
The Devil in the Doha Details

Beyond summoning the necessary political will, a successful Doha Round agreement on agriculture depends on learning the lessons of the past. On paper, the Uruguay Round required rich countries to cut agricultural tariffs by an average of 36 percent and other trade-distorting support by 20 percent. In practice, estimates by the Organization for Economic Cooperation and Development (OECD) show very little decline in the level of producer support provided by member countries. There have been modest moves in some countries away from the most trade-distorting forms of support, and the recent moves toward further decoupling subsidies from production in the European Union merit applause. But overall levels of support and, especially, the barriers to market access in most rich countries remain high.

Ensuring that the Doha Round does not go down the same path as the Uruguay Round requires looking underneath the overall figures at the details of how agreed-upon cuts in tariffs and subsidies will be implemented. Flexibility in the tariff-cutting formula and the choice of a base period that set high ceilings for subsidies undercut the nominal disciplines negotiated in the previous round. The course of the current negotiations suggests that they are in danger of repeating those mistakes.

The present chapter focuses on the commitments needed from the rich countries to ensure meaningful reform of agricultural policies. It looks at each of the three pillars in turn, beginning with export subsidies, going on to domestic support, and concluding with market access. The final chapter addresses how special and differential treatment for developing countries might be shaped to ensure a successful outcome in the Doha Round. It also includes discussion of the need for “aid for trade” to ensure that developing

countries are able to take advantage of new market access opportunities and addresses the forms this aid should take. The final section of chapter 6 summarizes the recommendations from both chapters 5 and 6. The intent is to provide both recommendations and a standard against which to assess the final outcome.

Export Subsidies and the Role of Food Aid

A commitment to eliminate export subsidies by 2013 was the one concrete achievement of the Doha Round's agricultural negotiations as of early 2006. Many view this commitment as not all that important because of the relatively small size of direct export subsidies, less than \$3 billion during 2000–2001. But its importance lies not in the dollar figures but in the signal it sends about the commitment to reform in Europe. The European Union is the main user of export subsidies, and its willingness to give them up is possible only because of agricultural reforms that have lowered supported prices and thereby reduced the problem of domestic surpluses. Thus, the value in eliminating export subsidies, especially if it is combined with expansion of market access, is that it forces policymakers to bear more of the costs of agricultural policies domestically, by either paying to store and dispose of surpluses or reducing supported prices and other incentives to overproduce.

EU negotiators, however, conditioned their willingness to eliminate direct export subsidies on other WTO members' amenability to addressing "parallel" forms of export subsidy. Thus, the communiqué from the Hong Kong ministerial meeting in December 2005, which set the 2013 date, emphasized the need to eliminate any subsidy element from public export credit and guarantee programs, state trading enterprises, and food aid. As of early 2006 some progress had been made on the other issues, and the most divisive remaining issue was the EU demand that in-kind food aid, used primarily by the United States, should be prohibited, except in "well-defined emergencies." EU negotiators have persisted in this demand, despite protests from UN food aid officials that overly stringent rules could reduce the availability of food aid (*International Trade Reporter*, May 12, 2005, 774).

It is true that the principal US food aid program, Public Law (PL) 480, (Title I of the Agricultural Trade Development and Assistance Act of 1954), was intended to promote US exports and was used for surplus disposal when it was first implemented. But with the move in US farm policy toward subsidies and away from supply control and price supports, the government is no longer forced to acquire large stocks in times of low prices and then dispose of them. Still, in-kind food aid clearly has the potential to disrupt local and regional markets, and, to the extent that it

still occurs, dumping of surpluses on developing countries in the guise of food aid should be disciplined. A recent OECD report underscores how costly, inefficient, and slow in-kind food aid typically is, even when commercial displacement does not occur (OECD 2005b). This is particularly so in the United States because of the requirements to use US-flagged vessels to ship food aid that must be purchased and at least minimally processed (bagged) domestically. According to some estimates, shipping takes up half of the \$1 billion budgeted for food aid, and a typical delivery takes four months (*New York Times*, September 23, 2005). But these inefficiencies may be the political price of maintaining current levels of food aid in the United States. In mid-2005, both the House and the Senate rejected a proposal by US Agency for International Development Administrator Andrew Natsios to allow up to a quarter of the US food aid budget to be spent in or near the area with the food crisis (*New York Times*, September 23, 2005). What surprised many was the opposition from some nongovernmental groups that receive in-kind food aid and then sell it in developing countries to raise money for their projects in those countries, a process called “monetization.” These groups opposed the Natsios proposal out of concern both that their own budgets would take a hit and that congressional and business community support for food aid would decline.¹

Recognizing the political constraints, the head of the World Food Programme (WFP) has repeatedly expressed concerns that already inadequate levels of food aid could fall further if the EU demand is accepted. Moreover, recent empirical research suggests that food aid in sub-Saharan Africa may not always have the negative effects shown in previous studies. Abdulai, Barrett, and Hoddinott (2005) find that when they control for household characteristics one would expect to be associated with recipients of food aid, the negative correlations with labor supply, agricultural investment, and production are no longer statistically significant. Thus, they conclude,

National-level data from across sub-Saharan Africa suggest that whatever negative effects food aid may exert on food producer prices and on government incentives to invest in agricultural development must be at least offset by food aid’s favorable effects on human nutrition, farmer seasonal liquidity, and food security. . . . If anything, food aid appears to have been mildly stimulative to, rather than a drag on, African agricultural productivity. (Abdulai, Barrett, and Hoddinott 2005, 23)

1. Subsequently, some of the NGOs benefiting from monetization, as well as others engaged in development in Africa and elsewhere, launched a review of food aid policies, their role in it, and how US food aid policy might be reformed to be more cost-effective, while not lowering the level of resources available. For background materials and a flavor of this debate, see the Web site of the Partnership to Cut Hunger and Poverty in Africa at www.africanhunger.org.

In other words, it appears that in sub-Saharan Africa, at least, food aid has been relatively well targeted to those who are unable to meet household needs through their own production or through purchases in local markets.

At a public event sponsored by the Center for Global Development just prior to the Hong Kong ministerial, experts from various perspectives, including USAID Administrator Natsios, agreed that US food aid should be reformed to make it more efficient and more flexible in responding to recipient countries' needs, by, among other means, allowing for a portion to be in cash and applied to local or regional purchases.² But all also agreed that the EU proposal to prohibit all in-kind aid except in narrowly designated emergencies would swing the pendulum too far in the other direction.

