On the Road to Cancún: A Development Perspective on EU Trade Policies

By Faizel Ismail[1]

Introduction

The European Union has made a positive contribution to trade liberalization and development in recent years. The 2002 World Trade Organisation's Trade Policy Review on the EU's trade policies (WTO Secretariat, 2002) points out that the EU played a leadership role both prior to and during the Doha negotiations and has contributed significantly to the successful launching of the Doha Development Agenda. The EU and the European non-governmental organisation (NGO) community in particular contributed considerably to the most significant breakthrough made at the Doha WTO Ministerial Conference held in November 2001 - the adoption of the Declaration on the Agreement on Trade-Related Aspects of Intellectual Property Rights and Public Health. The EU's "Everything But Arms Initiative" has also led the way in providing increased market access for least developed countries. Many have also acknowledged the European Commission's leadership in prompting EU Member States to begin serious debate on the need for the radical reform and adjustment of their agriculture and trade policies- most importantly through the introduction of the Mid-Term Review of its Common Agricultural Policy (CAP).

This background article begins by outlining two policy perspectives-that which informs EU trade policies, and a development perspective which is employed in examining those policies. The article then discusses the issue of adjustment in the EU and evaluates the EU's track record in the liberalisation of key industries of interest to developing countries. Finally, the article evaluates the EU's commitment to environmentally sustainable policies, reviewing various EU technical regulations.

---

[1] The Head of the South African Delegation to the World Trade Organisation. He joined the new democratic government of South Africa in 1994 as it began its transition to re-integrate with the world economy and led the South African negotiations with the European Union. These negotiations resulted in the conclusion and implementation of a Trade, Development and Co-operation Agreement with the EU (a free trade agreement), which took effect on 1 January 2000. Mr Ismail was a discussant for the WTO's Trade Policy Review of the European Union in 2002. This article is based on his presentation made on the occasion of the Review and a paper he presented at the 10th European Association of Development Research and Training Institutes General Conference, held in Ljubljana, Slovenia, 19-21 September 2002.

Policy perspectives

A. *The EU Policy Perspective*

How does the EU see the world and the challenges we confront? On 25 June 2002, Pierre Defraigne, Chef de Cabinet of Commissioner Lamy, presented his analysis of the global challenge as follows. He argued that the EU saw the need to balance the drive to increase the efficiency of the market with policies that promoted sustainable development. He argued that, whilst globalisation has resulted in rapid flows of trade and finance, norms for the environment and consumer protection, animal and human health and food safety were being given less attention in the multilateral system. In his view, the real challenge was to encourage and develop effective policies-in both the North and the South-to increase adjustment capacity to cope with globalisation. In this way, developing countries "can get a fair share of world growth-and turn this into social progress and environmental sustainability" (Defraigne, 2002).

B. *A Development Perspective*

The last two decades have ushered in the rapid expansion of global markets, presenting both new challenges and new opportunities for social progress for all of humanity. However, while some developing countries have benefited from rapid flows of trade, finance and information technologies, most have been largely excluded from the potential gains and remain economically marginalized (UNCTAD, 2002).

For most developing countries, the single most important challenge remains that of poverty. The negative effects of globalisation-environmental degradation, terrorism, disease and the spread of HIV/AIDS-have alerted all to the interdependence of our world. World leaders recognized these challenges when they agreed at the UN Millennium Summit to improve the lives of the poor by the year 2015 by implementing the Millennium Development Goals (see UN, 2000). This commitment was re-affirmed at the World Food Summit in 1996, at the UN International Conference on Financing for Development Summit in Monterrey, Mexico in March 2002, and again at the World Summit for Sustainable Development in Johannesburg, South Africa in September 2002. The Report of the World Health Organisation Commission on Macroeconomics and Health (WHO, 2001) has also reminded us of the inextricable relationship between poverty, health and economic development. The Report argues that the burden of disease (especially the AIDS pandemic) in some low-income countries is one of the primary barriers to economic growth and development.

How can trade policies best help to address the fundamental challenge of poverty alleviation? The Doha Development Agenda recognized that there are critical links between trade liberalisation, the more efficient functioning of global markets, economic development and poverty alleviation. The EU is the largest trading partner for a vast number of developing countries. For most of these countries (especially in Africa), their main exports are in those sectors where the EU retains high tariffs, tariff escalation[2] and tariff peaks. While these sectors represent only a marginal proportion of output and employment in the EU, they account for a high share of the total trade, output and

[2] Where countries impose higher tariffs on the value-added or processed products of developing countries than on the unprocessed goods.

employment for most developing countries, making them particularly vulnerable to EU trade policies.

There is no doubt that developing countries need appropriate policies to develop their competitiveness and adjust their economies for engagement with globalisation. These issues, while important, are beyond the scope of this article. Here, the focus is instead on the responsibilities of the EU. As the largest exporter and the second-largest importer in the world, the EU has a leading role to play in advancing and shaping the processes of globalisation, multilateral rules and economic development. To contribute to this in a meaningful manner, it needs to make major adjustments in its own internal markets.

Adjustment of EU agriculture and industries

A. *Agriculture*

Increasing the pace of adjustment in agriculture and labour-absorbing industries in the developed countries will allow developing countries to export more, increase growth and improve the prospects for development. James Wolfensohn, President of the World Bank, has argued that the lack of such adjustments is "crippling Africa's chance to export its way out of poverty" (Kristhof, 2002).

Two-thirds of all poor people in developing countries live and work in the agriculture sector, depending on agriculture for their livelihoods. In the EU, by contrast, less than 5% of the population works in the agriculture sector (agriculture accounts for just 4,3% of both the EU's output and employment; see Messerlin, 2001). EU trade policies provide an overwhelming level of support to protect these farmers. The EU dedicates billions of dollars of domestic support, export subsidies and extremely high tariffs to them-with the majority of benefits going to large-scale farmers. In 2000, the EU provided at least $90 billion in assistance to its farmers through a variety of measures included in its Common Agricultural Policy (such as domestic support and export subsidies) (WTO Secretariat, 2002). This support amounts to more than two-thirds of the gross value-added of EU agricultural production (Messerlin, 2002). Tariff escalation, tariff peaks and import quotas often further support these subsidies.

