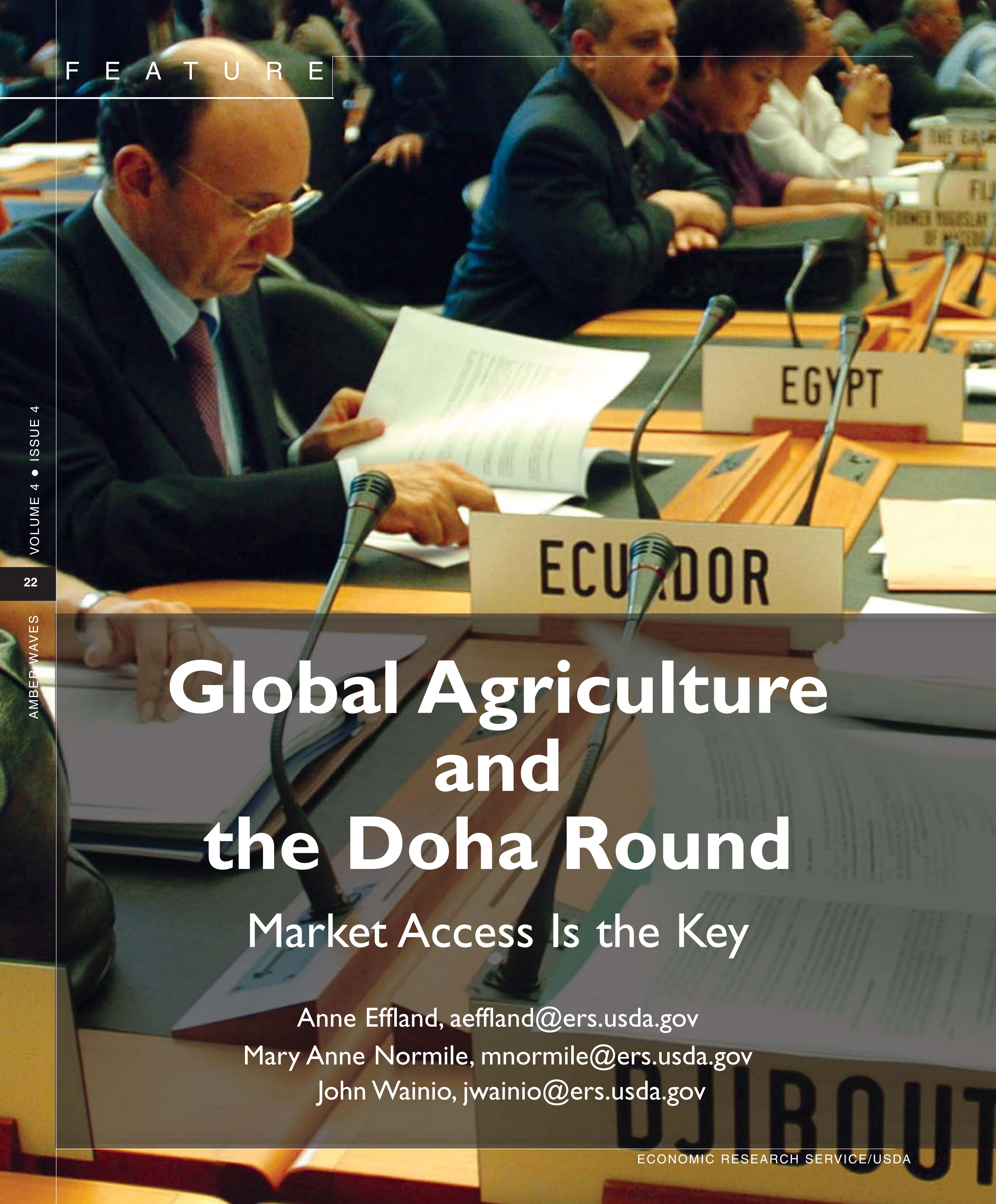

Global Agriculture and the Doha Round

Market Access Is the Key

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- Trade liberalization leads to economic gains for both developed and developing countries through more efficient use of resources as well as the productivity and investment growth that come with more open markets.
- Increasing market access by lowering tariffs would produce the greatest share of benefits from trade liberalization.
- Tariffs remain contentious in agricultural negotiations, because many agricultural tariffs are high and cuts will have to be ambitious to increase trade and secure a successful agreement.

