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**The Common Agricultural Policy and
the Doha Development Round**

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The Common Agricultural Policy and the Doha Development Round

*Menaka Mahajan**

Agriculture represents an important yet contentious issue in global trade. Trade in agricultural and agro-industrial products in 2002 made up \$583 billion, or 9.3 percent of worldwide trade in goods.¹ However, this sector has historically been characterized by strong protectionism that has been difficult to uproot. Agricultural policy is a highly political issue that involves the national interest of food security, consumer interests in terms of food costs, and perhaps most importantly, domestic and international redistribution of wealth. Farm support in the European Union has generally been high relative to other countries, a fact that is criticized by trading partners, as well as the nature of support measures used.² Liberalization of trade is thought to benefit everyone by allowing countries to specialize in the production of those goods in which they have comparative advantage. However, given the national security aspects of food policy, states have been reluctant to completely liberalize their agricultural markets, fearing eventual reliance on food imports.

In recent decades, developing countries with a comparative advantage in agriculture have commanded increased international attention. In the Uruguay Round of World Trade Organization (WTO) negotiations, developing countries formed a coalition to assert their interests. From that point forward, multilateral trade negotiations (MTNs) have necessarily included at least some input from developing countries. The current round of negotiations, the Doha Round, has been stalled for almost a decade as developing countries push the European Union and United States to remove domestic protection measures. The most important issue holding up successful conclusion to the Doha Round is agriculture, "a make-or-break issue of the Doha Round of MTNs."³ On one side are the pro-liberalization developing and developed countries demanding access to agricultural markets and on the other, the European Union, which has stubbornly resisted meaningful reductions of domestic supports institutionalized in its Common Agricultural Policy (CAP).⁴

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¹ Das, Dilip, "The Doha Round of Multilateral Trade Negotiations and Trade in Agriculture," *Journal of World Trade* 40:2, 2006.

² Josling, Tim and Alan Swinbank, "European Union: Shadow WTO Agricultural Domestic Support Notifications," International Food Policy Research Institute, October 2008.

³ Das 2006, 274.

⁴ Aggarwal, Rajesh, "Dynamics of Agriculture Negotiations in the World Trade Organization," *Journal of World Trade* 39:4, August 2005.

Agricultural Trade Policy in the European Union

The Treaty of Rome (1957) created a common market across member states, setting the stage for the Common Agricultural Policy (CAP) “by establishing guaranteed markets as well as a fair price for agricultural producers.”⁵ The CAP arose from the ashes of World War II, in which western European societies had experienced the devastation of agriculture and lack of stable food supplies.⁶ It was particularly important to France and West Germany, who each wanted duty-free access to the other’s market and for whom agriculture had been a key element in the tradeoff when the EEC was first discussed.⁷ Effective in 1963⁸, the CAP was intended to create self-sufficiency in Europe to avoid future food shortages resulting from dependence on outside sources.⁹ This was to be accomplished through import protection and export subsidies. Import protection was in the form of a levy that determined a threshold price at which imports would enter the domestic market. The levy was inversely varied with world prices, so as world prices went down, the levy would increase, causing the price of imports to raise to at least the level of domestic prices. The export subsidies covered the difference between prices at which agricultural products were purchased in the domestic market and the world price.¹⁰ As European products were typically more expensive relative to farming products in countries with a comparative advantage in agriculture, this restitution was considered necessary to help this sector of the economy compete globally. As stated in Article 39 of the Treaty of Rome, the main objectives of the CAP were¹¹:

- (a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour;
- (b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;
- (c) to stabilise markets;
- (d) to assure the availability of supplies;
- (e) to ensure that supplies reach consumers at reasonable prices.

The CAP created 21 Common Market Organizations (CMOs), within which food and agricultural products were organized. The CMOs set minimum prices for

⁵ Delayen, Celine, “The Common Agricultural Policy: A Brief Introduction,” Institute for Agriculture and Trade Policy, September 2007.

⁶ “The Common Agricultural Policy Explained,” European Commission: Agriculture and Development, available at http://ec.europa.eu/agriculture/capexplained/index_en.htm

⁷ Ginsberg 2007, 221; De la Rosa, Miguel, “The Common Agricultural Policy: The Future of the CAP and Why Real Reform Will Never Happen,” Miami-Florida European Union Center of Excellence, May 2010, p. 5; McCormick, John. *The European Union Politics and Policies*. Boulder: Westview Press, 1999.

