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The Doha Talks and the Bargaining Surplus in Agriculture

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The Doha Round has been slow to achieve a reduction in the level of agricultural protection. This remains the case notwithstanding the substantial economic benefits that would arise from a more liberal agricultural trading regime. We provide one explanation for this slowness using a simple bargaining model. We demonstrate that the bargaining countries received a substantial fiscal gain from reducing government expenditures in the run-up to the Uruguay Round. This fiscal pressure was sufficient to block rent seekers who wanted farm payments to continue. Since the Uruguay Round these fiscal constraints have been reduced and the same pressure to reach a bargain and control rent-seeking behaviour is not present in the Doha Round.

Keywords: Doha Round, rent seeking, bargaining

Introduction

The Doha Round has been slow to achieve a reduction in the level of agricultural protection. The predominant rationale given in support of a cut to agricultural protection is the welfare cost of maintaining protection, which is a real cost to the economy. In addition, the protection afforded to farmers in developed countries often comes at the expense of farmers in less-developed countries (Anderson and Martin, 2006). In the discussion regarding the merits of reduced farm support little attention has been paid to why governments would choose to maintain protection for the agricultural sector in the face of the general agreement as to the cost of protection.[1] The results of the trade analyses are consistent with one's expectations: freer trade leads to higher social welfare. However, all policy is made internal to a country, and where there are competing interests, some will be winners and some losers. It is the relative strengths of the domestic influences (including economic interests) that arise in the political market that determine the final decisions.

The fiscal capacity of a government to provide support to farmers is one domestic influence that affects political decisions. Rent seekers (in this case, agricultural producers who stand to gain from farm support programs) and politicians are constrained by domestic fiscal balances. On the other hand, many politicians have difficulty understanding the real welfare benefits that arise from freer trade and think more in terms of job creation and exports.[2] Clearly those sectors losing protection will incur the domestic cost of freer trade (i.e., the production from some industries being reduced, causing the need for structural adjustments). The influence of interest groups representing these declining industries often wins the political day. When negatively affected sectors have strong political influence, politicians may see the loss of jobs in the declining sectors as a reason to block freer trade. Nevertheless, when national governments face fiscal constraints it is easier for them to reduce transfers to special interest groups than it would be in the absence of a financial imperative.

We make the argument that in the agricultural discussions of the Doha Round, the European Union and the United States have little fiscal urgency for further agricultural trade liberalization, notwithstanding the gains from freer trade and the reduced taxpayer costs. We focus on the EU and the United States because of the claim by many countries that they are blocking the Doha process by failing to offer greater market access, reduce export subsidies, and reduce domestic support. The G-20 countries, lead by Brazil, have focused on the positions of the EU and the United States (Motta Veiga, 2007) as the major obstacles to a Doha agreement. The EU and the United States have requested that the G-20 countries (and others) open up their non-agricultural markets in return for any movement on agriculture. In bargaining terms the EU and the United States have little bargaining surplus to gain from freer agricultural trade relative to the G-20 countries. In order to increase their bargaining surplus the EU and the United States need increased access to high technology and financial and other markets.[3]

Our hypothesis is that the net bargaining surplus the EU and the United States would gain from a more liberalized agricultural trade environment is limited when seen through the lens of a bargaining model. There are at least three aspects of the net bargaining surplus that are different in the Doha Round from the Uruguay Round. First, the welfare gains available to the EU and the United States are smaller in the Doha Round, making a bargaining solution potentially more difficult to achieve. This is because some of the distortions were removed in the Uruguay Round. Second, both the EU and the United States have made a large number of domestic agricultural policy changes since the Uruguay Round, which they see as improvements to their agricultural policy. Third, the source of the gains matters because of the role of rent seekers. It is easier for rent seekers to block potential gains from improved market access (in part because consumers are so poorly organized) than it is for rent seekers to block the reduction in government expenditures on farm payments in times of fiscal constraint.

In summary, we show that the changes countries made to the levels of agricultural support in the Uruguay Round were consistent with their needs, at the time, to reduce fiscal expenditures. This same imperative is not present in the Doha Round, giving rise to the possibility that no bargaining solution may be found. The lack of a fiscal problem (or a fiscal problem that can be affected much by reducing farm payments) has allowed rent seekers to maintain support levels and block further trade liberalization. In addition, agricultural policy has not remained stagnant since the Uruguay Round. Countries have altered the type of support to producers, changed the demand for the protected crops (i.e., through ethanol-production policies and incentives), and entered into a number of bilateral trading agreements. We suggest that if the Doha Round is to achieve a reduction in farm support it needs to identify a fiscal imperative, or some other larger issue, to control the influence of rent seekers. One such candidate is global climate change.