Food aid is tiny relative to global cereals exports and is typically provided to countries with limited financial wherewithal to purchase imports commercially, which suggests that any effects on trade would be small. Thus, the WTO is not the appropriate place to address fundamental problems associated with food aid. At the same time, the EU demands for parallel treatment of all forms of export subsidy provide rare leverage for disciplining the distortions created by inefficient US policy.

This suggests that food aid should be approached cautiously in the Doha negotiations, but that it would be helpful to agree on certain principles that would reduce clear distortions without threatening the supply of aid. In a 2005 analysis of the agricultural negotiations, the International Food and Agricultural Trade Policy Council (IPC 2005) made several useful recommendations for disciplining potential trade-distorting effects of food aid, including

- giving food aid only as grants, not on credit;
- prohibiting the use of food aid in market development programs; and
- when surpluses are disposed of as aid, channeling them through the WFP to minimize the chance of distorting local markets.

US food aid provision is already moving in this direction so these recommendations should not be difficult to accept.³ A more far-reaching recommendation would be to require that *all* food aid be channeled through the WFP, but, as the IPC points out, that could undermine political support

2. A transcript and related materials may be found at www.cgdev.org.

3. Helpful materials on these issues may be found on the Web site of the Partnership to End Hunger and Poverty in Africa, in the section labeled Reconsidering Food Aid: Background Papers, under "Workshop Materials," www.africanhunger.org.

for food aid in the United States and lead to sharp reductions in the level. Restrictions in food aid clearly should not impinge on real needs, and, while other reforms may be needed, the WTO is not the best place to deal with broad food aid issues.

Domestic Support

Although difficult issues remain, negotiators had made enough progress as of early 2006 for the broad outlines of an agreement on domestic support to be discerned. The question is whether the underlying details will result in any cuts in actual levels of support. The negotiators are working within the framework developed in the Uruguay Round, which raises two challenges for those interested in genuine reform. First, the creation of different categories of subsidies, in combination with oddities in how subsidies are measured, creates a great deal of flexibility, which policymakers have proved adept at exploiting. Second, the base period chosen in the Uruguay Round for setting the ceiling from which subsidies would be cut was a time of low prices and high levels of support. Even after the required 20 percent cuts in trade-distorting support, the final bound ceiling was so high that most countries were left with a lot of wiggle room when prices rose.

Would-be reformers should draw two lessons from the flexibility in the Uruguay Round framework: First, they need to focus on reducing the flexibility that allows policymakers to shift subsidies among the various categories. Second, negotiations should be steered toward a base period and a target level of support that do not set the ceiling so high that it is meaningless. Thus far, the negotiating stances of the key players are, not surprisingly, focused on retaining their own policy flexibility while constraining other countries'. How the negotiations on these issues come out will determine how large the negotiated cuts in subsidies need to be to constrain policymakers in practice.

To briefly review, the domestic support pillar of the agriculture negotiations is divided into three categories according to the degree of trade distortion involved (see chapter 2, figure 2.1). The amber box contains the most trade-distorting forms of support, while the green box is for minimally distorting subsidies, including decoupled payments to farmers and general support, such as for research and development. The intermediate blue box is for payments regarded as less trade distorting than those in the amber box because production is limited. The amber box is further divided into two components. The first, aggregate measurement of support (AMS), was capped and then reduced in the Uruguay Round. But payments that would otherwise be included in the AMS can be deducted as long as they fall below a *de minimis* level, set at 5 percent of the value production of

individual commodities or 5 percent of total production if they are not product-specific. Currently, no country makes much use of product-specific *de minimis*, and only the United States reports significant spending in the non-product-specific *de minimis* category. For that reason, product-specific *de minimis* is ignored in what follows, except for the recommendation that it be eliminated.

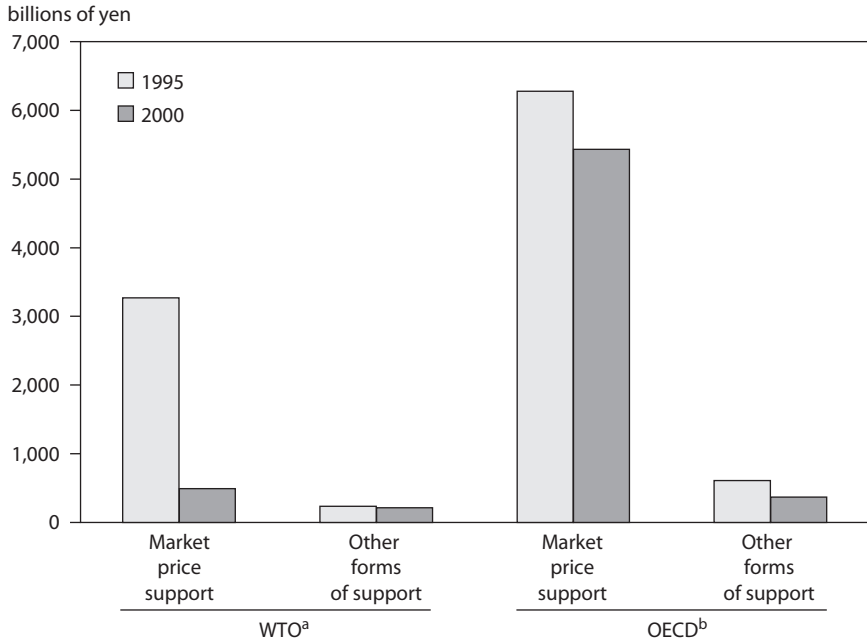
Although the domestic support pillar focuses on domestic subsidies, it is crucial to understand that the AMS also includes a measure of some but not all of the support provided by means of trade measures. Import restrictions bolster domestic prices by restricting supplies, but market price support (MPS) is included in the AMS only if there is an official administered price that requires additional government intervention in the market when the price floor is threatened. This form of MPS is more distorting than that provided purely through trade measures because it more effectively insulates producers from global price changes. With administered prices, governments must buy up and store or export surpluses that would otherwise push market prices below the target level. In the WTO, the value of this support is calculated as the difference between the administered price and an “external reference price” based on average world prices during 1986–88.