⁸ Delayen 2007.

⁹ Ruitenber, Rudy, “EU Farm Policy Must Maintain Means to Intervene, Sarkozy Says,” *Business Week*, November 25, 2010.

¹⁰ Josling and Swinbank 2008.

¹¹ Treaty of Rome, signed on March 25, 1957.

these products.¹² This guaranteed a profit, protecting farmers in the original six member states from less expensive agricultural imports from outside the European Economic Community (EEC) through variable import levies, and granted export subsidies.¹³ Price support was provided by the Community, which bought excess products when the price fell below the minimum. It then stored the products, exported them at subsidized prices, or donated them as food aid. Import protection was designed to give European farmers preferential access to the internal market.¹⁴

In the 1960s and 1970s, agriculture production in Europe increased, reaching excess levels in the 1980s. Storage for excess products became more expensive and the European Community began dumping its products, selling them abroad at below world prices.¹⁵ The first CAP reform was the 1984 milk quota to control dairy production by setting quotas for each country. Overproduction and dumping continued, but at lower levels. Because dairy prices in the EU were higher than world market prices, export subsidies were implemented. In 1992, the Mac Sharry reform marked the beginning of direct payments to compensate for decreased price support.¹⁶ Whereas the previous version of the CAP relied mainly on import levies and export subsidies, these new reforms relied heavily on domestic subsidies.¹⁷ By enacting price cuts for agricultural products, the reform ensured competitive domestic and international markets.

In 1999, Agenda 2000 created a second pillar in the CAP. Whereas the first pillar from the earlier CAP only dealt with support for agricultural products, this reform proposed three main measures: agro-environment schemes, support to least favored areas, and investment assistance to increase productivity and competitiveness.¹⁸ The rural development policy of Agenda 2000 was intended to help farmers restructure farms, diversify, and improve product marketing. A ceiling was also placed on CAP costs to deal with concerns about the percentage of budget it used.¹⁹

To coincide with the entry of ten new member countries from Eastern and Southern Europe, in 2003 further reforms were introduced. The enlargement increased the number of farmers in the EU by nearly 70 percent.²⁰ The most important reform was the decoupling of direct payments to farmers. Farmers began to be paid entitlements without much regard to current production levels, provided they meet certain conditions related to the agricultural and environmental condition of the land. Some countries have chosen to partially decouple payments, maintaining subsidies linked to limited production. The money previously allocated to direct payments is now used to support the environment, welfare of animals, food

¹² Delayen 2007.

¹³ Ginsberg 2007, p. 221.

¹⁴ Ginsberg 2007, p. 222.

¹⁵ Delayen 2007.

¹⁶ Delayen 2007.

¹⁷ Josling and Swinbank 2008.

¹⁸ Delayen 2007.

¹⁹ "The Common Agricultural Policy Explained," European Commission: Agriculture and Development.

²⁰ "Agriculture," European Union: Delegation of the European Commission to the USA, available at <http://www.eurunion.org/policyareas/agriculture.htm>

quality and safety, and investments in agricultural production.²¹ These reforms changed the form of assistance to agricultural producers, but did not liberalize the agricultural sector to third countries.²²

Although the CAP was “originally intended by the EU to be mere food policy, and an attempt to create food security...[it] has, ultimately, become the most integrated and supranational of all EU policies and institutions.”²³ Trade policy is one of the most “federal” EU policies.²⁴ Its management involves interaction among multiple institutions. In the late 1960s, the EEC, now referred to as the European Union, applied a single external tariff and delegated international trade policy negotiations to the EEC, which would speak as a single voice for members. The Commission was given the responsibility of negotiation.²⁵ Agricultural Commissioner Dacian Cioloș develops proposals based on consultations with Member States and stakeholders.²⁶ No single state has veto power, as decisions may be taken by qualified majority.²⁷ The European Commission as a whole then submits proposals to the European Council of Agriculture Ministers. Parliament has a consultative role.²⁸

The influence of certain powerful states in the EU often impedes reform in this politically charged sector. “Since the early 1980s, France took the most inflexible and illogical stand on reform of Common Agricultural Policy (CAP) and multilateral agricultural trade...it repeatedly succeeded in either scuttling or foiling attempts of other WTO members to liberalize multilateral agricultural trade. Whenever the EU proposed even limited reforms to the CAP, France either successfully blocked them or tried to dilute them.”²⁹ The agricultural policy structure of the EU has its roots in the highly protectionist 1930s. “EU farm policy structure is essentially based on the French farm policies of this period.”³⁰ France has historically been against liberalization in agriculture. As an original member of the European Economic Community, it played a key role in the design of the CAP, institutionalizing its national preferences in the regional agreement. This is an extremely important sector for France, the largest agricultural producer in the EU, with 60.3 billion euros worth of farm output in 2009, 18 percent of the EU total. This puts it around 20 billion euros ahead of the second and third largest agricultural producers, Italy and Germany.³¹

²¹ Delayen 2007.

