Agriculture in the Doha Agenda

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Abstract

Messerlin looks at the OECD domestic political economy associated with ongoing WTO farm negotiations, focusing on the OECD-based coalitions which could be helpful for WTO negotiators. Support from individual final consumers and taxpayers is far from guaranteed because consumers are spending less and less on food, and because taxpayers support, more or less willingly, nontrade concerns, such as environment or food safety, that they tend (wrongly) to associate with domestic farmers. As a result, trade negotiators should look at other allies. A natural candidate is a powerful group of consumers—the agribusiness industries—for which a reduction of the still high protection of their products under the Doha Round requires a corresponding reduction of protection in their farm inputs. They should also talk to farmers, hence sharpen their arguments, in particular by focusing on the distinction between small and large farmers, the latter being by far the main beneficiaries of the current OECD farm protectionist policies.

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AGRICULTURE IN THE DOHA AGENDA

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INTRODUCTION

WTO negotiations in agriculture have embarked on a wild roller-coaster. In accordance with Article 20 of the Uruguay Agreement on Agriculture (URAA), they resumed in March 2000–only four months after the Seattle Ministerial debacle, hence sending quite unexpectedly a clear signal that the WTO had survived its first crisis. From March 2000 to March 2001, 45 proposals from 106 countries were tabled on the wide range of subjects for negotiations in seven meetings [for details see www.wto.org, 8 April 2002]. This first phase led to the two paragraphs of the Doha Ministerial Declaration on agriculture which constitute a good basis for future negotiations because it covers all the forms of protection—from tariffs to subsidies of all kinds (see Annex A).

But then, things quickly deteriorated. The EC insistence on including terms such as "without prejudging the outcome of negotiations" or "with a view to" in the Doha Ministerial Declaration was perceived by many observers as key reservations, or as a bad omen, about the European willingness to negotiate. Six months after Doha, the U.S. adopted a new Farm Bill (hereafter, the 2002 Farm Bill) which is widely perceived as a big step backward. Two months later, the strong French opposition to the European Commission's proposal for reforming the EC Common Agricultural Policy (CAP) came as a blow to the raising hopes for negotiations in 2000-2001. But, once again, the farm roller-coaster bounced in late July, with the U.S. tabling relatively bold proposals about the reduction or elimination of a wide range of instruments of protection (for details see section 2).

The paper aims at underlining key points for future action and research in the Doha negotiations context, with a focus on OECD countries—because they are the main trouble-makers and also because of a lack of comparable data for developing countries (a key point for future research and action). Section 1 looks at what happened to the URAA–to which extent and why it failed to achieve its objectives. Section 2 describes the driving forces behind current protection in agriculture. Section 3 investigates the contours of an environment favorable to coalitions supporting WTO negotiations.

SECTION 1. THE URAA FAILURE

The URAA did not deliver the liberalization dynamics it was supposed to generate. It may even have put the Doha negotiators in a situation worse than the one faced by the Uruguay negotiators a decade ago. This is because today, many farmers and a noticeable share of the public opinion in protectionist OECD countries are convinced that agriculture was liberalized by the Uruguay Round, and that this liberalization has been the cause of all their difficulties since 1995. This belief is wrong. As shown below, there has been no liberalization since 1995, and current farmers' difficulties are mostly self-inflicted by existing domestic farm policies. In other words, Doha negotiators will try to launch a liberalization, whereas many people believe that there has already been a welfare-deteriorating liberalization–the worst situation possible from a political perspective.

1. Total support to agriculture since 1995: almost unchanged

It is easy today to blame the URAA failure, but the URAA approach was initially very appealing (for a thorough analysis of the URAA, see Tangermann 2001). In 1995, the Uruguay negotiators (as most trade observers) were perfectly aware that the URAA-based liberalization would be minor. They were the first to witness, during the last months of the Uruguay negotiations, WTO members deliberately overestimating the level of farm protection for the reference period (1986-88) in order to end up with an almost unchanged level of protection at the end (2001) of the transition period of the URAA [for instance see OECD, 2001]. But, the Uruguay negotiators were convinced that the transparency introduced by the new instruments of protection (the "tariffication" process) would reveal to the public opinion the astronomical level of farm protection in most OECD countries. And they were convinced that this information would be enough to change the balance between vested and pro-free trade interests, hence allowing the Doha negotiators to finally start serious talks on liberalization. To their surprise, and to the surprise of almost all observers, the magic of transparency did not work.

The first reason is that, during the last weeks of the Uruguay negotiations, WTO members did work hard to undermine the transparency that they previously decided to include into the URAA. They used massively specific tariffs (for instance, one third of the EC and U.S. farm tariffs are specific or have a specific component) which are much less transparent than ad valorem tariffs, and which have an increasing protectionist impact when world prices decline (a frequent situation since 1997). When possible, they kept using old mechanisms (such as variable levies) within the limits of the new Uruguay tariff regime. They subjected tariff-quotas (introduced by the Uruguay negotiators in order to ensure a minimum opening of farm markets) to opaque legal procedures which have systematically kept quota fill rates at a low level. They played with the concept of "unused" subsidies, and with forward mechanisms for loosening, as much as possible, disciplines on export subsidies, etc.

But, there has been more than this "dirty" tariffication in the last weeks of negotiations. As shown by Table 1, the share of total support[2]/ to agriculture in GDP has substantially decreased during the late 1990s, compared to 1986-88 (the period which has been adopted by the URAA as the reference period because it witnessed the highest level of farm support). However, this decline is not the sign of a successful URAA. Rather, it largely echoes a similar decrease of the share of farm gross value added in GDP during the same period. As a result, the share of total support to agriculture in farm gross value added has only slightly declined in the whole OECD region–from 75.9 to 61.9 percent. More importantly, it remains at an amazingly

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[2]/"Total support" gives a measure of the annual monetary value of all gross transfers from taxpayers and consumers arising from policy measures which support agriculture, net of the associated budgetary receipts, regardless of their objectives and impact on farm production and outcome. It is the widest indicator of farm support calculated by the OECD Secretariat. As a result, it includes expenses related to certain non-trade concerns (research and development, food safety and quality).

high level since it still accounts for almost two-thirds of the farm gross value added. As a result, as shown by Diakosavvas [2001], the URAA has had very modest quantitative effects on OECD farm trade flows.

This limited decline has two exceptions. First, OECD countries which can be qualified as "free traders" in farm issues (Australia and New Zealand) support their agriculture much less today than they did during the reference period. In New Zealand, the dramatic fall (by 4/5) of the total support share in farm gross value added has led to a growing farm share in GDP–justifying the title, "There is a life after subsidies," of a booklet describing the New Zealand experience of farm liberalization. In Australia, the more limited fall (by 1/3) of total support in farm value added has been accompanied by a substantially smaller decline of the farm share in Australian GDP than the decline observed in the protectionist OECD countries.