The role of MPS in the AMS is important to understand in assessing the potential impact of various reform proposals. Japan, for example, reduced its reported AMS nearly 80 percent in 1998 simply by eliminating the administered price for rice. But it maintained an equivalent level of protection for farmers through tight import restrictions. As figure 5.1 shows, the OECD estimate of Japan’s MPS for farmers, which includes the effects of all trade measures, dropped very little from 1995 to 2000. Reducing support for commodities with administered prices that are included in the AMS thus requires reducing or eliminating the set price *and* lowering associated trade barriers. Almost all of the EU AMS consists of MPS, which is why the European Union’s weak market access proposal was greeted with such disappointment. The US AMS is divided between MPS for sugar and dairy and price-linked subsidies for most grains, cotton, rice, and soybeans.⁴

Although the numbers remain to be filled in, the resolution of a few issues in Geneva in summer 2004 and in Hong Kong in December 2005 indicates progress toward curtailing some of the flexibility that undermined the Uruguay Round disciplines. First, there is apparently agreement that the AMS will include product-specific caps, that the *de minimis* exemptions

4. This can be confusing because the United States uses the phrase “loan rate” to refer to both the “administered prices” for sugar and dairy and the legislated price floors for wheat, corn, cotton, and other exportable commodities. In the latter case, however, the prices that farmers receive fluctuate in response to world prices, and any gap between the market price and the loan rate is closed with government payments.

Figure 5.1 Japanese farm support as measured by OECD and WTO



a. Value of amber box plus blue box notifications.

b. Producer support estimate.

Sources: OECD (2005a), US Department of Agriculture.

will be reduced, and that the blue box should be capped and then reduced. In Hong Kong, negotiators agreed that there will be three tiers for reductions in the AMS, with the European Union in the top tier, the United States and Japan in the second, and all other developed countries in the third. In addition to the size of the cuts in each box, the key outstanding issues are whether additional disciplines are needed for the blue and green boxes.

The tiered structure for reduction commitments is in response to the US demand for some harmonization of support levels, a sore point since the Uruguay Round permitted the European Union and Japan to maintain levels far above those of the United States. Even after those reductions were phased in, the European Union's final AMS ceiling of roughly \$60 billion was three times as high as the \$19 billion permitted the United States, while Japan's final \$30 billion ceiling was 50 percent higher. Other OECD member states have higher subsidies as a percentage of farm receipts (see the percentage producer support estimates in chapter 2), but these states also have less impact on world markets because of their small size. Though the declaration following the Hong Kong meeting puts these countries in the

third tier, with smaller reduction commitments, the declaration called on them to “make an additional effort in [AMS] reduction.” Because the nature of those commitments is not yet known and because the top two tiers are most important in terms of global market effects, the analysis that follows focuses on those tiers, and in particular, on the United States and the European Union. As a result of the Japanese action on rice, Japan’s reported AMS is only around \$6 billion, sufficiently below its \$30 billion ceiling that no feasible cut will do more than squeeze out the excess.

The Numbers Game

In early October 2005, US Trade Representative Robert Portman responded to an initial EU proposal by offering to cut the US AMS by 60 percent from the current *bound* ceiling if the European Union and Japan would cut their much higher bound levels by 83 percent. Portman further proposed reducing both types of *de minimis* payments by half and capping the blue box at 5 percent of production, with further cuts to 2.5 percent over several years. US negotiators also want to redefine the blue box to accommodate countercyclical payments (CCPs), which are likely to be allocated to the non-product specific *de minimis* category but which US officials argue are partially decoupled.⁵ The chief EU negotiator, Peter Mandelson, countered with an offer to reduce the European Union’s AMS ceiling by 70 percent, reduce *de minimis* (which the Europeans do not use) by 80 percent, and cap the blue box at 5 percent. Subsequently, EU negotiators indicated that they might be able to accept the 2.5 percent level for the blue box. Tables 5.1 and 5.2 show the implications of the proposals for EU and US farm programs.

Both the US and EU proposals would require large cuts in the applied, as well as the bound, AMS—from 50 to 70 percent for the European Union, depending on which proposal is analyzed, and 50 percent or more for the United States, depending on which year is chosen (see figure 5.2).

In response to individual member states’ criticism that they had gone too far, EU negotiators have argued that their proposal for a 70 percent reduction in the European Union’s bound AMS would be consistent with recent Common Agricultural Policy (CAP) reforms. US negotiators are also constrained by what Congress will accept, but they have somewhat more flexibility if the agreement is completed this year because the farm bill that

5. Countercyclical payments are based on acreage planted in particular crops in the past and do not require current production to be eligible, but their calculation involves a comparison of current market prices with a legislated target price. It is not actually known where in the amber box these payments will be allocated because, as of early 2006, the United States had not made the required WTO notifications since 2001.

Table 5.1 Potential impact of Doha domestic subsidy proposals on EU agricultural support (billions of euros)

	Permitted spending	Actual or projected spending	
		2001 WTO notification	Estimates of support after CAP reforms ^a
Amber box			
Current AMS	67.2	39.3	22
Market price support	n.a.	36.9	20
Subsidies	n.a.	2.4	2
Proposed AMS	11–20	n.a.	Based on 5 billion euros saved from reduced intervention prices for dairy, sugar, and minor cereals; assumes further 3 billion euros saved from proposed reforms to olive oil and tobacco. Up to 9 billion euros saved is from yet-to-be announced reforms of wine and fruits and vegetables and assumes that administered prices are eliminated but with no necessary increase in access unless tariffs are cut.
Current de minimis ^b	12.5	0.6	
Proposed de minimis ^b	3–6	n.a.	
Blue box			
Current	No cap	23.7	6–13
Proposed	6–12	n.a.	Based on OECD estimates; depends on the extent to which flexibility under the single farm payment is used to keep payments partially coupled.

AMS = aggregate measurement of support

CAP = Common Agricultural Policy

n.a. = not applicable

a. Based on best available information.

b. Product-specific de minimis, which is currently also capped at 5 percent of production for individual commodities, is ignored because it not used extensively by any country.

