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COMMENTARY

The Enemy Within

By PIERRE BOULANGER and PATRICK A. MESSERLIN
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When the French authorities started their bickering with the European Commission two weeks ago, it became clear to all observers that the road to the World Trade Organization meeting to be held in Hong Kong in mid-December would have more twists and turns than initially expected. How much harder it is for France to walk along that road when she insists on systematically and repeatedly shooting herself in the foot!

There is simply no basis for arguing that the Commission stepped outside its mandate when it bravely tried to sell the 2003 reform to the Common Agricultural Policy as some kind of "concession" on domestic support in the current Doha round of global trade talks. France's vocal reaction to the Commission's attempts at negotiation has in fact been quite counter-productive. It has reminded all negotiators that the WTO does not give "credit" when member countries have the good sense to adopt better policies. In the Uruguay round, France strongly opposed taking into account the unilateral liberalizations that developing countries undertook in the 1980s.

Moreover, France's tirades have helped negotiators wake up to the fact that the 2003 reform was largely a shell game, shifting only a portion of European farm subsidies from the WTO's prohibited list of trade-distorting payments to its "acceptable" subsidy list. This was achieved primarily by "decoupling" subsidies from production, with the idea that this would discourage the overproduction of goods that has wreaked havoc on agricultural markets. At the end of the day, however, there was no change in support prices and subsidy levels, and hence no change in the overall level of European protection. As shown by an OECD study, this was a liberalization in name only, reducing the overall level of support by a meager two percentage points, from 57% to 55% -- nothing much to celebrate for Europe's WTO partners.

Yet even decoupled subsidies can encourage European farmers to keep on producing when they shouldn't. This means foreign access to European markets remains difficult, if not impossible -- even for producers from Europe's former colonies in the African, Caribbean and Pacific regions and other least developed countries that face no tariffs. No wonder, then, that France's initially good reputation on development has sunk to an all-time low. These countries are shocked by the incredible cynicism of a position that preaches development, but practices market closure when it comes to developing countries' farm exports.

France has also accused the Commission of exceeding its mandate with respect to tariff cuts alleged to be so deep as to endanger the survival of key French farm sectors. This assertion is nothing short of ludicrous. The European offer on tariff cuts represents no threat to these sectors. Take sugar products, for example. These products are currently protected by tariff walls of 120% and (much) higher. In the "worst-case" scenario, these tariffs would be cut to a level still exceeding 65% on average. But a much more likely scenario is that sugar products would continue to benefit from the various escape clauses ("flexibility," "sensitivity," safeguards, etc.) that Europe has promoted, meaning that post-liberalization tariffs will probably be more like 100%. Does a "mere" 100% tariff really represent a serious danger to French sugar producers? If it does, then the French might finally start wondering what has really been happening to the billions of euros they give away each year in order to keep a small number of large sugar producers "competitive."

The French position is even less understandable when it is recalled that, on the whole, French agriculture is amongst the most efficient in Europe. French farmers seem not to realize that they will be the main beneficiaries of even the limited farm liberalization that the Doha round appears capable of delivering. Take domestic subsidies, for example. European subsidies spent in the most inefficient member states keep their farmers in operation, and thereby restrict the sales of more efficient farmers, be they from the rest of the world or from the rest of Europe. The CAP is the most implacable foe of the European single market in farm products, and it is particularly harmful for the most efficient European -- often French -- farmers.

If reason were to prevail, French farmers would be among those pushing for deeper reductions in European subsidies than those tabled by the Commission. They would clearly win from such an approach. French farmers often say that they would accept the elimination of subsidies if production prices were higher. But the best way to increase production prices is to reduce subsidies that depress prices by artificially bolstering production.

Staunch French resistance to liberalization might be comprehensible if French farmers were a large, homogeneous group of inefficient producers. Not only are they few and efficient, but they are heterogeneous, particularly in terms of subsidies. In a recent study, our institute found that less than 1% of all French farms (the 2,530 largest) receive slightly more subsidies than almost 40% of all French farms (the 182,270 smallest). And the discrimination in favor of large farmers has many other dimensions: environmental, fiscal, institutional, etc.

Paradoxically, this heterogeneity also offers a way out of what is starting to look like a hopeless situation. Only large farms should be asked to contribute to the progressive reduction of domestic subsidies, because they will be the main beneficiaries of the opening of European and world markets.

Last but not least, it is hard to understand why French producers of industrial goods and services (as well as exporters of farm products) have remained so inert in this debate. They do not seem to fully realize what is at stake. Viewed from the rest of the world, there is something quite shocking about the contrast between Europe's stingy offer in agriculture, and its incredibly demanding requests in industrial goods and services. This abyss is a recipe for a failure in Hong Kong which will have one sure effect: It will speed up the constitution of regional agreements, in particular those built around India and China. European exporters will be left out of these huge and dynamic markets for a long time -- a perspective that should be of greater concern to low-growth France than to her higher-growth European partners. The times when regionalism was a European card are over. Nowadays, the regional option plays against Europe. For both France and the rest of Europe, the Hong Kong meeting is a unique window of opportunity where the battle in favor of nondiscriminatory openness of world markets should be won. If this window is allowed to close, it will be a long time before it opens again.

Mr. Boulanger is a research assistant at Groupe d'Economie Mondiale de Sciences-Po (GEM). Mr. Messerlin is a professor of economics at Sciences-Po and director of GEM.

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