Multifunctionality: A European Euphemism for Protection?

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[The EU] has gone to enormous lengths to create, both domestically and internationally, the camouflage of ‘multifunctionality’ to justify the continuation and probable increase of expenditure of more than €40bn a year on bolstering an industry which is quite capable of surviving without subsidies. Editorial in the weekly newsheet Agra Europe, 28 September 2001: A/1.

**Introduction**

The idea that farming activities impact on the environment, and society, in a number of ways, with both positive and negative effects, is longstanding. After all, the European landscape has been shaped by many generations of farm families. Thus the notion of multifunctionality is not new, but the word is; and the EU’s trading partners are suspicious that, if used in an abstract or blanket fashion, it can serve as a smokescreen to deflect attention from the EU’s real intent. In short, they suspect that the word ‘multifunctionality’ should be read as a euphemism for protection. For example, at the Seventh Special Session of the [WTO’s] Committee on Agriculture in March 2001, concluding the first phase of the work of that Committee, the Australian delegate agreed “that all of us can accept that countries have non-trade concerns”; but went on to note that “some countries want to use this wor[d] ‘multifunctionality’ to avoid or limit the fundamental reform objective, while others argue that non-trade concerns can be met with policies which do not greatly distort agricultural production and trade” [WTO, 2001b: 1].

In the 1970s and 1980s many environmentalists and economists criticised the CAP, and modern farming practices, because of the supposed harmful impact on the environment (see, for example, Shoard, 1980, and Bowers and Cheshire, 1983). The multifunctionality debate, however, focuses on the alleged positive externalities associated with agriculture.
Lexiography

Although the word ‘multifunctionality’ seemed to crop up in all discussions about agricultural policy reform in the late 1990s, this was not always the case. For example, it does not appear in The Cork Declaration issued by the European Conference on Rural Development in November 1996 [The European Conference, 1996]. Delegates recognised “that the Common Agricultural Policy will have to adapt to new realities and challenges in terms of consumer demand and preferences, international trade developments, and the EU’s next enlargement; that the shift from price support to direct support will continue; that the CAP and the agricultural sector will have to adjust accordingly, and that farmers must be helped in the adjustment process, and be given clear indicators for the future.” But they did not insist that agriculture had to be supported *per se*, because of its multifunctional characteristics. Agriculture Ministers, meeting in Council immediately afterwards, were rather pointedly asked to note rather than endorse The Cork Declaration [Agra Europe, 22 November 1996: E/7]. Presumably this was because the Cork delegates had noted that “agriculture and forestry are no longer predominant in Europe’s economies; …, and that, consequently, rural development must address all socio-economic sectors in the countryside.”

Volanen [2000] has pointed that in September 1997 COPA and COGECA, representing European farmers and their co-operatives, published their first paper on “the multifunctional European Model of Agriculture”. Nonetheless, the EU’s institutions were late in adopting the word multifunctional, and even later in including ‘multifunctionality’ into their rhetoric. But, in November 1997, the EU’s Council of Agriculture Ministers declared:

> In order to keep alive the fabric of the countryside throughout Europe, multifunctional agriculture has to be spread throughout Europe, including regions facing particular difficulties. Care will have to be taken in particular to provide proper compensation for natural constraints and disadvantages and fairly reflect the contribution made by farmers in land care, maintenance of the countryside and conservation of natural resources [Council, 1997: 6].

And in March 1998, in its formal Agenda 2000 proposals for CAP reform, the European Commission commented that:
For centuries Europe’s agriculture has performed many functions in the economy and the environment and has played many roles in society and in caring for the land. That is why it is vital … that multifunctional agriculture must develop throughout Europe, including those regions facing particular difficulties. … care will accordingly need to be taken to provide proper compensation for natural constraints and disadvantages.

The fundamental difference between the European model and that of our major competitors lies in the multifunctional nature of Europe’s agriculture and the part it plays in the economy and the environment, in society and in preserving the landscape, whence the need to maintain farming throughout Europe and to safeguard farmer’s incomes [Commission, 1998: 8].

