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Agriculture and the Doha Round

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If or when the current round of multilateral trade negotiations, formally called the Doha Development Agenda, resumes, will agriculture be the key to success? The short answer is yes, as the first step in getting a deal done—and no, if that is all that an agreement brings to the development agenda.

The trade talks launched in Doha, Qatar, in November 2001, were the first of nine negotiating rounds held since World War II to place the "needs and interests" of developing countries "at the heart" of a round. This commitment, contained in the ministerial communiqué launching the round, was a response to an increase in the number of developing-country members, more active involvement by these countries in negotiations, and the dissatisfaction of many of them with the results of the previous negotiation. Since many developing countries have a comparative advantage in agriculture and since many of the world's poor live in rural areas, it is no surprise that increased agricultural market access emerged as a critical issue in the talks.

Even without the development focus, however, agriculture would have been the first piece in the puzzle because it is the major piece of unfinished business from previous trade rounds. This means that it is the sector with the highest remaining barriers in rich countries and the greatest potential gains from further liberalization of merchandise trade. Thus, agriculture is a key to a successful round because agricultural liberalization is much of what the rich countries have left to contribute to a reciprocal trade deal.

But it is not the only key to making this a successful development round because agricultural liberalization is not sufficient to deliver on that promise. The benefits of an agreement will not be evenly distributed and some poor countries could lose from higher food prices or erosion in the value of preferential access to European and American markets for their exports. In many low-income countries, poor farmers in remote rural areas will see few gains if inadequate infrastructure and inputs and perverse government policies prevent their taking advantage of new opportunities. For them, domestic policy reforms and a credible and effective package of aid for trade is needed to ensure that they are able to grasp new opportunities arising from the round.

Still, reaching a successful agreement under the Doha Development Agenda must begin with a break in the impasse over agriculture. For this to happen, each of the major players will need to give something. Among the recommendations detailed in *Delivering on Doha*, the book on which this brief is based, are:

- The United States should agree to a sharply lower ceiling for permitted domestic subsidies, so that actual spending is constrained.
- The European Union (E.U.) should offer to eliminate export subsidies and accept more imports.
- Japan, Korea, Switzerland and other non-E.U. European states should agree to cap their tariffs and allow some increased access for even the most sensitive items, including rice, beef and dairy products.

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- To clinch the overall trade bargain, and to improve their own competitiveness, the more advanced developing countries should open their markets to manufactured goods and services.

I begin by examining some of the myths and misunderstandings surrounding the negotiations. I then look in more detail at the patterns in rich-country support for agriculture, and at the opportunities and challenges that reform of that support would pose for developing countries. I conclude with recommendations for how to complete the round and ensure that developing countries benefit.

Setting the Record Straight

> *"The rich world tells the poor world to get rid of subsidies, but continues to spend $1 billion a day subsidising its own farming enterprises."*
>
> Oxfam International,
> Rigged Rules: Dumping, from the Make Trade Fair Campaign

> *"The most substantial results must be achieved in the areas where the greatest distortions lie, in particular on trade-distorting subsidies in agriculture, that displace developing country products and threaten the livelihoods of hundreds of millions of poor farmers."*
>
> *"The priority is to reduce market access barriers in developed countries in order to create opportunities for the export products of developing countries."*
>
> Joint Statement G-20, the G-33, the ACP, the LDCs, the African Group, the SVEs, NAMA-11, Cotton-4 and CARICON, Geneva, 1 July 2006

Some key assumptions about the Doha Round agricultural negotiations are either wrong or misleading. In contrast to the statements above:

- Rich countries do not spend $1 billion a day subsidizing their farmers.
- Subsidies are not the source of the greatest distortions in agriculture.
- Higher farm prices as a result of rich-country agricultural reforms would not help some poor farmers, at least in the short run.
- A development round does not mean that developing countries should be sheltered from opening their own markets.

A clear understanding of the nature of agricultural protection and of the effects of reducing it are needed, both to bring the round to a successful conclusion and to ensure that it meets the needs of developing countries.

It may be politically effective, but it is also misleading to focus on the estimate for *total* support to agriculture as calculated by the Organization for Economic Cooperation and Development (OECD). That figure is around $350 billion for all member countries and serves as the basis for the Oxfam figure of $1 billion per day (OECD 2005, p.12). But that estimate includes "general support," such as subsidies for public goods like research and development and hunger and nutrition programs that do not affect farmers' decisions about what and how much to produce. Presumably Oxfam is not in favor of eliminating food stamps for poor people in America.

