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A Fair Path to Free Trade: The
WTO Agriculture Negotiations

By

David Hegwood
Special Counsel to the Secretary
U.S. Department of Agriculture

A FAIR PATH TO FREE TRADE
THE WTO AGRICULTURE NEGOTIATIONS

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[SLIDE 1]

The first successful effort at global agricultural trade reform began with the launching of the Uruguay Round in 1986, which led to the conclusion of the Uruguay Round Agreement on Agriculture in 1994.

The Uruguay Round succeeded where seven previous rounds failed because of the framework that was developed. The architects of the Uruguay Round agreement believed, rightly as it turned out, that political forces opposing reform could only be overcome through comprehensive negotiations. All countries had to be willing to put all policies for all agricultural products on the table.

This was an issue of fundamental fairness. Countries provide support and protection to agriculture in different ways. Previous negotiations had focused primarily on tariffs, while ignoring equally trade-distorting measures, such as variable levies, quotas, export subsidies and domestic supports. Countries had also effectively excluded politically sensitive sectors from commitments. The reformers were determined the Uruguay Round would be different.

[SLIDE 2]

The result was the now well-known three pillars approach. By requiring countries to undertake commitments on market access, export subsidies, and domestic support, the Uruguay Round Agreement established a new framework for agricultural trade liberalization. The first round of cuts – 36 percent for market access, 36 percent by value and 21 percent by volume for export subsidies, and 20 percent for domestic support – was less

ambitious than many had hoped, but it was a start and Article 20 of the Agreement committed countries to continue the reform process through future negotiations.

Which brings us to the Doha Round. With the framework established, the focus of the negotiations is the level of ambition – how far to cut and how fast. There are two basic approaches. One, advocated by the EU, Japan and assorted allies, is to continue the straight percentage reduction formula agreed to in the Uruguay Round. The second, advocated by the United States and the Cairns Group, is to bring higher levels of support and protection down more rapidly.

[SLIDE 3]

The U.S. harmonizing approach attempts to address the fundamental inequities left-over from the Uruguay Round. The initial round of cuts in the three pillars did little to reduce the great

disparities in support and protection provided by major agricultural producing economies. These disparities exist in all three areas – market access, export subsidies, and domestic support.

MARKET ACCESS

[SLIDE 4]

In market access the inequities appear in the form of widely disparate tariff levels. The global average of agricultural tariffs is 62 percent. The United States is at the low end with an average tariff of 12 percent. Japan is among the highest for developed countries with an average tariff of 51 percent. What the average tariff levels do not reveal is the ridiculously high tariff levels for individual products. Japan, for example has a tariff on rice imports that is currently 490 percent.

There is no way to reconcile a tariff of 490 percent with the commitment in the Doha Declaration to trade liberalization. If one country is allowed to maintain a tariff of that level for a sensitive sector, then why wouldn't all countries demand the right to do the same? Fairness dictates that all agricultural tariffs should be reduced to substantially equivalent levels. The Swiss 25 formula proposed by the United States would achieve that outcome.

[SLIDE 5]

The Harbinson paper takes a step in the right direction but doesn't go quite far enough. It calls for a minimum 45 percent cut in tariffs over 90 percent. A tariff of over 270 percent may not be quite as ridiculous as one of 490 percent, but it is still pretty effective in preventing trade from taking place.

Japan is the largest developed country rice consumer in the world. It should be prepared to do its fair share to liberalize agricultural

trade. Instead, not only does Japan want to keep its rice tariff at a sub-orbital level, it objects to increasing its tariff-rate quota by the 18,000 tons called for in the Harbinson text.

EXPORT SUBSIDIES

[SLIDE 6]

The case for export subsidies is even clearer. One WTO member accounts for nearly 90 percent of the worlds export subsidies. The message from the rest of the world has been unequivocal – export subsidies must be eliminated. The Harbinson text recognizes this remarkable consensus. The real debate will be over how quickly they should be eliminated.

DOMESTIC SUPPORT

[SLIDE 7]

The United States and the EU are the two largest agricultural economies in the world. Not surprisingly, we are also the two largest subsidizers in the world. What may be surprising, particularly given the global attention on U.S. farm spending, is which one of us is the largest and by how much. The EU's total allowable domestic support level is \$78.3 billion. This includes de minimus support, but not blue box support, which has no limit. The comparable figure for the United States is \$28.7 billion. In 2000, the EU's actual spending level, including blue box support, was \$68 billion, compared to \$24 for the United States.

