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The Cordell Hull Institute held a Trade Policy Roundtable discussion on April 24, 2003 which addressed the moment of truth about freeing Agricultural Trade". At this meeting, Robert Thompson presented a paper that discussed liberalizing agricultural trade.

The meeting was held at Arnold & Porter, attorneys-at-law in Washington, DC. Pictured above is the well of the firm's building.

Reproduced here is a summary of the power point presentation by **Robert L. Thompson** (above).

About the Author

Robert L. Thompson is a Senior Fellow at the National Center for Food and Agricultural Policy and chairman of International Food and Agricultural Trade

2003 Roundtable Discussions...

Moment of Truth about Freeing Agricultural Trade

Robert L. Thompson

DEVELOPING COUNTRIES are the only potential growth market for agricultural exporters. That is one reason for the development focus in the Doha Round negotiations, but there are other important reasons why agriculture has to be properly addressed in the negotiations. Apart from it being the "right thing to do", there are the adverse geopolitical effects of persistent poverty and, with developing countries now the majority in the WTO system, there will be no overall agreement until they perceive something of value to them in the negotiations.

World Agriculture in Disarray

Stressing how *World Agriculture is in Disarray* (the title of D. Gale Johnson's seminal work), most high-income countries subsidize their agriculture, which distorts relative returns to various outputs and induces larger total investment in agriculture relative to other sectors.

Many food policies in developing countries, however, turn the terms of trade against agriculture to keep urban food prices low. This reduces the incentive to invest and, as a result, agriculture under-performs relative to its potential. Protectionist import policies and export subsidies further distort what is produced where.

Farm-support policies are distorting the domestic terms of trade in favor of politically powerful commodities. Subsidies tied to the output of specific commodities stimulate larger production in less efficient locations.

Subsidies are justified on the basis of low farm income, but they are distributed in proportion to sales and, in the end, are capitalized into land prices, benefiting large farmers and land owners.

Policy Council, Washington, DC. He is the former Director of Agriculture and Rural Development, World Bank.

About the Meeting

Maintaining the momentum of trade liberalization in the world economy is now threatened by the *impasse* over agriculture in the Doha Round negotiations.

In November 2002, the negotiations were set back when President Chirac and Chancellor Schroeder in effect rejected the Doha Ministerial Declaration by saying there would be no reform of the European Union's common agricultural policy, reducing levels of support, before 2013.

In Geneva it is well understood that there will be no progress on other Doha Round issues without substantial progress on agriculture. From the outset it had been clear that, in the absence of a serious "Quad" commitment to the success of the negotiations as a whole, the March 31, 2003, deadline for agreement on the modalities for agriculture would not be met.

Trade Policy Roundtable

The Cordell Hull Institute's Trade Policy Roundtable is sponsored by seven international law firms in Washington, DC: Akin Gump Strauss Hauer & Feld, Arnold & Porter, Hogan & Hartson, O'Melveny & Myers, Sidley Austin Brown & Wood, Steptoe & Johnson and Wilmer Cutler & Pickering.

Every year, the Organization for Economic Cooperation and Development (OECD) assesses the "producer subsidy equivalent" (euphemistically called "producer support estimates") as a percentage of total costs. The assessments are made on both a country and a commodity basis.

In 2001, the figure for Switzerland was 69, for Japan it was 59 and the European Union, 35. In North America, the figure for the United States was 21, Mexico it was 19 and for Canada it was 17. These figures compare with 4 for Australia and 1 for New Zealand!

On a commodity basis, the producer subsidy equivalent in OECD countries in 2001 was 81 for rice, 45 for sugar, the same for milk, 36 for wheat, the same for beef and veal, 29 for corn, 28 for oilseeds and 6 for wool.

Agriculture's Role in Development

In low-income countries, agriculture is the largest sector in the gross domestic product, employment, export earnings and poverty. The employment multiplier is larger in agriculture than in manufacturing industry and so the failure to develop agriculture impedes national economic growth. Food is the largest item of expenditure in poor households.

Whereas development advocates often deplore the movement of people from rural to urban areas but out-migration to non-farm employment, part-time or full-time, in far away cities and rural areas is a normal and necessary part of economic development.

The policies of developing countries impede their agricultural development, resulting in a lack of technology adapted to local agro-ecological conditions (soils, climate, slopes). Cheap food policies keep urban consumers quiescent – often reinforced by food aid or subsidized (dumped) exports from OECD countries.

Current developing-country policies result in under-investment in Green Box measures, such as rural infrastructure and agricultural research. Lack of definition or enforcement of property rights and contract sanctity also undermines investment, as does corruption and/or macro-economic instability.

Effects of the Trade Environment

OECD protectionist barriers against developing-country exports reduces their foreign-exchange earning capacity and economic growth. Furthermore, OECD agricultural production and export subsidies depress world market prices below the long-term trend and increase variance around that trend. Also, food aid is most available in years of OECD surplus, not in periods of developing-country deficit. Thus developing countries haven't got much out of past agricultural trade agreements.

How does the Farm Act of 2002 hurt the interests of developing countries?

