

Agriculture and the WTO

Duncan Green

ODI

1 December 2005

Structure of presentation

- **Thoughts on agriculture, trade and poverty reduction**
- **Implications for ag in WTO**
- **The horror, the horror (aka WTO ag negotiations)**
- **A Hong Kong survivor's guide**

Starting Points

- **Agricultural growth is the best way to reduce mass rural poverty (linkages, multipliers etc)**
- **Different crops and farm structures have different impacts on poverty, food security and development**
- **There are different ways to achieve such growth (same destination different routes)**
- **DCs need to match their growth strategies to their demands for trade rules and SDT**

History v WTO (Stockbridge/Oxfam)

- **Desk study of 6 successful take off countries: Indonesia, South Korea, Malaysia, Viet Nam, Chile and Botswana**
- **Indonesia, S Korea and Malaysia used import tariffs, STEs and quotas to achieve high and stable prices esp on rice**
- **NTBs increasingly constrained by WTO/RTAs. Tariffs chief remaining instrument**
- **Chile, Botswana and Viet Nam used policy space less (but even they had hands-on role for state)**
 - **Conclusion: some basis for infant industry approach in ag, though may be less strong than in manufacturing (NMR)**

The Role of the State (ICW + Oxfam)

The 'industrial policy' argument for agriculture

- **Phase 1: low intensity, semi-subsistence**
- **Phase 2: state intervention, e.g. credits, inputs, irrigation, tariff protection at regional/national level, land distribution**
- **Phase 3: surplus generation and state withdrawal to administering rules of the game (difficult)**
 - **Are trade rules + SAPs kicking away the ladder of ag development (i.e. phase 2)?**

Is our thinking on trade coherent with that on agriculture and development?

- **Policies must reflect stage of development and ‘a proactive state role in stimulating and facilitating agricultural development is justified in the poorest countries’**

But

- **‘Subsidies, tariffs and non-tariff barriers continue to distort trade and must be reduced’**

Source:

DFID, Productivity Growth for Poverty Reduction: an approach to agriculture, July 2005

Dilemmas facing low income countries

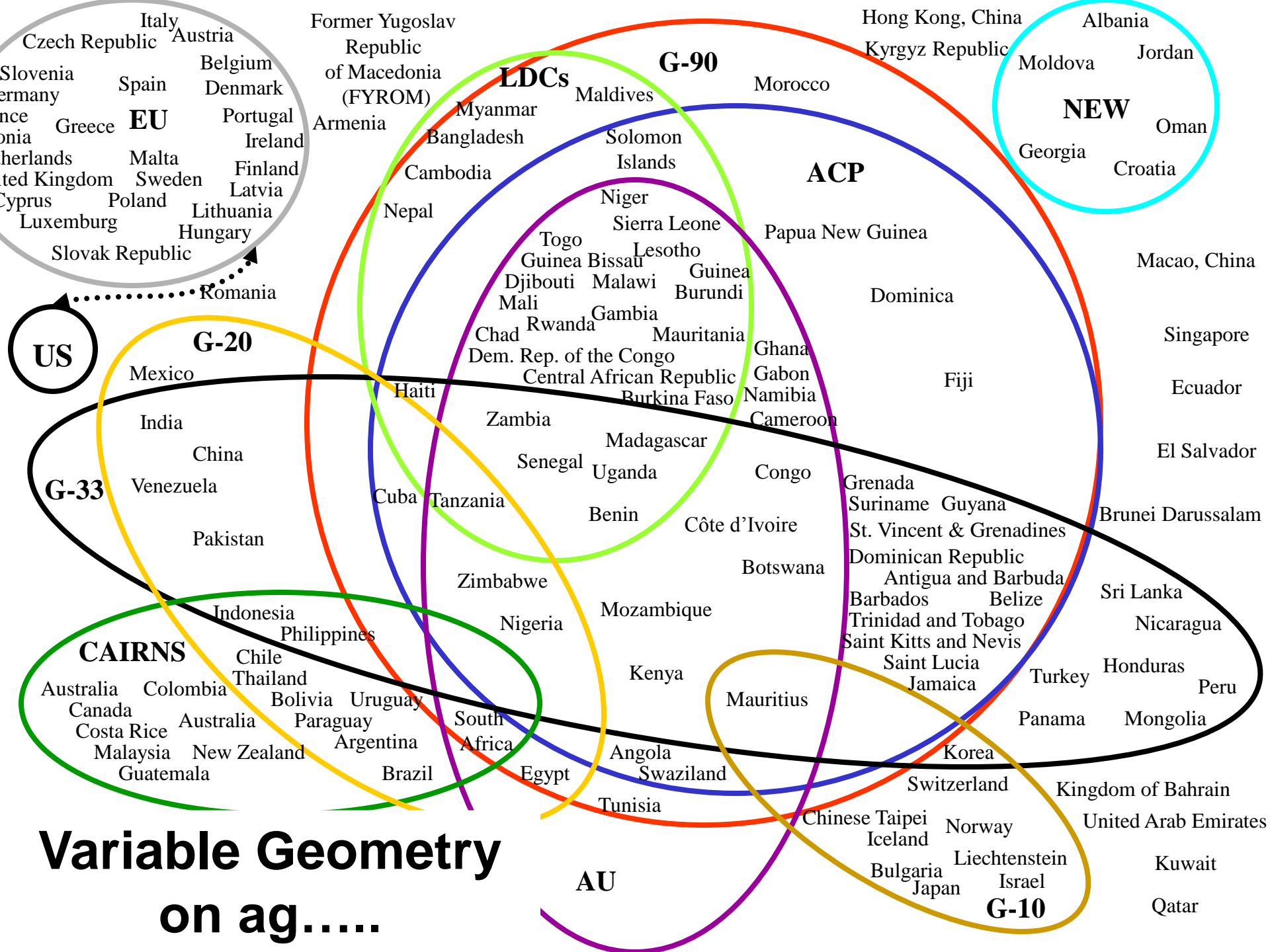
- **Can SSA compete with e.g. Brazil, East Asia on agroexports?**
 - **Value chains eg spread of supermarkets**
 - **Scale economies**
 - **Technology – standards, packaging, MRLs**
- **Poverty impacts of enclave agroexports may be limited (lack of domestic linkages)**
- **Success has usually depended on periods of high world prices**
 - **So for SSA/LDCs, import substitution at national or regional level may be more promising than the world market**

