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As part of its "pause for reflection" on the troubled Doha Round negotiations, the Cordell Hull Institute, along with the Cornell Law School, convened in Paris on July 9-10, 2004, an international roundtable meeting on the "Role of the WTO System in the World Economy".

The meeting was held at the Centre Panthéon, which houses the faculty of law of the Panthéon and Sorbonne universities, across the place from the Panthéon (pictured above).

Reproduced here is the paper for the meeting by **Stefan Tangermann** (above) on "Overcoming Discrimination against Agricultural Exporters."

PAUSE FOR REFLECTION…

Overcoming Discrimination Against Agricultural Exporters

Stefan Tangermann

THE URUGUAY Round (UR) Agreement on Agriculture (AoA) was the first serious attempt at overcoming the large distortions to international trade in agricultural products and the resulting discrimination against agricultural exporters. It changed the treatment of agriculture in the international trading order fundamentally. For the first time in the history of the GATT it brought agricultural policies and trade under operationally effective disciplines. This progress was not easily achieved. The negotiations on agriculture were controversial, complex and strenuous. At a number of junctions, the whole UR was on the brink of failure because of agriculture, and it was not before a settlement was found for the agricultural issues that the overall round came to a conclusion.[1]

However, any hopes that the UR might have put agricultural issues in the WTO to rest were soon to prove futile. In the Doha Development Agenda (DDA) negotiations, agriculture is again at the forefront, and by many considered to be a potential blockage for progress overall. Finding agreement, in July 2004, on just a framework for further negotiations is now considered to be a decisive criterion for the political will to make progress in the DDA negotiations, although this would be no more than a modest achievement compared to the full modalities with numerical reduction commitments that countries had hoped they could agree by March 2003.

Why is it that agriculture is again so difficult in this round of negotiations? Has the UR, in spite of all its success, left too much unfinished business in agriculture? Have the new rules not worked well? Or were reduction commitments a problem? Where are the priorities for this round of negotiations, and is there a chance that progress will be made? In discussing such questions, this paper will first take a look at what the UR has achieved, in terms of how agricultural policies in the OECD area have developed after the new AoA was agreed. Finding that progress was limited, the paper will

About the Author

Stefan Tangermann is Director for Food, Agriculture and Fisheries at the OECD in Paris, France.

About the Meeting

Thirty five senior trade officials and independent experts, principally from European countries, took part in the Panthéon-Sorbonne meeting.

They included: **Agnes van Ardenne**, the Netherlands minister for development cooperation; **Herwig Schlögl**, deputy secretary-general of the OECD, Paris; **Pierre Defraigne**, deputy director-general of trade in the European Commission; **Karl- Ernst Brauner**, director-general for foreign economic relations in the German Ministry of Economics; and **Claes Ljungdahl**, deputy director-general for foreign economic relations in the Swedish Ministry of Foreign Affairs; as well as **Olivier Cattaneo**, principal trade policy adviser at the Agence Française de Developpement.
Also there were: **José Alfredo Graça Lima**, the Brazilian ambassador to the European Union; **Eduardo Perez Motta**, the Mexican ambassador to the WTO, Geneva; and **Nobuo Tanaka**, director-general of the multilateral trade bureau at Japan's Ministry of Economy, Trade and Industry.

Four members of the Institute's board attended: **Jagdish N. Bhagwati**, of the Council on Foreign Relations, New York; **Hugh Corbet**, the Institute's president; **Lorenz Schomerus**, former state secretary of the German Ministry of Economics; and **John M. Weekes**, former Canadian ambassador to

then address the question of whether this was due to the rules agreed in the UR, or to the quantitative parameters in the reduction commitments. Focusing on the reduction commitments, the paper will then argue that priority should be on reducing border measures and output payments.

Regarding the future of the rules, some comments will also be made on the economics of the relationship between export competition and domestic support. The paper ends on some concluding remarks.

Agricultural Policies in the OECD Area After the Uruguay Round

The preamble of the Uruguay Round Agreement on Agriculture (AoA) identifies the long-term objective of establishing "a fair and market-oriented agricultural trading system and ... a reform process" providing "for substantial progressive reductions in agricultural support and protection". Have agricultural policies of the industrialized countries achieved these objectives? Indicators of farm support as calculated regularly by the OECD should provide some insight.

OECD summarizes the policy-induced transfers directly affecting the revenue of individual farmers in the Producer Support Estimate (PSE), the most prominent indicator in the family of OECD's agricultural support statistics. The PSE can be expressed as an absolute sum of money, showing that in 2003 the 30 member countries of the OECD[2] transferred US 257 billion to their farmers. More telling than this absolute amount is the share in farmers' revenues that it represents the % PSE. In 2003, this indicator stood at 32%. In other words, out of each dollar of revenue for the average farmer in the OECD area, 32 cents resulted from government policies, while only the remaining 68 cents came from the market. This is only a marginal decline compared with the situation at the beginning of the UR (1986-88), when the PSE in the OECD area stood at 37%.

A closer look at support developments over time actually shows that most of this slight decline in the % PSE for the aggregate of OECD countries was achieved during the first half of Uruguay Round negotiations, from 1986 to 1989. Since that time, the support level has fluctuated somewhat, but not shown any obvious downward trend (Graph 1). However, there were significant differences among countries. In some cases, support has declined substantially over the last 15 years. In other countries, though, a declining support level in earlier years was later followed by a rise in support. Overall, after the reduction commitments of the Uruguay Round AoA entered into force, i.e. after 1995, farm support in the OECD area has not decreased. As a matter of fact, it is precisely during this period that support noticeably increased in some OECD countries.