The second exception, in the opposite direction, is the sharp increase of the total support share in farm value added in mostly new and low income OECD members–Hungary, Poland, Mexico and Turkey, with Hungary even reaching the EC level. It suggests the existence of dynamic forces which could systematically work against freer trade in agriculture: as soon as a country becomes industrial and rich enough, it heavily protects its farm sector. If confirmed, this evolution in emerging economies (noted a long time ago by Anderson [1994]) will be a crucial parameter to be taken into account in the Doha Round and in future WTO Rounds.

Table 1 provides two crucial lessons for coalition building. First is that meaningful WTO negotiations require comparable data. Focusing on tariffs or other border barriers makes no sense because a large portion of protection granted by OECD is channeled through subsidies. Ignoring that developing countries are often heavily taxing their farmers would compound the errors. Doha negotiations thus urgently require for developing countries the same data on public support that is already available for the OECD countries (on which most of the Tables used in this paper are based).[3]/

Table 1 also shows two forces of opposite directions at work in the protectionist and "middle-of-the-road" OECD countries. On the one hand, the share of agricultural labor in the total labor force is strongly declining. One should expect this evolution to be favorable to farm liberalization because it implies a decreasing political leverage of increasingly fewer farmers (see section 3 for details). On the other hand, Table 1 also shows that the food share in consumers' total expenses is substantially decreasing. This evolution implies that consumers have increasingly less powerful incentives to oppose costly protection on agricultural imports.

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[3]/One can crudely illustrate the importance of this research with the following example. If one takes the Mexico of the 1986-88 as a proxy for the average developing country of the early 2000s, the share of total support in farm value-added of a typical developing country would be eight times smaller than the current average OECD share (8.5 percent vs. 61.9 percent), and its PSE-based NPC (see the definition below) would be even negative (compared to 35 percent for OECD average).

In sum, there is no strong reason to believe that the net political balance on farm issues between producers on the one hand, and consumers on the other hand has changed much in OECD countries. One could even argue that the net balance may shift in favor of farmers to the extent that total support includes expenses for non-trade concerns (food safety, environment) that are increasingly highly valued by some people in rich countries, or that many tax-payers do not dare to oppose. In other words, trade negotiators should not count too much on final consumers and taxpayers–the natural supporters of liberalization. They should look for other allies and arguments, as suggested in section 3.

2. The level and structure of farm protection in selected OECD countries

The URAA did not intend to reduce total support to agriculture, but international distortions in farm outputs and trade flows. In this context, concepts narrower than total support–namely the producer support and the consumer support–are better indicators of the URAA failure.[4]/ Table 2 gives for selected OECD countries the producer support estimates (PSEs) and the consumer support estimates (CSEs) under the form of average nominal protection coefficients (NPCs). As PSE-based NPCs and CSE-based NPCs measure the wedge between domestic and world prices in percent of the world prices, they have the great advantage that they can be read in the same way as ad valorem tariff rates. For instance, the PSE-based NPC and the CSE-based NPC for Korea for 1999-2001 are equivalent to ad valorem tariff rates of 181 and 166 percent, respectively.[5]

Table 2 confirms how little things have changed since the URAA. PSE-based NPCs and CSE-based NPCs have declined in most OECD countries (with the exception of Mexico, Poland and Turkey for which they have increased) but they clearly remain at a prohibitive level in the case of all the "protectionist" OECD countries (Hungary and the Czech Republic will join the club if the current EC farm policy is not reformed) and in some "middle-of-the-road" countries. In sum, the URAA may have eliminated "redundant" protection, but it did not start to really constrain protection.

Table 2 provides two more crucial pieces of information for the Doha negotiations. First is the decline of the PSEs (now expressed in thousands of U.S. dollars, instead of percentages of the world prices as above) per farmers. It shows that the average producer support per farmer has increased considerably in almost every

[4]/The producer support measures all the gross transfers from consumers and taxpayers to support domestic farmers, measured at the farm gate level. The consumer support measures all the gross transfers from (to) domestic consumers of farm products, measured at the first consumer level. Total support is the sum of the producer support, the general services support and the transfers from taxpayers to consumers (which is one of the four components of the consumer support).

[5]/There are two tariff estimates because PSEs and CSEs do not take into account the same domestic prices. PSE-based NPCs measure the ratio between the average price received by farmers (at farm gate level), including payments based on output, and the border price (at farm gate level), whereas CSE-based NPCs measure the ratio between the average price paid by consumers and the border price (both at farm gate level).

OECD country–except once again in the two free traders Australia and New Zealand (and in Switzerland because it started at an incredibly high level in this country).[6]/ For instance, the EC average producer support per farmer has increased by 50 percent since the URAA reference period–reaching a level equivalent to the French legal minimum wage. In sum, the remaining farmers in OECD countries are subsidized at an increasingly amazingly high level—because their number is decreasing more rapidly than the level of support granted to them. Newspapers and public debates largely ignore this crucial evolution which could trigger second thoughts among taxpayers willing or accepting to pay more on farm issues.

The second key piece of information from Table 2 is that the still high level of "traditional" (tariffs and subsidies) farm protection has not prevented the intensive use of the "new" instruments of protection introduced by the URAA. Special safeguard measures (be they volume- or price-based) allowed by the URAA have been used quite frequently, and the fill rates of the tariff-quotas introduced by the URAA in order to get a minimal opening of the farm markets are often low (and declining). Table 2 suggests a correlation–the more protectionist a country is, the more frequently it is using safeguards–which is very similar to what can be observed for developing countries between remaining tariff protection and the use of antidumping measures in manufacturing.

In sum, Doha negotiators are facing the worst combination of two worlds. The old protection (measured by the PSE- or CSE-based NPCs) is still there, the new instruments of protection are already used intensively, the first opening of the markets by tariff-quotas has been minimized, and last but not least, the average support per farmer has increased since 1995. Meanwhile, farmers and public opinion in most OECD countries have been convinced–first by the trade officials' speeches in the immediate Marrakesh aftermath, then by the anti-globalization leaders' speeches–that the URAA liberalized agriculture. As a result, they are convinced that any negative evolution in agriculture (from price decreases to food safety issues) is associated to liberalization, instead of entrenched protection.[7]/

SECTION 2. DRIVING FORCES BEHIND FARM PROTECTION IN THE 2000S

The forces behind current farm protection are driven by key incentives, and they use instruments to satisfy these motives. Modifying motives is unlikely in the short run (i.e., during the Doha negotiations) so

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[6]/In order to take into account the fact that many people in the farm business are working on a part-time basis, the number of farmers is expressed in "full time farmer equivalents." Producer supports per farmer should not be compared between countries because they reflect countries' farm pattern (size, geography, etc.) and the pattern of the farm goods produced (however, OECD countries are characterized by a relatively stable product composition over the examined period).

[7]/Interestingly, there are efforts by some farmers' leaders to provide a more accurate picture of the reality. For instance, a study by Chambre Ŕ gionale d'Agriculture de Normandie [2001] clearly shows that until late 2000, the Uruguay Round has had no impact on Norman farmers.

that shifting instruments remains probably the only doable objective. However, it is useful to have a sense of the motives, if only because they are often used for justifying trade barriers in the public opinion.