The more relevant figure for trade debates is the OECD estimate of support to agricultural *producers*, most of which is trade-distorting and which comes in at a still-high $250 billion. But of that, only about $100 billion is *subsidies* to farmers and the rest comes from programs that prop up prices, including tariffs and other restrictions on imports (ibid). The World Bank estimates that virtually all of the benefits to developing countries from elimination of trade-distorting support for agriculture would come from lowering trade barriers (Anderson and Martin 2006, p.13). While much of the attention in the agricultural negotiations has focused on the need to cut American subsidies, increasing market access for imports in the European Union and Japan is at least as important.

It is also misleading to suggest that agricultural reform is the most important thing that rich countries could do to help poor farmers in poor countries (though reforms certainly could be fashioned to do more for poor than for rich farmers in the industrialized countries themselves). The poorest farmers in developing countries typically do not produce enough to feed themselves and their families and are usually net buyers of food. Moreover, many poor farmers in developing countries live in remote rural areas with little or no connection to international markets. For these farmers in the short run, reductions in rich-country support that raise world prices would either have no effect or could make them worse off if they have to pay more to buy food. In the longer run, however, improved infrastructure and technical assistance to help them become more productive and switch to export crops could raise their incomes significantly.

Finally, one often gets the impression from developing-country negotiators and advocacy groups that a development round means that the industrialized countries should make all the concessions. Developing-country complaints that the results of the Uruguay Round (1986-93) were tilted in favor of industrialized countries are legitimate. But trying to tilt this round too far in the other direction is a recipe for disaster. Trade *negotiations* are inherently reciprocal and the emerging markets and larger developing countries will have to contribute something as well to get to a collective yes. As was the case in the last round, the 50 least-developed countries are not being asked to make any market-opening commitments and they will be able to free ride on whatever opening occurs in other markets.

Rich-Country Support for Agriculture

With the elimination of quotas on textile and apparel trade under the Multi-Fiber Arrangement in January 2005, agriculture no longer has competitors for the title of most distorted sector in the global economy. It is now the only sector where both quantitative restrictions[2] and export subsidies are still permitted, and distortions in this sector are far greater than for manufactured goods. As shown in Table 1, agricultural tariffs in high-income countries are roughly five times higher than the average for merchandise overall, and eight times higher than for manufactured goods other than textiles and apparel. In addition, members of the OECD provided direct subsidies to farmers equal to roughly $100 billion on average in 2002-04 (OECD 2005).

Table 1. Average Applied Tariffs

	High-income Countries	Developing Countries
Agriculture	16.0	17.7
Textiles and apparel	7.5	17.0
Other manufacturing	1.9	9.0
Total merchandise	2.9	9.9

Sources: Anderson and Martin (2006).

Government support to agricultural producers in the form of trade barriers and subsidies has averaged around 30 percent of gross farm receipts in OECD countries in recent years (Table 2). In dollar terms, the European Union, Japan and the United States provided, by far, the greatest share of estimated support (the producer support estimate, or PSE). But the relative importance to farmers of that government largesse varied widely, from nearly 60 percent of farm receipts in Japan, to 34 percent in the European Union, and under 20 percent in the United States. Iceland, Norway and Switzerland are the most generous to their farmers but they are small players. To put these percentage figures in context, the OECD definition of gross farm receipts *includes* the value of subsidies and price support. Thus, when the share of estimated support is 50 percent of gross receipts, that means that the average farmer receives as much in income from government programs as from the market.

Figure 1 shows producer support as a share of gross receipts for particular commodities. Rice is the most generously supported commodity on average in the OECD, but most of that support is concentrated in Japan and Korea. The U.S., E.U., and Japan all tightly restrict imports of sugar, while most OECD countries support dairy farmers. Europe, Japan and Korea also protect beef producers from imports, while support for sheepmeat is limited to Europe. Rice and sugar are of obvious interest to many developing countries.

While levels of support remain high in most OECD countries, there have been reforms over the past decade and a half.

