

Breakdown of the Doha Round of WTO  
Trade Negotiations: The Roles of  
Agricultural Protectionism in the United  
States and European Union

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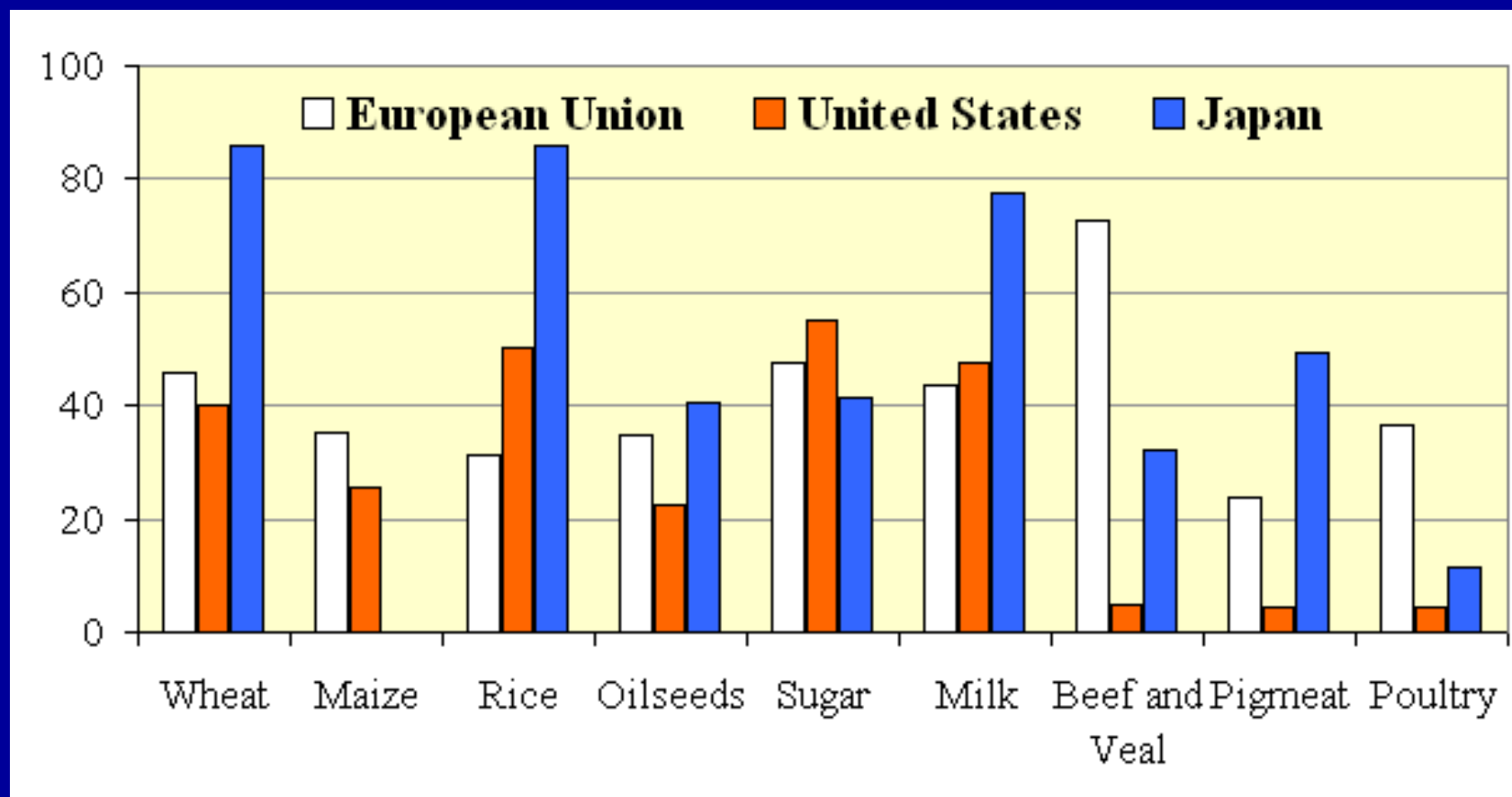
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# OECD Producer Support Estimates (2004, Percent of Gross Receipts)

|                      |    |
|----------------------|----|
| Switzerland          | 68 |
| Japan                | 56 |
| European Union       | 33 |
| Canada               | 21 |
| United States        | 18 |
| Mexico               | 17 |
| Australia            | 4  |
| New Zealand          | 3  |
| 30 Countries Overall | 30 |

