

ASSESSING THE IMPACTS OF LIBERALISING AGRICULTURE TRADE UNDER THE DOHA ROUND OF WTO

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ODI Seminar

This presentation is based on a study for DGTrade, European Commission. The full report can be found at <http://www.sia-trade.org> under 'Sustainability Impact Assessment of Proposed WTO Negotiations: Final Report for the Agriculture Sector Study' (September 2005) by Oliver Morrissey, Dirk Willem te Velde, Ian Gillson and Steve Wiggins (with associates).

AGRICULTURE IN THE DOHA ROUND

The aim of the presentation is to provide:

- A succinct overall assessment.
- Concise SIA for the six country types.
- Highlight ‘false expectations’.
- Identify core measures to ensure potential gains are realised and/or potential adverse effects are addressed.

***IT IS BETTER TO BE APPROXIMATELY
CORRECT THAN TO BE PRECISELY WRONG***

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The *Doha liberalisation scenario* comprises three pillars:

- Tariff reductions – Developed countries by 36 per cent (all products). Developing countries by 24 per cent (all products). LDCs zero.
- Reduction of export support – Developed countries eliminate all forms of export support. Developing reduce export support by 50 per cent, and least developed countries have no commitments.
- Reform of trade-related domestic supports – Developed countries reduce trade-distorting domestic support by 60 per cent. Developing countries reduce domestic support by 40 per cent, and no reductions are assumed for least developed countries.

One of the objectives of the SIA is to assess the likely economic, social and environmental impacts of the liberalisation scenario in various types of countries after they have adjusted to this trade liberalisation scenario.

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The overall economic impact is very likely to be positive and significant.

- Multilateral liberalisation reduces distortions
- facilitates an expansion of global trade and production
- encourages increased efficiency in the allocation of resources to agriculture
- Overall gains will include increased volumes and efficiency of production, implying higher incomes, and lower consumer prices in general.
- The more vibrant and efficient agricultural sector contributes to sustainable economic development, globally and especially in developing countries with a strong agriculture sector.

The countries that derive the least benefit are those where domestic agriculture has the least capacity to respond.

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The overall social impact, while mixed, is likely to be positive.

- Increased incomes in agriculture are likely to benefit the poor in developing countries
- Lower food prices benefit poor consumers (higher in some cases)
- In all developing countries, agriculture is relatively important for the livelihoods of the poor and efficient growth in the sector contributes to the sustainability of social development.
- There is potential to reduce poverty and inequality, especially rural-urban and gender inequality.
- Although there will be producer losses in developed countries, agriculture is a relatively low share of the economy and these countries have the resources to accommodate the adjustment.

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The overall environmental impact is likely to be negative

- Increasing stress on natural resources.
- Globally, a net increase in production implies that more land will be brought into use for agriculture and/or increased intensity of use of agro-chemicals.
- Deforestation or using land of lower quality (soil degradation).
- Benefit of technological and resource management improvements, and global shifts from less to more efficient producers.
- The net increase in volumes traded implies increased transport.

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Developing countries that are major exporters of agricultural products, are unambiguous economic beneficiaries

- The welfare gain is unlikely to exceed one per cent of national income.
- The social impacts may be small but are also likely to be positive
- Increased agricultural production and exports offers opportunities to increase employment and reduce prices, both of which can benefit the poor.
- Environmental impacts will depend on the product in question but one expects they would be adverse.

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Developing countries with a relatively protected agricultural sector, face mixed impacts.

- The net economic impact is likely to be positive, as gains to consumers and exporters offset losses to some import-competing producers.
- Social impacts are mixed but also likely to be positive.
- Small-scale farmers have demonstrated that they can respond to better incentives and increased rural employment tends to benefit the poor.
- Lower food prices for consumers can be a significant benefit for the poor.
- Environmental impacts will depend on net effect on use of agro-chemicals and marginal land.

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Least Developed Countries will only benefit if domestic producers are enabled to respond.

- Most of the products they export are largely unaffected.
- As exporters, LDCs gain little in general and face a minor reduction in their margins of preferences
- As many LDCs are net food importers, they suffer a welfare loss from higher world prices
- If domestic producers can respond, domestic production will expand and domestic prices may ultimately fall, implying a long-run gain
- Positive response improves social impact, favouring rural poor.
- As food production in LDCs tends to make low use of agro-chemicals, adverse environmental impacts will be minimal, and more than offset by savings on transport as domestic products displace imports.

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Low-income developing countries (LIDCs) should benefit, the more so the greater their supply response

- Required to reduce domestic tariffs, offsets the domestic impact of increased world prices for food imports
- Liberalisation eliminates dumping (below world price) of subsidised food so domestic producers should benefit
- Margin of preference available to LDCs with respect to LIDCs will be reduced, implying a marginal benefit where LIDCs compete
- Social impact should be positive (benefiting the poor)
- Environmental impact likely to be insignificant

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The *European Union* is expected to gain

- Benefits to consumers and efficiency gains offset producer losses, but the welfare gain is in the order of only 0.1% of GDP.
- Agriculture exports in relatively processed products will increase, but imports will increase for those products that initially had high protection
- There are large differences across and within EU countries
- Rural employment represents a small share of employment in most EU countries so social impacts will be small but concentrated
- Decreases in farm production will affect rural incomes, although the largest commercial farms with high average incomes and agri-businesses are expected to be the main losers of subsidies
- No large overall environmental effects are expected.

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Other developed countries will gain from agricultural liberalisation

- Welfare gains would be similar in relative magnitude to the EU
- Aggregate production will remain largely stable with variations across countries, regions and products
- Overall changes are mostly small, certainly compared to normal year on year variations
- Rural social costs can be accommodated
- Overall environmental effects may also be small, although they mask increases in agricultural production and transport
- In countries such as Australia and New Zealand with very low protection the economic gains from increased exports would be considerable, but increased production could increase environmental stress (especially in water-scarce regions)

Mitigation and Enhancement Measures

- Policies, and especially technical assistance, to increase the environmental efficiency of agriculture is essential.
- Global measures required to address increased pollution associated with increased transport of commodities.
- **Engineer supply response:** Poor developing countries need an effective agriculture sector development policy that address non-price constraints on producers
- Poverty reduction strategies should recognise the importance of agriculture and the rural sector, and the implications of trade for the sector. In developed countries it is already recognised through support for farm incomes and rural communities.
- Revenue implications in developing countries non-negligible