- Larger U.S. production depresses world market prices and in turn reduces the prices and revenue of developing-country producers, as with West African cotton.
- Counter-cyclical payments, by smoothing expected returns, reduce the response by U.S. farmers to changes in prices. This forces adjustment onto the world market, increasing the volatility of "world" market prices.
- Larger U.S. sugar production means less sugar imports from developing countries, which enjoy a comparative advantage in sugar production. Large food-aid shipments can, as mentioned, undercut developing-country farm prices.

The net effect is slower reduction in developing-country poverty and slower growth in this large potential export market.

Uruguay Round Achievements

The agreement on agriculture reached in the negotiations (i) increased market access as a percentage of consumption, (ii) reduced export subsidies in terms of value and volume, (iii) converted all non-tariff barriers to tariffs, but undid much of the effect by introducing tariff quotas and (iv) required a scientific basis for all sanitary and phyto-sanitary (SPS) barriers to trade.

Moreover, the agreement acknowledged that some domestic agricultural subsidies can distort trade and categorized them by degree of trade distortion:

- "Green box" = non-trade-distorting investments in public goods and decoupled income transfers;
- "Amber box" = trade-distorting measures (bound and reduced); and
- "Blue box" = trade-distorting measures, but offset by production controls or set-asides.

Thus the Uruguay Round negotiations brought agriculture under internationally agreed trade rules. They established a useful framework in which to liberalize agricultural trade. But they did little to open markets and they contained a lot of loopholes.
The Doha Round negotiations can and must be more ambitious - in particular, the framework needs stronger controls and tighter disciplines.

Obstacles and Opportunities

On the obstacles to progress there is a lack of leadership at international level, the timing is too constrained, the bilateral and regional approach to trade liberalization is undermining the multilateral approach, there is not enough external pressure on the

United States, the European Union and Japan and there are too many major areas of disagreement. On the other hand, there are opportunities.

Areas of agreement are emerging. The United States and the European Union are coming under pressure to reengage internationally, U.S. farmers are reassessing the budget outlook and there are internal pressures for reform in Europe and Japan.

Abdication of U.S. Leadership

Unfortunately in the Farm Act of 2002, the United States abdicated leadership by increasing agricultural subsidies, while telling the rest of the world to cut theirs. The United States, which has led global effort of "decouple" payment from production, appears two faced.

By allowing bases to be updated, farmers know that "fixed payments" are not necessarily "fixed". Marketing loans appear to have effect of export subsidies, as do some of our food aid and export credits. U.S. farmers have lost their enthusiasm for trade liberalization, appearing happy to live off government checks.

Objectives of the Doha Round negotiations:

- *Improve Market Access*: Expand minimum market-access quotas every year. Establish a maximum tariff rate, reduce all tariff peaks to the agreed maximum immediately, require minimum tariff cuts per product and an average tariff cut over tariff chapters. And eliminate in-quota tariffs immediately.

- *Geographical Indications and SPS Barriers*: It is premature to extend geographic indications to foods. The WTO should assess costs and benefits of GI's to developing countries. The SPS agreement should not be reopened or reinterpreted.

- *Non-trade Concerns*: It is not WTO's role to question policy rationales, but to discipline policies. Non-trade concerns are best addressed through Green Box measures. If specific commodity support or on-going subsidies are needed, classify them as Amber Box.

- *Protect Importers' Concerns:* Ban export embargoes and restrictions. Institute a transparent safeguard mechanism with bound triggers and time-limits for developing as well as developed countries. Update the base for national consumption to a more recent period.

- *Cut Trade Distorting Support*: Reclassify trade-distorting Green Box payments to Amber Box. Reduce Amber Box, Blue Box and product specific support. Make reductions commodity by commodity.

The **mockingbird** is the state bird of Tennessee. Cordell Hull represented a district of Tennessee in the Congress of the United States, and was elected a senator from there, before becoming U.S. Secretary of State (1933-44).

"The mockingbird is known for fighting for the protection of his home – falling, if need be, in its defense. Mockingbirds are not intimidated by animals larger than themselves and have been known to attack eagles"

– Diana Wells, 100 *Birds and How They Got Their Names* (Chapel Hill, NC: Algonquin, 2002)

Trade Policy Analyses

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- *Discipline Export "Competition"*: Eliminate export subsidies by a date certain. Discipline export credits, food aid and state trading entities. Reduce and harmonize export taxes.

- *Developing-country Provisions*: Expand Green Box investments now (e.g. through foreign aid) to strengthen developing-country agriculture. Allow developing countries smaller tariff cuts, but on the same timetable as the rest of world. Eliminate tariffs for developing countries and also quotas for the poorest countries. Transform special preferences into general preferences.

Growing World Agricultural Trade

The world's arable land is not distributed around in the world in the same proportions as its population. Agriculture in most developing countries is under-performing relative to its potential, thereby slowing national growth.

With population growth and urbanization in developing countries, a larger fraction of world food production is expected to move through world trade. Broad-based economic development in poor countries will accentuate this via growing commercial trade.

Greater trading opportunities will accelerate the rate of national economic growth and create larger market opportunities for exporters in high-income countries.