For small and poor farmers in the developing world, these policies have a devastating impact. They contribute to a vicious cycle of dwindling livelihoods, the decimation of national productive and export competitiveness, higher national debt levels and increasing poverty rates (Page, 1999; Oxfam, 2002a). Whilst "the sustained vitality of its rural communities" (WTO Secretariat, 2002, p. 9) is clearly an important societal goal for the EU, its Members need to take into account the impact of its policies on the livelihoods of rural communities in developing countries.

Liberalisation of the EU's trade policies-and in particular the removal of subsidies-could have important positive development effects for developing countries. A few are noted here to illustrate this point.

The EU maintains high levels of tariff escalation. A study conducted by the Swedish Board of Agriculture (2001) affirmed that tariff escalation is particularly prevalent when the EU does not produce these products. Whereas the EU imposes no tariffs on unprocessed products, it imposes high tariffs of 9-12% in the case of cocoa and coffee (even allowing for preferences under the Generalised System of Preferences (GSP)) (Page, 1999). The effect is to protect the EU's domestic industries against foreign competition. The Swedish study argues that if "this tariff escalation were to be dismantled, this would give developing countries better conditions for processing the raw material themselves, and export the processed product instead".

High EU tariffs similarly inhibit developing country production and exports of fruit. To protect producers in Southern Europe, the EU imposes exceptional tariffs of up to 19% on tropical fruit such as citrus. Cut flowers also face high tariffs of 15-17%. Even those supposed to benefit from a lower GSP rate still face a tariff of around 15%.

The following three examples highlight how domestic and export subsidies provided under the CAP have similarly perverse and devastating impacts on many developing countries.

In Jamaica, the 1990s were marked by an intense period of liberalisation. Following the liberalisation of the Jamaican dairy industry, exports of EU milk powder to Jamaica subsequently grew from 2 000 tonnes per year in 1990-1993 to 4 000 tonnes per year in the period 1995-1998. European milk exporters benefited tremendously from subsidies, receiving more than € 4 million per year in export subsidies in the 1990s. This cheaper European milk quickly undercut and replaced locally-produced fresh milk, devastating the small Jamaican dairy market and putting many small enterprises, mainly owned by women, out of business (Oxfam, 2002b). In 2001, an EU Court of Auditors Report (2001) found that the EU's milk quota regime was resulting in huge surplus stocks. Between 1997 and 2000, the quantity of skimmed milk powder in storage, for example, rose by 60%. In 2000, some of this stock was reduced with the use of export subsidies (WTO Secretariat, 2002, p. 76).

In South Africa, sugar prices are much lower (less than half) than in the EU. However, EU sugar subsidies mean that European confectionary producers obtain sugar inputs for their exports at about one-third the price of their South African counterparts. Between 1997 and 2000, an increase in South African imports of EU sugar and chocolate confectionary contributed to a 21% decline of consumption of domestically produced sweets and chocolate, reducing production and employment in South Africa's domestic industry. Beacon Sweets, for example, the largest employer in the industry, retrenched 1,000 employees between 1997 and 2000. In addition, the industry reduced its use of local sugar from 40 000 tonnes in 1995 to 35 000 tonnes in 1999, provoking significant losses in employment, mainly in rural areas (Oxfam, 2002b).

EU sugar subsidies have an even more profound impact on the economic development of South Africa. In 2002, the Wall Street Journal (2002) published a case study which demonstrated that EU subsidies to its sugar producers substantially reduced global sugar prices. This decline in prices reduced by one-third the income of small-scale South African sugarcane growers and cost South Africa an estimated €100 million in potential export earnings. More than one-half of the country's 2,6 million tonnes of sugar production is exported. The cost of producing in the EU is two to three times that of producing in developing countries. If the EU were to cut its sugar subsidies and production, and stopped dumping on the world market, sugar prices are estimated to improve by about 20%, generating at least €40 million more for South African sugar exports. These improvements would enable further expansion of cane growing, generating the potential for South African sugar exports to earn a further €60 million per year.

In Senegal, tomato cultivation was introduced in the 1970s. By 1990, Senegal was producing about 73 000 tonnes of tomato concentrate and was a significant exporter to its neighbours. Over the past few years, this production fell to less than 20 000 tonnes due to unfair competition by the EU-the world's second-largest producer of tomato concentrate. Under the EU's CAP, EU tomato farmers earn a minimum price which is higher than the world price. In addition, the EU's tomato processors are paid a subsidy to cover the difference between the domestic prices they pay for inputs and world prices. In 1997, this subsidy amounted to about $300 million.

With increased liberalisation of access to Senegal's market, EU exports of tomato concentrate increased from 62 tonnes in 1994 to 5,348 tonnes in 1996. Since then, low prices of tomato concentrate and the subsequent lack of credit and investment available to processors has resulted in the decline and stagnation of Senegal's tomato processing industry (UNCTAD, 2002, p. 160).

B. *Clothing and Textiles*

European countries have historically based their industrialisation on labour-intensive production in sectors such as clothing and textiles. In terms of employment and production in the EU, these sectors now play relatively insignificant roles, as the EU economies have graduated to higher value-added sectors such as manufacturing and services. By contrast, clothing and textiles are sectors of natural comparative advantage for developing countries. Nonetheless, the opportunity for developing countries to promote employment and exports in these sectors has been severely stifled by a combination of high tariffs, tariff peaks (triple the simple average), tariff escalation and import quotas. Added to this is an arsenal of contingent protection measures (mainly anti-dumping) that continue to stifle the growth and industrial development of many developing countries.

The clothing and textile industries have been subject to the highest levels of protection (by product and country) through the use of tariffs and quotas. The WTO's Trade Policy Review of the EU (WTO Secretariat, 2002) notes that, while the EU has taken measures to liberalize its quantitative restrictions (quota system) as required under the WTO's Agreement on Textiles and Clothing (previously known as the Multi-Fibre Agreement), it significantly back-loaded the actual process of liberalisation to the very end of the eight-year transition period - i.e. to 2004. In addition, the EU has maintained an escalating tariff structure - imposing tariffs of 0% for cotton seeds and waste, 5% for yarn, 9-10% for cloth and 12-13% for most clothing. The GSP rates for yarn and cloth are only slightly lower.

Finally, the EU remains the second-largest user of anti-dumping measures (WTO Secretariat, 2002). Non-tariff barriers (NTBs) and anti-dumping measures raise the overall levels of EU protection for industrial goods by one-third to two-thirds-from 6,7 to 11% in 1995 and from 4,3 to 7,7% in 1999. The EU's use of these measures is concentrated, most commonly impacting on labour-intensive sectors where developing countries have a comparative advantage. Messerlin (2001) observes, for example, that of a total of some 11 000 tariff lines, anti-dumping has been used in only 350 to 450 (farm, food, textiles and apparel). Between 1993 and 1999, the EU lodged a large number of anti-dumping cases. About fifteen of these cases were lodged in the textiles and clothing sectors (Messerlin, 2001).