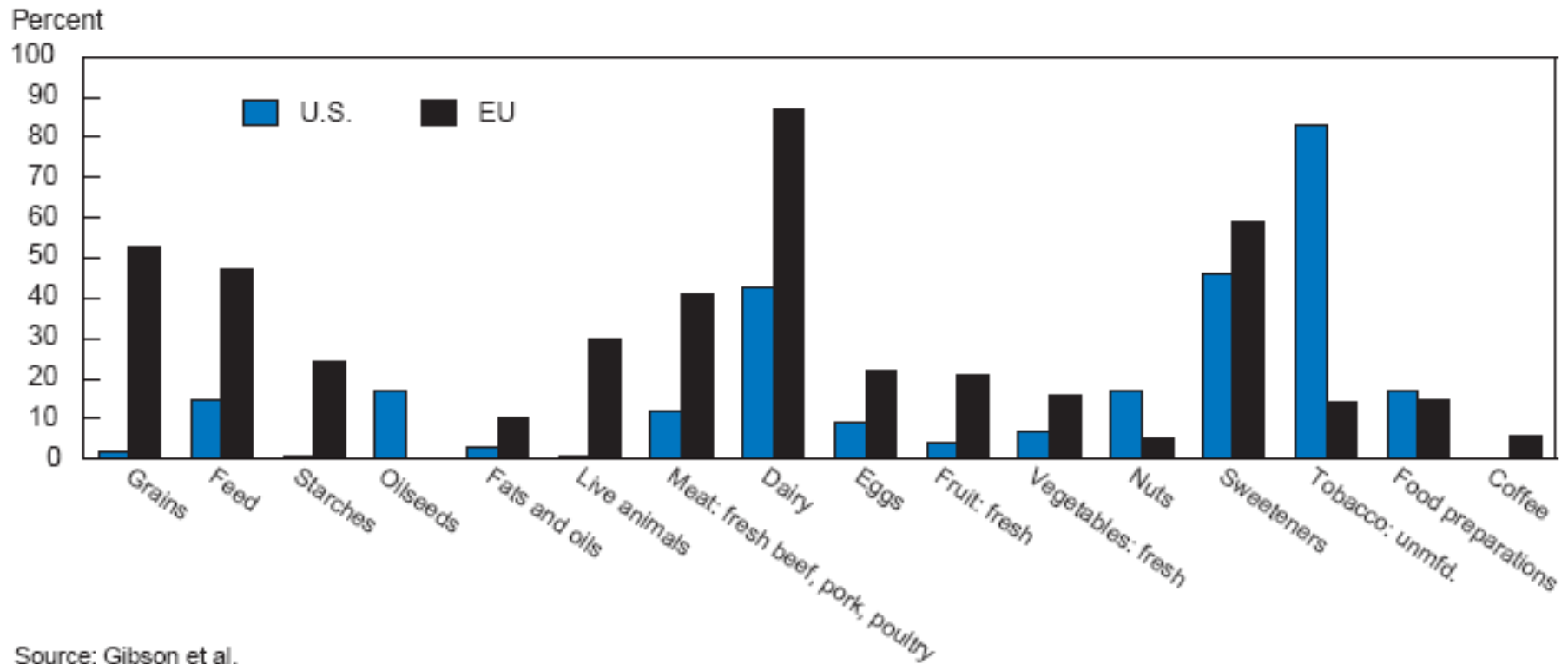
Source: OECD Agriculture Directorate

# PSE Comparisons Across Commodities and Countries



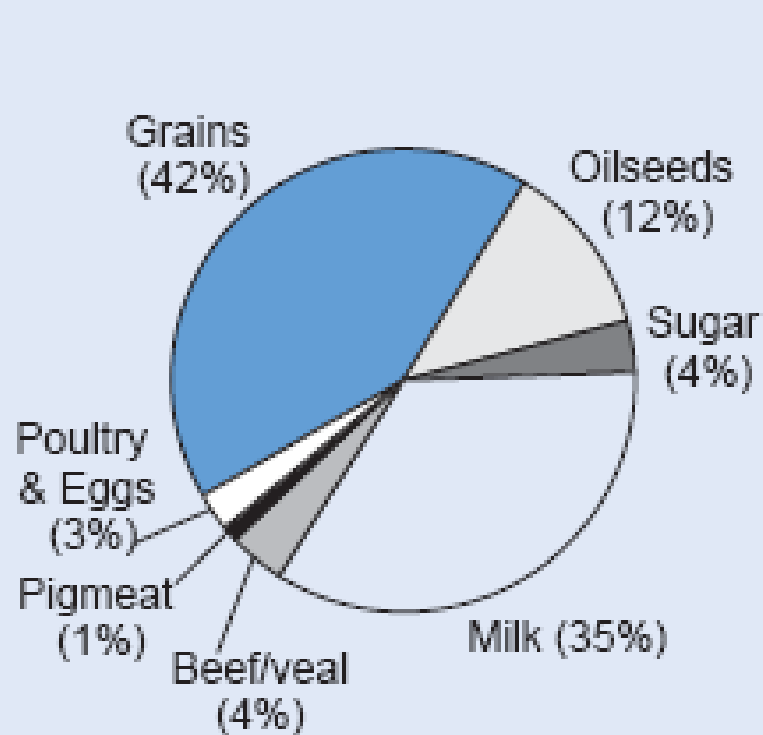
Source: OECD

# Average Tariffs on Ag Products

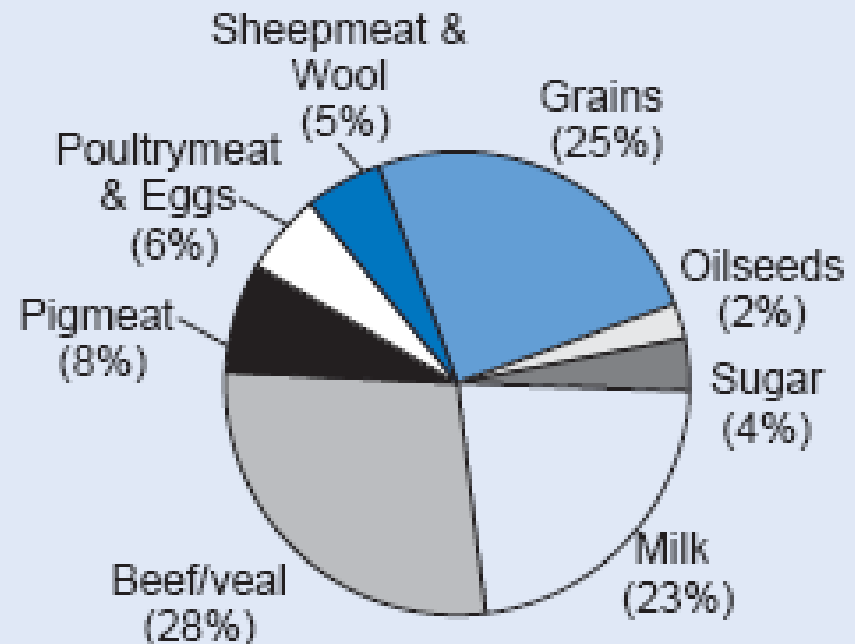


Source: Economic Research Service, USDA

# Commodity Composition of Ag Support (% of Gross Receipts)



United States



European Union

# GATT Rounds of International Trade Negotiations

- 1947 Geneva
- 1949 Annency
- 1951 Torquay
- 1960-61 Geneva (“Dillon Round”)
- 1964-67 Geneva (“Kennedy Round”)
- 1973-79 Geneva (“Tokyo Round”)
- 1986-94 Geneva (“Uruguay Round”)

# American Leadership Was Key in Uruguay Round Ag Negotiations

- Got domestic agricultural policies on the negotiating table and got them capped
- Sold importance of decoupling payments from production of specific commodities
- Got export subsidies capped and reduced
- Sold importance of converting all non-tariff barriers to tariffs and to reduce them
- Hung tough on requiring sound science basis for sanitary & phytosanitary barriers

# Domestic Supports Categorized by Degree of Trade Distortion

- “Green box” = non-trade-distorting support: investments in public goods and decoupled income transfers (no cap)
- “Blue box” = trade-distorting, but production-inducing effect offset by production controls or set-asides (no cap)
- “Amber box” = trade-distorting, i.e. linked to production of *specific* commodities
  - Trade-distorting support allowed up to 5% (*de minimis*) each of aggregate value of all ag production and of production of individual commodities
  - Beyond that, the Aggregate Measure of Support (AMS) was capped in each country.

