The new price environment and implications for Doha negotiations

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ICP, ICTSD & IFPRI collaboration

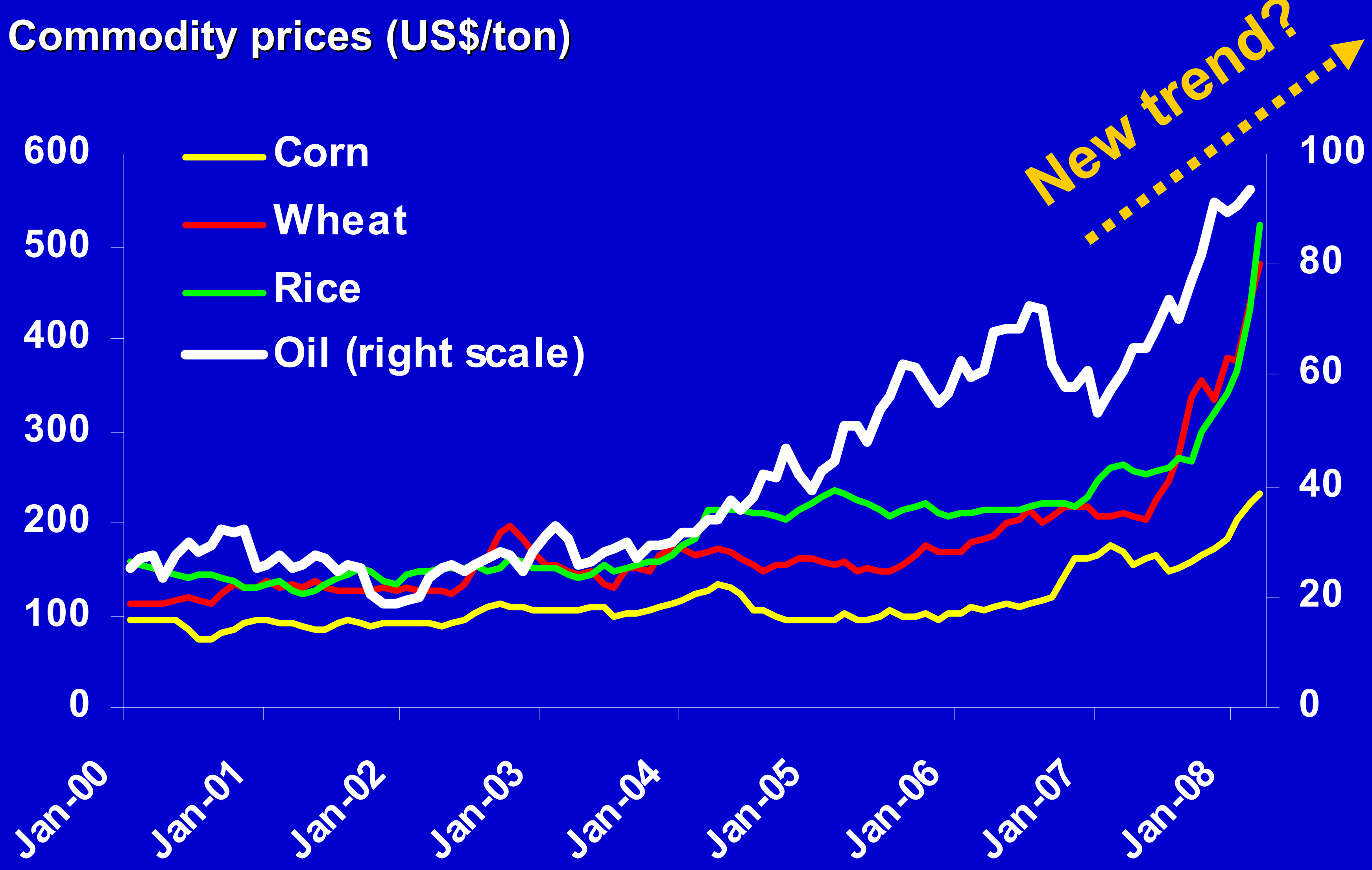
- **Assess in detail the last draft Doha Round modalities (Feb. 2008) on**
  - market access
  - domestic support

- **Key markets studied**
  - **US**: Brandford, Laborde and Martin
  - **EU**: Jean, Josling and Laborde
  - **India**: Gopinath and Laborde (forthcoming)

