Agricultural Policies in OECD Countries 10 Years After the Uruguay Round: How Much Progress?

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Agricultural policy reform and the WTO: where are we heading?

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1 Introduction

International trade negotiations deal with trade issues. This may sound like a trivial statement. However, implicitly it addresses the complex relationships between trade and domestic policies, and it begs the question of what the ultimate purpose of trade negotiations is or should be. Are trade negotiations primarily about reducing, if not eliminating, the negative effects that one country's policies may have on another country? Is it irrelevant whether rules agreed in international trade negotiations, in addition to putting a break on international spillovers of national policies, also lead governments towards more economically rational policy making in the interest of their domestic citizens? Clearly, the concrete rules agreed in international trade negotiations relate typically not to trade per se, but to policy instruments used by governments, both at the border (such as tariffs) and in the domestic economy (such as subsidies). This has to be the case because it is only policy, but not trade that can be controlled by governments, at least in market economies. However, is it only the trade effect of these policies that is relevant in the negotiations, or are their implications for the domestic economy of interest as well? In other words, are international trade negotiations an exercise in mercantilism, or are they about better policy making in a broad sense? In many cases, reducing trade distortions and improving the economic rationality of policies go hand in hand. After all, generations of economists have held that free trade is in the best self-interest of all countries. But if that view were shared by all policy makers, then there would be no need for international trade negotiations. Hence another question, of a purely empirical nature, is whether international trade negotiations do indeed help to improve domestic policies.

In the Uruguay Round, a major step forward was made in terms of agreeing international rules and commitments for agricultural policy making. After four decades of largely unsuccessful attempts at establishing effective and operational rules for agriculture in the GATT, the Uruguay Round negotiations achieved a breakthrough. Nearly ten years have now passed since the conclusion of these negotiations. How have agricultural policies during this period responded to the new international framework of rules and commitments? Have the Uruguay Round negotiations on agriculture been successful in achieving their objectives? How have agricultural policies developed under the newly established Agreement on Agriculture? This paper makes a modest attempt at providing at least some partial answers to these questions, regarding policy developments in the thirty Member countries of the Organisation for Economic Co-operation and Development (OECD).

The paper starts by providing some quantitative evidence on agricultural policy developments in the OECD countries (section 2). It then looks at the way in which the Uruguay Round Agreement on Agriculture has interacted with agricultural policy making in

the OECD area (section 3) and at the evolution of the agenda for the agricultural policy dialogue in the OECD (section 4).

2 Agricultural Policy Developments after the Uruguay Round: The Quantitative Evidence

A central aim of the agricultural negotiations in the Uruguay Round, as laid down in the Punta del Este Declaration of September 1986, was "to achieve greater liberalization of trade in agriculture".[1] In the preamble of the Agreement on Agriculture (AoA) that was finally concluded after the negotiations, WTO Members recall that the long-term objective they had agreed at the Mid-Term Review of the Uruguay Round was "to establish a fair and market-oriented agricultural trading system and that a reform process should be established", providing "for substantial progressive reductions in agricultural support and protection". In the AoA preamble, WTO Members also note "that commitments under the reform programme should be made in an equitable way among all Members". The way towards achieving these objectives was by establishing binding commitments, in quantitative terms, in the three areas of market access, domestic support and export competition. But have agricultural policy developments in OECD countries after the Uruguay Round been such that "substantial progressive reductions in agricultural support and protection" were accomplished? The regular monitoring and evaluation by OECD of agricultural policies in its Member countries, using among other tools the famous Producer Support Estimates (PSE) and related indicators, generates a wealth of information that should help to answer this question.

A useful summary overview, showing three important dimensions of agricultural support developments in the OECD area, is provided in Graph 1. The principal yardstick of support provided to farmers is the percentage PSE, expressing the value of gross transfers from consumers and taxpayers to agricultural producers as a share of gross farm receipts, shown as "level" in Graph 1. Support defined in this way has only marginally declined since the beginning of the Uruguay Round negotiations (1986-88). An indicator of the extent to which market orientation may have improved is any reduction of that share of transfers to producers in their gross revenues which is provided through the most production and trade distorting policies, i.e. market price support, and payments based on output and input quantities. That indicator is shown as "composition" of policies in this graph. In this dimension there has been some progress in the reform process which was one of the aims of the Uruguay Round. The extent to which policies generate production and trade distortions on individual markets, though, also depends on the "variation" of support across commodities.

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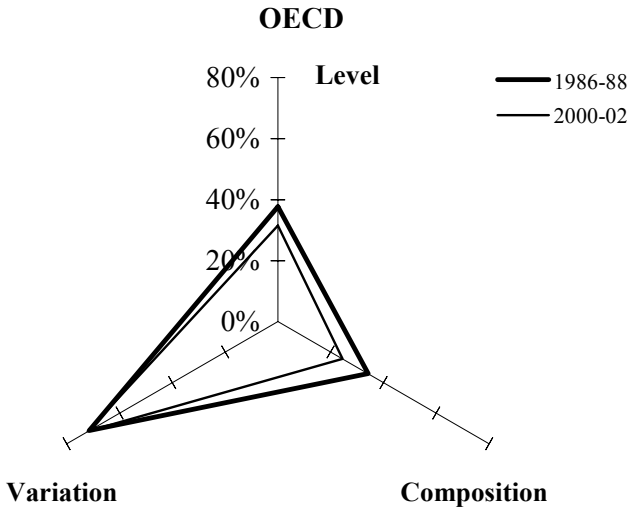
[1] GATT, Basic Instruments and Selected Documents, Vol. 33S, p. 24.

This is because different degrees of support provided to products that are close substitutes, typically the case in agricultural production activities, can strongly affect production patterns. In this dimension of agricultural support no progress has been made since the beginning of the Uruguay Round. Nevertheless, there are significant differences in the trends in these dimensions across the 30 OECD Member countries.

Graph 1: OECD Producer Support



Notes:

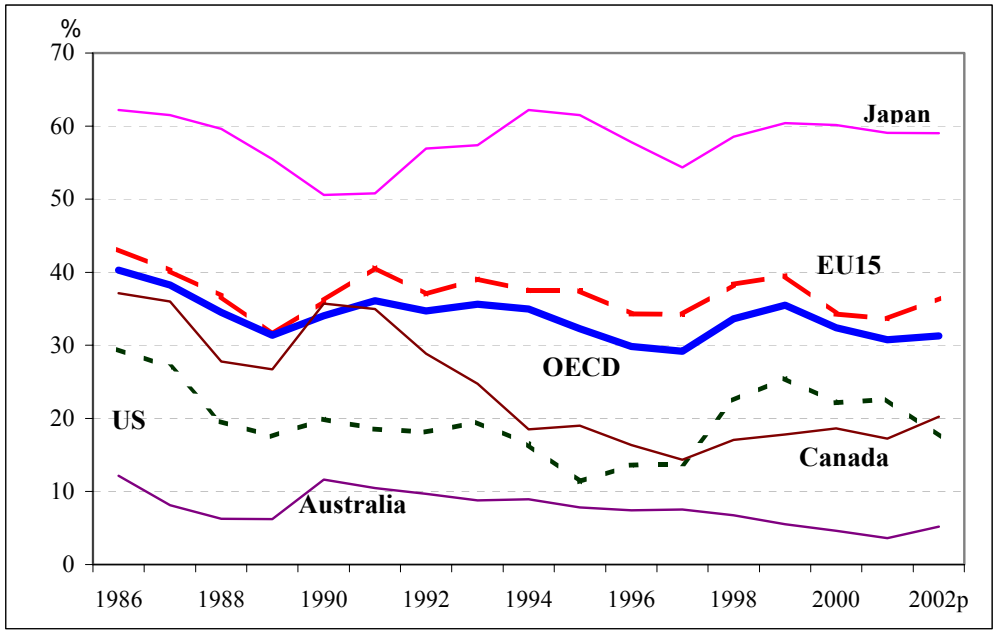
1. The level of support is measured by the % PSE. The composition of support is measured by the share of market price support, payments based on output and payments based on inputs in gross farm receipts. Variation in support is measured by the coefficient of variation of commodity producer nominal assistance coefficients (NAC*p*), weighted by value of production.

2. All the axes are on the same scale shown on the vertical axis.

Source: OECD, PSE/CSE database, Paris, 2003.

A closer look at support developments over time, as provided in Graph 2, actually shows that most of the decline in the %PSE for the aggregate of OECD countries, over the whole of the period since OECD engages in this analysis, was achieved during the first half of Uruguay Round negotiations, from 1986 to 1989. Since that time, the support level has fluctuated somewhat, but not shown any obvious downward trend. As it happens, in 2002 the %PSE for the OECD aggregate stood precisely where it was in 1989. In some OECD countries, support levels have declined significantly over the last 15 years. In other countries, though, a declining support level in earlier years was later followed by a rise in support. Overall, the period since the reduction commitments of the Uruguay Round AoA entered into force, i.e. since 1995, cannot be said to have exhibited a decrease in the level of agricultural producer support in the OECD area. As a matter of fact, it is precisely in this period where support noticeably increased in some OECD countries.

