

# Doha: The U.S. Perspective

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# Uruguay Round Agreement on Ag

- Increased minimum market access as % of consumption
- Capped and reduced export subsidies (value & volume)
- Converted all non-tariff barriers to tariffs & reduced them (but created Tariff Rate Quotas)
- 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

# “Doha Development Round”

- OECD countries tend to be most protectionist in products in which low income countries have a comparative advantage at this stage in their development
  - E.g., textiles, footwear, sugar, rice; cotton.
- OECD ag subsidies induce larger production and exports of their most subsidized commodities, driving down the world market price from which developing country farmers get their entire incomes
  - E.g. sugar, rice, cotton, and peanuts
- Escalation of protection with value-added.

# The 2002 Farm Bill Hurt U.S. Credibility Abroad

- The U.S., which had led global effort to reduce ag subsidies appeared two-faced: increasing its budget authority for agricultural subsidies while telling the rest of the world to cut theirs.
- Retreat on decoupling: By allowing bases to be updated, U.S. farmers know that “fixed payments” are not necessarily “fixed.”
- Counter-cyclical payments reduce U.S. farmers’ responsiveness to market signals.
- Marketing loans are effectively export subsidies, as are some forms of food aid and export credits.

# WTO Cotton Decision

- Marketing loans, LDPs, and counter-cyclical payments have induced larger production and exports that “suppressed” world price of cotton.
- U.S. direct payments are not decoupled (“green box”) since recipients are precluded from growing fruits and vegetables on land receiving payments.
- Export credit guarantees and “step 2” payments are banned export subsidies.

# US Proposal Misunderstood by Many American Farmers

- Very little real reduction in domestic support has been offered
- The proposed 60% cut is from the *cap* on, not actual, trade-distorting payments
- An “overall” reduction commitment is from a very high number, so reduction percent would have to be very large to have any impact on the actual farm program payments they receive.
- Any real cut in trade-distorting support can be made up fully via larger green box payments.

# Doha Round Ag Negotiations

- Much had already been agreed by 7/31/04:
  - Eliminate all ag export subsidies
  - Reduce the *cap* on trade-distorting domestic subsidies (highest the most, but exceptions possible)
  - Reduce *cap* on tariffs (highest the most, but exceptions allowed if increase tariff-rate quota)
  - Give the least developed countries open access to high income country markets for most goods.
- The issue is NOT to get rid of ag subsidies, but to replace those linked to production of specific commodities. The Bush Administration has communicated this poorly to U.S. producers.

# Stalemate of WTO Negotiations

- Three key disagreements:
  - U.S. demands real increases in market access.
  - E.U. & developing countries demand real reductions in U.S. trade-distorting ag supports
  - Brazil and India are asked to offer more market access for services and non-ag manufactured goods
- Main issues: depth of *real* cuts in tariffs and in trade-distorting domestic support and how many exceptions
- Time ran out: President's "fast track" negotiating authority expired July 1, 2007, and U.S. Presidential campaign active already in 2007.

# U.S. Farm Organizations

- Have never been enthusiastic about Doha Round; ethanol excites them much more!
- Say they will support a Doha Round Agreement that significantly reduces trade-distorting domestic subsidies *only* if the Agreement includes significant increases in market access.
- They put too much emphasis
  - on increasing access into shrinking markets of the past and not enough on growing the total size of the world market.
  - Protecting current farm program structure with commodity-specific benefits

# The Landscape Going Into the 2007 Farm Bill Debate

- Many farm groups were happy with 2002 Farm Bill until they saw that grain & oilseed prices were projected to stay high enough through next 5 years that no grain or oilseed LDPs or CCPs will be triggered.
  - Record high net farm income
- Only the direct payments and cotton program payments would continue.
- As a result, under its “pay-go” commitment Congress’ budget baseline for ag commodity programs dropped by half.

