

## **6    *Redefining agricultural policies in a global context***

Since 1995, the WTO has started to reshape domestic agricultural policies of Member countries. Many countries that have faced agricultural trade liberalisation on a multilateral basis had to undertake a reform of trade policy instruments, leading to a tariffication of border measures, as a first reform. Tariff reductions often came as a second priority, after the full tariffication was adopted. This has been a pragmatic approach, which was not followed by some countries that played more liberal approaches, and undertook trade liberalisation even before the end of the UR negotiations. Thus, the implementation of UR provisions has been usually consistent with the adoption of a gradual approach for agricultural reform.

It is true that compatibility between trade and price policy will become a key issue for the domestic implementation of multilateral commitments. Any further opening of the foreign markets should maintain consistency with the domestic price regulations in force. Import prices might not be consistent with any public price guidelines and any decrease of import price could create an increasing burden on public budget. Therefore, it is a fact that the progressive opening of the agricultural import markets will constrain domestic price policies. Administered prices will progressively play a role more like a “safety net” than a direct orientation for the resource allocation in the agricultural sector.

However, at present, the introduction of agriculture in the GATT system still admits certain degrees of flexibility in its actual implementation. Reforming agricultural trade policies does not necessarily mean a dramatic drop in border protection. The experience of many WTO member countries have demonstrated that the adoption of new trade measures keeps consistent with the protection of domestic agriculture. We don't argue in favour of protection policies, **but a reform program should focus first on the change of policy instruments to go then, only as a second step, to the elimination of tariffs.**

Although restricted by WTO, industrial economies still enjoy a wide leeway for agricultural policies. Such leeway may have favoured industrial countries, especially in relation to the abuse of some domestic support policies (the so-called “boxes”). The question is how to use that leeway in order to devise policies that are consistent with both the WTO rules and rural development objective. Given the huge importance of the EU in the agricultural trade we next discuss its possibilities of reform of the CAP.

## 6.1 – Common Agricultural Policy (CAP) reform at stake

Following the Uruguay Round, the external pressure for the gradual integration of the CAP into the WTO framework persists. Agenda 2000 contained some innovations with regard to the reform of 1992 that included some market reforms as well as strengthen the foundations of the rural development policy - known as the "second pillar" of the CAP. This new approach for agricultural policy was known as the *Integral Rural Policy*. It deals with the proposals for environmental accompanying measures, modulation, cross-compliance, national envelopes, and greater flexibility in management of public assistance, with the participation of member states. It is with these formal changes, that the EU attempted to satisfy the increasing external and internal demands for reform. From the EU point of view, Agenda 2000, overviewed in the 1999 CIHEAM report, has granted EU citizens a greater awareness of the functioning of the CAP. Increasing numbers of citizens question the rationale for public support. Taxpayers question why the EU does not set limits on the financial aid that a farmer can receive, or why farmers don't have to comply with specific conditions in exchange of the granted payments.

From the external side, the strongest critics of the CAP come from the Cairns Group and the United States. Both are major players in the multilateral trade negotiations and closely monitor the reform process of the CAP. Both players show firmly against the gradual approach for reforms at the EU, considering them too timid and trade distorting. The EU justifies its position on the grounds of Non-Trade Concerns (Article 20 of the Agreement on Agriculture), which in the EU language, means the defence of the "European model of agriculture", and of the concept of multifunctionality. The success achieved by this concept has led to an increasing consensus on the idea that the non-food functions of agriculture may be considered as legitimate objectives for agricultural policies. Thus, non-economic concerns of agriculture could supply a justification for government intervention. The question usually addressed at the WTO is how to deal with multifunctionality in a way that minimises trade distortions. As indicated in the 2000 CIHEAM report, another, and not less important question refers to which rural policies are explicitly targeted to non-trade concerns. Is the current CAP an example of such policies or it falls into a "multifunctional failure"?

If we referred to history, the CAP has not been able to prevent rural emigration, territorial imbalances, marginalisation of cultivated land, depletion of landscapes, nor the unequal distribution of farm incomes. Concentration of agricultural support on large-scale, wealthy farmers – has opposed the CAP's attempted social function. As advocated in the 2000 CIHEAM report, the current CAP does not seem to supply a good example of "multifunctional policy". The 1992 CAP did not in practice reward multifunctional objectives, nor does the agricultural reform of Agenda 2000. It is true that Agenda 2000 introduced some changes into the CAP to soften its quantity-oriented bias and to enhance its rural dimension, but it seems insufficient to state a real move towards the non-food functions of agriculture.

If multifunctionality is made part of a new Agreement on Agriculture, this will actually involve the recognition of a special treatment for the agricultural sector in the world trading system. However, the current negotiations will likely push the CAP to change. Even when the EU successfully invokes the recognition of multifunctionality, a closer control and monitoring of domestic support will probably be a result of the current negotiations.

There are solid arguments that lend hope to changes in the so-called boxes. A certain degree of confusion exists between the measures included in Article 6.5 of the Agreement on Agriculture (blue box) and those in Appendix 2 – Paragraph 10 – (green box). The theoretical justification of the blue box is weak. Almost all the WTO members show an interest in clarifying the criteria for considering that a measure should be in one box or in another, and some countries propose setting limits on all “boxes” combined. Furthermore, a better definition of “decoupling” should be considered.