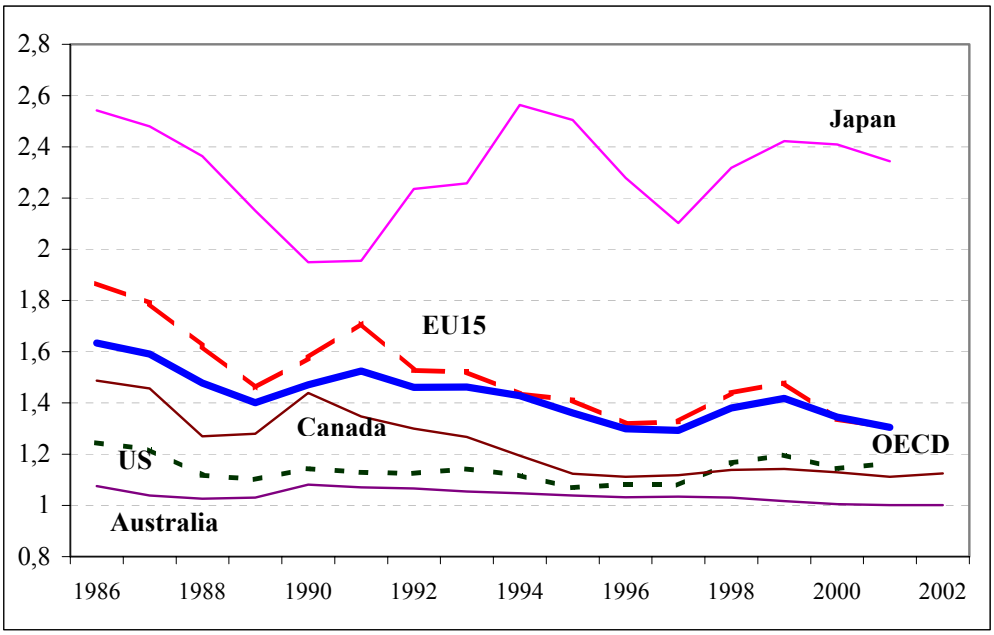
Graph 2: Support Levels in the OECD Area and Member Countries, %PSE



Source: OECD, PSE/CSE database, Paris, 2003.

The Uruguay Round's objective on agriculture was not only to achieve "substantial progressive reductions in agricultural support", but also to see the level of agricultural protection be reduced substantially. What is the evidence for OECD Member countries? The relevant indicator to answer this question is the Producer Nominal Protection Coefficient (NCP*p*), measuring the ratio between the average price received by producers (at farm gate), including payments per tonne of current output, and the border price (measured at the farm gate). As portrayed in Graph 3, more progress has been made on this count for the OECD area overall and on average over all products included in the OECD's PSE analysis. Over the whole period from the beginning of the Uruguay Round negotiations to 2002, the gap between domestic and world market prices has narrowed significantly. While in 1986 domestic producer prices in OECD countries were on average 63 per cent above their border price equivalent, by 2002 that percentage gap had halved, to 31 per cent. Again, a good part of this decline occurred while the Uruguay Round negotiations were still going on. But before the implementation period started, in 1994, OECD domestic producer prices were still 43 per cent above the international market level, and thus further progress was indeed made during the implementation period. As in the case of support levels, there are obvious differences in protection coefficients among individual OECD countries, and also the development over time has differed significantly among countries. However, overall, there has been notable progress in the OECD area towards less market protection.

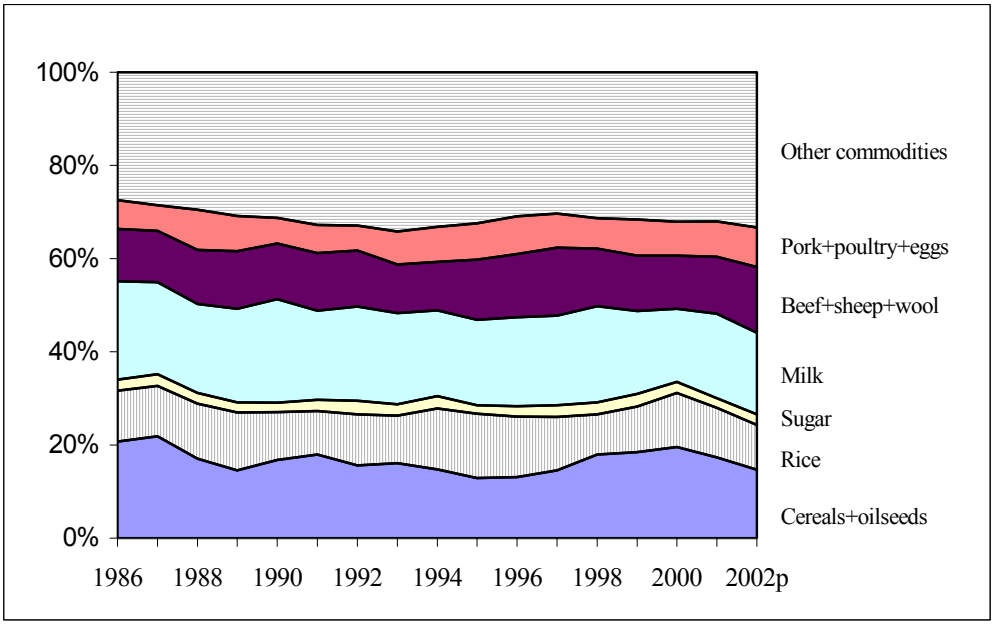
Graph 3: Producer Price Protection in Selected OECD Countries (NPC*p*), Average over All Products



Source: OECD, PSE/CSE database, Paris, 2003.

Though not directly an element of the declared objectives of the Uruguay Round AoA, the profile of support across individual agricultural products is also an important factor in considering distortions to international agricultural trade. This is because, as mentioned above, uneven levels of support among products that are close substitutes in production (and consumption) can also cause pronounced allocative distortions. As shown above (in Graph 1), the variation of support levels across products has not on average been reduced since the beginning of the Uruguay Round negotiations. Nevertheless, the commodity composition of support, i.e. shares of individual commodity groups in the aggregate level of the OECD Producer Support Estimate (in million US$), has changed somewhat over time (Graph 4). Over the whole of the period from 1986 to 2002, the shares of cereals/oilseeds, rice and milk in aggregate producer support have declined, while those of beef/sheep/wool, pork/poultry/eggs and other commodities have increased correspondingly. However, these changes have not been very large, and hence the commodity profile of support cannot be said to have been modified fundamentally.

Graph 4: Commodity Composition of the Producer Support Estimate in the OECD Aggregate



Source: OECD, PSE/CSE database, Paris, 2003.

In addition to producer support, i.e. support provided by measures that directly affect revenues of individual farmers, the OECD also calculates the Total Support Estimate (TSE), an indicator of the annual monetary value of all gross transfers from taxpayers and consumers arising from policy measures that support agriculture, net of the associated budgetary receipts. Besides the Producer Support Estimate, the TSE also includes the General Services Support Estimate (GSSE), an indicator of the annual monetary value of gross transfers to general services provided to agriculture collectively (as opposed to individual farmers), such as research and development, training and inspection services; and transfers to consumers from taxpayers (TCT), for example in the form of reduced-price access to food.[2] In the WTO context, a significant part of the policies captured in the OECD's GSSE and TCT would tend to fall in the category of the "green box" of domestic support. Within a given level of the Total Support Estimate, a move away from producer support and towards general services (GSSE), and possibly to taxpayer transfers to consumers (TCT), could indicate a policy shift towards less production and trade distorting policies. A minor movement in this direction, from PSE to GSSE, has taken place over the whole of the observed period in the OECD aggregate (Graph 5). However, again this change in policy composition has not been very large, and most of it occurred during the time the Uruguay Round negotiations were still going on.

