LA LETTRE DU
CEPII
CENTRE D'ETUDES PROSPECTIVES ET D'INFORMATIONS INTERNATIONALES
No 277 — April 2008

American and European agricultural market access: a concern for the South?

For years, the agricultural policies of the United States and the European Union have been the object of internal debate at the same time as they have been at the heart of agricultural discussions in the Doha round of WTO negotiations. The CAP (Common Agricultural Policy) is being examined in the framework of the "Health Check" and of the general review of EU community finances, the American discussions about the Farm bill are making no headway and the Doha round of negotiations is still blocked. Now suddenly the food crisis that has been developing over the last few months has put agricultural issues into the headlines again. A workshop on European and American agricultural policies took place last March, organised by Bruegel, the CEPII, the German Marshall Fund and the IFPRI. The CEPII presented the conclusions of its evaluation of the effects of opening the European and American agricultural markets to the developing economies. This Letter summarises the principle results of this work.[1]

Internal support, subsidies and access to markets

Supporting agriculture and protecting consumers from external risks are objectives shared by many countries. Few of them, however, have the financial resources needed to sustain real agricultural policies. It is mainly the rich countries that have this privilege. Agricultural policies have been criticised, especially in Europe, for taking up budgetary resources that could be more usefully spent elsewhere. These policies also have a damaging effect on developing countries. For many years, the European Union and the United States have been blamed for competing unfairly with the poor countries' producers in their own markets by subsidising their own production (American cotton, for example) and their exports (European cereals and meat).

Successive reforms of the CAP (MacSharry reforms in 1992, Agenda 2000, mid-term review in 2003) have produced significant reductions in intervention prices. This, combined with the high prices of the last few years, has considerably reduced export subsidies, and in certain sectors (cereals), they have even disappeared. Moreover, if an agreement is signed within the WTO, all export subsidies must be eliminated before 2013. In the matter of production subsidies, in many sectors "decoupling" has eliminated the link between the amount of subsidy and the level of production.

As such, the CAP appears to more closely comply with the EU's international commitments; and if the CAP still needs further reforms, it is above all for internal reasons,

1. C. Gouel, A. Guillin, & M.P. Ramos, (2008), "The Effects of Agricultural Policies on Developing Countries at a Detail Level", *TradeAg Working Paper*. This work has received financial support from the German Marshall Fund of the United States.

essentially due to the fact that the CAP is still very expensive (42% of the European budget). On the American side, however, internal subsidies are a much bigger problem. The latest Farm Bills, 2002 and 2007 (in the process of approval), have tended to increase aid without introducing greater decoupling.

Overall, even if certain production or export subsidies continue to be problematic, agricultural subsidies are no longer the same challenge as compared to the situation ten years ago.

Nevertheless, the problem of import barriers remains. The United States imposes an average customs duty of 7.9% on entry to their agricultural market, the European Union an average customs duty of 18.5%. Hence, one should not neglect the importance of customs duties, as many agricultural policy commentators do, and consider them as minor protectionist measures, less harmful than production or export subsidies. On the contrary, these duties constitute both a subsidy for domestic producers and a tax on consumers.[2] Moreover, they greatly penalise developing country exporters wishing to gain access to these markets.

From this point of view, partner countries are not all on an equal footing. Among the developing countries with intermediary incomes, several large agricultural producers still have very limited access to American and European markets and would greatly benefit from liberalisation. For the poorer countries, different preferential tariff arrangements give them privileged access to these markets; this is the case for African countries in the American market (AGOA)[3] and for the European market ACP countries (the Cotonou Agreement)[4] or less developed countries (Everything But Arms Initiative).[5] For these countries, full market opening in America and Europe to all developing countries would mean losing some preferential treatment making their exports less competitive.

Who are the winners?