Table 5.2 Potential impact of Doha domestic subsidy proposals on US agricultural support (billions of dollars)

	Permitted spending	Actual spending		
		2001 WTO notification	Average 2003–04 ^a	Average 2005–06 ^a
Amber box				
Current/proposed AMS	19.1/7.6	14.4	9.9	15.2
Market price support	n.a.	5.8	5.5	5.5
Subsidies	n.a.	8.6	4.4	9.7
Current de minimis ^b	9.5	6.8	2.0 ^c	2.0 ^c
Proposed de minimis ^b	2–5	n.a.	n.a.	n.a.
Blue box				
Current	None	0	2.3 ^d	3.5 ^d
Proposed	5–10	n.a.		(5.1 projected for 2007)

AMS = aggregate measurement of support

n.a. = not applicable

a. Calculated from US Department of Agriculture data on price support loan and loan deficiency payments. The \$5.5 billion in market price support (for dairy products and sugar) is based on the 2001 WTO notification, minus \$0.3 billion for peanuts, which was partially reformed in the 2002 farm bill.

b. Product-specific de minimis, which is currently also capped at 5 percent of production for individual commodities, is ignored because it not used extensively by any country.

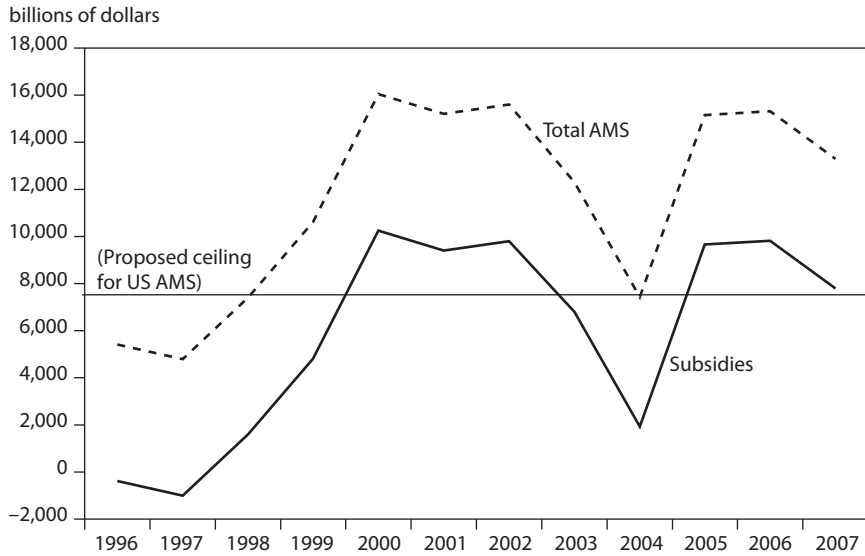
c. Estimated as average non-product specific de minimis payments reported to the WTO during 1999–2001, less reported ad hoc emergency payments, which were replaced with countercyclical payments in the 2002 farm bill and which US negotiators propose to move to the blue box.

d. Countercyclical payments are shown here, even though the United States is likely to report them as non-product specific de minimis, to suggest the potential impact of the US proposals to move these payments to the blue box and cap them after five years at 2.5 percent of production.

will determine future US policy has yet to be written. The US trade representative’s challenge will be to preserve as much of that flexibility as possible and to fend off congressional criticisms that legislators’ hands are being tied on the farm bill. Box 5.1 explicates the potential interactions between the Doha Round and the writing of the 2007 farm bill.

The rough estimates shown in table 5.1 seem to confirm EU negotiators’ assertions regarding conformity between their proposal and CAP reforms, *as long as* proposed reforms of the olive oil and tobacco programs are approved and the administered prices for wine and fruits and vegetables are eliminated. In this scenario, most of the cuts come from the recent dairy and sugar reforms, as well as earlier cuts in intervention prices for cereals and beef, but the effects on trade would consist primarily of reductions in subsidized exports, not increased imports (OECD 2004a). The elimination of administered prices for fruits and vegetables would also have little impact on actual

Figure 5.2 US aggregate measurement of support (AMS) with and without market price support



Source: USDA Farm Services Agency, Budget Division Home page, table 35.

levels of support, unless significant reductions in tariffs are made in the market access negotiations. Finally, the US proposal for an 83 percent cut in the European Union’s AMS ceiling would appear to require changes beyond the recent CAP reforms. EU negotiators indicated in early 2006 that they could go to 75 percent if the United States would go to 65 percent, but this proposal may have been more tactical than real.

Relative to other countries, the United States relies more heavily on subsidies than on MPS, but what happens to the MPS for sugar and dairy products has important implications for how much the subsidies for other commodities must be cut. The expected reduction in actual US spending is also harder to pin down because the subsidies are price based, which means that they fluctuate widely from year to year, as shown in figure 5.2 and table 5.2. The US proposal for a 60 percent cut in its AMS would lower the ceiling from \$19 billion to just under \$8 billion. That is roughly half the estimated AMS during 2005–06 or in 2001, the last year US officials submitted notification of support levels to the WTO. The proposed level is only 15 percent below the average level for 2003–04, however, and subsidies in those years would have been under the new ceiling without the \$5.5 billion in MPS for sugar and dairy products (figure 5.2). Depending on what happens to the sugar and dairy programs, the new AMS ceiling could end up well above subsidy levels for other crops in good years and require only modest cuts in bad ones.

Box 5.1 Potential implications of the Doha Round for the 2007 US farm bill

The Farm Security and Rural Investment Act of 2002 weakened some of the decoupling reforms adopted in 1996, increased government spending on agriculture, and gave just the barest of nods to the constraints imposed by the Uruguay Round Agreement on Agriculture. Overall spending under the bill was difficult to project because many payments fluctuate from year to year with prices, but, in some years, it was expected to be perilously close to the overall \$19 billion cap that the United States accepted in the Uruguay Round. As of April 2006, it remains difficult to assess the farm bill's conformity with US commitments because policymakers had filed none of the required WTO notifications since the farm bill passed.¹ The 2002 legislation expires in 2007, just after the hoped-for completion of the Doha Round. If the talks lag, Congress will have to pass a new farm bill without knowing exactly what the new constraints will be.

A Farm Bill after a Trade Deal

Enough is known from the proposals on domestic subsidies to identify some of the options that are likely to face Congress if it is writing the new farm bill after the deal is done. At one end of the spectrum, it is possible that Congress could decide to relieve American taxpayers and consumers of the costs associated with farm programs and adopt radical reforms. To borrow the terminology of Orden, Paarlberg, and Roe (1999; see box 3.1), Congress could simply "cut out" trade-distorting farm programs, eliminating them without compensation. Alternatively, they could buy out these programs, providing time-limited compensation to farmers for the value of the subsidies they currently receive. But neither option seems remotely likely.

