

## Looking For the Devil In the Doha Agricultural Negotiations

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With the prospects for an ambitious outcome in the Doha Round of trade negotiations seemingly fading, many are lamenting the welfare gains that would be lost from a superficial agreement while others are asking whether it matters for the world's poorest and, if so, how. Estimates of welfare gains from trade vary widely but, in fact, key areas of convergence can be identified. Capturing those gains, however, requires paying attention to the details, especially in the negotiations on agriculture. This brief attempts to clarify what is at stake for developing countries and points to specific negotiating priorities that would help to ensure that developing countries achieve increased market access.

To preview the conclusions:

- n Estimates of the potential gains for developing countries from global free trade are large relative to global bilateral aid flows.
- n The developing country share of global gains from free trade are estimated at about 30 percent, nearly 50 percent higher than their share of global GDP.<sup>1</sup>
- n Gains from a Doha Round agreement could be as much as a third of those from free trade, but a quarter or less of that level for developing countries, depending on how much liberalization they do.
- n Most of the gains derive from agricultural liberalization, since that is where remaining distortions are the greatest.

**Table 1. Estimates of Developing Country Gains from Trade Liberalization**

(Billion dollars and percent)				
	Cline (2004)	Anderson, et al.	Cline (2004)	Anderson, et al.
Base year	1997	2015	1997	2001
Model type	Static	Dynamic	Static	Static
Estimated gains from global free trade				
High-income countries (HIC)*	0.87%	0.6%	\$158.0	\$103.7
Developing countries (L&MIC)	1.09%	0.8%	\$69.8	\$23.7
L&MIC share of global gains	30.6%	29.9%	30.6%	18.6%
Share of gains due to agricultural liberalization	54.0%	62.7%	\$37.7	n.a.
L&MIC gains from complete HIC liberalization as a share of gains from global liberalization	72.5%	50.0%	\$50.6	n.a.

\*Includes Korea, Hong Kong, Singapore, and Taiwan.

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- n The gains are likely underestimated because they:
  - ⊗ overestimate the losses from preference erosion,
  - ⊗ do not include services or trade facilitation, and
  - ⊗ do not include potential positive effects of trade on productivity.

Finally, the systemic consequences of a failed Doha Round are potentially far greater for smaller, poorer developing countries who are the primary beneficiaries of a system based on rules rather than power. Failure to reach agreement multilaterally would also accelerate trends toward bilateral and regional trade agreements that typically exclude these countries.

Even if an agreement on agricultural liberalization is reached, however, the gains could be ephemeral. The Uruguay Round of trade talks (1986-93) formally cut agricultural tariffs and domestic subsidies by a third, and a fifth, respectively. As implemented, however, the agreement imposed very little discipline and avoiding that outcome again means focusing on the devil in the details, including:

- n Restructuring the “boxes” for domestic subsidies to ensure cuts in actual spending and using product-specific caps to ensure that all commodities share in the cuts.
- n Minimizing the number of “sensitive” products that can be shielded from meaningful liberalization and opposing the EU proposal to add flexibility to the formula for cutting lower, and more numerous, tariffs.
- n Avoid having the dynamic fruit and vegetable sectors designated as sensitive and provide assistance to low-income countries to comply with health and safety standards (note that the EU has not yet reformed these sectors so negotiators should be less constrained in what can be negotiated).
- n Binding specific duties at their ad valorem equivalents (to eliminate discrimination against low-income country products that are on average lower in value).
- n Eliminating tariff escalation on tropical products and reducing it sharply elsewhere.
- n Ensuring the rapid elimination of export subsidies and accelerating the cuts for products designated as sensitive under the market access pillar.

## What is at Stake?

Two of the most widely-cited studies of the potential gains from trade are by William Cline of this Center and Kym Anderson, Will Martin, and Dominique van der Mensbrugghe of the World Bank.<sup>2</sup> Although the differences in the bottom line do not initially appear large—\$228 billion versus \$287—when adjusted for differences in baselines, data, and modeling assumptions, the apparent gap doubles (Table 1). But the Cline estimate represents static gains and is calculated with 1997 as the base year. The higher Anderson, et al. estimate

includes some dynamic gains and is the projected gain in 2015. Once the scale effects and dynamic gains are removed, then the comparable figure for the World Bank study is \$127.4 billion.