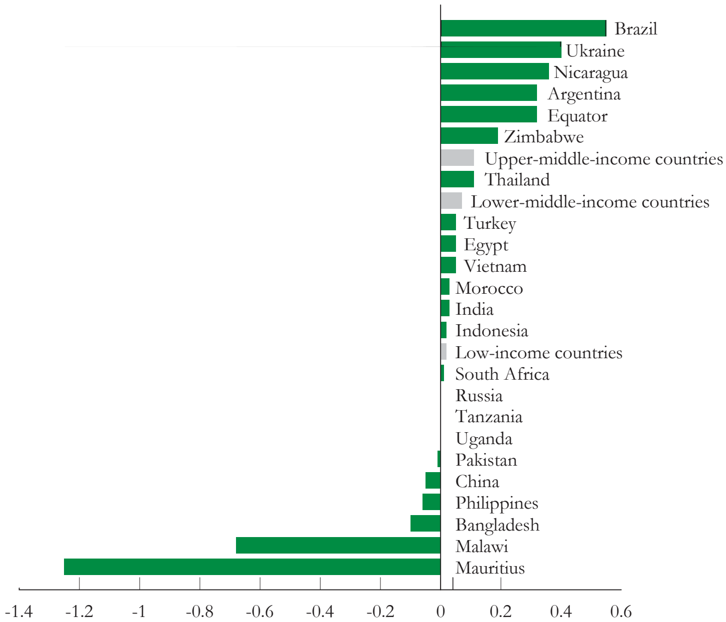
Assessments of the cost of import barriers are usually made with the help of computable general equilibrium models, such as the CEPII's MIRAGE model. These models only work at a relatively aggregated level (around twenty agricultural and agribusiness sectors), which limits their ability to take into account the complexity of agricultural protection. Most agricultural customs duties, for example, are entirely or partially "specific", which means that the tax is based on the volume and not on the value of the imports. Another of the key characteristics of agricultural protectionism is the existence of tariff-rate quotas: customs duties levied below a certain quota are small; above they are large, sometimes prohibitive. During most simulation exercises, these instruments, specific duties and tariff-rate quotas, are summarised by a simple ad valorem protection, which does not properly describe the real protection and can significantly skew the results.

In order to avoid these distortions and to take into consideration the complexity of the European and American agricultural trade policies, we have developed in detail in the MIRAGE model the flows of trade at HS6 level, the most detailed harmonised system of coding that exists globally. Thus, we can analyse the impact of the elimination of American and European customs duties on the 700 agricultural products included in this list. The mechanisms are the following: when a country reduces its custom duties, domestic prices (taxes included) of the imported products come down; since the price is lower, internal production decreases and demand increases; because the market is open, this demand has a greater effect on global markets, which leads to higher global prices. We do not show the transition towards a new global equilibrium; our results should be interpreted as the situation that would have existed in 2004 in the absence of European and American agricultural barriers.

For the developing countries as a whole, the overall economic cost of these agricultural import barriers can be estimated, in welfare terms, at 5 billion dollars, the equivalent of a 0.08% potential gain if the markets were liberalised. These effects, though small when aggregated, vary enormously from country to country (see graph 1). Brazil alone would benefit from half of these gains, with an increase of 0.55%. One third of the 26 countries or groups of developing countries included in our simulation would lose out. These losses would be particularly strong for Malawi and Mauritius, net

2. See for example the study made by K. Anderson, W. Martin & E. Valenzuela (2006), "The Relative Importance of Global Agricultural Subsidies and Market Access", *World Trade Review*, 5, 357-376.
3. African Growth and Opportunity Act, adopted by the United States in 2000.
4. The Cotonou Agreement is replaced by the Economic Partnership Agreements currently under negotiation. See Economic Partnership Agreements: "The impact of trade liberalisation", *La Lettre du CEPII*, no. 276, March 2008.
5. The Everything But Arms Initiative regulations were adopted by the European Council in February 2001.