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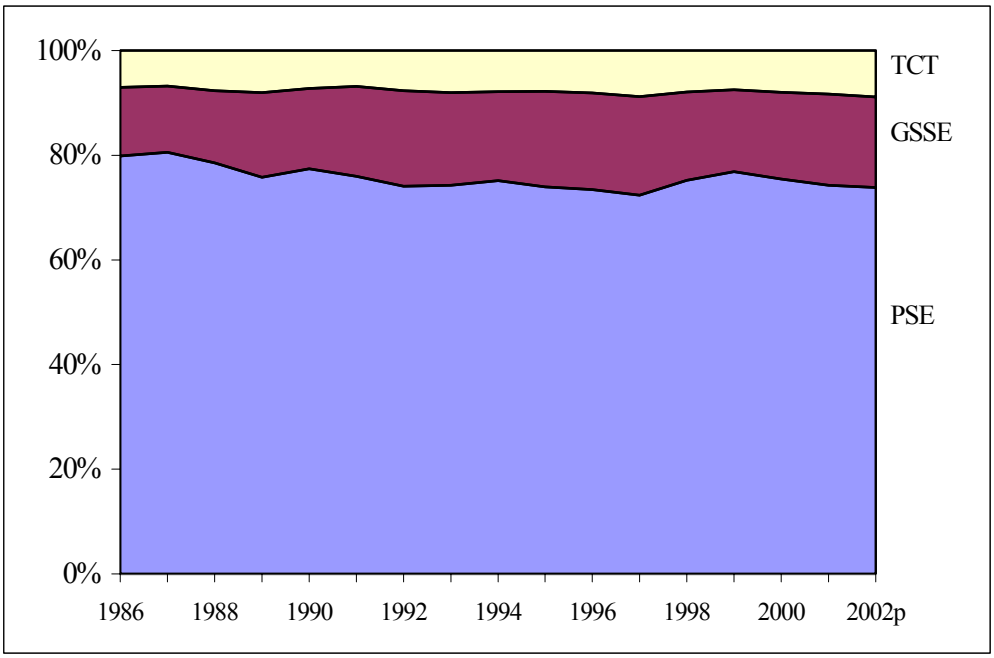
[2] A major element in this category is the US Food Stamp programme.

Graph 5: Composition of Total Support Estimate, OECD Aggregate

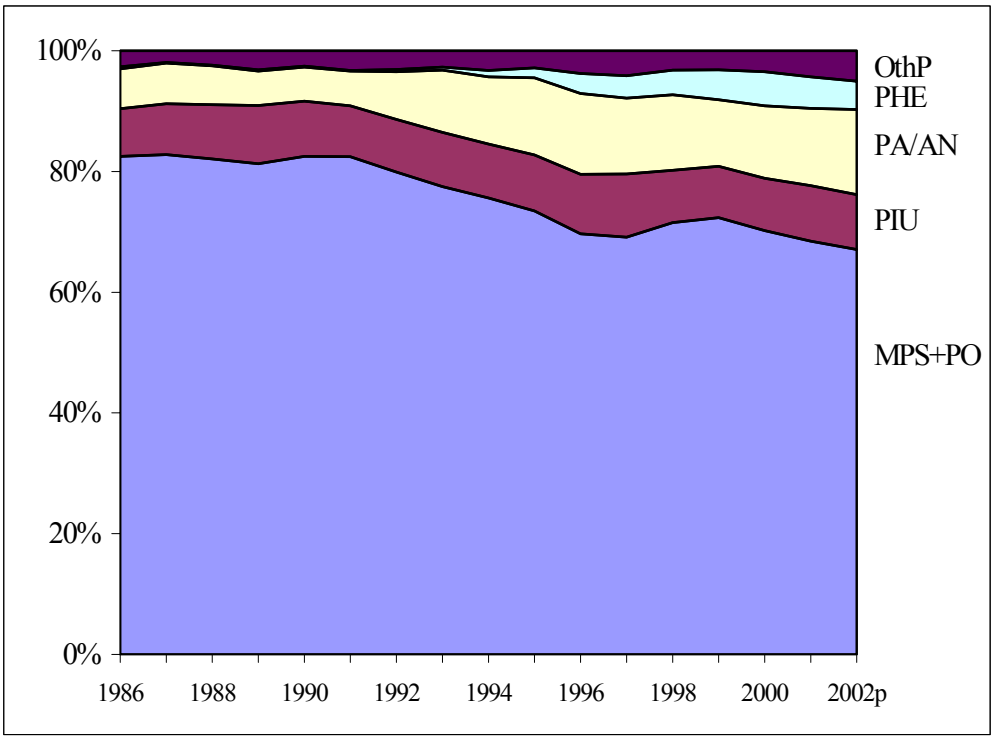


Source: OECD, PSE/CSE database, Paris, 2003.

More pronounced were changes in the composition of the various measures that provide transfers directly to individual farmers, as captured in the Producer Support Estimate (Graph 6). In particular, the share of overall OECD producer support that came in the form of market price support (MPS) and payments per tonne of output (PO) has declined significantly over time, from 83 per cent in 1986 to 67 per cent in 2002, and mirrors the reduction in market protection noted earlier. Indeed, a major part of this decline was achieved after the Uruguay Round. This is an important development, as market price support and output payments are among the most production and trade distorting instruments of agricultural policy (OECD, 2001a). On the other hand, payments based on input use (PIU), also strongly market distorting (OECD, 2001a), have exhibited a roughly constant share of aggregate producer support, at 9 per cent in 2002. While the share of market price and output support has declined, the share of payments based on area planted and animal numbers (PA/AN) in aggregate producer support has expanded, mainly since the early 1990s, i.e. in the second half of Uruguay Round negotiations. In 2002, such area and livestock payments accounted for a share of 14 per cent in aggregate OECD producer support. These types of payments can still have significant effects on production and trade, but are less distorting than market price and output support (OECD, 2001a). Still less distorting are payments based on historical entitlements (PHE), another category of measures whose share in producer support expanded at the expense of market and output support. In other words, since the beginning of the Uruguay Round, and in particular during its second half and the implementation period, a significant shift in OECD

agricultural policy composition has taken place, towards more decoupled and hence less production and trade distorting measures. From that perspective, noteworthy progress has been made towards achieving the AoA's aim of moving in the direction of a more "market-oriented agricultural trading system".

Graph 6: Composition of Producer Support Estimate, OECD Aggregate

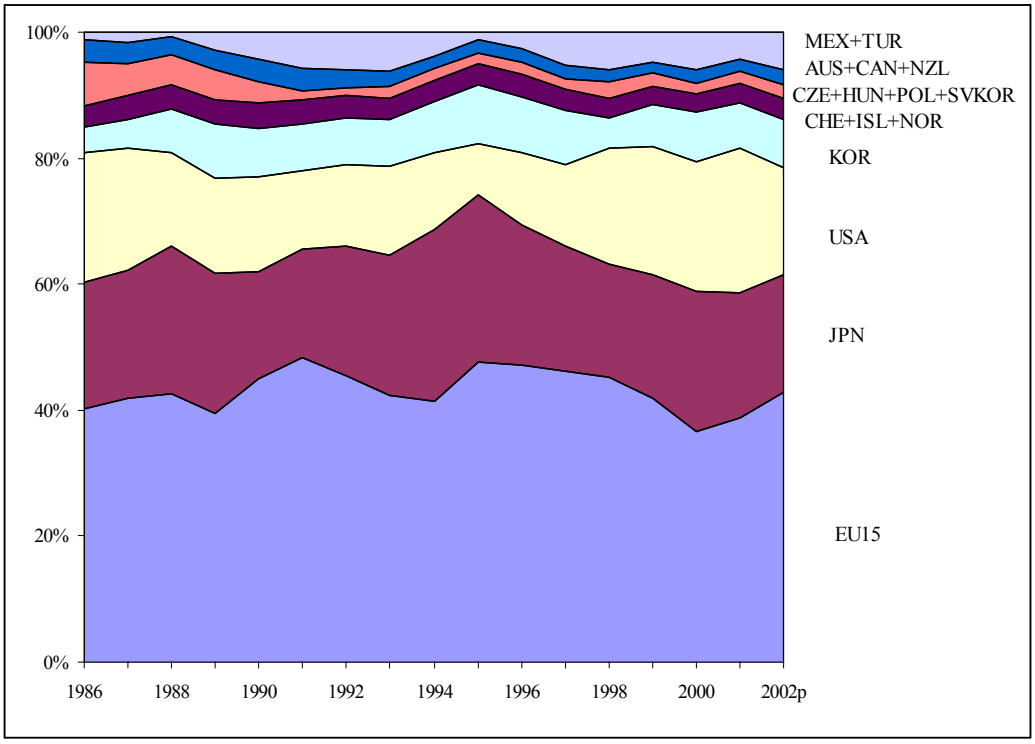


Source: OECD, PSE/CSE database, Paris, 2003.

Finally, an important aspect in the Uruguay Round negotiations on agriculture was that all countries should participate in the reform process, making commitments "in an equitable way among all Members". One way of looking at this aim is to see how the country composition of aggregate OECD producer support has developed over time (Graph 7). Obviously, there have been marked changes in the country profile of producer support in sub-periods. However, it is noteworthy that the aggregate share of the three largest entities regarding producer support (EU15, Japan and USA) in the OECD has remained relatively constant at around 80 per cent over the whole of the observation period, with changes in shares of these three entities in some years largely cancelling out. The share of Korea in aggregate OECD producer support has increased somewhat; that of Switzerland, Iceland and Norway taken together has remained largely constant; the share of the four transition economies (Czech and Slovak Republics, Hungary and Poland) has declined; as did the

aggregate share of Australia, Canada and New Zealand; while the aggregate share of Mexico and Turkey increased.