Both offensive and defensive interests are analyzed for each country

The Doha negotiations in the new high food prices context

The new situation: Surge in prices



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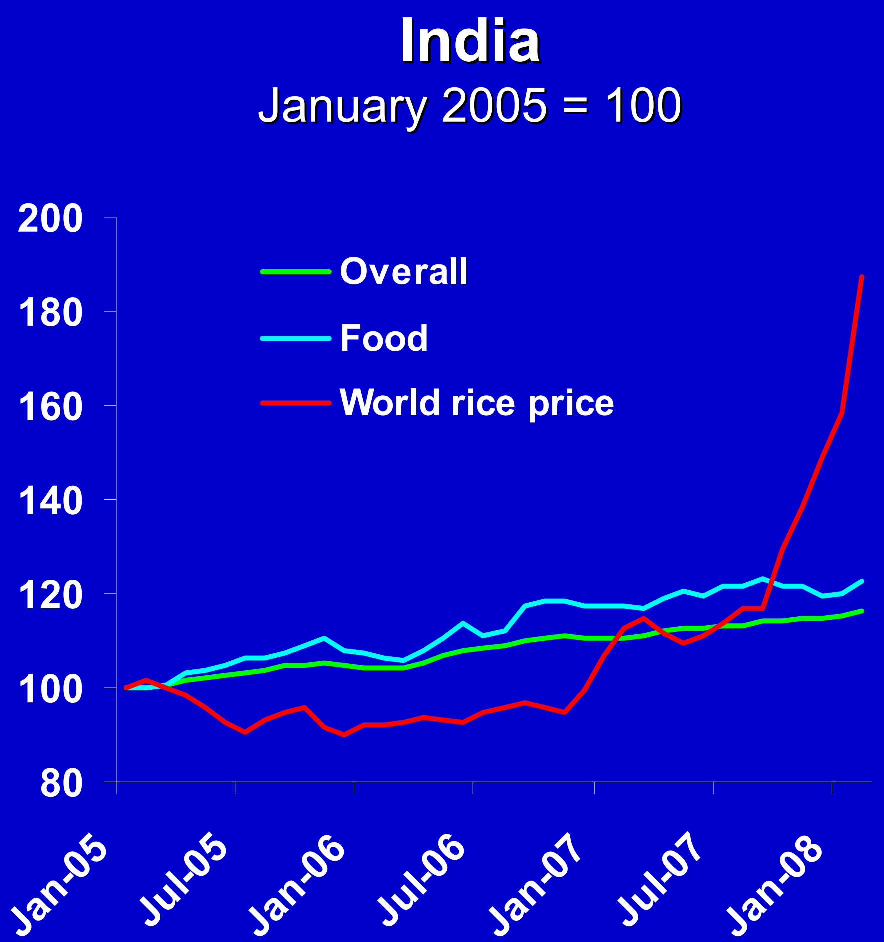
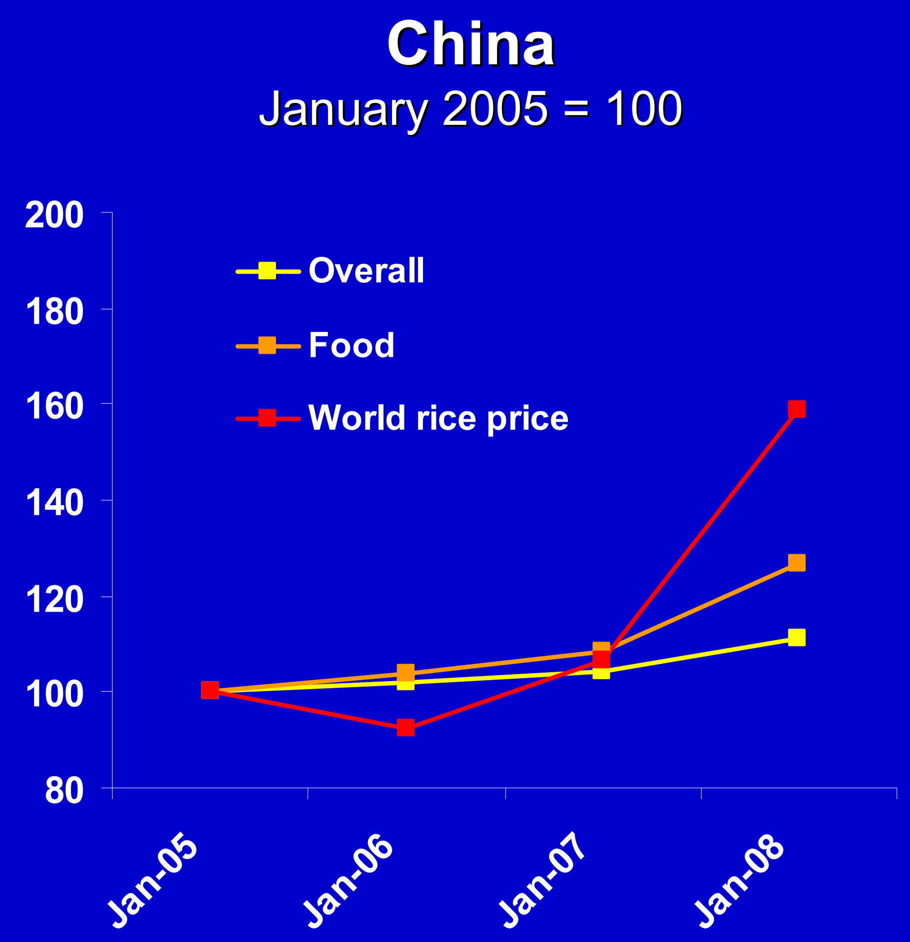
Source: Data from FAO 2008 and IMF 2008.