Graph 1
Concentration of the effect of opening markets on a few countries
Welfare variations in %



Source: Results of simulations carried out by the authors using MIRAGE.

exporters of agricultural products, due to the erosion of their preferential margin. The other countries that would be less well off are the net importers: by increasing global prices, agricultural liberalisation would increase their food bill. However, for most of these countries, the losses due to liberalisation would be small, less than 0.1%.[6]

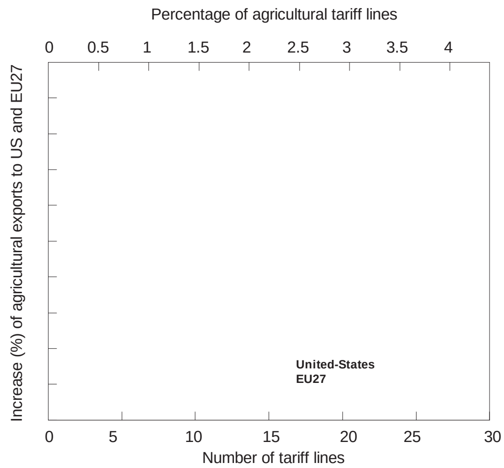
Liberalisation would have a much greater effect on trade flow and the agricultural income of developing countries. The agricultural exports of these countries would increase towards Europe and the United States by 50% (+49 billion dollars). Brazil would benefit from a little under a third of this increase, doubling its exports. Such an increase in both export volumes and global prices would result in increased income for farmers, 1% in low-income countries (India, Vietnam, *etc.*), up to 3% in upper-middle-income countries (Brazil, South Africa, *etc.*) Hence, agricultural liberalisation in Europe and the United States would bring a redistribution of wealth in developing countries between farmers who may benefit from higher prices and consumers who would have to pay higher food bills.

Everything hangs on just a few products

Our detailed modelling system highlights another important result: everything hangs on just a few products. If customs barriers were eliminated, the additional imports in the United States and Europe would be concentrated on a very small number of products. In the same way, each developing country taken individually would only see a difference in a few products.

Graph 2 shows that most of the increase in agricultural exports from the developing countries towards the US and the EU would be concentrated on thirty agricultural products (*i.e.* 4.5% of the tariff lines). In the case of the EU, 50% of the increase would be concentrated on the first eight products; in the case of the United States, the first eight products would correspond to 80% of the increase.

Graph 2
Concentration of the effect of opening markets on a few products



Reading: For the EU27, 5 products (tariff lines), that is 0.7% of the number of lines, concentrate more than 40% of the increase in exports created by opening markets; 30 products (4.5% of the lines) concentrate nearly 80%.

Source: Results of simulations carried out by the authors using MIRAGE.

The products most affected by the trade liberalisation, listed in Table 1, are those that are currently confronted with the highest levels of protection and which are frequently the subject of tariff quotas.[7] Of these, beef, sugar, and bananas provoke the greatest international trade disputes. These conflicts frequently concern the distribution of gains between developing countries; Brazilian exports in particular taking a large share and

6. Nevertheless, it is difficult to assess the true between countries distributive effect of the liberalisation of agricultural trade in the framework of this model, because the countries most likely to lose out are aggregated in the regions for which data is notoriously poor (this is the case for most of the countries that benefit from preferential agreements).
7. 5.2% of the agricultural exports from developing countries to the United States and the EU concern products subject to tariff-rate quotas. With liberalisation, these products would concentrate 19% of the total increase in exports; they would represent 9.8% of exports.

Table 1 – The first 15 products affected by opening the United States and EU markets

		Share of each product in the total increase in exports	Amount
		in %	
020130	Beef of veal off the bone, fresh or refrigerated	13.4	13.4
170199	Cane or beet sugar and pure saccharine	8.8	22.2
170111	Cane sugar, unrefined	7.1	29.3
020120	Beef or veal on the bone, fresh or refrigerated	5.6	34.9
020230	Beef or veal meat off the bone, frozen	4.5	39.4
080300	Bananas and plantains, fresh or dried	4.1	43.5
240120	Tabacco partly or wholly stripped	3.6	47.1
150910	Virgin olive oil and its	2.9	50.0
040130	Milk and milk cream, non-concentrated, fat content >6%	2.3	52.3
020329	Pigmeat, frozen	2,0	54.3
100630	Wholly or semi milled rice, even polished or glazed	1.9	56.2
040210	Milk and milk cream, in power, granules, etc., fat content =<1.5%	1.8	58.0
230890	Plant residues and by-products, for animal feed	1.8	59.8
020443	Mutton and lamb off the bone, frozen	1.6	61.4
160250	Prepared or preserved beef products	1.6	63.0

Source: Results of simulations carried out by the authors using MIRAGE.

possibly, due to the liberalisation, supplanting those of other poorer countries.

