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REFORMING AGRICULTURE KEY TO SUCCESSFUL TRADE TALKS, BUT MORE NEEDED FOR DEVELOPMENT ROUND

Washington—Five years of global trade negotiations collapsed last summer over agriculture, with American negotiators attracting much of the blame for refusing to improve the US offer on domestic subsidies. To jump-start the talks, US Trade Representative (USTR) Susan Schwab should offer to reduce the US ceiling for overall trade-distorting agricultural support to around \$17 billion, \$5 billion less than its current proposal and less than the average \$21 billion annually that the United States will spend in 2005 and 2006.

The United States should not be on the defensive in these trade talks because its support for agriculture is not nearly as high as that in most other rich countries, and its offer in October 2005 was not the weakest. However, in *Delivering on Doha: Farm Trade and the Poor*, author Kimberly Ann Elliott argues that USTR Schwab should now make the first move to revive the negotiations. Restarting the Doha Round, named for the Qatari capital where it was launched, will be easier than concluding it, however, and delivering on the development agenda that is its nominal focus will require a broader agenda of financial assistance and policy reform to ensure that poor countries can take advantage of any trade opportunities that result from the round.

Contrary to widely held perceptions, Elliott's analysis shows that the US proposal already on the table would require changes in its most trade-distorting subsidy programs. An additional \$5 billion cut in the support ceiling would respond to concerns that the United States could evade real cuts in spending by shifting subsidies among the various

categories permitted under the rules. This move alone would not seal the deal, but it would at least put the spotlight back where it should be—on the European Union’s refusal to open its markets to agricultural imports and the reluctance of key developing countries, led by India and Brazil, to liberalize their markets for manufacturing and services.

EU negotiators will then have to agree to cut their agricultural tariff by at least half, limit the number of sensitive products that are exempt from the formula, and provide meaningful increased market access for those sensitive products. Japan and Korea will have to stop resisting a tariff cap of around 100 percent, perhaps in return for additional flexibility for rice. It will then be up to the more advanced developing countries to reciprocate by accepting a cap on non-agricultural tariffs that is no higher than 20 percent (a so-called Swiss coefficient of 20). These moves would then allow the negotiations to proceed to the details of how these cuts would be made and exactly how much flexibility countries will have to depart from the formulas.

Though it accounts for less than 10 percent of global trade flows, agriculture is at the center of this round of trade talks because that is where the highest remaining barriers in developed countries are and where the largest potential gains are. But delivering on the promise of the Doha Development Agenda, as this round of negotiations is formally called, requires far more. While the majority of poor people in the world live in the rural areas of developing countries, many of those farmers are net buyers of food and many developing countries have a comparative advantage in labor-intensive manufactures rather than agricultural products.

Making Doha a development round therefore requires a broad package that addresses barriers to developing-country exports of manufactured goods and services, as well as agriculture. But a successful development round does not mean that the advanced emerging markets, such as Brazil, India, and China, should get a free ride. They will have to contribute to the bargain as well. In addition, industrialized countries and Brazil, China, and other emerging markets should provide duty-free and quota-free treatment for all least-developed country exports (not just 97 percent of tariff lines as proposed by the United States). Regardless of when the Doha Round is revived, donor governments should proceed immediately with their commitments to increase aid-for-trade and make it more effective.

Delivering on Doha concludes with an analysis of the details of the agriculture negotiations and recommendations for a package deal that opens rich-country markets, imposes some discipline on developing-country policies, and provides assistance to poorer countries to ensure they benefit as well. The key recommendations include:

- Export subsidies should be phased out before the 2013 deadline and food aid prohibited for surplus disposal or market development.
- The most trade-distorting forms of agricultural support (the aggregate measurement of support) should be cut by at least 60 percent in the United States and Japan and by even more, at least 70 percent, in the European Union, since it provides by far the most support to its farmers in dollar terms.
- The other categories of trade-distorting support (“de minimis” and the moderately-distorting “blue box”) should be cut to no more than 1 to 1.5 percent of the value of production, roughly half of the US proposal.
- The average developed-country tariff on agriculture should be cut by half and the average developing-country tariff by a third, with few exceptions and with significant increases in remaining quantitative restrictions on imports; all tariffs must be capped at no more than 100 percent in rich countries and 150 percent in developing countries.
- Except for least-developed countries, special and differential treatment should not allow developing countries to completely evade discipline on agricultural policies; the combined percentage of tariff lines that can be designated as sensitive and special should be in the single digits and countries that do not currently provide trade-distorting subsidies should agree not to introduce them.
- Donor countries and agencies should expeditiously deliver on promised increases in aid-for-trade, make existing mechanisms that provide adjustment assistance to developing countries more effective and responsive (e.g., the International Monetary Fund’s Trade Integration Mechanism, and the joint Integrated Framework), and set aside additional resources, with independent monitoring, to help developing countries address supply constraints.

About the Author

Kimberly Ann Elliott, senior fellow, has been associated with the Institute for International Economics since 1982 and holds a joint appointment with the Center for Global Development. Her previous Institute books include *Can Labor Standards Improve under Globalization?* (2003, with Richard B. Freeman), *Corruption and the Global Economy* (1997), *Reciprocity and Retaliation in US Trade Policy* (1994, with Thomas O. Bayard), *Measuring the Costs of Protection in the United States* (1994, with Gary Clyde Hufbauer), and *Economic Sanctions Reconsidered* (2d. ed., 1990, with Gary Clyde Hufbauer and Jeffrey J. Schott).

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