An author interview is featured online at: www.ers.usda.gov/amberwaves/

For the past 5 years, World Trade Organization (WTO) members have struggled to negotiate a new agreement in the Doha Development Round. In launching a new round of trade negotiations, WTO members recognized the contribution of the multilateral trading system to economic growth and development and pledged to continue reforming economic policies. In addition, the Doha declaration emphasized the interests of developing countries, which constitute the majority of WTO members, adding complexity to the talks but increasing the potential gains.

Agriculture has taken center stage in the Doha Round, as it did in the Uruguay Round. Its importance to a final agreement was underlined by the recent suspension of Doha Round negotiations on July 24, mainly as a result of difficulties in finding common ground in agriculture. Persistent wide differences on the necessary level of cuts in agricultural tariffs and domestic support were the primary reason behind the indefinite suspension of negotiations. Clearly, progress in all three areas, or "pillars," of agricultural trade policy—market access, export subsidies, and domestic support—is needed to reach consensus. But research has indicated that tariff reductions that improve market access are key to achieving the benefits of trade liberalization.

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Trade Liberalization Leads to Economic Gains

The last several decades have witnessed a surge in global economic growth. More open markets create opportunities for growth by encouraging more efficient allocation of resources. For some countries, this means that labor and other resources may shift from agriculture and other primary production sectors to higher value economic activity. More open markets also encourage transfers of technology and technical expertise. With growth in human and physical capital can come increased productivity and investment in manufacturing and service industries. Where these developments bring higher incomes, an increase in consumer demand for goods and services provided through global markets may in turn develop.

Countries often impose policies that interfere with open markets in agriculture. WTO members have organized agricultural negotiations to address three categories of policy that can distort trade: market access, which includes import barriers like tariffs and tariff-rate quotas (TRQs); domestic support, which includes producer subsidies through income and price support programs; and export subsidies. By distorting production or consumption decisions, each of these types of policies can impose economic costs both on the countries that employ them and on their trading partners.

Import barriers distort markets by raising the effective price of imported goods, thereby reducing the competitiveness of imports. Reduced competition from imports supports higher prices for domestic goods and encourages increased domestic production. Import barriers also help keep inefficient domestic producers in operation, and, like trade-distorting domestic subsidies, they keep resources in the production of supported products that could be employed more profitably elsewhere, including outside of agriculture. Trade-distorting domestic supports also lead to an increased supply of agricultural products. For exporting countries, the increased supply will lead to greater exports; for importing countries, it will reduce demand for imports. The resulting increase in exports and/or reduction in imports can depress world prices and increase competition for producers in other countries. This situation is compounded when export subsidies are used to dispose of excess domestic production on world markets.

Removing or reducing such distortions through multilateral trade negotiations results in widespread economic benefits. In countries with low protection, producers of products for which world prices rise will benefit from higher prices and increased exports. Consumers in formerly protective countries will gain from lower prices induced by competition with lower priced imports. Policy reforms often lead to greater investment in developing countries, increasing the productive capacity of their economies. In the longer term, growth in investment and productivity further enhances trade by increasing countries' ability to import agricultural products.

To quantify the gains from trade liberalization, ERS research—at the opening of the Doha negotiations in 2001—estimated the costs of agricultural policy distortions to the world economy and the likely economic gains from their removal. The combination of agricultural tariffs, domestic support, and export subsidies was estimated to dampen world agricultural prices by about 12 percent. ERS estimated that the increased investment and productivity growth under more open economies accounted for nearly half of total global benefits from trade liberalization and were a particularly important component of gains for developing countries.