India and China: World vs. domestic prices





Source: Data from Reserve Bank of India 2008, National Bureau of Statistics of China 2008 and FAO 2008.

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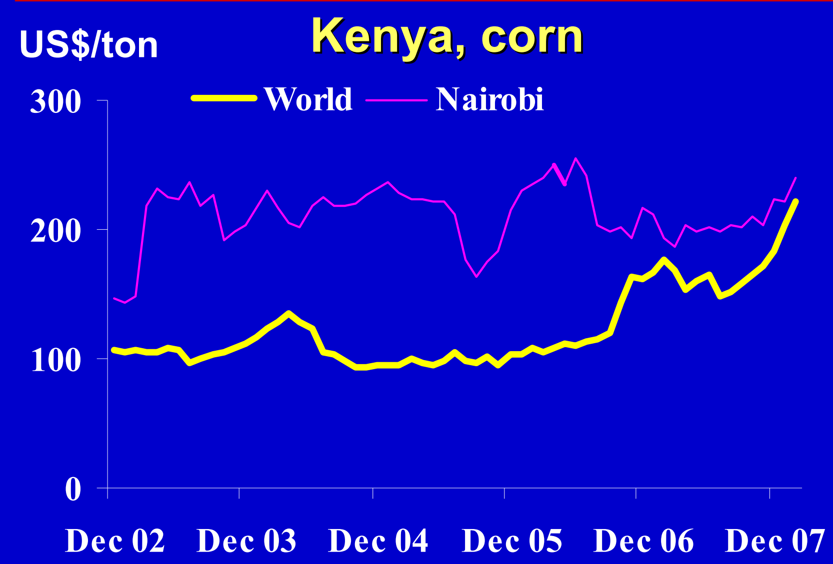
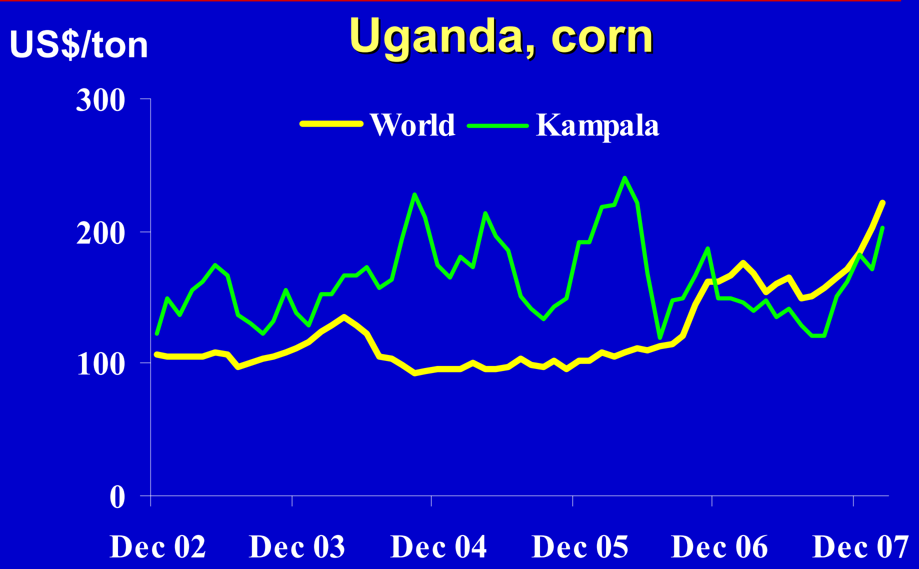
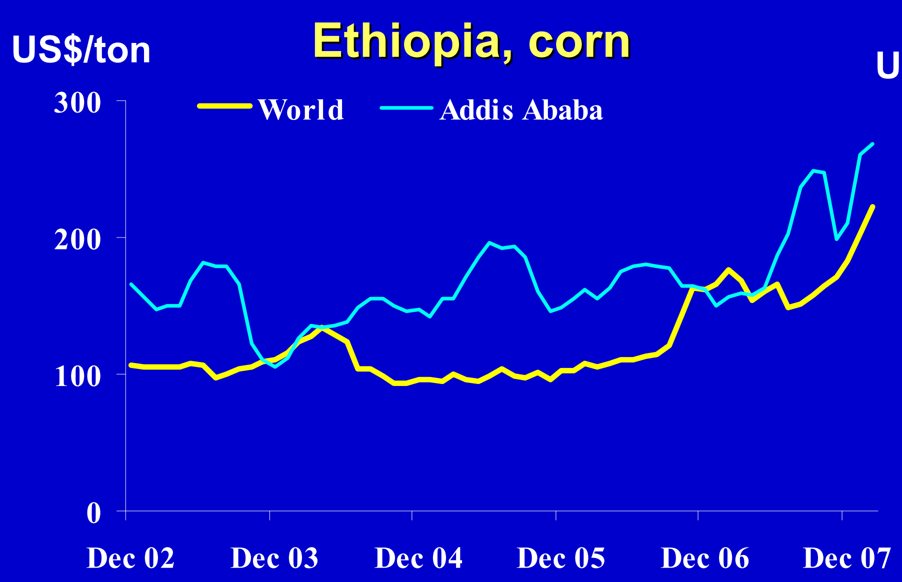
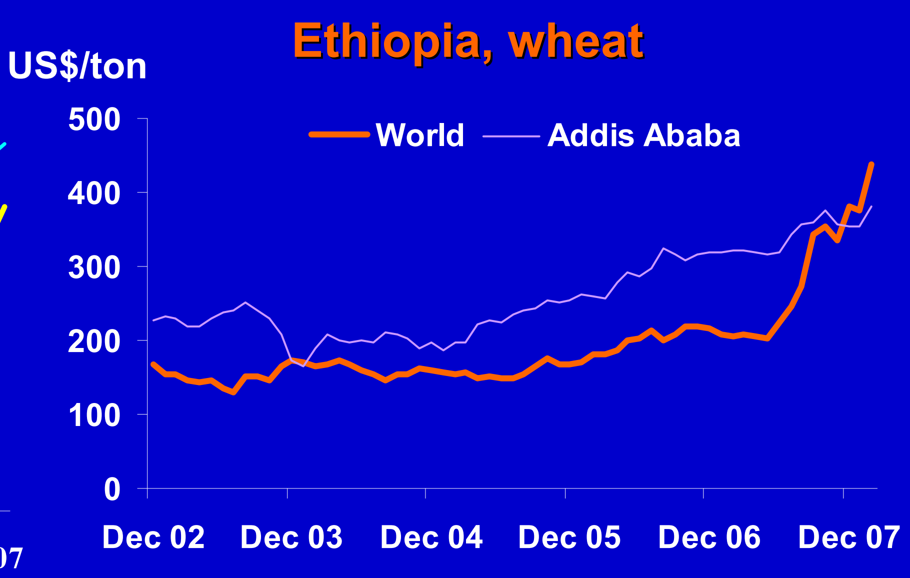
World prices reach into East African countries









