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EU-US Agricultural Framework Agreement

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Agricultural trade liberalization is one of the cornerstones of the current round of multilateral trade negotiations that began at Doha, Qatar in November 2001 under the auspices of the World Trade Organization. The Doha Development Agenda, as the round is called, missed the March 31, 2003 deadline to agree on the process and procedure whereby trade distorting domestic support, tariffs, and export subsidies would be reduced. The framework agreement (FA) on agricultural trade negotiated between the European Union and the United States on August 12, 2003 is important because it provides a process to be followed that allows some flexibility for countries to better manage access to import sensitive sectors and reductions in trade distorting domestic support.

The framework agreement contains three main elements: <u>domestic support, market access, and export subsidies</u>. For domestic support, the FA reaffirms that the parties agree to implement reductions in trade distorting domestic policies that are significantly larger than the cuts made after the Uruguay Round Agreements (URA) of GATT, or 20 percent. This means that countries with higher levels of trade distorting support will make larger reductions than countries with lower levels of trade distorting support. There appears to be clear agreement to significantly reduce the most trade distorting domestic support (Amber box). Less trade disporting domestic support (Blue box) could be capped at negotiated levels, but this policy classification may be made available to all countries to use, even if they do not now use it. This is significant because it would create a mechanism whereby the United States can account for the level of support associated with counter-cyclical program (CCP) payments under the 2002 farm bill. There was also agreement to reduce the *de minimis* by a proportion to be negotiated. This could reduce the payment levels for some EU farm policies.

For market access, the FA calls for a blended approach to reductions in border protection, such as import tariffs. A agreed upon proportion of all tariffs may be subject to an average reduction and a minimum reduction for each tariff line, similar to the URA. In addition, another proportion of all tariffs could be reduced under the Swiss formula that reduces high tariffs by more than it reduces low tariffs. A negotiated share of tariffs may also be duty-free, meaning free trade in some products as soon as any final WTO agreement is implemented. Special agricultural safeguards, possibly snapback tariffs, are still under negotiation. Safeguards could provide protection for markets that are affected by surges in imports and low prices. More access could be granted through a combination of tariff cuts and expansion in tariff-rate quota levels. These changes would not likely have a major negative impact on U.S. agriculture since most developing countries already have duty-free of low duty access to the U.S. market under the Generalized System of Preferences (GSP) or some other program.

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Regarding export competition, the FA specifies that export subsidies, export credits, state trading enterprises (STE), and food aid programs will be disciplined. There still appears to be a commitment to develop a time line for reducing and phasing out export subsidies. A negotiated share of export subsidies used by developed countries may be eliminated to improve market access for developing country products. This would likely have the most impact on the EU, which has the highest level of export subsidy use. For all other export subsidies, the negotiators will work toward a plan to reduce budgetary and quantity allowances over a time period to be negotiated. A specified portion of the trade distorting component of export credits could also be eliminated. This may mean agreeing on specified time periods for repayment that more closely reflect actual terms used in commercial trade. Rules on food aid could also emerge to ensure that aid shipments do not displace commercial sales. STEs such as the Canadian Wheat Board could face rules on pricing, finance, and single desk operations.

The FA also contains 'issues of interest' on which agreement has not yet been reached. Among the most important are how to resolve the peace clause, dealing with non-trade concerns, geographical indications related to wines, cheeses, and some other products, and provisions for resuming negotiations after the results of the Doha Round are implemented by member countries.

Additionally, the FA calls for adjusting the rules to reflect 'special and differential treatment' (SDT) for developing countries. This means developing countries will not have to lower tariffs by as much or as quickly as developed countries. The concept of SDT supports the original intent of the Doha Agreement and the underlying principles agreed upon when the round started. Economic development and food security are among the most important issues related to these principles. Net food exporters, however, may not receive the full benefit of the SDT.

Now that the FA has been completed, the stage is set to proceed with the ministerial meeting in Cancun on September 10-14, 2004. If the ministerial is successful and all countries can agree on the process and procedures by which trade distortions can be reduced, the next step will be to negotiate the details of reductions in trade distorting domestic support, tariffs, and export subsidies. The objective remains to complete the Doha Development Agenda by the end of 2004.

Source: Joint EC-US Paper, Agriculture, August 13, 2003, United States Trade Representative and USDA, Foreign Agricultural Service.