Increasing Market Access Is Key

ERS identified import barriers—tariffs—as the largest source of global economic costs from agricultural policy distortions, accounting for over half of the estimated reduction in agricultural prices. Subsequent research has also cited tariff elimination as the source of greatest potential benefits from trade liberalization, although estimated gains differ based on methodology and assumptions about market conditions.

Tariffs are more price distorting than domestic support or export subsidies largely because they are more widely used. Tariffs directly affect market prices, having an impact on both producer and consumer decisions. Many countries choose to support domestic prices through tariffs, which may increase government revenues, rather than with domestic subsidies, which must be financed through government spending. Countries that use domestic programs to provide both price support and price stability for producers frequently use tariffs so that lower cost imports will not undermine the effectiveness of price support operations.

Tariff cuts would provide significant benefits by forcing reductions in domestic price supports, used primarily by developed countries. Significant gains would also be achieved from improved market access among developing countries. Their elimination of tariffs would account for more than a third (38 percent) of the estimated increase in world prices resulting from a global end to tariffs. Developing countries themselves stand to benefit, as trade among developing countries—so-called South/South trade—accounts for 46 percent of agricultural exports in those countries. According to ERS research, the U.S. would see its greatest economic gains from a removal of import barriers. U.S. agriculture would also benefit from investment- and productivity-led demand growth in developing countries for U.S. farm products.

Although analysts agree that increasing market access through tariff reductions holds the greatest potential gain from trade liberalization, market access reform remains the most contentious area of agricultural negotiations. Both developed and developing countries face domestic pressures to maintain tariff barriers despite the mandate to reduce them in the Doha negotiations. Under some circumstances, pressure to maintain tariff barriers may come from trading partners (see box, "Why Are Tariff Preferences an Issue?").

In developed countries, tariffs can continue to provide support to producers even as domestic programs shrink. Policy changes since the Uruguay Round have demonstrated that some countries can further reduce export subsidies and, increasingly, trade-distorting domestic support. However, unilateral policy reforms generally have not included reductions in import barriers, which remain high even in some countries where subsidies have declined markedly. Countries also use import barriers to promote food security or environmental/rural development objectives.

Developing countries may find tariffs a particularly valuable revenue source, as well as a means of controlling imports to manage their balance of payments. Developing countries generally lack the financial resources to support farmers directly. Import barriers can be a means of protecting less productive or small-scale agriculture that sustains rural communities and employs much of the population. So tariffs remain a mainstay of agricultural policy in many countries and are politically difficult to reform, despite evidence of the benefits.

Why Are Tariff Preferences an Issue?

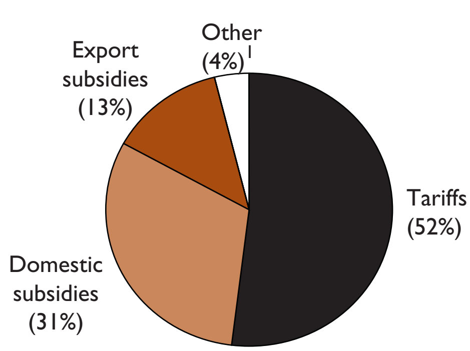
The current instrument for achieving increased market access for developing-country exports is tariff preferences granted by developed countries. Under these arrangements, developed countries allow imports of some products from developing countries at tariffs below those levied on other countries. The margin of preference essentially depends on the difference between the preferential tariff and the bound tariff (maximum tariff that a country agrees to observe) that most other countries face. When bound tariffs are reduced through multilateral trade negotiations, the margin of preference developing countries receive is reduced, a process known as preference erosion.

