WTO Negotiation in Agriculture Update: Is the Doha Round Alive?

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Outline

- Background Issues
- Doha Round Update
  - US/EU/G20 Proposals
  - Hong Kong Resolution
  - Status Feb 07
- Prospects and Scenarios
- Other Trade Negotiations
Background Issues

- Rapid Decline on Ag Share of World Trade
- US Ag. Dependency on Exports
  - 30% of Ag output value exported
  - US exports annual growth 3%
- Since 1994 (URAA) WTO implications for US domestic policies
  - Disciplines on agricultural subsidies
  - Binding procedures to solve disputes
Background Issues

Share of Ag Products in World Merchandise Exports 1950-2005

Source: WTO-World Trade Report 2006
Background Issues

Average Bound vs. Applied Ag Tariffs by Region 2006

Source: USDA

World Average Bound Tariff = 62%

World average Applied Tariff = 19%
WTO Three Pillars of Policy Reform

- **Market Access**
  Tariff reductions, TRQ, Sensitive Product, Safeguards

- **Trade Distorting Domestic Support**
  AMS, De Minimis, Blue Box

- **Export Competition**
  Export subsidies, Export credit programs, STE, Food Aid
Process: Doha Timeline

- Doha ‘Round’ Began November 2001, Doha, Qatar
- Cancun, 2003-Failure (Ag. Subsidies and Intellectual Property took the blame)
- October 2005 US specific proposal
- Hong Kong, 2005- Some progress
April 2006, Modalities-Failure
June 2006, Modalities-Failure
July 2006-DG Lamy’s Shuttle Diplomacy, ‘Crisis’ Acknowledged
July 31, 2006-Modalities & Schedules: DG Lamy Suspends, July 24, 2006
July 1, 2007 Trade Promotion Authority Expires
December – January US-EU others (China, Brazil, Japan, Australia, India) intense consultation

Feb 7, 07: WTO Director P. Lamy announced:

"We have resumed our negotiations fully across the board"

Immediate support from Davos (World economic Forum), G20 group, G7, World Bank, many business groups around the world.

Feb 9 First regular meeting of WTO agriculture committee.

Intense negotiation agenda: “breakthrough” hoped for by end of March
Dec 2005 Ministerial Declaration

Goal: Conclude negotiations in 2006

Domestic Support:
- Three Bands for reductions in AMS, with higher cuts in higher bands
- Revision of Green Box criteria
- Special treatment for cotton

Market Access:
- Four Bands for tariff cuts, higher cuts in higher bands
- “Sensitive Products” “Special Products” and “Special Safeguards”

Export Competition
- Elimination of ALL forms of export subsidies by 2013

Modalities to be established by April 2006 and Final Draft by July 2006.
Two stages of 5 years

**Domestic Support:**
- 60% cut of AMS for the US, 83% for EU and Japan
- *De Minimis*: 50% cut

**Market Access:**
- Four Bands (tiers) for tariff cuts
- 0-20% Cut: 55-65%
- 20-40% Cut 65-75%
- 40-60% Cut 75%-85%
- More than 60% Cut 85%-90%
- “Sensitive Products” 1% of tariff lines

**Export Competition**
- Elimination of ALL forms of export subsidies by 2010
Potential Impacts of US Proposal

- By FAPRI, Dec 2005: for First 7 years after implementation
  - CARD Working Paper 05 WP 417
- Reduction on US AMS to $7.64 billion/year
- Elimination of export subsidies, drastic cuts on tariffs.
- Moderate increase in world prices for most commodities. Large increases for sugar, rice and dairy.
- Removal of coupled domestic support in EU and US not fully compensated by world price increases and gains in world markets.
- Slight increases in world prices for wheat, soybeans, and coarse grains, as well in US production and exports.
- Important growth in US production and exports of pork, beef and poultry
- Decline in production and prices for sugar cane in the US
- Slight increase in cotton prices but reduction on US production and exports.
## Agricultural Trade Weighted Tariffs

