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On March 31, 2006, as the Doha Round negotiations continued to struggle over modalities for negotiations on agriculture, and preparations for the 2007 U.S. Farm Bill were beginning in Washington, DC, the Cordell Hull Institute held a Trade Policy Roundtable meeting on the Reform of U.S. Farm Policy and the WTO System.

The meeting was held in the Washington offices of Hogan & Hartson, attorneys at law, located in the I.M. Pei designed Columbia Square Building (pictured here).



Reproduced over the page is the presentation that **William Martin** (above) delivered at the meeting.

About the Author

William J. Martin, lead

2007 U.S. FARM BILL...

Reform of U.S. Farm Policy and the WTO System

In the Doha Round negotiations on agriculture, attention has focused in the United States on the prospect of securing improved access to markets, especially in developing countries, where the potential is great. But there have been wider interests at stake.

Following an international roundtable meeting that the Institute convened in May 2002, Clayton Yeutter pointed out: "The burgeoning public debate over liberalizing agricultural trade has revealed a wide range of interests with a stake in the outcome, some represented by long-established organizations, while others [outside the agricultural community] are relatively new groups that view themselves as a part of civil society..."

"These include," Dr Yeutter went on to say, "humanitarian groups concerned about hunger and malnutrition, development groups interested in alleviating poverty, environmental groups pursuing excessive use of fertilizers, the conservation of natural resources, the preservation of bio-diversity etc, consumer groups campaigning on the cost, availability and quality of food, taxpayer groups that question massive government subsidies and academic economists and other trade-policy 'gurus' who observe the magnitude of agricultural trade distortions and the adverse impact on agricultural productivity."

Avoiding Disputes in the WTO System

Reform of U.S. farm policy is taking into account developments outside the Doha Round negotiations. Mike Johanns, the U.S. Secretary of Agriculture, has stressed the importance of ensuring that subsidies in the next U.S. farm bill are not open to legal challenge in the WTO dispute-settlement process. This shift in policy followed Brazil's successful WTO case in 2005 against subsidies in the U.S. cotton program and its successful case – with Australia and Thailand – against the European Union's sugar program. Since then there has been talk of Uruguay mounting a

economist (trade policy) in the Development Research Group at the World Bank, has been co-director, with Kym Anderson, of the bank's project on the liberalization of agricultural trade, recently published as *Agricultural Trade Reform and the Doha Development Agenda*.

Dr Martin, previously at the Australian National University, Canberra (1986-90), has analyzed extensively the impact of trade liberalization on developing countries, especially in East Asia, including China

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case against the U.S. rice program; and of Canada, a case against the U.S. corn program.

On February 14, Senator Saxby Chamblis, chairman of the U.S. Senate committee on agriculture, declared support for ensuring that U.S. farm-support policy complies with WTO rules against trade-distorting subsidies – whatever the outcome of the Doha Round negotiations.

Failing to Assist Low-income Farm Households

Other factors appear to be influencing the farm-policy debate. In the *Economic Report of the President* for 2006 the chapter on the U.S. agricultural sector concluded: "If the intent of commodity-support programs is to assist low-income farm households, [they] are failing in this task because today the bulk of payments go to households with incomes above the U.S. non-farm average.

"Furthermore," the report continues, "as world trade in agricultural products increases, food security for U.S. consumers becomes less dependent on domestic production and, consequently, on domestic commodity-subsidy programs. Not only are domestic commodity policies – domestic support, market access and export subsidies – not targeting vulnerable populations in the United States, these policies, as used by the United States and other countries, reduce farm incomes in poor countries."

Trade Policy Reform and the Doha Development Agenda

WILLIAM MARTIN



What differentiates our new study?

- It examines in detail each of the 3 agricultural pillars plus preferences, non-agricultural tariffs, and S&D for DCs' reform
- It 'adds up' the consequences of current policies and of prospective Doha reforms:
 - Using bound as well as applied tariffs at the HS6 level
 - Having non-reciprocal as well as reciprocal preferential tariffs
 - Incorporating key trade policy changes to the start of 2005



Two questions addressed

- What are the costs of current protection and subsidies, and hence the potential benefits from trade reform?
- How close might Doha bring the world to completely freeing merchandise trade, in welfare and trade terms?



Elements of the first question:

- ⊕ What are the costs of current protection and subsidies, globally and for developing countries, due to:
 - ▣ developed relative to developing countries' policies?
 - ▣ agriculture relative to manufacturing policies?
 - ▣ within agriculture, tariffs relative to export subsidies and domestic support?
 - ▣ which farm commodity programs matter most?
 - ▣ How are cotton markets affected?



