Cordell Hull Institute
Policy Forum

Agricultural Dimension of the Doha Round Negotiations: Post Mortem on Hong Kong

Developing countries are the only potential growth market for agricultural exporters, said Robert L. Thompson, of the University of Illinois, at a meeting of the Cordell Hull Institute in Washington, DC, on January 10, 2006.

The meeting reviewed the outcome of the WTO ministerial conference in Hong Kong on December 13-18, 2004, where expectations of substantial progress in the Doha Round negotiations were dampened in advance of the gathering.

Professor Thompson, chairman of the International Food and Agricultural Trade Policy Council, based in Washington, gave three other reasons why a successful Doha Round outcome is needed.

With almost half the world's population living on less than $2 a day, it is the right thing to do,. he declared. Persistent poverty can have adverse geo-political effects. Moreover, developing countries are now the majority of the WTO members, so there will be no agreement until they perceive something in it of value to them.

ROBERT L. THOMPSON recently became Gardner Professor of Agricultural Policy at the University of Illinois, having earlier been Director of Agriculture and Rural Development at the World Bank (1999-2002). Since 2002 he has been Chairman of the International Food and Agricultural Trade Policy Council, Washington, DC. In 1985-87, Dr Thompson was Assistant Secretary for Economics at the U.S. Department of Agriculture, where he was engaged in preparations for the Uruguay Round negotiations of 1986-94. Dr Thompson is on the board of the Cordell Hull Institute.

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and

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International Food & Agricultural Trade Policy Council

World Agriculture in Disarray

- Import protection and producer supports
  - Distort what gets produced where and, in turn, agricultural trade flows
  - Depress world market prices below long-term trend
  - Reduce price and/or income risk to one country’s farmers while increasing price volatility in world market
  - Largest producers and farm land owners get most of the benefits

OECD Producer Support Estimates, 2004: Percent of Gross Receipts

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, OECD Countries, 2004: Percent of Gross Revenue

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

Source: OECD Agriculture Directorate

World Market Prices Depressed Below Long Term Trend (World Bank)

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

Source World Bank. World Development Prospects 2002.

Global Trading Environment Impedes LDC Poverty Reduction

- OECD protectionist barriers to LDC goods reduce their foreign exchange earning capacity & economic growth.
- 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 perpetuates hunger and impedes growth in their food demand, preventing them from fulfilling their potential as growth markets for agricultural products.

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.

Hong Kong Accomplishments

- Not judged a failure
- Date certain (2013) set for elimination of all ag export subsidies; in-kind food aid to be disciplined; “safe box” for bona fide foodaid
- Trade-distorting subsidies: Countries to be categorized into three bands, with highest to be cut the most.
- Tariffs: Countries to be categorized into four bands, with highest to be cut the most.
- Development: LDCs to get tariff- and quota-free access to high income country markets for 97% of tariff lines plus more aid for trade capacity building.
- Very tight timeline for huge amount of remaining work:
  - Modalities by 30 April 2006
  - Tariff schedules by 31 July 2006

Overall Domestic Support

- Present: Categorizes all support policies in one of three boxes, with only amber box total ("aggregate measure of support (AMS)") capped.
- U.S. proposed:
  - Cap blue box, trade-distorting de minimis, and non-trade distorting de minimis each at 2.5% of agricultural GDP
  - Cap sum of amber box + blue box + trade-distorting de minimis + non-trade distorting de minimis policies, and reduce this total 75% (less for countries with lower total subsidies).
- Hong Kong: Cuts in overall support to be at least equal to sum of amber + blue + de minimis.

Amber Box

- Framework Agreement said “Substantial reduction in the overall level of its trade-distorting support from bound levels”
- U.S. proposed
  - Full phase out over 15 years: 60% in first 5 years; rest in last 5 years, with higher/lower % reductions in countries where higher/lower AMS.
  - Product-specific caps at 1999-2001 levels
- Hong Kong: Categorize countries in 3 bands, with highest to be cut the most.
  - EU in highest band; US and Japan in second.
  - Thresholds and cuts to be negotiated.