On an earlier occasion I described this as ‘protectionist poppycock’ [Swinbank, 1998], but subsequent statements from the EU suggest a more flexible approach.

A suggested evolution of terminology is presented in Box 1.

**Box 1: Multifunctionality and other WTO Jargon: A Suggested Chronology**

- During the Uruguay Round, discussions focussed on the concept of *decoupling* farm support from production. The OECD [2000], and others, has attempted to clarify and categorise this concept.
- The *Agreement on Agriculture* included provisions to exclude from its domestic support constraints decoupled payments as categorised in Annex 2, although the word ‘decoupled’ is only used in the sub-heading “Decoupled income support” (to Article 6 of Annex 2). Annex 2 is often referred to as the *green box*.
- The preamble to the Agreement noted that *non-trade concerns*, “including food security and the need to protect the environment,” had been taken into account in formulating the Agreement; and Article 20 –setting out “the long-term objective of substantial progressive reductions in support and protection”– committed WTO Members to take into account “non-trade concerns” in future negotiations.
- With the prospect of a new round of agricultural trade negotiations pressing, in the late 1990s the EU began to develop its concept of a *European Model of Agriculture* that had *multifunctional* characteristics.
- As Japanese and South Korean policy-makers could not readily subscribe to a European model, it might be surmised that the adoption of a less geocentric term – *multifunctionality*– broadened the appeal of the European’s (EU, Norway & Switzerland) case.
- Simplistically, the ‘free trade’ perspective would contend that the green box provides adequate scope for multifunctionality to be supported. The Norwegians (and to a lesser, and uncertain, extent the EU) would hold that, because the beneficial (non-market) outcomes from multifunctionality necessarily involve jointness with agricultural production, the existing green box provisions are inadequate. The OECD [2001] [see also
Cahill, 2001] has attempted to address the question of when government intervention can be justified.

• Furthermore, the Europeans would contend, non-trade concerns go beyond the provisions of the green box. The EU’s non-trade concerns embrace multifunctionality and animal welfare.

The Green Box

The debate, in effect, began during the Uruguay Round of GATT negotiations that resulted in the inauguration of the World Trade Organization (WTO) on 1 January 1995, and increased disciplines on domestic farm policies. During the negotiations an attempt was made to distinguish between domestic policies that impacted on production (and consumption) and hence on trade volumes, and those that did not. The latter –so-called decoupled policies– would not be subject to the constraints that were imposed on trade-distorting programmes. From this emerged the traffic-light analogy. Decoupled policies were listed and categorised in Annex 2 to the Agreement on Agriculture, and are often known as ‘green-box’ policies: green, not because of an environmental connotation (although environmental policies are included), but because they were deemed acceptable by the international community.¹ Amber box policies are, however, subject to constraints: each country has had to declare an Aggregate Measurement of Support (AMS) for the farm sector in the base period (1986-88), and developed countries were obliged to reduce the annual AMS received by their farm sectors by 20% by the end of the implementation period (the year 2000) [see Swinbank, 1999, for further details].

Green box policies have to meet “the fundamental requirement that they have no, or at most minimal, trade-distorting effect or effects on production” (Article 1 of Annex 2). There is, however, no indication of how the word ‘minimal’ might be calibrated in this context. Thus at some stage in the future this might be put to the test by the Dispute Settlement procedures. Green box policies must be provided through “publicly-funded” government programmes, and not programmes that push the burden of support onto consumers, and they must not “have the effect of providing price support to producers”.

¹ The Agreement on Agriculture, and all the other WTO agreements, can be accessed from the WTO website (http://www.wto.org).
Annex 2 then goes on to list a series of “policy-specific criteria and conditions” relating to:

- general services (e.g. R&D, extension)
- public stockholding for food security purposes
- domestic food aid
- decoupled income support
- government financial participation in income insurance and income safety-net programmes
- payments for relief from natural disasters
- structural adjustment assistance through producer and resource retirement programmes, and through investment aids
- payments under environmental programmes; and
- payments under regional assistance programmes.