[SLIDE 8]

The U.S. proposal achieves equity. It would bring EU and U.S. support down to roughly the same level. Given that our agricultural economies are roughly the same size, this seems like an imminently fair result.

[SLIDE 9]

The Harbinson paper fails to rectify the imbalance. It would bring total U.S. support down to just over \$12 billion while the EU would be allowed to spend over \$42 billion, more than three times as much. This is simply unpalatable for the United States. We are prepared to bring our support down as far as the Harbinson proposal would require, but only if the EU brings its support down to that level as well.

Significant reductions in farm subsidies will be the single most important standard by which many countries will judge whether the Doha Round is successful.

[SLIDE 10]

The United States remains committed to the ambitious objectives we laid out in our proposal 6 months ago. With the March 31 deadline fast approaching, some are starting to back away, saying they aren't ready, that internal reforms have to come first. We committed to this timeline and these objectives. We all committed to them. If we are going to live up to that commitment, the negotiations must start now. The participants will not accept the dictates of one member's internal policy decisions as a substitute for negotiations.

Our goal is fundamental reform through an equitable process. If we achieve that in Geneva, we will bring home an agreement that American agriculture will have no hesitation accepting.

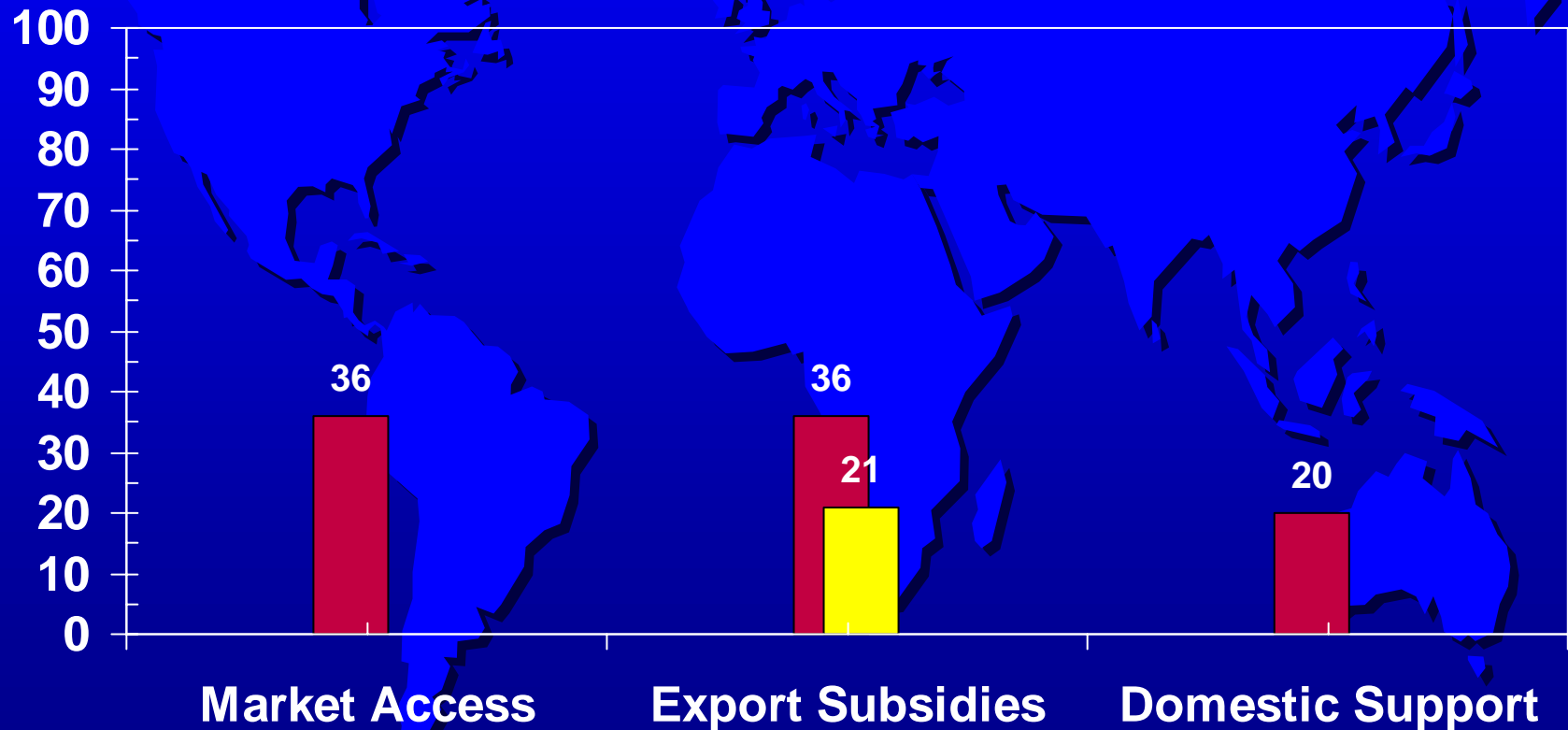
WTO AGRICULTURE NEGOTIATIONS



A FAIR PATH TO FREE TRADE

The Uruguay Round Framework

Reduction Commitments



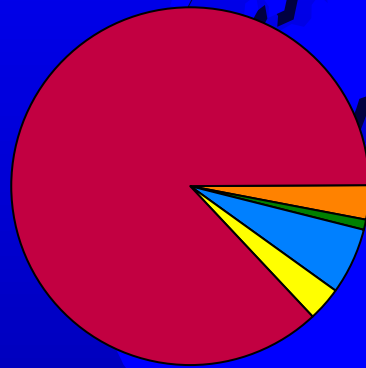
Level Playing Field

**Export Subsidies:
Elimination**

EU 87%

US 1%

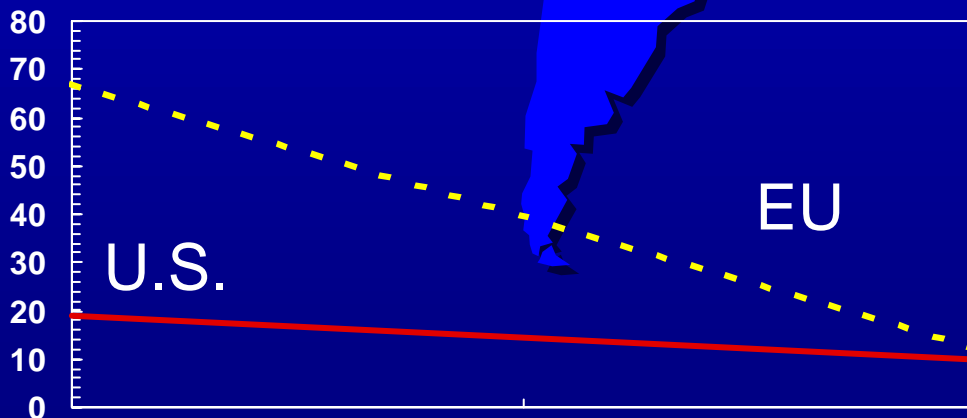
Switzerland 6%



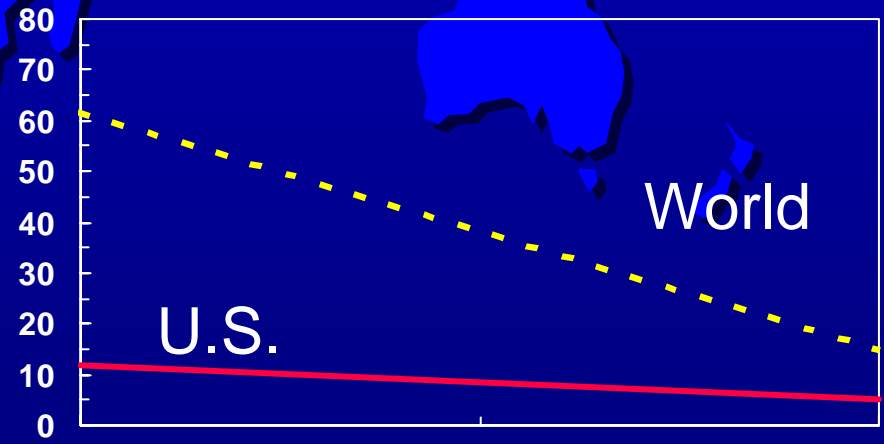
Domestic Support: 5% VAP

Tariffs: Swiss25

Billions \$



Percent



Current

5%