Looking at both motives and instruments suggests two important lessons. First, negotiators should resist the temptation to liberalize the least protected farm goods under the Doha Round, and to leave the most protected products for future Rounds. Such an "early harvest" approach would magnify distortions in domestic and world output and trade, while keeping intact the main source of the costs of protection. Second, trade negotiators and governments have one robust argument for selling reforms to farmers–a key point since consumers' and taxpayers' support to freer trade is not guaranteed. It is that the current instruments of protection are highly inefficient: only 25 to 30 percent of public transfers to farmers ends up in farm incomes–the rest are dissipated into higher prices of land and other inputs, and into pure waste of resources.

For obvious reasons, this section focuses on the two "elephants"–the U.S. and the EC. In fact, a better expression would be the two "dinosaurs." It will capture the fact that both countries still rely on farm policies largely designed in the 1930s (to the extent that the EC farm policy is derived from the French farm policy). The section concludes by examining the recent moves of the two dinosaurs in domestic and WTO farm matters.

1. Motives for support: the trap of the "early harvest" approach

Table 3 lists the various motives behind current farm protection for four key products (grains and oilseeds, milk and sugar) in the U.S. and EC, as perceived by outside observers [Abare, 2001]. Motives are defined in terms of the existing situation and of policy direction. The four major motives listed can be ranked by decreasing potential in terms of supporting protection: from a high protectionist potential (maintain current farm life style) to medium-high (preferential access granted to certain trading partners, such as Central European countries for the EC) to medium-low (environment) to potentially pro-free trade mercantilism à la GATT (expand market access abroad). Grades of 1, 2 and 3 have been given to each motive for reflecting their estimated importance (with simple averages calculated by product).

Despite its crudeness, Table 3 suggests several interesting lessons. In grains and oilseeds, the situation in the U.S. and in the EC differ only for the fourth motive (potentially pro-free trade mercantilism) which is stronger in the U.S. than in the EC. Concerning policy direction, the U.S. looks more stable than the EC. The latter is perceived under the two increasing influences to provide preferential access and to link support to the environment–both are easy preys for protectionist forces–and are under the decreasing desire to expand market access abroad. In milk and sugar, there is no difference between the existing situation and the policy direction in the two countries, except for a rise of environmental concerns in the U.S.

Table 3 suggests noticeable differences between the two groups of products in terms of potential liberalization. Grains and oilseeds seem "easier" to liberalize than milk and sugar. This observation is important for the design of negotiations. It suggests that there is no such thing as "agriculture," but that there are "agricultures" with some agricultural sectors potentially more easily liberalized than others. Well known for industrial activities, such an observation is rarely applied to agriculture. In fact, farmers and public opinion tend to conceive agriculture as one activity which will be liberalized (or not) across-the-board.

Table 4 documents this point in more detail by ranking PSE-based NPCs by increasing value in order to define the "hard core" of farm protection.[8]/ This ranking provides two lessons. First, increases of PSE-based NPCs during the last fifteen years have been the largest for certain farm products which were not subjected to a high level of protection in the mid-1980s. In other words, protection declined or was stable for some of the most protected products in the mid-1980s (while remaining prohibitive), whereas it has increased for the other farm products which are thus progressively "contaminated" by highly protectionist trade policies (as illustrated by olive oil or fruits and vegetables in the EC case). There are thus dynamic forces aiming to narrow the protection gap between the most and least protected "agricultures."

Second, the observed gaps of PSE-based NPCs among farm products remain substantial enough to define a "hard core" of highly protected farm products which will be particularly difficult to liberalize under the auspices of the Doha Round.[9]/ Taking the PSE-based NPCs for all the farm products as the borderline between the farm products relatively easy to liberalize and those relatively difficult to liberalize suggests that the "hard core" protected farm products are milk, sugar, rice, and beef. In all these products, developing countries have comparative advantages, underlying how much OECD protection is harmful to developing countries. (OECD data do not properly cover fruits and vegetables and cotton for which OECD protection can be also very high, and in which comparative advantages of developing countries are substantial.)

The existence of agricultures with such different levels of protection may induce trade negotiators to liberalize the least protected farm products under the Doha Round, leaving the liberalization of the hard core of farm protection for future WTO Rounds. Such an "early harvest" approach would be very costly because it will keep intact the highest trade barriers which are the main source of the domestic costs of protection. For instance, the costs of protection for European consumers amount to 15 billion of euros in five highly protected farm sectors, compared to 23 billions of euros in fourteen highly protected industrial sectors [Messerlin 2001]. But, an early harvest will also be a trap for farmers. As it will magnify the differences between the least and most protected products, all the farmers will be induced to grow the most protected crops and animals–amplifying the distortions in domestic and world production and trade, and making any future adjustment even more costly for them.

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[8]/Some NPCs are very high (several hundreds of percent) because domestic and world prices may react very strongly, making computations difficult and unstable. But it remains that such high NPCs reflect huge trade barriers (for instance, trade bans related to the "mad cow" disease in Europe).

[9]/Hard core products may be observed in all OECD countries, or only in certain OECD members (as shown in Table 4 by the variances of PSE-based NPCs by product). A high variance among PSE-based NPCs for a hard core product would suggest more complex deals, with the most protected OECD countries balancing trade concessions in these products with those available in industrial goods or services.

By contrast, trade negotiations aiming at favoring as much as possible an "uniform farm tariff" policy (the same tariffs on all farm products) would allow a welfare-enhancing reallocation of farm resources. It would begin to reveal the comparative advantages of each OECD country in farm production, and of course, it would do the same for developing countries (see the related discussion on the Development Box, in section 3). The trade-off that trade negotiators will achieve between an uniform protection policy (economically the best) and an "early harvest" approach (politically the easiest) will be the most critical issue of the Doha Round. It has already surfaced in the differences between the proposals for liberalization tabled by the U.S. (leaning towards uniform policy approach) and suggested by the EC (leaning towards an early harvest approach), as discussed below. And this issue will be exacerbated by the food safety dimension which is much more difficult for certain farm products (meat) than for others (sugar).

2. The current instruments of protection: their very low "transfer efficiency"

Table 3 also presents the major instruments for protection which are grouped in three categories (border instruments, non-border price-based instruments, non-border quantity-based instruments). Grades of 1 (low) to 3 (high) have been given to each instrument in order to reflect their importance. Table 3 shows a wide difference between the U.S. and the EC in grains and oilseeds, but a close similarity in milk and sugar (the 2002 Farm Bill has reinforced similarities and narrowed dissimilarities, see below). It also suggests that deep changes in the pattern of instruments used are unlikely in the coming decade, except in export subsidies.