It is the latter two headings that are most relevant in the debate about multifunctionality. In a number of instances developing countries are subject to less onerous constraints.

Strict criteria are laid down: for example for ‘payments under environmental programmes’:

(a) Eligibility for such payments shall be determined as part of a clearly-defined government environmental or conservation programme and be dependent on the fulfilment of specific conditions under the government programme, including conditions related to production methods or inputs.

(b) The amount of payment shall be limited to the extra costs or loss of income involved in complying with the government programme [Article 12 of Annex 2].

The EU has made significant use of the green box. As Table 1 shows, EU expenditure on green box measures in 1998-99 amounted to €19.2 billion. By contrast, AMS support amounted to €46.7 billion, well within the AMS constraint of €71.8 billion. This has led some of the EU’s critics, particularly in developing countries, to conclude that the rules are far too lax. In particular, that: i) the EU has been able to shift expenditure from the constrained amber box to the unconstrained blue and green boxes; ii) expenditures of this magnitude are bound to have an impact on EU farmers’ wealth and their perceptions of risk, and may well be used to cross-subsidise agricultural production, thus inevitably leading to an increase in supply and an impact on trade; and

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Note that blue and green box numbers refer to actual government expenditure, whereas the amber box is a computed figure comprising both taxpayer and consumer transfers.
iii) developing countries simply cannot afford to match this level of expenditure, given their constrained public finances. Thus, in the new round of agricultural trade negotiations now underway, there are calls to limit (and reduce) green and blue box expenditures in the same way that amber box support is constrained, and to tighten the criteria for green box eligibility. Some of the EU’s schemes do appear somewhat dubious, and could be challenged: organic producers in other WTO members, trying to sell their product into the EU market, might for example object to the EU’s use of the green box for “support and protection of organic production by creating conditions of fair competition” [WTO, 2001a].

Table 1: EU’s Green, Blue and Amber Box Support, 1998-99

<table>
<thead>
<tr>
<th></th>
<th>million €</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amber Box</strong></td>
<td></td>
</tr>
<tr>
<td>– AMS limit for 1998-99</td>
<td>71,765.0</td>
</tr>
<tr>
<td>– AMS declared for 1998-99</td>
<td>46,683.0</td>
</tr>
<tr>
<td><strong>Blue Box</strong></td>
<td>20,503.5</td>
</tr>
<tr>
<td><strong>Green Box</strong></td>
<td>19,168.0</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
</tr>
<tr>
<td>– environmental programmes</td>
<td>4,965.1</td>
</tr>
<tr>
<td>– regional assistance programmes</td>
<td>2,041.0</td>
</tr>
</tbody>
</table>

Environmental programmes cover: “Protection of environment and preservation of the countryside, control of soil erosion, extensification, aid for environmentally sensitive areas; support and protection of organic production by creating conditions of fair competition; aid for forestry measures in agriculture; conservation of genetic resources in agriculture.”

Regional assistance programmes cover: “Specific measures for the benefit of certain disadvantaged areas (French overseas departments, Azores, Madeira, Canary Islands, Aegean Islands) and other less-favoured areas (LFA) and mountainous areas.”

Source: WTO, 2001a

Others, however, have taken the view that the green box criteria should be widened, not narrowed. Fisher and Bowles [2001: 15], for example, whilst declaring their view that “some payments to support animal welfare objectives could already be justified under the … ‘green box’”, have nonetheless argued that the eligibility criteria for
payments under environmental programmes should be widened to include animal welfare.