²² Van Djick, Pitou and Gerrit Faber, “CAP Reform and the Doha Development Agenda,” Tjalling C. Koopmans Research Institute, December 2003.

²³ De la Rosa 2010, p. 6.

²⁴ Baldwin, Matthew, “EU trade politics – heaven or hell?” *Journal of European Public Policy* 13:6, September 2006.

²⁵ Sbragia, Alberta and Francesco Stolfi, “Key Policies,” Elizabeth Bomberg et al eds., in The European Union: How Does it Work? NY: Oxford, 2008.

²⁶ Delayen 2007.

²⁷ Baldwin 2006.

²⁸ Delayen 2007.

²⁹ Das 2006.

³⁰ Ibid.

³¹ Ruitenberg 2010.

Current impasses in negotiations are generally blamed on France's unwillingness to budge. France "backs a 'strong' EU agricultural policy and opposes any dismantling of regulation or direct aid to farmers," according to the agriculture ministry.³² Ironically, liberalizing trade is believed to be particularly beneficial to France, the largest subsidizer in this sector. The Global Trade Analysis Project has estimated that eliminating domestic support measures would result in annual gains of 2.6 to 4.1 billion euros. In the long run, gains could be as much as 8.1 to 15.5 billion euros annually.³³ However, this has been politically difficult to achieve, especially given the political power of agricultural groups.³⁴ Granting substantial market access to non-EU countries would cause European agricultural producers' income to fall.³⁵ Civil society has put enormous pressure on EU ministers to "revise failed 'market approaches to food policy, and focus instead on meeting human needs, ensuring food sovereignty and environmental protection." Disguised behind arguments related to food security, fair prices, environmental impacts, and animal welfare, what this group of 335 European organizations³⁶ is actually advocating is maintained or increased levels of protectionism.

France has become even more nervous lately, as EU agriculture commissioner Dacian Cioloș has called for a redistribution of farming subsidies due to wide disparities in the current system of distribution.³⁷ This position is echoed by a coalition of agricultural organizations, ecologists, consumers, NGOs, and social movements who demand a new CAP that guarantees food quality and fair prices, in addition to ending practices of dumping in the southern countries.³⁸ Other EU members pushing for CAP reform include the United Kingdom and Sweden, who want to cut funding for agriculture in order to fund other priorities.³⁹ Today the CAP accounts for over 40 percent of the EU's budget,⁴⁰ although EU agricultural exports account for only about 6 percent of total EU exports.⁴¹

Parallel to the internal EU discussions regarding the future of agricultural policy, an international conversation is taking place in the World Trade Organization's ongoing multilateral trade negotiations (MTNs), the Doha Round. The next section discusses the history of these negotiations, and the role of EU's agricultural policies in fueling a heated debate between developed and developing countries.

³² Ruitenbergh 2010.

³³ Das 2006.

³⁴ Ginsberg 2007.

³⁵ Djick and Faber 2003.

³⁶ "CAP 2013: European civil society calls on EU to reshape Common Agricultural Policy," Transnational Institute, September 2010, available at <http://www.tni.org/pressrelease/cap-2013-european-civil-society-calls-eu-reshape-common-agricultural-policy>

³⁷ Chaffin, Joshua, "EU chief urges rethink on farm subsidies," *Financial Times*, November 28, 2010.

³⁸ "Organizaciones agrarias demandan una PAC que garantice alimentos de calidad y precios justos," *Europapress.es*, available at <http://www.europapress.es/castilla-y-leon/noticia-organizaciones-agrarias-demandan-pac-garantice-alimentos-calidad-precios-justos-20101129135137.html>

³⁹ Chaffin 2010.

⁴⁰ Ruitenbergh 2010.

⁴¹ "Agriculture in the European Union: Statistical and Economic Information 2009," European Commission, March 2010, p. 215.

