“Failure in the global trade talks: A lost opportunity?”

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In the twilight of Doha?

- WTO trade talks collapsed July 2006

- Peter Mandelson, EU Trade Commissioner, argues it is critical to restart the talks because “…there’s a huge amount to lose politically and economically…” (The Guardian, January 8, 2007)

- Why have talks stalled, and what price failure?
Key reasons for stalled talks

- EU resistance to reducing tariffs
- US unwillingness to reduce farm subsidies
- Emerging economies (EE) loath to cut tariffs
  - US wants tariffs slashed
  - Impasse: EU feels US wants unrealistic cuts in tariffs with little subsidy reduction
  - EE want lower subsidies and tariffs in rich countries
Why is Doha Round important?

- 96% of world’s farmers – 1.3 billion – live in less developed countries (LDCs)
- 73% of the poor live in rural areas, with over 1000 million people living off under $1/day
- LDCs very dependent on agriculture for household income
- International markets important to sustained income growth of LDCs
Why is Doha Round important?

- Doha Round labeled “development round”
- Focus on increasing market access to developed countries (DCs) for LDC agricultural exports
- Reduce world price distortions due to DC farm policies
- Previous trade round brought only modest impacts on export subsidies, market access, and farm support
Farm policies

- Trade distortions underpinned by farm policies in DCs

- EU, Japan and US are major subsidizers of agriculture

- Most support goes to largest farmers
  - largest 25% of US farms get 89%
  - largest 25% of EU farms get 70%
### Bumper crop

<table>
<thead>
<tr>
<th></th>
<th>Agricultural subsidy as % of value of gross farm output, 2003</th>
<th>$bn 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td></td>
<td>1.0</td>
</tr>
<tr>
<td>United States</td>
<td></td>
<td>38.9</td>
</tr>
<tr>
<td>Canada</td>
<td></td>
<td>5.6</td>
</tr>
<tr>
<td>EU</td>
<td></td>
<td>121.4</td>
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<tr>
<td>Japan</td>
<td></td>
<td>44.7</td>
</tr>
</tbody>
</table>

**Source:** OECD

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Classes of farmer and how they differ:

- **Rural Farmer**: I want more subsidies!
- **Gentleman Farmer**: Thanks for the subsidies? Any chance of some more?

In Australia, we're hand-feeding the stock.

In Europe, we've been hand-feeding for years...
US farm support

% gross revenue 2001-03

<table>
<thead>
<tr>
<th>Commodity</th>
<th>%</th>
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<tbody>
<tr>
<td>Sugar</td>
<td>58</td>
</tr>
<tr>
<td>Milk</td>
<td>44</td>
</tr>
<tr>
<td>Rice</td>
<td>44</td>
</tr>
<tr>
<td>Sorghum</td>
<td>37</td>
</tr>
<tr>
<td>Wheat</td>
<td>34</td>
</tr>
<tr>
<td>Barley</td>
<td>30</td>
</tr>
<tr>
<td>Corn</td>
<td>20</td>
</tr>
<tr>
<td>Soybeans</td>
<td>19</td>
</tr>
<tr>
<td>Wool and lamb</td>
<td>17</td>
</tr>
<tr>
<td>Pork, beef and broilers</td>
<td>4</td>
</tr>
<tr>
<td>Overall</td>
<td>19</td>
</tr>
</tbody>
</table>

Source: OECD
Benefits of trade liberalization

Elimination of tariffs and subsidies would generate global gains in excess of $56 billion – 75% to DCs and 25% to LDCs (World Bank, 2006)

Depressed world prices would rise for some key commodities:

- cotton: 10-20%
- peanuts: 10-20%
- sugar: 20-40%
- dairy: 20-40%
- rice: 33-90%
How to avoid impasse

- Trade negotiations operate on time-honored principles of bargaining: tit-for-tat

- “...multilateral trade liberalization is a sort of jujitsu that uses exporters’ determination to get into foreign markets to overwhelm domestic lobbies that would sooner keep home markets closed...” (The Economist, July 27, 2006)

- Clear that to get real concessions on tariffs US needs to offer more on farm subsidies
US farm subsidies

- 1996 Uruguay Round resulted in “caps” on trade-distorting farm subsidies
- 1985, 1990, 1996 US Farm Bills “decoupled” farm support
- Farm prices fell after 1996
- 2002 Farm Bill expanded/“re-coupled” support, while EU moved in other direction
- Many farm organizations would like 2002 legislation rolled into 2007 Farm Bill
US farm subsidies and Doha

- 2002 Farm Bill undermined US “moral” authority in WTO
- Reinforced by WTO cotton case
- October 2005, US offered 60% cut in trade-distorting cap in exchange for large tariff cuts
- Would actually mean negligible reduction in US support
US farm subsidies and Doha

- Seen as empty offer by EU
- US farmers thought they would lose 60% of all subsidies
- In reality, significant gap between cap and actual level of distorting subsidies
- Cuts in distorting subsidies can be made up with non-distorting farm payments
Prospects for change

- With lack of progress in trade talks – 2007 Farm Bill will be re-run of 2002
- US farmers saw Brazil capture growth in world market after 1996 - they want significant increases in market access for support to be cut
- President loses trade-negotiating authority in June 2007
Prospects for change

- Greater transparency than ever about US farm programs
- Some commodity groups pre-empting pressure for reform, e.g., Iowa Corn Growers and revenue insurance
- Cracks in solidarity of farm groups, e.g., fruit and vegetables vs. other commodities
- Threat of further litigation in WTO
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