Much of the difference in these estimates is likely the result of using different data sets.<sup>3</sup> Anderson, Martin, and van der Mensbrugghe use an updated and improved version of the Global Trade Analysis Project (GTAP) database that incorporates the effects of programs that provide preferential market access to developing countries, for example the US African Growth and Opportunity Act. In addition, these authors update the 2001 base-year estimates of trade barrier levels to reflect the eastward expansion of the European Union, China’s accession to the World Trade Organization, and the completion of liberalization from the Uruguay Round, including the elimination of textile and apparel quotas. These changes result in a lower level of protection in their analysis and could explain the overall lower level of gains from free trade and the lower share accruing to developing countries (20 percent versus 30 percent) than Cline finds.

But the difference between the two is likely overstated because the new GTAP database assumes that developing countries take full advantage of preferences. Numerous studies show that not all eligible exports receive preferential treatment because of restrictive rules of origin and other administrative costs. Partial use of preferences would raise the estimated gains from moving to free trade in the World Bank analysis and lower them in Cline’s. But other lacunae in both studies result in underestimation of the potential benefits from increased trade. Thomas Hertel and Roman Keeney estimate that services liberalization and trade facilitation measures might add \$60 billion and \$100 billion, respectively, to potential global gains. (Note, however, that the latter is a gross figure that does not take into account the costs of implementing trade facilitation.)<sup>4</sup>

What both studies show is that gains as a share of national income are higher in developing countries and that roughly 60 percent of potential gains from free trade come from liberalizing agriculture. The gains for developing countries are estimated to be at least half the annual value of rich-country aid flows of \$50 billion annually, and perhaps 50 percent higher than that. These studies and others not discussed here also find that almost all developing countries gain from a move to free trade, but that the distribution becomes more uneven under some of the less ambitious partial liberalization scenarios. Some developing countries might lose as a result of preference erosion and higher food prices, but the losses tend to be small and, in the case of preferences, are likely overstated for the reasons noted above.<sup>5</sup>

Table 2 shows results from several Doha Round scenarios analyzed by Anderson, Martin and van der Mensbrugghe. A scenario assuming 40-50 percent liberalization of both agriculture and manufacturing by developed countries, lesser opening by most developing countries and none at all by the least developed produces about a third of potential gains from global free trade (column 1, see table notes for details). As in the free trade scenario, the majority of gains are from agricultural liberalization but the regional breakdown shows interesting variation and developing countries reap only about 20 percent of the potential gains from full free trade. While middle-income countries as a group appear to gain the most from agriculture, most of those gains, not surprisingly, are captured by competitive Latin American exporters. Among low-income countries, agriculture is not the major source of gains, with the important exception of Sub-Saharan Africa. The Middle East and North African region is a net loser in several scenarios because many of these countries are large net food importers. In the scenario with broader and deeper liberalization by developing countries, however, all regions reap overall net gains (column 2).

The other three scenarios shown in the table involve only agricultural liberalization and demonstrate the effects of allowing developed and developing countries to designate as few as 2 percent and 4 percent of agricultural tariff lines, respectively, as "sensitive" products. This change, well below the 8 percent of tariff lines that EU negotiators have suggested could be shielded, cuts the potential gains from \$66 billion to just \$18 billion. Adding a 200 percent cap for all tariff lines restores about 50 percent of the lost gains but almost all of them go to the high-income countries. Africa, along with the MENA region, remains a net loser in this scenario.

The World Bank scenarios thus underscore the need to adopt a cap on tariffs and to continue pushing to keep the number of sensitive products as small as possible. The next section looks at other specific negotiating issues that seem technical and trivial but that can make a difference for poor countries.

