



HAL
open science

CAP response to the 1996 US FAIR Act

Jean-Christophe Bureau, Alexandre Gohin, Hervé Guyomard, Chantal Le Mouël

► **To cite this version:**

Jean-Christophe Bureau, Alexandre Gohin, Hervé Guyomard, Chantal Le Mouël. CAP response to the 1996 US FAIR Act. Conference: The US farm bill. Implications for further CAP reform, Nov 1996, Londres, United Kingdom. 18 p. hal-01593995

HAL Id: hal-01593995

<https://hal.science/hal-01593995>

Submitted on 7 Jun 2020

HAL is a multi-disciplinary open access archive for the deposit and dissemination of scientific research documents, whether they are published or not. The documents may come from teaching and research institutions in France or abroad, or from public or private research centers.

L'archive ouverte pluridisciplinaire **HAL**, est destinée au dépôt et à la diffusion de documents scientifiques de niveau recherche, publiés ou non, émanant des établissements d'enseignement et de recherche français ou étrangers, des laboratoires publics ou privés.



Distributed under a Creative Commons Attribution - NonCommercial - NoDerivatives 4.0 International License

5. CAP response to the 1996 US Fair Act

Jean-Christophe Bureau, Alexandre Gohin, Hervé Guyomard, Chantal Le Mouël

1. Introduction

The reform of the Common Agricultural Policy occurred nearly six years after the initiation of the Uruguay Round where agriculture has played, more than ever before, a central role as several countries, led by the United States, have taken the stance that no deal could be envisaged on other issues unless an agreement is reached on the agriculture dossier. The strongly binding constraints which have survived the Uruguay Round negotiation down to the Marrakech agreement are the export subsidy cuts, while domestic support reductions and market access provisions have been much diluted. However, a framework has been established in the form of Aggregate Measure of Support, tariffication and restraints on subsidised exports which may be used in future rounds of multilateral talks.

The United States Federal Agriculture Improvement and Reform Act of 1996 was signed into law in April 1996. As noted by Young and Westcott (1996), "it is a milestone in the evolution of United States agricultural policy because it fundamentally redesigns income support programs and discontinues supply management programs for producers of wheat, corn, grain sorghum, barley, oats, rice, and upland cotton". This paper focuses on the potential impact of the new American agricultural legislation on the Common Agricultural Policy, in the context of the next round of multilateral negotiations in the World Trade Organisation.

The paper is organised as follows. Section 2 provides a brief overview of the Federal Agriculture Improvement and Reform Act of 1996. Section 3 deals with the economic consequences of the Act on US production and exports, and hence on world prices. It shows that the Act will add to the existing pressures for reforming the Common Market Organisations in the European Union. After a brief review of the historical United States - European Union trade debate, section 4 deals then with the two following issues. First, to what extent can the new American Act be interpreted as the starting negotiation position of the United States in the next round of multilateral negotiations? Second, what could and/or should be the political response of the European Union to the American Act, in the context of future multilateral negotiations? Section 5 concludes.

2. The US FAIR Act of 1996

The main characteristics of the United States (US) Federal Agriculture Improvement and Reform (FAIR) Act adopted in April 1996 are shown in Table 1. They can be summarised in three points, i.e., i) decoupling of income support policies, ii) subsidisation of exports, consistent with Uruguay Round Agreement on Agriculture (URAA) commitments, and iii) maintenance of conservation programs.

Table 1. Main provisions of the US Federal Agriculture Improvement and Reform (FAIR) Act of 1996

1. decoupling of income support policies

- Income support is no longer related to market prices: The Act removes the link between income support payments and farm prices by providing Production Flexibility Contract (PFC) payments which are fixed and declining over the period 1996-2002.
 - Restrictions on acreage and crops planted are substantially reduced: US farmers have the freedom to plant any crop, with limitations on fruits and vegetables, on flexibility contract hectares; the Acreage Reduction Program (ARP), and the 0/85/92 and 50/85/92 programs are eliminated.
 - The safety net of the Loan Rate (LR) remains: the nonrecourse loan program with marketing loan provisions continues, subject to maximum loan rates.
-

2. Subsidisation of exports, consistent with URAA commitments

- The Export Enhancement Program (EEP) is maintained: funding is significantly reduced for the two fiscal years 1996 and 1997; it is close to the levels authorised by the URAA for the last five years of the program.
 - The Act extends the authority for PL 480 and Food For Progress (FFP) agreements; amends the Agricultural Act of 1980 to establish a 4-million-ton Food Security Commodity Reserve (FSCR) expanded to include corn, grain, sorghum, rice in addition to wheat; mandates the two Export Credit Guarantee Programs (GSM-102 and GSM-103) at US \$ 5.5 billion annually and broadens the guidelines for making these programs available to target emerging but riskier markets.
-

3. Existing conservation programs are left largely unchanged and new conservation programs are introduced

- The Conservation Reserve Program (CRP) is maintained: maximum CRP area is capped at 14.7 million hectares (i.e., the current level) and land taken out of CRP can be enrolled in the flexibility contract area and receive PFC payments.
 - Other conservation programs are maintained (Wetlands Reserve Program (WRP) at 975,000 acres for example) and new programs are introduced: the Environmental Quality Incentive Program (EQIP) is established to assist crop and livestock producers deal with environmental and conservation improvements on the farm; a Conservation Farm option (CFO) pilot program is established for producers of wheat, feed grains, cotton and rice, ...
-

Source: Agricultural Outlook: Special Farm Bill Supplement. USDA, ERS, Washington DC, 1996.

2.1. Domestic policies: a decoupling of income support policies

The FAIR Act removes the link between income support payments and farm prices by providing "production flexibility contract" payments. These payments are fixed, but declining over the seven years of application of the Act. Nevertheless, the level of payment in 2002 should ensure US farmers a substantial margin above the likely world price at that date. Farmers have now much greater flexibility to make planting decisions since they have the freedom to plant any crop, with limitations on fruits and vegetables, on flexibility contract hectares. Furthermore, the Acreage Reduction Program (ARP) which

restricted the acreage that participants could plant to any single program crop is abolished and the FAIR Act eliminates the voluntary 0/85/92 and 50/85/92 program provisions.

Unlike deficiency payments, new income support payments are independent of market conditions. In particular, they do not vary according to market prices. However, the safety net of the Loan Rate (LR) remains. Loan rates are set at 85 % of the average of farm prices, subject to a maximum of 94.8 US \$ per tonne for wheat and 74.4 US \$ per tonne for corn, i.e., the same rates as in 1995, and subject to a maximum of 193.3 US \$ per tonne and a minimum of 180.8 US \$ per tonne for soybean.

Table 2. Deficiency Payments (DF) and Production Flexibility Contract Payments (PFC), in US \$ billion

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
DF	4.2	6.2	5.5	8.6	4.4	3.9	(1.5)	(0.5)	(2.3)	(2.4)	(2.0)	(1.5)	(1.1)
PFC	-	-	-	-	-	-	5.6	5.4	5.8	5.6	5.1	4.1	4.0

Note: In brackets, projected deficiency payments (source: Young and Westcott, 1996).

Source: Agricultural Outlook: Special Farm Bill Supplement. USDA, ERS, Washington DC, 1996.

