Backgrounder

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Achieving Trade Liberalization: Why the U.S. Should Challenge the EU at Cancun

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The September 10–14 World Trade Organization (WTO) meeting in Cancun will be a crucial test of how successful the Doha Round of trade talks will be in liberalizing global agriculture.[1] The problem is that there are two competing schools of thought on what should be done.

U.S. Trade Representative Robert Zoellick, in July 2002, presented an ambitious WTO agricultural proposal for radical cuts in both tariffs and subsidies that, if implemented, would reduce the average allowed farm tariffs from 62 percent to 15 percent globally. This proposal would also reduce trade-distorting subsidies by capping them at 5 percent of total agricultural production.

On the other hand, the much-criticized joint framework from the United States and the European Union (EU), presented on August 13, 2003, is only a rough outline that lacks specific tariff levels and deadlines, and threatens to fall short of the goals set at the launch of the Doha Round in 2001. According to Ambassador Allen Johnson, "One of the things that is not captured by this agreement is: What [are] the next steps, exactly how do we go from a framework to specific numbers and then from specific numbers to specific schedules?"[2]

- In July 2002, U.S. Trade Representative Robert Zoellick presented an ambitious WTO agricultural proposal for radical cuts in both tariffs and subsidies.
- While the U.S. proposal to the WTO was a step in the right direction, the recent U.S.–EU joint proposal falls short of Doha objectives. At the WTO summit, the United States should stand with the Cairns Group to push WTO members, particularly the EU, to reduce subsidies and tariffs and improve market access.
- EU and U.S. trade subsidies have an especially harmful impact on producers and consumers in developing countries by blocking the free flow of trade.
- The Doha Round was explicitly promoted as a round for the developing world. Yet several WTO members refuse to support what is needed—drastic cuts in subsidies—to achieve this goal.

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1. The Doha Round's stated mission is to help the developing world by securing "a share in the growth of world trade commensurate with the needs of their economic development."

Using this framework, the final outcome might include significant tariff cuts, maintain protection for sensitive products, or institute new protection for other products under the guise of geographical indications (GIs)—or it might not. The amorphous framework contrasts sharply with the specific proposal advanced by Ambassador Zoellick in 2002 and still has many gaps that can and should be filled with numerical targets that achieve significant liberalization.

At the Cancun meeting, Ambassador Zoellick should therefore endeavor to ensure that the final version of the agreed framework is as close to his original July 2002 proposal as possible. He should stand with the Cairns Group[3] to push WTO members, particularly the EU, to reduce subsidies and tariffs and improve market access. In short, he should pressure Europe to offer *real* agricultural reform.

Specifically, the USTR should:

- **Insert** substantive targets and deadlines into any deal brokered in Cancun,
- **Make** the U.S. proposal offered in 2002 the model for these targets,
- **Pressure** Europe to move beyond its recent Common Agricultural Policy reform plan and implement more substantive reform, and
- **Continue** to oppose the application of geographical indications protection to additional products.

The EU Common Agricultural Policy

Established in 1962, the European Union's Common Agricultural Policy (CAP) is the world's most expensive system of farm subsidies. The EU spends three times more on farm subsidies than does the United States. The CAP costs EU taxpayers roughly $46 billion per year and consumes over half of the EU budget.

According to the Organisation for Economic Co-operation and Development (OECD), European consumers are forced to pay 44 percent more for their food as a result of the CAP subsidies.[4] The CAP also accounts for an astonishing 85 percent of the world's agricultural subsidies.[5] The chief beneficiaries in Europe are French farmers, who receive over $10 billion per year—nearly 20 percent of the total CAP budget. Just 20 percent of Europe's farms receive roughly 70 percent of CAP funds.[6]

Europe's Proposed Reforms

After decades of half-hearted attempts at reform, the European Commission has been pressured into changing the CAP, both by the impending EU enlargement in 2004 and by growing pressure from the United States and developing nations to make the Cancun summit a success. The CAP changes will be phased in over a two-year period beginning in 2005.

Under the new EU plan, farmers will receive a single annual payment in return for meeting environmental, food safety, and animal welfare standards. Currently, farmers receive trade-distorting payments that are directly linked to agricultural production and result in huge surpluses and the subsequent dumping of food in Third World markets.

The European Commission describes the new plan as "decoupling," or the separation of subsidies from production. In theory, this will enable the EU to support trade liberalization at the Doha Round.