The EU should be prepared to move some of the payments currently in the blue box to the amber or green boxes. One across-the-board limit to all kinds of domestic support should not be ruled out. Several MCs like Morocco and Egypt have actually asked for a comprehensive reduction of all domestic support to agriculture in industrial economies. This result will also help to break some of the present constraints to transform the current CAP into a truly rural policy. While payments are of a “blue” nature, the CAP reforms seem to be blocked. With the transformation of the blue payments into amber or green, this situation would begin to open up the CAP, and could give push for a new phase for substantial reforms in the next decade. In a sense the WTO talks could have a therapeutic influence on the current CAP, by opening the reform of current CAP payments. The external pressure on the CAP would open a debate on how to allocate the public expenditure on agriculture. Possibly this will enhance the role of more targeted policies to environmental objectives, rural development and to small farmers.

## **6.2 - Mediterranean products and CAP domestic support**

The situation of Mediterranean products is somewhat paradoxical in the present CAP. They are not users of budget, but they are examples of “amber box products”. Thus fruit and vegetables account for 3,5 per cent of total CAP budget. However, the equivalent support for fresh fruit and vegetables notified by the EU to the WTO for the calculation of the Aggregate Measure of Support (AMS) was 10.668 million euro. Total AMS (“amber box”) was 50.194 million euro. Therefore, fruit and vegetables accounted for over 21 per cent the value of the EU amber box. This result was due to the particular way the amber box was estimated, based on calculated differences between domestic and reference foreign prices.

It is for sure that any reduction of the EU amber box will probably affect the horticultural sector. In contrast, the EU has notified a blue box of over 20 billion

Euros (half of it is accounted for by direct payments to cereal producers). These payments were exempted of reduction in the UR Agreement on Agriculture.

Amber box is also important for other Mediterranean products, such as olive oil. Olive oil is an example of a highly subsidised crop in the EU. The 1998 reform of the Common Market Organisation (CMO) of olive oil includes a producer subsidy that can reach 1322,5 Euro per hectare if the Member States' production is lower than their respective Guaranteed National Quantities (GNC). The producer subsidies in percent of total gross earnings of olive growers (market price + subsidies) have increased from 20 per cent, in 1992, to 40 per cent, in 2000 (Garcia-Alvarez-Coque, 2001). The Percent PSE (PSE as a percentage of gross earnings) in olive oil is above 50 per cent, of which 15 points are due to price regulations (basically border protection) and 35 points are the result of payments to producers. Attempts to reform this system are facing strong opposition by the major producer Member States (Spain and Italy).

The situation for Mediterranean products seems quite unbalanced at the EU context for **the amber box, eligible for reduction, concentrates the support granted to Mediterranean products. In contrast, continental products seem to consume more payments of a blue box nature.** Although many countries question the blue box at the WTO, the EU still defends its continuity.

Southern European farmers might have some reasons to complain about the inequalities of CAP support among agricultural products. CAP support, after the 1992 reform and the Agenda 2000 package appears to discriminate in favour of Northern European agriculture. In spite of the existing restrictions to horticultural imports, this sector has shown to be relatively open to foreign competition compared to other sectors such as sugar, beef and cereals. Export subsidies of olive oil and fruit and vegetables have also been bounded by the WTO commitments. The finally bound expenditure on export subsidies for fruit and vegetables in the year 2000 both, fresh and processed, are 75,8 million ECU, and for olive oil is 21 million Ecu. These amounts are around 2,5 per cent of the value of fruit and vegetables and 3,3 per cent of the value of olive oil exported by the EU in 1999.

Southern European farmers could be in favour of a CAP reform oriented to a rebalancing of the agricultural support between the North and the South of the EU. In addition, the EU horticultural and wine sectors are assimilating reforms that introduce new instruments compatible with the multifunctional approach. This is illustrated by the Common Organisation of the Market for fruit and vegetables, which stresses the role of Producer Organisations (PO). Under the Regulation adopted in 1996, "operational programmes" can be submitted by the POs to improve product quality, promote marketing, develop environmentally sound cultivation practices, etc. Approved programmes are part-financed by FEOGA, but producers' own funding is also required. For olive oil, the definitive reform will be shortly under discussion and will deal with the possibility of de-coupling the

support, by focusing on quality and on the environmental role of olive trees in dry and marginal areas.

Therefore, the integral rural policy finds a favourable environment in the Mediterranean regions. A key issue is the funding of the new approach. Any strategy for quality and diversification would require appropriate funding in order to prepare the transition to a more open trade environment. A significant part of the CAP budget is currently tied to blue box payments and this becomes a constraint for reallocation of support to the integral rural policy approach. A positive-sum game, as will surely be the Euro-Mediterranean integration for the whole economy, should envisage compensatory policies to help potential losers to adapt to the a more competitive environment.