We organize this article into four sections. The second examines the fiscal balances in the four regions in the lead-up to the Uruguay Round. The third examines changes to the bargaining surplus in the Doha Round as well as domestic policy changes in each of the four regions. The fourth suggests alternative political and economic links that could be used to move the Doha Round forward.

II. Lead-up to the Uruguay Round: Brief Review

It was not until the conclusion of the Uruguay Round that agriculture was first brought under the GATT disciplines. The impetus to bring agriculture into the GATT came from numerous sources. Two of the major players were the EU and the

United States; likewise, countries like Canada and Turkey were seeking ways to reduce government payments to farmers. This made the potential bargaining surplus large and the level of default benefits low for all countries. Thus, finding a bargaining solution to the agricultural trade and subsidy problem was achievable.

There were many reasons for reducing economic protection to farmers leading up to the Uruguay Round; two of the more important of these were the fiscal uncertainty faced by governments and the build-up of commodity stocks, both caused in part by domestic price subsidies and import controls. The fiscal uncertainty came from a long period of deficit financing (partly the result of farm support payments) and the high interest rates used by central bankers to control inflation. The Uruguay Round Agreement was a perfect opportunity to address both government concerns.

The European Union

Coleman and Tangermann (1999) present two schools of thought regarding why the EU moved to alter farm programs in the MacSharry Reforms of 1991-92 while the Uruguay Round talks were underway. The first holds that the impetus for change in the EU was the desire to reduce the EU Commission expenditures on farm programs. The second holds that, while fiscal and oversupply problems existed, there was also a desire by the EU to be consistent with the direction of international negotiations.

A third interpretation of the changes to the EU's Common Agricultural Policy (CAP) is provided by Nedergaard (2006), who argues that the CAP can only be understood if the economic analysis is coupled with rational choice theory. The policy-making process in the EU has become more directed toward redistribution of income, and the CAP is one instrument farmers can use to get economic benefits. When the European Union is considered as one multilevel governance system, the opportunity for special interest groups to lobby for special economic outcomes becomes apparent. The politicians and bureaucracy supply the economic protection lobbied for by the EU farmers. In this case a rent-seeking model is required to explain the reasons for economic reform or the lack thereof.

Within the EU, policies were introduced to bring down agricultural expenditures as a percentage of the total budget before the URAA, as shown in figure 1. In the early 1980s the CAP consumed approximately 70 percent of the total EU budget. This left little money for other EU objectives such as infrastructure development, human rights, etc. Through the CAP the EU was supporting the domestic price of commodities like wheat, which lead to large surpluses that required large amounts of export restitution if they were to be sold on the world market. This was not a sustainable fiscal situation. The MacSharry Reforms in 1991-92 reduced the price incentives for EU farmers to overproduce. These reforms were fully consistent with the objectives of the URAA as pointed out by Coleman and Tangermann (1999).