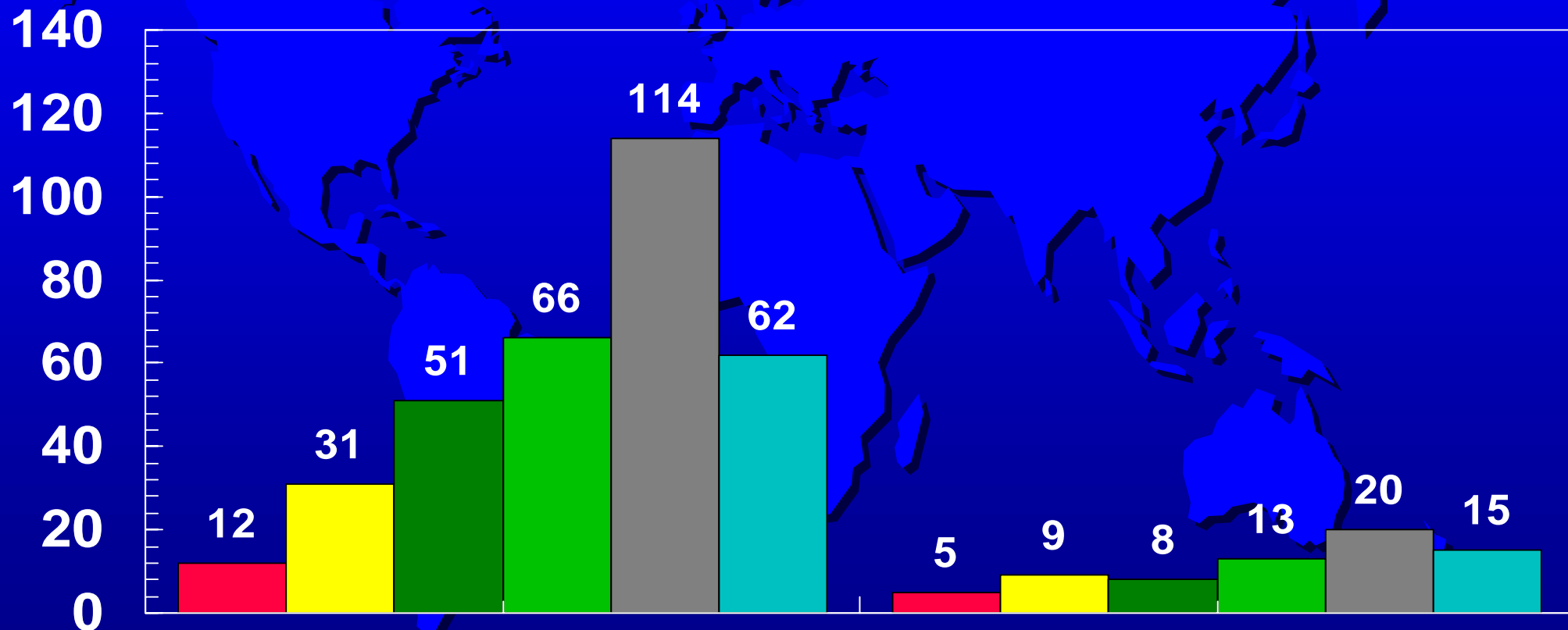
Final Bound

Swiss25

TARIFFS

Average Level of Ag Tariff Binding

Percent



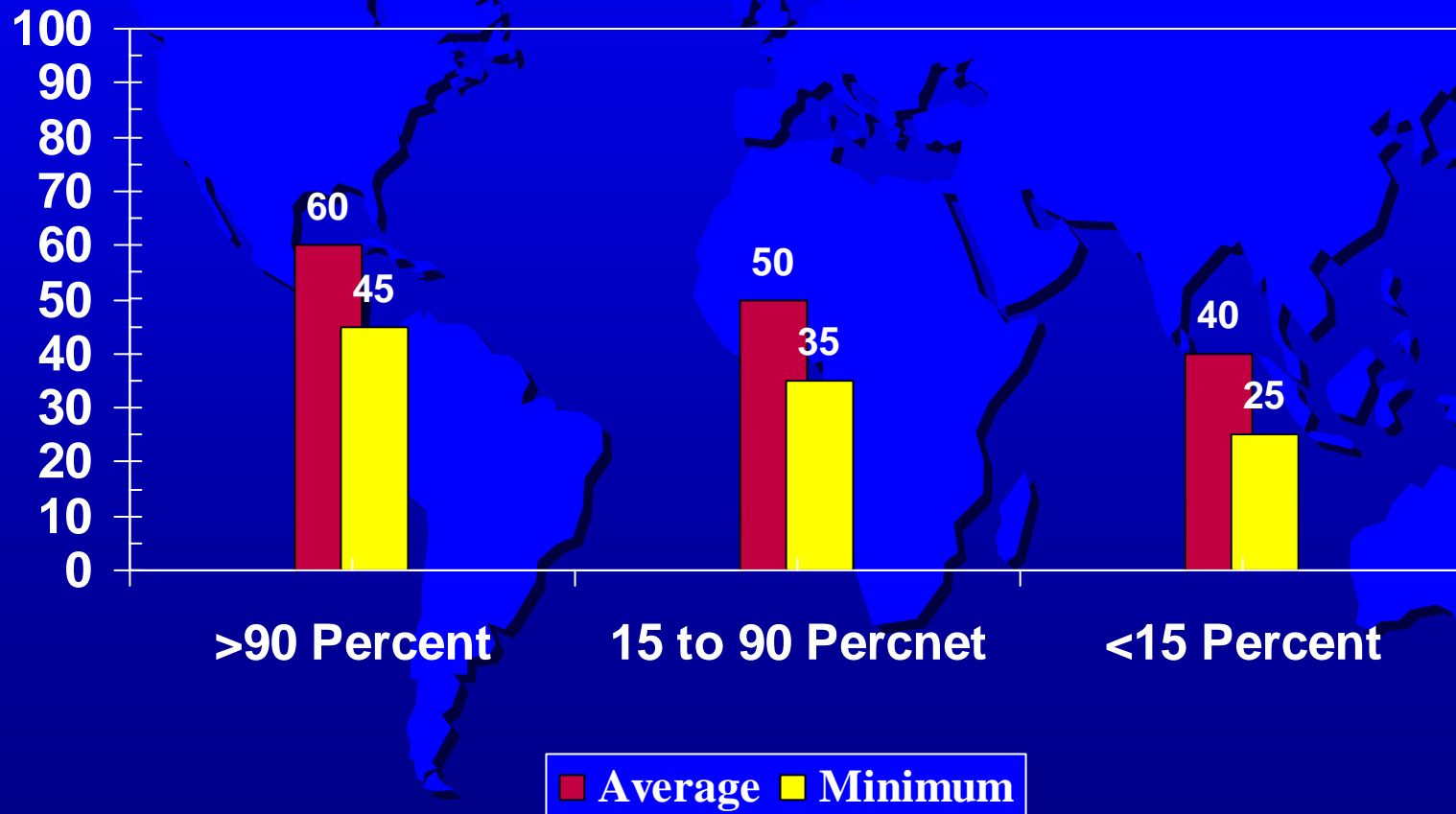
Uruguay Round

Swiss25

US EU Japan Korea India World

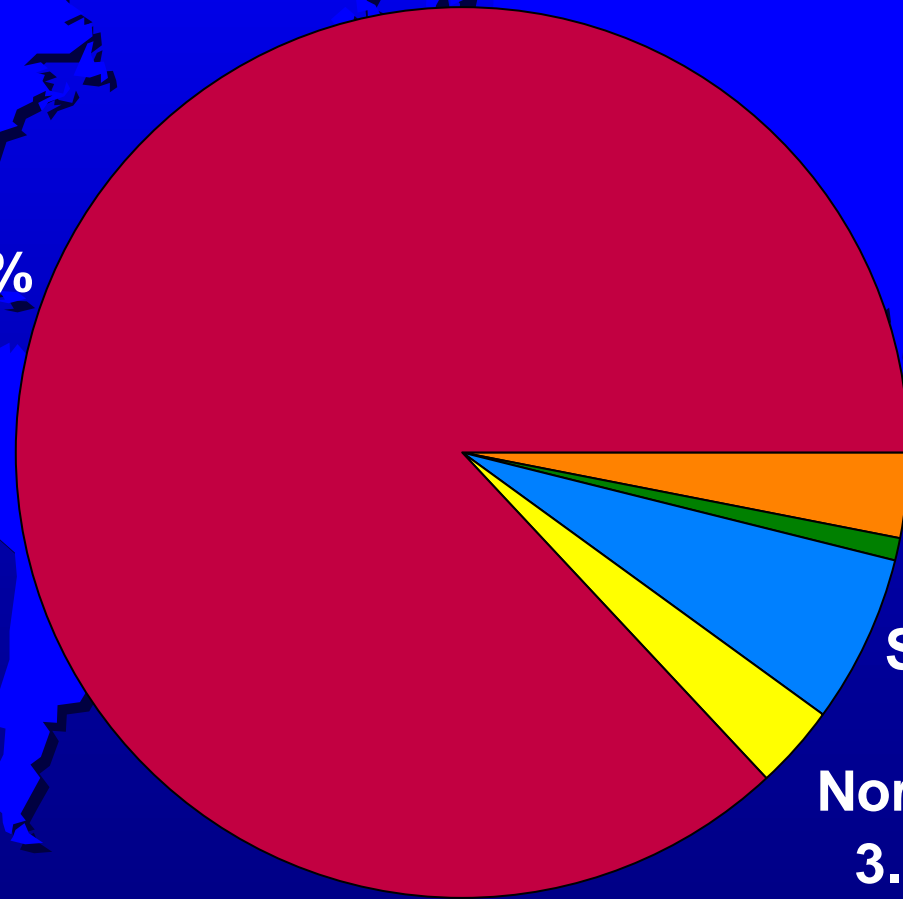
Tariffs: Harbinson Approach

Reduction Commitments



Export Subsidies

EU
87.0%



Rest of World

U.S. 3.0%

1.0%

Switzerland

6.0%

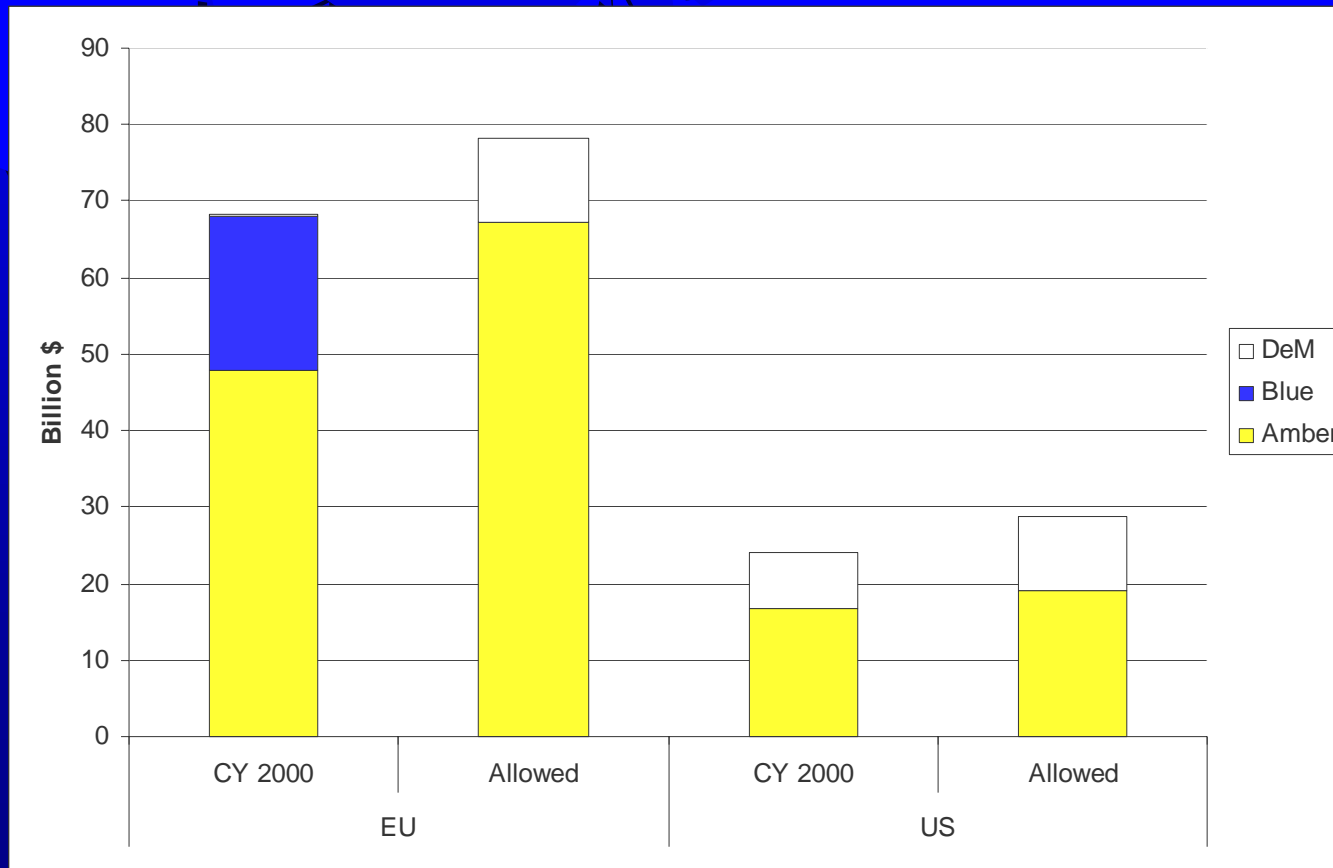
Norway

3.0%

Based on 2000 notifications. Norway and Rest of World are estimated.