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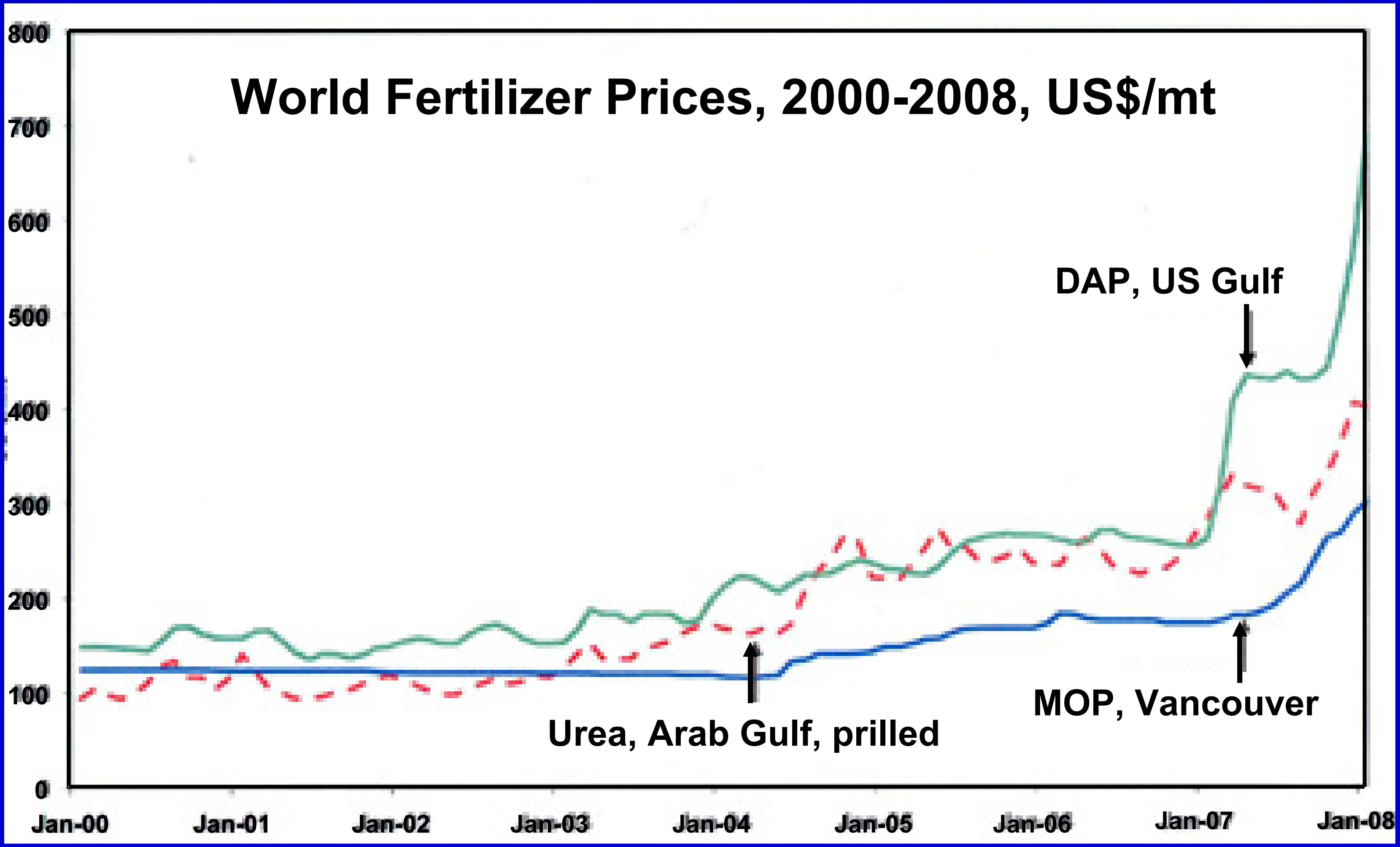
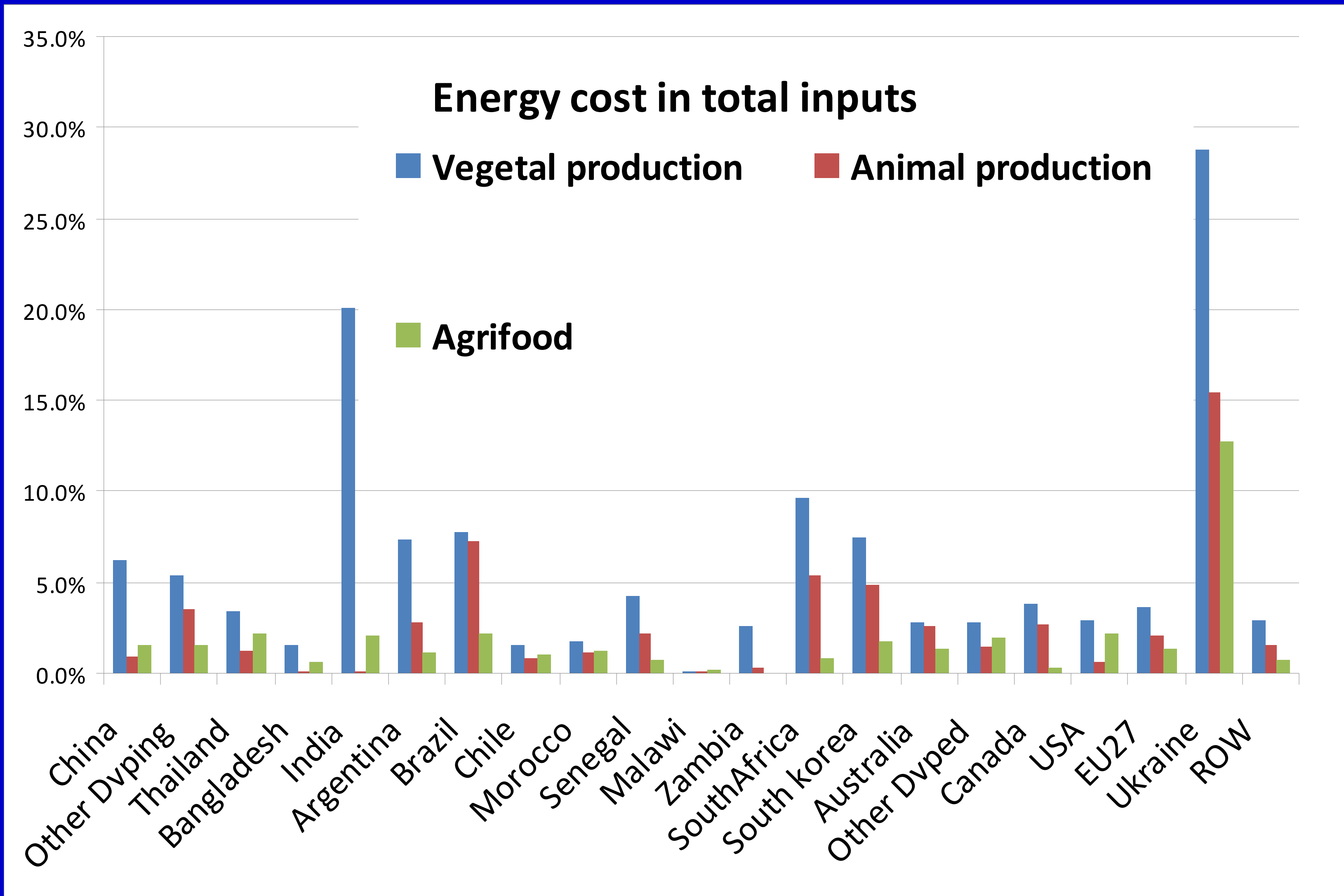
Source: Data from FEWS 2008, EAGC 2008, FAO 2008.