The Doha Development Round

The Doha Round, initiated in 2001 and still in progress today, was named the Development Round because it promised to put development at the core of trade negotiations and to ensure that the outcome of negotiations promoted the interests of developing countries. More specifically, the Doha declaration pledged to enable developing countries to more fully participate in world trade and to advance their economic development through improved access to Northern markets by reducing import tariffs and by phasing out domestic and export subsidies that often lead to 'dumping.'⁴²

After the failure to reach consensus during the Seattle Ministerial Conference in 1999, the events of September 11, 2001 reinvigorated developed countries' drive to hold a new round of negotiations.⁴³ As terrorism was seen as linked to inequality and lack of opportunity in less developed countries, developed countries saw a security need to promote development throughout the world. As such, it was primarily the efforts of developed countries that launched this new round of negotiations. Developing countries were resistant to the idea of new trade negotiations and insisted that implementation issues from the Uruguay Round (i.e., promises made but not yet fulfilled by developed countries, in addition to the massive costs of implementing binding commitments from those agreements) should be addressed prior to beginning a new round of negotiations.⁴⁴ From the viewpoint of developing countries, the reform commitments from the Uruguay Round were pushed on them, especially considering their limited capacity to participate in the negotiations. "From their perspective, the implementation exercise has been imposed in an imperial way, with little concern for what it will cost, how it will be done, or if it will support their development efforts."⁴⁵ Understandably, developing countries did not wish to open up a new set of negotiations to further liberalize their economies for the benefit of developed countries, a scenario that places heavy financial burdens on poorer countries to comply, without even having realized the benefits of negotiated promises from the previous round.⁴⁶

In the Doha Round, developed countries have put nearly constant pressure on developing countries to fully liberalize their economies, while maintaining protectionist measures at home. This is most apparent in the areas of agriculture and textiles. Trade distortions are concentrated in the agricultural sector, which developed countries have long resisted liberalizing, although it would benefit net food-exporting countries.⁴⁷ "The inclusion of these two sectors within GATT 1994

⁴² Institute of Development Studies, [What is the Doha Round?](http://www.eldis.org/index.cfm?objectId=E1A93506-FCCE-F97E-205FB8451CE3EA74), Eldis, October 2009 <<http://www.eldis.org/index.cfm?objectId=E1A93506-FCCE-F97E-205FB8451CE3EA74>>.

⁴³ Bouët, Antoine and David Laborde, "Eight Years of Doha Trade Talks: Where do we stand?" International Food Policy Research Institute, November 2009.

⁴⁴ Narlikar, Amrita, *The WTO: A Very Short Introduction*, Oxford, 2001.

⁴⁵ Finger, J. Michael and Philip Schuler, "Implementation of the Uruguay Round Commitments: The Development Challenge," *The World Economy* 23, 2000.

⁴⁶ Woods, Ngaire, "Governing the Global Economy: Strengthening Multilateral Institutions," International Peace Institute Policy Paper, 2008.

⁴⁷ Bouët and Laborde 2009.

formed the key component of the deal that was offered to developing countries. However, GATT 1994 does not include these two sectors within its general rules; rather, they form a part of a set of sector-specific agreements where the general rules do not actually apply.”⁴⁸

The European Union and United States have maintained domestic agricultural subsidies that clash with the free trade principles embodied in the WTO. In 1992, during the Uruguay Round (1986-1994), the E.U. and U.S. negotiated the Agreement on Agriculture (URAA).⁴⁹ Agriculture-exporting countries, both developed and developing, had formed a coalition – the Cairns Group⁵⁰ – intended to respond to the agricultural subsidies war occurring between the E.U. and the U.S. This subsidies war had ruined the comparative advantage of middle-income agricultural exporters who did not subsidize their agricultural industry so heavily.⁵¹ In the end, however, the E.U. and U.S. alone negotiated the agreement, ignoring the coalition of agricultural exporters.⁵² The agreement even gave developed countries permission to increase domestic subsidies, continue export subsidies, and protect their farmers in times of increased imports and lower domestic prices. As a result, the URAA did not constrain the CAP much, except minimally in terms of export subsidies, and placed little or no burden on the EU to adjust after the implementation of the Mac Sharry reforms.⁵³ “The URAA commitments to lower export subsidies were not kept by the industrial economies and they continued to distort to the hilt the world markets.”⁵⁴ Developing countries, however, whose economies are more dependent upon this sector, were heavily constrained by the terms of URAA regarding domestic subsidies, while developed countries have traditionally offered high levels of domestic support, but were only required to reduce this slightly.⁵⁵ The blended formula ultimately agreed upon by the U.S. and E.U. “was not an ambitious approach to reduction of their tariffs” but instead was “fundamentally and structurally aimed at prying open markets in developing countries.” This series of transparent attempts to open developing country markets while maintaining protection in the north was largely viewed as the main cause for the failure of the Cancun Ministerial Conference in 2003.⁵⁶