In the real world, reform-oriented changes in the next farm bill are likely to range from tinkering at the margins to modest at best. The key to determining the nature and extent of reforms that might be required by a Doha Round agreement is what happens to the market price support programs for dairy products and sugar. Congress did choose to buy out domestic production quotas for peanuts and tobacco in recent years, so it is not out of the realm of possibility to do that for individual sectors. In each case, however, the buyout was possible in large part because producers themselves were dissatisfied with the operation of the support programs (Orden 2005). It is also notable that only tobacco involved a complete buyout of support, while peanuts were folded in with the other program crops and now receive marketing loan and countercyclical payments, albeit with a far lower price floor and target than previously. The dairy sector, which is characterized by regional and other tensions among larger and smaller producers, and which already receives

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Box 5.1 *(continued)*

some direct payments in addition to market price support, seems a more likely candidate for this sort of reform than sugar.

Sugar producers claim to support negotiation of a multilateral deal that would eliminate barriers and subsidies globally. But they have been vociferous in opposing any opening of the US market under bilateral free trade agreements, and it is also unlikely that any conceivable Doha agreement will gain their approval. Thus, it is likely that USDA officials and Congress will have to decide what to do in the face of staunch opposition to changes in the sugar program. A plausible outcome in that case would be what Japan did with rice: eliminate the administered price for sugar but maintain a similar level of price support with the existing tariff-rate quota.

If Congress chooses either radical reform of sugar and dairy product supports or cosmetic reform by eliminating the administered prices while retaining import restrictions, the current subsidy proposals on the table in the Doha Round would require only modest changes in other US farm programs. Any combination of those options that removes the \$5.5 billion in market price support for dairy products and sugar from the US aggregate measure of support will leave the entire \$7.6 billion (under a 60 percent aggregate measurement of support cut) for wheat, corn and other feed grains, cotton, rice, soybeans, and other minor crops. That is about the level USDA estimates will be spent in 2005 and 2006, and well above subsidy levels in the first two years of the current farm bill. Similarly, few constraints would be imposed on countercyclical payments if the US proposal to cap the revised blue box at 2.5 percent of the value of production were adopted (table 5.3).

If Congress wanted to go beyond what a Doha Round might require, it could expand the gradual decoupling approach adopted in the 1996 farm bill and only partly reversed in the 2002 bill. It could again lower loan rates and compensate farmers with a larger decoupled direct payment.² It could also make countercyclical payments eligible for the green box by removing the link to current prices. Contrary to the approach in the House of Representatives during debate over the 2006 agricultural budget, Congress could increase funding for environmental purposes and acreage set-asides under the Conservation Reserve Program, as well as for research and development, both of which go into the green box.

A Farm Bill Without a Trade Deal

There are two broad alternatives for passing a new farm bill if the Doha Round is not completed by late 2006 or early 2007. Some in Congress have suggested that the 2002 farm legislation should be extended if the Doha Round is not completed before the bill expires, arguing that Congress will not want to redo farm legislation

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Box 5.1 Potential implications of the Doha Round for the 2007 US farm bill *(continued)*

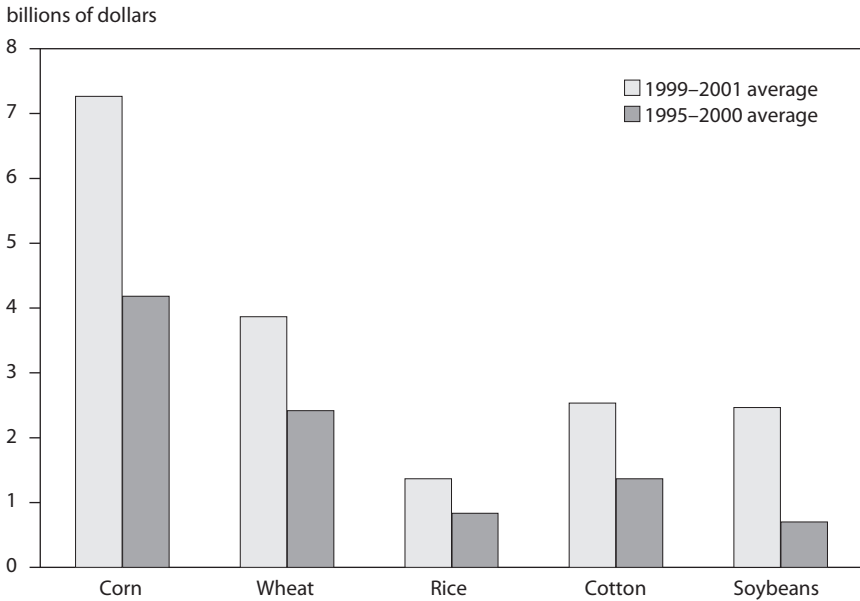
before its regular expiration to accommodate a trade agreement. In addition, these representatives oppose giving up any leverage by making unilateral reductions in support levels.³ This option would also make most farmers happy, at least those receiving subsidies, because they are quite satisfied with the current legislation.

Others, led by Secretary of Agriculture Mike Johanns and Senator Saxby Chambliss, chair of the Senate Agriculture, Nutrition, and Forestry Committee, argue that changes are needed to avoid further WTO litigation, regardless of the outcome of the Doha Round. The Brazilian complaint against US cotton subsidies revealed several vulnerabilities, and Uruguay has also threatened to bring a case against US rice subsidies. Economist Daniel Sumner (2005), who advised Brazil, has suggested that other commodity subsidies might also be open to challenge. Johanns argues that the potential for litigation increases uncertainty for farmers and that adjustments need to be made, regardless of whether a trade agreement is completed early next year. If this path were chosen, the options would be similar to those discussed in the previous section.

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1. Sumner (2005) uses USDA data to update what the US notifications in recent years might look like. Given the conclusions of the WTO dispute settlement panel in the United States–Brazil cotton case, he concludes that the United States was in violation of its commitment in 2000 and 2001 and will be again in 2006.
 2. Potential changes to the decoupled green box payments to bring them into compliance with the cotton ruling are discussed later in this chapter, in the section on clarifying the rules on decoupling.
 3. Paarlberg (1997) analyzes the Uruguay Round negotiations as an example of the negative synergies that can arise between domestic politics and international bargaining when politicians deflect pressures for domestic reform by pointing to the need to preserve leverage in international trade talks.