C. *The Costs to Developing Countries of the EU's Failure to Adjust*

For developing countries, exports are a critical factor to reduce poverty. Simulations conducted by some studies suggest that a 1% growth in the world export share of developing countries could reduce world poverty by 12%. In the case of sub-Saharan Africa, this impact would be much greater (Oxfam, 2002b). Increased adjustment and liberalisation in the EU and other major developed economies would contribute significantly to the achievement of the Millennium goals of reducing poverty levels by 50% by 2015 (UN Millennium Declaration, 2000). The failure of EU industries to adjust and integrate into the global economy imposes devastating constraints on the economic prospects of developing countries and their efforts to compete in global markets (see Messerlin, 2001, p. 35).

Mark Malloch Brown, Administrator of the United Nations Development Programme, estimates that EU farm subsidies cost poor countries about $50 billion a year in lost agricultural exports (Kristhof, 2002). The cost of EU protection accounts for a full one-half of the total estimated costs to developing countries of agriculture protection by Member countries of the Organisation for Economic Co-operation and Development (OECD) (estimated at $100 billion a year; see Oxfam, 2002b). Significantly, the total cost to developing countries of this agriculture protection is twice the amount that these countries receive in development assistance-about $50 billion a year. These figures are even more striking when one considers that the total amount spent by OECD countries in subsidies across all sectors amounts to more than $350 billion per year (WTO, 2002).

The EU is currently the most generous contributor of global development aid, committing about $26 billion of the total of $50 billion. However, the EU's aid budget still falls far short of the UN target of 0,7% of gross national income. The current EU development assistant budget is just 0,33% (though EU Member States have agreed to increase this to 0,39% by 2006; also see WTO, 2002). By putting these various statistics side by side, one can clearly see the sad reality that EU subsidies undercut the current levels of EU development assistance. In the South African case, for example, the roughly €120 million that the EU provides the country each year is almost entirely erased by the estimated losses of €100 million in potential export revenues due to sugar dumping (Wall Street Journal, 2002).

The cumulative impact of tariff peaks, tariff escalation and EU trade remedies on the imports and productive capacity of developing countries has, unfortunately, been under-studied. The impacts of these policies are undoubtedly negative and large-scale. They should be reformed-along with the CAP-and the options for compensating developing countries for the serious impediments to growth and development carefully considered.

The EU commitment to environmentally sustainable policies

Are EU trade policies environmentally sustainable? The EU commitment to sustainability impact assessments of its trade policies is an interesting and innovative initiative, although too little is known by developing countries about the methodology employed and the results of these studies. The EU commitment on the world stage to environmental sustainability will be treated with scepticism if it fails to fulfil its responsibility in an area in which it so clearly has competence.

Trade liberalisation has the potential to contribute to improved environmental performance (Page, 1999). Where sound environmental management regimes are in place (assuming that liberalisation shifts production to the most efficient producers), it can help promote the more efficient use of resources and minimize environmental waste. There is increasing evidence that in some sectors, where inefficient production processes exist and are causing damage to the environment (such as agriculture, fisheries and energy), liberalisation could result in a win-win situation.

To what extent do EU trade policies and subsidies in agriculture contribute to environmental degradation? How can the situation be improved? The following discussion highlights three examples where the possibility of a win-win outcome for both environmental protection and increased development are very high.

A. *Meat*

The EU protects its meat producers (beef, pork, poultry and lamb) through a combination of high tariffs and subsidies and restrictions implemented under the CAP. High levels of support for this sector fuel highly intensive land use. Excessive agricultural production has damaged the quality of the soil, water, and air and threatens biodiversity (Page, 1999). Relocating some of this production to more suitable environments in developing countries has the potential to both support more environmentally sustainable production practices and to reduce the price of food.

B. *Sugar*

The EU is the second-largest sugar producer in the world market, following Brazil. The EU sugar market is tightly regulated by the CAP-it imposes quotas on sugar imports and tariffs of as high as 85%. On 1 July 2001, these high trade barriers were extended to 2006. This EU sugar regime is responsible for the chronic oversupply of sugar in the world market and for depressed world prices. In 2000, an EU Court of Auditors Report noted that EU sugar is not competitive on world markets-requiring subsidies in the order of 75% (WTO Secretariat, p. 77). The Report notes the high cost of the EU sugar regime to consumers. It also highlights the regime's limited benefits, noting that the major beneficiaries are a small number of sugar beet farmers and sugar processors in the EU. From an environmental perspective, the EU sugar regime has important costs. Intensive sugar beet cultivation in the EU has contributed significantly to land degradation (Page, 1999). Reducing protection in this area could stimulate relocation of production to developing countries with greater comparative advantage, again with the added benefit of reducing environmental degradation.

C. *Fishing*

In 1999, the European Community's fishing fleet consisted of 99 000 vessels. Greece, Italy and Spain have the highest number of vessels, and Spain has the highest tonnage (WTO Secretariat, 2002). Employment at sea was estimated at 244 000. With the addition of jobs in the processing industry, total employment in this industry totalled 600

000. Fishing is particularly important for certain regions within Europe-Galicia in Spain, the Hebrides in Scotland, Brittany in France and the Aegean in Greece. The EU is a net importer of fish, with imports valued at €10 billion and exports at €1,9 billion in 1999 (see WTO, 2002).

The main policy instrument for EU fisheries is the Common Fisheries Policy. The unsustainability of current fishing trends within the EU is a subject of considerable concern in the region. The European Commission, in a recent Green Paper, itself reported that "from a biological point of view the sustainability of a high number of stocks will be threatened if the current levels of exploitation are maintained" (WTO, 2002). Although the number of vessels has been declining, the EU admits that due to technological improvements "the EU has twice the capacity needed to catch the available fish".