Tables 5 and 6 try to go further. Table 5 breaks down total support into its components: producer support (PSE), support granted to agriculture in general (GSSE), and consumer support (CSE, which is marginal, except in the U.S. and Mexico). It shows few changes in these three sources of support since the Uruguay Round, except again in pro free-trade OECD countries and in Canada. In all the protectionist countries, the PSE share in total support in agriculture is higher than 80 percent and stable. The evolution is less clear for the rest of the OECD countries with, at the two ends of the spectrum, Mexico and New Zealand. Support granted to agriculture in general gives some indications about the real danger of "non-trade concerns" being used as substitutes to straight protection in the protectionist countries. Its stability in the protectionist and middle-of-the-road countries may be a good omen in this respect, though its evolution in the Czech Republic, Hungary, and Turkey is an additional source of worries for these "new" protectionist countries.

Table 6 goes one step further by decomposing PSEs in the four major instruments concretely used for transferring public support to farmers. It shows that only Canada and Australia have taken the Uruguay Round spirit of "decoupling" support from production seriously, with a noticeable use of payments to farmers directly based on overall farm income. Market price support remains, by far, the dominant instrument used by protectionist OECD countries–with some exceptions, such as in the EC where subsidies on acreage and headage represent one-fourth of PSE.

All these observations lead to an important argument that negotiators and governments could use for convincing farmers of the necessity of reforms–a crucial point since, as mentioned above, consumers and taxpayers support for freer trade is not guaranteed. The argument is that ultimately, farmers get only a small portion of all the money poured into agriculture–in other words, the "transfer efficiency" of the existing public support to agriculture is low and a large share of these transfers are ending up in unintended pockets–landowners, suppliers of other farm inputs–and in pure waste.

Recent estimates of transfer efficiency for each of the four PSE components listed in Table 6 show substantial variations among the four components [OECD, 2002]. Area payments would be the least inefficient kind of transfer since they would translate into net farm income for one-half of their amount if–a big if–one ignores its long term impact on land prices and rents. Other instruments have a much lower transfer efficiency–from one-fourth for market price support and payments based on output to one-fifth for input subsidies. Table 6 applies these estimates to the main components of PSE. It leads to the conclusion that only 25 to 30 percent of producer support ends up in farm incomes.

That only 25-30 cents of one dollar of support really goes to farm income (once again, the rest of transfers to farmers being dissipated in higher land prices or rents, higher prices of inputs, and pure waste of resources) is a powerful argument in the context of the Doha negotiations. Underlining the inefficiency of the existing transfer regimes from the farmers' point of view seems to fit much better the current political economy of protection in most OECD countries which may be characterized by a lack of will from consumers to oppose farm policies, by a wide public support to domestic farmers as producers of environment and healthy food, and by an increasing divide between large and small farmers (the latter being more interested in an improved transfer efficiency, see section 3).

3. The recent moves of the "two dinosaurs"

Between May and July 2002, the two "dinosaurs" have taken several important domestic and trade initiatives: the new U.S. Farm Bill adopted in May 2002, the European Commission's proposals on further reforms of the Common Agricultural Policy (CAP) within the framework of the Mid-Term Review announced in June 2002, the U.S. proposals for farm liberalization, and the EC request for re-negotiating tariffs on wheat under GATT Article XXVIII, both tabled in the WTO in July 2002. As these initiatives have taken opposite directions, they have generated a debate on whether they reflect profound changes in the usual relative positions of the two dinosaurs, particularly whether the U.S. is still more supportive of freer-trade than the EC.

What follows argues that the EC remains the most worrisome source of difficulties for farm liberalization in the coming years, despite the adoption of the new U.S. Farm Bill (officially the "Farm Security and Rural Investment Bill," a title evoking self-sufficiency and multifunctionality which are the two most powerful motives for protection because they are widely accepted by the public opinion). This view relies on arguments strictly related to the U.S.-EC recent moves, and on arguments linked to EC enlargement.

The U.S.-EC relative moves in Summer 2002

The first reason suggesting the EC as still the key obstacle for farm liberalization is that it almost completely lacks farm export lobbies. Relatively efficient British or French farmers do not seem to realize that the current CAP favors inefficient farmers at the detriment to all efficient farmers, being from outside the EC or from the EC itself. In other words, they do not seem to realize that the substantial but limited decrease of EC protection that the Doha Round could deliver will provide benefits to them as well as to the efficient farmers from the rest of the world.

By contrast, export lobbies exist in the U.S., and they did provide the necessary support to the U.S. proposals on farm liberalization in the Doha Round. These proposals need a lot of clarification which will be at the heart of the coming negotiations, particularly on the subsidies to be banned (what would be the new scope of the amber-blue box, the new de minimis rules, the new rules on the remaining export subsidies or associated practices?) and on the tariff-quotas (what would be the new allocation rules, the base year?). But the U.S. proposals have the great advantage of avoiding the above-mentioned dangers of an early harvest approach [see www.ustr.gov, 27 July 2002].[10]/ They focus on tariff peaks by using the "Swiss" formula with a 25 percent maximum tariff, they expand all tariff-quotas by 20 percent (with the elimination of all in-quota duties), and they favor a more uniform level of non-border protection by merging the blue and amber boxes, and by capping these subsidies to 5 percent of the total value of farm production.

It remains that U.S. export farm lobbies have had a relatively passive attitude vis-a-vis the 2002 Farm Bill. How to reconcile this passivity with their support to the U.S. proposals in the Doha Round? A first reason is institutional. Traditionally, Congress has had a strong leadership in Farm Bills, and all the subtle differences between the House and the Senate (small versus large farms, South and West versus Mid-westerners) provide many opportunities for small, but well-organized, vested farm interests. By contrast, the President can take initiatives in trade issues, conditional to Congress' final say. Another key reason for the U.S. export farm lobbies passivity may be that the 2002 Farm Bill does not change significantly the magnitude of U.S. support to farmers for the crops already subsidized by the 1996 Farm Bill (everything else remaining constant). In fact, what the new Bill does in the short run is mostly to transform the subsidies

[10]/Another positive feature of the U.S. proposals is to be not too extreme (contrary to what happened during the Uruguay Round). The last decade has made clear that it would be naive to believe that the Doha Round will completely eliminate all the export subsidies and other trade barriers (some export subsidies and tariffs will remain as in manufacturing, and some key "non-trade concerns" are likely to be shared by all WTO members). The EC insistence on including the terms "without prejudging the outcome of negotiations" and "with a view to" in the Doha Ministerial Text was mostly an effort to cope with the widely disseminated perception in Europe that the rest of the world is pushing for a full and rapid liberalization in agriculture. Of course, this perception is wrong, but it is carefully fuelled by European anti-globalization leaders in order to create panic among farmers.

granted ex post under the previous 1996 Farm Bill into ex ante subsidies.[11] In the medium run, the Bill does more, largely because it increases the coverage of the farm products benefiting from support.