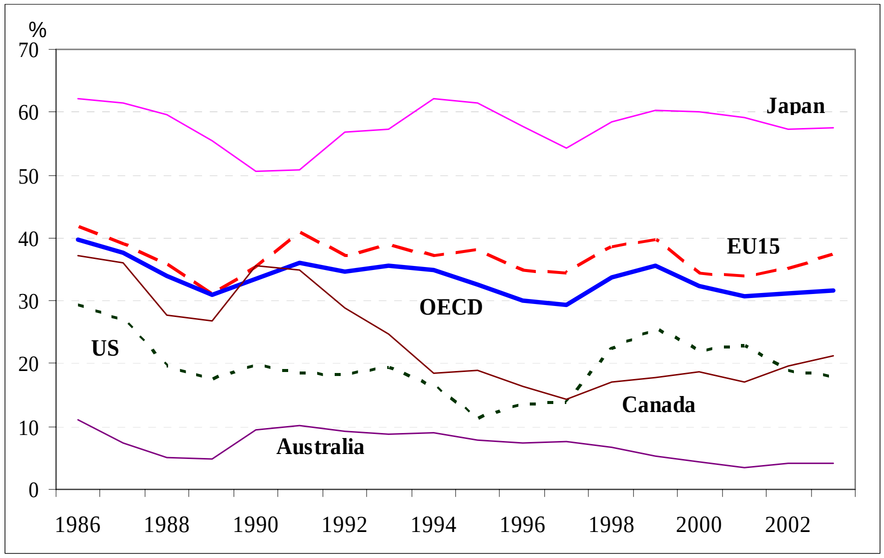
the WTO and onetime chairman of the WTO General Council.

Others who took part were: **Jean-François Bellis**, of Van Bael & Bellis, attorneys-at-law, Brussels; **Joan Boer**, Netherlands ambassor to the OECD, Paris; **Larry S. Bush**, of the Cornell Law School; **Victoria Curzon Price**, of the University of Geneva; **Andreas Freytag**, of the Friedrich Schiller University, Jena; **Otto Th. Genee**, of the Netherlands Ministry of Foreign Affairs; **Bernard Hoekman**, of the World Bank, Washington, DC; **Patrick Messerlin**, of the Fondation Nationale de Sciences Politiques, Paris; **E.U. Petersmann**, of the European University Institute, Florence; **J.F.R. Rollo**, of the University of Sussex, Brighton; **Clive Stanbrook**, of Stanbrook & Hooper, attorneys-at-law, Brussels; **Victoria Curzon Price**, of the University of Geneva; **Bruce Wilson**, of the WTO, Geneva; and **David Woolner**, of the Roosevelt Institute, Hyde Park, NY.

The meeting’s opening and concluding sessions took place in historic Cercle de l'Union Interalliée (pictured above in the days of Marshall Foch).

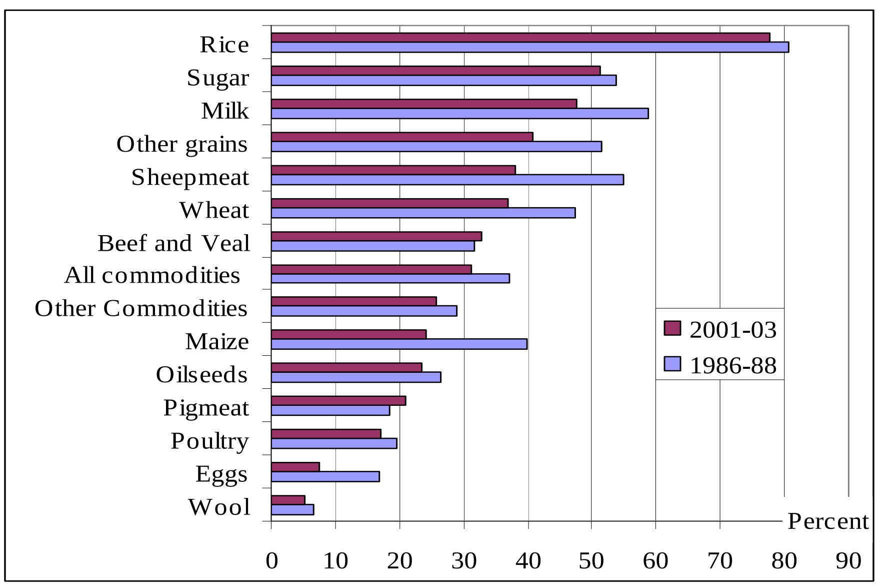
The meeting was jointly convened and chaired by **John J. Barcelo III**, the Cromwell professor of international and comparative law at Cornell University, Ithaca, NY, and

Graph 1: Farm Support in the OECD Area and Selected Member Countries, %PSE



Source: OECD, PSE/CSE database, Paris, 2004.

The commodity composition of support has also not changed much after the Uruguay Round (Graph 2). The three products receiving the highest support levels remain rice (around 80% PSE), sugar and milk (the two latter around 50% PSE).



Source: OECD, PSE/CSE database, Paris, 2004.

What about the Uruguay Round’s objective of a reduction in the level of agricultural protection? The relevant indicator here is the Producer Nominal Protection Coefficient (NPC*p*), measuring the ratio

Hugh Corbet, president of the Cordell Hull Institute.

The papers prepared for the event are being revised and edited for publication as John J. Barcelo III and Hugh Corbet (eds), Rethinking the World Trading System (2005).

Funding for the meeting was provided by the Berger International Legal Studies Program at Cornell University, Ithaca, NY, and the Netherlands Ministry of Foreign Affairs, as well as the international law firms Sidley Austin Brown & Wood, Washington, DC, and Stanbrook & Hooper, Brussels.

About the Series

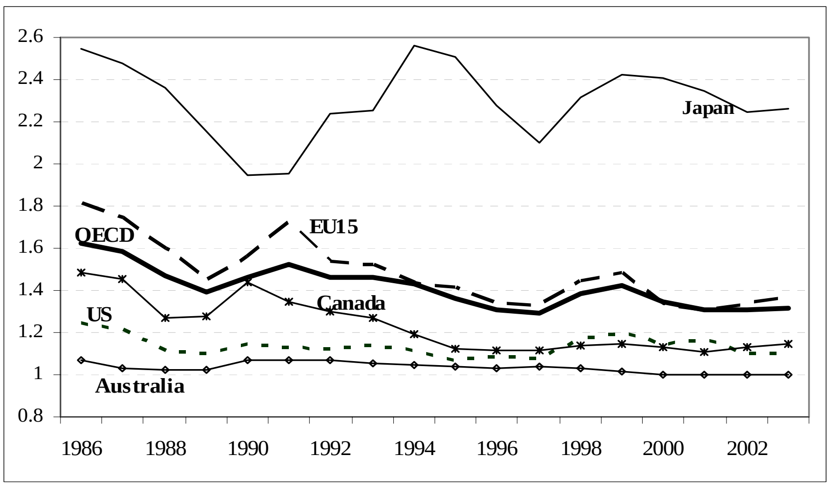
The first meetings in the Institute's "pause for reflection" on the Doha Round negotiations were held in Washington, DC, on

- November 14, 2003, on getting the Doha Round negotiations back on track;
- May 28, 2004, on the elements of a "framework agreement" on agriculture, with farm leaders from the United States and Cairns Group countries; and
- June 16, 2004, on the ups and downs of the multilateral trading system since it was established after World War II.