# But the Uruguay Round Did Little to Liberalize Agricultural Trade

- Uruguay Round established a useful framework.
- But, it did little to open markets and was riddled with loopholes
- OECD countries are still spending over \$750 million per day subsidizing their farmers
- Doha Round needs to be more ambitious than the Uruguay Round by closing loopholes and tightening disciplines to prevent circumvention of the intent of the agreement.

# U.S. Farmers' Changing World View

- Losing confidence in their international competitiveness (benefits of URAA oversold)
- Think URAA was unfair in that allowed EU and Japan much higher total ag support
- See world market as a zero-sum game (If you increase your exports, I have to reduce mine.)
- Don't recognize potential growth in LDC markets
- Reluctant to accept that being a large exporting country constrains our freedom of action in domestic policy making. You cannot have it both ways.

# Brief History of U.S. Ag Policy

- U.S. agriculture thrived in 1910s; depression in 1920s
- From 1920s to 1980s: Combinations of price supports through government purchases, production controls and idling of farm land (Soil Bank of 1950s & “set-asides”)
- Supporting domestic prices above world market clearing levels made exports impossible without subsidies. P.L. 480 passed in 1954 to give away government inventories as food aid.
- Reductions in price support levels, followed by two U.S. dollar devaluations and large USSR grain imports in early 1970s created ag export boom

# More History

- 1981 Farm Bill set rigid price supports at above world market clearing levels again. This, together with dollar appreciation, led to collapse of ag exports, a huge accumulation of inventories in government hands, and the worst financial crisis in U.S. agriculture since 1930s.
- 1985 Farm Bill dropped price support levels, began decoupling ag support from production of specific commodities, and created Long-term Conservation Reserve to idle land for 10 years.
- Decoupling ag support from production of specific commodities completed in 1996 Farm Bill (“Freedom to Farm”)
- Late 1990s large “emergency” payments led to reversal of many ag policy reforms in 2002 Farm Bill.
- Ethanol boom has rendered most supports inoperative.

# A Quick Review of the Commodity Programs in the 2002 Farm Bill

- Raised loan rates (price supports) on grains
- Reestablished a target price system
- Created new counter-cyclical payments (to replace annual ad hoc emergency payments)
- Watered down payment limitations
- Authorized updating of program bases and yields
- Institutionalized fixed payments (in place of AMTA payments)
- Significantly increased authorized spending levels

# 2002 Farm Bill (cont'd.)

- Added new commodities (small legumes)
- Recreated wool, mohair, & honey programs
- Added a new dairy program focused on small herds
- Created a new peanut program, while buying out quotas
- Sweetened the sugar program
- Initiated country-of-origin labeling for meat, fish and peanuts
- Expanded export promotion programs
- Banned Vietnam from calling its catfish exports to the U.S. “catfish” (“basa”).

# The 2002 Farm Bill Hurt U.S. Credibility Abroad

- The U.S., which had led global effort to reduce ag subsidies appears two-faced: increasing its budget authority for agricultural subsidies when it is telling the rest of the world to cut theirs
- Retreat on decoupling: By allowing bases to be updated, U.S. farmers know that “fixed payments” are not necessarily “fixed.”
- Counter-cyclical payments will reduce U.S. farmers’ responsiveness to market signals
- Marketing loans are effectively export subsidies, as are some forms of food aid and export credits.