In the long run, the potentially depressing impact of the 2002 Farm Bill on world farm prices will depend, among other factors, on the capacity of the Bill to reduce the U.S. ability to quickly reverse to a less protectionist farm trade policy (if the Doha Round makes progress), and from its contagion effect to other WTO members. The answers to these questions largely depend on timing.

Take first the U.S. ability to reverse to a more open farm policy. Commitments on dismantling farm trade barriers on which the U.S. could agree by 2003-05 under the Doha Round would be implemented in 2006-08 at the earliest–that is, under the auspices of the 2008 Farm Bill (the 2002 Bill will last six years, although financial appropriations are established on a ten-year basis). In other words, the 2002 Farm Bill does *not directly constrain* the U.S. negotiating freedom. But, it will make delays in the Doha Round negotiations on agriculture very costly because such delays may strongly induce to perpetuate the 2002 Farm Bill, worsening substantially its long run impact (and the fact that the U.S. has rapidly tabled its liberalization proposal may aim at reducing the risks of such delays).

Second, the assertion that the 2002 Farm Bill could have only a negative impact on the farm policies of other WTO members–particularly on the EC–is debatable. First, the current situation does not differ so much from the one prevailing in 1992-94 where the U.S. was able to play the role of a pivotal deal-maker between protectionists and free-traders, at a time where its farm policy was as protectionist as it will be under the 2002 Farm Bill. Of course, the 2002 Bill weakens the Europeans who counted on the U.S. lead for liberalization (all the more because the Bill is adopted in the year of the EC Mid-Term Review).

But one could also argue that the Bill may help European supporters of the CAP reform by showing that such a reform is not done for pleasing the U.S., but for the sake of European welfare. This view is supported by the fact that the European Commission has not delayed its proposals for the Mid-Term Review of the decisions of the 1999 Berlin Council, and that these proposals include a very important step towards a fully decoupled support (based on the whole sector, rather than on specific commodities) which makes the new EC policy closer to the U.S. 1996 Farm Bill.

Of course, certain Commission's proposals are very modest–such as the unchanged ceiling on EC total support to agriculture which implies that the support per farmer will continue to increase in Europe (by

[11]/Under the previous 1996 Farm Bill, U.S. support for major crops has tended to increase more rapidly than EC support when world prices were declining (but also to fall more markedly when world prices were rising). As a result, U.S. support has reached the EC level at times of low world prices, whereas it has been well below the EC level at times of high prices. In other words, since 1998, U.S. farmers could reasonably expect–with more and more confidence as years passed–that their desired amount of subsidies will always be granted ex post to them. The decoupled status of the U.S. farm policy under the 1996 Bill was increasingly questionable. According to most estimates, the new Bill should not prevent the U.S. to fulfill its Uruguay commitments, except possibly on its AMS ceiling under specific conditions.

an additional 10 percent in 2006, compared to 2001, everything else being constant). This modesty may have been adopted with the hope to minimize initial conflicts with some member-states on the scope of the Mid-Term Review. In this case, it is a failure: it did not inhibit France to say an initial flat no, once more in complete contradiction with her agricultural interests (the envisaged reform would be very beneficial for most French farmers). But this modesty may have another cause. Most of the topics on which the Commission's proposals are modest will be negotiated in the Doha Round–and, to this extent, the modesty of the Commission's proposals may simply reflect the absence of European export farm lobbies.

There are two other signs of the heavy burden that the absence of European export farm lobbies imposes on the EC farm policy. First, as far as one can guess, the EC proposals in the Doha Round will favor an across-the-board reduction in trade barriers, meaning that the huge gap between the least and most protected farm products will be not reduced. Such an approach will be very costly for European consumers, but also for EC farmers because it will inhibit them to reallocate their resources towards the products for which they have comparative advantages. Second, the EC unexpected request (decided in July 2002) to roll back its Uruguay tariff commitments on grain tariffs, and to replace them with tariff-rate quotas is a source of more uncertainty on the EC farm trade agenda–all the more because the reasons for such a request are unclear. Invoking increased Russian and Ukrainian grain exports is not convincing (these two countries are not yet WTO members, their exports are mostly sold to non-EC markets, and they are largely caused by specific weather and legal conditions unlikely to be quickly repeated–though it is fair to say that these two countries will be efficient competitors in the long run, at least for some qualities of grains). A last unclear aspect of this move is that EC member-states seem to have no information on the details of the requested tariff-rate quotas.

To conclude, the U.S. and the EC react quite symmetrically to their dinosaurian farm policies. The U.S. Congress bowed to vested interests in designing the new Farm Bill, but the President is clearly trying to use the reduced level of protection to be negotiated during the Doha Round as a key source of domestic disciplines in the future. The EC may amend its domestic regulations granting public support at an unchanged level of protection, but it counts on the pressures from its WTO partners to reduce the level of protection. Once again, timing is a key variable. In fact, there is a lucky coincidence: timing for reforms in Europe is in harmony with the U.S. window of opportunity because CAP reform should begin in 2006-08 at the latest, due to the constraints of EC enlargement to Central European countries.

The impact of EC enlargement

Another source of uncertainties and difficulties for the evolution of the CAP will be the accession of Central European countries (CECs) to the EC (in what follows, EC refers to the current EC with its 15 member-states). In sharp contrast to the EC situation, agriculture is still a relatively large domestic sector (in terms of value added and jobs) in most CECs, even for those with no substantial comparative advantages in this sector (only Bulgaria, Poland, Romania and Turkey are seen as potentially large producers of a wide range of farm products in the future), and despite the fact that during the 1990s, farm outputs have substantially declined in most CECs which began to import farm products from Argentina, Australia, and Brazil. In 1996, the gross agricultural product in the CECs and the Balkans amounted to 7 percent of GDP (compared to 1.7 percent for the EC), whereas farm jobs represented 22.5 percent of total employment in the CECs and the Balkans (compared to less than 5 percent for the EC).

There is only a limited match between the main beneficiaries of existing protection in the EC and CECs. This important observation suggests limited opportunities for farm coalitions easily uniting farmers from the "Western" (EC) and "Eastern" (CECs) parts of the enlarged EC. Based on the PSE-based NPCs, the most protected products in the EC are milk, sugar, and meat (particularly beef and poultry). The most protected farm goods in CECs are poultry and sugar in Poland (with beef subjected to negative protection), poultry and beef for the Czech Republic (with grains and oilseeds subjected to negative protection), and milk and poultry in Hungary (with grains, excluding wheat, and oilseeds subjected to negative protection).

The key issue is that enlargement will occur at a bad time–complicating enormously the reduction of European farm protection. Not only do CECs have no export farm lobbies, but the many CECs farmers will insist on protection precisely at the time when EC farmers are loosing their political clout in the EC.