One way in which the EU has attempted to deal with its problems of fishing overcapacity is to negotiate fishing access agreements with third countries (mainly African and Indian Ocean countries) in which it exchanges nominal financial assistance to the contracting country and the promise of fees from vessel operators for access to the third country's fisheries. The EU now has such fishing access agreements with nineteen African countries. Much of the fishing is, however, conducted in an uncontrolled and unsustainable manner-EU vessels persist in over-fishing and in encroaching on fisheries important to local livelihoods. Few African or Indian Ocean countries have the capacity to monitor or enforce sound fisheries management regimes on their waters - a situation which the EU fishing industry wilfully exploits. The terms of the EU fishing access agreements are such that they provide further large subsidies to European fisheries, enable excessive depletion of marine resources and inhibit the development of local fishing industries and exports from developing countries.

In a range of sectors, reduced EU protection-both in terms of subsidies and tariffs-would help fulfil the EU's oft-stated commitment to environmental protection while contributing to increased opportunities for economic development and poverty reduction in developing countries.

Technical regulations of the EU

What kinds of technical regulations, standards, and other social policies does the EU employ? Is the EU's laudable commitment to social policies serving those in need or is it captured by protectionist lobbies? From a development perspective, do these policies exacerbate the EU's protection regime, further delaying the EU's stated commitment to liberalisation and the advancement of economic development in the South?

Many EU technical regulations and standards are a source of NTBs for developing country exports to the EU. These NTBs can have a devastating impact on the capacity of developing countries to export into the EU market. A recent case study of Ghana undertaken by Lifeonline reviewed the experience of Ghanaian exporters facing EU NTBs. Ghanaian producers of bananas complained that their attempts to export into the EU were frustrated by EU regulations on the length and size of bananas. The EU regulations require bananas of a longer size-a technical standard which small Ghanaian producers failed to meet. In addition, Ghanaian fish smokers from the Lake Volta region explained how they had attempted to meet the health and hygiene standards of the EU.

Despite repeated efforts-including the development of a standardised facility for smoking the fish-the EU continued to insist that they did not meet EU standards.

Technical regulations and standards in the EU have proliferated over recent years. These measures raise the costs for foreign or third-country producers more than for domestic firms. The impact of an EU directive on producer responsibility for waste could, for example, have a disastrous impact on small producers from developing countries. In the context of the EU internal integration process, these regulations can be a source of trade diversion-diverting production toward those producers that are capable of meeting these high standards. For this reason, these regulations have been regarded suspiciously as protectionist instruments or as the "new protection" (Messerlin, 2001).

In addition, the EU has made its mutual recognition agreements (MRAs) for conformity assessment procedures available only to a few trading partners. While the EU's conformity assessment procedures are conducted in a manner consistent with the provisions of the WTO Agreement on Technical Barriers to Trade, there is considerable doubt as to the consistency of these MRAs with the most-favoured-nation principle-that any advantage given to one trading partner must be given to all other WTO trading partners automatically and unconditionally. Indeed, the list of trading partners (Canada, the United States, Japan, Australia, New Zealand and Israel) who currently enjoy these MRAs with the EU suggests special and differential treatment in reverse.

The EU frequently uses standards-based on the controversial "precautionary principle"- to impose import bans. This principle requires action if there is a risk, as long as there is no scientific certainty that the risk will not exist in the long run. In other words, with regard to food safety, any possibility of a food scare is "guilty, until proven innocent". The huge popular appeal of this principle among European populations allows for its misuse by both vested interests and politicians. This tendency for abuse requires careful monitoring and vigilance by the EU.

Finally, the EU policy with respect to international standard setting also raises concern (WTO Secretariat, 2002, p. 44). On the one hand, the EU recognizes the need to participate in international standard-setting bodies. On the other hand, it asserts the right to develop its own standards in terms of its own policy objectives, provided these are not developed in a "discriminatory and arbitrary manner". This tension reflects broader challenges with respect to the relationship between international and national regulatory systems and the issue of sovereignty.

In terms of EU technical regulations, several issues regarding governance and participation in decision-making processes arise. The EU's own Government Report for the WTO's EU Trade Policy Review (see EU, 2002) touches on this concern (p. 14), raising the need for transparency and participation by civil society in standard-making processes. However, to advance its stated goal of policy coherence in terms of its policies toward developing countries, the EU must devote attention also to increasing the transparency of the regulatory decision-making process and to expanding its view of an inclusive process. What about the voices of foreign producers and other parties whose interests are directly affected by EU trade policies? These interests would also need to be considered.

In summary, EU social polices need to be inclusive, transparent, and consistent with the increased openness of its markets so as not to increase the barriers to entry for the products of other countries, especially those from poor developing countries.

Conclusion

This article has asserted that poverty and development are the most urgent and fundamental challenges for developing countries. From this development perspective, it has argued that the EU must undertake major reforms of its agriculture sector and trade policies in order to fulfil its commitment to the global trading system, trade liberalisation and efficient global markets. The removal of distortions in global markets-the large proportion of which are due to existing EU trade policies-is essential to enable developing countries to exploit their comparative advantages in agriculture and other labour-intensive industries and to "export their way out of poverty".

This article has engaged with the EU policy concerns to balance trade liberalisation with social and environmental policies. It contended that the EU commitment to environmental sustainability will be viewed sceptically if its own trade policies continue to contribute to environmental degradation, particularly in agriculture and fisheries. In addition, the article argued that EU technical regulations run the risk of being captured by rent-seeking protectionist interests unless there is great vigilance, transparency and participation by all other interest groups, both within the EU and outside it.

References

Defraigne, Pierre, 2002: *Trade Governance and Sustainable Development*, speech delivered at DG Trade Breakfast, Brussels, 25 June.

European Union, 2002: Report by the Government to the WTO Trade Policy Review, June.

European Union Court of Auditors, 2001: *Annual Report of the EU Court of Auditors*.

Kristhof, Nicolas D., 2002: *Americans Sow Subsidies, Africans Reap Death: Agricultural Absurdity*, International Herald Tribune, p. 8, 6 July.

Messerlin, P., 2001: *Measuring the Cost of Protection in Europe: European Commercial Policy in the 2000s*, Institute for International Economics, Washington, D.C..

Idem, 2002: *Market Access: Agriculture*, paper presented to the Conference on New Trade Research for Developing Countries, Cairo, Egypt, May.

Oxfam International, 2002a: *Time for Coherence: CAP Reform and Developing Countries*, Oxfam Discussion Paper, Oxford, U.K., June.

Idem, 2002b: *Rigged Rules and Double Standards: Trade, Globalization and the Fight against Poverty*, Oxford, U.K., November.

Page, 1999: *Environment Benefits from Removing Trade Restrictions and Distortions: Background for WTO Negotiations*, Overseas Development Institute, London.