Cost of current protection policies

- ⊕ Global cost of current tariffs on all goods plus agricultural subsidies: **\$287 billion p.a.**
- ⊕ As **% of GDP**, cost to developing countries is 1/3rd higher than to high-income countries
 - ▣ and nearly twice as high for Sub-Saharan Africa
- ⊕ These costs are potential gains from liberalization



Sources of cost to global economy

<i>\$ billion due to policies in:</i>	Agric & food	Textiles clothing	Other merch.	TOTAL
High-income countries	135	15	9	159 (55%)
Developing countries	47	23	58	128 (45%)
All countries' policies	182 (63%)	38 (14%)	67 (23%)	287 (100%)



Sources of cost to developing countries

<i>\$billion due to policies in:</i>	Agric & food	Textiles & clothing	Other merch.	TOTAL
High-income countries	26	13	4	43 (50%)
Developing countries	28	9	6	43 (50%)
All countries' policies	54 (63%)	22 (25%)	10 (12%)	86 (100%)



Relative importance of 3 agric pillars

<i>Welfare effects from:</i>	Agric market access	Agric domestic support	Agric export subsidies	All agric policies
<i>% for:</i>				
Developing countries	106	2	-8	100
High-income countries	89	6	5	100
World	93	5	2	100



Contribution of key products to global welfare cost of agricultural protection, %

Rice	20
Sugar	18
Meats (esp. beef)	16
Other grains	11
Oilseed products	7
Dairy products	5
Other ag and food	<u>23</u>
TOTAL	100



Share of global output exported(%)

	<u>now</u>	<u>if free trade</u>
● Rice	3%	9%
● Sugar	6%	20%
● Meats	7%	15%
● Other grains	12%	20%
● Oilseeds	31%	37%
● Dairy products	6%	11%
● ALL AGR & FOOD	7%	12%



Take-away messages on cost of current policies

- Potential gains from further trade reform are **large**
 - ➔ must find the political will for Doha success
- **DCs would gain disproportionately** from reform, notwithstanding non-reciprocal tariff preferences
- But DCs would gain as much from South-South as South-North trade growth
 - ➔ importance of DC reform too
- **Agricultural reforms are the highest priority** for goods, from global and DC welfare viewpoints
 - & market access is the major area for agric reform gains



2nd Question: Potential Doha scenarios

- 75% tiered cut to **bound agric tariffs**
 - With & without sensitive products
 - With a tariff cap of 200%
 - With & without Special and Differential Treatment (SDT)
- 75% tiered cut to domestic **ag subsidy ceilings**
- Abolish **agric export subsidies**
- 50% cut in **non-agric tariffs**
- Services policies unchanged



Tariff binding overhang: big cuts needed

	Bound %	Applied %
High-income countries	27	14
Developing countries (excl. LDCs)	48	20
LDCs	78	13

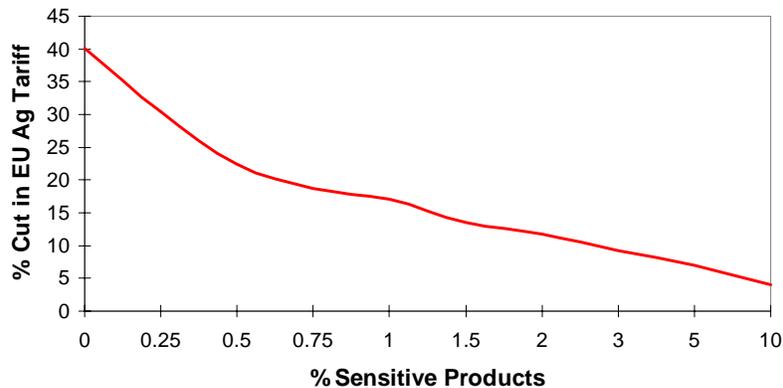


Current proposals & book scenarios

	Top Tariff Cut, %	Sensitive Prod. %	EU/US AMS cut %
US proposal	90	1	83/60
EU proposal	60	8	70/60
G-20 proposal	75		80/70
Book scenario	75	0-5	75/75



Sensitive products: a slippery slope



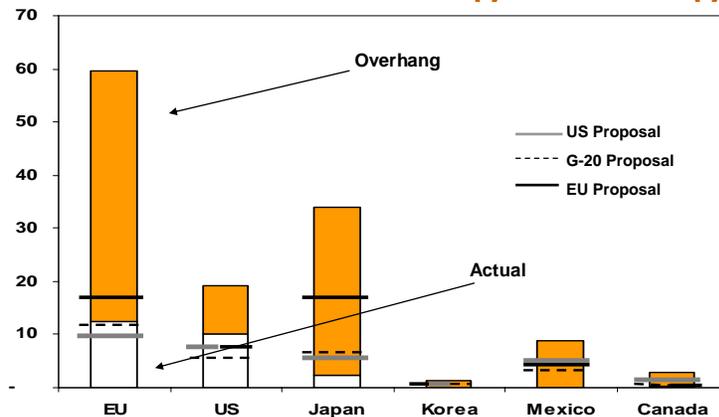


How to deal with Sensitive Products?