The best way to avoid ending up with superficial cuts in the amber box would be to eliminate MPS from the AMS, but that is not on the table. Product-specific caps within the overall AMS ceiling, as have been proposed, would help to address the problem of changes in MPS undercutting pressures for subsidy reforms. Ensuring that these caps are meaningful, however, will require that negotiators avoid the Uruguay Round precedent of choosing a period of low prices and high subsidies as the base period for setting the ceiling. As figure 5.3 shows, the US proposal to adopt 1999–2001 as the base period for establishing product-specific caps would run the risk of a similar outcome in the Doha Round. Average annual payments were far lower during 1995–2000, the base period preferred by most other Doha

Figure 5.3 USDA payments for selected commodities



USDA = US Department of Agriculture

Source: USDA Farm Services Agency, Budget Division Home page, table 35.

negotiators. An additional and useful discipline would be to have separate caps for MPS and subsidies within the AMS.

With respect to de minimis and the blue box, recent US Department of Agriculture (USDA) data suggest that the US proposal might constrain spending in bad years but do little more than that. Roughly \$5 billion of the \$7 billion in non-product specific de minimis spending reported to the WTO in 2001 resulted from emergency payments passed by Congress in response to low prices. The 2002 farm bill, the Farm Security and Rural Investment Act, created CCPs to replace this ad hoc safety net. If these payments are moved to the blue box, as US negotiators propose, average de minimis spending reported for 1999–2001 suggests that such spending generally would not exceed \$2 billion, unless Congress adapted programs to take advantage of the flexibility that would result from moving CCPs to the blue box. The more ambitious EU proposal to cut de minimis (which it does not currently use) by 80 percent would remove that option.

Analysis of recent levels of spending on CCPs suggests that the US proposal eventually to cut the blue box to 2.5 percent of production would also not constrain these payments in most years but could cap them in low-price years. As of February 2006, the USDA was projecting that in fiscal year 2007 CCPs might slightly surpass the \$5 billion proposed cap. Although other

Table 5.3 US countercyclical payments (millions of dollars)

Commodity	Average 2004–06	2007(e)	Peak-year payment	Average 2008–10(e)	Potential caps ^a
Corn	1,400	2,768	2,954 (2006e)	1,224	2,050
Other feed grains	112	189	234 (2006e)	96	150
Wheat	0	560	560 (2007e)	598	1,000
Cotton	889	1,229	1,421 (2005)	689	1,150
Rice	71	64	318 (2003)	43	100
Peanuts	151	180	191 (2005)	116	200
Soybeans	0	119	146 (2005)	191	300
Total	2,623	5,109	5,824	2,957	4,950

(e) = estimated

a. Assumed \$5 billion total blue box cap (based on 2.5 percent of value of production) allocated according to each commodity's share of projected total countercyclical payments during 2008–09.

Source: USDA, Farm Services Agency, Budget Division Homepage, Commodity Estimates Book for FY 2007 President's Budget, table 50.

countries are very keen on constraining US CCPs, EU negotiators are hamstrung because it will be difficult for them to go beyond the 2.5 percent cap for the blue box under the current CAP reform. But the EU counterproposal, echoed by Brazil, to discipline US CCPs through rules that would specify a maximum price gap for calculating the payments is highly unpopular in Congress, which regards such proposals as impinging on its prerogatives in shaping the details of US farm policy.

One idea for further disciplining use of the blue box is to set product-specific caps in addition to the overall ceiling. Table 5.3 gives some indication of what these caps might look like. If they are based on the proposed overall cap of 2.5 percent of production, product-specific ceilings might constrain payments in bad years for some crops, mainly corn, but they would generally be well above recent average payments, as well as levels projected by the USDA for the first few years in which cuts would be implemented.

Clarifying the Rules on Decoupling

Two other important issues are ensuring that blue box payments are less trade distorting than amber box supports and that green box payments are minimally trade distorting. The Geneva framework from August 2004 indicates that blue box payments should be based on “fixed and unchanging” areas and yields, base production levels, or numbers of head of livestock. Strengthening this provision and applying it as well to decoupled payments based on historical subsidy levels in the green box is essential to ensure that

expectations of future adjustments in the bases do not encourage farmers to maintain or increase production. The 2002 US farm bill allowed farmers to update the acreage base eligible for decoupled direct payments, a step back from decoupling that should not be permitted in the future.

A second issue facing negotiators will be how to handle the WTO decision in Brazil's dispute with the United States over US cotton subsidies that these direct payments are not sufficiently decoupled to be allocated to the green box. (Brazil also challenged the updating of base acreage as undermining the decoupling of the direct payments, but the panel did not rule on that particular issue.)

The 2002 farm bill prohibits US farmers from planting fruits and vegetables, with a few exceptions, if they are to remain eligible for these nominally decoupled payments. It also requires them to maintain their land in good agricultural or environmental condition. The WTO panel ruled that these restrictions would encourage producers to continue planting supported crops. While panel rulings do not set binding precedents, similar eligibility conditions related to the European Union's nominally decoupled single farm payment raise questions about those payments as well. In the US case, this condition was included in the farm bill because fruits and vegetables are not program crops that receive direct payments, though they do benefit from generally modest levels of traditional border protection and other green box programs (Thompson 2005). In the European Union, the situation is somewhat different, but horticultural crops there also benefit primarily from MPS rather than direct payments.

There are essentially two options for addressing the problem of ensuring that allegedly US and EU decoupled payments are eligible for the green box. One would be to negotiate changes to the green box to allow payments to be considered decoupled even if there were restrictions, such as those on planting fruits and vegetables, as long as the restricted sectors were not themselves eligible for amber box support. This would allow the United States to keep its current decoupled payment. But this option would likely still require the European Union to make changes to the single farm payment because fruits and vegetables currently receive a form of support that is included in its AMS. The single farm payment thus would not meet the revised standard unless the European Union eliminates administrative prices in these restricted sectors to meet amber box reduction commitments.