These results are important from the point of view of the negotiations ongoing at the WTO. As with industrial products, improved access to agricultural markets is based on a tariff cut formula.[8] However, in order to introduce the flexibility required to reach an agreement, all the member countries would be authorised to determine a list of "sensitive" products for which opening of the market would remain limited (for example, tariff reductions would be smaller and would work in the form of tariff-rate quotas). Thus, according to Falconer's proposition in February 2008, developed countries could define a list of sensitive products corresponding to between 4% and 6% of tariff lines. As our results indicate, this could mean that developing countries could lose at least 75% of the potential gains from total liberalisation of the American and European agricultural markets. Clearly, this shows that the real challenges for the Doha round of agricultural negotiations are not the tariff cut formulae that would be applied to all agricultural products, but indubitably the selection and the tariff cuts of the sensitive products. Simply applying smaller tariff cuts to the 4% of sensitive products would be sufficient to cancel most of the gains expected from liberalisation.

Should there be more trade liberalisation?

In the current international context where agricultural prices are exceptionally high, isn't there a risk that greater liberalisation might worsen the food situation in net importer developing countries?

In fact, our analysis shows that the products that Europe and the United States protect most - those which would be liberalised and whose global prices could increase - are meat, milk products and sugar. These products are not at the centre of the food crisis. For the populations of the poor countries, the difficulties are above all, related to basic products: rice or wheat, whose trade and global prices would only be marginally affected by the liberalisation of European and American markets.[9]

Today, obstacles blocking entry to United States and European Union agricultural markets are still harmful to developing countries, but in very different ways. For most of these countries, the aggregated stakes of their elimination are very small, even if they are significantly higher for their farming populations. Only a few countries with strong exports would benefit. In the end, the real winners from lowering trade barriers in the United States and the EU would be the American and European consumers who would benefit from lower prices on their domestic markets.

Christophe Gouel & Maria Priscila Ramos
laure.boivin@cepii.fr

8. See "WTO: The meaning of the formula", La *Lettre du CEPII*, no. 253, February 2006; D. Laborde, "Doha : un round en développement", in CEPII, *L'économie mondiale 2008*, Repères, La Découverte
9. This conclusion would not be valid if the markets in Asian countries such as Korea or Japan were opened as they strongly protect their domestic production of rice.

LA LETTRE DU CEPII

EDITORIAL OFFICES

Centre d'études prospectives et d'informations internationales,
9, rue Georges-Pitard
75015 Paris.
Tél. : 33 (0)1 53 68 55 14
Fax : 33 (0)1 53 68 55 03

PUBLISHER:
Agnès Bénassy-Quéré
Director of the CEPII

CHIEF EDITOR:
Agnès Chevallier

DTP:
Laure Boivin

DISTRIBUTION:
La Documentation française.

SUBSCRIPTION only to the original, French version.
(11 issues per year)
France 49.50 € VAT
Europe 51.30 € VAT
DOM-TOM (NET, econ. air mail)
50.20 € NET
Other countries (NET, econ. air mail)
51.20 € NET

Please send your orders to:
La Documentation française,
124, rue Henri Barbusse
93308 Aubervilliers Cedex
Tél. : 33 (0)1 40.15.70.00

WEB site: **www.cepii.fr**
ISSN 0243-1947

CCP n° 1462 AD
2nd Quarter 2008
April 2008

Imp. ROBERT-PARIS
Imprimé en France