Swedish Board of Agriculture, 2001: *Tariff Escalation for Agricultural and Fishery Products*, Stockholm.

UN (United Nations) 2000: *United Nations Millennium Declaration*, Resolution adopted by the 55th Session of the General Assembly, A/RES/55/2, 18 September.

UNCTAD (United Nations Conference on Trade and Development), 2002: *The Least Developed Countries Report*, United Nations, New York and Geneva.

Wall Street Journal, 2002: *EU, U.S. Sugar Subsidies Leave a Sour Taste*, p. A6, 16 September.

WHO (World Health Organization), 2001: *Macroeconomics and Health: Investing in Health for Economic Development*, Report of the Commission on Macro-Economics and Health.

WTO (World Trade Organization), 2002: *Trade Policy Review-European Union*, Report by the Secretariat, WTO/TPR/S/102, 26 June.

Part II of the Road to Cancun: A Development Perspective on EU Trade Policies

By Faizel Ismail
Head of the South African Delegation to the World Trade Organisation

Introduction

The European Union's agriculture and trade policies are under intense scrutiny in the ongoing WTO Doha negotiations. The EU is perceived to be the leader of the protectionist group of developed countries and is under increased pressure to reform its agriculture and trade policies.

Almost all WTO Members recognise that the WTO agriculture negotiations are the most critical issue, or the lynchpin, of the Doha Development Agenda. The *demandeurs* are led by the Cairns Group (a group of three developed and fourteen developing countries that are relatively competitive agricultural exporters) and supported by the United States. The agricultural protectionist countries are led by the EU and supported by the CEE countries, Japan, South Korea, Switzerland and Norway. Most other developing countries support the Cairns Group's generally aggressive approach to agriculture liberalisation of developed country markets because the EU's high level of protection impacts negatively on their development prospects. India and the ACP (African, Caribbean and Pacific) group of countries are, however, concerned about some short-term negative effects of an ambitious multilateral liberalisation agenda. The ACP countries fear that faster multilateral liberalisation by the EU may erode ACP preferences, with negative consequences for their access to EU markets. India, for its part, is cautious about the liberalisation of its market, arguing that its small-scale farmers and rural population of 650 million people will need to be protected from subsidised EU imports.

The Doha Development Agenda set an ambitious agenda for the liberalisation of agriculture. Indeed, agreement on the agenda for agriculture liberalisation was the only basis on which a large group of countries - including both developed and developing countries - agreed to the launching of a new Round of trade negotiations. In exchange for an ambitious outcome in agriculture, the *demandeurs* agreed to a comprehensive agenda for the Doha negotiations, one that includes those issues of great interest to the EU, that is, the environment and the so-called Singapore issues (competition, investment, trade facilitation and transparency in government procurement).

The Chair of the WTO Committee on Agriculture devised a process for the negotiations. To enable preliminary offers to be made by the time of the 5th ministerial meeting in Cancún, Mexico, scheduled for September 2003, a deadline of the end of March 2003 was set for the establishment of modalities for the negotiations. Proposals were expected to circulate well in advance. However, the first draft of the EU's proposal on "modalities" was distributed only on 16 December 2002. (Note 1) The EU proposal arrived too late for any substantive discussion and engagement by other WTO Member States. The Chair of the WTO Agriculture Committee had already begun to draft his end-of-year report on modalities, which was produced in draft form on 18 December 2002 as scheduled.

The EC proposal was "too little, too late". Critics (led by the Cairns Group) argue that the proposal falls far short of the ambitious targets set by the Doha Development Agenda, failing to produce real reductions in tariffs, current levels of domestic support or export subsidies. Rather, the proposal focuses on de-coupling (a term used in the earlier Fischler proposals for CAP reform) and proposed additions to WTO rules on geographical indications, animal welfare and food safety. The EU proposes to strengthen the use of precaution in the WTO Agreement on Sanitary and Phytosanitary Standards and mandatory labelling. The EU proposal does not make any significant proposals on special and differential treatment and its proposals do little to improve the market access of developing countries. (2)

WTO Members were unable to agree to the draft set of modalities produced by the Chair of the Agriculture Committee by the deadline of 31 March 2003. The so-called "Harbinson Text" attempted to incorporate the views of the Cairns Group, the "multi-functionality group" (the EU, Switzerland, Japan, Norway and South Korea), the United States and other developing countries. At the Tokyo Mini-Ministerial Meeting held in February, the Cairns Group of countries argued that the Harbinson Text did not go far enough in providing a basis to liberalise agriculture. The EU, on the other hand, argued that the Harbinson Text went too far. Commissioner Lamy insisted that the EU's non-trade concerns (geographical indications, the environment, mandatory labelling and animal welfare) needed to be taken into account before the EU could support the draft modalities.

The EU argues that one of the reasons for its conservative, gradualist approach to agriculture tariff liberalisation is its concern for the negative impact that the erosion of preferences will have on developing countries, such as the ACP group. The EU's apparent concern, some observers have pointed out, must be treated with caution-the EU itself has a clear interest in slowing down the opening of its market. Nonetheless, this issue is of great concern to many of the preference-dependent countries (mostly ACP countries benefiting from the EU-ACP banana, sugar, beef and rum trade protocols). Several recent studies (WTO, 2003; Tangermann, 2002) point to the negative development impact on many ACP countries that would result from multilateral liberalisation and the consequent erosion of ACP preferences.

Some delegations to the WTO have argued that low-income and vulnerable developing countries should not bear the burden of adjustment of the agriculture sector in the developed countries. It has also been argued that developed countries should assist countries that would need to adjust their economies and diversify their industries. (3)

Several recent studies have recognised the significant role of preferences in the export structure of some developing countries, namely ACP countries, and have raised several questions about the effectiveness of the preference system (Hoekman et al., 2003; Tangermann, 2002; Topp, 2001). These studies argue that, while the EU-ACP system of preferences has succeeded in contributing to the development of some countries, preferences can create dependence and generate unfair competition among developing countries. The very low rate of utilisation of these preferences has also been raised. For many developing countries, conditionalities such as stringent rules of origin limit their capacity to benefit from the preference system (Tangermann, 2002). UNCTAD calculated, for example, that although 99% of all EU imports from all least developing countries were eligible for EU preferences in 1999, only 34% actually received them (quoted in Short, 2003). The Harbinson Text has recognised the need to build mechanisms within the tariff reduction proposals that will ensure the maintenance of preferences for as long a period as possible, together with positive development measures to support export diversification.