The preferable option in any case would be to lift the restriction on planting certain crops as a condition of eligibility for decoupled payments and use the opportunity to shift additional budget resources from traditional subsidy programs to other green box programs. In the United States, the impact on fruit and vegetable growers of allowing recipients of direct payments to move into the fruit and vegetable sectors would depend on location and a number of other variables. Thus far, reports suggest that these sectors are considering asking for an increased share of the agricultural budget in the next farm bill, but not in the form of traditional subsidy

programs.⁶ Rather, many suggestions focus on increasing demand to sop up any increase in supply if farmers receiving decoupled payments are allowed to plant fruits and vegetables. Examples include increased funding for domestic food aid and school lunch and snack programs that include fruits and vegetables as healthy options; increased access to environmental programs, such as the Conservation Reserve Program; and increased research and development spending, all of which would fall into the green box.

These programs should attract broad support from food aid and environmental advocacy groups, whose programs may otherwise face pressures for relatively deeper budget cuts to protect spending for traditional program crop subsidies. This approach would bring US fixed direct payments into compliance with the WTO cotton ruling while also promoting healthier eating habits and improved environmental conditions. If the increased demand for fruits and vegetables exceeds any increase in supply because of changes in the eligibility conditions for the decoupled payments, or if increased access by fruit and vegetable growers to conservation programs reduces their output, then the effects should be neutral to positive for developing-country exporters as well.

To more directly address the concerns of other exporters, however, the criteria for green box eligibility need to be more carefully defined, and perhaps some components should be capped. But an overall cap would be difficult to implement. Though there have been complaints about the sheer size of some green box allocations, the allocations among different types of payments vary widely among countries. The United States, for example, is by far the largest user of the green box, with \$50 billion in payments in 2000. But more than 60 percent of that total was for food stamps and other nutrition programs. In Japan, the vast majority of green box support is allocated to “general services,” particularly rural infrastructure. There clearly is a public goods aspect to many types of infrastructure, but such investments also increase production beyond what it would otherwise be. In the European Union, large payments for “structural adjustment through investment aids” and regional assistance programs could also cause concern if they are not aimed at encouraging diversification out of subsidized activities.

Market Access

The least progress in the Doha Round agricultural negotiations has been made on increasing market access. As shown in chapter 2, MPS still accounts for 60 percent of total producer support across the OECD, and it is half or more in most countries. There seems to be agreement that there will be four

6. Fruit and vegetable growers’ views on priorities in the upcoming farm bill debate may be found at www.uffva.org and at www.ffva.com, both accessed September 30, 2005.

tiers and that tariffs in the higher tiers will be cut more. As of early 2006 there was still no agreement on the size of the cuts in each tier, but more crucial to the outcome was the continued wrangling over how much flexibility countries would be given to depart from these general rules for an undetermined number of “sensitive products.”

Adoption of an overall cap on tariffs seemed likely, though Japan and the other Group of 10 (G-10) countries remained adamantly opposed. Moreover, crucial details on how the cap would be implemented, such as the treatment of sensitive products, remained unclear. Beyond the crucial issues of the size of the cuts and the treatment of sensitive products, other outstanding issues included how to achieve expanded access under tariff-rate quotas (TRQs), what to do about tariff escalation and specific and other non-*ad valorem* tariffs, and whether to retain the special safeguard mechanism that allows developed countries to impose additional tariffs when imports of certain products surge.⁷

Tariff-Cutting Formula

The tariff-cutting formula used in the Uruguay Round required an unweighted average tariff cut of 36 percent and a minimum reduction of 15 percent for all tariff lines. This formula allowed countries to reach the average by taking large cuts in already low tariffs and cutting high tariffs by the minimum percentage. The chief alternative, preferred by US and Cairns Group negotiators, is the Swiss formula, which harmonizes tariffs downward, forcing larger cuts in the highest tariffs. The emerging compromise between these alternatives is four tiers with higher cuts in the higher tiers, which would help to reduce dispersion. The three main proposals, by US, EU, and Group of 20 (G-20) negotiators, are shown in table 5.4. The proposals seem to be converging around an overall average tariff cut of around 50 percent. But how much additional market access this would provide depends on how sensitive products are handled.⁸

Sensitive Products and Tariff-Rate Quotas

Ideally, the category of “sensitive products” would be dropped and the category of “special products” reserved for developing countries, with the

7. The special safeguard, which is far easier to use than the regular safeguard for dealing with import surges, is permitted only for products where the Uruguay Round required that quotas be converted to tariffs.

8. The fall 2005 EU proposal also sought agreement to allow use of a “pivot” for the lowest tier of tariffs (below 30 percent), which would allow a large number of tariffs to be cut by as little as 20 percent as long as the overall average of 35 percent was met. EU negotiators later appeared to back off this proposal in the face of unrelenting opposition from other negotiators.

Table 5.4 Key tariff-cutting proposals, March 2006 (percent)

	Thresholds	Tariff cut
United States	0–20	55–65
Tariff cap = 75	21–40	65–75
Sensitive products = 1	41–60	75–85
	>60	85–90
G-20	0–20	45
Tariff cap = 100	21–50	55
Sensitive products = 1	51–75	65
	>75	75
European Union	0–30	35, on average (20 minimum, 45 maximum)
Tariff cap = 100		
Sensitive products = 8		
	31–60	45
	61–90	50
	>90	60

Notes: Developing-country cuts, other than by least developed countries, would be two-thirds of the final agreed-upon levels.

number of such products tightly limited on the basis of objective criteria such as the number of subsistence farmers or the population of consumers with insecure access to food. In the real world, some flexibility for sensitive products is probably necessary to reach agreement, and the negotiations will focus instead on constraining the degree of flexibility and using alternative means to ensure some degree of increased market access for sensitive commodities.

During negotiations in Geneva in May 2005, the European Union and the G-10 anchored one end of the debate, proposing that sensitive products not be limited to those currently under TRQs and that expansion of TRQs be linked to existing import levels rather than domestic consumption growth, as favored by exporting countries. The G-10 also proposed that the number of sensitive products be determined on a country-by-country basis and that each country be free to select the products it wanted to treat as sensitive.

Such provisions, if adopted, would gut meaningful liberalization of the most protected products, and were opposed by US, Cairns Group, and G-20 negotiators. On every point, meaningful market access depends on pursuing the opposite course:

- Countries should be able to select a *limited* number of sensitive products, based on guidelines agreed to in the negotiations.
- Only products already subject to TRQs should be eligible for designation as sensitive products, but countries with large numbers of TRQs, such

as the European Union, South Korea, and the United States, should not be able to designate all of the affected products as sensitive.