Eligible countries generally welcome tariff preferences, and some have proposed that the tariff-cutting process for important products that receive preferences be delayed in order to protect margins of preference. Some small island developing states that rely heavily on preferential exports of agricultural products are concerned that preference erosion would make their exports vulnerable to increased competition from other countries, including other developing countries. They have asked that the market access provided under preferences be maintained during the reform process, a proposal that has put them at odds with developing countries advocating deep cuts in developed country tariffs.

ERS research has shown that, in general, the trade gains from preferential trade programs tend to be concentrated among higher income developing countries, which include some of the world's largest agricultural traders. This occurs despite the fact that they tend to benefit from preferences on a much smaller range of products than the least developed countries (LDCs). Frequently, the LDCs lack the production and export capacity to take advantage of tariff concessions. However, despite their relatively modest exports under these programs, LDCs are expected to be more vulnerable to increased competition if bound tariffs are cut.

As a group, developing countries should gain from cuts in bound tariffs. Many products exported by higher income developing countries either are excluded from these programs or receive preferences only for limited quantities. The tariffs levied on excluded products tend to be significantly higher than those on which preferences are granted. As a result, while LDCs may experience some trade loss due to preference erosion, these losses are expected to be more than balanced by trade gains in the larger, more efficient developing countries, particularly in products not currently subject to preferences or constrained by quotas. In order to assist LDCs, some have proposed allowing duty- and quota-free access for all LDC agricultural exports to both developed and higher income developing countries.

Tariffs account for largest share of world price distortions



[1]Other refers to interaction effects among policies.
Source: *The Road Ahead: Agricultural Policy Reform in the WTO—Summary Report*, AER-797, USDA, Economic Research Service, January 2001, www.ers.usda.gov/publications/aer797/

Doha Talks Highlight Market Access

The importance of increasing access to foreign markets for their producers has led some countries to focus on market access negotiations. For competitive exporting countries—including developed countries like the United States, Canada, Australia, and New Zealand, and developing countries like Brazil and Argentina—tariff barriers limit their access to markets and erode potential returns to their producers. For them, improved market access is a high priority in the Doha trade talks. For the United States, it is seen as an essential balance to reductions in domestic support programs.

In the Uruguay Round, a major success story was tariffication, whereby countries agreed to convert their nontariff import barriers like quotas into bound tariffs (maximum tariffs that countries agree to observe) to make them more transparent and facilitate their reduction. The tariff-cutting formula in the Uruguay Round required that developed-country tariffs be cut by an average of 36 percent, subject to a minimum cut of 15 percent for individual tariffs (24-percent average and 10-percent minimum for developing countries). The latitude inherent in this formula meant that tariffs that were high at the outset of negotiations remained high after the cuts were made, preserving the wide disparity of tariffs within and across countries (see box, "Varying Tariff Profiles Illustrate Difficulties in Negotiating Cuts").

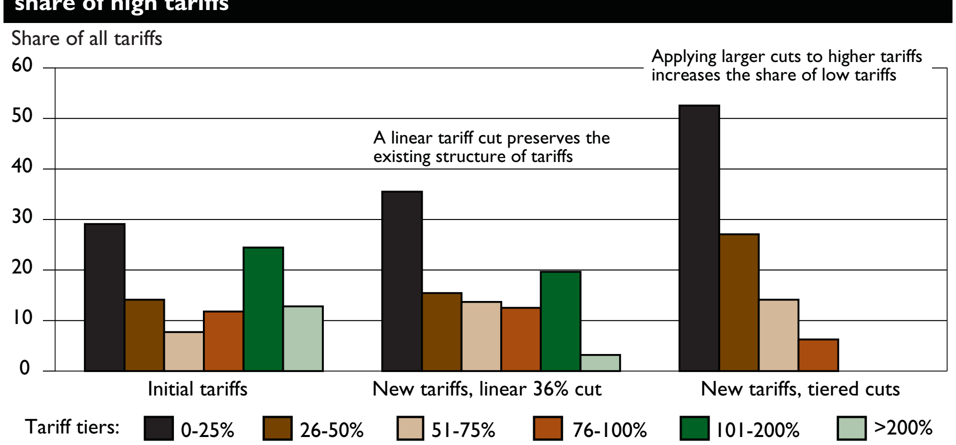
Doha Round negotiators also must agree on a formula for tariff reduction. The transparency created by tariffication highlighted the disparities preserved through the Uruguay Round formula. At last December's Hong Kong ministerial meeting, WTO members agreed to reduce the disparity in tariffs through a tiered approach, with larger cuts for tariffs in higher tiers. This tariff-cutting approach would harmonize tariffs more than linear cuts used in the Uruguay Round.