### The Devil in the Doha Details

The impasse over agriculture in late 2005 raised fears that the Doha Round will produce little more than the faux liberalization

**Table 2.** World Bank Estimates of Gains from Doha Liberalization Scenarios (billion dollars)

	Agricultural & nonagricultural liberalization, no sensitive products (#7)	Same as #7 but developing countries take same cuts on manufacturing	Agricultural liberalization, no sensitive products (#4)	Agricultural liberalization with sensitive products (#5)	Agricultural liberalization with sensitive products and 200% cap (#6)	Share of liberalization gains due to agriculture (Scenario 7)
World	96.1	119.3	66.3	17.9	44.3	77.5%
High-income countries	79.2	96.4	57.2	17.8	43.2	82.8%
Middle-income countries	12.5	17.1	8.3	0.1	1.0	64.0%
Low-income countries	3.6	5.9	0.8	0.0	0.0	27.8%
East Asia and the Pacific	4.5	5.5	0.9	0.2	0.6	11.1%
South Asia	2.5	4.2	0.3	-0.4	0.4	12.0%
Middle East and North Africa	-0.6	0.1	-0.9	-1.2	-1.2	-133.3%
Sub-Saharan Africa	0.4	1.2	0.3	-0.2	-0.1	75.0%
Latin America and Caribbean	7.9	9.2	8	2.5	2.1	102.5%

#### Scenario definitions:

All scenarios assume elimination of export subsidies by all countries, cuts from actual levels of agricultural domestic subsidies in developed countries, and no commitments by least-developed countries.

#7 Assumes cuts of 45-75 percent in agricultural tariffs and 50 percent in non-agricultural tariffs for developed countries and 35-60 percent and 33 percent, respectively for developing countries.

#4 Assumes an average 44 percent in agricultural tariffs for developed and 21 percent for developing countries, the same average but without the tiers included in #7. The share of gains due to agriculture are based on the tiered formula, which are slightly higher than the results produced by this scenario.

#5 Same as #4, except developed countries allowed to take lower cuts on 2 percent of sensitive products, developing countries 4 percent.

#6 Same as #5 except tariff cap of 200 percent for all bound tariffs added.

Source: Anderson, et al.

of the Uruguay Round. In this environment, it is useful to identify negotiating items that would be of particular value to developing countries, especially the poorest, and that might be feasible even within an overall modest package.

Following the European Union's recent reforms of the Common Agricultural Policy (CAP), most rich countries will provide trade—distorting support for agriculture primarily through trade barriers. Since this leaves the United States as the main user of subsidies coupled to production of specific crops, the discussion of subsidies in the next sections focuses on US programs. The analysis of market access issues then focuses on options to ensure that the EU, Japan, and others open their markets, especially for developing country exports.

**Parsing the US proposal to cut domestic subsidies**

The domestic subsidy negotiations are organized around three boxes: amber for the most trade-distorting forms of support; blue for moderately-distorting subsidies with production-limiting features; and green for “minimally-distorting” subsidies.<sup>6</sup> In October 2005, US negotiators proposed a 60 percent cut in the “aggregate measurement of support” in its amber box, with 83 percent for the EU and Japan; a cut in the two “de minimis” categories to 2.5 percent of production for each, and an eventual cap of 2.5 percent of production on blue box subsidies.<sup>7</sup> US negotiators also want to redefine the blue box to accommodate “counter-cyclical payments (CCPs),” which are currently allocated to the non-product-specific de minimis category but which US officials argue are partially decoupled.<sup>8</sup>

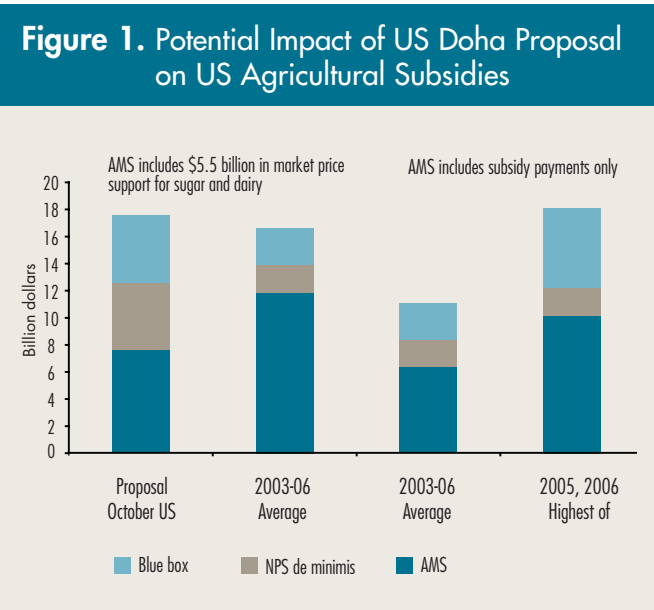
The data on expenditures shown in Figure 1 suggest that the caps for de minimis and blue box payments need to be further reduced to ensure the caps are binding. In addition, whether the proposal results in real cuts in amber box programs depends on how they are implemented. What is needed, in particular, is greater clarity on how the proposal might affect the market price support programs for sugar and dairy, and agreement on a base period for calculating the new caps that does not eviscerate the proposed cuts, as happened in the Uruguay Round.