Graph 7: Country Composition of OECD Producer Support Estimate



Source: OECD, PSE/CSE database, Paris, 2003.

Another way of looking at the country profile of OECD agricultural support is to set support levels against the values of agricultural production in the individual countries. In Graph 8, each point represents one OECD Member country (respectively the EU15).[3] Countries are ranked, from left to right, according to increasing support levels as measured by the %PSE, plotted on the vertical axis. The horizontal axis shows the cumulative shares of countries in the OECD aggregate of total value of agricultural production.[4] In the graph, the situation at the beginning of the Uruguay Round (1986-88) is compared with the current situation (2000-02). Interpreting the lines connecting country points roughly as continuous profiles, one can say that one half of OECD agricultural output is now produced at support levels below 25 per cent PSE, while in 1986-88 it was necessary to go up as high as 35 per cent PSE to capture one half of OECD agricultural production. This is another indication of

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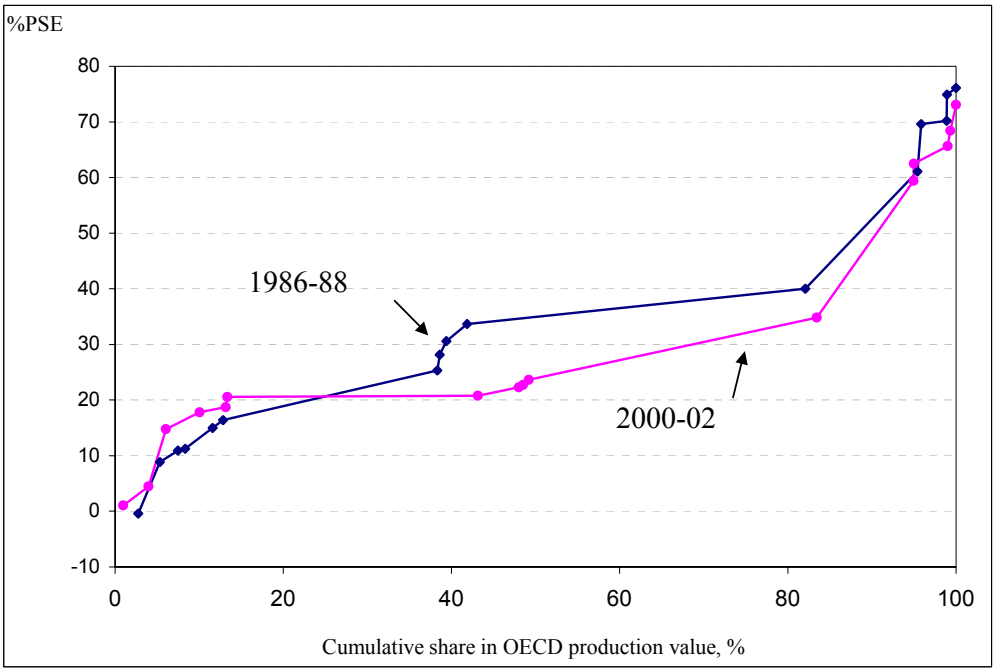
3 A graph like this, including several non-OECD countries, can also be found in Gulati and Narayanan (2003), p. 25.

4 In order to add up values of production across countries, these values were converted to US$ using current exchange rates.

some longer-run progress in policy reform among OECD countries. Of course, ideally one would like to see, as an indication of agricultural policy reform, the more recent line in this graph to be everywhere below the line representing the earlier period. Interestingly this is not, however, the case for that part of OECD agricultural output that is produced at low levels of support. Thus, even though the situation has improved, in terms of reduced support levels, on the whole, the share of overall OECD agricultural output that is produced at support below around 20 per cent PSE is now smaller than it was fifteen years ago.

Graph 8: Support Levels and Cumulative Production Value of OECD Countries



Note: In the graph, each point represents one OECD country (resp. the EU). Countries are ranked according to increasing %PSE.

Source: OECD, PSE/CSE database, Paris, 2003.

In summary, the record is somewhat mixed regarding the extent to which the objectives of the Uruguay Round AoA have been achieved among OECD countries, if seen from the perspective of the support indicators as used in OECD's work on monitoring and evaluation of agricultural policies. Overall, the level of agricultural support has declined somewhat since the beginning of the Uruguay Round negotiations, but most of that decline was achieved while the negotiations were still going on. There were no large shifts of overall support among countries and product groups. Regarding the nature of policy instruments used, progress was more pronounced than with respect to the level of support. In particular, market protection has been reduced significantly, including during the AoA implementation period. There was some shift away from support to individual producers, and towards general

services provided to the agricultural sector. Most noticeable, use of one of the most production and trade distorting categories of support, i.e. market price support and output payments, has declined significantly, including during the AoA implementation period, and has given place to forms of support that are more decoupled from production decisions, in the form of payments based on area/animal numbers and payments based on historical entitlements. On the other hand, price and output support, as well as payments based on input use, still account for by far the largest share of all agricultural support in the OECD area, jointly making up for three quarters of producer support. Within these overall trends in the OECD area, there are obvious differences among individual countries. In particular, producer support has significantly decreased in some countries, while in other countries is has remained at high levels.

3 The WTO and Domestic Policy Decisions

There is no doubt that the new qualitative rules and quantitative commitments on agriculture established in the Uruguay Round have fundamentally changed the nature of the legal framework in which agricultural policies in WTO Member countries can be pursued. However, the quantitative evidence on developments of agricultural policies in OECD countries presented in the preceding section does not appear to suggest that there have been large reductions of the overall level of producer support actually provided to OECD agriculture after the Uruguay Round, though rates of border protection have declined significantly. Logic suggests that there are at least three hypotheses which could potentially explain what might be considered an apparent contradiction between the changes in the legal framework on the one hand and the lack of changes in the levels of economic measurement of support on the other hand.

First, it could be that governments have simply disregarded the new rules and commitments. This would mean they came to Marrakesh to create the WTO and sign the various agreements, including the Agreement on Agriculture, but then went home and disregarded the new disciplines on agricultural policies. However, this was obviously not the case. On the contrary, it can be said that overall the new disciplines have been fairly faithfully honoured by governments, as evidenced by the relatively small number of WTO disputes that have addressed elements of the Uruguay Round AoA since 1995 (Tangermann, 2002). The few cases that have resulted in disputes on AoA provisions appear rather to have been the exceptions that confirm the rule of honest respect for the new WTO disciplines in agriculture.

A second possible explanation might be that, while policies were adjusted in an attempt to meet the objectives of the internationally agreed reform process, market developments were such that levels of support still remained high. In particular, it could potentially have

been the case that levels of price support in OECD countries were reduced, in domestic currency terms, but world market prices declined, or exchange rates of domestic currencies appreciated, at the same time, leaving measured levels of support close to where they were at the end of the Uruguay Round. In looking at this hypothesis it is useful to introduce a conceptual distinction between *explicit* and *implicit* components of agricultural support policies.

The *explicit* component of policy might be considered to be what results directly from policy parameters set by governments, such as the determination of a support price in domestic currency. The *implicit* policy component, then, would result when domestic policy settings do not adjust to current market developments, say a decline in the world market price of the commodity concerned. It is only if one considers both the explicit and implicit components that one can capture the totality of actual effects of policies. This is immediately clear if one keeps in mind that the effects of any policy can only be measured against a reference situation, and that the most obvious reference situation is that of no policy (Tangermann and Buckwell, 1999). In the absence of price support, the domestic market price would be in line with the border price (plus or minus transport cost and other margins), and would therefore directly reflect changes in world market prices and exchange rates. A situation where a domestic support price was reduced through an explicit policy decision (say, to meet a WTO commitment), but where the world market price also declined, leaving the measured rate of protection and support unchanged, can then be described as one in which the *explicit* policy component was outweighed by the *implicit* policy component. In a case like that, the total policy effect would be zero.