2.2. Trade policies: a reduction of export subsidies which hardly exceeds URAA commitments

The basic mechanisms of the system of subsidisation of US agricultural exports remain largely unchanged. Export subsidy programs included the Export Enhancement Program (EEP), the Dairy Export Incentive Program (DEIP), the Sunflower Seed Oil Assistance Program (SOAP) and the Cotton Seed Oil Assistance Program (COAP)¹. The EEP was the largest of these programs and had mainly benefited to wheat and wheat flour exports.

The EEP is left largely unchanged. Accordingly, it will keep helping US exporters compete in specific export markets. Whereas the 1990 Food, Agriculture, Conservation, and Trade (FACT) Act set a minimum funding level of 500 million US \$ annually, the new Act sets limits of 350 million US \$ for the fiscal year 1996 and 250 million US \$ for the fiscal year 1997. In other words, funding will decline for the two next years where world market prices are expected to be relatively high. Funding will rise to 500 million US \$ in 1998, 550 million US \$ in 1999, 579 million US \$ in 2000, and 478 million US \$ in 2001 and 2002. In other words, the scheduled funding for the five-year period 1998-2002 is close to the limit imposed by the 1994 Uruguay Round Agreement on Agriculture.

Therefore, while total EEP expenditure is reduced for the seven years of the program, the main reductions are scheduled to take place in 1996 and 1997 where bonuses are expected to be less useful than in the past, due to expected high world market prices. For the five-year period 1998-2002 where price uncertainty and variability could be much higher, and world prices might go back to lower levels, the FAIR Act authorises funding at a level close to URAA commitments on subsidised exports. In this aspect, the FAIR Act adds little constraints to previous commitments, at least as far as export subsidies are concerned.

The two Export Credit Guarantee Programs (GSM-102 for the short run and GSM-103 for the medium run) are maintained, at a annual funding level of 5.5 million US \$, i.e., the level fixed in the 1990 FACT Act. The FAIR Act broadens the guidelines for making available GSM programs to target emerging, but riskier markets. It also reduces domestic content requirements for GSM programs, allowing for a broader range of products to be exported. Many high-value products with minimal non-US components

¹ The FAIR Act abolishes the SOAP and the COAP.

are now eligible, enhancing the potential for exporting US high value and value-added products² (Piedra and Kennedy, 1996).

Table 3. Export Enhancement Program (EEP) expenditures, in US \$ million

Fiscal year (1)	Farm Act funding	Effective expenditures	Wheat (in %)
1989	900	339	86
1990	900	312	78
1991	900	917	84
1992	1200	968	83
1993	1200	967	73
1994	1000	1150	78
1995	800	400 (2)	72
	FAIR Act funding	URAA maximum	
1996	350	959	
1997	250	861	
1998	500	764	
1999	550	666	
2000	579	569	
2001	478	471	
2002	478	471	

(1) 1989: from October 1, 1988 to September 30, 1989. (2) Estimation.

Source: Agricultural Outlook: Special Farm Bill Supplement, USDA, ERS, Washington DC, 1996; and Magdelaine, 1996.

2.3. Existing conservation programs are maintained largely unchanged and new conservation programs are introduced

The Conservation Reserve Program (CRP) is left largely unchanged. Two features are noteworthy, however. First, maximum CRP area is fixed at 14.7 million hectares, i.e., the current level, while producers could enrol up to 15.4 million hectares under the 1990 FACT Act. Second, land taken out of CRP can be enrolled in the flexibility contract area and therefore receive production flexibility contract payments. Other conservation programs are maintained, and new conservation programs, like the Environmental Quality Incentive Program (EQIP), are established.

3. Economic consequences of the FAIR ACT on world markets: increased pressures for a reform of the Common Market Organisations in the EU

The US FAIR Act introduces some fundamental changes in US agriculture which are likely to affect US production and exports and hence, world prices. During the discussion on the Farm Bill, preliminary assessments of the impact of the future legislation predicted some 30 per cent increase in US agricultural production, and up to 50 per cent increase in US agricultural exports. Such figures are clearly questionable. However, there is little doubt that the FAIR Act will add to the existing pressures for reforming the Common Market Organisations (CMOs) of the Common Agricultural Policy (CAP) which may be no longer adapted to the new international environment.

² The percentage devoted to promote high value products increases from 25 % in 1996 to 35 % in 2002.

3.1. Impact of the FAIR Act on US production

Gauging the medium term impact of the FAIR ACT is a difficult exercise which was tackled by FAPRI, whose simulations on world markets account for the effects of the new US legislation (FAPRI, 1996). The OECD and the European Commission also presented their forecasts at the VIIIth Congress of the European Association of Agricultural Economists (EAAE) in September 1996. In spite of all the remaining uncertainties, such estimates provide a useful basis for discussion.

As far as internal support measures and major crops (grains, oilseeds, cotton and rice) are concerned, the three main features of the FAIR Act are freedom, flexibility and decoupling.

Freedom includes the abolition of the annual set-aside constraint. This is likely to result in a substantial increase in production compared to the situation in the early 1990s, even though annual set aside had largely disappeared in the later years of the previous program. Large uncertainty surrounds the future of the CRP, particularly in terms of the amount of land which would go back to production. Although FAPRI estimates assume that around 3 million hectares of CRP could return to production by 2004, other estimates are significantly higher, up to 6 million hectares (under the CRP, some 14.7 million hectares are presently set aside). Considerable uncertainty surrounds future enrolment and early CRP contract termination. The USDA assumes new enrolments to add roughly 0.6 million hectares in 1997 which would not offset the termination of some past contracts (USDA projections are made under the assumption of a fall in the CRP of 3.5 million hectares between 1995 and 2005).

Flexibility includes allowing farmers to grow whatever crop they like, except fruits and vegetables, on their base acreage. This could result in significant changes in the output mix, depending on market prices. For example, rice is one of the few crops for which the new regime could lead to significant reduction in support and therefore a lower output. On the opposite, soybean which was not eligible to the former support programs will now benefit from the same regime as grains. This is likely to result in an increased output.

Decoupling should lead to greater price responsiveness. In theory, US production could be more sensitive to price decreases because of more decoupled payments than in the past. However, the FAIR Act maintains a considerable degree of support to agriculture while increasing freedom and flexibility. Because of the comfortable cushion brought by the fixed payments under the production flexibility contract, and the protection brought by the safety net of the LR, risk adverse farmers are likely to aim at relatively high production levels when uncertainty prevails. Since world prices may experience larger variations than in the past due to market liberalisation following the URAA, the new arrangements could provide US producers an opportunity to expand their output and market shares, compared to other countries.

Compared to the 1991-94 period, economists from FAPRI forecast an increase in the areas cultivated for most of the major crops covered by the previous legislation, in particular for corn and soya. However, the expansion of areas is more limited when compared to the 1996 situation. Corn and wheat production in 2004 could increase the 1993-95 average by 25 and 10 per cent, respectively, the increase in corn yields being far superior to the increase in wheat yields. Soybean production could increase by almost 20 per cent over the same period. With respect to 1996 levels, the growth in production forecasted by FAPRI amounts to 5 per cent for wheat, and 13 per cent for corn and soybean. As far as livestock products are concerned, FAPRI economists predict a large increase in poultry and pork and, to a lesser extent, beef (respectively by 45, 15 and 7 per cent in 2005 compared to 1995 levels). The FAIR Act modifies price support in dairy production, but it is expected that this will only have a minor effect on production which may be roughly similar to what it would have been under past legislation in 2000 (USDA estimates suggest a slight decrease over the next ten years).