The first potential mechanism for evading cuts derives from how the amber box's aggregate measurement of support (AMS) is calculated. In addition to trade-distorting subsidies, the AMS includes a measure of market price support based on supply controls. Such support is included, however, only if it involves government intervention to maintain a price floor (the “administered price”) and is not based purely on trade barriers. Thus, it is possible to reduce the AMS by eliminating the administered price while maintaining equivalent levels of protection with import restrictions. Japan, for example, reduced its AMS from \$26 billion in 1997 to \$6 billion the following year by eliminating the price floor for rice but it maintained an equivalent level of support

with a tariff-rate quota (TRQ).<sup>9</sup> In the US case, \$5.5 billion could be deducted from its AMS by eliminating price floors for sugar and dairy, while maintaining support by declaring them sensitive products in the market access negotiations.

With this in mind, Figure 1 illustrates potential implications for US programs. The column at the left shows the new ceilings for US support, with one important difference. The figure leaves out the proposed 2.5 percent for product-specific de minimis subsidies (another \$5 billion) because no developed country makes significant use of this category. In order to reduce the potential for evading subsidy cuts through box-shifting, this category should be eliminated.

The second column shows average actual and projected levels of US support for 2003-06, including the value of market price support for dairy and sugar. The next two columns show just the value of subsidy payments in the amber and blue boxes, on average in 2003-06, and, in the last column, the highest levels reached to date under the 2002 farm bill (2005 for the AMS and 2006 for CCPs). If the CCPs are moved to the blue box, then the \$5 billion ceiling on de minimis payments is not likely to be binding and could provide space for Congress to appropriate new ad hoc emergency payments, as it did in the late 1990s when prices fell sharply. Second, the proposed \$5 billion ceiling for the blue box would also not be binding in average years but could at least constrain spending in low-price years, which would reduce the impact on levels and volatility of world prices. Similarly, if sugar and dairy price supports are removed from the amber box, the proposal would not constrain US amber box programs in average years but would impose limits on subsidies in low-price years.





**Table 3. Average Tariffs and Tariff-Rate Quotas, 2001**

	European Union			Japan			United States		
	Production-weighted, applied	Number of TRQs	Number of tariff lines under TRQ	Production-weighted, applied	Number of TRQs	Number of tariff lines under TRQ	Production-weighted, applied	Number of TRQs	Number of tariff lines under TRQ
Sugar	90.4	3	7	227.0	0	0	24.2	6	16
Dairy	38.0	12	51	82.4	10	56	16.7	24	97
Beef, sheepmeat	75.8	15	51	38.2	0	0	2.6	1	1
Pork, poultry, other meat	15.2	13	66	36.5	0	0	3.3	0	0
Rice	110.8	3	3	886.7	1	17	5.2	0	0
Wheat	0.7	2	2	214.4	1	23	3.2	0	0
Corn, other grains	17.2	10	12	53.2	1	12	0.9	1	0
Fruits,vegetables, nuts	19.1	15	33	21.4	3	9	5.0	5	6
	Production-weighted, applied	Mean bound tariff (unweighted)	Median bound tariff	Production-weighted, applied	Mean bound tariff (unweighted)	Median bound tariff	Production-weighted, applied	Mean bound tariff (unweighted)	Median bound tariff
All agricultural	34.4	30.0	13.0	158.1	58.0	10.0	5.0	12.0	3.0