What does this mean for DC rules in WTO?

- **Rules/SDT should depend on stage of ag transformation, and which strategy is being adopted (ELG v imp sub)**
- **Much greater flexibility needed than allowed in Uruguay Round**
- **Any way to define which countries are in phase 2?**
- **If not, can policy space/soft law approach provide sufficient flexibility?**
- **Can the rules help discipline state withdrawal in phase 3?**

The WTO agricultural negotiations

- **Not for the faint hearted**



Variable Geometry on ag.....

Market Access

- **Developed country protection high – average applied tariff of 14% on DC ag exports, v 3% average on all DC goods**
- **Tariff escalation (US: tomatoes 2.2%; dried tomatoes 8.7% and tomato sauce 11.6%)**
- **Tariff peaks (US tobacco 350%; Japan groundnuts 555%, EU maize 84%)**

Market Access: Preference Erosion

- **could paralyse the round**
- **But benefits to date have been limited (supply side constraints, rules of origin)**
- **Donor consensus is shift from preferences to ‘aid for trade’, but doubts on volume and channels (Integrated Framework)**
- **Or how about negative tariffs?**

Market Access: What's on the table in Hong Kong?

- **Tiered formula based on G20 proposal (four bands)**
- **Possible caps on individual tariff lines (G20 proposed 100/150%)**
- **EU wants big loopholes on 'sensitive products' (8% of tariff lines)**
- **44 countries in the G33 (!) want self-designated Special Products for developing countries and access to an easy-to-use Special Safeguard**

Market Access: Oxfam analysis

- **Beware sensitive products - >2% cd wipe out the benefits**
- **Sensitive is not the same as Special!**

Number of developing countries forced to reduce their applied tariffs of selected products.

Propo sal	Maize	Wheat	Rice	Sugar	Poultry	Veg. oils	Oil seeds	Sorghum
US	20	12	25	24	28	20	18	20
G20& EU	16	11	17	20	23	13	16	17

Source: Data from MacMap database, October 2005

Subsidies

- **Export subsidies falling and largely symbolic**
- **Real action is on domestic support (\$112bn in 2004 in OECD)**
- **Key debate over trade distorting v non trade distorting**
- **Cotton ruling and passage of time mean Green Box/ decoupled payments will come under increasing pressure**
 - **See ‘Truth or Consequences’ for a full list of potential disputes**

Figure 1. Agricultural support in OECD countries, 1986-2003
(billion USD)

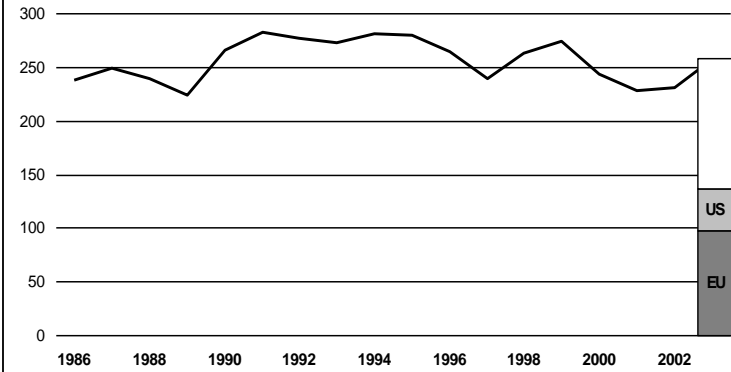


Figure 2. Producer Support Estimates and Aggregate measure of Support for the EU and the US (1986/88-2001)
(billion US\$)