3.2. Impact of the FAIR Act on US exports and world prices

When the Farm Bill was discussed, it was stated that cuts in support and EEP expenditure would make US agriculture less price competitive in the short run, but more competitive in the long run. However,

the removal of acreage control and production constraints in a context of relatively high world prices may lead to a significant increase in exports even in the short run. In the longer run, US exports will depend crucially on the level of world prices, subject to major uncertainties because of the difficulties to predict production and demand in China and some other large countries. However, because of the various safety nets provided by the FAIR Act, US farmers now benefit from a definite advantage on export markets compared to producers in Argentina, New Zealand, Australia, and Canada, while enjoying more flexibility and freedom and less export constraints than EU producers. Thanks to the FAIR Act, US farmers are likely to be in a favourable situation to export on less predictable markets, compared to their main competitors.

According to FAPRI estimates, US wheat exports would experience a slight decrease, while those of coarse grains, including corn, would increase by 30 per cent between 1995 and 2005 (10 per cent by 2000). US exports of oilseeds would experience a slight decrease, due to the expansion of exports from South American countries and a large increase in US domestic consumption. In the livestock sector, US exports of poultry would increase by very large amounts (50 per cent over 10 years) and pork exports, which account for 3.5 million tonnes in 1995, would increase by 150 per cent.

As far as world prices are concerned, FAPRI estimates are that grain prices could decrease by roughly 15 per cent over the next five years, compared to the 1994-95 level, and that oilseeds prices could experience a significant decrease in the mid term and go back to their present levels by 2005. However, this result relies on the assumption that China would absorb 30 per cent of world imports of coarse grains. OECD forecasts for 2000-01 are in line with those from FAPRI as far as wheat and corn prices are concerned, and slightly higher as far as soybean prices are concerned. Both FAPRI and OECD forecasts do not show large changes in meat prices, but these expectations rely on the assumption that dramatic increases in Japan and Korean imports will contribute to absorb an important part of increased US exports.

To summarise, FAPRI estimates suggest that the FAIR Act will result only in a limited overall growth of US exports of crops. However, this does not imply that the consequences on EU agriculture will be minimal. First, several other analysts predict a larger increase in US exports. Furthermore, changes in the composition of exports also matter. The expected decrease in rice exports would have little effect on European agriculture, while an increase in corn exports would compete with European grain productions. In addition, the US is expected to increase exports of grains and oilseeds under a processed form, through pig meat and poultry meat. Both FAPRI and the USDA predict the exports of high value products to rise. The OECD also forecasts larger US exports in pork and poultry. In total, the USDA forecasts that the value of US exports will rise substantially, approaching 80 billion US \$ by 2005 compared to some 58 billion US \$ in 1995. As a result, the FAIR Act may cause specific difficulties to the CAP, especially in areas like oilseeds, corn, poultry meat and pig meat.

Table 4. World price forecasts (in US \$ per tonne; source: FAPRI and AGRI-US Analyses, Paris)

	1994-95	2000-01	2004-05
Soybean (CIF Rotterdam)	268	237	262
Corn (CIF Rotterdam)	135	116	130
Wheat (FOB Gulf)	176	155	151

3.3. Pressures on Common Market Organisations in the EU

International comparisons of cost or production and productivity show clearly that in the corn and oilseeds sectors, the US benefit from a significant comparative advantage over the EU. This is less clear for other productions such as milk or wheat (Barkaoui et al., 1994). Because of the economic costs generated by price support policies and coupled income support policies like the deficiency payments, more decoupled instruments improve both efficiency and competitiveness and make it possible to express the comparative advantage of the US in the corn and oilseeds sectors, as well as in the livestock

industry which relies on these feedstuffs. As a result, the FAIR Act is likely to lead to an expansion of US agricultural production and exports, which could increase the economic pressures on EU market organisations, especially those for arable crops, and lead to a tougher competition for EU producers of pig meat.

Even if one may consider that the area planted in corn is not likely to expand dramatically, because of technical and environmental constraints, both FAPRI and the USDA expect US corn exports to increase, partly because of substitution with other grains in US feed use. EU corn producers will still be relatively sheltered from competition in the short run, because of commitments of the URAA and the Peace Clause. However, the FAIR Act may lead to increased competition from the US Corn Gluten Feed (CGF) side, which is not protected by the URAA arrangements (although one may hope that US taxpayers will eventually question the US ethanol program which contributes to subsidise US exports of CGF in an indirect way). Because of the possible substitutions between corn by-products and grains in EU animal feed rations, increased competition of US corn may raise some extra difficulties for the EU grain sector. The 1992 CAP reform restored some of the competitiveness of domestic grains relatively to imported substitutes. This may prove temporary, because of the FAIR Act. In this respect, the new US legislation puts some additional pressure for deepening the 1992 CAP reform towards lower support prices and direct payments.

The EU CMO for oilseeds is more vulnerable to increased competition from US producers, because of the budgetary costs that are at stake. US sales of oilseeds grew by more than 50 per cent in 1995 compared to the previous year, mainly because of higher exports of soybean, soybean meal and vegetable oils. Although this was due to particular conditions in the EU in 1994-95, preliminary results for 1996 suggest that this was not an accident. The flexibility of the FAIR Act and the eligibility of areas planted in soybean to production flexibility contract payments may increase the pressure on the EU oilseeds sector. This could have a dramatic effect on the EU market organisation in that sector. The organisation of the oilseeds regime in the EU is such that a decrease in the world price leads automatically to very large expenditures for supporting oilseeds producers. Already, the oilseeds sector is one of the most costly, relatively to the volume of production and the number of farmers that are supported. The context of tight budgets for most of EU Member States and the desire to cap CAP expenditures may question the future of the CMO for oilseeds, should extra US exports of soybean lead to lower world market prices.

The FAIR Act is also expected to contribute to the expansion of production of corn and soybean in an indirect way, i.e., through an increased production of pig and poultry meat. Market trends observed in 1995-96 emphasise the FAPRI forecasts in the poultry sector. US producers have developed dramatically their exports, in particular those of poultry cuts. In 1996, EU producers benefited from a price advantage on grains, since an export tax kept EU grain prices lower than the world market for several months, resulting in an extra competitiveness in poultry. In the future, EU producers are likely to face a tough competition from US poultry exporters. This competition adds to the URAA commitments on export subsidies (the reduction of 36 per cent before year 2000 is likely to impose significant constraints on EU exports of chicken), and may affect the position of EU producers on third markets, which represent a considerable outlet for European poultry meat. On the poultry market, the flexibility brought by the FAIR Act may provide a definite advantage to US producers, while EU producers might suffer from the combined effect of higher cost of grains and lower export subsidies.