Blue Box

- Present: Trade-distorting policies that have measures that offset their production-inducing effect, e.g. set-aside or quota on production or sales. No cap at present.
- Framework Agreement:
  - Broaden to include “direct payments that do not require production,” e.g. counter-cyclical payments [no link to current production, but per unit payment is based on current market price; therefore, not green box].
- U.S. proposal: Redefine blue box and cap at 2.5% of total value of all national ag production (including non-program crops).
- No mention in Hong Kong declaration.

Green Box

- Present: No cap.
- Doha Round likely to encourage shifting as much money as possible from amber to green box payments.
  - Essential not to cause a land price collapse
- Brazil cotton case affirmed that direct payments are “green” only if there are no constraints whatsoever on what can be grown on land receiving payments.
  - U.S. must either delete fruit & vegetable exclusion or include direct payments in amber box
- Hong Kong: No mention of a cap or tightening definition of “minimally trade-distorting.”

Market Access

- The most difficult pillar on which the least has been agreed to date
- Framework Agreement said:
  – Substantial increase in market access though tariff cuts or tariff rate quota (TRQ) expansion
  – Categorize all tariffs into “bands,” each with a different reduction formula, with the highest tariffs to be reduced the most.
  – Allow each country to designate an “appropriate number” of (politically) “sensitive products” on which smaller cuts can be made.
  – Increase tariff-rate quotas (TRQs) on “sensitive products” on which tariffs are cut less than formula would otherwise require.
  – Make cuts from bound rates.
  – Allow developing countries to use “special safeguard”
  – Developing countries can make smaller cuts over longer period

Market Access (cont'd)

- U.S. proposal would
  - Reduce tariffs by 55-90% (highest tariffs cut the most)
  - Cap tariffs at 75% in high income countries (a little higher cap elsewhere)
  - Limit "sensitive products" to less than 1% of tariff lines "with full compensation" via TRQ expansion
  - Allow "developing countries" Special Safeguard and Special Products
  - Internationally competitive developing countries must provide meaningful increase in access to their markets
- Hong Kong: Define 4 bands, but thresholds and cuts to be negotiated
  - 3% sensitive products likely.
  - Developing countries:
    - Special Safeguard to have both quantity & price triggers.
    - Self designate Special Products

Export Subsidies

- Present: Cap on volume and value of export subsidies on agricultural policies.
- U.S. proposed elimination of all direct agricultural export subsidies by 2010; EU called for cash-only food aid.
- WTO Cotton Case mandated that the U.S. must eliminate subsidy component in export credits and export credit guarantees (marketing loans?)
- Hong Kong:
  - Eliminate direct export subsidies by 2013.
  - Export credit programs to be self-financing; term less than 180 days.
  - Food aid: discipline to preclude commercial displacement
  - Discipline mode of operation of state-trading enterprises (STEs) to preclude indirect subsidization of exports; nothing on eliminating monopoly state traders.

Cotton

- Brazil Cotton Case
  - Ordered elimination of export subsidies in Step 2 and export credits
  - Marketing loans, LDPs and CCPs found to have suppressed world market prices
- Hong Kong:
  - Eliminate all export subsidies on cotton by 2006.
  - Developed countries to give duty- and quota-free access to LDC cotton exports
  - Trade distorting domestic support for cotton should be cut deeper and phased down faster than for other commodities

U.S. Agriculture's Interest in this Being a Successful Development Round:

Low Income Countries Are the Only Potential Growth Markets.

Markets of the Past Shrinking

- Other high income countries' food demand shrinking
  - Declining populations
    - Europe's population projected to fall by 10% by 2050
    - Japan's population projected to fall by 22% by 2050
    - Russia's population projected to fall by 24% by 2050
  - Aging populations (Older people eat less.)
  - High income consumers don't eat more when their incomes rise further

Projected World Food Demand

- World food demand could double by 2050
  - 50% increase from world population growth – all in developing countries
  - 50% increase from broad-based economic growth in low income countries
- How many presently low income consumers are lifted out of poverty will be the *most important* determinant of the future size of world food and agricultural product markets
- The ability of low income countries to export the products in which they have a comparative advantage will condition their success at poverty reduction.

Why We Need a Successful Development Round

- Persistent poverty can have adverse geopolitical effects.
- Developing countries are now the majority of WTO members; there will be no agreement until they perceive something of value to them in it.
- With almost half of the world's population living on less than $2 per day, it is the "right thing to do."
- Developing countries are the only potential growth market for agricultural exporters.

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