Higher input costs: Global fertilizer prices tripled in 2007



Source: IFDC 2008.

Energy cost shares in agriculture



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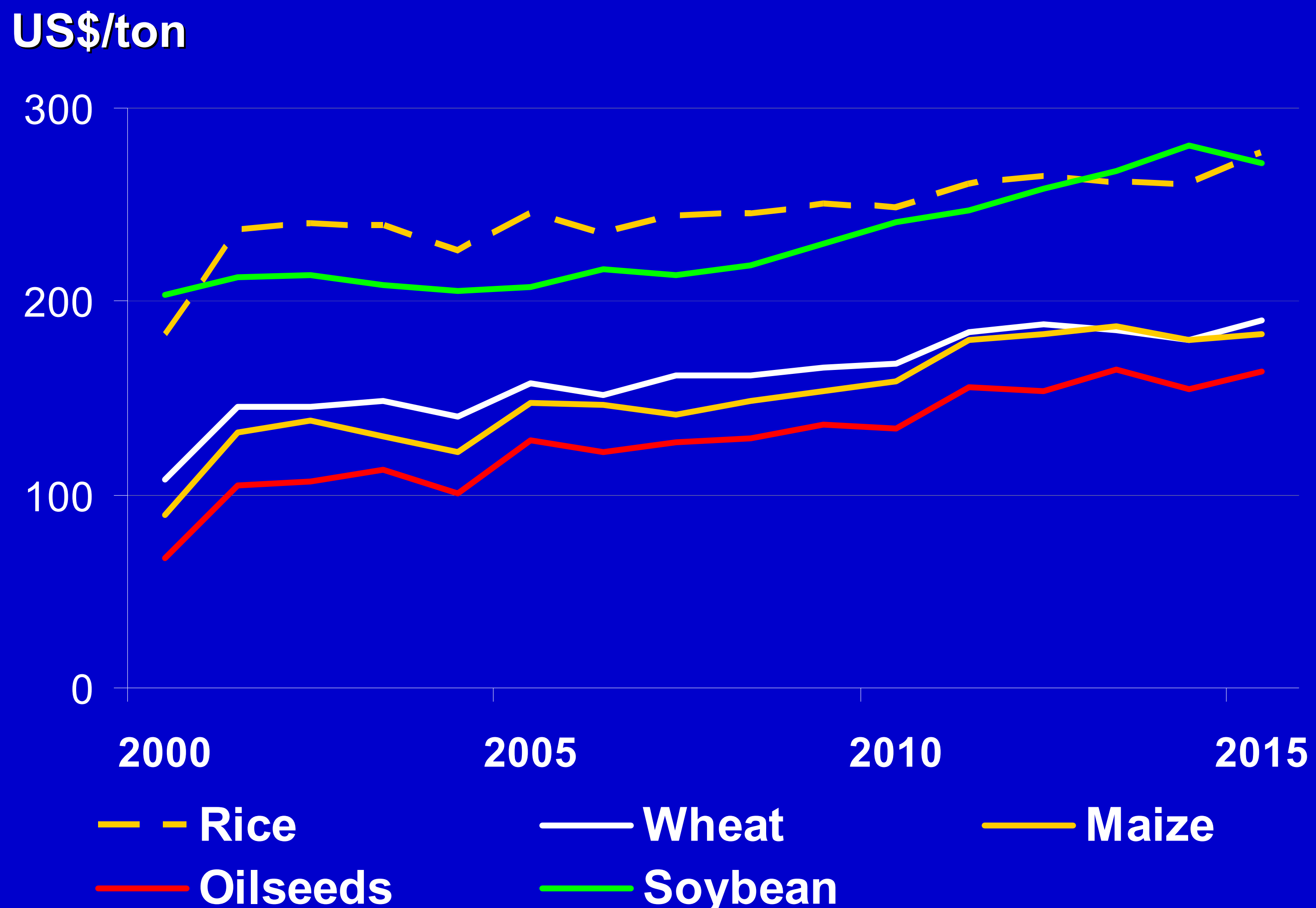
Source: MIRAGE, IFPRI, 2008