Norway has taken a particularly uncompromising stance in declaring:

Domestic production of key agricultural products is of vital importance to Norway as a means of safeguarding domestic NTCs [non-trade concerns]. As a result of differences in production conditions between and within countries and in order to be able to sustain domestic production required to properly address these concerns, countries with a comparative disadvantage need to be allowed to have recourse to a policy measure combination that includes, to a large extent, the use of production-related policy measures [WTO, 2001c: 1].

Norway has also claimed that many WTO Members believe that the existing green box provisions will not be sufficient to deal with these non-trade concerns [WTO, 2001d: 2].

Non-Trade Concerns, the Article 20 Negotiations and the Doha Development Round

It was the need to engage in a new round of agricultural trade negotiations that brought multifunctionality to the fore. Article 20 of the Agreement on Agriculture committed WTO Members to further the ongoing process of achieving “the long-term objective of substantial progressive reductions in support and protection”. Those negotiations began in 2000. A failure to launch a new multilateral round of trade negotiations at the WTO Ministerial in Doha in November 2001 could have disrupted proceedings, but many countries would have argued that the Article 20 mandate had to be fulfilled whether or not agriculture were subsumed into a ‘Millennium’ Round. In the event, the WTO’s Fourth Ministerial Conference did launch the Doha Development Round, which is to be concluded by 1 January 2005. In doing so WTO Members noted “the non-trade concerns reflected in the negotiating proposals submitted by Members” and confirmed “that non-trade concerns will be taken into account in the negotiations as provided for in the Agreement on Agriculture” [WTO, 2001e: paragraph 13]. In the negotiations, the leverage the EU’s critics can bring to bear to ensure that negotiations proceed is linked to the expiration of the so-called Peace Clause in 2003/04, of which more below.
Article 20 enjoins WTO Members to take account of a number of considerations in pursuing the mandate contained therein: thus Members should, *inter alia*, take account of “non-trade concerns, special and differential treatment to developing country Members, and the objective to establish a fair and market-oriented agricultural trading system, and the other objectives and concerns mentioned in the preamble to this Agreement”. The preamble had expanded on the phrase ‘non-trade concerns’ to specifically include “food security and the need to protect the environment”. Thus, whilst Japan and South Korea have emphasised their non-trade concerns about food security, the EU and Norwegian’s non-trade concerns have focussed on multifunctionality.

In a series of papers the European Commission has sought to articulate the EU’s non-trade concerns. For example, at the first *International Conference on Non-Trade Concerns in Agriculture* held at Ullensvang in Norway, attended by a number of like-minded countries (often dubbed the ‘friends of multifunctionality’), it suggested there are at least four cultural and environmental non-trade concerns associated with agriculture, viz:

- Conservation of biological diversity, meaning the numbers of species and individuals of flora and fauna;
- Maintenance of farmed landscapes, including cultivated and semi-natural habitats and landscape features, such as terracing;
- Preservation of cultural features, including historical remains on farmland and land uses of cultural significance;
- Protection against disasters, whether natural or induced (or exacerbated) by human intervention, such as flooding, fire, avalanche, and severe erosion caused by wind or water [European Commission, 2000: 33].

The Commission concluded that, in seeking to meet society’s needs, a variety of policy measures could be envisaged including exhortation (and training) to follow good practice, compulsion (in the case of pollutants for example), and “Voluntary programmes designed to persuade farmers to deliver public goods, such as environmental services. By creating a market in provision of public goods, farmers can bring environmental and cultural factors into their economic decisions on an equal footing with the commercial pressures presented by the marketplace for their crops and livestock products.” All this seems to be perfectly compatible with the provisions of the green box.
Confusingly, though, after talking about compulsion to control negative externalities, and voluntary programmes for the supply of positive externalities, in the next paragraph the Commission goes on to say: “Where farmers are required to go beyond good agricultural practice, or normal practice in the region concerned, to deliver the non-trade concerns to society, governments should be able to compensate them for the costs and income losses incurred” [European Commission, 2000: 38-9].