After nearly two more decades of negotiations, the deadlock over agricultural subsidies has not been resolved and the E.U. and U.S. continue to maintain extraordinarily high protectionist levels. In 2001, combined E.U. and U.S. subsidies comprised two-thirds of total agricultural subsidies of all member nations.⁵⁷ The 2004 Annual World Bank Conference on Development Economics report noted, “agriculture plays a minor role in the economies of industrial countries. Yet

⁴⁸ Narlikar 2001.

⁴⁹ Ibid.

⁵⁰ “The Cairns Group,” available at <http://www.cairnsgroup.org/Pages/default.aspx>

⁵¹ Narlikar 2001.

⁵² Ibid.

⁵³ Djick and Faber 2003.

⁵⁴ Das 2006.

⁵⁵ Third World Network, “The Multilateral Trading System: A Development Perspective,” 2001, p. 40.

⁵⁶ Aggarwal 2005.

⁵⁷ Markheim, Daniella and Brian M. Riedl, “Farm Subsidies, Free Trade, and the Doha Round,” Washington, D.C.: The Heritage Foundation, 2007.

governments in these countries spend \$1 billion a day on agricultural subsidies—six times the amount allocated to aid. Expressed differently, northern agricultural subsidies exceed the total income of the 900 million people in rural areas of developing countries living below the international poverty line.”⁵⁸ The unwillingness of the north to reform its agricultural subsidy policies to allow developing countries to compete, despite the relatively small impact that such reforms would have on northern economies, continues.

Conclusions

As the sections above have demonstrated, the European Union’s CAP represents a significant stumbling block to the successful conclusion of the Doha Development Round. WTO members, including the EU, committed to a negotiation round that would put development at the core of trade negotiations and ensure that the outcome promoted the interests of developing countries.

However, there seems to be a “stark philosophical divergence on the nature of the Doha Round,” in which developing countries view the round as an “avenue for reducing or eliminating old *unfair* protection by developed countries,” whereas developed countries see the “development nature of Doha Round as a liability, rather than a goal” because “with a narrow agenda centered on giving market access to poor countries, little incentive was offered to the leading trading nations to compromise.”⁵⁹ In other words, the focus on development was a disincentive for developed countries to cooperate; in contradiction to the declared priorities of the round, their cooperation was contingent upon the benefits that they could extract from the developing countries.

G-20 leaders have expressed renewed optimism that the Doha Round can be concluded in 2011, after nine years of negotiations.⁶⁰ However, “CAP reforms do not address the issue of market access that is one of the basic demands in the Doha Round.”⁶¹ The EU is due to reconsider the CAP after 2013. Recently, France and Germany have conducted bilateral discussions to formulate a common position. They have “agreed to state that farming is a ‘strategic activity’ and that Europe ‘needs a strong CAP.’”⁶² Given that the conclusion of the Doha Round hinges on an agricultural agreement that will be satisfactory to agriculture-exporting developing countries, it appears that the CAP will continue to impede multilateral negotiations in the World Trade Organization for years to come.

⁵⁸ Watkins, Kevin, “Northern Agricultural Policies and World Poverty: Will the Doha ‘Development Round’ Make a Difference?,” *Economic Integration and Social Responsibility*, François Bourguignon, Pierre Jacquet and Boris Pleskovic, eds., Washington: The International Bank for Reconstruction and Development/The World Bank, 2004.

⁵⁹ Cho, Sungjoon. “A Long and Winding Road: The Doha Round Negotiation in the World Trade Organization.” Available at: http://works.bepress.com/sungjoon_cho/52 (2009); “The Next Step for World Trade,” *NY Times*, Aug. 2, 2008.

⁶⁰ Lynn, Jonathan, “G20 ve janela de oportunidade para finalizar doha em 2011,” *O Globo*, November 12, 2010.

⁶¹ Djick and Faber 2003.

⁶² “France loses ground to Germany,” *The Economist*, December 9, 2010, available at http://www.economist.com/node/17675940?story_id=17675940&fsrc=rss