- Restrict the number tightly
- Define the restriction in terms of imports
- Insist on large cuts in tariffs
- Impose a cap on sensitive products
- Require TRQ expansion in all cases

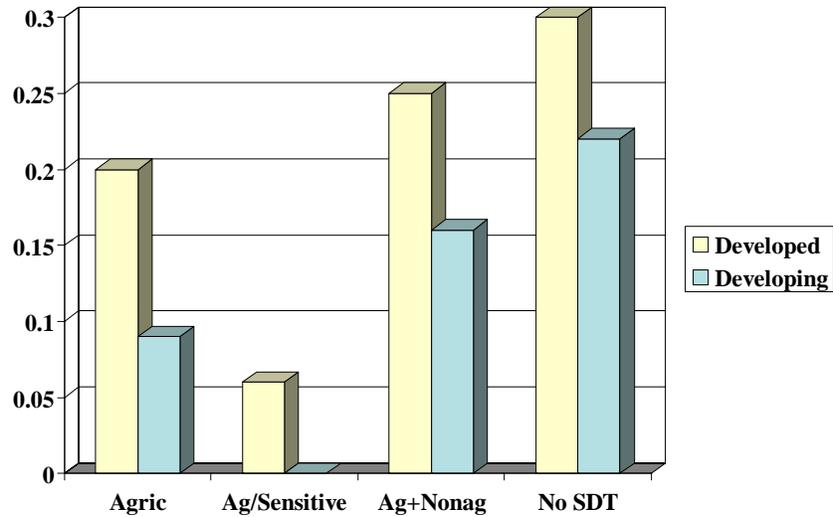


Need big cuts in domestic support limits to reduce binding overhang





Gains from Doha Scenarios, %GDP

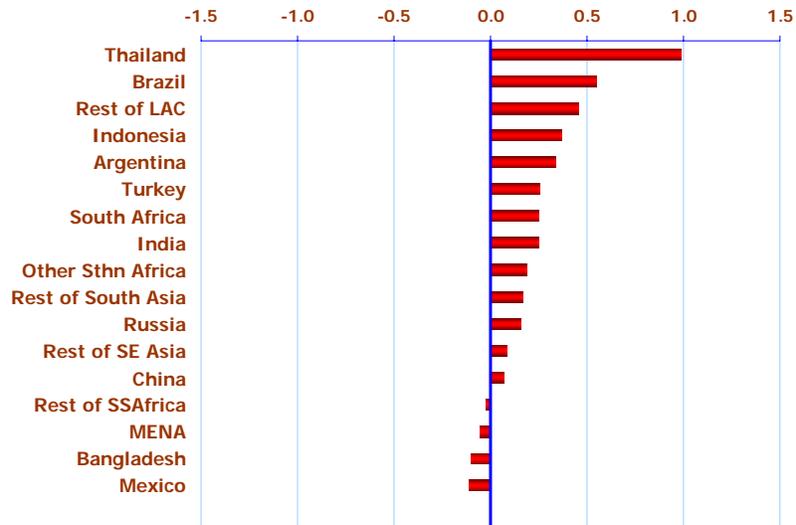


Effects of liberalization on DC incomes

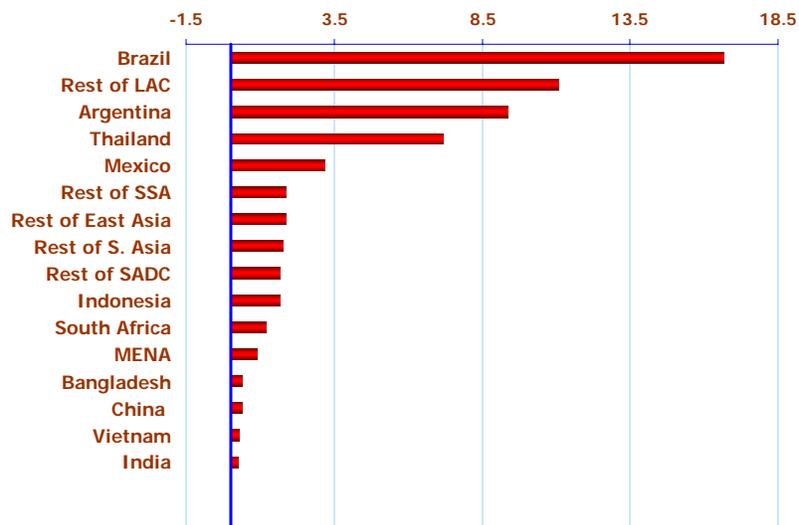
% change in GDP in:	<i>Full global lib'n</i>	Doha	Doha (with full cuts by DCs)
Latin America	1.0	0.29	0.33
South Asia	0.4	0.21	0.36
Sub-Saharan Africa	1.1	0.10	0.27
All developing countries	0.80 (\$86b)	0.16 (\$16b)	0.22 (\$23b)



Real income rise: Doha with SDT, %



Real Farm Income: Doha with SDT, %





Key points for Doha Round

- ① The Doha agenda is important: WTO is the only game in town for reducing agricultural protection
- ① Doha reforms cut **bound** tariffs & subsidies
 - Often above **applied** rates--need large cuts to reduce protection
 - with a cap to reduce the highest tariffs
- ① Scenarios show current proposals could yield large gains
 - Sensitive Products can decimate these gains
 - especially if the tariff cap doesn't apply to Sensitive Products
 - Including non-agric tariff cuts raises the gains
- ① Developing country gains greater if they participate fully
 - expanded south-south trade & improved efficiency