As argued in the 1998 CIHEAM report and defended by some authors, the opening of EU markets for Mediterranean products, a matter of clear interest for SEMCs' economies, should consider possible compensatory policies addressed to sensitive Mediterranean areas of the EU. These policies would of course, take the form of green box policies, and could become a complement to the consolidation of the Euro-Mediterranean economic space<sup>24</sup>.

### **6.3 - Co-ordination problems as a source of problem**

Evidence on Mediterranean horticultural markets suggests that SEMCs enjoy cost advantages at the farm level, but high marketing costs and inadequate standards are hindering their competitiveness in the most demanding import markets.

Agricultural policies should be adapted to the nature of problems that affect farm incomes. Isolation of foreign markets may not help to solve these problems. Horticultural producers in Mediterranean regions face serious challenges related to non-price factors affecting markets (see 1998 CIHEAM report). These should be taken into account when foreign competitiveness is assessed. It is true that globalisation implies pressures on producing areas, but they are higher where the marketing system is not efficient or it is monopolised by big companies. Real constraints for domestic producers then result from the imperfect functioning of domestic markets. The lack of transparency in domestic and export markets impose downward pressures on the negotiating power of small farmers, especially when these are not co-ordinated.

Existing evidence on horticultural markets suggest that fruit and vegetable exports by SEMCs are mostly sold under consignment, and they normally lack of regularity and volume. In the short term, this export behaviour does not suit to the EU markets. International competitiveness is also influenced by the availability of an

---

<sup>24</sup> Lorca (2000) refers to the interest of a "Mediterranean agricultural pact", taking into account that the EU continental sectors will probably win from increasing their exports to the SEMCs.

efficient marketing system and by harvest and post-harvest technologies, refrigerated facilities and transport to the main markets. Quality, technology and service will probably be more constraining for MCs exports than the border protection measures. Distribution system in EU countries is increasingly concentrated (Montigaud and Berger, 1997). This implies a market of buyers who are really demanding in terms of quality and regularity of supplies. In Europe, the first 10 retail holdings represent 36 per cent of the food retail market and the first 50 represent over 2/3 of total food sales. With growing concentration at the retail stage, the exporters could still aim at targeting traditional outlets, such as wholesale markets. But this strategy, mainly based on a price advantage, has its limits.

In addition, exporters have to satisfy the specifications laid down by the distribution firms: that means responding to constraints as to quantity and quality, processing and services imposed by the purchaser. Modern distribution is increasingly requesting to accept certain specifications (grades, packing, environmental concerns, time of delivery, etc), which can be imposed through two methods: approval *ex post* when the product arrives to the « platform » or store, and approval *ex ante*, when the producer is required to harvest the product in good conditions, to package and to transport it under controlled temperature conditions. Some big distribution firms in Europe are beginning to set up certification procedures (e.g. ISO 9002), which could facilitate control procedures. One of the most recent developments in Europe will be the establishment of EUREP-GAP, a protocol of Good Practices and use of HACCP by a group of European operators (e.g. Carrefour in France, Safeway in England, COOP Italia in Italy, etc.). Such increasing request for quality certification actually becomes a real opportunity to those who adopt it, but a real constraint for those who don't. Horticultural production for export to the EU will have to comply with environmental regulations and standards in the EU. These constraints work similarly in both shores of the Mediterranean basin.

Border measures do not constitute a good substitute for the need for quality improvement of horticultural products. Horticultural producers across the Mediterranean basing are increasingly aware of that.

On the other hand, a wider access to the EU for SEMCs could create right incentives for further implementation of grades and standards accepted in the EU markets. However, market access is not enough to guarantee a competitive position in horticultural markets, which are strongly dominated by the big distribution. It is often only the well-endowed and skilled farmers and traders that have the ability to be part of marketing chains. There is therefore a danger that the requirements, quality standards, and food safety rules of the consumers and corporations, can act as the real barriers to participation in the high value chains by small exporters and to some extent, small producers.

**It is in this context that the new approaches of economic analysis have to view away of the paradigm of competitive markets and should inform agribusiness and policy makers on the most appropriate forms of organisation** (Kherallah and Khirsten, 2001). There is a wide scope for international co-operation in this area. However, the main lesson to be drawn from last paragraphs is that tariffs and other border measures may have a marginal effect in horticultural markets, compared to other non-price factors with influence on horticultural markets. Quality and co-ordination should then be key words in the new approach for agricultural policies across the Mediterranean.

The old protection and market intervention approaches do not represent a good guide for XXIst century's agri-food policies. Again, rural development should be envisaged as a key reference for agricultural policies, which encourages co-operation among the different shores of the Mediterranean basin. To create a Mediterranean concept for rural development, the Ministers of Agriculture of CIHEAM Member countries expressed their wish to propose a Mediterranean rural development programme (see section 3.2.3). Although the effectiveness of such a pilot programme, inspired under the EU's Leader approach, might be limited at the outlet, what seems relevant is the proposal of

- (i) a common framework for social and territorial cohesion in the Mediterranean basin;
- (ii) a rural development concept based on the mobilisation of local resources; and
- (iii) a call for participation of civil society in the development process.

In summary, it is not just a matter extrapolating the EU's Leader experience to the South and the East of the Mediterranean, but of building a common framework for rural development and, at the same time, trusting on local actors.