PSEs and NPCs as measured by OECD deliberately and appropriately include both explicit and implicit policy components, because their purpose is to measure the totality of policy effects. One major element of the WTO commitments in agriculture, on the other hand, is defined such that it refers only to an explicit policy component. This is the market price support element of the domestic support commitments. As market price support, in the WTO context, is measured against a fixed external reference price in domestic currency, it does not reflect changes in world market prices and exchange rates, and therefore is affected only by changes in domestic support price settings, i.e. the explicit policy component.[5] In other words, the apparent contradiction between the existence of WTO reduction commitments on the one hand and largely unchanged levels of support as measured by OECD could potentially be

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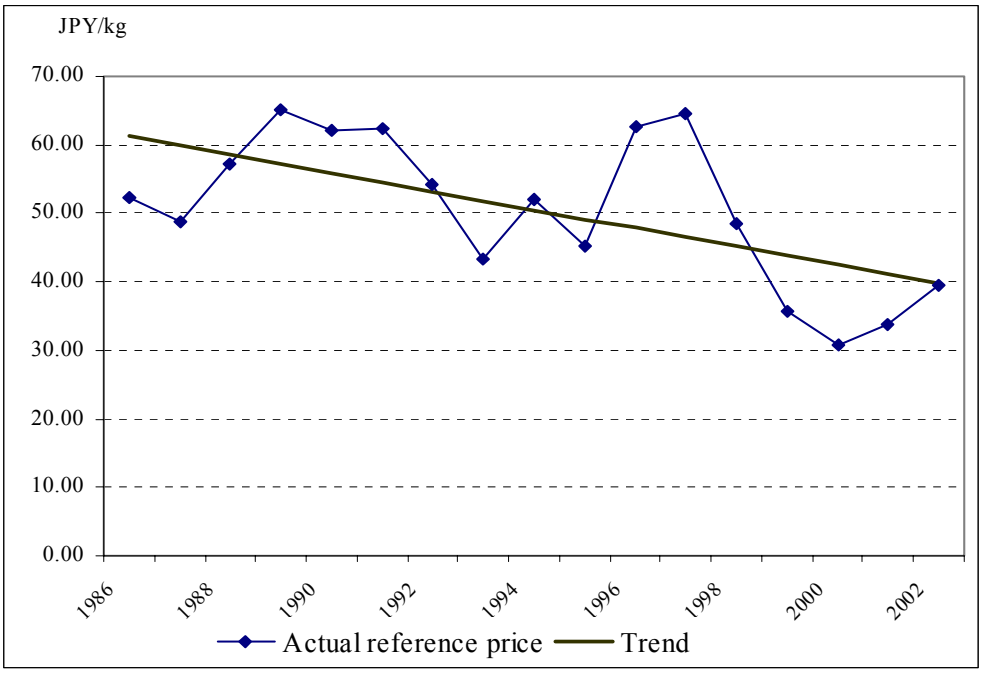
[5] The market price support element of the WTO commitments on domestic support was deliberately defined so that it included only an explicit policy component of price support because negotiators felt that a legally binding commiment could relate only to parameters that governments could directly determine through explicit decisions.

explained by the fact that some elements of the WTO commitments relate only to explicit policy components, while OECD levels of support also include implicit policy components.

Before looking empirically at the distinction between explicit and implicit policy components, their definition needs to be refined a little. In order to make good practical sense, longer run market trends should be considered in defining the explicit policy component. This is because no policy can, without causing ever growing and ultimately excessive, economic and political costs, ignore long run market trends and, in particular, pull domestic market prices further and further away from international price trends. It would, therefore, appear sensible to define the explicit policy component with reference to the trend of international market prices. In the case of market price support, the explicit policy component would, then, be measured by the gap between the domestic support price and the trend of the world market price, for the same commodity, in domestic currency. The implicit policy component then arises out of any divergences between actual world market prices and their trend.

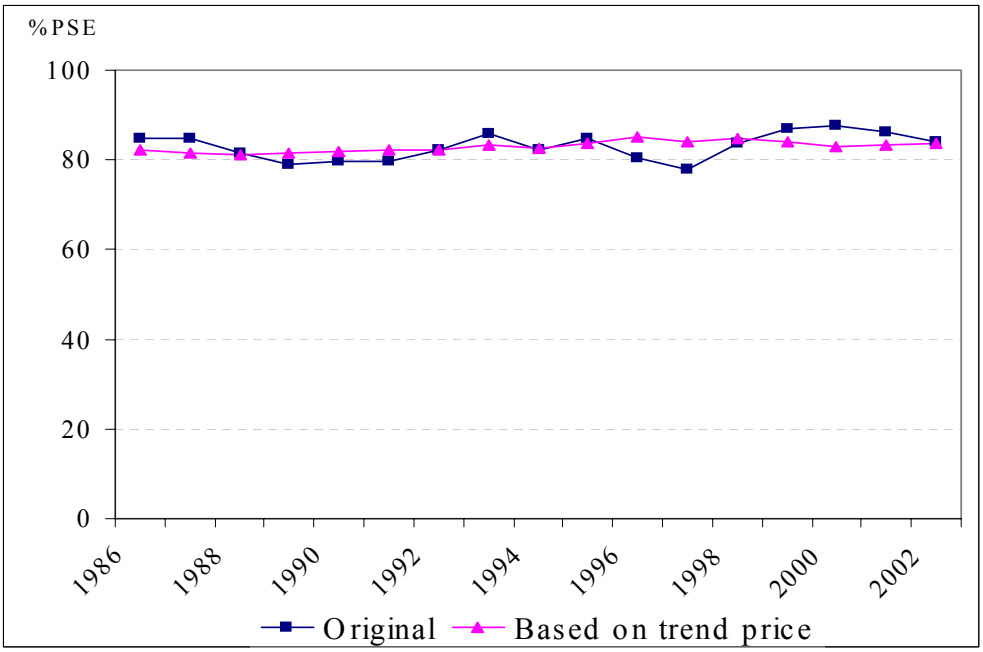
This is not the place for a comprehensive analysis of such explicit and implicit components in OECD agricultural policies as monitored by OECD within the PSE framework. To provide just two examples, only the cases of Japan and the EU will be considered here. For an illustration of the approach used, consider the case of rice in Japan. Based on the current reference price (i.e. border price equivalent) actually used in calculating the OECD's PSE, a linear trend was calculated (Graph 9). The market price support component of the PSE was then recalculated using the trend of the reference price rather than the actual reference price. This recalculation yields a recalculated %PSE for this product, based on the trend of the reference price (Graph 10). In this particular case, in spite of rather significant deviations of the actual reference from its trend, the differences between the original %PSE and the recalculated %PSE are relatively small, because the reference price is low relative to the domestic producer price.

Graph 9: OECD Reference Price for PSE Measurement, Actual and Linear Trend, Japan, Rice



Source: OECD, PSE/CSE database, Paris, 2003.

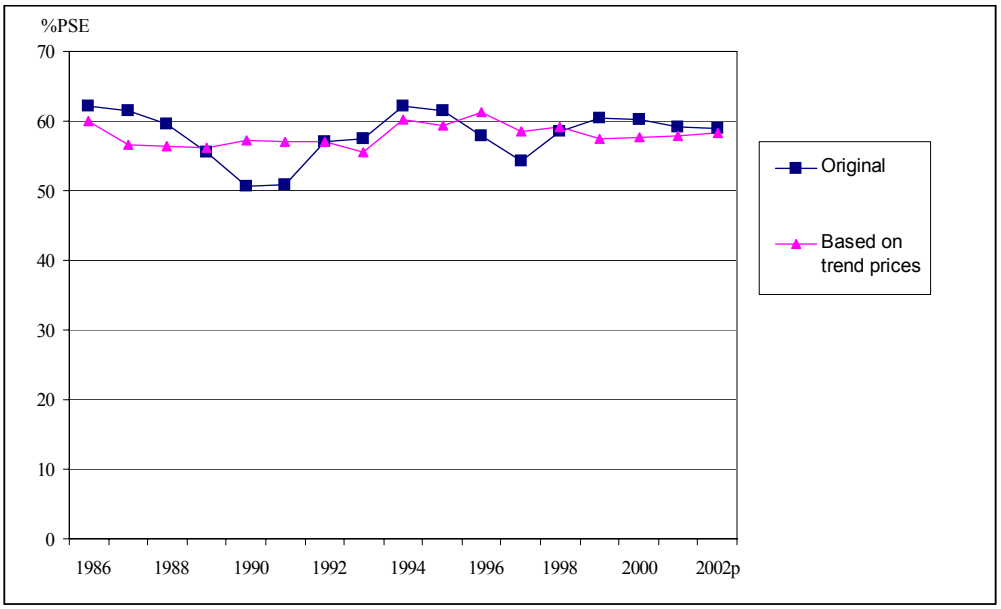
Graph 10: OECD %PSE, Original and Based on Trend Reference Price, Japan, Rice



Source: OECD, PSE/CSE database, Paris, 2003.

The same procedure was, then, applied to all commodities, and the aggregate %PSE was also recalculated based on trend reference prices for all commodities (Graph 11). As expected, the recalculated %PSE based on trend reference prices, i.e. the %PSE resulting from the explicit policy component, fluctuates less than the original series including the implicit policy component as well. However, the differences between the two series are not, in most years, very large.

