

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

Ian Sheldon

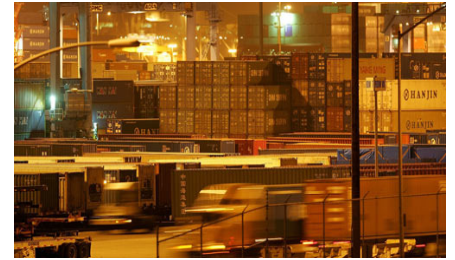
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In the twilight of Doha?



- ❖ **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**
- ◆ **Impasse:**
 - **US wants tariffs slashed**
 - **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



United States Department of Agriculture

農林水産省

The Ministry of Agriculture, Forestry and Fisheries of Japan

- ◆ **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%**

January 25, 2007



Farm policies



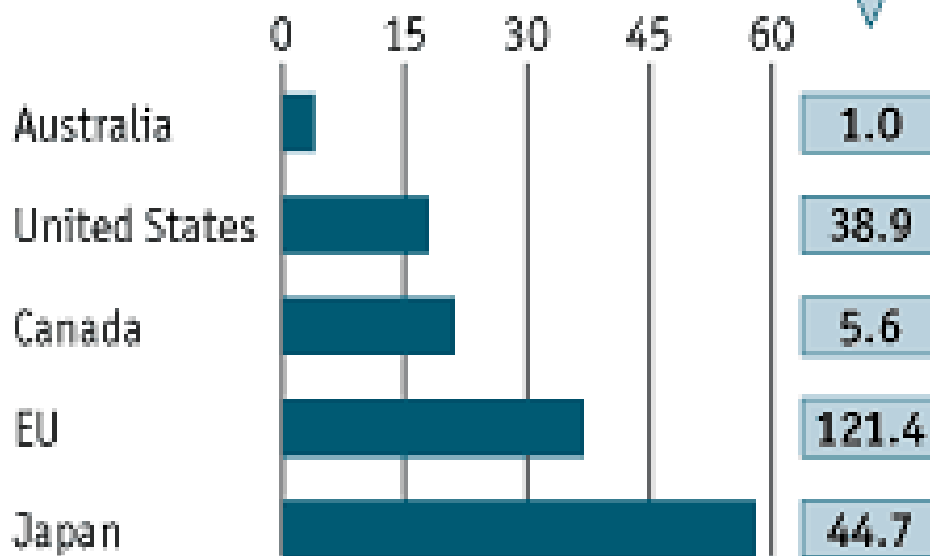
United States Department of Agriculture

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Bumper crop

Agricultural subsidy as % of value of gross farm output, 2003



Source: OECD

CLASSES OF FARMER AND HOW THEY DIFFER

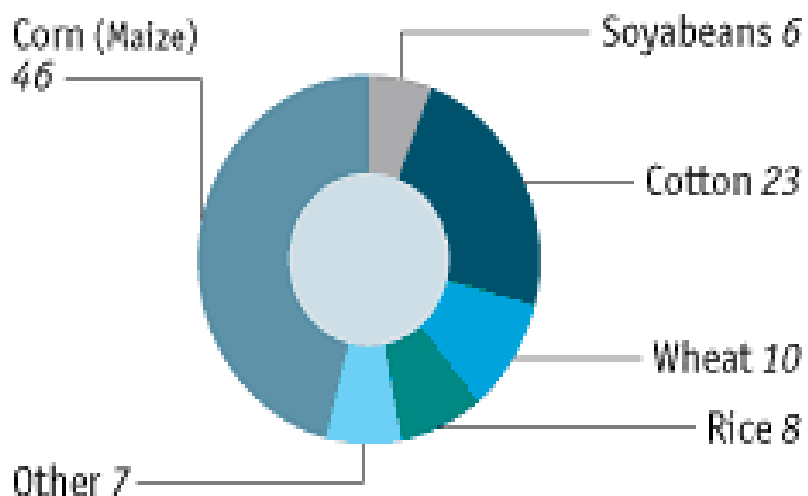


US farm support



Cream of the crop

Farm subsidy payments*, % of total
2002-05 annual average



Source: USDA

*Price and income support

% gross revenue 2001-03

Sugar	58
Milk	44
Rice	44
Sorghum	37
Wheat	34
Barley	30
Corn	20
Soybeans	19
Wool and lamb	17
Pork, beef and broilers	4
Overall	19

Source: OECD

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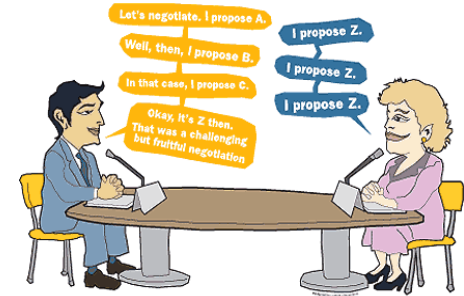
Benefits of trade liberalization

- ❖ **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%	dairy	20-40%
peanuts	10-20%	rice	33-90%
sugar	20-40%		

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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