Enlargement may delay further farm liberalization because, in the absence of a serious CAP reform, farm trade issues between the EC and CECs would be hardly manageable. (In fact until 2000, farm products were largely excluded from the bilateral Europe Agreements between the EC and the CECs.) The EC stalemate about the reform of the CAP leaves two forces on a collision course. On the one hand, the EC is clearly not ready to extend the existing CAP to the CECs, simply because it cannot afford the budgetary consequences of such an extension. On the other hand, the CECs seem irresistibly attracted to mimic the CAP, as best shown by the above-mentioned increases of the PSE- and CES-based NPCs of the CECs. This strategy is a trap for CECs farmers because, by closing again CECs farm markets to foreign competition (a decade only after central planning), it will reduce the much needed incentives for CEC farmers to become more competitive, leading to increasingly uncompetitive situations (for instance, in 1999-2000, pork was more costly to produce in Poland than in France).

Unfortunately, the logic of the Doha Round–the deeper the CAP reform will be, the lower the CECs-related compensations to be paid by the enlarged EC will be–will not impose a strong push on the enlarged EC. This is because the small size of CEC trade makes compensations likely to be a small burden for the enlarged EC. In sum, the enlarged EC trade policy in agriculture will continue to be driven by the situation prevailing in the EC, where the rapidly diminishing power of the farm lobbies is being strengthened by a coming crowd of CECs farmers. The only way for the EC (and the enlarged EC) to get out of this dead end would be to adopt a "two-track" CAP where CAP provisions will be different for large and small farms (see section 3).

SECTION 3. THE POLITICAL ECONOMY OF PROTECTION

This section examines coalition-building issues which, for the years of negotiations, should deserve a lot of attention. It tries to spot anchors for generating pro-free trade coalitions in farm trade policies within the coming five years. It first looks at traditional actors (consumers and producers) in trade matters, before turning to less usual actors–Finance Ministers and non-governmental organizations (NGOs).

1. Which Consumers?

Targetting individual final consumers (or their associations) as a key component of pro-free trade coalition-building is the natural thing to do when aiming at reducing protection. However, as already mentioned, it does not seem a promising approach in the farm case. This skepticism is best illustrated by a recent poll [Eurobarometer Flash Survey no.85, October 2000] which delivers a stark message (all the more because the poll was made at a time where farm issues were at the forefront of European news). Half of the questioned Europeans have never heard of the Common Agricultural Policy, and only 19 percent of them were relatively aware of its existence, the rest of the questioned people were very vaguely aware of some kind of European farm policy. Profoundly changing this situation would require an amount of money, time and energy that is unlikely to be available in the few years to come.

Focusing on individual final consumers is riskier for other reasons. First, as is well known, farm protection hurts much more the poor consumers than the rich ones (the food share in income is much higher for the former than for the latter). But, poor people are not politically powerful and they tend to feel closer to farmers, a substantial share of which is also poor (see below). By contrast, people concerned about environment are richer. Second, another Eurobarometer poll [no.55.2, Spring 2001] suggests that the links between farm policy and food safety are much stronger in the public opinion than those between farm policy and food prices. Europeans strongly support farm policies to the extent that they protect small domestic farmers who are perceived as guaranteeing food safety. However, things are changing. Consumers are increasingly aware that, although domestic farmers flaunt themselves as protectors of environment and food safety, they are heavy polluters and relatively careless about the health of their compatriots, as best shown by the "mad cow" story (see Annex B) or the foot-and-mouth episodes. But, recognizing that environment and food safety have little to do with the nationality of the farmers will take a lot of time–time that Doha negotiators have not.

Industrial consumers–the agribusiness industries–seem to be a much more useful target for supporting freer trade in the few years left for negotiations. The Doha Round should normally lead to a decline of the remaining industrial tariffs which are now concentrated in a few industries, the agribusiness industries being among them. Decreasing tariffs protecting the output of agribusiness firms should put considerable pressures on these firms to get their sources of raw materials (farm products) also liberalized. Such pressures were visible in 1995-96 when it was still believed that the URAA would deliver some kind of farm liberalization in the late 1990s. At this time, agribusiness firms made clear that any further liberalization of their outputs should be accompanied by a liberalization of their farm inputs.

Will agribusiness firms keep this stance during the Doha Round? It is likely. The agribusiness sector has been one of the strongest supporters of the July 2002 Commission's proposals on the Mid-Term Review [Haskins 2002]. But it is not certain. The many international mergers observed in the agribusiness sector during the 1990s may have partly isolated these firms from the risks of increasing negative effective rates of protection generated by a Doha liberalization in industrial goods which would not be accompanied by a liberalization in farm products.

2. Which Farmers?

The crucial point in terms of coalition-building involving farmers is the huge heterogeneity of the farmer population in industrial countries. Underlining key aspects of this heterogeneity should allow fighting the monolithic view of agriculture which largely prevails in public opinion–and the efforts of the farm lobbies to hide this heterogeneity as much as possible. In fact, if there is any success to credit the Uruguay Round, it has been its capacity to reveal differences between large and small farmers–probably the crucial heterogeneity for the years to come. Three major sources of heterogeneity among farmers could play an important role in the Doha negotiations.

Demographics

A first source of heterogeneity comes from demographics. Farmers now represent a tiny portion of the total labor force in most industrial OECD countries–for instance, less than 3 percent in the three more important EC member-states. Moreover, this population is rapidly ageing, with large shares of farmers being more than 55 years old (in Normandie, the third best endowed farm region of France, half of the farms have no heirs willing to run them).

These broad evolutions are well known, but they should be more publicized–particularly, their essential consequence that keeping constant support to agriculture is equivalent to increasing support to the remaining farmers. They should be completed by good information on the farmers' share in rural areas because the relations between farmers and rural areas largely determine farmers' remaining political influence in developed countries. For instance, most European politicians are convinced that rural areas still heavily depend on agriculture. But, the share of farmers in rural areas is also declining. For instance, French farmers would represent only 17 percent of the French rural population in 1999, even if one assumes that all farmers are living in rural areas (an overestimate thus since a noticeable number of farmers is living in towns large enough to not be included in rural areas). A related issue is the share of income from non-farm activities in the total income of farm households. Table 6 presents the figures available on "non-farm activities," and it shows how important they are in many OECD countries. But, there is little information on the extent to which these non-farm activities are related or not to farm activities–that is, to which extent there are really complementary or substitutes to each other.

All these evolutions converge to a very substantial decline of farmers' political influence. For instance, farmers are regularly loosing seats in the French Senate–the fortress of the French rural population in the French constitutional framework (in the 2001 senatorial elections in which only one third of the seats was renewed, the share of farmers' seats has further declined from 11 to 9 percent). The campaigns for the 2002 German elections have revealed a policy shift in Bavaria–one of the traditional bastions of German agriculture–with the Bavarian Minister-President Stoiber (and candidate to the Federal Chancellery) openly criticizing the EC CAP and praising hi-tech industries (though later, with the elections becoming closer, he has adopted a negative tone with respect to Commission's proposals for the Mid-Term Review). The OECD member where the farmers' political influence may be the most stable is the U.S., with an over-representation of the farm states in the U.S. Senate due to the federal structure of the country (see below).