**Joint Products and Geographical Coverage**

It is clear that the participants in the debate all recognise that a central problem is that non-trade concerns invariably involve some element of jointness in production: they are joint products to use the economists’ jargon. There are two issues that spring from this: i) how joint are the products, and can this jointness be varied and ii) over what geographical domain does the problem prevail? A subsidiary issue, to which we turn in the next section, is the extent to which the producer pays principle should influence policy choice. In part these are empirical questions, but they are coloured by the values, perceptions and norms of particular societies.

Grain and straw are joint products, but different technologies (e.g. varieties of wheat) and management regimes can be deployed to vary the proportions of grain and straw produced in any crop. If the commercial return from producing straw relative to grain were to increase (as a result of more thatched cottages, for example) then farmers would have a greater incentive to produce long-stalked varieties: but an increase in the demand for straw would nonetheless result in an increase in the supply of grain.

How many of society’s non-trade concerns are inextricably linked with particular farming practices? The horizontal axis of Figure 1 suggests that the answer to the question can be thought of as a continuum. To the left, at the origin, the externality is fully detachable from agricultural production (to use our grain/straw analogy: straw can be produced without grain), whereas to the right the products are produced in fixed proportions (there is only one variety, and one cultivation technique, possible). In between, various degrees of jointness can be envisaged.
Valid green box measures must be minimally trade distorting. If a government subsidy is introduced to elicit the supply of a desirable externality, if that subsidy has no impact on agricultural production, and if the other requirements of Annex 2 are met, then clearly the requirements of the green box are met. Farms, or other rural businesses, might compete to supply the service.

**Figure 1: Jointness in Production, Geographical Coverage, and the Green Box**

![Graph showing jointness in production and geographical coverage](image)

*Note:* it is not clear that the axes to this figure can be readily calibrated. The horizontal axis could be thought of in terms of production technologies (which might involve a number of discrete production systems, or a continuous variation in jointness), and/or in terms of policies. If multifunctionality involves the “authenticity of agricultural landscapes”, as seems to be the Norwegian view, then 100% jointness applies both in terms of production systems and in terms of appropriate policies. The multifunctional benefits cannot be separated from farm production. The vertical axis is policy specific: it represents an accumulation of the geographical area (defined by objective criteria) over which eligibility for support of multifunctionality is determined.

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Where there is jointness in production, and society is willing and able to pay for additional supplies of the externality over and above the quantity that would be provided by farmers as a by-product of their *unsubsidised* farming activities, then some impact on agricultural output is to be expected. The green box requirement is that such subsidies have a minimal trade distorting effect. How this would be interpreted is open to question, but one requirement would be that where a choice of delivery mechanisms were available, the scheme that minimised the effect on agricultural output would be preferred in WTO terms.

A second test, of whether or not the scheme had a minimal trade distorting effect, would probably hinge on its geographical coverage. A scheme that applied in clearly defined regions, with well defined objectives, might pass the test: schemes that provided blanket coverage to all a country’s farmers regardless of their situation, or schemes simply devised to offset additional costs of production caused by adverse terrain or climate, would not. Again, where the boundary would actually lie in any contested case is unclear: all that is suggested in Figure 1 is that a demarcation between acceptable green box policies, and unacceptable amber box schemes, must lie somewhere in the space defined by the two axes. Norway’s critics suspect that it believes that schemes occupying position A should be acceptable. Indeed, after pointing out that “In Norway, ... agricultural producers face production costs far above the world average”, the Norwegian Government has argued that: “In Norway, to the extent that public goods are joint products of the agricultural production, a combination of policy measures, including a certain degree of support coupled to the agricultural production, seems to be the most efficient way of ensuring the desired production level of public goods” [WTO, 1999: paragraph 79]. The EU’s view is not entirely clear.