### Any Negotiated Reductions Start at Bound Rates

<table>
<thead>
<tr>
<th></th>
<th>Average Bound tariff (%)</th>
<th>MFN applied Tariff (%)</th>
<th>Actual applied Tariff (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Developed Countries</strong></td>
<td>27</td>
<td>22</td>
<td>14</td>
</tr>
<tr>
<td><strong>Developing Countries</strong></td>
<td>48</td>
<td>27</td>
<td>21</td>
</tr>
<tr>
<td><strong>Less Developed</strong></td>
<td>78</td>
<td>14</td>
<td>13</td>
</tr>
</tbody>
</table>

‘Binding Overhang’ is Problematic

Source: Jean, Laborde and Martin (2005a)
U.S. Under Pressure from EU & G-20 to Offer More in subsidy cuts

U.S. Pressuring EU, Japan & G-20 to cut tariffs More

EU Resistant, Especially France

TPA Expiration Looms

Very Difficult Time in U.S. Congress

Might TPA Be Extended to Support
Argentina, Bolivia, Brazil, Chile, China, Cuba, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Philippines, S. Africa, Tanzania, Thailand, Uruguay, Venezuela, Zimbabwe
Impact of Proposals on Ag Tariffs

- Current Bound
- Current Applied
- EU Proposal
- G-20 Proposal
- U.S. Proposal

Developed Special Cases
Developing

70%
‘Negotiating Gap’ of 40%

30%
## Tariff Cuts, Developed Countries

<table>
<thead>
<tr>
<th>Tariff Levels-Percent</th>
<th>Percent Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 to &lt; 20-30</td>
<td>20-65</td>
</tr>
<tr>
<td>20-30 to 40-60</td>
<td>30-75</td>
</tr>
<tr>
<td>40-60 to 60-90</td>
<td>35-85</td>
</tr>
<tr>
<td>&gt; 60-90</td>
<td>42-90</td>
</tr>
</tbody>
</table>

Summary, EU, US & G-20 Proposals by WTO Chair, Ag Committee, June 22, 2006.
<table>
<thead>
<tr>
<th>Tariff Levels-Percent (Max Bound Duty 150%)</th>
<th>Percent Reduction</th>
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<tbody>
<tr>
<td>0 to &lt; 20-50</td>
<td>15 - &lt; 65</td>
</tr>
<tr>
<td>20-50 to 40-100</td>
<td>20 - &lt; 75</td>
</tr>
<tr>
<td>40-100 to 60-150</td>
<td>25 - &lt; 85</td>
</tr>
<tr>
<td>&gt; 60-150</td>
<td>30 - &lt; 90</td>
</tr>
</tbody>
</table>

Reductions summarized by WTO Chair, Ag Committee, June 22, 2006.
Other Market Access Issues

- **Sensitive Product Designation-All Countries**
  - 1% vs. 15% of Tariff Lines, with 10,000+ Lines, 100 vs. 1,500 Protected Products
  - 20% Designated Sensitive, 90% of G-20 Ag Trade Protected, So No Real Increase in Market Access

- **Special Products-Developing & Less Developed Countries**
  - Longer Time Period/Less Reduction

- **Special Safeguards-All**

- **Issue:** Way Too Much Protection to Provide Significant Market Access
Food Aid
- Cash vs. In-Kind

Export Credits
- < 180 Most Cases

State Trading Enterprises
- Eliminate Monopoly Power

Export Subsidies
- *Eliminate by 2013*
Scenarios

**Scenario I:** Agreement reached before end of June 07 (current TPA)
- “Breakthrough” reached in March
- US Congress approval
- Implementation 2008
- Likely implications on Farm Bill design

**Scenario II:** Agreement reached after June 07
- “Breakthrough” needed before June
- New TPA approved by US Congress
- Favorable outcome of European elections
- Implementation: 2009?
**Scenario III**: No Agreement reached. Doha Failure