At the Franco-Africa Heads of State meeting, held in Paris in February 2003, President Chirac made three significant proposals to address the complaints of African countries regarding EU agriculture and trade policies. He called for a temporary halt to export subsidies affecting Africa, an enhancement of trade preferences for Africa and possible subsidies to make up for the changes in commodity prices. The recognition by President Chirac of the negative impact of EU agriculture policies on African economies was welcomed by African leaders. However, some observers have pointed out that halting subsidized exports from going to Africa could just divert them elsewhere, causing greater harm to other developing countries. In addition, both the viability and WTO-compatibility of a temporary halt of export subsidies that targeted only Africa have been questioned (see Short, 2003).

At the April 2003 OECD Ministerial Meeting in Paris, governments continued the discussion on agriculture. This issue is critical to the prospects for success at the September 2003 Cancun WTO Trade Ministerial. The EU expressed confidence that it will meet the high ambitions of the Doha mandate and that the Cancún Ministerial will not fail. Upbeat EU negotiators refused to take a defensive posture. They argued that the dates set by the Doha Ministerial Declaration (WTO, 2001) for the establishment of agriculture modalities were unrealistic and that the failure to meet the 31 March 2003 deadline for conclusion of the negotiations on modalities (the specific methods and targets for liberalisation) for the agriculture negotiations was to be expected.

The United States has begun to work closely with the EU to maintain the momentum in the WTO negotiations and ensure that the Cancún ministerial meeting does not collapse. In an attempt to narrow their differences and advance the WTO Doha negotiations, intense bilateral meetings were held before and after the April OECD Ministerial meetings by the EU and US negotiating teams. While the key players in the WTO have welcomed this increased EU-United States co-operation as an essential element for the success of the negotiations, there is also much apprehension that such co-operation could result in a deal that would only take into account the interests of the two major players.

For the EU to make progress in the WTO agriculture negotiations, many observers pinned their hopes on the CAP Mid-Term Review proposals of the EU Minister for Agriculture, Franz Fischler. These proposals were considered by the EU Agriculture Ministers in June 2003. Some EU Members have argued that the decoupling of farm subsidies from production (as proposed by the CAP Mid-Term Review) is a necessary step toward enabling the development of a new EU mandate for the WTO agriculture negotiations (Becket, 2003). Ambassador Robert Zoellick, the United States Trade Representative, has been encouraging EU Ministers to support Fischler's proposals, arguing that they provide a positive step forward. However, even if Fischler's proposals are ultimately accepted by the EU, many critics have argued that this would still not be enough to enable the EU to meet its Doha commitments to substantially reform its agriculture sector (see the critique of Fischler's proposals by Mark Vaile, discussed in Section VI).

The intense pressure the EU is being subjected to by its trading partners in the current WTO Doha negotiations creates an opportunity for it to accelerate the reform of its agriculture sector and thus contribute to both multilateral liberalisation and sustainable development, particularly for the majority of developing countries.

Dynamic forces for change in the EU

In the EU's statement to the WTO's EU Trade Policy Review (European Commission, 2002b) the Deputy Director-General of the European Commission, Roderick Abbot, boasted that the EU had assumed leadership of the multilateral trading system over the past four years. This leadership he pointed out "comes at a price, but has high rewards". It is this kind of leadership that Fischler displayed when he produced the Commission's Mid-Term Review proposals to reform the CAP (European Commission, 2002a). The proposals set forth an agenda for de-linking the EU's direct subsidies to farmers from what they produce. Instead, farmers would receive a flat-rate payment which would be based on what the farmer has received in recent years and pegged more closely to environmental, animal welfare and food quality standards. Payment would be reduced gradually over six or seven years and the money saved would be used to finance rural development. Subsidies to an individual farm would be capped at €300 000 per year.

The EU's Mid-Term Review proposals have been generally applauded as a step in the right direction, even by the EU's most severe critics. Mark Vaile, the Trade Minister of Australia and co-ordinator of the Cairns Group of agriculture exporting countries, for example, reported that he was encouraged by the de-coupling of farm payments from production. However, he stressed that the Mid-Term Review does not propose any significant reductions in the overall level of expenditure for farm support-it proposes only a minimal overall reduction of 0,4%. Fischler's proposals also fail to offer any agenda for reducing tariffs or quotas, and it does not discuss the reduction of export subsidies.

Fischler's proposals were considered by the EU Agricultural Ministers in Luxembourg in June 2003. Some member states were opposed to the proposed reforms. At a gathering of French Ambassadors, President Chirac stated that the new EU Members acceding at the end of 2004 must have a say in the future of the CAP: "I will not allow enlargement to serve as an excuse for bringing forward a reform of the Common Agricultural Policy (CAP), a reform than can only take place in 2006 as agreed [at the] Berlin [Summit in 1999]" (Financial Times, 2002). By insisting that the newly acceding Members need to participate in the reform of the CAP, President Chirac wishes to delay any decision on that reform until the end of 2006.

In his presentation to the WTO, however, Roderick Abbot remained optimistic about the possibilities of successful reform. Noting two powerful, inter-related domestic reasons for this assessment, he argued that the EU has "a budget envelope that we have to live in, and we have an enlargement in prospect which, if present policies were to be continued would put us in Chapter 11". (4)

The inclusion of ten more CEE Member States into the EU by the end of 2004 will increase by one-half the total number of farmers in the EU. Poland alone has more farmers than France and Germany combined. The cost of bringing all the ten CEE countries into the current CAP system (Messerlin, 2002) is estimated to be about €9-23 billion. With these facts in mind, the EU Council has already made a budgetary decision to cap EU transfers to CEE farmers at €3,4 billion in 2006 - thus preventing the possibility of transferring the current level of CAP15 subsidies to the CEE countries. Moreover, the EU has already agreed to almost freeze the CAP budget from 2007 to 2013 - allowing an increase of only 1% per year.