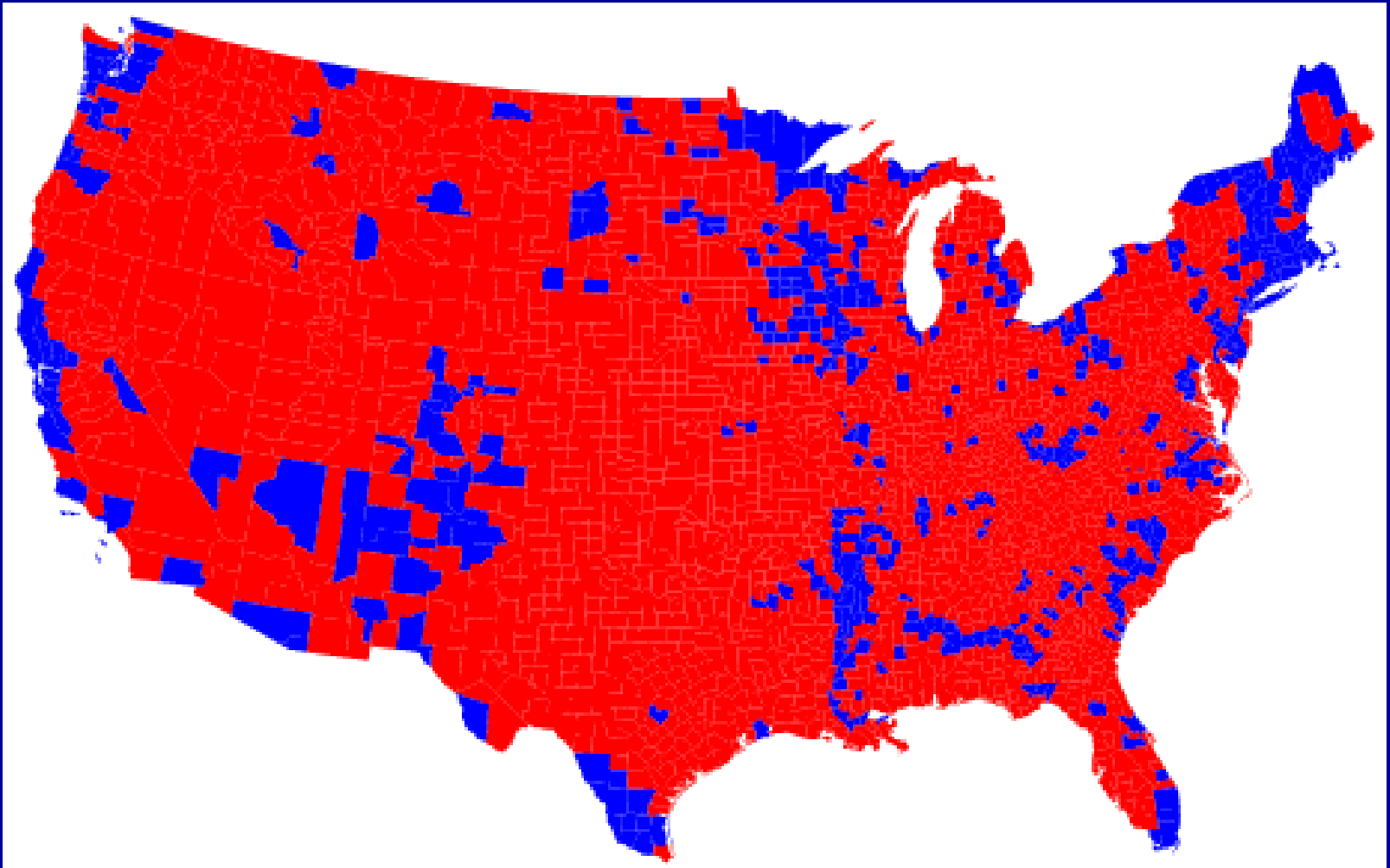
# Role of Government Payments in U.S. Farm Income, 2001-2005

(\$ billions)

|                                      | 2001      | 2002      | 2003      | 2004<br>(est) | 2005<br>(est) |
|--------------------------------------|-----------|-----------|-----------|---------------|---------------|
| Total cash receipts                  | 200       | 195       | 212       | 235           | 222           |
| Net cash income                      | 60        | 51        | 69        | 78            | 78            |
| Net farm income                      | 51        | 37        | 59        | 74            | 64            |
| <b>Total Government<br/>Payments</b> | <b>21</b> | <b>11</b> | <b>16</b> | <b>14</b>     | <b>24</b>     |