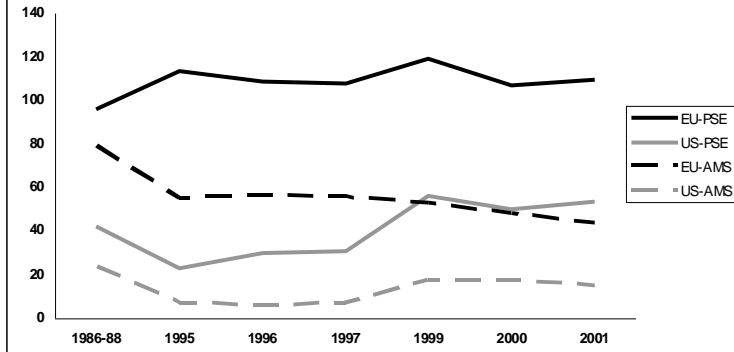
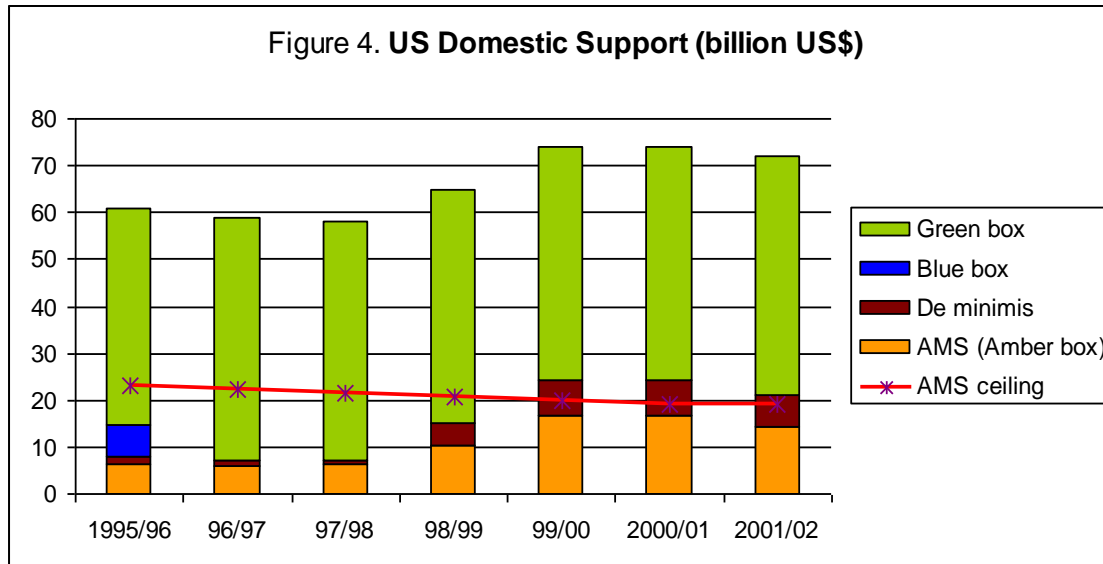


Figure 4. US Domestic Support (billion US\$)



Subsidies: some ammunition

- **The EU exports sugar and beef at 44 per cent and 47 per cent respectively of their internal cost of production.**
- **The EU cow's had a pay rise to \$2.62 per day**
- **Last year 25,000 US cotton farmers got \$4.3bn in subsidies to produce worth \$3.4bn. West Africa's 10 million cotton farmers paid the price of dumping (\$200m per year)**

Subsidies: What's on the table in Hong Kong?

- **On domestic support, formula with 3 bands, top band (for EU) has highest cuts**
- **Smoke and mirrors – bound v applied means the EU's '70% cut' = zero!**
- **Box shifting remains a threat – little prospect for review of Green Box**
- **No end date proposed on export subsidies (just a footnote on US 2010)**
- **Big divisions on food aid, STEs**

Oxfam's topline messages on agriculture

- **2010 end date to export subsidies**
- **Curb other domestic subsidies**
- **Policy space in tariff formula, plus special products/SSM**
- **Market access for poorest countries**

Preparing for Hong Kong: Weasel Word Watch

- ***Ambition***
 - You open your markets to our exporters and investors, but we'll keep on subsidizing our agriculture.
- ***Level playing field***
 - Man U v the local pub team is a fair fight
- ***Non discrimination***
 - You have to treat our giant multinationals the same as your small domestic companies.
- ***Balance***
 - We'll only give up export subsidies if we get our pound of flesh on industry and services
- ***Advanced Developing Countries***
 - Not one euro for the BRICS!
 - And one you won't see - the 'Blood on the Floor' rule

Scenarios

- **Good deal**
- **Bad Deal**
- **No Deal**
- **Minimal Face-saver Deal**
- **Slow Deal**

**And the current (nightmare) favourite:
put it all off for six months and try
again!**

What failure looks like.....



For more information than you could ever possibly want, visit

- http://www.oxfam.org.uk/what_we_do/issues/trade/index.htm
 - **Blood on the Floor (HK curtain raiser, published 6/12)**
 - **Truth or Consequences (Panels)**
 - **Green but not clean (Green Box/ Subsidies)**
 - **A Round for Free (Subsidies)**
 - **Kicking Down the Door (policy space, rice)**
 - **Food Aid Or Hidden Dumping?**