Blocking Meaningful Reform

In addition to the joint proposal and the U.S. proposal, the EU made a proposal to the WTO in 2002, but it is lackluster compared to the American

2. Conference Call to Discuss Agriculture Trade Negotiations at the WTO, Ambassador Allen Johnson, Chief Agricultural Negotiator, August 13, 2003, at *www.ustr.gov.*
3. The Cairns Group, chaired by Australia, is a group of 17 agriculture-exporting countries.
4. Figures cited in Mike Moore, *A World Without Walls: Freedom, Development, Free Trade and Global Governance* (Cambridge, U.K.: Cambridge University Press, 2003), p. 181.
5. Margaret Thatcher, *Statecraft: Strategies for a Changing World* (London: HarperCollins, 2002), p. 336.
6. See "The EU Common Agricultural Policy," *The Guardian*, June 26, 2003, and "EU Common Agricultural Policy," Reuters, June 26, 2003.

proposal. While the U.S. plan would *eliminate* export subsidies over five years, the EU proposal would only reduce them by 45 percent. Europe's proposal would not require significant changes in the CAP, while America's proposal would drastically change the American farm industry, giving greater market access to the developing world and achieving the WTO's objectives.

However, in order to achieve the WTO's objectives, the CAP must be drastically reformed. The EU insists that the CAP reform plan announced at the end of June would do just that, but the numbers disagree. Not for the first time, the EU is guilty of rank hypocrisy masquerading as progress. Once again, the French have succeeded in blocking any meaningful reform of the CAP: As the French farm ministry has boasted, "this reform preserves the essential principles of the Common Agricultural Policy."[7]

Under the new plan, the CAP budget would not be reduced; it would continue to be a huge drain on EU resources. Instead of being reduced, the funds would merely be reallocated. For instance, 60 percent of the direct payment made to starch potato producers would be maintained as a crop-specific payment. The other 40 percent would be included in the single farm payment.[8]

Overall, farm subsidies would not be reduced, and the reforms would not benefit European consumers. Instead, farm subsidies would likely increase in the coming decade, as would European food prices. The CAP would continue as a huge welfare system for a relatively small group of large-scale elite European farmers, who would continue to prosper despite providing extremely poor value for money.

As for the developing country farmer who was supposed to benefit, there is no guarantee that the EU will stop creating and dumping vast food surpluses into world markets, putting impoverished farmers out of business. Subsidies beget subsidies. They thwart efficiency and keep inefficient producers in the market while knocking out more efficient producers. According to the Progressive Policy Institute, while Morocco, Tunisia, Lebanon, Syria, and Turkey can produce olive oil more cheaply, 95 percent of the olive oil sold in European supermarkets comes from Spain, Italy, and France because the EU pays European olive oil growers $2.3 billion a year.[9]

Geographical Indications

With the Cancun meeting approaching, Europe's real agricultural priorities seem to be elsewhere. The EU is determined to expand the list of products that have geographical indications (GIs) and has insisted that these protectionist measures be included in any agricultural agreement made in Cancun.

Geographical indications require that products produced outside of their place of origin be labeled under a different name. For instance, feta cheese—originally from Greece—that is produced in Denmark may not be called "feta." EU members have been fighting among themselves for several years over who has the right to use the term "feta."

The EU has signed onto a proposal calling for WTO members to amend Article 23 of the WTO's Agreement on Trade-Related Aspects of Intellectual Property (TRIPS) "to make it clear that protection for geographical indications currently provided for by the agreement would apply to products such as cheeses, beers, yogurts, rice, tea, and others."[10] At present, Article 23 includes only wines and spirits.

The United States, Australia, Canada, Guatemala, New Zealand, Paraguay, and the Philippines oppose protection for products beyond wines and spirits. By demanding that these measures should be included in any agreement made in Cancun, Europe is delaying liberalization.

7. See *http://news.bbc.co.uk/2/hi/business/3021728.stm*.

8. Press release, European Union, Luxembourg, June 26, 2003.

9. Progressive Policy Institute, "European Olive Oil Subsidies Are Twice the Value of World Olive Oil Trade," July 23, 2003, at *www.ppionline.org/ppi_ci.cfm?knlgAreaID=108&subsecid=900003&contentid=251898*.

10. Rossella Brevetti, "Fischler Sees Protecting Brand Names As Part of WTO Ag Negotiating Modalities," Bureau of National Affairs *Daily Report for Executives* No. 145, July 29, 2003.

The U.S. System

While the EU is certainly the world's worst offender when it comes to agricultural subsidies, a great deal of work remains to be done in the United States as well. Since the Great Depression, U.S. farmers have received ever-larger amounts of assistance from the federal government. The recent U.S. farm bill increased the amount of subsidies to American farmers by 70 percent, costing American taxpayers $180 billion over 10 years. Again, the largest portion of the subsidies goes to the wealthiest producers.

The subsidies maintain inefficient and expensive farming methods. For instance, in the Mississippi Delta, where it costs $600 to produce an acre of cotton, U.S. taxpayers subsidize some of the world's highest-cost cotton producers at the expense of poor farmers from developing nations.[11] The World Bank and the International Monetary Fund estimate that some Central and West African countries could earn $250 million more per year from exports if U.S. cotton subsidies were eliminated.[12] In addition to subsidies, the United States is well-known for protecting certain crops such as peanuts and sugar with high tariffs.[13]

While Ambassador Zoellick's 2002 proposal to the WTO is a welcome step in the right direction and an example for the EU to follow, the Bush Administration should cut domestic subsidies to liberalize the U.S. agricultural sector. The USTR should use the original proposal to the WTO to fill in the blanks of the joint framework agreed to with the EU.