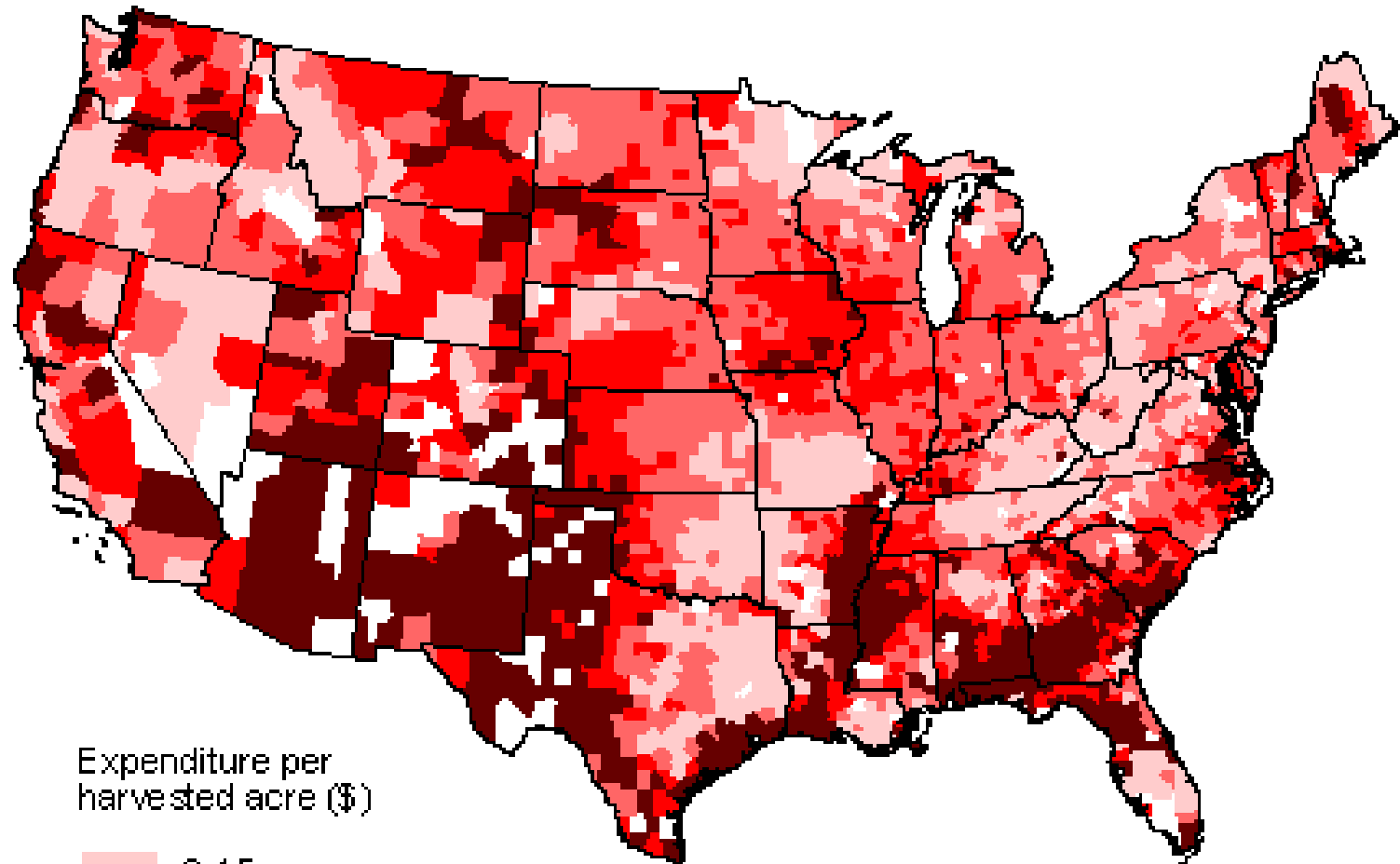
Source: ERS

# Who Reelected President Bush? Rural America

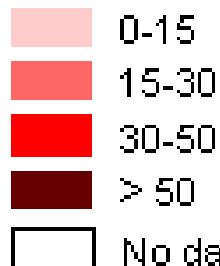


Source: Univ. of Michigan

## Distribution of commodity payments per harvested acre



Expenditure per  
harvested acre (\$)