Because of considerable investments and a recent increase in US pig production capacity, it is that US exports of pork could expand significantly in the future. The pig sector is among the ones where the URAA constraints are likely to be binding for EU producers. The European pork industry is characterised by a production cycle, and the constraints on export subsidies are expected to be binding in the periods of high production, while constraints on market access could lead to significant imports in the period of low production. The FAIR Act will therefore emphasise an increased competition from US exports, from the point of view of EU producers. Although the extra budgetary pressures for a reform of the CMO are somewhat limited, increased imports during the low production periods could modify prices and producers' expectations, and lead to significant changes in the production patterns in the EU.

In addition, traditional exportations on third markets, especially from Danish producers, could be redirected towards the EU market, which may cause some difficulties in the industry. The increased competition in the pig sector brought about by the FAIR Act also participates to the pressures for reducing EU production costs, through lower feed prices.

The EU can no longer regulate its market independently of the world market. Tariffication sets a maximum to the divergence between the internal price and the world price, international commitments restrict export subsidies, and the constraint of reducing deficits caps budgetary outlays. Because it provides flexibility together with powerful instruments to enhance targeted exports, the FAIR Act will increase the pressure on the European market and is likely to decrease the market share of European products on world markets. The extra pressure put on some market organisations such as the ones for oilseeds and poultry makes the limitations and disadvantages of the present CAP in benefiting for a more liberalised world trade more obvious. By adding more pressure on the CAP, the FAIR Act stresses the importance of a rapid policy response from the EU.

4. Implications of the FAIR Act on CAP design

When the European Commission presented some proposals for a reformed CAP for the 21st century in November 1995, European policy makers stressed that significant changes in the CMOs would be necessary for coping with both the longer term constraints of the URAA and with the EU enlargement to Eastern European countries. However, European civil servants also wanted to launch the debate on a "reform of the reform" before the next round of multilateral negotiations, scheduled to start by 2000. By doing so, the European Commission wanted to avoid the imposition of an agenda by a third country, and to the situation of being a follower reacting to US initiatives, a situation already experienced during the Uruguay Round.

4.1. The EU-US agricultural trade game, the 1992 CAP reform and the Uruguay Round Agreement on Agriculture

It is hardly debatable that the end-product of the 1992 CAP reform process has been designed to placate the everlasting demands of the US, supported by other agricultural exporters and channelled into the GATT framework. The reform was thus essentially limited to the crops sector (grains and oilseeds) for which trade interests were at stake, while the dairy and sugar sectors (where price and trade distortions are larger) were left virtually unchanged.

In fact, the US tolerated the EU distorting trade policies on grains as long as 1/ the EU was not a significant exporter of grains, 2/ the EU resisted the temptation of imposing a tax on fats and feed imports, and 3/ the EU maintained import flows when further enlargements of the Community occurred (see, for example, the Spanish agreement on corn). But from a US point of view, the situation became unacceptable in the early 1980's due to the fact that the EU had become an increasingly large exporter of grains and had developed a significant oilseeds sector.

The major concern of the US in the UR talks have thus been to alleviate or reverse the consequences of old CAP principles on trade in grains and related feeding stuffs. The first issue at stake was the high protection in the EU for grains, which first reduced US outlets for these products in the EU and on third markets and second made it necessary for the EU to protect other agricultural sectors as well. The two other major trade issues for the US, namely oilseeds and corn by-products, were also indirectly determined by the common policy on grains. US trade interests in grains and oilseeds, and the US competitive advantage in coarse grains and soya, explain, at least partially, the US emphasis on binding commitments on trade distorting policies, more particularly on export subsidies, during the UR.

The crucial necessity for the EU to get CAP reform compensatory payments exempted from reduction gave leverage for the US for obtaining binding commitments on exports, particularly in terms of subsidised export cuts. But the progressive tolerance by the US to exclude these compensatory

payments from the AMS calculation was also consistent with its own difficulties in reforming its dairy and sugar sectors.

Accordingly, the strongly binding constraints which have survived the UR negotiation down to the Marrakech Agreement are the export subsidy cuts, while domestic support reductions and even market access provisions have been much diluted with respect to initial US proposals. Nevertheless, it is now largely accepted that the quantitative effects of the URAA emanating from the market access commitments and reductions of export subsidies are likely to be small (see, for example, Konandreas and Greenfield, 1996 ; Swinbank, 1996 ; Tangermann, 1996). The qualitative effects of the URAA, namely the implications for the choice of policy in the future, are certainly more important and more permanent.

It is likely that the first round of negotiations in the World Trade Organisation (WTO) will involve an intensification of the tariffication process, more severe commitments on export subsidies and a closer analysis and scrutiny of internal support mechanisms. Although the economic costs of agricultural policies in developed countries can be reduced by the use of appropriate instruments, most industrial nations involved in the WTO have to find a delicate balance between the domestic pressures to keep some support for their most influential sectors and the objective of capturing the benefits of reform in the direction of a freer trade for the commodities they export on a more competitive basis. The active role of the US in the UR can probably be explained by the potential of sizeable gains on grains (mainly coarse grains) and oilseeds from trade liberalisation that would exceed the adverse political losses on other agricultural sectors. In the same way, the CAP reform is a clear illustration of the necessity which compels policy makers to find a feasible way for changes in policies through the narrow political window opened between domestic interest groups and international pressures.

The previous reading key also explains, at least partially, the tactic of the US negotiators in the UR. By setting the objectives of the talks at a clearly unrealistic level, not only for other contracting parties, mainly the EU and Japan, but also for the US themselves, the objective was to "dramatise" the need for reform in order to obtain a more preferred trade compromise and the negotiation position a "subtle" way to accomplish, through the GATT channel, domestic policy reforms that could otherwise not be obtained through domestic political means alone. To what extent can the US FAIR Act of 1996 be interpreted in a similar way ? To what extent does the US FAIR Act of 1996 reflect the negotiating position of the US in the future trade talks ? What should and/or could be the political response of the EU to the US FAIR Act of 1996 ?

4.2. The next round of multilateral negotiations in the WTO: what could be the negotiating position of the US ?

The maintained competition faced by US producers of grains and oilseeds from European farmers provides them with strong incentives to support agriculture a central part of the next round of trade talks.

The economic costs generated by price support policies and coupled income support policies like the deficiency payments have made more decoupled support instruments more attractive with regard to both efficiency and competitiveness criteria. The latter factor, favourable to domestic reform, is enhanced by international pressure due to the existence of potential trade gains from market liberalisation for some countries. This is clearly the case for grains and oilseeds in the US. It is likely that the US FAIR Act of 1996 will increase US production by relatively large percentages (see section 3 and, more generally, FAPRI, 1996). The allocation of increased area to production of wheat, feed grains and oilseeds, under the stimulation of current price levels combined with increased yields, would increase US output and exports. Therefore, world prices of cash crops would tend to fall, at least compared with current levels.

Accordingly, it is likely that the US would like to use the framework of the US FAIR Act of 1996 to discipline distorting trade policies in other countries, mainly the EU, in the context of the next round of multilateral talks. A multilateral deregulation of agricultural policies, in the spirit of the US Fair Act of

1996, would mean higher world prices for US exports and hence, facilitate an acceptance of FAIR Act principles and provisions by US farm pressure groups at the end of the seven-year application period of the Act. In all industrialised countries, high world prices make the reform process easy while low world prices make it particularly difficult³. US trade interests are served by a successful dismantling of trade distorting policies over the world co-ordinated in the framework of the WTO. A multilateral agreement would allow the US to draw gains on its external balance and to maintain a "sufficient" level of internal support. The fixed but declining production flexibility contract payments are set at "acceptable" levels for US farmers if market prices are high.

