

WTO Ag Trade Negotiations: “Doha Development Agenda”

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Outline of Presentation

- Rapid growth in volume, composition and direction of world food trade
- Subsidies & protectionism still dominate world ag trade
- WTO Agricultural Negotiations
 - Uruguay Round accomplishments and failures
 - Doha “Round” (Development Agenda)
- Prospects

World Food Demand
to Double by 2050
with
Larger Fraction Moving
Through World Trade

Changing World Food Trade

- Stagnant demand growth in OECD; rapid in developing countries
- Larger percent of world production traded
- Trade in high value & processed products growing faster than in commodities
- Explosion of commodity exports from South America; expect more from Eastern Europe and FSU, esp. Ukraine

Dynamics of Food Demand

- 1.25 billion people live on less than \$1 per day, of whom 840 million suffer under-nutrition or hunger
- 3 billion (almost half of the world's population) live on less than \$2 per day.
- By \$2 per day, most hunger (calorie) problem is solved
- Between \$2 and \$9 per day people eat more animal protein, fruits, vegetables & edible oils, causing rapid growth in raw ag commodity demand
- After \$10 per day, people buy more processing, services, packaging, variety, and luxury forms, but not more raw ag commodities
- How many hundreds of millions of presently low income consumers are lifted out of their poverty will be the most important determinant of the future size of world food and agricultural product markets

Projected Population Growth

(U.N. medium projections)

<u>Region</u>	<u>2004</u>	<u>2050</u>
• World	6,378	8,919
• High Income	1,206	1,220
• Low Income	5,172	7,699
• Africa	869	1,803
• Asia	3,871	5,222
• Latin America	551	767

Huge Market Growth Potential from Poverty Reduction

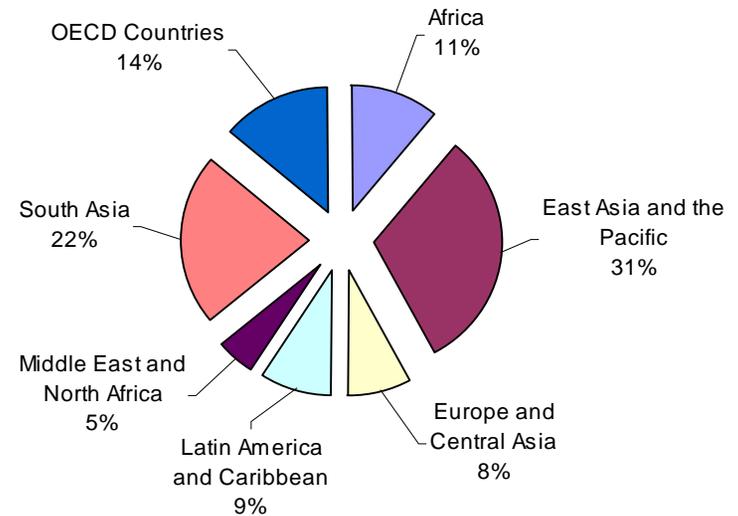
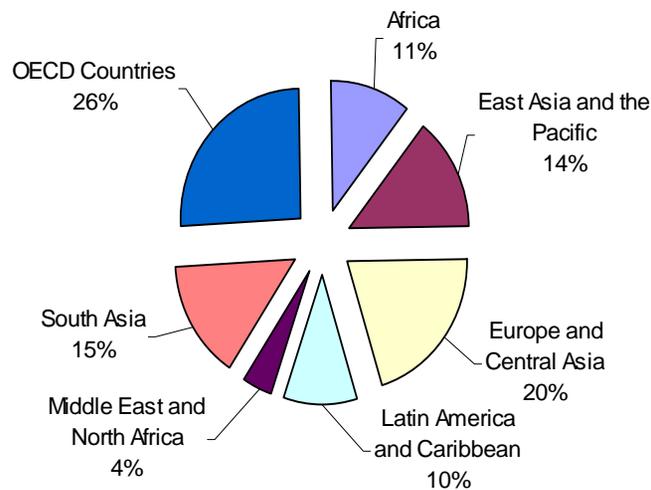
Country	Population	% < \$1/day	% < \$2/day
China	1298.8	16.6	46.7
India	1065.1	34.7	79.9
Indonesia	238.5	7.5	52.4
Brazil	184.1	8.2	22.4
Pakistan	159.2	13.4	65.6
Russia	144.0	6.1	23.8
Bangladesh	141.3	36.0	82.8
Nigeria	125.8	70.2	90.8
Mexico	105.0	9.9	26.3

Source: World Bank. World Development Indicators database

Larger Fraction of World Food Production to Move Through Trade

- The world's arable land and fresh water are not distributed around in the world in the same proportions as is population.
 - No way for Asia or Middle East to be self-sufficient in food
- With population growth, urbanization and broad-based economic development, expect many LDCs' food consumption to outstrip their production capacity.