A concrete example might help: if society values the sight of brown cows, with bells around their necks, grazing flower-filled alpine pastures, it ought to be possible to devise public subsidies that result in that outcome with minimal impact on meat and milk production. Blanket policies that simply subsidise all milk production, justified on the grounds that this provides the additional revenues that permit alpine dairy farmers to remain in business, would not qualify.
Specificity and Transactions Costs

The green box requirements for environmental payments insist that as well as forming part of a “clearly-defined government environmental or conservation programme” and being “dependent on the fulfilment of specific conditions,” the actual subsidy should “be limited to the extra costs or loss of income involved in complying with the government programme”. Clearly, if carried to excess, with farm or location specific requirements with respect to the setting and monitoring of obligations and payment levels, administrative (transactions) costs for the regulator and the regulated could escalate; and so some balance between generic and site-specific programmes must be found –and defended in the Dispute Settlement process if necessary.

Critics of these green box provisions point not only to the high transactions costs they seem to imply, but also to potential equity problems in making environmental payments. Payments should be related to the extra costs or loss of income in complying with a programme. Thus if, as a consequence of previous farming practice, or of the particular location or terrain of the farm, the environmental objectives are already met, strictly speaking no additional payment can be made. Consequently, farmers in marginal areas, and those that have pursued environmentally friendly farming practices, and who might have expected a ‘greening’ of farm policy to generate for them economic rents, might be denied payments on the grounds that this would violate the provisions of the green box.

The Polluter Pays Principle

Society’s perception of property rights, as reflected in its laws and social norms, also has a bearing on the issue. One could think of a continuum. At one extreme land/property owners have unlimited rights to do whatever they will with their land. At the other extreme, the state intervenes so extensively that they have no freedom of manoeuvre. Somewhere between these two extremes lies the concept of ‘stewardship’, which is not static but varies through time and between countries.
Farming practices that fail to meet a particular standard are prohibited: the polluter pays principle applies, impacting upon the costs of doing business in that particular jurisdiction. Farming practices that produce positive externalities over and above society’s norms may need to be paid for through an explicit programme if these benefits are to be voluntarily supplied. Thus, for a concrete example: if society wants lower stocking densities (for animal welfare or waste disposal reasons), or a reduced usage of fertilisers, should this be a mandatory requirement (on all farmers, or a subgroup in sensitive areas) invoking the polluter pays principle, or should farmers be offered compensation in return for forgoing more intensive production systems? Smith [1998: 453] has suggested that “the U.S. view (shared by other North American countries, and those of Oceania) of agri-environmental policy as ‘reducing a bad’ is coming up against the E.U.’s philosophy of ‘producing a good’, in the form of arguments to the WTO about the ‘multifunctionality’ of agriculture.”

The text of the Agreement on Agriculture, including Annex 2 on the green box, does not seem to offer much guidance on where the appropriate boundary would lie; except in so far as legitimate green box measures must meet the over-riding ‘fundamental requirement’ that they have “no, or at most minimal, trade-distorting effects or effects on production.” Thus, a subsidy for organic production would appear, *prima facie*, to infringe this requirement, as it could impact on the legitimate trade interests of organic producers located in other WTO Members. A scheme that compensated farmers for forgoing the use of a particular input, that formed part of a “clearly-defined environmental or conservation programme” and that “fulfilled specific conditions … including conditions relating to production methods or inputs,” probably could be included in the green box, even though it transgressed a partner WTO Member’s perception of the polluter pays principle in allocating property rights.

**The Peace Clause: Turning the Blue Box Green?**

In its *Comprehensive Negotiating Proposal* of December 2000, the EU argued that the multifunctionality of agriculture should be recognised, and that the provisions of the
green box should be revisited “to ensure minimal trade distortion whilst at the same time ensuring appropriate coverage of measures which meet important societal goals” [WTO, 2000: 4]. However, the EU was not at all specific on the changes it wished to negotiate.