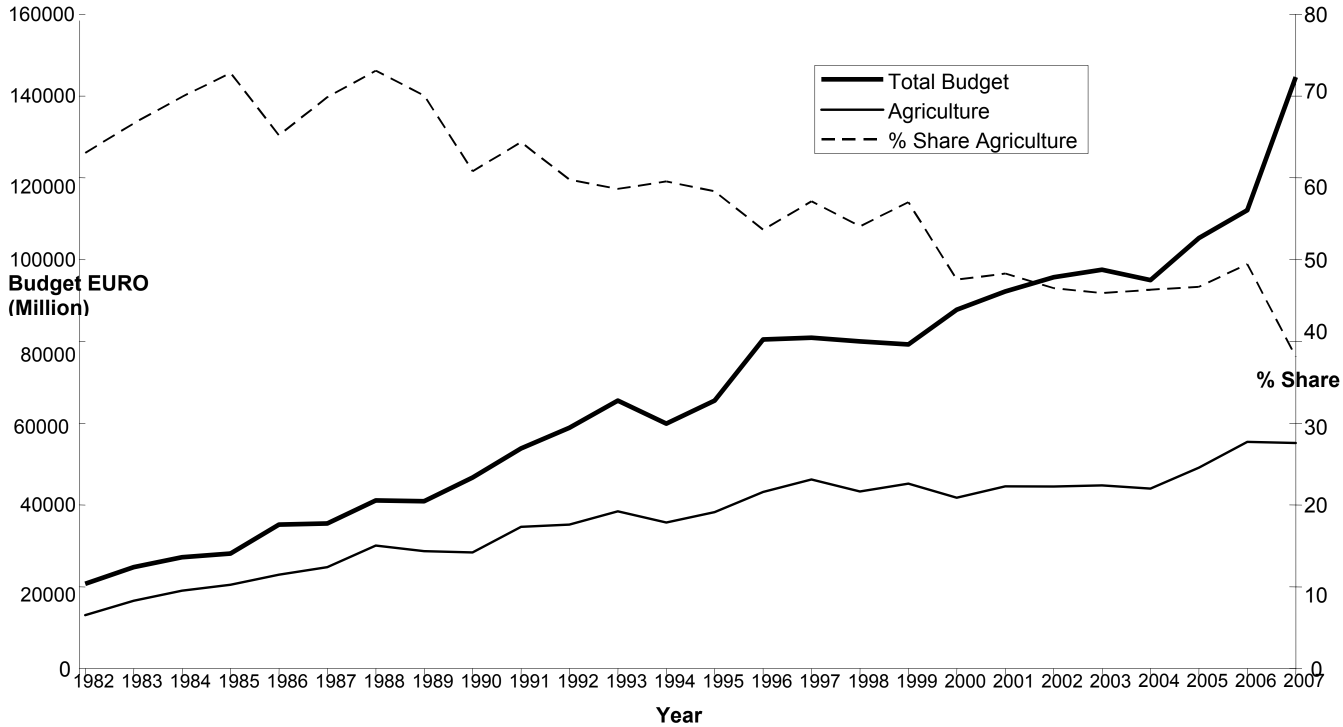

Figure 1 EU Budget & Agricultural Commitment

The United States

The United States has always been an important player in the GATT talks. From the 1930s to the 1980s U.S. farm policy was heavily influenced by the Great Depression years, with drought in the Western, Southern, and Plains states, when low prices and low yields impoverished many farm families. The U.S. Congress found it politically important to retain the right to protect producers from low prices and was generally opposed to having its hands bound by foreign policy or trade agreements. For example, Section 22 of the Agricultural Adjustment Act of 1933 explicitly allowed the use of import quotas to protect the operation of domestic farm programs. In 1951 the U.S. Congress passed an amendment to Section 22 adding,

> No trade agreement or other international agreement heretofore or hereafter entered into by the United States shall be applied in a manner inconsistent with the requirements of this section (Rausser, 1995, p. 6).

Section 22 was not repealed until 1996 with the creation of the World Trade Organization.

By the late 1980s support for a comprehensive trade agreement on agriculture was coming from the U.S. Administration. First, the United States had introduced the Export Enhancement Program (EEP), which was an export subsidy program aimed at reducing wheat stocks (see figure 2), to put pressure on other grain exporters to reduce their export subsidies. The EEP was targeted at the EU export subsidies but adversely affected all grain exporters, including Australia and Canada. The EEP was an expensive program with debatable achievements (Gardner, 2006). The United States discontinued using the EEP on grain exports after the URAA. Second, the United States wanted to open up export markets for U.S. farmers and agribusiness. To this end, both tariff and non-tariff barriers were targeted by U.S. negotiators during the Uruguay Round, though much less progress was achieved in this category than in the area of export subsidy reduction and aggregate support limitations on domestic production subsidies.