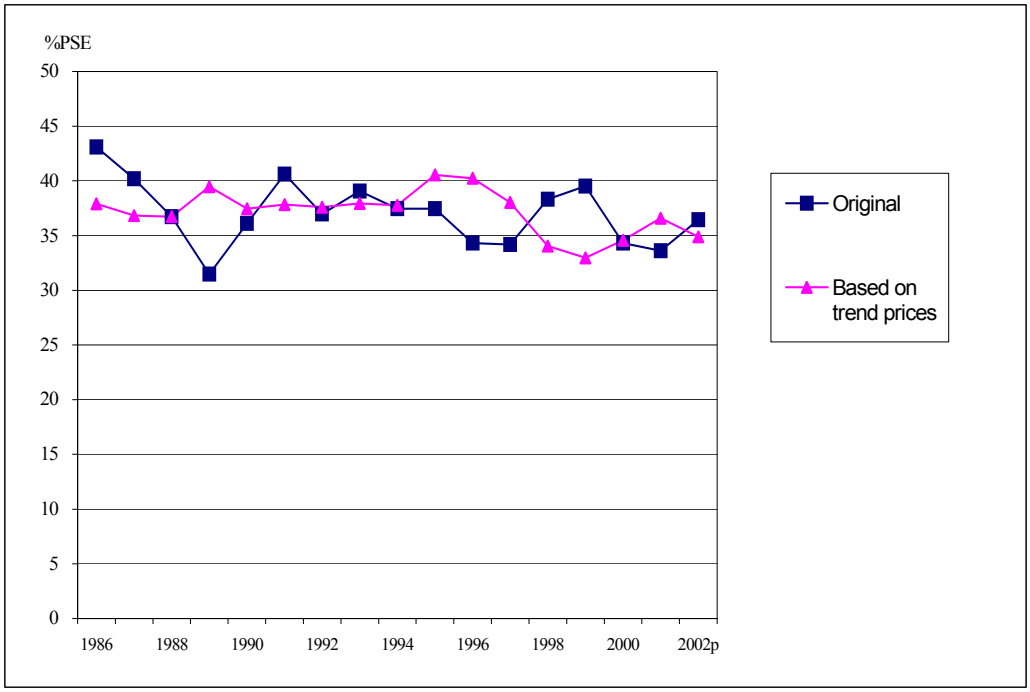
Graph 11: Percentage PSE for Japan, All Commodities, Original Series and Recalculated Based on Trend Prices



Source: OECD, PSE/CSE database, Paris, 2003.

An equivalent recalculation of the overall %PSE for the EU15 has also been carried out (Graph 12). For the EU15, too, the recalculated %PSE based on trend reference prices, representing the explicit policy component, fluctuates less than the original series, although it still exhibits significant volatility. Also, the differences between the two series in the case of the EU15 are somewhat larger than in the case of Japan. This is mainly due to the fact that the EU's %PSE is lower than that of Japan, and hence given percentage fluctuations of reference prices have a larger effect on the %PSE. Overall, these calculations would seem to indicate that the original series using observed reference prices is an accurate indicator of the trend over the medium and longer term.

Graph 12: Percentage PSE for the EU15, All Commodities, Original Series and Recalculated Based on Trend Prices



Source: OECD, PSE/CSE database, Paris, 2003.

Based on these two illustrative cases, one gets the impression that the distinction between the explicit and implicit policy components may not explain a large part of the findings that actual support levels, as measured by the OECD, did not decline significantly after the Uruguay Round. However, looking at developments from this perspective can add another insight. The market price support element of the WTO's Current Total AMS is based on a fixed external reference price in domestic currency. Actual world market prices of most agricultural commodities, on the other hand, exhibit a declining long run trend, certainly in real (i.e. inflation adjusted) terms, if not even in nominal terms. It can, therefore, in the longer run be perfectly possible that market price support for a given commodity in a given country, as defined in the WTO context, is brought down to zero, while price support defined in economic terms (and as measured by the OECD), based on the gap between the domestic price and the actual border price, is still significantly positive.

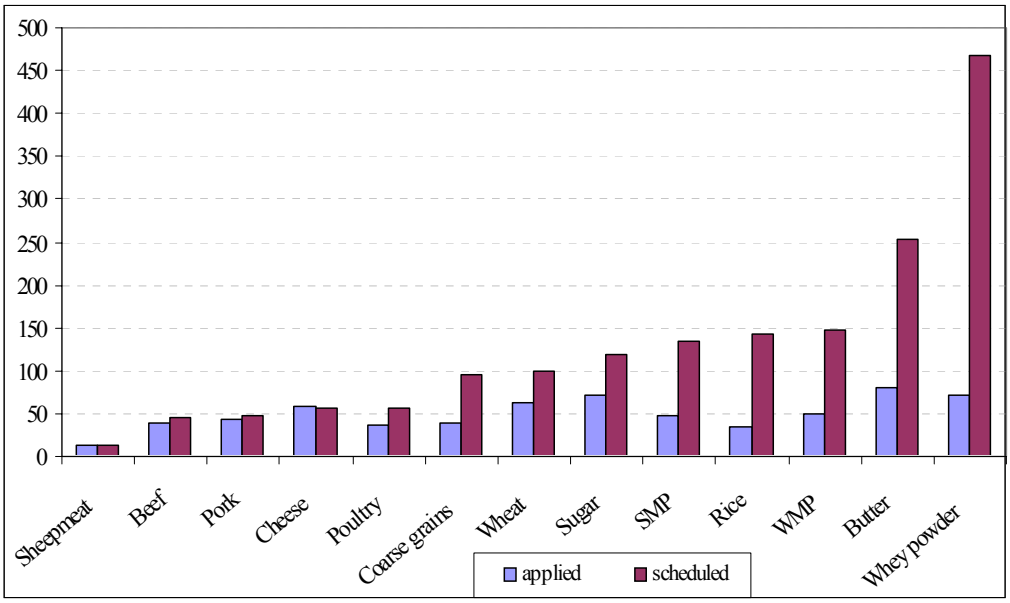
The distinction between explicit and implicit policy components is not equally relevant in all areas of the AoA provisions, as several other elements of the WTO reduction commitments are defined such that they relate to explicit policy components. This is particularly true for tariff bindings and export subsidies, both of which are directly determined by governments. If a government is required, by a WTO commitment, to reduce a given tariff then it has to do so, and the tariff cut cannot be outweighed by any market development. If a commitment to reduce given export subsidies is binding, then the

government concerned needs to take action. Market developments can help, in the sense that higher world prices or lower domestic supplies may reduce the "need" for export subsidies, but as long as the commitment is binding the government cannot avoid action.

This takes us to the third explanation for why levels of support may not have declined in spite of the new WTO reduction commitments. It is that there may have been so much "water" in the newly established quantitative commitments that even the reductions agreed in the Uruguay Round did not yet effectively constrain the room for manoeuvre for policies as they existed at the time. This was obviously true in many cases. A number of analyses have shown that the commitments established as a result of the "modalities" negotiated in the Uruguay Round were often relatively generous and have not yet constrained OECD country policies in a number of cases, in particular in the areas of market access and domestic support, see, for example, OECD (2001b, 2002a and 2002b) and Diakosavvas (2001).

As far as tariffs are concerned, some OECD countries have set most, if not all, applied tariffs at the bound rates, and hence indeed had to reduce them after the Uruguay Round. Where that is the case, the reduction commitments for tariffs were binding. However, there are also many cases where applied tariffs remained significantly below the bound rates, and on average, over selected OECD countries, the gap between bound and applied rates is rather large for some commodities (Graph 13).

Graph 13: Applied and Scheduled Tariffs for Selected Commodities: 1997



Note: Data for Iceland, Korea, Norway, Poland, Switzerland, and the United States are not included. Data for the European Union are included only for wheat and coarse grains.

