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How EU Agri-Environmental Policy Might Have Differed Under Various WTO Scenarios

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Slide 1

*Workshop on 'The Political Economy of Agri-environmental Policies
in the U.S. and the EU', Grass Valley, California, 27-28 May 2005*

**How EU agri-environmental
policy might have differed under
various WTO scenarios**

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Overview

- Introduction
- EU Agri-environment Policy
 - Regulation
 - Rural Development Regulation
 - Multifunctionality
- The Green Box
- EU Agri-environmental Policy under Alternative WTO Scenarios
- Further Reflections, a Tentative Assessment and Some Conclusions

Regulation

- EU and national competencies
- Some EU rules: e.g. the Nitrates Directive
- Perception of a growing bureaucratic burden
 - ‘farmers are already struggling under a heavy burden of red tape; and complying with a plethora of farm assurance schemes adds costs unknown to most overseas producers’, *FW*, 25 June 2004
- *Regulatory Chill?*
 - Animal welfare
- the US view of agri-environmental policy as ‘reducing a bad’ is coming up against the EU’s philosophy of ‘producing a good’, in the form of arguments to the WTO about the ‘multifunctionality’ of agriculture. Smith 1998



Agri-environmental incentives

- Accompanying Measures, 1992 CAP reform
- Second pillar of CAP, Rural Development Regulation, from the 1999 Agenda 2000 reforms
- Many Member States emphasise rural development rather than agri-environment
 - 3 post-1995 states greater than 80% land
- Limited increase in budget in Fischler reforms of 2003
 - but modulation
- New Rural Development Regulation, 2007-2013, and overall budget allocation

Limited Spend

Average annual spend 1995/96 - 2001/02	Million ,
Agri-environmental measures	4,623.2
All Green Box	20,311.1
Green as % of Total Output	9.0%

Multifunctionality

- One of the EU's non-trade concerns
- Entered the lexicography of the CAP in the late 1990s
- Extensive literature and heated debates
- Cross compliance in 2003 reforms
- But EU no longer uses the word in the WTO
- *AND*, the EU has made no specific proposals to include multifunctionality into the URAA
 - contrast animal welfare

The Green Box

- Some WTO Members think its provisions are too expansive
 - wish to see a cap on expenditure, and tighter controls on decoupled income support
- Others have said its provisions are too narrow
 - but the EU has *not* asked for changes to accommodate multifunctionality
- Very specific criteria
 - ‘fundamental requirement that they have no, or at most minimal, trade-distorting effects or effects on production’;
AND policy specific
 - Upland Cotton
 - EU’s new Single Payment Scheme



6(d)

- The amount of such payments in any given year shall not be related to, or based on, the factors of production employed in any year after the base period

Are the EU's agri-environment payments Green Boxed?

Paragraph 12, Annex 2

- (a) Eligibility for such payments shall be determined as part of a clearly-defined government environmental or conservation programme and be dependent on the fulfilment of specific conditions under the government programme, including conditions related to production methods or inputs.
- (b) The amount of payment shall be limited to the extra costs or loss of income involved in complying with the government programme.

Evaluation, March 2005

- ... schemes covering a fairly large geographical area, and payment rates which do not vary. This has the advantage of simplicity and low administrative costs
- ... based on costs incurred and income foregone. In duly justified circumstances, an incentive payment of up to 20% may be paid.



Alternative scenarios 1

- The URAA without a green box
 - other WTO provisions more restrictive
 - Green box, and the Peace Clause, required
 - EU major user of green box. Single Payment Scheme prompted by a belief it would fit the green box
 - but little evidence to suggest that the EU's agri-environment policy was prompted by the green box
 - *Spend is low & criteria are strict*

Alternative scenarios 2

- Potential Challenges to the EU with the Existing URAA
 - conflict with provisions of Paragraph 12 (see earlier slide)
 - trade-off between specificity of measures and transactions costs
 - ‘broad-but-shallow’ schemes particularly problematic

Alternative scenarios 3 & 4

- An expanded green box?
 - despite its earlier rhetoric about multifunctionality, this is not an EU negotiating demand
- A contracted green box?
 - still a negotiating demand, but it is difficult to see how much more contracted Paragraph 12 can become

Conclusions (1)

- GATT/WTO has been important in shaping EU policy
 - MacSharry & Fischler reforms, and the sheltering of green box expenditure
- But it does not seem to have been particularly influential in shaping agri-environmental policy
- The ‘double-dividend’ of CAP reform is still limited
 - Expenditure on the second-pillar limited, and may be reduced in current review

Conclusions (2)

- Cross compliance has no operational significance in the WTO. However it is important in justifying the CAP to EU citizens
- Multifunctionality will not be recognised as an operationally significant principle in the Doha outcome
 - but it will continue to drive EU (and other) perceptions about the desirable limits to trade liberalisation