Source: ERS

# Ag Commodity PAC Contributions to Federal Candidates, 2004 Election Cycle

| <u>Commodity</u> | <u>Contributions (\$ 1,000)</u> |
|------------------|---------------------------------|
| Sugar            | 2,375                           |
| Dairy            | 1,757                           |
| Cotton           | 479                             |
| Rice             | 283                             |
| Peanuts          | 218                             |
| Citrus           | 167                             |
| Wheat            | 100                             |
| Potatoes         | 57                              |
| Corn             | 37                              |
| Soybeans         | 17                              |

# Brief History of EU Ag Policy

- 1957: Treaty of Rome launched Common Agricultural Policy (CAP) of high and stable price supports reinforced by variable import levies and export subsidies.
  - High budget cost and resulted in massive inventories in EEC hands; border measures depressed world market prices.
- 1992: First reform (MacSharry Plan): reduced support levels; initiated direct payments and supply control (set-asides)

# More CAP History

- “Agenda 2000”: In anticipation of 10 more members of the EU, increased reliance on direct payments while further reducing support levels; focus on “2<sup>nd</sup> Pillar” (rural development, environment; food safety & quality)
- 2003 “Midterm Review” of Agenda 2000: brought many domestic support prices close to world market levels; created payments per acre of land that were decoupled from what is grown (“Single Farm Payments”); broadened reforms to Mediterranean crops,

# More CAP History (cont'd.)

- 2005: Brazil Sugar Case decision found EU's sugar export subsidies to be WTO-illegal; set in motion reduction in sugar support price with buyout of sugar growers and processors.
- 2006: Initiated discussion of reforming two of last and most politically sensitive commodity support programs: wine and dairy.

# Why the CAP Has Been So Hard to Reform

- Delicate balance of power among member states (Germany/France)
- Rules for taking decisions in ag: technically a “qualified majority,” but, in practice, consensus. (European Parliament is excluded.)
- Entrenched farm lobby, although this has been weakened relative to environmental, consumer (food safety and quality), and rural development concerns.

# The WTO Cotton Case: Brazil's Allegations

- U.S. policies in 2002 Farm Bill stimulated larger production and exports of cotton than would otherwise have been the case.
- This depressed the world price of cotton, reducing the earning potential of Brazilian cotton growers.
- The U.S. cotton program violates the Uruguay Round Ag Agreement (of which the U.S. was a principal author).
- The U.S. should change those policies or pay compensation.

# WTO Cotton Decision

- Marketing loans, LDPs, and counter-cyclical payments have induced larger production and exports that “suppressed” world price of cotton.
- U.S. direct payments are not decoupled (“green box”) since recipients are precluded from growing fruits and vegetables on land receiving payments.
- Export credit guarantees and “step 2” payments are banned export subsidies.

# More Cases Possible

- Canada corn already
- Uruguay rice
- Soybeans?
- Dairy?

# Doha Round Ag Negotiations: Progression

- Missed deadline for restarting ag negotiations
- 1999 -- Seattle fiasco
- 2001 -- Doha Ministerial declaration
- Individual country/region proposals, but no real negotiations (posturing; talking past one another)
- 2003 -- Cancun Ministerial, the original deadline for completion, failed; G-20 became 3<sup>rd</sup> force
- July 31, 2004 -- Framework Agreement
- Oct. 10, 2005 -- U.S. Proposal
- Dec. 2005 – Hong Kong Ministerial
- 2007? -- Completion of Doha Round

# Why the Development Focus in the Doha Round?

- It's in our economic self-interest: They are the only potential growth markets for agricultural products, but only if and when they can afford to eat meat, fruits, vegetables; edible oils.
- Trade is a more powerful engine of growth than aid.
- Persistent poverty can have adverse geopolitical effects (Doha was 2 months after 9/11) and cause illegal immigration
- With half the world's population living on less than \$2 per day, it's the right thing to do.
- Developing countries are now the majority of WTO members; there will be no agreement until they perceive something of value in it to them (unlike the past).

