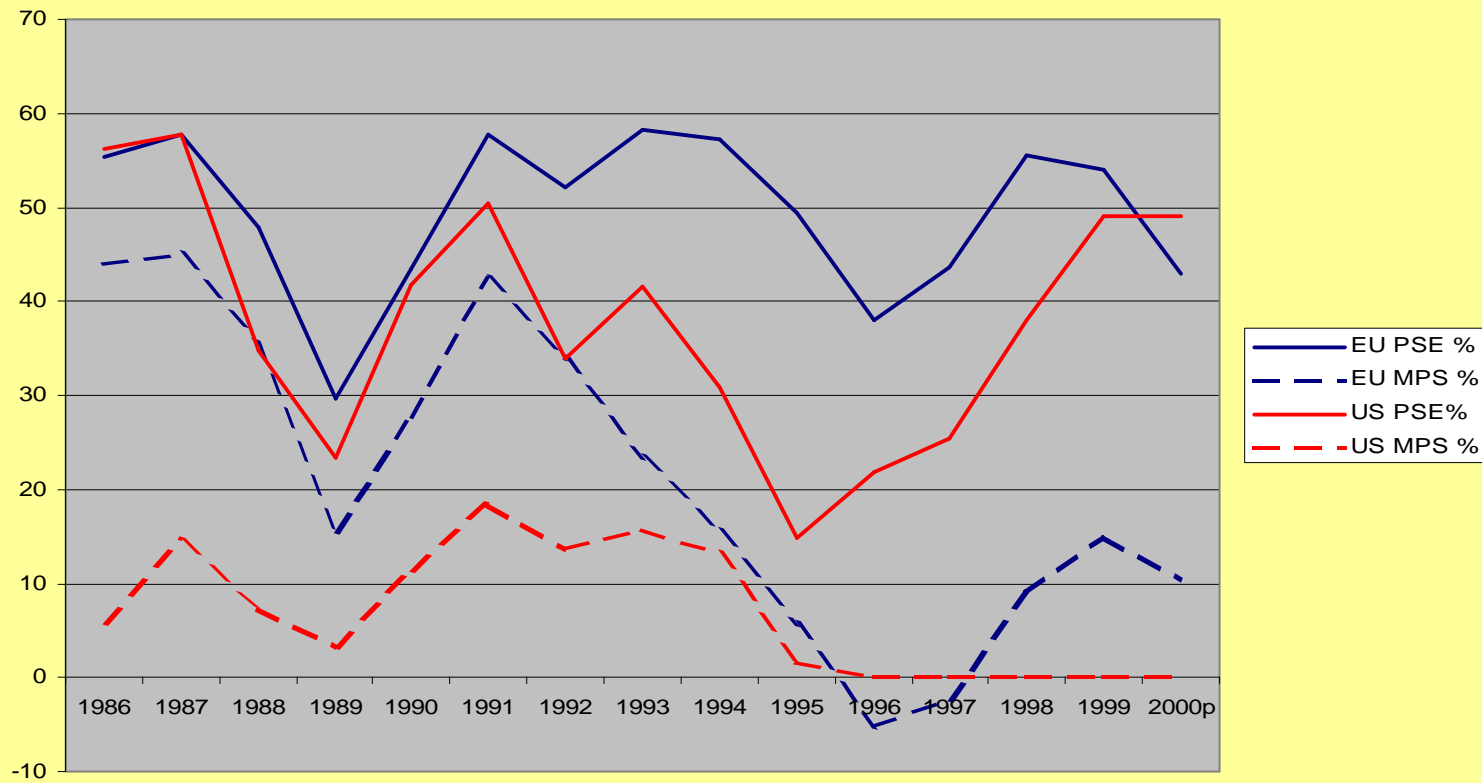
- Grain intervention price: -30%
- Acreage direct payments decoupled from yield and price
- Mandatory set aside
- Export subsidies