The meetings followed the Institute's four post mortems on the failure of the WTO ministerial conference in Cancun, Mexico, in September 2003.

between the average price received by producers (at farm gate), including payments per ton of current output, and the border price (measured at the farm gate). As portrayed in Graph 3, more progress has been made on this count for the OECD area overall. While in 1986 domestic producer prices in OECD countries were on average 63% above world market prices, by 2003 that gap had halved, to 31%. Again, a good part of this decline occurred while the Uruguay Round negotiations were still going on. But before the implementation period started, in 1994, OECD domestic producer prices were still 43% above the international market level, and thus further progress was indeed made during the implementation period. As in the case of support levels, there are obvious differences in market protection among individual OECD countries, and also the development over time has differed significantly among countries. However, overall, there has been notable progress in the OECD area towards less market protection.

Graph 3: Producer Price Protection in Selected OECD Countries (Producer Nominal Protection Coefficient*)*, Average over All Products



Source: OECD, PSE/CSE database, Paris, 2004.

The decline in the level of market protection for OECD agriculture, with significantly less decrease in support levels, indicates that some re-instrumentation of policies must have occurred over time. This change in policy structure is also apparent in the evolution of the composition of the various measures that provide transfers directly to individual farmers, as captured in the Producer Support Estimate (Graph 4). In particular, the share of overall OECD producer support that comes in the form of market price support (MPS) and payments per ton of output (PO) has declined significantly over time, from 83% in 1986 to 66% in 2003, and mirrors the reduction in market protection. This decline is an important development, as market price support and output payments are among the most production and trade distorting

In a background note for the Panthéon-Sorbonne meeting, **Hugh Corbet** (above) wrote:

"When the Doha Round negotiations were launched in November 2001, very much on the run and somewhat half-heartedly, there was no inter-governmental consensus on their purpose or, for that matter, on the purpose of the WTO system itself… For governments to come together on the purpose of the negotiations there has to be a closer meeting of minds among them on the WTO's role in the world economy.

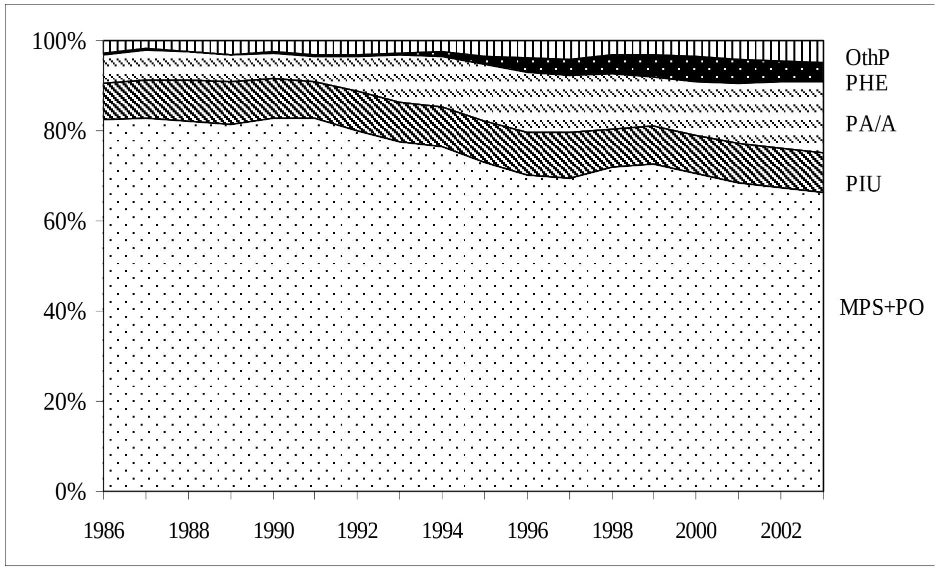
"In the United States," he said, "there is a tendency to regard the multilateral trading system only as a device for securing access to foreign markets for American exports, not for promoting trade liberal-ization as a positive-sum game.

"In the European Union the system is traditionally viewed as the framework within which it handles its relationship with the United States.

"For four decades," he continued, "Japan saw the system as a defense against the bilateral pressures of the United States and the European Union to open its markets, but is turning to bilateral and regional arrangements now there is a multilateral commitment to open

instruments of agricultural policy (OECD, 2001a). However, for the same reason, it is also noteworthy that two thirds of OECD producer support still comes in this form.

Graph 4:Composition of Producer Support Estimate, OECD Aggregate (Share of individual policy instruments in overall PSE)



Note: For an explanation of acronyms, see text.
Source: OECD, PSE/CSE database, Paris, 2004.

Payments based on input use (PIU), also strongly market distorting (OECD, 2001a), have exhibited a roughly constant share of aggre-gate producer support, at 9% in 2003. The share of payments based on area planted and animal numbers (PA/AN) in aggregate producer support has expanded, mainly since the early 1990s. In 2003, such area and livestock payments accounted for a share of 16% in aggregate OECD producer support. These types of payment, while somewhat decoupled from production, can still have signif-cant effects on markets and trade, but are less distorting than market price and output support (OECD, 2001a). Still more decoupled and less distorting are payments based on historical entitlements (PHE), another category of measures whose share in producer support expanded at the expense of market and output support and in 2003 stood at 4% of producer support.