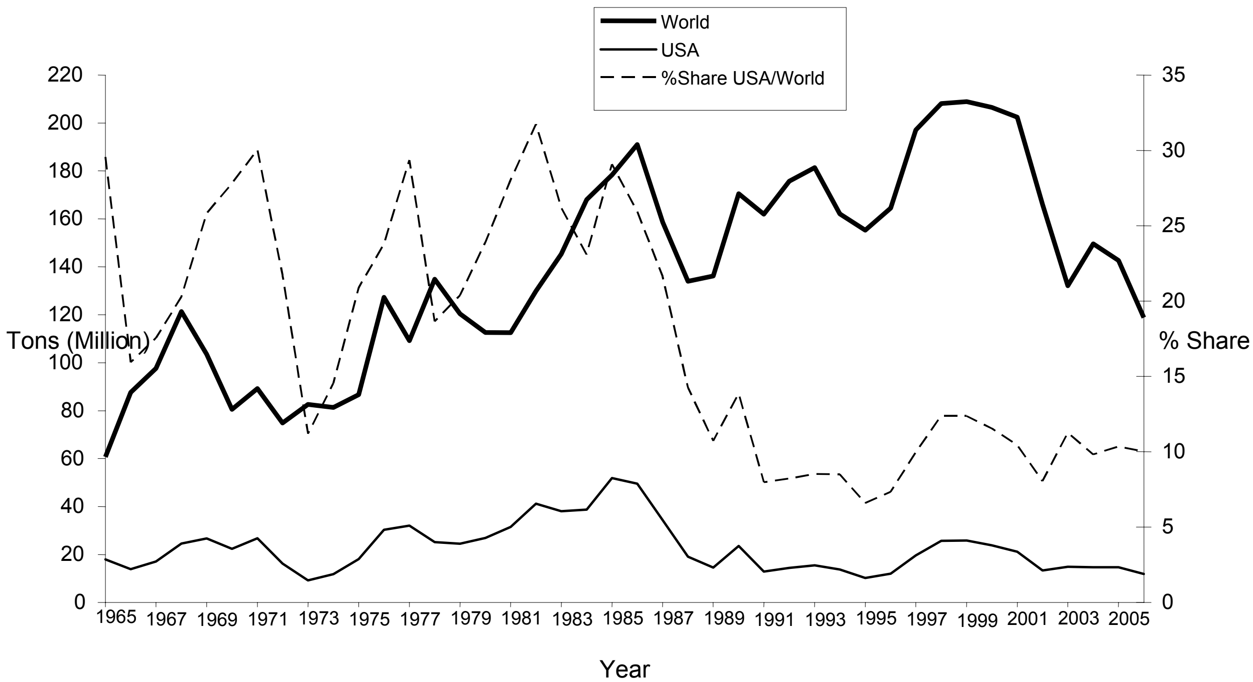

Figure 2 Grain Stocks: World and USA

Canada

Canada is an example of a country that supported the Uruguay Round in large part to reduce fiscal pressures. In the period up to 1993 the federal government incurred successive large budget deficits, and the structural imbalance was becoming a concern for the finance officials (figure 3).[4] The Uruguay Round was seen as an opportunity to remove the longstanding grain transportation subsidy. This policy distorted the price of grain on the Canadian Prairies in favor of exports and against the domestic livestock sector. The federal government wanted to remove this price distortion but had been unable to do so because of the lobbying power of Prairie farmers. A second result of the URAA was that limits were placed on all future domestic production subsidies. This gave the Canadian government a mechanism to resist future lobbying efforts of farm organizations. The agreement to reduce export subsidies and place limits on domestic supports through the various “box” calculations put a control on future expenditures.

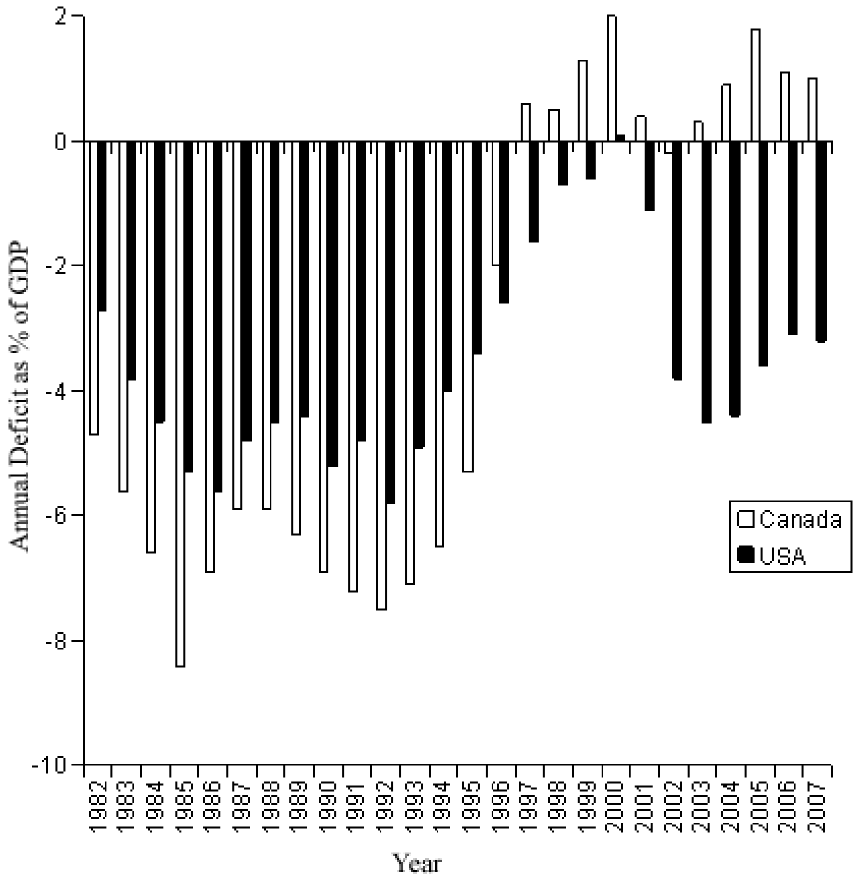

Figure 3 Budget Deficits & Surpluses: USA and Canada

Turkey

Turkey had a series of currency crises because of large fiscal deficits, which were partly driven by economic protectionism. Prior to the completion of the Uruguay Round, Turkey supported farmers through a large number of mechanisms, including a state trading company that put a floor price on wheat by purchasing wheat from the farmers, and numerous farm input subsidies (Yildirim, Furtan, and Guzel, 1998). In Turkey wheat is the staple commodity. The Turkish government had developed a policy that appeased both wheat consumers and wheat producers. Wheat consumers received a price subsidy on bread while wheat producers received a guaranteed price (Yildirim, Furtan, and Guzel, 1998). Also, Turkish wheat farmers were some of the first to capitalize on the Green Revolution. In the early 1970s Turkish farmers adopted the high-yielding wheat varieties that had been developed by CIMMYT in Mexico.