There are several further reasons why the current system of agriculture protection in the EU is under pressure. First, asymmetries exist between the proportion of contributions that EU Members make and the benefits they receive under the existing CAP - Germany being the main contributor and France the main beneficiary. Second, the CAP is biased in favour of large farmers (those with more than 2,000 acres), with 80% of the benefits going to just 20% of the EU's farmers (The Times, 2002). Third, European consumers pay an estimated 44% more for food due to CAP subsidies and the market-intervention pricing system: EU consumers pay 70% more for milk, 221% more for beef, and 94% more for sugar due to CAP policies (International Herald Tribune, 2002). The British Consumers Association argues that a family of four in the United Kingdom spends about $1 200 more on food than they would without the CAP (International Herald Tribune, 2002). Fourth, the same EU agri-business companies (such as Nestlé and Unilever) that benefited considerably from tariff escalation in the post-Uruguay Round period are becoming increasingly multinational. Their global sourcing and networking strategies now make them strong advocates of trade liberalisation. Fifth, environmental NGOs in the EU raise concerns about the negative environmental effects of the CAP. These groups could be a positive force for promoting acceleration of EU trade liberalisation where this course will also help meet environmental objectives.

In summary, there are a number of internal forces within the EU that have an interest in supporting the reform of the EU's current regime of protection. To meet its responsibilities to the global trading system and the reduction of poverty in developing countries, the EU will need to provide leadership by continuing to advance the process of reform of its agriculture and trade policies.

Implications for CEE countries

After intense accession negotiations to bring their policies into line with the thirty-one chapters of the *acquis communitaire*, 10 new members were admitted, at the recent EU Summit in Athens, to an enlarged EU to be effective from 1 May 2004: Poland, Hungary, the Czech Republic, Slovakia, Slovenia, Estonia, Latvia, Lithuania, Cyprus and Malta. Bulgaria and Romania are expected to join later, and negotiations with Turkey have not yet begun (International Herald Tribune, 2003). With all the above Members, the EU - 25 population is expected to increase by 20% (by 75 million) and its gross domestic product (GDP) by 7% (WTO Secretariat, 2002). (5)

The EU accession process will generate both costs and benefits for the CEE countries. The GDP levels of acceding countries are expected to rise by up to 2% annually for about ten years. Already the benefits of greater integration with the EU have been spectacular for some countries. In the case of Poland, which has become the fourth-largest market for the EU, following the United States, Switzerland and Japan, the EU already accounted for 65% of its foreign trade in 2001. Of the total foreign direct investment Poland has received in the past few years (about $6,8 billion), EU Member States accounted for 68% (WTO Secretariat, 2002, Polish Statement).

The cost to CEE countries will also be significant. To comply with the EU *acquis communautaire*, the CEE countries are required to implement major changes in their institutions, laws and regulations. Whilst the EU will provide assistance for some of the structural adjustments that will need to take place, funds will be limited. Spain, for example, has insisted on its right to veto any structural funds to the CEE States up to 2006.

There are a number of reasons why the CEE countries should support reform of the CAP and liberalisation within the EU. First, the existing CAP is biased in favour of large farmers. CEE farmers are mostly small-scale and will not benefit significantly. Second, CEE farmers will have to compete within the EU with the already heavily subsidized farmers of the EU-15, with little chance of receiving equivalent subsidies themselves. Third, large farmers in the EU-15 are likely to purchase land in the CEE countries, expanding their grip as the main beneficiaries of the existing CAP (Messerlin, 2002).

The most prudent path for CEE farmers is to support a more level overall playing field. CEE countries should become a force for reform of subsidies, protection and the CAP within the existing EU-15. Not only are efforts to extend EU-15 levels of protection to CEE countries unlikely to succeed, they stand to mire these countries in the trap of EU protectionism, postponing adjustments that are needed for them to be competitive in an increasingly globalised world economy. By rejecting protectionism, the CEE countries can advance their own long-term economic interests and become a positive force for the creation of a fair and just multilateral trading system - one that fosters sustainable development and contributes to the reduction of poverty.

EU agriculture reforms: Implications for the WTO Cancún ministerial meeting

The EU Agriculture Ministers finally agreed on a reform package on June 26, 2003, after a marathon third session in two weeks at their meeting in Luxembourg (see EU, 2003). The reforms amount to a much diluted version of Fischler's CAP Mid-Term Review proposals tabled more than a year ago. Whilst the package relates primarily to the EU's internal processes of agriculture reform, it will help define the parameters available to EU trade negotiators in making offers at the WTO with regard to the Doha commitments to further agriculture negotiations (see Buck et al., 2003).

The Luxembourg agriculture reform package has made a positive conceptual shift in the EU's subsidies: it breaks the link between subsidies and production. Farmers will have to increasingly produce for the market rather than being assured a market at fixed prices. The new system will mean that farmers will receive flat annual payments based on past subsidies received.

The reforms constitute, however, a significant dilution of the original Fischler proposals. First, a significant percentage of the CAP's production-linked subsidies will be retained. The reform package postpones reform decisions on several of the products of particular interest to developing countries. The Ministers postponed a decision to reform some products (olive oil, tobacco, cotton) to later in 2003. Dairy reforms are postponed to 2008, with existing quotas to remain till 2014/2015. In addition, sugar is excluded from the current reforms.

Second, the reforms will not significantly impact the EU's CAP Budget (€43 billion), which will remain substantially the same for the period up to 2013. While the EU enlargement process (to begin on 1 May 2004) could enhance the reduction of subsidies paid to farmers, the phasing-in of farmers from the new EU accession countries is not clearly spelt out yet and its impact is uncertain. The reforms envisage increased support for farmers to assist them with building their competitiveness and marketing their products (an additional 10% of a single payment by members). In addition, the approved reforms provide for new assistance packages (including for food safety, animal welfare, promotion and marketing and advisory services) for farmers (rural development). There will also be a special focus on the less developed regions of the Community. This increased spending could also come from the savings from the envisaged reduction in direct payments made to larger farms. However, the larger proposed cuts to payments made to large farms by the Fischler proposals have been severely reduced in the current reforms to a mere 5% a year. Thus, the large farms will continue to receive the bulk of the subsidies. Currently, large farms receive up to three quarters of the CAP payments.

In general, the EU envisages shifting the bases of its support from increased output to improved quality and standards for animal welfare, animal and plant health, food safety and environmental standards from 2005. This shift in the rationale for its subsidies, the EU argues, will help it move towards less trade distorting (amber- and blue-box to green-box) support. (6) The impact of these new forms of support on maintaining distortions in global markets will need careful evaluation.

Finally, the EU reform package does not make any proposals to reduce its extremely high tariffs, tariff peaks and tariff escalation which continue to keep many developing-country products out of its markets. In addition, the reforms have not dealt with the huge export subsidies granted to its farmers, which stifle developing-country production (cotton in West Africa, for example) and impede their exports to third markets. Whilst the new single payment system for farm payments is due to begin in 2005, those members who are unable to do so can defer the onset of the new system to 2007.