Table 2. OECD Estimates of Support to Agriculture, Average 2002-04

	PSE (million US $)	PSE as percent gross farm receipts	Percent of PSE that is: Most trade-distorting: Market-price support	Percent of PSE that is: Most trade-distorting: Output and input subsidies	Percent of PSE that is: Less distorting payments 1/
Australia	1,068	4.3	0.8	76.0	23.2
Canada	5,521	22.3	47.8	9.6	42.6
EU 2/	114,274	34.3	54.6	11.7	33.7
Iceland	195	70.3	45.2	42.0	12.8
Japan	46,924	57.7	90.1	6.5	3.5
Korea	18,253	63.1	92.6	2.6	4.9
New Zealand	186	2.3	82.2	17.2	0.6
Norway	2,902	71.3	47.1	25.3	27.6
Switzerland	5,343	70.5	55.7	9.3	35.1
US	40,409	17.0	35.3	27.6	37.1
OECD total/average	254,244	30.3	61.3	13.3	25.4

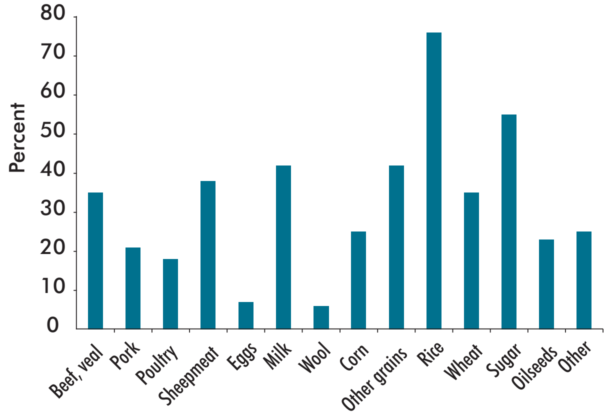
PSE = Producer Support Estimate.
1/ In WTO terms include modestly trade-distorting "blue box" payments as well asminimally trade-distorting "green box" payments
2/ EU-15. Austria, Finland, and Sweden are included in the OECD and EU totals for all years

Source: OECD (2005).

Figure 2 shows the OECD's estimates of producer support as a percent of gross farm receipts while Figure 3 shows the share of that support that falls in the most trade-distorting categories. These include market price support provided through import restrictions, export subsidies, and other supply controls, as well as payments linked to production or that subsidize inputs.

Figure 2 suggests that the Uruguay Round had very little impact on overall levels of support for farmers in OECD countries. But the intent of the trade negotiations is to ensure that agricultural support distorts trade as little as possible, not to force countries to eliminate it entirely. Figure 3 shows there has been progress toward that goal, though the link to trade negotiations is less clear. Nearly all of Japan's and Korea's support, and nearly 90 percent of Iceland's, still falls in the most trade-distorting categories. The share of those categories in overall producer support provided by the European Union, Norway and Switzerland, however, has fallen sharply to under 70 percent. The aim of the Doha Round is to reinforce these trends.

Figure 1. Producer Support Estimates (percent of gross farm receipts)