Several exceptions to scheduled tariff cuts have been discussed. In the Hong Kong ministerial declaration, members acknowledged a need to allow lower tariff cuts for *sensitive products.* Countries would be allowed to designate a percentage of tariff lines as sensitive products, with proposals ranging from 1 to as much as 15 percent of tariff lines.

The Hong Kong declaration also made several concessions to developing countries. Special and differential treatment granted to developing countries would subject them to shallower tariff cuts and longer transition periods to implement those cuts. The ministerial declaration also adds the concept of self-designation for special products in the context of developing countries' food security, livelihood security, or rural development. While all products are expected to contribute to the reform process, tariffs on special products would be eligible for flexible treatment with respect to the amount they would be cut and the degree to which they would be subject to any new market access commitments.

The Special Safeguard Mechanism (SSM) would allow developing countries to raise import duties temporarily to deal with surges in imports or drops in prices. Many developing countries view the SSM as another fundamental component of special and differential treatment that should be available for all agricultural products, while developed countries tend to view it as another way for developing countries to avoid market penetration. In previous rounds, making a safeguard mechanism available amid rapidly increasing imports or falling prices was seen as one way to convince countries to cut their bound tariffs more rapidly than they would otherwise.

Tiered tariff cuts greatly increase the share of low tariffs and reduce the share of high tariffs



Disagreement on Market Opening Threatens Deadlines

Most export-oriented developing countries are eager to gain additional access for their exports in developed-country markets. However, developing countries as a group differ on the extent to which they should open their own markets. Developing countries have generally favored reduced expectations for opening their markets in order to protect undeveloped agricultural sectors on which a large share of the population depends. Export-oriented developing countries, however, may be willing to sacrifice some protection for other sectors to gain access for their agricultural exports to developed-country markets. Developing countries do agree that offers to reduce their own tariffs substantially hinge on developed-country commitments to substantially reduce domestic support. The degree of market opening is also a point of disagreement among developed countries. Several food-importing countries with highly protected agricultural sectors—including Japan, Korea, Norway, and Switzerland—have resisted ambitious market-opening proposals.

The Doha Round, while making some significant tentative progress, has stumbled over attempts to agree on "modalities," or formulas (including numerical targets) for cutting tariffs, domestic support, and export subsidies. These modalities, to be used by members to produce their commitments, were to be agreed to by April 30, 2006. A subsequent deadline was missed when a meeting of trade ministers concluded without a breakthrough on July 24, 2006, and negotiations were suspended. The Bush administration's trade promotion authority, deemed essential to negotiating trade agreements, expires in June 2007, which puts pressure on negotiators to reach agreement soon if the Doha Round is to reach a successful conclusion. Without some major new efforts by WTO members, meeting that deadline may not be possible. W

Varying Tariff Profiles Illustrate Difficulties in Negotiating Cuts

A closer look at the pattern of tariff protection among WTO members may help explain why increased market access is so difficult to achieve. WTO-bound agricultural tariffs—the maximum tariff rates that each WTO member may impose on imports—average 62 percent globally, although rates vary widely by countries and across commodities. While a bound tariff reflects the maximum to which a tariff can be raised and still be in accordance with WTO agreements, most countries impose tariffs on imports that are below these levels. These applied tariffs average 19 percent globally.