Overall, since the early 1990s, a noticeable shift in OECD agricul-tural policy composition has taken place, with some movement away from strongly distorting price and output support, towards more decoupled, and hence less production and trade distorting, measures. The extent to which this happened has differed markedly among countries. For example, in Japan, 97% of all producer support still comes in the form of price support, output and input payments, unchanged since the mid-1980s. On the other hand, in markets for agricultural products.

"As for developing countries, many appear to regard the WTO as just another development agency, providing benefits without requiring them to fulfill any obligations of membership.

"It sometimes seems," Mr Corbet mused, "that only China sees the WTO as a framework of internationally agreed rules providing a stable institutional environment for the conduct of international trade and investment, as well as a guide to the development of domestic commercial laws aimed at promoting transparency, stability and predictability – hallmarks of the multilateral trading system, along with non-discrimination."

the United States, the share of these distorting forms of support in the PSE has declined somewhat (from 70% in 1986-88 to 65% in 2001-03), and in the EU it was reduced significantly (from 96% to 68%). Policy changes continue, but not all countries go in the same direction. For example, the US Farm Bill, passed in Payments based on input use (PIU), also strongly market distorting (OECD, 2001a), and have exhibited a roughly constant share of aggregate producer support, at 9% in 2003. The share of payments based on area planted and animal numbers (PA/AN) in aggregate producer support has expanded, mainly since the early 1990s. In 2003, such area and livestock payments accounted for a share of 16% in aggregate OECD producer support. These types of payment, while somewhat decoupled from production, can still have significant effects on markets and trade, but are less distorting than market price and output support (OECD, 2001a). Still more decoupled and less distorting are payments based on historical entitlements (PHE), another category of measures whose share in producer support expanded at the expense of market and output support and in 2003 stood at 4% of producer support.

Overall, since the early 1990s, a noticeable shift in OECD agricultural policy composition has taken place, with some movement away from strongly distorting price and output support, towards more decoupled, and hence less production and trade distorting, measures. The extent to which this happened has differed markedly among countries. For example, in Japan, 97% of all producer support still comes in the form of price support, output and input payments, unchanged since the mid-1980s. On the other hand, in the United States, the share of these distorting forms of support in the PSE has declined somewhat (from 70% in 1986-88 to 65% in 2001-03), and in the EU it was reduced significantly (from 96% to 68%). Policy changes continue, but not all countries go in the same direction. For example, the US Farm Bill, passed in 2002, locked in the higher levels of support provided in preceding years through *ad hoc* payments, and was a step backwards from the decoupling of support (OECD, 2003a). Conversely, the reform of the EU's Common Agricultural Policy, decided in 2003, while maintaining a higher level of support than in the US, made a further significant step towards decoupling support from production (OECD, 2004).

In summary, the record is mixed regarding the extent to which the objectives of the Uruguay Round AoA have been achieved among OECD countries, if seen from the perspective of the support indicators as used in OECD's work on monitoring and evaluation of agricultural policies. Overall, the level of agricultural support has declined somewhat since the beginning of the Uruguay Round negotiations. Progress was more pronounced regarding the nature of policy instruments used. The most production and trade distorting policies, i.e. market price support and output payments, have declined noticeably, and have given place to forms of support that are more decoupled from production decisions. On the other hand, price and output support, as well as payments based on input use, still account for by far the largest share of all agricultural support in the OECD area, jointly making up for three quarters of producer support. Within these overall trends in the OECD area, there are obvious differences among individual countries. In particular, producer support has significantly decreased in some countries, while in other countries is has remained at high levels, and progress towards decoupling support from production has been uneven across countries.

Rules or Reduction Commitments – Where is the Problem?

In spite of some progress, and notwithstanding more recent reform decisions such as those taken in the EU, one cannot say that the AoA has resulted in a fundamental liberalization of agriculture in the OECD area. This lack of deep change has caused some disappointment, not the least among developing countries, and such frustration has added to the tensions about agriculture that have plagued a good part of the DDA negotiations, most noticeably at Cancùn. Why is it that the significant progress made on agriculture in the UR has not yielded more in terms of actual policy change and liberalization? There are several conceivable reasons.

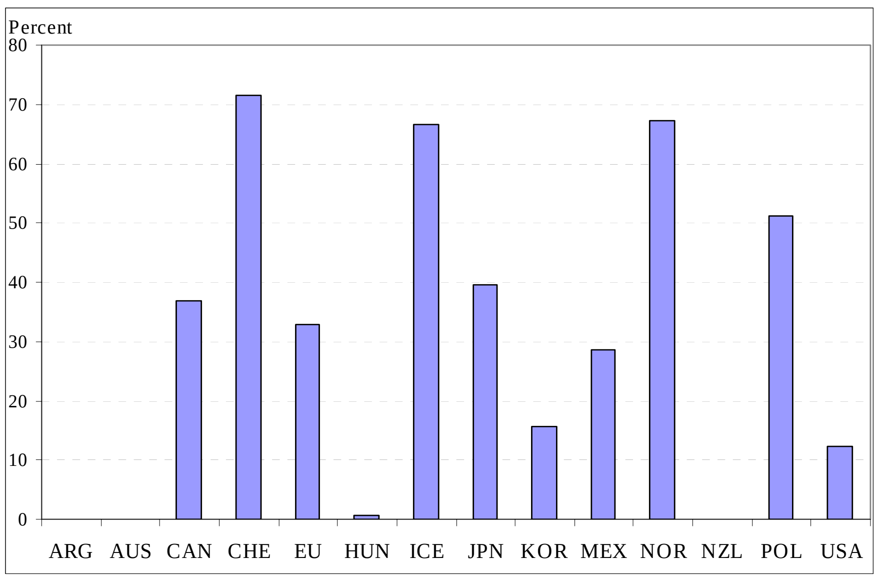
One possibility is that countries have simply disregarded the new disciplines in agriculture established in the UR. However, that does not appear to have been the case, as shown, for example by the fact that discussions in the WTO Committee on Agriculture regarding implementation of the AoA have gone reasonably smoothly. Also, there has been only a limited number of formal disputes regarding provisions of the AoA. Some of these disputes may have an important bearing on future dealings with agriculture in the WTO, and we shall have to come back to this below. But overall there is no reason to suggest that the AoA did not have much effect because many governments have ignored its provisions.

