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Session: The DOHA Round. Closing the Perception Gap

The Doha Round: The US Perspective

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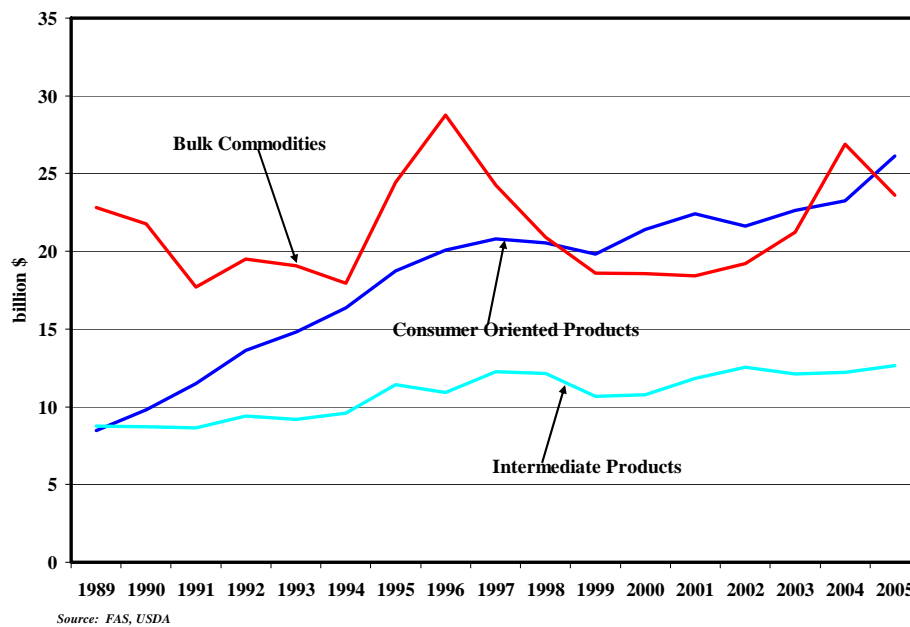
It is almost impossible to overstate the importance of trade to US agriculture. For one thing, these markets are large and growing—FAS says they will reach \$77 billion in sales for 2007. And, for several major commodities, export markets are even more important than indicated by raw sales numbers. For cotton, wheat and rice, for example, the export share is very large—70% for cotton during 2002-05, and 50% and 52%, respectively, for wheat and rice. Many other products also depend heavily on export markets, although their shares are smaller. While bulk commodity exports have grown only sporadically in recent years, they remain highly important.

Trade and access to international markets for bulk commodities have long been closely linked to US domestic policies, which were substantially re-structured in the mid-1980s after US global market shares of those commodities declined. International market competitiveness was regained quickly then, using both export subsidies (modestly) and marketing loans (primarily). Bulk commodity exports certainly would be much lower than they are today had not the policy shifts of the mid-1980s taken place.

However, US exports have never been entirely bulk commodities and the policy linkage for other agricultural products exported is much less direct. For example, in recent years, the importance of exports of consumer-ready products (fruits, vegetables,

red meats, among others) has increased sharply and persistently (Chart 1). Exports of intermediate, partially processed products also have grown modestly but steadily.

Chart 1: US Agricultural Export Performance by Product Category, 1989-2005



Today, once again, there are growing concerns that US commodities—especially basic commodities supported by safety net programs—are losing competitiveness. In some cases, such as for soybeans, US market shares have declined as competitors invest in both increases in area and yields. As a result, the US share of global soybean markets has declined steadily from above 50% in the mid-1990s. And, that trend could be amplified in the future as the growth of US renewable fuel markets stimulates the demand for acreage, primarily for corn. Acreage shifts from oilseeds and other crops to corn are expected to continue to boost commodity prices over the intermediate term, and could reduce the competitiveness of many US products in world markets.

However, these trends require careful interpretation. In recent months, the outlook for US corn has changed almost daily as new ethanol facilities come on line. For some producers, the growth of the renewable fuels markets has meant far less interest in export markets (and, in trade agreements) than before, and some experts interpret this as a decline in the importance of trade.

However, US trade interests are much broader than that, even for the bulk commodities. For example, Informa projections suggest that if the US produces about 15 billion gallons of renewable fuels 2015—well above the current mandate—that market will account for 5.2 billion bushels of a 14.5 billion crop—about 36%. Feed use could be about 6 billion bushels, a little less than in 2006. Exports could be 1.9 billion bushels, down from 2.1 billion bushels in 2006, but still important.

Thus, the emerging trends may make major US commodities less competitive in foreign markets, but they are unlikely to mean that the United States will be a net importer of corn or soybeans by 2015 (as some have suggested).

Much depends on timing. If investment in ethanol production is faster than projected, pressure on production resources could grow—and, US exports could become less competitive than anticipated. If renewable fuel markets grow more slowly than expected, or more erratically, pressure on resources and prices could be less than now anticipated.

In any event, the expected fundamental changes in US markets do not mean the end of US interest in trade, or in the Doha Round. In fact, many of the rapidly-growing consumer ready products such as meats, dairy products and fruits and vegetables now face very high tariffs and have an important stake in the success of the Doha Round.