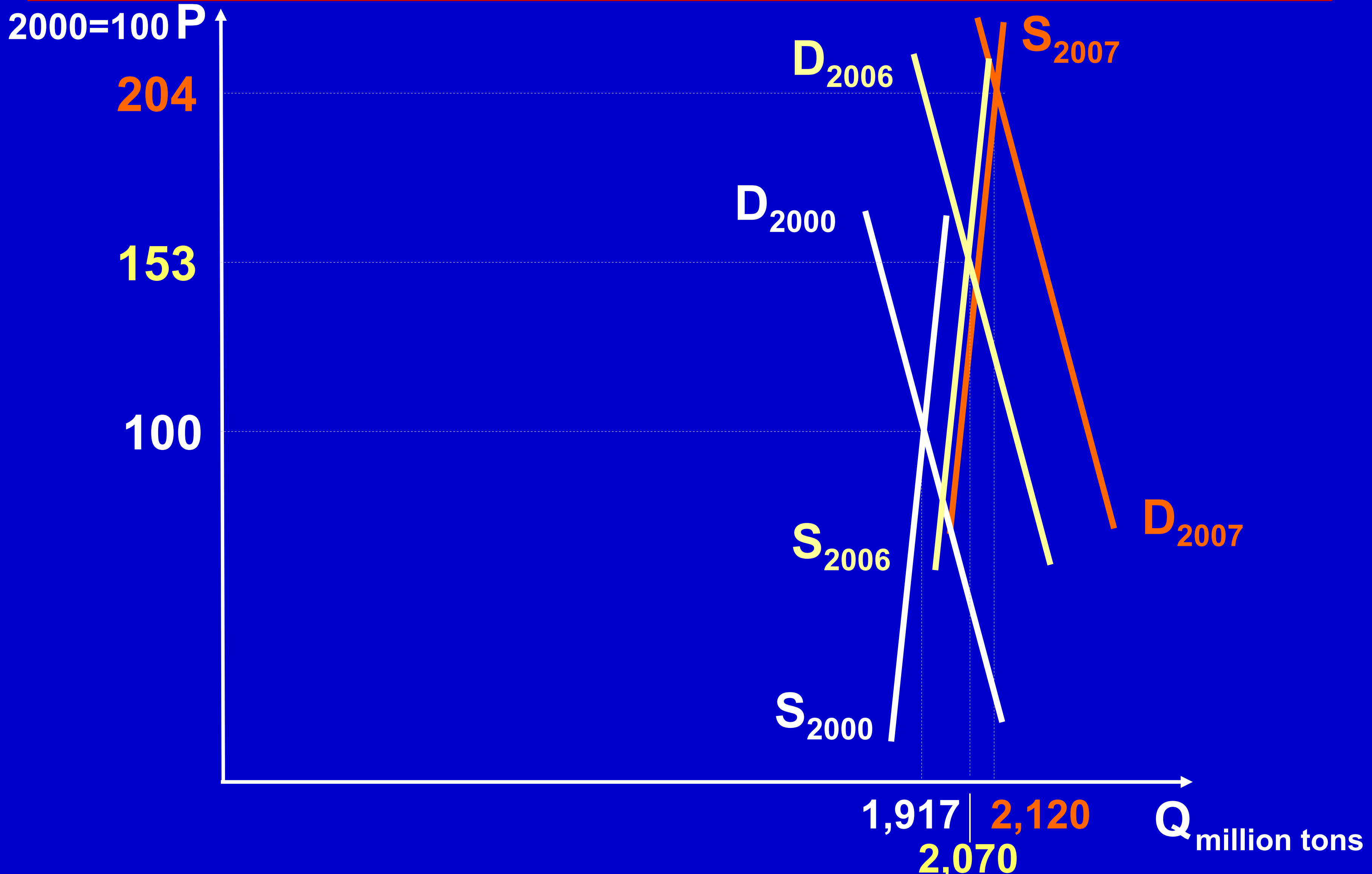
IFPRI's scenarios

[Models for changes in structural supply and demand factors (2000-05 and 2006-15)]



Source: M. Rosegrant (prelim. results with IMPACT-WATER).