This leaves us with two alternative potential explanations. First, the new rules on agriculture agreed in the UR might have been deficient and left too many loopholes. Second, the quantitative reduction commitments for tariffs and subsidies established under the AoA may have been too generous and allowed too much scope for continuing to provide high levels of protection and support. Depending on which of these two potential explanations is considered dominant, the priorities of those parties who want to make more progress in the current round of negotiations would have to focus on either refining the rules or agreeing deeper cuts. Let us therefore explore these two potential explanations, in reverse order.

Did the quantitative commitments agreed in the UR contain so much "water" that even the reductions agreed in the Uruguay Round did not yet effectively constrain policies? This was obviously true in many cases, as shown in a number of analyses (for example, OECD 2001b, 2002a and 2002b, and Diakosavvas (2004). Let us consider just a few indicators.

Regarding market access, many tariffs in agriculture are still very high indeed. In the schedules of several OECD countries, a substantial share of all agricultural tariff lines exhibits mega-tariffs with rates above 100% (Graph 5). Indeed, many of these tariffs are simply prohibitive, and hence reducing them, in a given range, does no more than squeeze some of the economic water out of these tariffs, without affecting domestic price levels and trade flows. This was a major reason why exporting countries were keen to have minimum access commitments agreed in the Uruguay Round. However, it has turned out that many of these newly established tariff rate quotas, even where within-quota tariffs were significantly below "normal" tariffs, have not so far been fully utilized (OECD, 2002a). There is much speculation and political argument about the reasons for such low fill rates, and a lot of research remains to be done in this regard.

Graph 5: Mega-Tariffs in Selected Countries, Percentage of Agricultural Tariff Lines in 2000

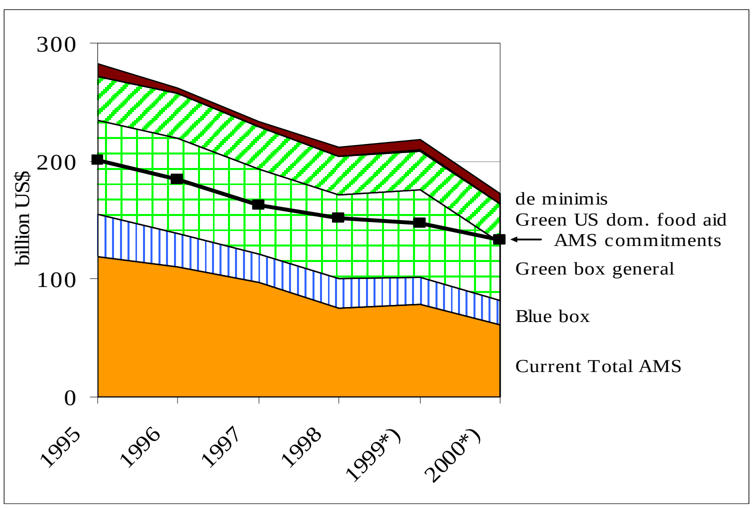


Megatariff is defined as a tariff equal or greater to 100%.
Source: OECD calculations based on 3 152 tariff lines from the AMAD database.

In the case of domestic support, the situation is simply that commitment levels were set at such high levels that in many cases both their original and the reduced final levels provided more room for maneuver than actual policies required. This is shown by the large percentage of all country/year observations in which only rather small shares of the domestic support commitments were actually utilized. On aggregate, in the OECD area, the level of Current Total AMS was no higher than 56% of the AMS commitments on average in the years 1995 to 1999, and only 45% in 2000 (Graph 6). It is, though, interesting to note that, even though the domestic support commitments agreed in the WTO were not binding in many countries, the actual level of accountable domestic support as defined under WTO rules still declined during the implementation period, and substantially more than the level of economic support as measured by OECD. Of course, when interpreting this finding one has to keep in mind that market price support, an important element in the Current Total AMS, is, for WTO purposes, measured between administered prices and fixed external reference prices.

Another interesting finding is that the total level of green box support in the OECD area has remained roughly constant since the beginning of the AoA implementation period. In other words, for the OECD aggregate, one does not find a significant shift of support into the WTO green box. This holds true even if one disregards for a moment domestic food aid in the US, a significant share of all green box notifications. Usage of the *de minimis* provisions, though, has increased somewhat recently for the OECD aggregate. Of course, these developments of OECD aggregates hide significant differences in the usage of the domestic support commitments across individual countries. For example, in the US, Current Total AMS has risen from 27% of the domestic support commitment to 88% in 2000 and 75% in 2001.

Graph 6: Domestic Support and WTO Commitments, OECD Aggregate

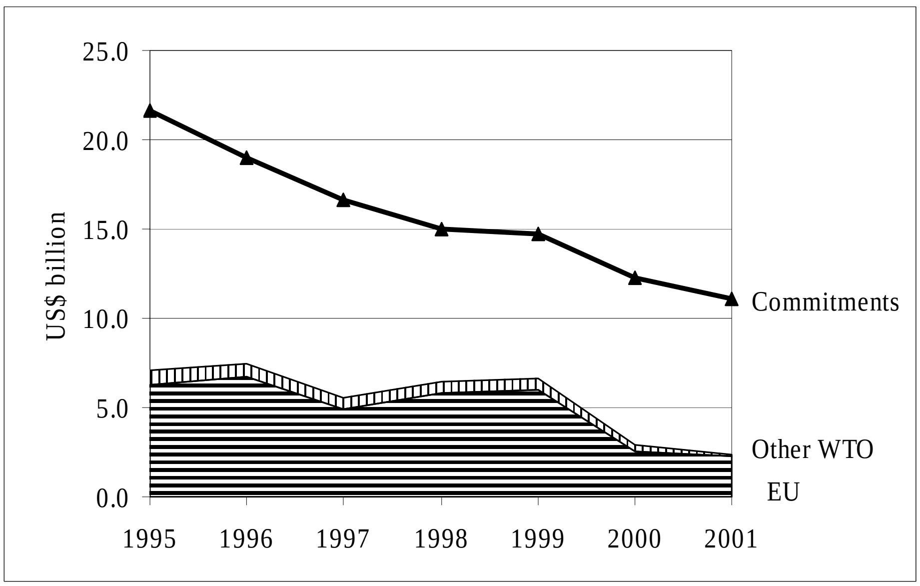


*) 1999 and 2000 notifications do not include Hungary, Mexico and Switzerland, 2000 notifications do not include Canada and Japan.