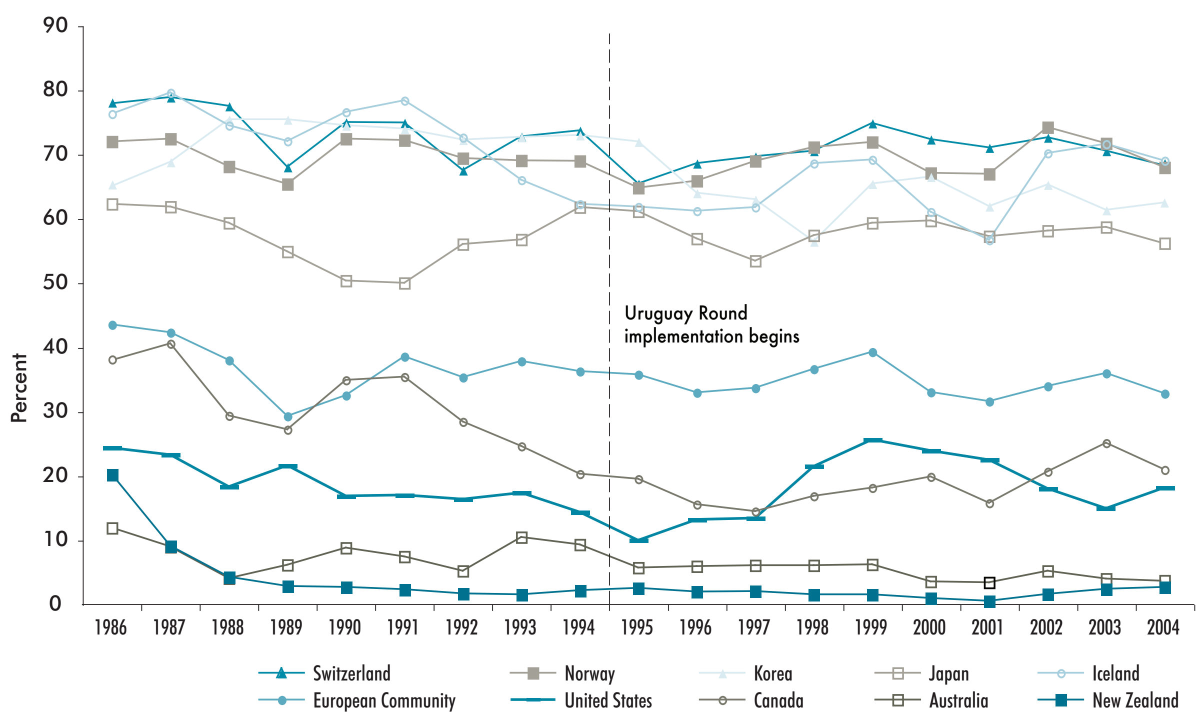


Source: OECD (2005).

Opportunities and Challenges for Developing Countries

In the short run, both existing trade patterns and the results of econometric models suggest that middle-income countries, most notably Brazil, Argentina and Thailand, will be the

Figure 2. Producer Support Estimates (as a percent of gross farm receipts)



NB: EU-12 for 1986-1994, EU-15 from 1995, EU includes ex-GDR from 1990.
Austria, Finland, and Sweden are included in the OECD totals for all years and in the EU from 1995.

Source: OECD (2005).

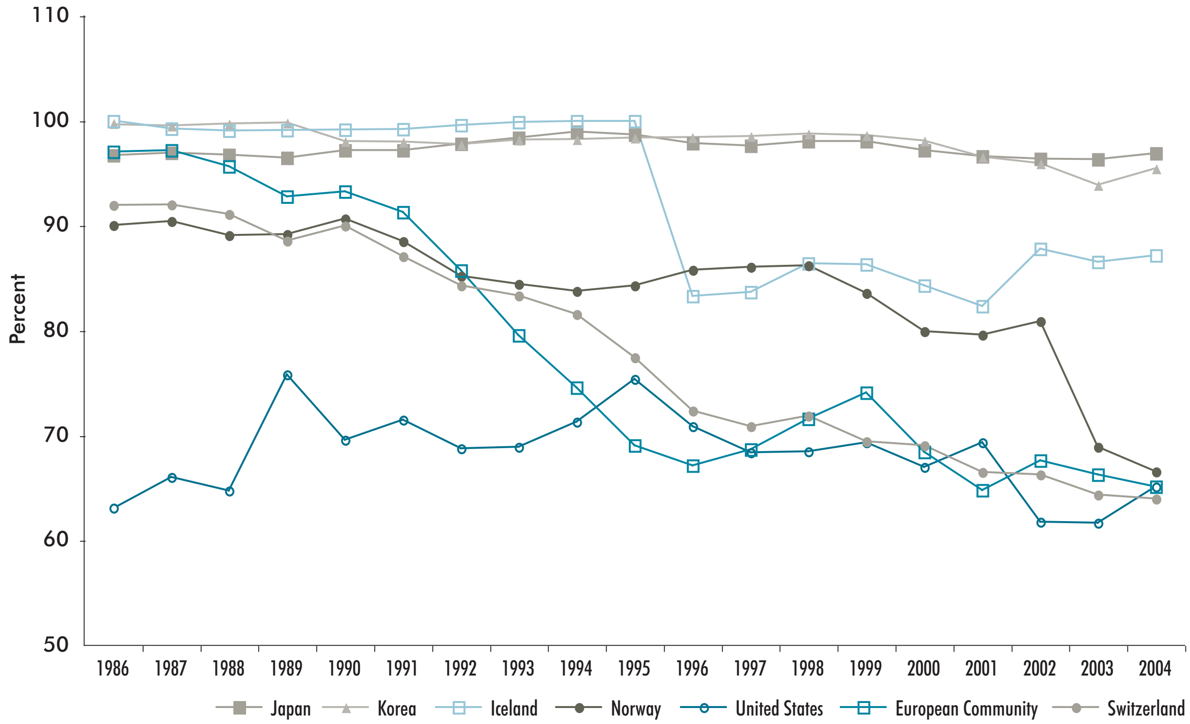
big winners from agricultural liberalization (Anderson et al, 2006). Many low-income countries would also benefit if the Doha Round liberalizes barriers to imports of tropical products, such as sugar, rice, tobacco and peanuts; addresses tariff escalation on processed products derived from primary commodities, such as cocoa powder and roasted coffee; and eliminates specific tariffs that discriminate against low-value basic commodities.[3]