Small quantity changes have large effects on cereal prices



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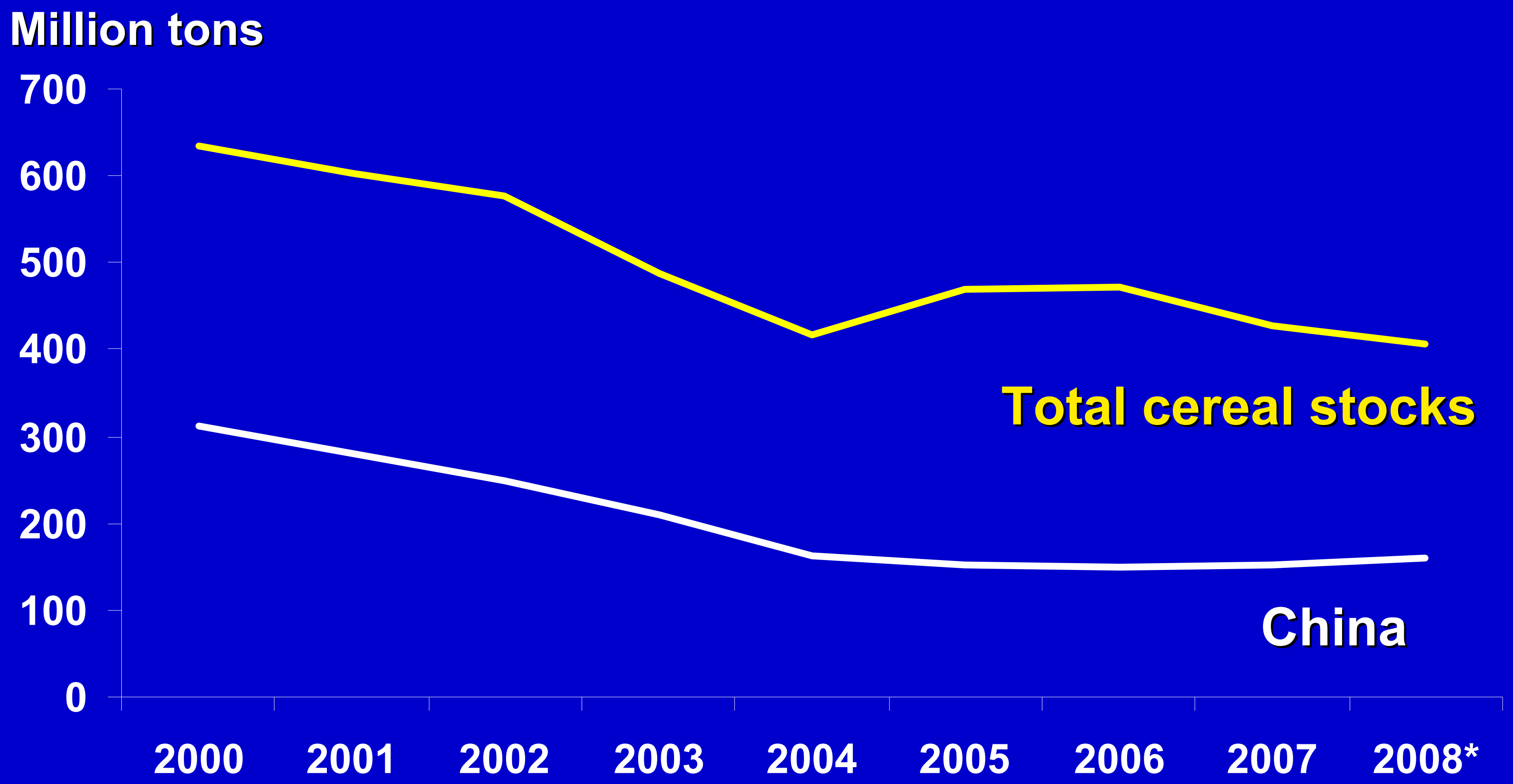
Source: Based on data from FAO 2003, 2005-08.