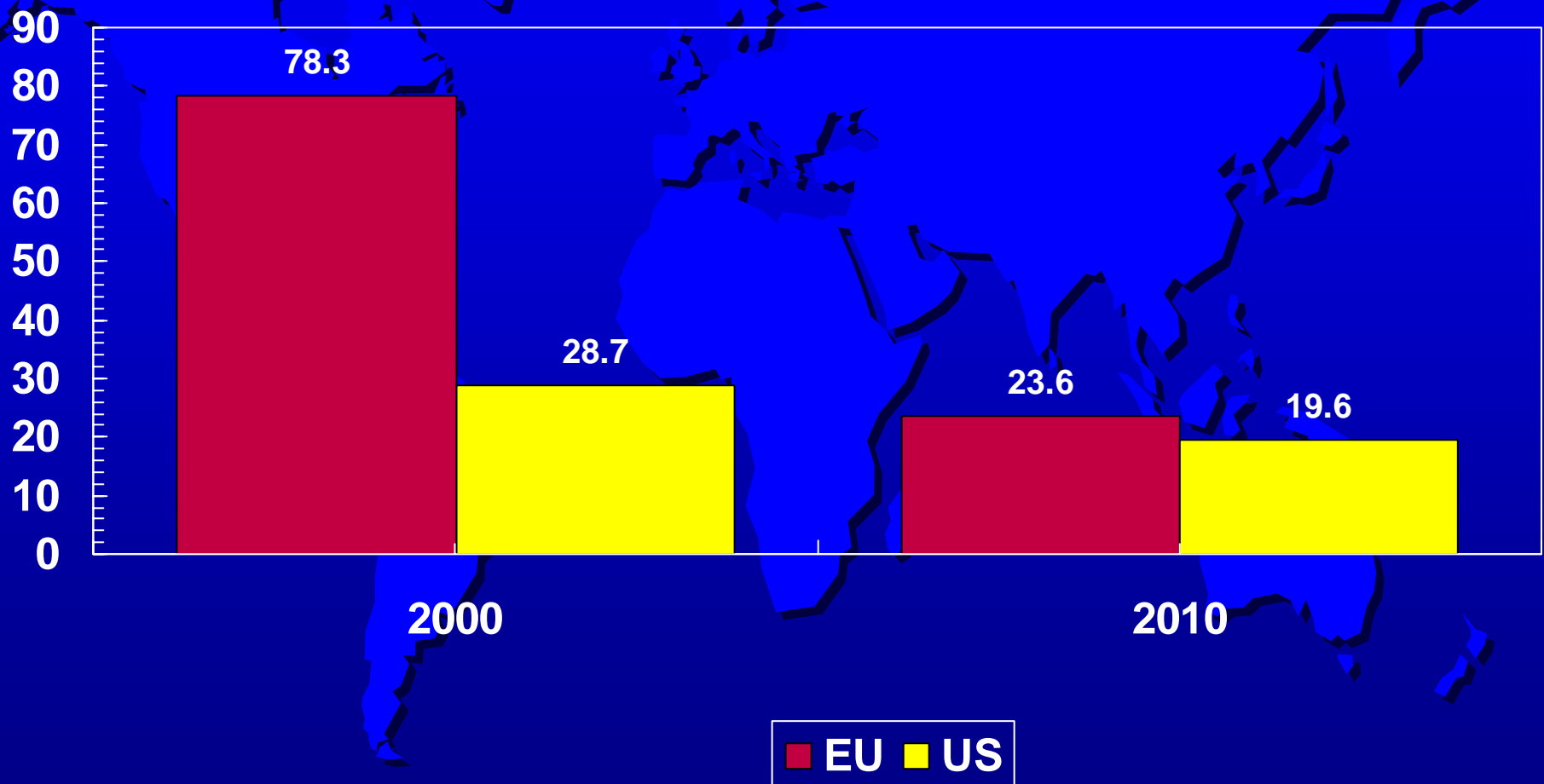
Domestic Support

Trade Distorting Domestic Support



Domestic Support: U.S. Proposal

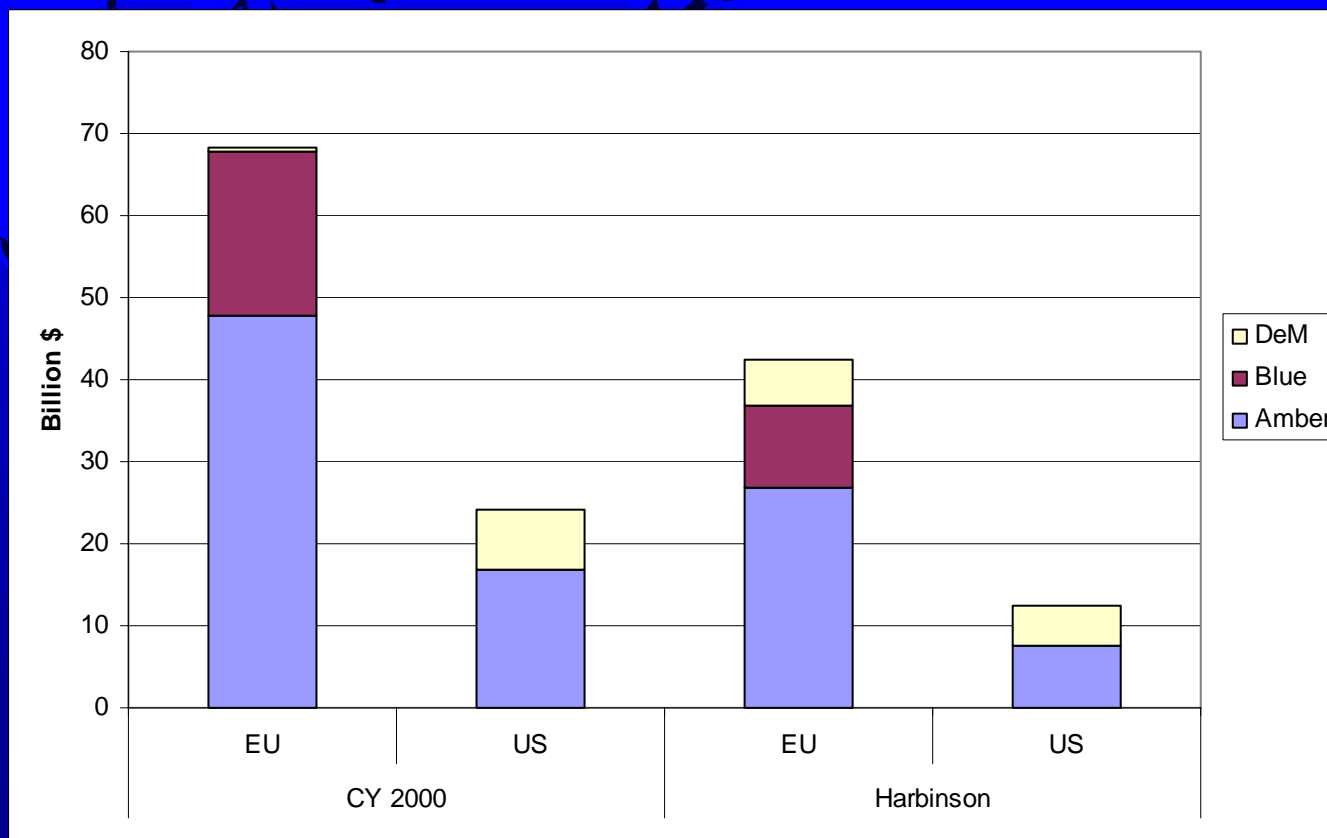
\$Billion



Includes non-exempt support (amber and blue) and de minimus.

Based on a 1996 - 1998 value of agricultural production. 7/9/02 exchange rates.

Domestic Support Harbinson Proposal



Commitment to Reform

DOHA Declaration:

“We recall the long-term objective referred to in the Agreement [on Agriculture] to establish a fair and market-oriented trading system through a program of fundamental reform encompassing strengthened rules and *specific commitments on support and protection*.... We reconfirm our commitment to this program.”

Franz Fischler, Tokyo, February 16, 2003:

“We don’t do reforms on the invitation from the outside, neither from America nor anywhere else.”