Note: Domestic support levels notified by the individual OECD countries, as well as their AMS commitments have been converted into US$ using current exchange rates for the years concerned.
Source: WTO notifications.

The commitments on export subsidization are generally considered to have been the most binding of all the new quantitative disciplines agreed in the UR. A look at the aggregate usage of export subsidy outlays as notified by all WTO Members, in comparison with aggregate commitments, does not appear to confirm this view (Graph 7). It is evident, though, that the EU had the lion's share in all notified export subsidies. And for the EU, the export subsidy commitments have indeed constrained the room for maneuver in several commodity sectors, as shown by the high degree to which quantity commitments were used for a number of products (Graph 8). On the other hand, there are also product sectors in the EU where the export subsidy commitments have been far less than fully utilized in recent years. Generally, use of export subsidies by the EU, and hence in the WTO overall, has declined noticeably in recent years. In addition to international market developments, reforms in the EU's Common Agricultural Policy have contributed to this decline. The WTO was a factor that contributed to these reforms (Moyer and Josling, 2002) and to policy changes in other countries, and in that sense the UR did have an effect on the actual development of agricultural policies.

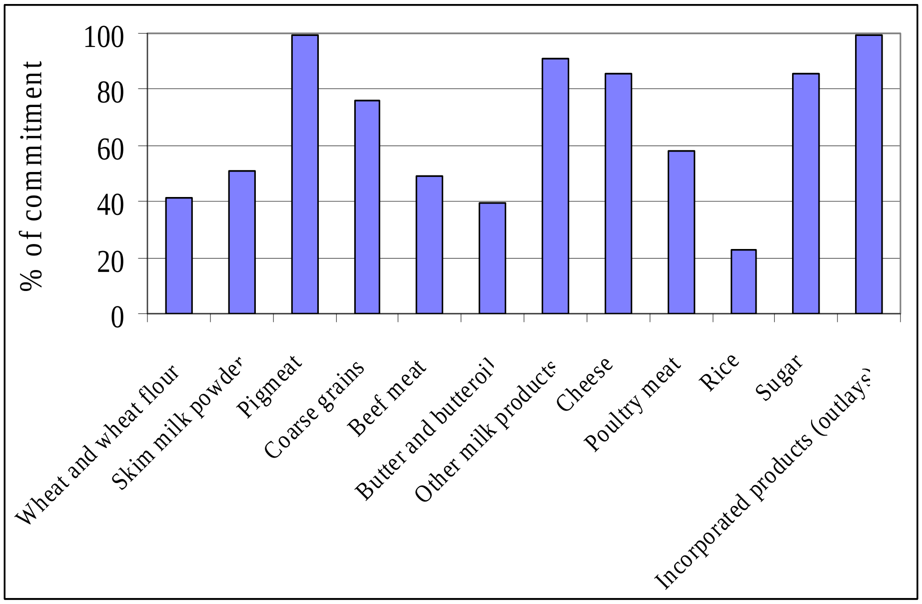
Graph 7:Outlays on Export Subsidies: Aggregate Commitments for All WTO Members



Note: 1999, 2000 and 2001 notifications do not include Cyprus and Venezuela, 2000 and 2001 notifications do not include Australia.
Source: WTO notifications.

Overall, many of the new quantitative commitments on agriculture that were agreed in the UR did not constrain policies, and this appears to be the primary reason why the AoA has not yet resulted in more significant changes in agricultural policies in the OECD area. The non-binding character of the new commitments may have been the price that had to be paid during the Uruguay Round for the acceptance of a wholly new legal framework in the WTO for agricul-

Graph 8: Export Subsidization by the EU: Utilization of Quantity Commitments, Average 2000-02, Selected Products



Source: WTO notifications of the EU.

tural trade and policies. But further progress on reduction commitments can be made in the current round of negotiations, and a few comments on that subject will be made in the following section.

While the many of the quantitative reduction commitments agreed in the UR obviously contained much water, it cannot be said that the rules embodied in the AoA exhibited many loopholes. It appears that overall they have worked reasonably well, although some issues did indeed become apparent. For example, the rules on domestic support make it possible to reduce notified support by changing commodity programs such that an administered price is eliminated without much effect on actual producer prices received. This possibility was used in some cases, and contributed to the decline in current total AMS shown in Graph 6. Also, certain issues regarding the interpretation of the rules on export subsidies have become apparent in dispute cases. Moreover, after overt export subsidies were subjected to disciplines in the AoA, an equivalent coverage of other forms of export competition has become an issue in the current round of negotiations. These issues regarding rules on export competition will be discussed in a later section.

Reduction Commitments: Focus on Border Measures and Output Payments given that existing quantitative commitments still contain substantial amounts of water, it is reassuring that there appears to be essentially universal acceptance in the current round of negotiations of the need to agree on further substantial reductions. Indeed, proposals tabled so far appear to suggest that cuts this time may eventually be deeper than in the UR, and that export subsidies and other forms of export competition may finally be eliminated. While negotiations have, for the time being, turned away from numerical reduction parameters and talks focus on the nature of a broader framework, growing attention is being paid to market access issues, in particular the formula for tariff cuts. This is a positive development in the sense that there is a great deal of merit in giving priority to the reduction of border measures in agriculture.

