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COLLAPSE OF THE DOHA ROUND WTO NEGOTIATIONS: IMPLICATIONS FOR THE U.S. DAIRY INDUSTRY

Seeing little chance for progress, Pascal Lamy, Director General of the World Trade Organization (WTO), suspended Doha Round WTO trade negotiations on July 24, 2006. While Doha Round negotiations are technically still alive, there is little chance of reaching and ratifying an agreement before expiration of President Bush's fast track negotiating authority on July 1, 2007. Barring near-miraculous developments, the best-case scenario is for a several-year delay in completing the Doha Round negotiations. Under a worst-case scenario, the collapse of the Doha Round will spell the end of multilateral trade negotiations under the WTO.

Why did the talks collapse? Simply put, irreconcilable differences over trade-distorting farm programs and market access issues were major causes of the breakdown in trade talks. Late in 2005, the U.S. proposed to cut its trade-distorting farm program payments ("amber box" payments) from the $19.1 billion per year allowed under the Uruguay Round WTO agreement to $7.6 billion per year—but only if other trading partners agreed to provide additional access to their agricultural markets. The European Union (EU), the Group of 20 developing countries, and others refused to comply. In the end, market access became the major deal breaker. The resulting suspension in negotiations was welcomed by many. Indeed, farm groups in several countries, particularly those with nearly closed markets, frequently commented that, "No deal is better than a bad deal."

What does this mean for U.S. dairy interests? The main implications of the collapse in WTO negotiations are:

- The U.S. Congress will write the 2007 Farm Bill without focusing on the more restrictive "amber box" Aggregate Measure of Support (AMS) caps that would have applied under a successful Doha Round WTO agreement. Thus, U.S. budget deficit considerations will be the chief constraint on U.S. farm program outlays under the 2007 Farm Bill.

- The USDA's Dairy Price Support program, which is a major contributor to the total U.S. AMS, will probably survive pretty much intact under the 2007 Farm Bill. Intervention prices for butter, cheese and skim milk powder under the program will continue to serve as approximate ceilings on prices for these commodities in world markets.

- The USDA's Dairy Export Incentive Program will continue to provide the export subsidies permitted under the current (Uruguay Round) WTO Agreement. The EU's dairy export subsidy payments, which are many times larger than those available to the U.S. under the Uruguay Round WTO agreement, will also continue. The EU export subsidies will continue to distort world prices for dairy commodities.

- The WTO's dispute settlement machinery will remain in place. This is noteworthy, since a number of countries claim that they will use legal means under the WTO's dispute settlement machinery to achieve objectives not secured under the Doha Round. There have been reports that the U.S. dairy price support program and federal milk orders may be challenged under current WTO rules.

- International trade negotiations will shift increasingly away from multilateral agreements toward regional and bilateral trade agreements.

While the U.S. dairy industry and other U.S. farm groups may gain short-term benefits from continuing the status quo in farm programs, the collapse of the Doha Round may harm long-term U.S. agricultural trade prospects. First, this is because bilateral and regional trade agreements will be less effective for opening agricultural markets than a multilateral agreement under the WTO. Second, a complete collapse of multilateral trade negotiations—the worst-case scenario described above—could be accompanied by increases in global agricultural protectionism.

Authored by: W. D. Dobson, Agribusiness Economist, Babcock Institute • E-mail: dobson@aae.wisc.edu
Babcock Institute • 240 Agriculture Hall • 1450 Linden Dr. • Madison, WI 53706 • E-mail: babcock@cals.wisc.edu • Web: http://babcock.cals.wisc.edu