- TRQs should be expanded and allowed to grow along with domestic consumption, and within-quota tariffs should be eliminated or sharply reduced (and bound) to ensure that the quotas are filled.
- A tariff cap on *all* products is needed to ensure that the exemptions for sensitive products do not completely negate any meaningful liberalization.

Table 2.5 gives an indication of which products the European Union, Japan, and United States are likely to declare sensitive. The initial proposals varied widely, with the European Union seeking to designate up to 8 percent of agricultural tariff lines as sensitive (more than 150 lines at the 8-digit level) and the G-10 wanting 15 percent. The United States and the G-20 coalition of developing countries have proposed that no more than 1 percent of tariff lines should be sensitive (1.5 percent for developing countries), which would be no more than 15 to 20 lines.

The data in table 2.5 on applied tariffs and TRQs suggest that sugar and dairy products are the most likely to be designated as sensitive, along with rice in Japan and beef in the European Union.⁹ The bottom of the table shows the average production-weighted tariff applied against developing-country agricultural exports by Japan, the European Union, and the United States, as well as the simple average (mean) and median bound tariffs.¹⁰ The median indicates that 50 percent of bound agricultural tariff lines are below 13 percent in the European Union and lower than that in Japan and the United States.

The combination shown in table 2.5 of moderate average tariffs and high numbers of TRQ lines for fruits, vegetables, and poultry suggests that the initial EU proposal to trade off the number of sensitive products for increased flexibility in determining the size of tariffs cuts in the lowest tier was aimed at protecting these products. EU negotiators have also proposed that the Uruguay Round's special safeguard mechanism for agriculture should be extended for these sectors, as well as for the more heavily protected beef, dairy, and sugar sectors. This stance also seems consistent with the analysis earlier in this chapter suggesting that the European Union will have to eliminate administered prices for fruits and vegetables to meet its domestic support commitments, meaning that tariffs and TRQs will be all it has to support domestic prices of these commodities.

9. CAP reform lowered the administered price for rice to the point that it is unlikely to be declared sensitive.

10. In developed countries, bound and applied tariffs are typically close. The difference between applied and average (mean) tariffs in table 2.5 is more likely due to the weights used (Roodman 2005).

But because the fruits and vegetables sector has not yet been reformed, this is also the only sector where EU negotiators have much flexibility to move on market access. Chapter 4 of this book and World Bank research (Aksoy 2005) also show that the fruits and vegetables sector is among the more dynamic sectors in global agricultural trade and is increasingly important for developing-country exporters. If the European Union and other rich countries insist on maintaining high levels of protection for the meat, dairy, and sugar sectors, fruits and vegetables is one area where they should give something up. Efforts by EU negotiators to declare fruits and vegetables sensitive should thus be opposed.

Tariff Escalation and Other Issues

With middle-income countries likely to be the primary near-term beneficiaries of any increased market access for fruits and vegetables, tariff escalation is an area where focused efforts could help low-income countries. The apparent agreement to have an overall cap on tariffs and to require larger cuts in tiers with higher tariffs will to some degree reduce tariff escalation and tariff peaks. Developing countries, however, have a particular interest in pushing for more progress in this area so that they have a chance to add value to primary products, diversify exports, and create jobs in rural areas. One approach would be to require that tariffs on processed products that are higher than the tariff on associated raw products be reduced by a multiple of whatever the formula reduction would otherwise be. For tropical products, of particular interest to many low-income countries, a more radical approach is justified. The WTO's Geneva framework agreement from July 2004 reiterated that full liberalization of tropical agricultural products is a "long-standing commitment" of WTO members that has not been fulfilled. In many cases, the tariff on raw products, such as coffee and cocoa beans, tea, and tropical fruits and vegetables is at or close to zero. In these cases, the tariff on processed products incorporating these commodities should also be at or close to zero, or at least in the single digits.

The final tariff issue is the treatment of specific, compound, and other types of non-ad valorem tariffs. As explained in chapter 2, these tariffs are less transparent and more trade distorting than ad valorem tariffs, and, where ad valorem equivalent estimates are available, they also tend to be higher. For purposes of the tariff-cutting negotiations, these tariffs have to be converted to their ad valorem equivalents. Fights over how to do this wasted several months of precious negotiating time over the winter of 2004–05. At issue was the base price that would be used to calculate the ad valorem equivalent of specific tariffs.

For a variety of reasons, import prices tend to be higher than world prices. This is especially true for products covered by TRQs. The European Union wanted to use the higher import price so that the calculated ad valorem

equivalents would be lower and the required tariff cuts therefore lower. But EU negotiators and others taking this position did so expecting that they would be able to go back to the specific tariff after the cuts were made. A compromise using a hybrid price was reached, but the real issue is whether to require that all specific and compound tariffs be permanently converted to their ad valorem equivalents and bound at that level before being cut. Rather than spending months debating what price to use for the calculations, the time should have been spent negotiating a commitment to bind specific tariffs at whatever ad valorem equivalent was agreed to before getting to the technical issue of how to do the conversion. Developing countries use primarily ad valorem tariffs and are often the victim of higher specific tariffs in industrialized countries (Aksoy 2005, 44–45). Binding all tariffs at their ad valorem equivalents and then cutting them would thus be of particular interest to developing countries.

Finally, determining whether the special safeguard for developed countries is retained or eliminated should be deferred until the end of negotiations and then be decided on the basis of what has been settled in the rest of the agreement. The “special safeguard” for agriculture is much easier to use than regular safeguards permitted by the WTO and does not include the adjustment-oriented features requiring that safeguard actions be temporary and degressive. In the European Union, safeguards on some products have been in place continuously since the Uruguay Round Agreement on Agriculture was implemented in 1995. But if negotiators reach an ambitious market-opening agreement, especially if it is combined with ambitious results on domestic and export subsidies, then continuation of a special safeguard to allow countries to respond to import surges might be appropriate. Some additional disciplines to guard against abuse would still be needed, however. If, instead, the required cuts in tariffs are not deep or the list of sensitive products is long, then additional flexibility in regard to surges would not be appropriate. In that case, countries could still use the regular safeguard process to slow imports that threatened serious injury to their producers.

The final chapter summarizes the specific recommendations for commitments by rich countries in the Doha Round agricultural negotiations.