The Effect of Subsidies on Developing Countries

EU and U.S. trade subsidies have an especially harmful impact on producers and consumers in developing countries. These subsidies block the free flow of trade, in addition to which developing countries that depend on agriculture cannot compete against developed countries that have heavily subsidized agricultural systems. Developed countries, such as the United States, lose leverage at the negotiating table by perpetuating subsidies.

According to OECD data,[14] farmers in New Zealand and Australia receive the lowest subsidies in the developed world: only 5 percent or less of total farm income. In the United States, farmers receive up to 25 percent, compared to European Union producers who receive, on average, a subsidy of 35 percent and farmers in Japan and Switzerland who receive a subsidy of about 60 percent.

The Doha Round was explicitly promoted as a round for the developing world. Yet several WTO members refuse to support what is needed—drastic cuts in subsidies—to achieve this goal.

Cutting subsidies would offer developing countries increased access to Western markets and give greater validity to their membership in the WTO. As *The Economist* has pointed out:

> Many developing countries felt they got a raw deal from the Uruguay Round. They were dragged reluctantly into yet another set of trade negotiations largely by the promise of freer trade in farm goods. Lower tariff barriers and a big chop in the $300 billion-plus of subsidies that rich countries lavish on their farmers every year would give a boost to many poor countries.[15]

Regrettably, the joint proposal by the U.S. and EU does not go far enough to achieve Doha's objectives. The joint proposal does not make clear commitments to liberalize agricultural trade. The proposal lacks numerical targets and deadlines. Additionally, it does not eliminate export subsidies on all products.[16]

11. Roger Thurow and Scott Kilman, "Hanging by a Thread: In U.S., Cotton Farmers Thrive; in Africa, They Fight to Survive," *The Wall Street Journal*, June 26, 2002.

12. C. Ford Runge, "Agrivation: The Farm Bill from Hell," *The National Interest*, Summer 2003, p. 85.

13. The U.S. tariff on imported sugar is around 100 percent, and the tariff on peanuts is around 140 percent.

14. Organisation for Economic Co-operation and Development, *Agricultural Policies in OECD Countries: Monitoring and Evaluation 2003*, May 6, 2003.

15. "The Doha Squabble—World Trade—Troubled World Trade Talks," *The Economist*, March 29, 2003.

What The U.S. Should Do At The WTO Meeting

Progress will require radical change. As Australian Minister for Trade Mark Vaile has stated, "the Doha round offers a historic opportunity to improve the economic prospects of the developing world. This is an opportunity we cannot afford to squander."[17]

In the past, the United States allied itself with the Cairns Group on this issue, calling for WTO members to make significant concessions in this round. Any deal in Cancun will be reached by consensus. The USTR must stick with the Cairns Group to lobby the membership of the WTO for significant liberalization in Cancun.

Specifically, the USTR should:

- **Insert significant targets and deadlines into any deal brokered in Cancun**. A deal in Cancun should include the elimination of export subsidies and significant reductions in domestic subsidies and tariffs.
- **Make the American agricultural proposal tabled in 2002 the center of the WTO agenda**. This proposal will reduce trade-distorting subsidies by over $100 billion, giving a major boost to the developing world.
- **Pressure Europe to move beyond its recent CAP reform plan and implement more substantive reform**. Ambassador Zoellick should not accept the EU's excuses for avoiding reform. Brussels should be reminded of the need to keep the commitments made at the Doha launch in 2001—to reduce subsidies.
- **Ambassador Zoellick should oppose the application of geographical indications protection to additional products**. The EU is seeking to dominate the market for products such as Parma ham by using name protection to hinder producers outside of the region from using terms such as "Parma." Even names can be trade barriers, and they should have no part in a liberalization agreement.

Conclusion

Developed countries should travel to Cancun with a strategic plan to lower subsidies and tariffs in order to finish the Doha Round on time. Without real change, much of the developing world will remain frozen out of Western markets and be consigned to more decades of aid, dependency, and poverty.

Developed countries must offer the developing world a drastic reduction in tariff and non-tariff barriers. Increased liberalization will result in increased growth for both the developing world and the developed world.

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16. Daniel Pruzin, "Officials Defend U.S.–EU Ag Proposal from Cairns Group 'Sell Out' Claims," Bureau of National Affairs *Daily Report for Executives*, August 18, 2003.
17. The Honorable Mark Vaile, "Making Trade Work for Development," speech to Australian Council for Overseas Aid roundtable on trade and development, Canberra, Australia, May 27, 2003.