# Or, is US grain policy converging to EU's?



# EU and US percentage MPSs for wheat are diverging since 1997



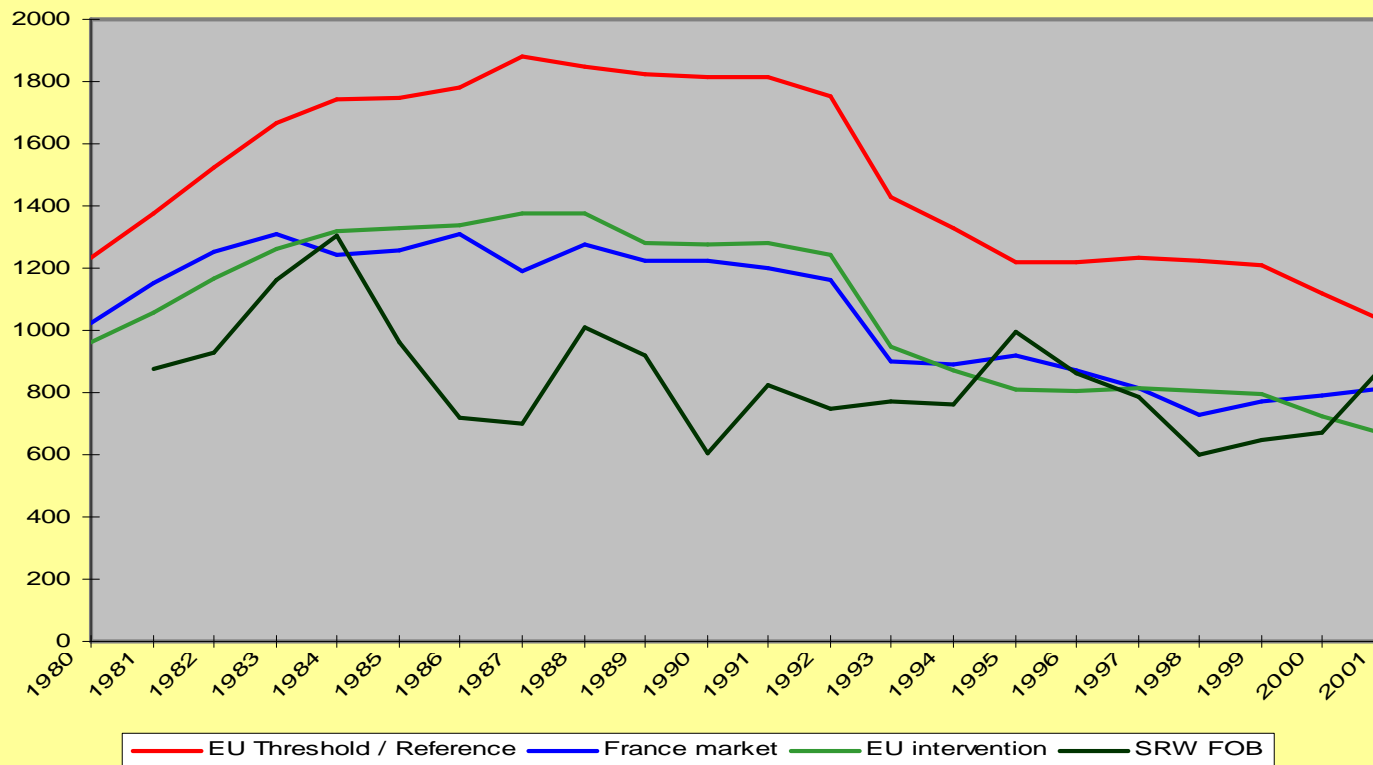
Source: OECD, 2001

# A closer look at the EU grain policy instruments

- Intervention price
- Threshold/reference price
- Export subsidies
- Direct payments
- Set aside

# EU and world prices of wheat are converging

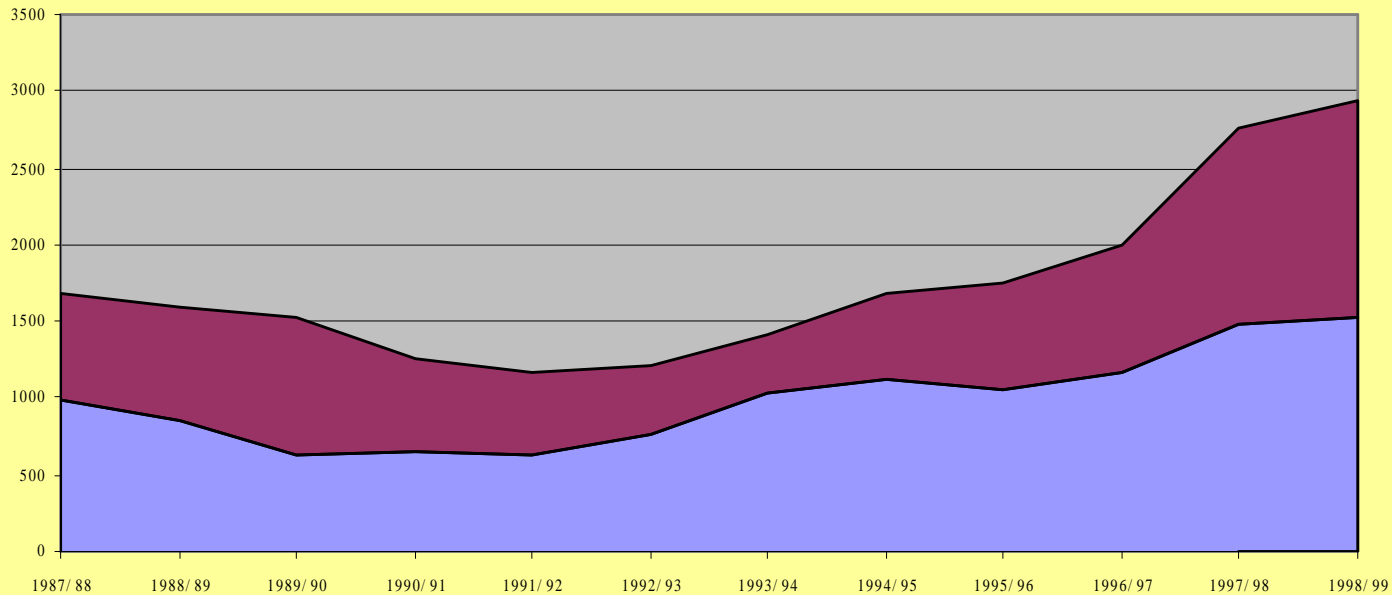
(Nominal French francs)