It is also likely that the US would like to put all agricultural policies on the negotiation table, probably by following the same approach as in the UR, i.e., by considering explicitly internal support policies, market access issues and export subsidies. The US would probably be followed on this line by other proponents of reform, mainly the countries of the Cairns Group.

Nevertheless, unlike in the URAA, it is hardly likely that the US would be willing to accept the accommodating treatment of AMS. More precisely, it is probable that the US would like to abolish the privileged status of CAP reform compensatory payments, namely their inclusion in a blue box. Again, the US would be followed on this point by "fair" exporters of the Cairns Group⁴ and also by some EU Member States, the UK in particular (Agra Europe (London), 1996, February 9, E/5).

As a result of the Blair House bilateral compromise between the EU and the US, 1992 CAP reform compensatory payments and 1990 Act deficiency payments have not been included in the AMS as they fall in the blue box. Accordingly, the current AMS's of both the EU and the US have already fallen significantly below the AMS commitments (see, for example, Tangermann, 1996).

The fundamental requirement for the exemption of policies from reduction commitments is that they have no, or at most minimal, trade distortion effects or effects on production, that they are financed by the government, that they do not involve transfers from consumers, and that they do not provide price support to producers. Such policies fall in the green box and are defined in Annex 2 of the URAA. In particular, direct payments to producers, including decoupled income support, income insurance and safety-net programs, disaster relief, producer or resource retirement schemes, investment aids, environmental programs and regional assistance programs, are included in the green box. For direct payments included in the green box, it is explicitly stated that the support should not be related to the level of either production or price levels. Furthermore, some domestic support measures defined in Article 6 of the URAA are not included in AMS calculation, in particular, direct payments under production-limiting programs which fall in the blue box.

It is clear that the blue box was agreed to accommodate US deficiency payments and EU compensatory payments. In the EU, the exclusion of compensatory payments from AMS computations was a crucial necessity to sell the 1992 CAP reform to the more powerful producer groups and to the more powerful Member States. The progressive acceptance by the US to exclude CAP reform compensatory payments from the AMS may be interpreted as a mean to put the pressure on EU export subsidies since it gave leverage to the US to obtain binding and severe commitments on export subsidy cuts, i.e., on the export competition dossier where US interests were the more important and gains from a multilateral agreement were expected to be immediate and sizeable. Nevertheless, it is important to note that this US concession made life easier not only for the EU, but also for the US and other contracting parties, since most countries have some sore points in their farm policies. In particular, this concession is consistent with the US difficulty to reform some highly protected and supported sectors, like the dairy and sugar sectors.

³ This is clearly the case for the US FAIR Act of 1996. As noted by Orden et al. (1996), "it was rising market prices during 1995-96 more than a new reform consensus or budget constraints that drove farm policy toward decoupled payments and less interference in field-crop production".

⁴ See the speech of Don Keynon, Australia's ambassador to the WTO, to the Annual Conference of the England and Wales National Framers Union (Agra Europe (London), 1996, February 9, E/5).

Undoubtedly, the US will use the fact that their production flexibility contract payments are decoupled from production and price levels, and so doing may be classified as a green box policy, to put the blue box issue on the table of the next round of trade liberalisation talks. More precisely, it is probable that a key objective of the US will be to allow exemption from scheduled reductions only for genuinely decoupled types of farm subsidy, like their own production flexibility contract payments. Since the new US income support payments may legitimately be considered as a green box measure, there is no longer interest for the US to accept that the 1992 CAP reform compensatory payments be exempted from reduction commitments. In other words, there is no interest for the US to accept the blue box dispensation in the next round of multilateral talks.

If this expectation is confirmed, it would have significant implications for the future shape of EU farm support programs by forcing the EU to re-define its internal support measures so that they fall in the green box and by speeding up the pace of further CAP adjustments.

4.3. The next round of multilateral negotiations in the WTO: what could be the political response of the EU ?

i) The "problem" of the EU arable crop sector in the short run : URAA commitments on subsidised exports

At this stage, it is first important to highlight the rationale of the new instrumentation of the CAP in the arable crop sector. The logic of the 1992 CAP reform is clear and may be described as follows. Support prices for grains were substantially cut down, from a current average buying-in price of 155 green ecus per tonne in 1992-93 to align on a target price of 110 green ecus per tonne and an intervention price of 100 green ecus per tonne in the 1995-96 marketing year. The objective of this support price cut was to induce an increase in the domestic demand and especially in its feed component thanks to an improved price competitiveness of interior cereals with respect to imported feed ingredients (i.e., protein cakes and grain substitutes). The support price cut, which is compensated by direct payments per hectare, should induce producers to both reduce variable input use at the intensive margin and adopt less intensive production techniques which should reduce growth rates in yields in the medium term. In the short term, an improved balance for grains is obtained by a set-aside program for larger producers. Compensatory payments are limited to historical area, i.e., to eligible base area defined as the average of area planted to arable crops - grains, oilseeds and protein crops - in 1989, 1990 and 1991, plus any area enrolled in the five- or one-year set-aside program during these years. They are also based on an average historical yield for the region rather than the actual yield of the farm. For grains, the compensatory payment rate per hectare is thus determined by applying the reference yield to the compensation payment rate per tonne, i.e., 45 ecus per tonne in 1995-96. For oilseeds, new market arrangements were made in December 1991 in response to a GATT panel decision in January 1990 which ruled that the EU's oilseeds regime impaired the zero binding tariff on imported oilseeds negotiated in the 1960's. Guaranteed minimum prices were eliminated, and compensatory payments were based on 2.1 times the buying-in price for grains in 1992-93 less a world oilseeds reference price, adjusted for regional yields and eventually for changes in world market prices. For protein crops, support prices were also replaced by a payment-per-hectare system at the rate of 65 ecus per hectare multiplied by the regional yield in grains.

The decision to decrease EU support prices for grains should provide substantial gains, essentially in terms of lower user prices for both final consumption and derived demand. The closer the EU prices are to world prices, the greater these gains are. But one of the main limits of the 1992 CAP reform is that it fixes the minimum institutional price at a higher level than the world price, which alters the price competitiveness of European grains with respect to third countries and implies the continuous use of subsidies to export to foreign markets. Furthermore, the first years of CAP reform application have clearly showed that market prices may be substantially higher than these minimum institutional prices. If the EU does not fulfil its GATT commitment in terms of subsidised export volume reduction, the easiest way to operate would obviously be to increase the set-aside rate, which means that the negative

effects of this regulatory instrument would be aggravated, i.e. increased costs, decreased competitiveness on the international scene, and fewer incentives to farming more extensively (Guyomard et Mahé, 1995). An alternative way to operate would be to set the domestic price at the world price level, which would allow the EU to export without restitutions (GATT commitments would no longer apply in that case), to increase its competitiveness not only on world markets but also on the domestic scene with respect to substitutes, and to abandon the requirement for land to be set aside. Removing this requirement would allow farmers to operate at minimum total cost and would induce them to use less intensive farming. In the context of the current instrumentation of the CAP, a first step in that direction would be to introduce a two-tier market for grains in which land actually set aside would be cultivated with more extensive techniques (i.e., with low per hectare chemical input levels) and would be remunerated at world price levels.

ii) A more radical reform of the CAP instrumentation in the arable crop sector ?