Some countries, however, could lose from a Doha Round agreement if the value of preferential access they have in rich country markets is eroded, or if they are net food importers. In general, agricultural trade liberalization in rich countries will lead to lower internal prices, production and exports, and increased demand for imports, which will put upward pressure on world prices. For example, expansion of sugar import quotas in rich countries would allow competitive exporters, including much of Central and South America, Thailand and South Africa, to increase their market share in the protected markets and earn more on their exports to unprotected markets as a result of the increase in world prices. But less competitive exporters in the Caribbean and Africa that rely heavily on preferential access to the U.S. and European markets would earn less on their exports and could see the volume fall as well, depending on the degree of liberalization that occurs (Elliott 2005).

Fortunately, serious preference erosion problems are likely to be limited to a small number of products and countries, mainly those less competitive sugar and banana exporters with guaranteed access in the European Union. And, with respect to higher food costs in net-importing countries, World Bank simulations suggest that increases in food prices from *global* free trade would be modest (Table 3). Increases from the partial liberalization expected from the Doha Round would likely fall in the low single digits and would be phased in over a number of years. This is less than the average annual fluctuations of up to 15 percent in the prices of rice, wheat and corn that has been "normal" over the past 20 years. Moreover, many developing countries have tariffs on food products that could be lowered if global prices rise.

Preference erosion and the problems of net food-importing countries should be addressed, but they should not be used as excuses to block an agreement. The more serious challenges to developing countries come from the

Figure 3. Most Trade-Distorting Support as Share of Total Producer Support



Notes:
The most trade-distorting support includes market price support, payments based on output and payments based on input use.
EU-12 for 1986-94 including ex-GDR from 1990; EU-15 for 1995-2003; EU-25 from 2004.
Austria, Finland and Sweden are included in the OECD total for all years and in the EU from 1995. The OECD total does not include the six non-OECD EU member states.
Source: OECD Database (2005).

supply-side constraints that could easily prevent many of them, and especially poor farmers within them, from taking advantage of any new trade opportunities that arise. In addition to the indicators of inadequate transportation and communication infrastructure shown in Table 4, most poor farmers suffer from low productivity with little or no technical or financial capacity to raise it. Complementary policies and aid-for-trade are also needed if the Doha Round is to deliver on the development part of the agenda.

Conclusions and Recommendations

Though it accounts for less than 10 percent of global merchandise trade, agriculture is at the center of this round of trade talks because that is where the highest remaining barriers in developed countries are and where the largest potential gains are. Thus, it is most of what the rich countries have left to contribute in a reciprocal trade negotiation. The book on which this summary is based, *Delivering on Doha: Farm Trade and the Poor,* provides a detailed analysis of what needs to happen under each of the three pillars of the negotiation—export subsidies, domestic support, and market access (chapter 5). It also discusses special and differential treatment for developing countries and suggests that they accept some disciplines on agricultural policies as well (chapter 6). The key recommendations include the following, with a focus on the countries that would have to do the most under each heading:

Export subsidies: The E.U. should eliminate its remaining export subsidies as rapidly as possible. The U.S. should agree not to use food aid to dispose of temporary surpluses or for market development purposes.

Domestic subsidies and other support: The U.S. should reduce actual spending on subsidies and accept a ceiling for the *most* trade-distorting forms of support that is at least 60 percent below where it is now ($8 billion compared to $19 billion). To ensure subsidies are not simply shifted to other categories of trade-distorting support, the U.S. should cap so-called "de minimis" and "blue box" spending to no more than 1.5 percent of the value of production for each category (a little more than half what the U.S. proposed). The E.U., which currently has a trade-distorting support ceiling twice as high as that for the U.S., should agree to cut its ceiling by at least 70 percent, thereby locking in its recent reforms.