Source: ONIC

# EU imports of US and Canadian wheat are growing

(‘000 T)



Sources: USDA and CWB

■ EU Imports from Canada ■ EU Imports from US

EU export subsidies are  
decreasing according to UR  
commitments

EU acreage direct payments are becoming more decoupled in terms of supply response

## The EU set-aside supply control is still hanging on arable land

- To what extent is EU grain policy lagging on a different path of reform than the US policy?
- To what extent is set aside more transfer efficient than export subsidies?



# Would EU grain policy catch up US's?

EU proposals:

- To implement a simplified direct payment scheme for small farms,
- To make some direct payments contingent upon cross compliance requirements,
- To eventually eliminate export subsidies.

To remove mandatory set aside?

To rebalance import protection across cereals?

To design income safety net schemes?

Will the EU have grain policy instruments:

- Less market and trade distorting,
- Promoting positive externalities,
- Less unfair?

# **Evolution of US and EU Policy on SPS-TBT Issues**

J.C. Bureau

UMR Economie Publique INRA-INAPG Paris  
and Iowa State University, Ames

# US complaints against EU

- Hormone treated beef
- Poultry regulation
- BSE sensitive meat
- Triphosphate
- Biotechnology approval
- Labeling (mainly GMO)

# EU complaints against US

- Unpasteurized cheese; Side effect of Import Milk Act on yoghurts
- Access to labels for imports (Grade A milk)
- Geographical indications/grape names.
- Administrative obstacles : multiple agencies; restrictive procedures (invoice; controls in canned fruits); delays for approving exporters (fruits) , approving labels (wine); open lists of pests & uncertainty (fruits).

# EU complaints against US

- Unilateralism in standards and dispute resolution
  - o Non observance of Codex standards (nutrition labeling requirements; Delaney clause)
  - o National legislations rather than international (shrimp, tuna).
  - o Incompatibility of Section 301 and carousel sanctions with WTO rules

# Issues unlikely to become more serious

## US complaints

- Hormones : agreement likely (bananas) unless exogenous factors come in the way (FSC ?)
- Technical issues such as poultry (veterinary agreement to be completed) or triphosphates (TBT can handle that).

# Issues unlikely to become serious (cont'd)

## EU complaints

- Cheese : firms don't complain that much
- Raw milk, nutrition labeling, meat, Bst :  
EU has weak scientific arguments
- Access to labels : EU not clean on that
- Red tape : progress made bilaterally  
(equivalency agreements).

# Issues likely to be serious

EU-US disagreements on

- Patents on biotech
- Mandatory labeling of GMOs
- Precautionary principle and PPM (asbestos)
- Animal welfare

*So far : disagreements discussed in round / Codex rather than formal disputes. Seems under control... but...*



# Biggest risks for EU-Trade

- The major disagreements : not regular trade barriers.
- Alarming sign : public opinion
  - EU non compliance to WTO rules (hormones) discredits multilateral system in the US.
  - US unilateral actions seen as a rejection of multilateralism/provocation by Europeans
- Passionate debates (patenting of life; 'carelessness' of GMO approving, globalization, human rights).

# Explosive cocktail i.s.o catalyst

- Little practical effect, except usual other country bashing
- But strong pressure on politicians in Europe and bad timing (euro)
- Risks of major tensions if the multilateral framework weakens. Issues likely to become disputes if round stalls
- Pressure high. Will FSC be the spark ?