These varieties pushed wheat yields up by 300 percent in those parts of Turkey that could apply both water and nitrogen to the crop. The end result was that Turkey increased its wheat production by a factor of more than four from the 1960s to the late 1980s. The cost of the domestic wheat program to the government increased proportionally with the increased production.

Summary

Looking back at the countries and regions discussed, we see that the Uruguay Round achieved much more in terms of reducing expenditures than it did in opening up markets through tariff reductions. One achievement was the move to convert all quantitative border restrictions to tariffs or tariff-rate quotas (TRQs). The Uruguay Round of the GATT came at a fortuitous time in the history of the world agricultural economy. All of the countries were labouring under domestic fiscal burdens caused partly by farm programs that supported farmers.[5] One might say "the stars were aligned" for the first time to move toward a more liberal trading environment for agriculture. The internal political pressure to reduce government expenditures trumped some of the rent-seeking arguments.[6]

III. The Doha Round

The Doha Round of the GATT is a development round, giving special attention to the reduction of poverty through reduction of agricultural protection. The talks are moving forward slowly, in fact so slowly that any agreement has already missed the date the "fast track" authority granted by Congress to the U.S. president expired. Our hypothesis is that the policy alternatives being put forward in support of freer agricultural trade at the Doha Round may not result in a bargaining surplus large enough that a bargaining solution will be found.

There are two aspects of the bargaining surplus that differ from the Uruguay Round. First, the bargaining surplus is smaller because some of the distortions were removed in the Uruguay Round. This makes the default option higher in the Doha Round, which directly lowers the net bargaining surplus. Second, the composition of the net bargaining surplus is different. The gains made in the URAA largely benefited countries' treasuries, where, in the Doha Round, there are fewer existing direct payments and export subsidies to be removed. Market access is the more prevalent objective in the Doha Round, and gains in this dimension would be passed on as benefits to consumers. However, rent seekers are relatively more effective in blocking market access than are consumers in bidding for increased market access to achieve the resulting lower prices.

It is useful to examine the recent analysis put forth by Anderson and Martin (2006) when considering the above two statements. Table 1 shows the expected distribution of income gains from trade liberalization. The three types of trade liberalization are increased market access, reduced export subsidies, and reduced domestic support. For both high-income and developing countries, the policy change leading to the largest gain in income is increased market access. One of the reasons for this result is that export subsidies and domestic support levels were reduced to a greater extent in the Uruguay Round than were barriers to market access. We suggest the reason for this is twofold. First, domestic support and export subsidies are a direct cost to the treasury. Second, consumers are some of the main beneficiaries of increased market access, and consumers are less organized than producers, making the maintenance of market access controls easier for rent seekers to achieve.

Table 1 Distribution of Global Welfare Impacts from Removing All Agricultural Tariffs and Subsidies, 2001 (percent)

Agricultural liberalization component	Benefiting country		World
	High income	Developing	
Import market access	66	27	93
Removal of export subsidies	5	-3	2
Removal of domestic support	4	1	5
All measures	75	25	100

Source: Anderson and Martin, table 1.4, p.13.

A second useful piece of analysis (for our report) reported by Anderson and Martin (2006) is the expected gain in output and employment from trade liberalization (see table 2). One result recorded in table 2 is that the United States and the EU have less to gain domestically in the agriculture sector from trade liberalization than do most other countries or regions. This will lend support to the message of domestic rent seekers who want to block trade liberalization in those two jurisdictions. The baseline growth in output for the United States is 2.2 percent, while after trade liberalization it falls to 1.9 percent. The result for the EU is more dramatic, with a baseline growth of 1.0 percent falling to -0.3 percent after trade liberalization. Both jurisdictions have more rapid declines in employment in the agriculture sector with trade liberalization. Compare this to the cases of China, Brazil, and India, which all show steady or increased growth in both output and employment with trade liberalization. These results are consistent with our hypothesis that there is less bargaining surplus for the United States and the EU in the current Doha Round. If we think of the baseline as the default option for the two jurisdictions it is not difficult to understand why they are reluctant to move forward in the direction of trade liberalization.