# Farm Bill Landscape (cont'd.)

- Numerous groups proposed alternatives to present farm programs, including Bush Administration, e.g.
  - Gross revenue insurance in place of disaster payments, crop insurance, marketing loans, loan deficiency payments, & counter-cyclical payments.
  - Public goods investments, e.g. rural infrastructure, research, etc.
  - Payments to farmers for providing environmental services
- Unprecedented anti-farm program editorial comment in media across the country

# U.S. Producer Support, 2000-2004

(% of gross revenue provided by all support)

Sugar	53-62
Milk	38-56
Rice	18-52
Sorghum	30-47
Wheat	22-48
Barley	20-42
Corn	13-34
Soybeans	14-28
Wool and lamb	05-26
Pork, beef and broilers	04-05
Overall	15-24

Source: OECD PSE database

# USDA's WTO Objectives for the 2008 Farm Bill

- Reduce threat of more litigation against other commodities that use marketing loans, LDPs and countercyclical payments.
  - Shift farm support from “trade-distorting” to “non-trade-distorting” forms, i.e. cut the link from production of any specific commodities.
  - Remove fruit & vegetable planting restriction to qualify for direct payments.
- Repeal authority for ag export subsidies and discipline export credit programs

# 2008 Farm Bill Commodity Programs

- Keep present marketing loan, LDP, and counter-cyclical payment structure for grains, oilseeds & cotton
  - Increase number of supported commodities (+4)
  - Increase some loan rates & target prices, and reduce others (a little); reduce direct payments.
  - Give farmers option of switching Counter-Cyclical Payment (CCP) trigger from market price to state-level revenue from 2010 (ACRE Program)
- Permanent authority for disaster payments

# Positive Trade Policy Changes in the 2008 Farm Bill

- Repeals authority for export subsidies (Export Enhancement Program)
- Eliminates long-term export credit program & reforms export credit guarantee program.
- Authorizes small amount of local purchase of food aid near destination

# WTO Problems with Farm Bill

- Raise loan rates and target prices (shift dollars from green to amber box) while reducing direct payments
- ACRE creates additional large upside potential in amber box support if market prices drop
- No repeal of fruit & vegetable exclusion
- Extends dairy export subsidies and monetization of food aid
- Fails to change cotton program as required by WTO Brazil Cotton Case & reauthorizes equivalent to “step 2” subsidy
- Increases sugar support & protectionism
- Mandatory Country-of-Origin Labeling (“COOL”)?

# The Emerging Deal (as of 7/26/08)

- Negotiators had agreed on:
  - Caps on and reductions in overall trade distorting support, amber box (including product specific caps), blue box (broadened to include U.S. CCPs) and de minimis support.
  - Some updating of bases allowed in green box supports.
  - Ban on agricultural export subsidies.
  - Caps on and reductions in agricultural tariffs.
  - How many exceptions would be allowed in high and low income countries.

# The Deal Breaker (on 7/28/08)

- Negotiators had agreed to a Special Safeguard Mechanism: Developing countries would be allowed to increase tariffs to 15% above present bound rate if world prices are low and imports surge.
  - U.S. & India could not agree on how big the surge had to be to allow this (40 vs. 15%).
- The negotiators never took up the contentious cotton issue, the last remaining issue.
- The coming elections in the U.S. and India made compromise politically impossible.

# Prospects If No Deal

- The Uruguay Round Agreement on Agriculture will continue to set the rules of the road for international agricultural trade until some future round of negotiations changes them.
- If this round fails or is delayed, expect more cases to be filed with WTO against U.S. agricultural supports.
- Great risk of “backsliding” into higher protectionism during financial crisis.
- If countries refuse to honor WTO rulings, the WTO and the rules-based international trading system will be damaged.

# Ag Commodity PAC Contributions to Federal Candidates, 2004 Election Cycle

<u>Commodity</u>	<u>Contributions (\$ 1,000)</u>
Sugar	2,375
Dairy	1,757
Cotton	479
Rice	283
Peanuts	218
Citrus	167
Wheat	100
Potatoes	57
Corn	37
Soybeans	17