# Key Players in Doha Round Agricultural Negotiations

- United States
- European Union (now EU-27!)
- G-20 (Brazil, India, China, S. Africa+)
- G-10 (Japan, Korea, Norway, Switzerland+)
- Various groupings of developing countries (with heterogeneous interests)
- Cairns Group

# Developing Country Concerns

- OECD countries tend to be most protectionist in products in which low income countries have a comparative advantage at this stage in their development
  - E.g., textiles, footwear, sugar, rice; cotton.
- OECD ag subsidies induce larger production and exports of their most subsidized commodities, driving down the world market price from which developing country farmers get their entire incomes
  - E.g. sugar, rice, cotton, and peanuts

# WTO Framework Agreement

July 31, 2004

- Eliminate all forms of ag export subsidies
- Reduce trade-distorting domestic subsidies (highest the most, but exceptions possible)
- Reduce tariffs (highest the most, but exceptions allowed if increase minimum market access)
- Tighten definition of what subsidies are “non-trade distorting”
- Allow developing countries smaller cuts over longer period (definition? exempt LDCs completely? exempt “sensitive products”?)

# US Proposal Misunderstood by Many American Farmers

- Very little real reduction in domestic support has been offered
- The proposed 60% cut is from the *cap* on, not actual, trade-distorting payments
- An “overall” reduction commitment is from a very high number, so reduction percent would have to be very large to have any impact on the actual farm program payments they receive.
- Any real cut in trade-distorting support can be made up fully via larger green box payments.

# Status of WTO Negotiations

- Negotiations suspended in summer 2006; “restarted” after U.S. election; too late?
- Three key disagreements:
  - U.S. demands significant increases in market access.
  - E.U. & developing countries demand larger reductions in U.S. trade-distorting ag supports
  - Brazil and India are asked to offer more market access for services and non-ag manufactured goods
- Main issues: depth of *real* cuts in tariffs and in trade-distorting domestic support and how many exceptions
- Issue: Would it be easier to write farm bill before or after Doha Round is completed?

# Current Ag Trade Negotiations: What Is Possible?

- Much has already been agreed:
  - Eliminate all ag export subsidies
  - Reduce trade-distorting domestic subsidies (highest the most, but exceptions possible)
    - Redefine blue box to include counter-cyclical payments
  - Reduce tariffs (highest the most, but exceptions allowed if increase tariff-rate quota)
  - Give the least developed countries open access to high income country markets for most goods.
- The issue is NOT to get rid of ag subsidies, but to replace those linked to production of specific commodities.
  - Any disciplining of green box supports won't come until the next round of WTO trade negotiations.

# Ethanol Has Changed the Markets, but Negotiators Haven't Noticed

- Expansion of the ethanol industry has driven up the price of corn, other grains and oilseeds, so the expected impact of present U.S. crop support programs will be negligible in the next few years.
  - U.S. corn exports could go to zero!
  - Animal agriculture and low-income net-food-importing countries, which have to pay more for grain and oilseeds, likely to complain, as will ethanol exporters.

# Prospects for Doha Round

- U.S. farm organizations say they will support a Doha Round Agreement that significantly reduces trade-distorting domestic subsidies *only* if the Agreement includes significant increases in market access.
- They put too much emphasis
  - on increasing access into shrinking markets of the past and not enough on growing the total size of the world market.
  - Protecting current farm program structure with commodity-specific benefits
- If the Doha Round fails now, it will not be completed during the Bush Presidency.

# Why Is It So Difficult to Reduce Ag Subsidies & Liberalize Trade?

- Benefits are capitalized into land values, so value of land would fall.
  - Farmers who borrowed heavily to buy land likely to go bankrupt.
  - Many farmers' retirement savings are in their land.
- Labor adjustment difficult
  - Specialized skills become redundant or worthless.
    - Retraining may be costly (or impractical for older people).
  - Adjustment may require physical relocation
    - May be both monetarily and emotionally costly
- Greed
  - Rent seekers don't give up their rents without a fight.
  - Politicians likely to lose campaign contributions and/or bribes.