In the same document, in reference —it would appear— to blue box measures, the EU also commented: “direct aids can contribute to some of the objectives of multifunctional agriculture, namely protecting the environment and contributing to the sustained vitality of rural areas and poverty alleviation” [WTO, 2000: 3]. Thus, it seems, the EU wishes to use the concept of multifunctionality to justify a continuation of blue box measures, in particular the area and headage payments that became a distinctive feature of the CAP as a consequence of the MacSharry reforms of 1992.

In one sense the blue box is ‘safe’. It is a permanent feature of the Agreement on Agriculture, and although several WTO Members would like to see it abolished, this would have to be a negotiated outcome that would require the agreement of all WTO Members, including the EU. However, retention of the blue box could prove a hollow victory if the Peace Clause (Article 13 of the Agreement on Agriculture) were not renewed. The Peace Clause expires at the end of the 2003/04 marketing year, and provides some protection from the application of other GATT/WTO provisions for valid green, blue and amber box measures, and export subsidies.

In Agenda 2000 the EU re-emphasised the importance of blue box payments for the CAP (certainly for the period through to 2006), and introduced ‘cross compliance’ under which Member States could reduce blue box payments for claimants who failed to comply with minimal environmental requirements. The Commissioner has pointed out that few Member States have effectively implemented this provision, and has suggested that he would like this issue to be addressed in the mid-term review in 2002 [Fischler, 2001].

Cross compliance will certainly not turn blue box measures green: they would still not meet the criteria of the green box.\(^4\) But an effective cross compliance mechanism

\(^4\) Blue box payments could, however, readily be converted into fully decoupled compensation payments, as in the Bond Scheme advocated in Swinbank and Tangermann [2001].
must surely be essential if the EU is to argue that direct payments can contribute to some of the objectives of multifunctional agriculture, in particular protection of the environment.

Multifunctionality would appear to be a very flimsy justification for a continuation of the indiscriminate use of blue box payments. They are a poor mechanism for securing ‘poverty alleviation’ as they are linearly related to scale of business: the bigger the business the bigger the payment. Area payments are a poor mechanism for ‘contributing to the sustained vitality of rural areas’ in that they are focussed on arable areas that do not, in the main, suffer from the threat of the abandonment of farming activity. And, even with effective mechanisms of cross compliance, they would be an expensive way to deliver environmental benefits. Many farmers would be grossly over-compensated for the services they provide, and they would negate the polluter pays principle in that farmers would then receive compensation payments for good stewardship.

Concluding Comments

The proponents of multifunctionality argue that positive externalities are inextricably bound-up with agricultural production. This is a credible proposition, but doubts remain about the extent of jointness. Critics would contend that in most circumstances the non-market benefits associated with multifunctionality can be wholly, or partially, detached from production, giving scope for the deployment of WTO-legitimate green box policies. The EU has argued that the provisions of the green box need to be revisited; but it has so far failed to articulate the revisions to the green box that it wishes to see. It argues that the multifunctionality of agriculture is one of the non-trade concerns that must be accommodated in future WTO negotiations on agricultural trade liberalisation, but it will have a hard job convincing its trading partners that it has legitimate concerns unless it brings to the negotiations specific requests.
The EU’s position seems to have shifted from its uncritical suggestions of 1997 and 1998 that “multifunctional agriculture must develop throughout Europe, including those regions facing particular difficulties”, and that “care … will have to be taken to provide proper compensation for natural constraints and disadvantages” [Commission, 1998: 8]. Its December 2000 Comprehensive Negotiating Proposal is much more considered. But in suggesting that its existing blue box payments can deliver some of the benefits of multifunctionality, the EU is still vulnerable to the charge that it is simply using the smokescreen of multifunctionality to mask a protectionist intent. This is liable to alienate its trading partners, and discredit the EU’s negotiating stance. To be able to claim the moral high-ground in the negotiations, the EU should abandon its defence of blue box payments and focus on refining its suggestions for reform of the green box, whilst keeping to the fore the notion that the green box was originally designed to accommodate policies that have no, or at most minimal, trade impact.

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