Small vs. large farmers

A second major source of heterogeneity–probably the most important in the few years to come–is the distinction between small and large farmers. As is well known, farm trade policies of most OECD countries are strongly biased against small farmers, and in favor of large farmers. Table 7 summarizes these differences in public support, farmers' revenues and wealth in the U.S. and in the EC. Current farm policies have begun to take into account this aspect by "capping" public support. For instance, the 1999 Berlin Council has introduced a "modulation" scheme, and the 2002 U.S. Farm Bill as well as the recent European Commission's proposals for the Mid-Term Review include some caps on the level of subsidies which could be granted to very large farms.

All this suggests a more systematic examination of the past experiences, and of the potential virtues, of a "two-track" farm policy which would fully subject large farmers to liberalization (subsidy reductions and tariff decreases, possibly accompanied by a safety net depending from the magnitude of the liberalization) but which would keep unchanged the existing protection for small farmers (but, by granting them direct income support).

The "small-large farmers" distinction should not raise problems in the WTO forum because small farmers tend to produce locally-oriented products or sophisticated goods which are not subject to high protection rates (by the usual standard of farm protection). In other words, they represent only a marginal source of trade distortions. This feature suggests that keeping subsidies granted to small farmers as they are–or even to increase them conditionally to adopting a pure income support scheme–should not be a source of big worries and difficulties.

In Europe, a two-track farm policy based on the "small-large farmers" distinction has many specific charms. First, it meets increasingly less hostility from small European farmers which are becoming more favorable to pure income-based supports. Second, it is compatible with the existence of integrated European farm markets within the current EC (that is not the case of re-nationalized CAP subsidies which will inevitably create intra-EC barriers as well as extra-EC barriers). Lastly, it is the only policy to provide to the enlargement problem a solution both fair and economically sound. It allows to give an unique–hence fair–definition of the income support to be granted to all European small farmers. For instance, it could be the same percentage of the average income or wage of the member-state in question. In the enlarged EC context, this unique definition in percentage of domestic average income will lead to different levels of farm support (in currency units) among EC member-states–hence reducing the costs of the whole system on a fair and objective basis. Even more importantly in the long run, this definition will keep incentives for small farmers in the CECs (once member-states) to modernize their farms (by contrast, EC-wide based subsidies will tend to be too high, hence eliminating such incentives, and accelerating the rural exodus of small CEC farmers for the great benefit of "Western" farmers who will buy CEC land).

Of course, the two-track farm trade policy approach has an intrinsic weakness: large farmers will have strong incentives to find ways to circumvent this approach–by dividing their farms in smaller (probably less efficient) units, by getting partial exemptions for spouses or other reasons (as already observed in the first attempts to introduce such a policy in the U.S.), etc. The deeper the liberalization will be, the stronger these incentives will be.[12]/ As a result, research should carefully investigate the pros and cons of such a distinction between small and large farmers–particularly by spotting the instruments least sensitive to it, and by taking into account its different impact on the various EC and U.S. member-states.

Member-states and other sub-national entities

In federal countries (the U.S. and the EC in this matter) farm policies are defined at the "central" level–be the U.S. Congress or the EC Council of Agriculture Ministers (and the European Council of the Heads of State). This level of member-states (or more generally subnational entities) introduces a third source of heterogeneity, with farmers from some states more able to drive "federal" policies than farmers from other member-states. It is estimated that the 2002 U.S. Farm Bill will mostly benefit Iowa (the Chairman of the Senate Committee in charge of agriculture being a senator from Iowa), Illinois, Minnesota, Texas and Nebraska. France is the most often cited country among the opponents of CAP reforms.

In this context, it is critical to assess the impact of liberalization not only on the "federal" entity, but on its individual member-states. For instance, a largely ignored impact of the CAP is that EC subsidies tend to protect farmers from less efficient member-states against farmers from more efficient member-states (and of

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[12]/This problem is conceptually similar to the problem of how to treat entrants in the farm business (be existing farmers' heirs or genuine new farmers) in OECD countries. Logically, entrants should not be entitled to the same regime of subsidies than existing farmers. In particular, they should not receive subsidies "compensating" for price decreases and income losses–they know that markets will be liberalized. Granting them subsidies perpetuate the existing distortions.

course, foreign farmers). Opening the EC to foreign competition by decreasing EC subsidies will have the effect of opening the least-efficient member-states to the most efficient member-states as well as to the rest of the world (if reduced EC trade barriers still remain substantial, this evolution could maintain substantial trade diversion). With this perspective, a better knowledge of the different production costs in the various member-states of the two dinosaurs could reveal wider farm export interests than those perceived nowadays–allowing a change in balance between protectionists and free-traders within each dinosaur. Similarly, a different concentration of large farmers in the various member-states should be taken into account when designing a two-track policy.

3. Which other actors?

In Europe, a very special actor has been involved in farm policies during the last thirty years: the Finance Ministers of the member-states. So far, their role has been rather ambiguous: important for capping the overall amount of subsidies, but non-existent for promoting structural reforms. Capping is now widely accepted. But it is ineffective to the extent that the number of farmers is decreasing, so that increased subsidies per farmer do not induce the remaining farmers to cut costs and to look for the most appropriate set of farm products to their comparative advantages. As a result, the role of the Finance Ministers may be even more marginal in the future.

Their role can even become negative if they support "renationalizing" farm subsidies. Leaving each member-state responsible for determining farm subsidies may reduce the amount of subsidies at the European level, but it is likely to create fifteen CAPs in Europe. For instance, Germany will no more pay for French farmers, but she will be eager to subsidize her own farmers at least as much as before, hence not allowing more efficient non-German farmers (French or non-EC) to enter German markets. Meanwhile, France will be likely to compensate for missing German funds.

The only way to make EC Finance Ministers more involved in the structural changes of the EC farm policy (and not only in a mere cost-containment approach) would be to focus on the low transfer efficiency of the current farm support regimes. Finance Ministers would then be induced to develop pure income-support programmes.

During the last decade, another group of actors has emerged in the debates on farm policies–the non-governmental organizations (NGOs). There are two main kinds of NGOs. First, there are NGOs with a well defined objective–such as environmental sustainability, rural development, food safety, animal welfare, etc. While raising key issues, these NGOs tend to be easily captured by OECD farmers, at great risk for their credibility. The main issue at stake is thus the strengthening of the independence of these NGOs, as briefly illustrated with environmental and food safety NGOs.

During the last decade, several environmental groups (EGs) have been instrumental in underlining the wasteful and environment-detrimental effects of farm policies. In this respect, they are natural allies of economically sounder farm policies. But many EGs have also a strong pro-interventionist bias for a wide range of reasons–doubts about the ability of science to solve emerging problems, desire to impose their own views without compromise, will to act rapidly, etc. They tend to distrust market-based tools for finding the right balance between farm production and environment, and to ignore the wide range of possibilities offered by combining market incentives and social regulations. They end up hostile to freer trade, which makes them an easy prey for OECD farmer lobbies–hence the unholy alliances between "greens" and farmers which has been observed all over Europe.