The World's Arable Land (left) Is Distributed Very Differently than Its Population (right)



Processed Food Trade Growing Even Faster

- Trade in processed food products is now $\frac{3}{4}$ of global agricultural trade and growing twice as fast as raw commodity trade due to
 - Lower barriers to flow of capital, information; goods and services
 - Technological advances in transport, data processing, biology, telecommunications; finance
 - Global extension of supply chain
 - Consolidation of food processors and retailers to become global firms
 - Foreign direct investment
 - Increased consumer purchasing power drives demand for “quality” and diversity

The World Trade Organization
and
the Doha Round of Agricultural
Trade Negotiations

World Trade Organization

- A voluntary association of 148 countries which meet periodically (“rounds”) to review and revise the rules of the road on international trade (by consensus)
- Its Secretariat, located in Geneva, organizes these meetings, as well as a dispute settlement process to resolve differences among members over whether these mutually agreed upon rules are being broken
- Dispute settlement panels and an appellate body (effectively the “supreme court” of international trade) interpret agreements and build up a body of case law (necessary when wording of agreements is fuzzy)
- WTO cannot force any country to change its policies, but it can authorize the victims of violations to collect compensation via import duties on the violator’s exports

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”)

WTO at 10

- 1995 Creation of the WTO
- 1996 Singapore Ministerial
- 1998 Geneva Ministerial
- 1999 Seattle Ministerial
- 2001 Doha Ministerial
- 2003 Cancun Ministerial
- 2005 Hong Kong Ministerial
- 2007? Completion of Doha Round

Uruguay Round Agreement on Agriculture: Accomplishments

- Increased market access as % of consumption
- Reduced export subsidies (value & volume)
- Converted all non-tariff barriers to tariffs
- Required scientific basis for all SPS barriers
- 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 (bound and reduced)
 - “Blue box” = trade-distorting, but offset by production controls or set-asides

World Agriculture Still in Disarray*

- Most high income countries subsidize their agriculture, distorting relative returns to producing various outputs and inducing larger total investment in agriculture relative to other sectors.
- Many LDCs' food policies turn the terms of trade against agriculture to keep urban food prices low, reducing the incentive to invest; agriculture underperforms relative to its potential.
- Protectionist import policies and export subsidies further distort what is produced where.

*to paraphrase D. Gale Johnson's book World Agriculture in Disarray

Doha Round Must Do Better

- Uruguay Round established a useful framework
- But, it did little to open markets, and OECD countries are still spending over \$750 million per day subsidizing their farmers (30% of farmers' incomes)
- 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.

OECD Producer Support Estimates, 2004, in Percent

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

Average Producer Support in OECD Countries, 2004, in Percent

Rice	75
Sugar	58
Milk	36
Beef & Veal	34
Wheat	33
Corn	31
Oilseeds	27
Pork	21
Eggs	9
Overall	30

Ag Policies Alter Production Decisions and Concentrate Wealth

- Distort domestic terms of trade in favor of politically powerful commodities/groups
- Subsidies tied to output of specific commodities stimulate larger production in less efficient locations
- Facilitate consolidation of farms
- Subsidies justified on basis of low farm income but distributed in proportion to sales are ultimately bid into land prices, benefiting large farmers & land-owners

World Market Prices Depressed Below Long Term Trend

Rice	33 - 50 %
Sugar	20 – 40 %
Dairy Products	20 – 40 %
Cotton	10 – 20 %
Peanuts	10 – 20 %

Source: World Bank. Global Economic Prospects 2002, Chap. 2.

Barriers to Trade in Processed Foods

- High tariffs, especially tariff peaks
- Tariff rate quotas on “sensitive” (politically powerful) products
- Tariff escalation with degree of processing
- Product aggregation in tariff schedule
- Non-tariff barriers, e.g. technical, SPS; labeling
- Subsidized competition (e.g. EU cookies)
- Investment subsidies that distort plant location
- Restrictions on foreign investment in LDCs

The Global Trading Environment Hurts LDC Agriculture

- OECD protectionist barriers to LDC goods reduces their foreign exchange earning capacity and economic growth.
- OECD agricultural production and export subsidies depress world market prices below long term trend and increase variance around that trend
- Food aid is most available in years of OECD surplus, not LDC deficit.
- Depressed world market prices reduce returns to poor farmers, increasing their poverty, and slowing agricultural and national economic growth.
- Widespread poverty in LDCs impedes growth in their food demand, preventing them from fulfilling their potential as growth markets.

Key Outcomes Developing Countries Need from OECD Countries

- A more open trading environment that can stimulate faster economic growth
- Market access for goods in which developing countries have a comparative advantage
- Eliminate import barriers and domestic and export subsidies which depress world market prices and increase their variance
- Foreign aid and international lending for investment in necessary infrastructure, technology, know-how, etc. and to facilitate adjustment.

LDCs' Own Policies Also Impede Their Agricultural Development

- Corruption and/or macroeconomic instability
- Lack of definition or enforcement of property rights and contract sanctity
- Underinvestment in public goods, such as rural infrastructure and ag research (Green Box)
- Cheap food policies to keep urban consumers quiescent – often reinforced by food aid or subsidized exports from OECD
- Lack of technology adapted to local agro-ecological conditions (soils, climate; slope)

Key Players in Doha Round Agricultural Negotiations

- Cairns Group
- United States
- European Union (now EU-25!)
- G-10 (Japan, Korea, Norway, Switzerland)
- G-20
- Other developing Countries (the majority of members, but heterogeneous interests)

Doha Round Agricultural Agreement: What Is Possible?

- 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 tariff-rate quota)
- Tighten definition of what subsidies are “non-trade distorting”
- Allow developing countries smaller cuts over longer period (exempt LDCs completely? Special products?)

Gains from Trade Liberalization

- Economic theory tells us that the gains of the gainers exceed the losses of the losers
- It does not tell us there are no losers!
- The challenge is to define policy interventions to compensate losers for their losses:
 - to facilitate the adjustment
 - to neutralize opposition of politically powerful opponents who could stop liberalization dead

Biggest Sticking Point: Who Goes First?

- U.S. proposal: cut its ag subsidies, but only if developing countries open their markets
- Developing countries won't open their markets as long as world market prices are depressed by ag subsidies in OECD countries
- By breaking recent deadlock on tariff conversions, should see additional progress by end of summer 2005 – but only if all parties show some flexibility
- 2007 farm bill could impede or facilitate progress

Thank you.