The difference between bound and applied tariffs tends to be greater for developing countries. Compared with developed countries, developing countries also have a higher share of products for which bound tariffs are over 50 percent, and often over 100 percent. Some developed countries also maintain a similarly high level of tariffs for a few products that governments consider to be sensitive, and for which they seek continued protection in the WTO negotiations.

Most agricultural tariffs in developed countries are now quite low. U.S. tariffs are among the lowest worldwide, averaging 12 percent. For most developed countries, three-quarters or more of their bound agricultural tariffs are below 25 percent. Three percent of the tariffs in the U.S. agricultural schedule exceed 50 percent, versus 9 percent for the EU and 19 percent for Japan. Most of the highest U.S. tariffs are the over-quota tariffs imposed on sensitive products with tariff-rate quotas, such as dairy, sugar, tobacco, and peanuts. In other countries, tariffs over 50 percent are mainly on meats, dairy products, and sugar (and also grains, fruits, and vegetables in the EU and Japan).

By maintaining higher bound rates, countries appear to reserve the right to raise tariffs on raw agricultural products such as fruit, vegetables, grains, and sugar commodities. Actual applied tariffs may be lower. In contrast, partly to encourage domestic manufacturing, value-added products such as dairy, tobacco products, and processed food products (various fruit juices, chocolates, peanut butter, sugar confectionery) carry the highest applied tariffs.

In the Doha Round of negotiations, cuts will be negotiated based on bound tariffs. Because of the large differences between bound and applied tariffs for most countries, the reduction formula negotiated will have to be ambitious in order to substantively expand market access, while at the same time allowing smaller tariff cuts for developing countries and special consideration for sensitive products.

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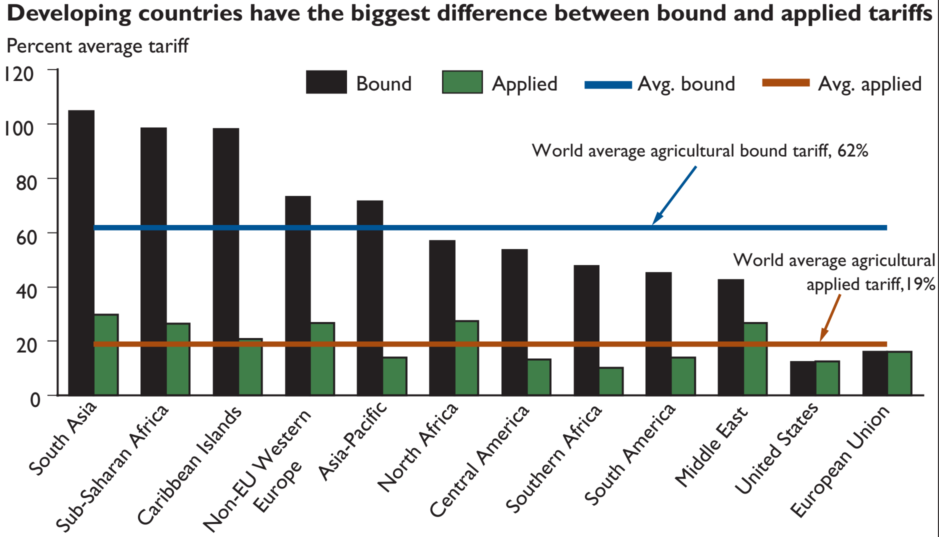
Developing countries have the biggest difference between bound and applied tariffs



Source: Calculations by USDA, Economic Research Service using Agricultural Market Access Database and WTO Member-submitted ad valorem equivalent estimates.

This article is drawn from . . .

Agricultural Trade Preferences and the Developing Countries, by John Wainio, Shahla Shapouri, Michael Trueblood, and Paul Gibson, ERR-6, USDA, Economic Research Service, May 2005, available at: www.ers.usda.gov/publications/err6/

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