Food safety groups (FSGs) are similar to EGs with two differences. First, during the recent years, they have been more easily captured by farmers' lobbies than EGs–as best illustrated by the panic about unsafe food always presented as a synonym of foreign food (in fact, many European FSGs are run by farmers). However, recent food crises (mad cow, foot and mouth disease) have shown to the European population that domestic farmers are not more careful about health safety than foreign farmers (see Annex B) undermining the general credibility of FSGs. Second, food safety raises more difficult issues than the environment, both from an economic point of view (what is the effective validity of the principle of scientific evidence and of the precautionary principle?) and from a legal perspective (how to manage the subtle relationships between technical standards, rules of origin, and labeling?).

The second kind of NGOs are those with a much broader portfolio of interests because they are interested in "development." The wide scope of the issues they address makes these NGOs much more difficult to be captured by farmers' lobbies from the OECD countries. But they are less immune to farmers' lobbies from the developing countries (DCs), as illustrated by their support to the introduction of a "Development Box" in the Doha Round which would exempt DCs from WTO rules in order to "protect DC poorest farmers."

It is beyond the scope of the paper to examine the "Development Box" proposal in detail, and what follows presents only three comments. First, there is no need for such a Box if the Doha Round focuses on the peak barriers in agriculture, as it should. In such a case, protectionist OECD countries would reduce their own barriers by (much) more than DCs would reduce theirs. This observation assumes that DC farm support (tariffs and other border barriers, subsidies granted to and taxes imposed on farmers, this last element being often important in DCs) is (much) lower than OECD farm support–an assumption which seems plausible for many DCs. In such a scenario, the overproductions created by the current OECD farm trade policies will be reduced, and markets will induce DC farmers to produce more.

Second, most development-oriented NGOs are unlikely to be satisfied by this first argument because they see the Development Box above all as an instrument in favor of the poorest farmers. But, a key lesson to be drawn from the history of all OECD farm policies is that they have been introduced with the same focus on poorest farmers–only to turn, progressively but inexorably, to be a subsidy machine for large farmers, a machine of exclusion for small farmers (for instance, one may argue that the CAP has accelerated, not reduced, the rural exodus [Johnson 1995]) and a machine for increasing food prices at the detriment of the poorest of the poor, that is, the poor consumers who have not even a piece of land to cultivate. Farmers' poverty would be much better addressed by appropriate income transfer policies, and/or by the re-allocation of the least efficient poor farmers to other activities–a growth path that the Development Box would artificially inhibit. (Addressing poverty in rural areas may be best achieved by industrialization, inducing the currently most efficient and largest farmers to stay in agriculture, while inducing the currently least efficient and poorest farmers to leave agriculture to become workers in manufacturing activities, with the same or higher income level than the richest farmers, as illustrated by the European growth of the 1950s and early 1960s). Using trade policies which can be so easily captured by the most powerful domestic vested interests (which almost surely include the richest farmers, and exclude the poorest farmers) is an almost certain recipe for not achieving the poverty eradication goal.

The Development Box may echo a last argument, generally only indirectly mentioned by the NGOs. It is the rapidity of the changes which could be brought by trade liberalization in agriculture. In fact, there may be reasons for such concerns. But in this case, the problem should be addressed as directly as possible–that is, by fine-tuning the pace of the liberalization under the Doha Round.

SECTION 4. CONCLUDING REMARKS

This brief survey of the domestic political economy associated to WTO farm negotiations shows that the major task is still ahead for the OECD countries which, Australia and New Zealand excepted, are major culprits of the high level of protection still prevailing in "agricultures" (the plural underlining the fact that protection varies hugely between the least and most protected farm products). The task is particularly daunting for the U.S. and the EC which are yet largely prisoners of their dinosaurian farm policies, dating from the 1930s (at this time, their farm sector was dominated by homogeneously small farmers).

The paper focuses on the coalitions which could be helpful for WTO negotiators. Support from individual final consumers and taxpayers is far from being guaranteed–the former because consumers are spending less and less on food (hence less induced to oppose a costly protection), the latter because taxpayers support, more or less willingly, non-trade concerns, such as environment or food safety, that they tend to associate to domestic farmers. Recent evolutions, such as food crises revealing that domestic farmers are relatively careless about the health of their compatriots, or massive pollutions due to domestic farm production, may induce individual consumers and taxpayers to become more supportive of freer trade. But such a change of attitude will take too long for offering strong support, on time, to the Doha negotiators who look at the years 2003-2006 for the completion of the Round–because of the commitments of the Doha Ministerial, and much more importantly because of domestic agendas (such as the renewal of the U.S. farm Bill in 2008, and the EC enlargement in 2005-2008).

As a result, trade negotiators should look at other allies. A natural candidate is a powerful group of consumers–the agribusiness industries for which a reduction of the still high protection of their products under the Doha Round requires a corresponding reduction of protection in their farm inputs.

Trade negotiators should also talk to farmers–hence sharpen their arguments. The key point seems to be the distinction between small and large farmers–the latter being, by far, the main beneficiaries of the current farm protectionist policies. One could reasonably argue that small farmers contribute little to the existing chaos in world farm production and trade–hence that they could continue to benefit from public support (based on pure income-support schemes, likely to be much more efficient in terms of income transfer capacity than the current instruments of protection) without any serious damage for the world trading system. Farm liberalization will thus essentially concern the vested interests of the large farmers who, in terms of power, size and income, are not different from manufacturers to the point to deserve a treatment different to the one imposed on businessmen in manufacturing during the last fifty years of liberalization in this sector.

Doha negotiators should focus, as much as possible, on the peaks of protection in order to make as uniform (close) as possible the level of protection faced by the different "agricultures." This objective will ensure that farmers will be induced to invest in the right crops or animals–that is, those in which they have comparative advantages, not in those for which they enjoy the highest protection. Any attempt to get an early harvest by liberalizing the least protected farm products (and pressures on trade negotiators to do so will be enormous because an early harvest will be politically much easier than an uniform policy) will make future farm liberalization extremely difficult because it will push all farmers in the same highly protected sectors–with ultimately huge costs of adjustment in case of further liberalization. In this perspective (and for taking into account fears of adjustment capacity in developing countries) it would be much better to envisage longer deadlines for implementing a higher level of uniform protection than to adopt shorter deadlines for more limited commitments in the most protected agricultures.

This survey leads to a final astonishing conclusion. The key information useful for such a coalition-building exercise is rarely available. Total, producer, and consumer supports to farmers in developing countries are not available, though it is crucial information for the fairness of the negotiations between OECD and developing countries (which have very different ways to protect their agricultures). Similarly, detailed information on the inefficiency of the existing instruments of protection, on the distribution of large farmers in key countries, etc., are rarely available–particularly at the politically crucial level of the member-states of the two dinosaurs (U.S. and EC).

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