

Multifunctionality: Options for Agricultural Reform

Mary Anne Normile

Multifunctionality is an issue that has arisen in the new WTO negotiations on agriculture as part of the continuing discussions of distortions affecting agricultural markets and trade. Multifunctionality refers to the concept that, besides producing food and fiber, agriculture creates non-food joint or spillover—multifunctional—benefits such as open space, wildlife habitat, biodiversity, flood prevention, cultural heritage, viable rural communities, and food security. While the basic concept appears uncontroversial, multifunctionality has become the subject of debate in international forums because some countries seek to use multifunctionality to justify exemptions from WTO commitments to reduce their governments' production-related support to agriculture.

The new agricultural trade negotiations will continue the reform process with the long-term objective of achieving “substantial progressive reductions in support and protection resulting in fundamental reform.” As part of the built-in agenda of the Uruguay Round Agreement on Agriculture (URAA), WTO members agreed that the new negotiations would take into account “non-trade concerns,” including certain multifunctional issues like food security and the need to protect the environment.

The WTO disciplines policies based on their effects on production and trade. In the URAA, countries agreed to reduce spending on domestic policies that distort production or trade, while policies that do not distort trade or are minimally trade distorting were exempt from reduction commitments. Some countries propose using policy *objectives* (i.e., whether the policy's aim is to achieve a desired nonfood output) rather than its *effects*, as criteria for determining which policies to discipline. This approach could weaken WTO rules regulating domestic agricultural policies that distort international markets. On the other side of the debate, some countries maintain that objectives can be met with different policies, including many that are non- or minimally trade-distorting, and that the most efficient way to meet policy objectives is to target the policy to the objective.

Arguments for multifunctionality can be made clearer by examining the economic issues that underlie the arguments for production-linked support.

Jointness. Some countries have argued that production of food and nonfood outputs are closely linked in terms of the economic principle of “joint products.” Joint products, or jointness, characterizes a production relationship where two (or more) outputs are produced from the same produc-

tion process. For example, hides and meat are joint products of cattle. Proponents of this view maintain that the socially desired nonfood outputs, such as scenic farmland vistas, are produced jointly with agricultural production which is necessary to obtain the nonfood output. Some claim further that production-linked support for agriculture is necessary to achieve multifunctional benefits.

Opponents of this view argue that joint production relationships are not immutably fixed and can change over time with changes in technology. The jointness defense of production-linked agricultural support is argued to be inconsistent with the current WTO criteria that any policies exempt from disciplines be only minimally trade distorting. An alternative consistent with the reform process is to produce the desired nonfood outputs independently of agriculture through a range of policy instruments and private actions. For example, scenic vistas and open land can be produced through parkland or land used for recreational purposes (such as golf courses). These uses could be undertaken by government or by private associations, and could be encouraged through favorable tax treatment.

Externalities and market failure. Agricultural production activities can have positive (and negative) side effects, or externalities, that may not be accounted for in the market. For example, a positive externality of agricultural production might be flood protection, while the harmful effects of agricultural runoff on water quality would constitute a negative externality. In the multifunctionality debate, the existence of positive externalities is frequently cited as justification for government intervention in agriculture. Similarly, some countries contend that some of these non-food “outputs,” such as cultural heritage and scenic vistas, are public goods that require government support to ensure their supply. (Public goods are a certain class of goods or services, like national defense, from which all citizens benefit and are therefore usually supplied by the government.) Countering this view is the fact that multifunctional services need not originate in agricultural support policies.

Efficient policy design. Efficient policies target the specific objective associated with the nonfood output, and are less likely to result in trade distortions. Production-linked policies that target the nonfood objective indirectly are more likely to have spillovers that distort production and trade. The principle of efficient policy design—that policies should be targeted to the objective—is inconsistent with the jointness rationale for production-linked support.

Proponents of the joint production argument favor pursuing the desired nonfood output *indirectly* by supporting agricultural production, while efficient policy design suggests that the policy be targeted *directly* to nonfood objectives themselves, such as environmental or rural development goals. For example, preservation of agricultural land need not be accomplished indirectly through price support. Alternative public policy instruments include specific programs for protecting farmland, conservation easements, and purchase of development rights. Private alternatives include land buyouts by private entities.

Options for Reform

The issue for the multifunctionality debate is how to accommodate demand for nonfood benefits of agriculture while respecting fundamental principles of the GATT and the guidelines agreed to in the URAA. Options include the following:

Use minimally trade distorting government (green box) policies to address non-trade concerns. The green box contains specific provisions for addressing nontrade con-

cerns, including support for rural communities and amenities and payments for environmental programs. Countries seeking to preserve and increase multifunctional benefits can adopt policies that are among the wide range of options provided in the green box.

Use trade-distorting (blue and amber box) policies within agreed-upon WTO limits to achieve domestic policy objectives. Shifting some other expenditures to exempt (green box) programs would provide greater flexibility for a country to use trade-distorting support to achieve objectives linked with multifunctionality.

Private actions can increasingly be used to address a number of nonfood objectives. Private groups can be encouraged to undertake these actions through tax policies and other inducements.

For more information, see *The Use and Abuse of Multifunctionality* (Bohman et al.) in the ERS WTO Briefing Room: <http://www.ers.usda.gov/briefing/wto/pdf/multifunc1119.pdf>