In sum, the proposals amount to two steps forward, one-and-a-half steps backwards. WTO Members now await the presentation by the EU of its new agriculture negotiation proposals (before the Cancún ministerial meeting). Most WTO Members remain cautious about the EU's capacity to live up to its Doha commitment to substantially reduce its domestic support, phase out its export subsidies and provide substantial access to its markets and are sceptical about the capacity of the EU to make an acceptable proposal. Most delegations have now linked their commitment to move in other non-agriculture areas of the WTO negotiations to the EU's commitment to move in agriculture. Thus, the success of the Cancún ministerial meeting will hinge on the capacity of the EU to convince its trading partners that it is capable of honouring the commitments made in Doha to effect substantial liberalisation of its protectionist agriculture regime. For its part, the EU expects to extract the maximum concessions from its trading partners before it translates its reform efforts into WTO commitments. Commissioner Fischler has already warned that "there will be no unilateral disarmament", and the EU Trade Negotiator, Commissioner Lamy, has stated that the EU will be demanding concessions from its trading partners (Buck et al., 2003).

Conclusion

The article emphasised several additional dynamic forces that may also help stimulate the reform process within the EU. These forces include EU members who pay more to the CAP than they receive, small farmers who receive less than large ones, European consumers who pay more for food as a result of the CAP, agri-business in the EU who have to pay more for their inputs as a result of price escalation and environmental NGOs who are concerned about the negative effects of CAP policies on the environment.

The article then turned to the issue of EU enlargement and the process of the EU CAP reform. Current subsidy levels (at a total of €40 billion) in the fifteen EU member states will clearly be unsustainable when the EU begins incorporation of the ten new acceding countries in 2005. The article suggested that it is in the interests of the CEE countries to support CAP reform, arguing that the reduction of protection in the EU will enable them to make the necessary adjustments in their economies and to compete more effectively, both within the EU and globally. In short, the article sets out a path for the CEE countries to become a force within the EU for global trade liberalisation, sustainable development and a more equitable global trading system.

Finally, the article evaluated the current process of negotiating agriculture liberalisation in the WTO Doha negotiations. It noted that the European Commission is yet to obtain from EU member states the mandate it needs to formulate new EU negotiating proposals for agriculture. The article argued that the EU CAP Mid-Term Review proposals set forth by Fischler will not by themselves contribute to significant reform of the CAP. Instead, the decisions taken by EU Agriculture Ministers at their Luxembourg meeting in June 2003 have, in fact, further diluted the prospects for substantial reform.

The Cancún WTO ministerial meeting to be held in September 2003 provides the EU with the opportunity to maintain the leadership role it played in Doha and once again contribute meaningfully to the development of the multilateral trading system. With the support of the progressive forces in the EU which have an interest in liberalisation, and the more liberal northern member states (the Netherlands, Sweden, the United Kingdom and Germany), the EU can develop more robust negotiating proposals on agriculture before Cancún. This leadership role will be enhanced if it advances environmental and other social policies in a manner that is consistent with increased openness of its market. By contributing to less distorted global markets for products of interest to developing countries, the EU will also help foster the conditions necessary for the sustainable development of those countries and for poverty reduction.

References

Becket, M., 2003: Speech presented by the United Kingdom Secretary of State for Environment, Rural and Food Affairs at the Carnegie Endowment for International Peace, Washington, D.C., 3 February.

Buck, Tobias, Guy de Jonquieres, and Frances Williams, 2003: *CAP Reform: Fischler's Surprise for Europe's Farmers: Now the Argument over Agriculture Moves to the WTO*, Financial Times, p. 11, Friday, 27 June.

European Commission, 2002a: *Mid-Term Review of the Common Agricultural Policy*, Brussels.

Idem, 2002b: Statement by Roderick Abbot, Deputy Director-General, European Commission, June.

European Union, 2003: *EU Fundamentally Reforms its Farm Policy to Accomplish Sustainable Farming in Europe*, press release, Luxembourg, 26 June.

Financial Times, 2002: *Paris Faces Budget Conundrum after Election Promises*, p. 3, 30 August.

Hoekman, B., C. Michalopoulos, and L.A. Winters, 2003: *Special and Differential Treatment for Developing Countries: Towards a New Approach in the WTO*, World Bank, Washington, D.C., 4 April.

International Herald Tribune, 2002: *EU Pays the Price for Farm Subsidies*, pp. 1 and 4, 26 June.

Messerlin, P., 2002: *Market Access: Agriculture*, paper presented to the Conference on New Trade Research for Developing Countries, Cairo, Egypt, May.

Shitori, Miho, Luca Monge-Roffarello, and Christopher Burger, 2002: *The EC's Proposal for the WTO Agricultural Negotiations*, Trade Negotiations and Commercial Diplomacy Branch, UNCTAD, Geneva, 24 December.

Short, C., 2003: *The Dangers to Doha - The Risks of Failure in the Trade Round*, Chatham House, New York.

Tangermann, S., 2002: *The Future of Preferential Trade Arrangements for Developing Countries and the Current Round of WTO Negotiations on Agriculture*, Food and Agriculture Organization, Rome.

The Times, 2002: *Biggest Farmers to Fare Worst under CAP Reform*, p. 18, 28 June.

Topp, V., 2001: *Trade Preferences: Are They Helpful in Advancing Economic Development in Poor Countries?* Australian Bureau of Agricultural and Resource Economics, Canberra.

WTO (World Trade Organisation), 2001: Doha Ministerial Declaration, WTO/MIN(01)/DEC/1.

Idem, 2002: *Trade Policy Review - European Union*, Report by the Secretariat, WTO/TPR/S/102, 26 June.

top

Notes

1. The EU Council of Ministers only agreed to the EU proposal on 26 January 2003.

2. See Shitori et al. (2002) for an analysis of the EU proposal.

3. See Statements made by the South African delegation to the WTO. Statements made at the March and April 2003 Trade Negotiating Committee meetings of the WTO are available from the author.

4. Under US Federal Bankruptcy law, Chapter 11 application refers to the intention to reorganise and continue doing business.

5. The European Commission has signalled that this number is bound to increase to include other South-East European countries-Croatia, Macedonia, Serbia-Montenegro, Bosnia- Herzegovina and Albania (Financial Times, 2003).

6. See the WTO Agreement on Agriculture for information on the nature of these boxes.