The slowness on the Doha Round does not mean change is absent on the domestic agricultural policy scene. Countries are moving forward with their own domestic agendas. It is important to evaluate why these changes are occurring at this time and what they imply as to the net bargaining surplus available from the Doha Round. We argue these policy changes form part of the explanation for the lack of urgency for freer trade.[7]

Table 2 Average Annual Growth in Output and Employment from a Comprehensive Doha Reform as Compared with the Baseline Rate, by Region, 2005-2015 (percent)

Region	Output		Employment	
	Baseline	Scenario	Baseline	Scenario
Brazil	3.3	4.4	1.1	2.2
Canada	3.5	4.0	0.2	0.6
China	4.3	4.3	0.8	0.8
EU and EFTA	1.0	-0.3	-1.8	-2.8
India	4.3	4.4	1.0	1.0
Turkey	3.0	3.0	-0.5	-0.5
U.S.	2.2	1.9	-0.8	-1.4

Source: Anderson and Martin, table 1.7, p.18. "Scenario" refers to the case when the global average tariff on agricultural products is cut by roughly one-third, with larger cuts in developed countries, smaller cuts in developing countries, and zero in least-developed countries. This scenario also expands market access for non-agricultural goods, cutting tariffs by 50% for developed countries, 33% for developing countries, and zero for the least-developed countries.

The European Union

At the beginning of the Doha Round there was not the same pressure in the EU to "alter" farm programs as there was in the Uruguay Round, at least from a fiscal perspective. As pointed out by Daugbjerg and Swinbank (2007), "there are no acute crises similar to those facing the CAP in the early 1990s" (p. 9). The important point they make is that the fiscal situation facing the EU was very different at the beginning of the two rounds. This difference was partly the result of changes made to the CAP in the Uruguay Round and partly due to the ongoing internal changes begun with Agenda 2000.

The EU has made significant changes to its farm support programs under the CAP through Agenda 2000. In 2005, the EU moved to decouple support payments on grains and oilseed crops from the land on which the crops are produced. The EU achieved this through the Single Payment Scheme (SPS) by creating tradable transfers or payment entitlements (PEs). The PE is a bond that each active farmer received based on past subsidies (i.e., entitlements). Once the tradable certificates are issued there is no further price support; that is, EU cereal producers receive the world price. Some EU countries (for example, Greece) continue to take part of the past subsidy as a price support, with the remaining part as a decoupled payment. All transfers for grains and oilseed crops are to be decoupled by 2008.

The value of the payment entitlement is determined by the reference period 2000-02. In order to receive a payment one must be an active farmer. The owner of a PE receives the nominal value of the bond each year. The 2003 reform states that the maximum nominal value of any entitlement is 5000 Euros per hectare. The value of the PE declines over time through a yearly depreciation starting at 3 percent in 2005 and increasing to 4 percent in 2006 and 5 percent in 2007 and onward. Each hectare of wheat receives the same payment in a given region, with the definition of "region" being determined by each EU country. For example, in Denmark the entire country is one crop region. Two reasons for the introduction of the SPS are to reduce the CAP's influence on grain production and to reduce the cost of the CAP to the EU Commission over time. In these respects the move is consistent with the Doha Round agenda of freer trade.

As shown in figure 1, the percentage of the EU budget spent on agriculture dropped from over 70 percent in the mid 1980s to below 40 percent in 2006. The SPS currently makes up one-half the agricultural budget and is booked to decline in future years, which will further reduce the money spent on agriculture. With this policy, the EU already has put in place a phase-out of the original price subsidies of grains and oilseeds, leaving much less to bargain for at Doha in this category.

What remains to be done in the EU in terms of freeing up trade includes removing price supports on livestock products and other non–grain and oilseed farm products. Export subsidies still remain on some products. Reducing these programs will save the EU Commission money. There is a need to increase market access by lowering tariff and non-tariff barriers on a number of protected commodities. Such lowering, however, is problematic for much of the EU because of the importance being placed on food safety and the desire of many countries' farmers to protect the market for specialized products.

The United States

The 1996 U.S. Farm Bill started to decouple government support to the grains and oilseeds sector. Farmers were given decoupled payments based on past subsidy levels in the form of entitlements called "production flexibility" payments (Gardner, 2006). The purpose of decoupling was to encourage farmers to respond to market signals. It had, however, another attractive feature from the U.S. government's perspective: it allowed for fiscal support to grain farmers without supporting other countries, for example through the world wheat price. Gardner's estimates of gains and losses for the grains and oilseeds commodity programs for the 1985 U.S. Farm Bill and the 1996 Farm Bill show that transfer efficiency increased from 81 percent to 99 percent with the 1996 Farm Bill. This change in program design, which was also a change in policy, was very much in line with the spirit of the URAA.

