Center for Global Development

Saving the Doha Round Requires Further Cuts in U.S. Agricultural Support

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CGD Notes

For the Doha Round to succeed, the U.S. must offer additional reductions in agriculture subsidies. To complete the bargain, the E.U., Japan and other countries, including developing countries, must also open their markets.

Although many countries must share responsibility for the negotiating stalemate in the Doha Round of trade negotiations, the proximate cause of the talks' collapse last summer was the U.S. refusal to offer additional reductions in agricultural subsidies. Specifically, American negotiators were criticized for proposing a ceiling for trade-distorting domestic support that is above levels actually provided to U.S. farmers in recent years.

Overcoming the impasse is crucial for developing countries: failure would deny them opportunities for job creation and growth that increased trade would provide, and would contribute to erosion of the multilateral, rules-based system that protects small, weak countries from discrimination by the powerful. Saving Doha will require additional concessions from U.S. negotiators:

- To revive the talks, offer to lower the overall ceiling for U.S. support by another $5 billion to $17 billion, below actual levels in most years since 2001.
- To close the deal, accept additional cuts of roughly $5 billion in order to ensure that real spending is reduced and that subsidies are not simply shifted among categories that will remain trade-distorting.

Of course, this will only happen if other World Trade Organization (WTO) countries also agree to further open their markets to imports of agricultural and manufactured goods and services.

The U.S. Proposal

The proposal for reducing trade-distorting support to agriculture, introduced in October 2005, would result in the following changes for the United States (see the box for category definitions):

- Reduce the ceiling for "overall trade-distorting support" (OTDS) by 53 percent, from $48 billion to just over $22 billion.
- Reduce the ceiling for the most trade-distorting forms of support (aggregate measurement of support, AMS) by 60 percent, to just under $8 billion.
- Reduce the cap for product-specific de minimis from 5 percent of the value of production to 2.5 percent (roughly $5 billion, depending on the base year chosen).
- Reduce the cap for *non*-product-specific de minimis (for example, irrigation subsidies) to 2.5 percent (roughly $5 billion).
- Limit the currently uncapped category of blue box subsidies to 5 percent of the total value of production and then reduce it to 2.5 percent ($5 billion).

While these cuts sound large, the chart on page two shows that they are not all they are advertised to be. The proposed ceilings for each category are shown as bold straight lines in the chart, with the actual levels of spending since 2001 provided for reference. Only the proposed AMS ceiling falls below where actual levels of support have been in most years since 2001. The proposed ceilings for

WTO categories of trade-distorting support

- Amber box:
domestic support policies that stimulate production and distort trade, including subsidies and policies that prop up market prices.
  - *Includes product-specific and non-product-specific subsidies that are regarded as "de minimis" and permitted as long as they do not exceed 5 percent of the value of production.
  - *Anything over that amount is counted under the "aggregate measurement of support" (AMS).
- Blue box:
subsidies that have production-limiting features, usually considered less trade-distorting.
- Green box:
minimally or non-trade-distorting subsidies, such as support for research and development or nutrition programs.
- Overall trade-distorting support (OTDS):
the sum of all three amber box categories plus the blue box.

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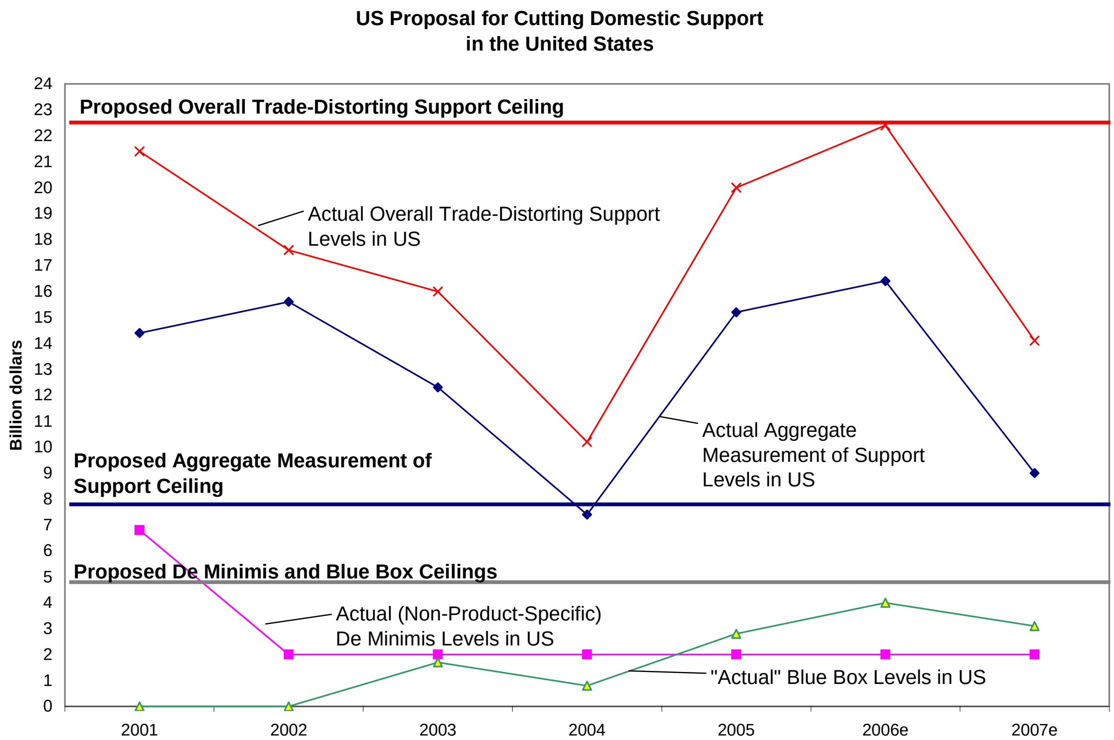

NB: Product-specific de minimis is not shown because it is so small. "Actual" blue box levels refers to the value of the counter-cyclical payments that were adopted in the 2002 farm bill.

the de minimis and blue box categories are above actual levels of spending in every year but one.

This indicates that the most trade-distorting forms of support (the AMS) would have to be reduced, a point that is often ignored in the debate. But other parties to the negotiation are concerned that American policymakers might mitigate the impact of those reductions by increasing the level of blue box and de minimis subsidies. The level of overall trade-distorting support would not be affected.

To address this concern, US negotiators should agree to further reductions in those categories. This could include eliminating the $5 billion permitted for product-specific de minimis, which the United States does not and cannot use to any significant degree.[1] It also means agreeing to reduce the non-product-specific de minimis and blue box ceilings from the currently proposed $5 billion each to roughly half that.

But the Doha Round will only succeed if *all* parties to the negotiation are willing to accept some sacrifice. The European Union, Japan, and other rich countries will have to significantly lower their barriers to imports of agricultural goods, and the big emerging markets will have to improve access for non-agricultural goods and services. Other elements of the broader bargain, details on the agricultural negotiations, and the importance of this round for developing countries are discussed in *Delivering on Doha* and associated issue briefs, and are available at www.cgdev.org/publications/.

Footnotes

[1] The United States has not notified its spending levels to the World Trade Organization since 2001, but from 1995-2001, product-specific de minimis never reached $250 million. Because it is so small, it is not shown in the chart.

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