- Five years of negotiations lost
- WTO system credibility affected – surge in protectionism
- Increased interest in Regional FTAs
  - Further expansion and consolidation of EU
  - Formation of Asian FTA? ASEAN countries + China, Japan, India, and Australia?
  - Latin American FTA? Russia?
- US Bilateral FTAs
- Potential litigations, new WTO cases against the US
  - Corn
  - Wheat
  - Soybeans
  - Rice
Implications of Doha Failure

- Five Years Down the Drain
- Continued Restrictions on ‘South-South’ Trade, Stifling Development
- Protectionism & All that Accompanies It
- Credibility & Future of WTO, Especially Related to Agriculture
- More Litigation/Dispute Settlement?
Other Trade Issues

- US Bilateral FTA’s
  - Waiting US Congress ratification: Peru, Colombia, Panama (expected impact +1.5 billion ag exports)
  - Under negotiation: Korea, Malaysia

- Settlement of cotton case with Brazil

- New WTO complaint against US: corn (by Canada Jan 8, 2007)
  - EU, Brazil, Argentina joined, others expected
  - Consultation stage (three months) could lead to another dispute and settlement.
Doha Round resumed. Very difficult negotiations in short period of time.

Market Access
- Sensitive Product Designation Possible Loophole
- Deep Tariff Cuts for Developing Countries Difficult to Reconcile

Export Competition
- Elimination of Subsidies is significant

U.S. vs. EU/G-20 Very Far Apart on Reductions in Tariffs & Domestic Support

Who Really Loses/Gains from Failure?
THANK YOU !
## General Tariff Reduction Formulas

### Proposed Developed Country Tariff Cuts, Bound Rates

<table>
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<tr>
<th>Issue</th>
<th>U.S.</th>
<th>EU</th>
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<tr>
<td>Formula</td>
<td>Progressive</td>
<td>Linear</td>
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<tr>
<td>Tariff Reduction</td>
<td><strong>4 Tiers Cuts</strong></td>
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</tr>
<tr>
<td></td>
<td><strong>0 - 20 55% - 65%</strong></td>
<td><strong>0 - 30 35%</strong></td>
<td><strong>0 - 20 45%</strong></td>
</tr>
<tr>
<td></td>
<td><strong>20 - 40 65% - 75%</strong></td>
<td><strong>30 - 60 45%</strong></td>
<td><strong>20 - 50 55%</strong></td>
</tr>
<tr>
<td></td>
<td><strong>40 - 60 75% - 85%</strong></td>
<td><strong>60 - 90 50%</strong></td>
<td><strong>50 - 75 65%</strong></td>
</tr>
<tr>
<td></td>
<td><strong>60+ 85% - 90%</strong></td>
<td><strong>90+ 60%</strong></td>
<td><strong>75+ 75%</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Cap: 75</strong></td>
<td><strong>Cap: 100</strong></td>
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Avg. cut of 54%
## General Tariff Reduction Formulas

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<td>4 Tiers Cuts</td>
<td>0 - 20</td>
<td>0 - 30</td>
<td>0 - 30</td>
</tr>
<tr>
<td>Flex 10% - 40%</td>
<td>&lt;55% - 65%</td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td>20 - 40</td>
<td>&lt;65% - 75%</td>
<td>30 - 80</td>
<td>30 - 80</td>
</tr>
<tr>
<td>40 - 60</td>
<td>&lt;75% - 85%</td>
<td>80 - 130</td>
<td>80 - 130</td>
</tr>
<tr>
<td>60+</td>
<td>&lt;85% - 90%</td>
<td>130+</td>
<td>130+</td>
</tr>
<tr>
<td>Cap: Yes</td>
<td></td>
<td>Cap: 150</td>
<td>Cap: 150</td>
</tr>
<tr>
<td>Max. Avg. cut of 36%;</td>
<td></td>
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Max. Avg. cut of 36%; <2/3rd proportionality