The 2002 Farm Bill is seen by many as a major step backward in U.S. farm policy. Whether that is the correct evaluation we leave to others; however, there are good reasons the support levels were increased over the 1996 Farm Bill. First, during the period following the 1996 Farm Bill the U.S. government made a number of supplementary payments to grain and oilseed producers (Gardner, 2006). The 2002 Farm Bill put some of this support into legislation. Second, coming out of the 20th century the U.S. economy was booming, delivering substantial government revenue (see figure 3). The U.S. deficit had disappeared and the government appeared to have money to spend. This was a relatively new phenomenon and one that created the expectation that entitlements were affordable. Farmers saw to it they got their share.

In 2006/07 the U.S. grain economy looks set for good times, at least in the short run, with the exception of a few commodities like cotton. Prices for corn, wheat, and soybeans are all above the support level, due largely to the indirect subsidies enjoyed as a result of the ethanol feeding frenzy. The reasons for the higher prices are many, but the most important is the growing use of corn in making ethanol. The United States has placed energy security at or near the top of its domestic policy list, which has resulted in large and growing quantities of corn being made into ethanol. This policy is not likely to be affected by the Doha Round and may be strengthened with the 2007 Farm Bill currently under development by the U.S. Congress. This is an example of the farm-lobby rent seekers having objectives well aligned with the "national energy security" objectives. Corn prices are strong, encouraging more acreage of corn. There is some talk of reducing the amount of land in the Conservation Reserve Program. With the current grain prices the U.S. Farm Bill must appear more affordable every day to U.S. legislators.

There are fiscal reasons for the United States to change its farm policy, aside from the arguments from economists that it is inefficient, supports larger farmers, and is inconsistent with freer trade. The overall level of the U.S. government deficit is a concern; however, farm programs are a small part of this problem. Winning the argument to return to a 1996-style Farm Bill is likely to be an uphill battle given the midterm election results and the ethanol mandate.

Canada

Following the Uruguay Round the Canadian government began developing farm support payments that were production and trade neutral. Canada introduced a whole-farm income support system in 1997. The whole-farm system is aimed at providing stability to a calculated production margin. Each farm has its own production margin. This program has evolved through a number of iterations; the current incarnation is called the Canadian Agricultural Income Stabilization (CAIS) program. It is designed to make a payment if the current year's production margin is less than 70 percent of the reference margin.[8] The farm support program has been supplemented numerous times with additional payments such as a special BSE payment in 2003 and a grains and oilseeds payment in 2006.

One major policy issue on the Doha agenda that affects the grain economy in Canada is the transformation of the Canadian Wheat Board (CWB). Change to the operating rules of agricultural state trading enterprises is on the Doha agenda, but such change has not gone forward fast enough for the Canadian government's liking.[9] The issue is not a fiscal one but rather a debate on if and how state trading enterprises affect trade. How far the Canadian government will move on the CWB under the trade talks is open for speculation; however, we suspect they are willing to trade the CWB monopoly for greater market access and reduced subsidies in other countries.

On the fiscal front there is little pressure for freer agricultural trade in Canada. The federal government has run a continuous eight-year budget surplus (figure 3). The provinces are all in stable financial positions (most running annual budget surpluses) and well able to make support payments to farmers if they so choose. The Canadian government supports the Doha Round largely to get increased market access and to change the CWB. However, Canada maintains a contradictory position on improved market access. It is interesting that Canada continues to seek protection for so-called sensitive products. In Canada the sensitive agricultural products are the supply-managed commodities, including dairy and poultry products. These products are protected by very high tariffs and are represented by a powerful political and farm lobby (Schmitz, Furtan, and Baylis, 2001). It is noteworthy that the Canadian government has signaled it wants to increase economic protection for the dairy sector by placing a new tariff on imported milk ingredients. Dairy farmers have lobbied for this new tariff in order to totally protect the domestic milk market. This can only be seen as anti–free trade behaviour.

Turkey

The traditional agricultural policy mix in Turkey has been criticized on the grounds that the benefits of the subsidies have gone mainly to larger, wealthier farmers and the support system failed to enhance productivity growth. (In 2005 agriculture still constituted 29.5 percent of employment, 11.4 percent of GDP, and 10.5 percent of the total export volume.)

The agricultural sector also suffered from the financial crisis of 2001. After the crisis Turkey implemented the Agricultural Reform Implementation Project (ARIP), which is backed by the World Bank. The first component of the ARIP was the replacement of grain (particularly wheat) price support with a direct land payment to farmers. The Direct Income Support (DIS) scheme implemented in 2001 had four main objectives: i) transfer necessary financial support for sustaining production by utilizing direct methods instead of indirect methods; ii) implement the support scheme within budgetary limits; iii) remove the obstacles that impede proper functioning of the market mechanisms, thereby allowing prices to be set in the market; and iv) collect reliable farm data which could be regularly updated. Farmers were eligible for a DIS payment for land up to 50 hectares. DIS payments per hectare were around 90 to 94 Euros after 2001. Additional DIS payments were also granted to farmers who undertake soil analysis, practice organic farming, or use certified seed on their land. Since 2005, diesel fuel and fertilizer support payments also have been made on a per hectare basis.