Table 3. World price effects of moving to global free trade

Milled rice	7.7%
Wheat	9.0%
Other cereal grains	12.2%
Beef	8.4%
Dairy products	11.8%
Vegetable oils	3.4%

Sources: Hertel and Ivanic (2006).

Table 4. Indicators of Infrastructure Quality and Trade Costs

	Low-income countries	Low middle-income countries	Upper middle-countries	Developed countries
Km of roads per square kilometer of area, 1999 (127)	0.17	0.29	0.77	2.44
Percent of roads that are paved, 1999 (118)	25	50	50	95
Aircraft departures per million people per year (avg. 2000-02)	285	1250	4120	16,780
Fixed line and mobile phone subscribers per 1000 people (2002)	39	302	501	1250
Number land-locked (134)	21	9	1	10
CIF-FOB factor for developing country exports* (103)	1.18	1.14	1.13	1.07

* This is the ratio of the value of imports with the costs of insurance and freight included to the value "free-on-board", without those costs.

Source: World Bank, World Development Indicators; International Monetary Fund, Direction of Trade Statistics.

Market access for imports: The overall formula for cutting tariffs should require that the average industrialized-country tariff on agricultural products be cut by half and the average developing-country tariff by a third. The E.U., Japan and other G10 countries should accept a limit on "sensitive" products that undergo smaller cuts that is less than half the 8 percent of tariff lines demanded by the E.U. Japan, Korea and the G10 should drop their opposition to an overall tariff cap of 100 percent and ensure that market access for *all* sensitive products, including rice, is increased.

Special and differential treatment: Except for least-developed countries, which are exempted from making any commitments, special and differential treatment should not be so broad as to exempt developing countries from any discipline on agricultural policies. The formula tariff cut of one-third for developing countries will be applied to the tariff levels that were legally bound in the Uruguay Round and is unlikely to result in cuts on the tariffs that are actually applied on most products. Therefore, substantial additional flexibility is not needed to protect subsistence farmers or food security, as argued by India, Indonesia and the other G33 countries. Thus, the combined percentage of tariff lines that developing countries can designate as sensitive and special should be less than half of the 20 percent demanded by some. As in the Uruguay Round, countries that do not currently provide trade-distorting subsidies should agree not to introduce them.

Making progress on agriculture is the key to breaking the current impasse in the trade talks, but delivering on the promise of the Doha Development Agenda requires far more. While the majority of poor people in the world live in the rural areas of developing countries, many of those farmers are net buyers of food and many developing countries have a comparative advantage in labor-intensive manufactures rather than agricultural products.

A successful development round therefore requires a broad package that addresses barriers in rich countries to developing-country exports of clothing, footwear and other manufactured goods and services, as well as agriculture. It is also essential to the bargain that emerging markets, such as Brazil, India and China, contribute by opening their markets to manufactured products and services, such as finance and telecommunications, that would improve their own competitiveness. In addition, the emerging markets should join the industrialized countries in providing fully open access (called duty-free and quota-free) for all least-developed country exports (not just 97 percent of tariff lines as proposed by the United States). Finally, while donor governments have committed to increase aid-for-trade flows, much more work needs to be done by both donors and recipients to ensure that it is delivered on a timely basis and to make it more effective.

Endnotes

1 Developing countries that have agreed to legally bind their tariffs in past negotiations typically impose duties in practice that are far below those ceilings. There is a debate in the Doha Round over how to determine the level at which currently unbound tariffs would be capped. Industrialized countries would generally like to see those tariffs bound at currently applied levels. Developing countries want to set them above applied levels so they have flexibility to raise them if conditions change. Either way, binding would not result in increased market access in least-developed countries from currently applied levels.

2 Import quotas were eliminated in the last round of multilateral trade negotiations but countries were allowed to continue using tariff-rate quotas. Under this mechanism, a certain quantity of imports are charged a relatively low (or no) tariff but imports over that level are charged a higher tariff. In practice, the over-quota tariff is often so high as to deter additional imports.

3 Specific tariffs are levied as so many dollars or euros per pound or metric ton, resulting in higher tariffs as a percent of the value of the product on low-value goods. For example, a $1 tariff would be equivalent to a 50 percent ad valorem tariff on a $2 good but only 10 percent on a $10 product.

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