Cereals: The world eats more than it produces



Source: Data from FAO 2003, 2005-08.
*** Forecast.**

Protecting trade

- **High prices have driven selfish national policies with short term vision:**
  - Export bans
  - Export taxes

- **Stronger disciplines on these tools are needed to**
  - Protect importers and food security
  - Protect domestic producers and boost investment

Major producers and net exporters (2004-06)

Cereal producers

China
USA *
India *
Russia *
Indonesia
France *
Brazil*
Canada *
Germany *
Vietnam*
Kazakhstan*

Oilseed producers

USA *
Indonesia
China
Malaysia
Brazil *
India *
Argentina *

in red = restricting exports

Source: FAO 2008.

Note: * Indicates that the country is a net exporter of cereals or oilseeds.

Some CGE Modeling: Scenarios
by *Antoine Boüet, Betina Dimaranan April 2008*

- **Scenario 1: energy shocks from 2001 to 2007 [grain price + 7%]**
- **Scenario 2: = scenario 1 + biofuel subsidies in the EU and the US implemented from 2001 to 2007 [grain price + 16%]**
- **Scenario 3: = Scenario 2 + export bans, export taxation, and removal of some import duties implemented in** 2008 [grain price + 49%]

Note: to be interpreted with caution; *early draft results of MIRAGE modeling (to be further reviewed); model does not include expectations or speculation*

Rethinking agricultural trade liberalization?

- **Traditional objectives: *remain important !***
  - promote trade
  - limit distortions
  - increase agricultural world prices

- **Need to adapt the means to the new situation:**
  - Rising prices hurts the <u>poorest</u>
  - Food price inflation and general <u>inflation / macro</u> implications
  - Reducing subsidies has reduced grain <u>stocks</u>
  - <u>Interdependence</u> of economies (e.g. export bans)
  - <u>Speculation</u> and price formation at the exchanges

Updating policies

- **Toward an efficient and "pro-development" domestic support framework:**
  - Improving productivity
  - Giving needed support to poor country farmers
- **Improving world market efficiency:**
  - Better producer/consumer price transmission to boost production
  - The role of international traders and the role of speculation
  - Who should care for global competition policy?

The role of binding commitments

- High prices have driven reduction in domestic support and unilateral tariff reductions
- A lot of “water” exists in current commitments
- Current formula will not deliver immediate gains but will secure the future
- Binding the future policy is a key element to promote long-term private investment

Food aid discipline

- The need for international food aid is rising
- Stronger discipline (“in cash” vs. “in kind”), may deter domestic political incentives to provide food aid
- The role of the “safe box” (annex L in the modalities) is to shelter emergency aid

High prices change the driving forces of the negotiations?

- Accepting tariff and domestic support reduction is now easier since current level have been driven down “naturally”

- But, agricultural interest groups have less appetite for trade negotiations

From Doha to Bali: Trade and environment

- **Trade and environment negotiations need to be linked**
- **Ensuring the sustainable development of trade:**
  - Pricing the externalities of trade and transport (solution outside the WTO)

Policy actions to correct and mitigate the food price problem: Trade must be part of it

Global policies and international aid

1. **Trade:** Eliminate agricultural trade barriers, and export bans; revisit grain based biofuels
2. **Agriculture growth:** Expand aid for rural infrastructure, services, agricultural research and technology (CGIAR)
3. **Protection of the vulnerable:** Expand food and nutrition related development aid, incl. safety nets, child nutrition, employment programs