The current policy of income support and export subsidisation in the EU arable crop sector is inefficient from an economic point of view and unsustainable in the face of both internal (accession of Central and Eastern countries to the EU) and external (next round of multilateral trade talks in the WTO) pressures facing the EU. The system is very expensive for consumers and taxpayers. The rationale of the set-aside program is, at minimum, questionable. The setting of domestic institutional prices at levels greater than world market prices (under "normal" conditions of production and trade) implies the continuous use of export subsidies for the disposal of surpluses on third markets. Given that the most immediately effective trade implication of the URAA is expected to result from the export subsidy commitments (see, for example, Guyomard et al., 1994 ; Swinbank, 1996 ; Tangermann, 1996) and given that the next round of multilateral talks is expected to make these export commitments more and more severe, it is crucial for the EU to allow its producers to export large quantities of grains without export refunds, particularly in order to take advantage of expected growth in world trade. The EU is then facing three possibilities, namely 1/ increase the set-aside rate, 2/ allow for a non-subsidised grain export sector aside from the supported slice of production, or 3/ play the international competition card by doing away with systematic export subsidies.

Furthermore, new domestic pressures on the CAP will also develop from the environmentally sensitive groups.

It is now well recognised that agricultural production can adversely affect environment, for example by depleting or contaminating water supplies and increasing soil degradation. Some adverse effects can be attributed to agricultural policies that distort output and input prices. For a long time, the basic CAP instrument has been market price support which encourages production, but penalises consumers and has resulted in EU surpluses in most temperate farm products. The use of this instrument has over time become increasingly costly in terms of budgetary expenditures, complicated administration, distortion of resource use, international trade tensions and detrimental environmental effects. For grains and oilseeds, the reform has changed the direction of the CAP in shifting the burden from the consumers to the taxpayers, via the mechanism of targeted compensatory payments. But it is obvious that the new CAP mechanisms introduced in May 1992 were primarily designed and implemented to solve the problems of surplus production for grains, not the ill-defined environmental problems that modern farming may create.

Whatever agricultural policy instruments are used, the consequences of agricultural support mechanisms pose no particular problem, at least from an environmental point of view, as long as production of the supported commodities does not involve environmental threats. This is no longer the case when agricultural policies increase soil degradation or encourage overuse of agricultural chemicals which are detrimental to the environment or, in other words, when agricultural policies encourage the negative environmental effects that modern agriculture tends to create (Mahé and Rainelli, 1987 ; Reichelderfer, 1990). Environmental degradation can obviously occur in the absence of agriculture support if commodity prices do not fully reflect the negative effects of agricultural production. In that context, free trade is no panacea for environmental degradation because world prices do not fully reflect

environmental costs (Anderson, 1994). Finally, it is important to recognise that modern agriculture also provides positive externalities (e.g., habitat protection, scenic landscape, ...). The problem is that agricultural policies generally tend not only to an oversupply of negative externalities, but also to an undersupply of positive externalities.

One additional weak feature of the reform is thus the lack of integration between the environmental stewardship role of agriculture on the one hand, and the food production and trade roles of agricultural activities on the other hand. Given the link between agricultural pollution and the increasingly intensive agricultural production, the solution advocated by economists, and also by CAP reform promoters, in order to reduce agricultural pollution is to return to lower-intensity farming by reducing the use of agricultural chemicals and by shifting to less intensive land uses. The CAP reform should, at least theoretically, induce a movement towards lower intensive farming. Nevertheless, many factors may offset this positive trend: the imperfect transmission of institutional price changes to market prices, the downward adjustment of market prices of chemicals, the quasi-fixity of primary factors and low values of price elasticities, the current set-aside program which implies that it is more profitable to set aside low quality land first, ...

With few exceptions, the use of chemicals at high levels will remain profitable in the EU. Our current system of agriculture has developed because of these chemicals and is likely to remain very dependent upon them. Because most of the pollution costs are external to agricultural production, society cannot expect the agricultural problem to be drastically reduced without direct intervention, even if the CAP reform is, but only indirectly, a first step in the right direction. In the specific case of nitrates, pollution is derived from nitrogen contained not only in commercial fertilisers, but also in livestock manure. The CAP reform clearly does not provide the political framework for solving the livestock manure excess problem. Livestock manure may be viewed as a more problematic source of nitrates than commercial fertilisers, first because farmers generally treat manure as waste and not as a productive input as fertilisers, second because the reform has very limited effects on animal production intensity.

In the past, environmental policies were mainly designed and implemented at regional levels. The agricultural sector, in the EU and other industrialised countries, has been largely exempted from the application of the PPP and market-based strategies have not, so far, played a large role. This is due to various factors, including mainly the non-point nature of discharges and the political power of the farm lobby. The problem is now considered as sufficiently serious and transnational in character to require a wider approach (Haley, 1994). Agricultural and environmental policies can be complementary or in conflict depending on the characteristics of the problem and the types of policy instruments (Antle and Just, 1991). The conflict in policy objectives should obviously be addressed through efforts to integrate agricultural and environmental programs. As noted by Munk (1995), the issue of the integration of environmental objectives into sectoral policy has to be considered in the more general context of the reinstrumentation of agricultural policies (i.e., the shift from market price support towards more decoupled forms of assistance to farmers) and the level of policy responsibilities.

To summarise, the final decisions adopted in May 1992 by the Council of Ministers appear far less ambitious than the initial proposals of the European Commission as regards the reorientation of European agriculture towards meeting the long-run objectives of competitiveness, resource conservation and sustainable development. A more radical reform of the CAP instrumentation in the arable crop sector would be to take the opportunity of the US FAIR Act and, more generally, of the next round of trade talks to re-define CAP compensatory payments so that they fall in the green box and so doing be exempted from challenges in the WTO. As they are now defined, CAP compensatory payments based on historical area and yields are, at least theoretically, decoupled from yields, and the farmer allocating variable inputs would only increase yields if it were profitable at the new market price. Nevertheless, they cannot be considered as a fully decoupled transfer that can be included in the green box. The aid remains tied to the obligation of producing certain crops, requires set aside of some land and is based on current acreage declaration. In addition, compensatory payments influence production decisions via acreage allocation demands (Guyomard et al., 1996).

To our point of view, a further reform of the CAP should be based on the following principles, at least as far as grains and oilseeds are concerned:

1/ Compensatory payments of the CAP should be transitory and declining over time to take into account productivity gains. Like the US production flexibility contract payments, they should be decoupled as fully as possible from market conditions and farmers' production choices so that they could be included in the green box and hence not challenged in the WTO.

2/ A closer alignment of internal EU prices of grains to world market prices would allow EU producers to export on third markets without export subsidies and therefore to take advantage of expected growth in world trade. It would allow production to adapt to technological change without the limitation of an increased set-aside rate which would result from GATT commitments on export subsidies if the gap between internal and world prices still needed to be filled by export refunds. Furthermore, it would allow the EU to abolish the set-aside program which would be no more justified by GATT commitments since they would no longer apply in that case. Finally, a closer alignment of internal EU prices of grains to world prices would allow the export of a large part of fed-grain meat surpluses without subsidies.