The second component of ARIP was the privatization of state economic enterprises such as TEKEL (Turkish Alcohol and Tobacco Company) and the restructuring of TMO (Soil Products Office). Agricultural Sales Cooperative Unions (ASCUs), which had been used by the government for intervention in the commodity support system, were also reorganized. The third component included a one-time crop payment to farmers who would shift from surplus crops such as hazelnuts, tobacco, and sugar beets to imported crops such as oilseeds, feed crops, and corn. However, very few farmers used this option.

The implementation of ARIP had problems. Initially farmers were reluctant to apply for per-hectare payments, since to do so required registration. Farmers also were not happy that the yearly announced payments were made in instalments. Various farm producer groups continued to lobby for higher prices for their crops. Although the main idea of ARIP was to shift to a decoupled system of support, government once again enacted fertilizer and fuel support payments in 2005. While the share of direct income-support payments started to decline, the share of crop-specific deficiency payments and support to livestock production increased after 2005. After a couple of years of not intervening in the market, TMO increased its support purchases of grains. The government also asked TMO to purchase hazelnuts for the first time in its history after farmers protested over lower hazelnut prices.

Summary

When we look at the current fiscal balances of governments in some of the major producing countries it is possible to explain some of the slowness of the Doha talks. The net bargaining surplus is lower than when the Uruguay Round took place, making achievement of a bargaining solution more difficult. It is difficult to get politicians and farm lobbyists to appreciate and act on future welfare gains when the domestic situation does not demand change. This makes the negotiating process very difficult indeed.

IV. Implications and Conclusions

If much of the fiscal pressure countries have experienced from historical farm supports has been mitigated because of the successful completion of the Uruguay Round, is there another policy issue that can take its place that would focus trading nations on multilateral issues? Put another way, is there an alternative set of policies that would increase the potential bargaining surplus and be more difficult for rent seekers to block? One issue that requires multilateral co-operation, affects trade, and has large fiscal implications for governments is climate change. There are at least three factors related to climate change that affect agricultural trade. First, as the climate warms and weather becomes more erratic, food security and food safety may be affected. Many countries may find they are not capable of producing sufficient food for their populations given present technology and future weather patterns. This shortfall may require new global agreements on food aid and access to food for purchase. Second, if countries move forward on a large scale with the biofuel economy as one part of the strategy to mitigate climate change there may be food shortages in some regions and countries. Weather patterns may play a role in the need for farm income support if agribusinesses need a continuous supply of grains like corn, wheat, and sugar. A business coalition may form between the farmers and processors to support the price or the income of farmers so as to encourage production of these crops. Finally, there is the issue of using farmland as a carbon sink. Some studies have reported substantial increases in soil carbon in the land within the U.S. Conservation Reserve Program. If land is placed under some form of permanent cover or crop production so as to reduce greenhouse gases there may be trade impacts.

In an ideal world, the most desirable solution would be to remove all government programs and let the market respond to the increased demand for food and biofuels. However, changing weather patterns may result in more frequent and prolonged droughts and floods, placing severe financial pressure on farm income. Thus there may be some need for farm programs, albeit of a different design from the current set. To cast climate change as a driving pressure in agricultural trade talks is to substitute a fiscal deficit with the environmental deficit. Given some thought and imagination, this maybe a successful route to move multilateral agricultural trade talks forward.

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Endnotes

1. The literature on why governments protect industry from foreign competition is large. We do not review this literature.
2. The concept that one could be better off if production declined and prices increased is foreign to many farmers and politicians alike.
3. One reviewer pointed out that all G-20 countries do not have the same objectives and constraints with regard to increased market access. One needs to be careful to not make the G-20 look like a monolithic group. We agree and thank the reviewer for this point.
4. In Canada provincial governments also provide financial support to farmers. In the period 1980 to 1993 all provincial governments were running large fiscal deficits, and some provinces, for example Saskatchewan, saw their credit ratings being

reduced to the point where they could no longer borrow money on the international market. Saskatchewan is the largest wheat-producing province in Canada, and it had the worst credit rating of all wheat-producing provinces.

5. The EU is referred to as one country only in the sense that it has a single agricultural policy.
6. As pointed out by a reviewer, the Uruguay Round resulted in a less-than-expected reduction in farm support because governments moved support to “non-distorting” programs.
7. Most country leaders speak in support of freer agricultural trade, but few appear to offer up much that would actually result in freer trade at the talks. Most of the concern appears to relate to how to protect sensitive domestic sectors.
8. The reference margin is the Olympic average of the previous five years’ production margins.
9. In the 2005 election the Conservative Party promised to remove the monopoly powers of the CWB.