US Support For an Agreement

Actually, political support for trade liberalization among bulk commodity producers began to decline some time ago—perhaps in the 1990s—as some producers came to believe that they had been oversold on the benefits of the Uruguay Agreement. However, not all US producers evaluate the potential for the growth of export markets, or of the benefits of trade agreements the same way.

For example, producers of consumer-ready products have been able to increase sales rapidly, in spite of relatively high barriers to several important markets. These production systems tend to be much more intensive and less affected by the growing competition for US resources than are bulk commodities. For these already competitive products, a strong Doha agreement would mean improved terms of trade and access to much wider world markets—and, potentially significantly stronger future sales.

In addition, the complexity of US export markets long has posed an important dilemma for policy makers. While the United States has many objectives in the Round, one major ambition is to gain concessions in terms of market access that significantly exceed the concessions it may be required to make concerning its domestic supports.

However, this is a difficult deal to sell to many producer groups, at least in part because those who face potential reductions in their current domestic support programs—producers of program commodities—are different from those who would expect to benefit the most in terms of greater market access—producers of consumer-ready products.

And, since the groups that could face the loss of domestic supports tend to be more highly organized and politically powerful than at least some of those who stand to

gain most from the negotiations, it has been hard for the United States to develop a negotiating position for the Round that would lead to an agreement, and that it can expect to sell to the Congress.

Two major developments appear to have the potential to affect this situation. The first is that the fact that the exploding renewable fuels markets are reducing the attractiveness of current programs to at least some basic commodity producers—and, CBO's recent projections of future program spending under current programs reflect that prospect. As a result, producers of program commodities are struggling with the question of how valuable protections against low prices may be in the future when their risks may come more from price volatility rather than persistent low levels. This change could reduce the perceived political cost of shifting the structure of US domestic supports from largely amber box to largely green—although, recent discussions suggest that producer groups are far from convinced that persistent low prices will not return in the future. The administration's 2007 farm bill proposal suggests that such policies are receiving serious consideration.

The second development is the growing threat of WTO litigation, following the Brazilian cotton case and the emerging Canadian corn case. The results of this—and, other—litigation could mean major structural changes or even the termination of important safety net programs without concessions in return from trading partners. Producer groups now appear far from convinced of the importance or immediacy of these threats, but the administration clearly is and says it is willing to consider new concessions to trading partners in return for increased market access and protection from future litigation.

In a negative way, US interest in a strong agreement reflects interest in capturing progress already made, but which would be lost if the Round fails. This includes agreement to terminate export subsidies, which would end in 2013—an objective trading partners have been working toward for more than three decades. However, it is the area of market access where an agreement would bring the most benefits. There now is agreement on the structure of the cuts, but not on the specific requirements or on the issue of special treatment for sensitive products for both developed and developing countries.

Considerable discussion has focused on domestic supports, and especially the disparity between the US and EU as the EU has moved to reform the CAP. At the same time, the United States continues to express willingness to consider converting a number of its amber-box programs to green.

In addition, complete failure of the Round would mean a number of negative developments for the United States. It is likely that further progress toward global trade reform would be delayed substantially, perhaps for a generation or more as political criticism of globalization intensifies. The result could be a severe erosion of the WTO—and, perhaps its demise. The system is fragile already but is increasingly important now to deal with the newly emerging SPS challenges, among others. One result would be that dispute resolution efforts would be called into question and possibly ignored.

More fundamental would be a widening disparity in growth rates/incomes between rich and poor countries. In today's world, it has become increasingly clear that economic and income growth are closely tied to market openness. In the absence of the WTO levers for better policies, the poorest nations can be expected to fall farther behind, exacerbating old geopolitical problems.

In such a setting, preferential trade agreements can be expected to continue and to assume more urgency, but also to become more political, less rigorous and comprehensive as more sensitive sectors and products are omitted. As world trade rules reflect an increasingly patchwork pattern, LDCs could be increasingly left out since they tend not to be attractive partners. The result of such trends could be growing trade tensions, regional instability, and greater focus on trade displacement that focuses simply on different size slices rather than creating a larger pie.

What would a Doha agreement mean for the United States?

Thus, a strong Doha agreement continues to be important for the United States in spite of its growing renewable fuels markets. Key impacts include:

- To craft an agreement that could pass the congress likely would require a deal that would increase US market access more than it would require in concessions on domestic supports, and would imply major benefits for both consumer-ready and intermediate products, areas in which the United States can be expected to continue to be highly competitive—and, which are less affected by the domestic US competition for resources to produce renewable fuels. For these competitive products, better market access likely would translate directly into increased investment and greater future sales.
- At the same time, an agreement would be expected to have benefits for bulk commodities as well in the form of protection against WTO litigation. This assumes that in the process of developing an offer that could lead to an agreement, the United States would build upon the current administration farm bill proposal and develop an

enhanced, green-box safety net that would be “beyond challenge” as Secretary Johanns has been suggesting.

- To the extent that such an agreement would stimulate production and export of value-added products, it would be expected to have a significant, beneficial impact on the US agricultural sector as a whole. By stimulating investment and growth of products which have the most rapidly growing markets, sector returns would expect to be enhanced over the longer run.