3/ Unlike compensatory payments, "environmental" and "rural development" direct aids should be fully coupled, perfectly targeted, permanent, contingent to nature friendly practices and/or resource conservation objectives and modulated in favour of farms in less favoured areas. Proper environmental standards should be targeted by means of specific incentives for positive externalities or disincentives on negative externalities, without directly hindering a more efficient allocation of resources. Direct payments targeted to reward the various positive externalities of agriculture would fall in the green box and therefore not challenged in the next round of multilateral talks. Like the US CRP, a completely different set-aside program should be encouraged in the EU, on the basis of conservation objectives and not to manage supply control for reasons of complacency towards foreign competitors. Given the increasing concern of EU population to environmental problems in general and the increasing recognition of agriculture contribution to environmental degradation, given that a major emerging issue in the next round of multilateral talks is expected to be that of trade and environment, given that the environmental benefits of agricultural policy liberalisation should be heavily qualified by the costs of adjustment in a managed countryside like the EU, and given that the array of policy instruments available for achieving environmental objectives in the agricultural sector are numerous, including command-and-control approaches and market-based strategies, implementation of environmental policies will be watched with particular attention. They should be defined to reduce negative externalities linked to agricultural production on the one hand, to "compensate" farmers for the provision of public goods and to promote sustainable agricultural practices on the other hand. Clearly, subsidies and cross-compliance programs should be defined so as to be included in the green box.

The previous line of reform foresees to well establish the dual role of EU farmers, as food producers on a internationally competitive basis on the one hand, as stewards of the environment and the country-side on the other hand. At least as far as cash crops are concerned, it is within reach and would not mean a very significant further adjustment than the 1992 CAP reform. To what extent can the same line of reform be applied to other EU productions ? Let us take the example of the EU dairy sector which has not been reformed in 1992. Again, a reform of the dairy sector should explicitly recognise the dual role of dairy farmers.

iii) Is it possible to follow the same approach for the sectors which were not reformed in 1992? the case of milk and dairy products

The EU is a major player in world dairy markets, accounting for about 30 % of butter world exports, 46 % of milk powder world exports and more than 52 % of cheese world exports. For butter and skim milk powder, the GATT export constraints can easily be met. But for whole milk powder and cheese, the non compatibility between the GATT commitments and the CAP is serious (Guyomard and Mahé, 1994 ; Swinbank, 1996). In other words, as in the case of grains, they are the commitments on subsidised export cuts which will most constraint the EU dairy sector in the short term. Nevertheless, unlike the grain sector, domestic policy measures used in the dairy sector, namely the milk quota system and the

price mechanism, would probably not be challenged by the US with great pressure in the next round of multilateral talks if EU export refunds on dairy products over the six-year period 1996-2002 are within the limits implied by the URAA and if EU export refunds after 2002 are within the limits which will be defined in the next agreement. A less offensive position of the US in the next round is expected for two reasons. First, the FAIR Act does not deeply reform the US dairy sector. Second, US trade interests on dairy products are less obvious than in the case of grains or soya. Nevertheless, it is clear that other exporters of dairy products, mainly Australia and New-Zealand, will put the pressure on the EU for a reduction of internal support and export subsidies on dairy products, and for an increased access to the EU market for their own products. New-Zealand, for example, claims for a complete liberalisation of dairy product markets with the expectation that their comparative advantage will allow its producers to increase their world market shares. It is important to underline that the pressure will be put in the US as well.

It is mainly for internal reasons, particularly for efficiency criteria, that the EU should adjust its dairy policy with the objective to allow its producers to take advantage of expected growth in world trade and Central and Eastern country dairy industries to be integrated into the EU dairy market. Nevertheless, a reform of the EU dairy sector should also take into account the fact that the current system of support and subsidisation of exports allows poorly efficient farmers to continue to produce in less favoured areas and to provide so called "non-economic" benefits (Winters, 1989).

Given that the current level of subsidised exports of dairy products (cheese, whole milk powder and other dairy products) should be reduced to satisfy URAA commitments on the export dossier and given that this level of subsidised exports should be further reduced by the commitments under the next round of multilateral talks, the EU has then three possibilities in the framework of the current instrumentation of the dairy policy, i.e., 1/ a cut in support prices, 2/ a reduction of milk quota, and 3/ a combination of a price cut and a quota reduction. Obviously, these solutions correspond only to a second best response to a short-run constraint, namely the URAA commitments on subsidised exports. They do not solve the inefficiency problem of the current system of support in the dairy sector and do not allow EU producers to take profit from the expected increase in world trade. A more radical reform involving the immediate removal of current support measures compensated by decoupled direct payments seems infeasible, at least from a budget point of view. One intermediate possibility between the status-quo and a radical and immediate reform would be to introduce a two-tier price system. This option seems feasible, both economically and politically.

A two-tier price policy presents numerous advantages. By differentiating average and marginal returns, it allows policy makers to continue to support dairy producers' income while restoring the marginal cost pricing rule. In other words, a two-tier price system allows efficient producers to increase their production level and hence, increases the efficiency of the policy with respect to the current system of support. The milk quantity under quota, remunerated at a fixed guaranteed price, allows poorly efficient producers to continue to produce in less favoured areas. Furthermore, these poorly efficient producers could receive, in addition, "environmental" and/or "rural development" direct aids for the provision of public goods. The quantity over quota, remunerated at a lower price which clears the milk market in the EU⁵, allows efficient milk producers to expand their production level and allows the dairy industry to increase their exports of dairy products on third markets. Furthermore, the guaranteed price of the milk under quota could be decreased with respect to the current target price of milk, compensated with decoupled direct payments, in order to facilitate both the integration of Central and Eastern countries and the transition towards a largely more decoupled mechanism of support. A lower price of the milk under quota has the advantage to increase the domestic demand for the various dairy products, particularly for cheese and other dairy products which are more price elastic than butter and skim milk powder.

⁵ There are no exports of milk, but only of dairy products.

Clearly, the two-tier price system has also numerous drawbacks. The first one is the administrative complexity of the system which is however alleviated in the present case due to the fact that the starting situation corresponds to a quota industry. A second drawback is related to the fact that a large part of the support continues to be supported by the consumer. A third important drawback is related to the difficulty to ensure the "waterproofness" of the system between dairy products under quota and dairy products over quota.

5. Concluding comments

Under the combined pressure of a tight budget, the URAA and the future enlargement of the EU, debates on a further reform of the CAP have already started within the EU. The US Fair Act of 1996 clearly increases the political pressure for a further reform of the CAP, especially with the prospect of the next round of multilateral trade negotiations in the WTO and the trend towards free trade within a growing number of regional agreements.

It is now well recognised that the economic consequences of the URAA are likely to be small. With relatively minor immediate changes in agricultural markets, what then will be the significance of the URAA? Following Vanzetti (1996), two main points are noteworthy. First, is the placement of agriculture on the agenda of next multilateral negotiations. Second, is the move away from open-ended price support for agriculture. In the future, domestic support policies should be decoupled and rely on government transfers not interfering with the price system.

