AGRICULTURAL POLICY REFORM IN THE WTO

The Road Ahead
PROJECT GOALS

• Calculate the costs of global agricultural policies and the potential gains from their elimination

• Evaluate broad options for reforming tariffs, TRQ’s, domestic support and export subsidies
Major Findings

• Eliminating global ag. policy distortions would:
  • raise world welfare $56 billion annually
  • raise world agricultural prices 12 percent

• Roles of policies in reducing world prices:
  • Tariffs (52%)
  • Domestic subsidies (31%)
  • Export subsidies (13%)

• Developing countries can benefit from further WTO reforms
Ag. Policy Distortions Cause World Prices to be 12% Lower Than They Otherwise Would be

Economies Around the World Contribute to Ag. Price Distortions

- EU: 39%
- U.S.: 15%
- Canada: 2%
- Latin America: 3%
- Japan & Korea: 13%
- Other Asian: 8%
- Rest of world: 20%
- Australia & New Zealand: 0%
Estimated annual gain in purchasing power = $56 billion

Many Countries Would Share Consumer Purchasing Power Gains From Elimination of Ag. Tariffs and Subsidies

- U.S.: 24%
- EU: 19%
- Canada: 2%
- Australia & New Zealand: 6%
- Japan & Korea: 11%
- Other Asian: 13%
- Latin America: 14%
- Rest of world: 11%
## Price Effects of Eliminating Global Agricultural Policy Distortions

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Full policy elimination (percent change from base)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Livestock and products</td>
<td>22.3</td>
</tr>
<tr>
<td>Wheat</td>
<td>18.1</td>
</tr>
<tr>
<td>Sugar</td>
<td>16.4</td>
</tr>
<tr>
<td>Coarse grains</td>
<td>15.2</td>
</tr>
<tr>
<td>Oil and oilseeds</td>
<td>11.2</td>
</tr>
<tr>
<td>Rice</td>
<td>10.1</td>
</tr>
<tr>
<td>Vegetables and fruits</td>
<td>8.2</td>
</tr>
</tbody>
</table>
OPTIONS FOR REFORM

• Market Access: Approaches to reducing global tariffs and liberalizing TRQs

• Domestic Support: Reducing aggregate AMS versus leveling AMS across countries and commodities

• Export Subsidies: Effects of eliminating EU subsidies
Figure 2
World agricultural tariff averages, by region

Average agricultural tariff (62 percent)

Tariffs are bound MFN rates based on final URAGA implementation.
Source: Economic Research Service, USDA
Figure 3
World agricultural tariff averages, by commodity

Percent

Average agricultural tariff (62 percent)

1Tariffs are bound MFN rates based on final URRAA implementation.

Source: Economic Research Service, USDA
OPTIONS FOR MARKET ACCESS REFORM

• Linear vs. harmonization formula
  weak economic rationale for uniform tariffs
  political economy arguments for uniform tariffs
  harmonization needed to lower very high tariffs
  in global markets

• TRQ’s: no one-size-fits-all rule for reform
TWO OPTIONS FOR REFORMING DOMESTIC SUPPORT:

• Continue the UR reforms: lower the AMS ceilings for OECD countries an additional 20%

• Level the playing field for OECD countries - support for each commodity must be at or below 30% of the value of production
Figure 1. AMS ceilings and actual AMS as a percent of value of production

Source: ERS calculations
European Union ($55 billion)
- wheat total: 6%
- dairy total: 11%
- sugar: 12%
- beef: 27%
- other: 44%

Japan ($25.8 billion)
- rice: 76%
- other: 14%
- beef: 5%
- dairy total: 5%

United States ($6.3 billion)
- dairy total: 72%
- sugar: 16%
- cotton: 7%
- peanuts: 5%
- other: 14%

AMS Support (1997)
Figure 3 - Export subsidy expenditure by country, 1995-98
($millions)
Conclusions on export subsidies

• Effects on aggregate world agricultural prices and trade relatively small

• Export subsidies remain important because:
  - effects in specific markets can be large
  - they are linked to domestic support
  - they can slow progress on market access
Developing Country Issues

• For middle income DCs -
  improved market access for ag. exports
  trade linked productivity gains

• For lower income DCs -
  erosion of preferences
  lower food aid needs

• Developing countries increasingly critical of
  directions in domestic support in developed
  countries
Developing Country Membership in WTO Expands

Number of countries

Geneva (1947)
Annecy (1949)
Torquay (1950-51)
Geneva (1955-56)
Dillon (1960-61)
Kennedy (1963-67)
Tokyo (1973-79)
Uruguay (1986-94)
Developing Countries Have Become More Dependent on Food Imports
Food Aid Needs Decline

Trade Liberalization Effects on Food Gaps

- S.S. Africa
- Asia
- NIS
- L. America
- N. Africa

Million tons

Price and export growth, Price effect only, Baseline
Why are Impacts Small? Agricultural Exports Are a Small Share of Total Exports in Some Regions*

Percent

L. America
S.S. Africa
Asia
N. Africa

0 10 20 30 40

* Merchandise exports only, 1997-97 average. Source: FAO
Low Investment Affects Supply Response

- Technology
- Infrastructure
- Public support policies
Recent Food Security Proposals to WTO Are Diverse

• Food aid
  – discipline (EU)
  – expand (Korea, Nigeria)

• Allow domestic support for food security (several countries)

• International grain reserve (Japan, Mauritius)

• Free trade (MERCOSUR)

• Financial rebate system (Egypt)
Conclusions

• Low-income developing countries are becoming more dependent upon imports for food supplies
• Agricultural trade liberalization will have small, positive impact in reducing food insecurity
• Some proposals on food security policy options are worth considering and need more examination
For more information…..
www.ers.usda.gov