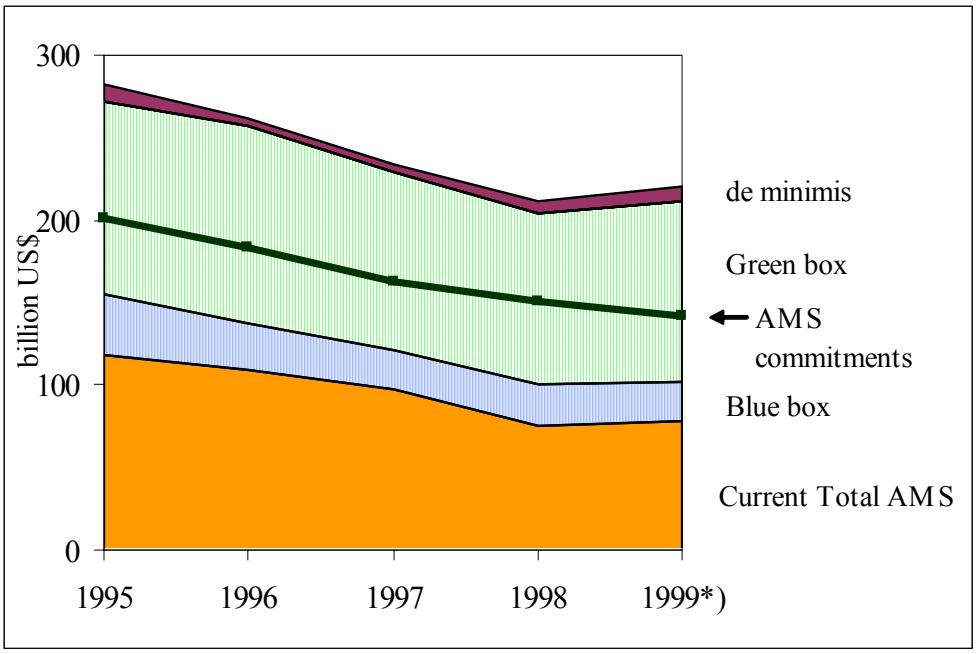
Source: OECD calculations based on the AMAD database. Adopted from OECD (2002a)

Moreover, there are many cases where tariffs levels are prohibitive, and hence reducing them does, in a given range, no more than squeeze some of the economic water out of these tariffs, without affecting domestic price levels and trade flows. This was a major reason why many exporting countries were keen to have minimum access commitments agreed in the Uruguay Round. However, it has turned out that even many of these newly established tariff rate quotas, even where within-quota tariffs were significantly below "normal" tariffs, have not so far been fully utilized (OECD, 2002a). There is much speculation and political argument about the reasons for such low fill rates, and a lot of research remains to be done in this area.

Given the fact that commitments in the area of market access were not (yet) binding in many cases, it is interesting to note that, for the OECD area overall, the level of producer price protection in agriculture has declined noticeably since the beginning of the Uruguay Round, including during the implementation period, as shown above. To some extent this may have to do with the fact that the export subsidy reduction commitments have, indeed, constrained policies in a number of cases, and may have triggered reductions in the level of price support.

In the case of domestic support, the situation is simply that commitment levels were set at such high levels that in many cases both their original and the reduced final levels provided more room for manoeuvre than actual policies required. This is evidenced by the large percentage of all country/year observations in which only rather small shares of the domestic support commitments were actually used. On aggregate, in the OECD area, the level of Current Total AMS was no higher than 60 per cent of the AMS commitments in the years 1995 to 1997, and only 50 per cent in 1998 (Graph 14). It is, though, interesting to note that, even though the domestic support commitments agreed in the WTO were not binding in many countries, the actual level of accountable domestic support as defined under WTO rules still fell during the implementation period. Of course, when interpreting this finding one has again to keep in mind that market price support, an important element in the Current Total AMS, is for WTO purposes measured between administered prices and fixed external reference prices, and the comments made above in the context of discussing explicit and implicit policy effects apply. Another interesting finding of this examination of the OECD aggregate of WTO notifications on domestic support, is that the total level of green box support has remained roughly constant over that part of the AoA implementation period covered here. In other words, for the OECD aggregate one does not find a significant shift of support into the WTO green box. Usage of the *de minimis* provisions, though, has increased somewhat recently for the OECD aggregate. Of course, these developments of OECD aggregates hide significant differences in the usage of the domestic support commitments across individual countries.

Graph 14: Domestic Support and WTO Commitments, OECD Aggregate



*) 1999 data do not yet include Hungary, Mexico, Switzerland and Turkey.

Note: Domestic support levels notified by the individual OECD countries, as well as their AMS commitments have been converted into US$ using current exchange rates of the years concerned.

Source: WTO notifications of OECD countries, var. issues.

If the diagnosis is correct that the lack of further progress in reducing levels of support after the Uruguay Round is mainly a result of the fact that the quantitative parameters embodied in the newly established disciplines (and their nature, see fixed external reference prices) were such that policies were often effectively not constrained, this has two important implications. First, and this has been occasionally observed, the non-binding character of the new commitments may have been the price that had to be paid during the Uruguay Round for the acceptance of a wholly new legal framework in the WTO for agricultural trade and policies. Second, with further reductions agreed in the current round of negotiations and in future rounds, at some point the commitments will begin to bite and then one can expect to see actual policy changes, and resulting reductions in levels of support and protection, to be triggered by the AoA. It is this perspective that one may want to have in mind when assessing the current state of affairs in the Doha Development Agenda (DDA) negotiations. To be sure, negotiators appear to be still far apart on what the modalities for agriculture should be, and it is far from clear when agreement will be reached and what the parameters of the outcome will look like. However, no OECD country has questioned the need for further reductions in all areas of commitments during the current round of negotiations. Moreover, even the lower reduction rates some countries have proposed, though falling far behind the aspirations of the more progressive countries, would probably go quite a way towards squeezing much of the

remaining water out of many commitments, so that further reductions would then actually begin to be effective. From this point of view there is reason for mild optimism.

The relationship between the WTO disciplines for agriculture and domestic policies discussed in this section has not only a *quantitative* dimension. One can also ask whether the existence of the Uruguay Round AoA has changed the *qualitative* nature of the policy debate in the WTO Member countries. When policy changes were considered and finally enacted, did the existence of the AoA and of the respective country's commitments play a role in the process of decision making? Have certain policies that might otherwise have been continued or introduced been excluded from the range of options? Have changes in policy instrumentation been made with an explicit view to the WTO disciplines? Have longer-run policy orientations been introduced on the grounds that they might be required by, or at least beneficial with regard to, existing or future WTO constraints? This theme cannot be explored here in any comprehensive way, but a few pieces of anecdotal evidence from two OECD countries/entities will be provided that may serve to make the point that the existence of the AoA has in a number of cases changed the framework of agricultural policy making, and that in this sense the Uruguay Round achievements on agriculture have indeed made a remarkable change.

In the USA, a major revision of agricultural policy settings was introduced soon after the end of the Uruguay Round, in the 1996 Federal Agriculture Improvement Reform (FAIR) Act. The major driving forces behind the changes made in this farm bill were certainly of a domestic nature, related not the least to budgetary considerations (Orden, Paarlberg and Roe, 1999; Moyer and Josling, 2002). However, in the debate about where policies should go, the existence of the Uruguay Round AoA also played a role. In the view of Moyer and Josling (2002, p. 170), "while the FAIR Act was primarily influenced by domestic factors, the URAA did have an influence". These authors also cite "one individual influential in the congressional process" as having made the point that "the successful completion of the Uruguay Round gave all of us confidence in what we were doing and was a boost to morale. … The movement away from supply management in the 1996 Farm Bill reflects the influence of the Uruguay Round" (p. 170-71). However, Moyer and Josling (2002, p. 237) also observe that "the Uruguay Round Agreement on Agriculture also had a complex effect on the 1996 US Farm Bill debate, injecting both liberal and illiberal elements into the discussion".

Half a decade later, when the next revision of US farm policy was discussed in Congress, leading to the Farm Security and Rural Investment (FSRI) Act of 2002, the WTO provisions played a significant role in the debate, in particular regarding the domestic support commitments. In fact, the FSRI Act contains a provision requiring the Secretary of Agriculture to adjust expenditures, to the maximum extent practicable, if necessary to avoid exceeding allowable AMS levels. In the Congressional debate on policy instrumentation, the

various options for providing domestic support under the relevant AoA provisions were one factor in the equation, and it appears an attempt was made to use them as fully as possible, but of course no more. As one close observer put it to the author, Congress looked at the various domestic support boxes and provisions, including *de minimis*, like glasses that one could try to fill to the brim.

In the EU, the first significant effect on policy making that the Uruguay Round had was noticeable before the round had ended, and it arguably was a major ingredient into paving the way towards a successful conclusion of that round. This was the MacSharry reform of the CAP decided in 1992. At the time, politicians never tired of emphasising, to the general public, that this CAP reform had nothing at all to do with the ongoing GATT negotiations, but was necessary for purely domestic reasons (Vahl, 1997; Moyer and Josling, 2002). However, to most observers it was clear that the need to make progress in the agricultural negotiations of the Uruguay Round was a major factor in the drive towards this reform (Moyer and Josling, 2002; Coleman and Tangermann, 1999).