It is hardly debatable that the US will use the instrumental framework of the Fair Act to define their negotiation position in the next round of multilateral talks. It is in that sense that the FAIR Act increases domestic and external pressures for a deeper reform of the CAP. It emphasises the need for a "new" CAP which, like the US legislation, increases flexibility and "freedom to farm" while maintaining a safety net for farmers. Nevertheless, because of the specific aspects of European agriculture, one should not consider the FAIR Act as a unique model for a reformed CAP. Europe is a managed countryside. Accordingly, the protection of a diversified agriculture, the increasing attachment of the public opinion to landscape and cultural values, ... may need more specifically tailored forms of support than in the US. Coupled "environmental" and "rural development" direct aids should be finely tuned in order to fit the various "public" functions that farmers are asked to fulfil.

Furthermore, the reform of the reformed CAP should also consider the risk of an increased instability of world prices, following trade liberalisation and the likely shift of world production towards areas with comparative advantages but also more fluctuant climatic conditions. As a result, a more diversified set of policies than the ones implemented in the US deserves further investigation. In particular, a modulation of subsidies in function of various criteria like efficiency, environmentally friendly practices, ... have to be considered with care. So do the proposals for structural policies to play a larger role in the future. Options involving a certain degree of production management, such as two-tier price systems, should not be discarded only because some other countries have chosen a different path.

References

- Agra Europe (London), various issues.
- Agri-US Analyses, various issues (in French).
- Anderson M., 1994, NAFTA and Environmental Quality: Issues for Mexican Agriculture. In Sullivan ed., Environmental Policies: Implications for Agricultural Trade, USDA, Economic Research Service, Foreign Agricultural Economic Report Number 252.
- Antle J. M., Just R. E., 1991, Effects of Commodity Program Structure on Resource Use and the Environment. In Just and Bockstael eds., Commodity and Resource Policies in Agricultural Systems, Springer-Verlag, Berlin.
- Barkaoui A., Bureau J. C., Butault J.P., 1994, A Set of Purchasing Power Parities for Comparing Prices and Productivity in European and United States Agriculture. In Hartmann, Schmitz, and von Witzke eds., Agricultural Trade and Economic Integration in Europe and in North America, Wissenschaftsverlag, Kiel, Germany.
- Guyomard H., Mahé L.-P., Roe T. L., 1994, The EC and the US Agricultural Trade Conflict and the GATT Round: Petty Multilateralism? In Hartmann, Schmitz, and von Witzke eds., Agricultural Trade and Economic Integration in Europe and in North America, Wissenschaftsverlag, Kiel, Germany.
- Guyomard H., Mahé L.-P., 1995, La nouvelle instrumentation de la Politique Agricole Commune. Economie et Prévision, 117-118, p. 15-30 (in French).
- Guyomard H., Baudry M., Carpentier A., 1996, Estimating Crop Supply Response in The Presence of Farm Programmes: Application to the Common Agricultural Policy. Working paper INRA-ESR-Rennes (forthcoming in the European Review of Agricultural Economics).
- Haley S., 1994, Assessing Environmental and Agricultural Policy Linkages in the European Community. In Sullivan ed., Environmental Policies: Implications for Agricultural Trade, USDA, Economic Research Service, Foreign Agricultural Economic Report Number 252.
- Konandreas P., Greenfield J., 1996, Uruguay Round Commitments on Domestic Support: Their Implications for Developing Countries. Food Policy, 21, 4/5, p. 433-446.
- Magdelaine V., 1996, La nouvelle politique agricole américaine : principales dispositions et premières conséquences du FAIR Act. Perspectives Agricoles, 217, p. 4-22.
- Mahé L.-P., Rainelli P., 1987, Impact des pratiques et des politiques agricoles sur l'environnement. Cahiers d'Economie et Sociologie Rurales, 4, p. 9-31.
- Munk K. J., 1995, The Scope for Integrating Agricultural and Environmental Policies in the EU. Conference on Agriculture and Environment, Club de Bruxelles, Brussels.
- Orden D., Paarlberg R., Roe T., 1996, Can Farm Policy Be Reformed? Challenge of the Freedom to Farm Act. CHOICES, First Quarter 1996.
- Orden D., Paarlberg R., Roe T., 1996, A Farm Bill For Booming Commodity Markets. CHOICES, Second Quarter 1996.
- Piedra M. A., Lynn Kennedy P., 1996, Agricultural Trade Policy Under the Federal Agriculture and Improvement Act of 1996. Louisiana Rural Economist, 58, 2, p. 10-13.

Reichelderfer K., 1990, Environmental Protection and Agricultural Support: Are Trade-Offs Necessary? In Allen ed., Agricultural Policies in a New Decade, Resources for the Future and National Planning Association, Washington DC.

Swinbank A., 1996, Capping the CAP? Implementation of the Uruguay Round Agreement by the European Union. Food Policy, 21, 4/5, p. 393-408.

Tangermann S., 1996, Implementation of the Uruguay Round Agreement on Agriculture: Issues and Prospects. Journal of Agricultural Economics, 47, 3, p. 315-337.

Young C. E., Westcott P. C., 1996, The 1996 US Farm Act Increases Market Orientation. USDA, Economic Research Service, Washington DC.

Winters L. A., 1989, The So-Called "Non-Economic" Objectives of Agricultural Support. OECD Economic Studies, 13, Winter 1989-90, p. 237-266.

Vanzetti D., 1996, The Next Round: Game Theory and Public Choice Perspectives. Food Policy, 21, 4/5, p. 461-477.



THE UNIVERSITY
of MANCHESTER

Centre for Agricultural, Food and Resource Economics
School of Economic Studies

THE AMERICAN FARM BILL: IMPLICATIONS FOR CAP REFORM

PAPERS BASED ON AN
AGRICULTURAL ECONOMICS
SOCIETY ONE-DAY CONFERENCE

DAVID COLMAN
(Editor)

MAY 1997

ISBN 1 871542 24 3

Price £10.00

THE AMERICAN FARM BILL: IMPLICATIONS FOR CAP REFORM

**PAPERS BASED ON AN AGRICULTURAL ECONOMICS
SOCIETY ONE-DAY CONFERENCE**

**DAVID COLMAN
(Editor)**

ISBN: 1 871542 24 3

Table of Contents

	<u>Page</u>
Notes on Contributors	
1. Editorial Introduction and Overview <i>by David Colman</i>	1
2. FAIR: Key Commodity, Trade and Conservation Provisions <i>by Harry W. Ayer</i>	7
3. The 1996 Farm Bill: How Much Change and How Permanent? <i>By David Orden</i>	23
4. The Effects of the 1966 Farm Bill on Feed and Food Grains <i>by Vincent H. Smith and Joseph W. Glauber</i>	44
5. CAP Response to the 1996 US FAIR Act <i>by Jean-Christophe Bureau, Alexandre Gohin, Herve Guyomard and Chantal Le Mouel</i>	64
6. The US Farm Bill: 'FAIR' or 'FOUL' <i>by David R. Harvey</i>	82
7. Implications of Changes in US Agricultural Policy for the Next Round of Multilateral Trade Negotiations <i>by David Blandford</i>	94