OECD research, and the policy conclusions drawn from it (agreed among all OECD member countries), suggest that price support provided to domestic producers, maintained behind border protection and export subsidies, is ineffective and inefficient in achieving the objectives of agricultural policies. Hence, from a purely domestic perspective, the reduction of border measures is a priority in agricultural policy reform. The same holds true for government payments per ton of output or per unit of input. It is easy to see why.[3]

The most important objectives pursued by governments in agriculture fall into either of two categories, support to farm income and correction of market failures. Regarding farm income, price and output support is unnecessary, inefficient and inequitable. It is unnecessary because there is not a general farm income problem in the OECD area. In many OECD countries, incomes of farm households are in line with, or above, incomes in the rest of the economy, and where incomes of farm households lag behind, the margin is not big. Price and output support is an inefficient means of supporting farm incomes because in a typical situation, one extra dollar transferred to agriculture through this form of support adds no more than 25 cents to the income of farm operators. The remaining 75 cents end up in the hands of landlords and in the input industry, or evaporate through extra resource costs (OECD, 2003b). The reason is that price and output support provides an incentive for farmers to expand output, and in order to do so farmers demand more land and intermediary inputs. At the same time, the extra production is achieved at costs that exceed the international value of the output generated. The net result is that no more than a quarter of the extra transfer to farmers from consumers and taxpayers, through price and output support, actually results in extra income for the farm operator and his or her family.

Finally, farm income policy through price and output support is inequitable as this support is distributed across farms in essentially the same way as production volume, rather than in accordance with needs. The largest farms receive the largest sums of support, and those are not typically the farms owned by the poorest farmers most in need of income support. The 25% largest farms in the EU receive 70% of all government support, and in the U.S. the 25% largest farms even get 90% of support (OECD, 2003b). The irony is that a policy arguably pursuing equity objectives has rather inequitable results.

As far as the correction of market failures is concerned, agricultural policies pursue objectives related to positive and negative externalities (e.g. the effects of agricultural production on biodiversity and the environment) and public goods (e.g. maintenance of a pleasing landscape or providing food security). However, price and output support is not really doing a good job when dealing with such market failures (OECD, 2003c). Negative externalities, such as those resulting from an expansion and intensification of agricultural production, are often actually made worse through such policies. Positive externalities and any public goods that agriculture can provide usually do not come in anything like a fixed proportion with agricultural output, and hence output raising policies such as price and output support often make little, if any, contribution to attaining such objectives, and are in most cases less efficient than payments made directly dependent on the delivery of such services. In only very specific and probably rare cases may the transaction costs involved in making such targeted payments be so high that output support is the preferable approach. In other words, border policies, implemented to provide price support, and output-related domestic payments rarely do a good job in pursuing objectives related to the multifunctional characteristics of agriculture.

What is the alternative to price and output support, in dealing with agricultural issues that cannot be left to the market? Decoupling support from production is a first, very useful step in improving the domestic functioning of agricultural policy. As far as farm incomes are concerned, decoupled payments have at least the advantage that their transfer efficiency is better. For example, compared with price or output support, payments based on historical entitlements can get double the amount across to farm operators per dollar spent by consumers and taxpayers. Targeting payments directly to the objectives pursued is another very helpful step, because in nearly all cases this is significantly more efficient than supporting farm prices and output.

Hence, for purely domestic reasons, it is promising to move from border measures and output-related payments to payments decoupled from production and targeted to specific objectives. In the context of international trade, a second big advantage of such policy reform is that distortions of production, markets and trade are reduced. This is why the reduction of border measures, i.e. tariffs and export subsidies in all forms, as well as the reduction of payments per unit of output or input, merits priority.

As far as the WTO categories of domestic support are concerned, policy reform in this direction also means moving support out of the amber (and possibly the blue) box and into the green box. In this context, concern is often voiced, in particular from the side of developing countries, regarding the phenomenon of “box shifting” (see, for example, Jank and Jales, 2003). It is certainly the case, as confirmed by OECD research, that any payment made to a farmer is likely to have some effect on production. In that sense, a policy change that moves support from the amber to the green box is unlikely to eliminate, in a strict quantitative sense, all production and market effects. But OECD research has also shown that the production impacts of strongly decoupled policies, such as payments based on historical entitlements, and not related to current prices, are orders of magnitude below those of typical amber box measures, such as administered market prices and output payments (OECD, 2001a). From that perspective, any "box shifting" of this nature is beneficial for international markets as well as for the domestic economy. Such policy reform should, therefore, be encouraged. At the same time, along with policy reform in this direction, support can also be reduced because, as argued above, decoupled and targeted payments are more effective regarding both farm incomes and dealing with market failures.

Rules: The Support Jungle

As far as refinement of the rules in the AoA is concerned, it appears that the spotlight is on those regarding export competition. How can rules be formulated that extend beyond overt export subsidies and establish equivalent disciplines for other policies with potentially similar effects, such as export credits, food aid and state trading enterprises? In addition, there is also the more fundamental issue of the definition of an export subsidy, or more specifically of what the relationship is between domestic support and export competition. This issue figured in the dispute on Canada's dairy policies, and from the media news on the as yet unavailable interim report of the panel dealing with US cotton policies, it appears that this issue played a role in that case, too.

Negotiators in the UR aimed at a comprehensive set of rules and agreed separate disciplines for the three areas of market access, domestic support and export competition. Given the mechanics of economic relationships, it was clear from the beginning that there are overlaps between these three areas. For example, a domestic administered price above the world market level (covered under the AoA rules on domestic support) can be sustained only behind tariff protection (covered under rules on market access). If this price support results in surplus supplies on the domestic market, exports can only take place with export subsidies (covered under the rules on export competition). In such cases, a given economic phenomenon, resulting in a trade distortion, is disciplined, in the AoA, by more than one rule. The advantage may well be that this creates multiple security.

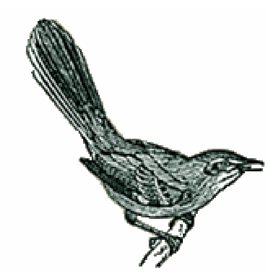
On the other hand, there are alternative policies with rather similar effects that the AoA covers in different parts of its rules, with the result that different reduction rates and degrees of stringency may apply. For example, a government payment per ton of output has the same effect on domestic supply (though not on domestic demand) as an equivalent level of price support. However, while in an exporting country with domestic price support the exported share of domestic production is subject to the (product-specific) commitments on export subsidies, an output payment, including that on exported output, is submerged into the sector-wide commitment on domestic support. It would be difficult to argue that this is equivalent treatment of alternative forms of policies with essentially the same effects.