While during the Uruguay Round negotiations it was considered politically unwise in the EU to even mention the GATT as a factor in taking domestic policy decisions, the situation has fundamentally changed a decade later. In the ongoing debate about the mid-term review of the Common Agricultural Policy (now officially referred to as "A Long-Term Policy Perspective for Sustainable Agriculture), it is still held that reform decisions have to be considered mainly from the perspective of domestic concerns. However, their potential implications for the WTO negotiations are also explicitly referred to. The explanatory memorandum accompanying the legal proposals for the reform tabled by the European Commission in January 2003 contains the following statement:

"As regards WTO aspects, the new single farm payment will be green box compatible. Decoupling will allow the European Union to maximise its negotiating capital in order to achieve its WTO objectives such as non-trade concerns. Hence the proposals for decoupling could be crucial in getting the best deal for the European Model of Agriculture." (European Commission, 2003, p. 4)

In the debate on the Commission's reform proposals among Ministers of Agriculture, reference is also occasionally made to the WTO. For example, according to a press report, Ireland's Minister of Agriculture Mr. Walsh has recently commented in the following way on the reform debate:

"When everything was thrown into the melting-pot, the reaction was: `We don't want this. We had reform in Agenda 2000 and it should last until 2007.' But in the context of the WTO, I think people are gradually coming to the view that it would be preferable to have this matter concluded now." (Agra Europe, Agranet, 16 May, 2003)

Many more examples could be provided of where the existence of the AoA, and the ongoing WTO agricultural negotiations under the current Doha Development Agenda, have influenced the agricultural policy debate in OECD countries, and have actually resulted in concrete policy decisions. The few cases cited here may, though, be sufficient to illustrate one fundamental point regarding the impact of the WTO on agricultural policy making in OECD countries. It may well be the case that the rules and reduction commitments agreed during the Uruguay Round have not yet, in many cases, required major adjustments in existing agricultural policy measures. However, the Uruguay Round has been a watershed regarding the international framework within which agricultural policy decisions are now taken. Before the Uruguay Round, the GATT did not figure significantly, if at all, in most agricultural policy decisions. After the conclusion of the Uruguay Round AoA, however, the situation has changed. Policy makers are aware of the constraints that now exist, and factor them in when it comes to considering policy choices. Moreover, while in the past the four letters "GATT" were unknown to many participants in the agricultural policy debate, the term "WTO" can now be heard even when farmers chat to each other in their local pub!

4 Evolution of the Policy Agenda

Apart from concrete policy decisions, another possible indication of progress in the agricultural policy arena is the agenda for international debate. Again, this subject cannot be covered here in any comprehensive way. A few deliberately selective comments on the agricultural policy dialogue taking place in the OECD must suffice.

OECD work on agriculture, which arguably played a pivotal role in preparing the conceptual ground for the Uruguay Round negotiations on agriculture (Josling, Warley, Tangermann, 1996), has continued to deal, after the Uruguay Round, with many of the issues that were at the forefront of the international policy debate on agriculture at the time the negotiations were going on. In particular, in its work on agricultural trade issues, OECD has looked closely into the nature of the new rules and commitments agreed in the AoA (OECD, 1995), into their implementation (e.g. OECD, 2001b and 2002b) and into issues related to market access and export competition and the implications for market developments of further liberalisation in these areas (OECD, 2002a). Work and dialogue on these issues in the OECD continues in the context of the current round of negotiations.

In addition, two other sets of agricultural policy issues have been taken up and have played an increasingly important role in OECD work on agriculture in recent years, i.e. multifunctionality and decoupling. Both of these issues have also played a prominent role in the framework of the WTO talks on agriculture.

In its work on the hotly debated issue of multifunctionality, OECD started by developing an analytical framework that defines the issues and explores ways of dealing with them conceptually (OECD, 2001c). After a large amount of additional work in this area, a further stage was reached with a recent report exploring the nature of the policy implications that can so far be drawn (OECD, 2003a). This report, in particular, suggests a sequence of analytical steps that policy makers may want to go through in deciding where government measures may be required to foster the multifunctional role of agriculture, and what the nature of the most effective and efficient policy instruments might be in different circumstances. Work in this area will continue, in order to further improve the applicability of the conceptual framework developed so far, in particular to explore the transaction costs involved in alternative and more targeted policy instruments. Overall, this work on multifunctionality in OECD should help to understand the nature and applicability of policy measures that target non-trade concerns as well as possible, and thereby help to reach the double purpose of making domestic policies more efficient and reducing any trade implications to the unavoidable minimum. At the same time, much work is done in OECD regarding the analysis of policies addressing environmental issues in agriculture (see, for example, OECD, 2001d).

Regarding the issue of decoupling, much progress has been made, not only in developing a conceptual framework (OECD, 2001e), but in particular regarding the quantitative analysis of the impacts that alternative agricultural policy measures, with differing degrees of decoupling, have on production, consumption and trade, by applying one of the OECD's analytical tools, i.e. the Policy Evaluation Matrix (PEM) (OECD, 2001a). In this area, too, further insights are being gained through a number of empirical studies of concrete policy cases. Important results of other work in a related area throw light on the differing degrees of efficiency with which alternative forms of agricultural support transfer income to farmers (OECD, 2003b). OECD work in the area of decoupling, apparently occasionally cited in the ongoing WTO negotiations on agriculture, does not (yet) allow a concrete definition of what the nature of policy measures may have to be that have no, or at most minimal, trade distorting effects or effects on production. However, interpreted carefully, it suggests a number of criteria that help to minimize the production, trade and environmental impacts of agricultural policy measures decoupled from production decisions.

OECD work in the two areas of multifunctionality and decoupling will go on, and will also in the future look more closely into the links between targeting and decoupling of agricultural policy measures. First attempts at drawing preliminary more general policy conclusions, have, though, also been made already in a report on a "Positive Reform Agenda" for agricultural policies, agreed by all OECD Member countries (OECD, 2002c).

The fact that the twin issue sets of targeting and decoupling agricultural policy measures as well as possible have, after the Uruguay Round, played an increasingly important

role in OECD work on agriculture and the policy dialogue in the OECD, is significant in itself. It demonstrates that there is an interest in learning more about the way agricultural policies can be further developed so as to reach domestic objectives in an effective and efficient way, with the least distortions to international trade. Whether related to the outcome of the Uruguay Round negotiations on agriculture or not, this changing agenda of the agricultural policy debate can well be taken as an indication of further progress in agricultural policy making in an international context.

5 Conclusions

There is no doubt that the Uruguay Round negotiations have been a major success, not only in the sense that a new legal framework for agricultural policies at the international level was finally agreed, but also in the sense that countries have, by and large, lived up to the new rules and commitments. Regarding the extent to which the Agreement on Agriculture has actually constrained the room for manoeuvre of domestic agricultural policies and hence resulted in policy adjustments, the point has often been made that most of the quantitative commitments established in the Uruguay Round were so generous that they did not yield much in the way of trade liberalization. As a matter of fact, levels of support provided to agricultural producers in OECD countries, as measured within the OECD's framework of PSE analysis, have not, on average, declined significantly after the Uruguay Round, though they decreased somewhat while the Uruguay Round negotiations were still going on. This development of the average support level, however, hides notable differences across OECD countries.

It is sometimes claimed that producer support as estimated in the OECD's PSE may not be a good indication of actual policy developments, because its market price support component also reflects changes in world market prices and exchange rates. The largely unchanged level of average support in the OECD area would, then, possibly not indicate actual policy adjustments after the Uruguay Round. In discussing this issue, it may be useful to make a distinction between *explicit* and *implicit* policy components. In an illustrative quantitative examination of these two policy components for two selected OECD countries/entities, fluctuations of international market prices and exchange rates have been suppressed in a recalculation of %PSE levels, to carve out the explicit policy components. Based on this preliminary and selective analysis it cannot be said that medium to longer run agricultural policy developments are misrepresented by PSE levels.

While overall levels of producer support for the OECD average have not declined significantly after the Uruguay Round, notable changes in the composition of policy instruments have taken place. The gap between domestic producer prices and international

market prices has narrowed considerably, both while the Uruguay Round negotiations were conducted and after the Round. This mirrors the fact that the share of market price support and output payments in the overall level of producer support has declined significantly. This is an important development, because these policy measures have pronounced distorting effects on production and trade. In other words, while the overall level of support has not been greatly reduced after the Uruguay Round, it can still be said that some progress has been made, in the OECD area, towards liberalizing international agricultural trade.

The Uruguay Round has not only resulted in new legal rules and quantitative reduction commitments in the areas of market access, domestic support and export competition. It has also affected the nature of the policy debate in agriculture. The WTO has become a relevant factor in agricultural policy making. Moreover, new items have emerged on the agenda for the international dialogue on agricultural policies. In the OECD, policy issues related to the multifunctional character of agriculture, and to the decoupling of support from production decisions in agriculture, play a prominent role.

In the context of the ongoing WTO negotiations under the Doha Development Agenda, it is sometimes said that this round should, in agriculture, deal with the unfinished business of the Uruguay Round. Such assertions should not be read to say that the Uruguay Round did not make a big step forward in agricultural trade. However, it is true that a lot remains to be done to achieve further progress towards a liberalized and more market oriented regime in agricultural trade. In particular, there is still much scope for reforming domestic agricultural policies, characterised by measures that are more decoupled from production decisions, better targeted to well specified objectives, and less trade distorting. Such policies also would allow to reduce levels of support, because they achieve their aims more efficiently. Some policy trends in the OECD area since the Uruguay Round have already gone in this direction. The current DDA negotiations are an appropriate opportunity to make another big step forward.

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