In the same context, it is clear that a watertight distinction between domestic support and export support is difficult to strike in exporting countries. Essentially, export support is the tip of the iceberg of domestic support. What makes a policy have an effect on exports is the incentive it provides, at the margin, to domestic producers (and/or any disincentive to domestic consumers). The implication for rule design is obvious: The tighter the disciplines are on domestic support, and in particular on domestic support for exported output, the less there is a need to rely on rules regarding export competition. In principle, appropriate disciplines on domestic support could substitute for export competition disciplines.

The same logic can also be extended to the relative effects of alternative forms of export competition. What counts here is the extra amount of output that is shipped abroad, over and above of what would be the case in the absence of the policy measure concerned.[4] In the final analysis, this depends on any extra incentives to produce that domestic farmers receive as a result of the policy measure concerned. Even though the measure is implemented at the point of export (as opposed to a payment to domestic farmers), any incentive to domestic producers, and hence any additional exports, can only originate from an increase in the price these producers receive. In other words, a policy that does no more than make it easier for the importing country to buy the produce concerned, without raising the producer price in the exporting country, will not result in an expansion of exports from the country pursuing that policy.[5] From this perspective, too, it can be said that a tight discipline on domestic support (the "iceberg") might well capture the export competition phenomenon (the "tip of the iceberg"). Hence, sufficiently stringent and demanding rules on domestic support could well bring about equivalent discipline for all forms of export competition, without the need for specific provision regarding the individual export competition measures. Moreover, the link with tariffs, emphasized above, is relevant here too. In the absence of tariffs, domestic market prices cannot be lifted up by any policies. This adds further weight to the priority focus on market access.

Conclusions

The AoA concluded in the UR was a big step forward. Almost half a century after the formation of the GATT, it brought to an end the era in which agriculture had escaped most international disciplines. The price paid for this leap forward was a relatively generous set of quantitative reduction commitments that have often not yet



The **mockingbird** is the state bird of Tennessee.

constrained actual policies. In spite of this generosity, the existence of the new rules and commitments has already triggered some important policy reforms. And more reforms will follow if further reductions are agreed in the current round of negotiations.

In this round, agriculture is again one of the most difficult items on the negotiating agenda. Does that say the Uruguay Round has failed on agriculture? Quite the contrary. The AoA has laid the foundations that allow negotiators in this round to focus on the rates of reduction to be agreed. In the UR, agriculture was difficult because it was not clear how the rules should be formulated. In the DDA round, agriculture is difficult because the serious reduction business is about to begin. In that sense it can also be read as a reassuring sign that agriculture is generally considered to be one of the most challenging elements of the DDA negotiations: governments are aware of the fact that only a big step forward towards reducing protection and trade distorting support will be considered sufficient progress, and they are concerned about the political implications.

At the same time, the current difficulties should not cloud the historical perspective: the process of reform has much advanced. Anyone who in the mid-1980s, in the run-up to the UR, would have predicted that 20 years into the future the issue would not be whether there should be any effective disciplines on agriculture, but whether tariffs, all meanwhile bound, should be reduced according to the Swiss formula or by a flat rate of possibly 36%, or by some combination of these and other elements, would most certainly have been considered a naïve optimist.

It is appropriate that focus on the negotiations has now turned to market access. Price support behind border protection and export subsidies, as well as other forms of directly output-related support, are neither effective nor efficient in reaching the objectives of agricultural policies. It is in the domestic interest of countries in the OECD area to reform these policies, and to move in the direction of decoupled and targeted payments, while at the same time achieving their policy objectives in agriculture with lower levels of support. It is good to know that such policy reforms, in the best domestic interest, also have the double benefit of greatly reducing distortions of production, markets and trade. Agricultural policy reform, therefore, has the potential of generating a win-win situation in the DDA negotiations: national policies become more effective, and in the WTO they allow to make progress, both in agriculture and in other sectors.

As far as WTO rules on agriculture are concerned, the situation is not static, either. An extension of rules on export competition is being considered, to create equivalence between disciplines for export subsidies and those for export credits, food aid and exporting state trading enterprises. At the same time, some findings in recent dispute cases have thrown new light on the relationships

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"The mockingbird is known for fighting for the protection of his home – falling, if need be, in its defense. Mockingbirds are not intimidated by animals larger than themselves and have been known to attack eagles"
– Diana Wells, *100 Birds and How They Got Their Names* (Chapel Hill, NC: Algonquin, 2002)

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between domestic support and export competition. Conceptual thinking may be required on how the various support policies affect markets, and how these market effects can be disciplined in an equivalent way.

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[1] This paper is essentially identical to a paper to be presented to a conference on "Developing Countries in the Doha Round: Agricultural Trade, Services Trade and Member-driven Governance of the WTO", convened by the Robert Schuman Centre for Advanced Studies at the European University Institute, Florence, Italy, 2-3 July 2004. Helpful comments on an earlier draft from Carmel Cahill and Dimitris Diakosavvas are gratefully acknowledged. The views expressed are those of the author and do not necessarily reflect those of the OECD and its member countries.

[2] Out of the 30 member countries of the OECD, fifteen are member states of the Euroipean Union. In measuring agricultural support, the EU is treated as one aggregate, because all EU countries are covered by the Common Agricultural Policy.

[3] The following paragraphs provide a brief overview of some of the major points made in the report on "Agricultural Policies in OECD Countries: A Positive Reform Agenda" (OECD, 2002c). That report also provides quantitative information that underpins the arguments advanced here, and makes reference to other OECD reports dealing with these issues in more detail.

[4] In addition, there are also issues such as market displacement, which are not discussed here.

[5] As a matter of fact, this policy may allow the importing country to import more than it might otherwise have done, thereby raising global import demand. This would allow all exporters to ship more, including the exporting country pursuing the policy concerned.

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