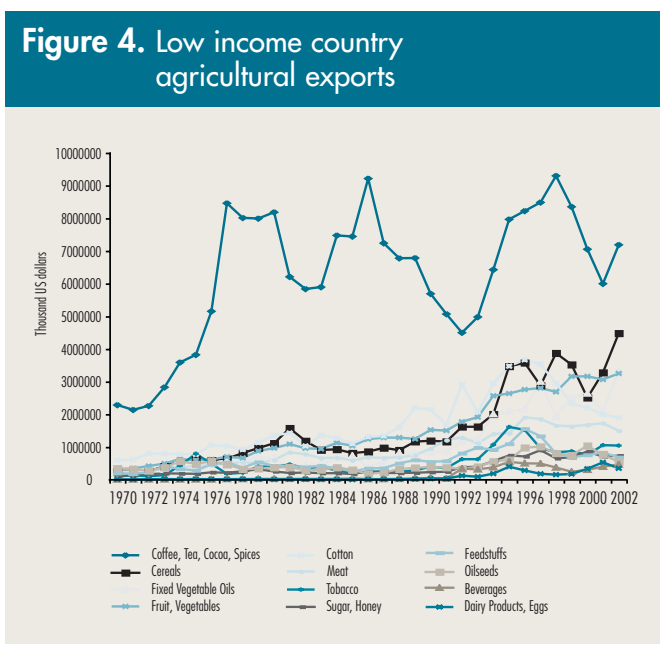
**Source:** Roodman (2005) and USDA (2001).

flexibility in how much tariffs in the lowest tier will be cut is aimed at protecting fruits and vegetables and poultry.<sup>13</sup>

Trends in middle- and low-income country agricultural exports suggests that their negotiating efforts should be focused on vigorously resisting the pivot idea and limiting sensitive products to dairy, beef, and rice, with perhaps a longer phase-in for sugar liberalization (figures 3 and 4). In exchange, market access should be liberalized as much as possible for fruits and vegetables, grains, and fibers, especially cotton, and export subsidies on sensitive products should be eliminated immediately. That would at least increase access and prices in third markets where Brazil and other competitive exporters are currently forced to compete with subsidized EU and US exports. In addition, fruits and vegetables exports have been growing rapidly, especially by middle-income countries, but some low-income countries have also had success and growth could be encouraged with assistance in meeting sanitary and phytosanitary standards (SPS). Liberalized rice trade could be important for developing Asian exporters, but liberalization among developing countries themselves in Southeast and South Asia might be more fruitful in the short run because the varieties of rice grown and consumed in Japan and Korea are not the same as those produced elsewhere. And, while meat appears as the third largest export in Figure 3, most of this is accounted for by Argentina, Brazil, China, and Thailand and only Argentina exports

mainly beef while the others export large quantities of pork and poultry.

Figure 4 also suggests that low-income country negotiators should insist on action on tariff escalation and special provisions for tropical products. Products that remain important for the low-income countries, such as coffee, cocoa,



and tea typically face low or no tariffs on the raw commodity but much higher duties on higher-value processed products. The US, EU, and Japan all impose no duties on cocoa beans but tariffs on chocolate range from 15 to 30 percent. Many of these commodities, as well as other agricultural products, are also subject to specific duties, which are so many dollars, yen, or euros per pound or ton, rather than as a percentage of the value (*ad valorem*). This method discriminates against developing country exports, which are on average of lower value, and is more protectionist because the *ad valorem* equivalent is higher when prices are low.

## Beyond the Details

This brief focuses on detailed elements of the agricultural negotiations that could make a difference for developing countries, even in the context of a modest agreement. But ensuring that poorer developing countries benefit and are able to take advantage of any resulting opportunities requires action in other areas as well.

First, the recommendations here emphasize how rich countries should reform trade distorting policies that penalize developing country farmers. But developing countries need to liberalize as well and to recognize that “special and differential treatment” is as much a trap as a prize to be won. Flexibility to protect poor farmers from shocks and to promote food security is needed. But efforts to maximize policy space in this area are likely to lead eventually to replication of the inefficient, costly, and quasi-permanent agricultural policies now burdening the rich countries.<sup>14</sup>

Second, many poor farmers in poor countries are weakly connected to markets, at best. Without complementary policies to build infrastructure and credit markets and to improve productivity, these farmers may not be able to grasp the opportunities offered by increased market access. Financial and technical assistance from donor countries and organizations are essential to ensuring that this truly is a “development round.”

## Endnotes

- 1 The 45 percent share reported by the World Bank in a November 9, 2005 press release is based on a WTO definition that includes Hong Kong, Korea, Singapore, and Taiwan. In this brief, these four are included in the high-income or developed country group and developing countries refers to low- and middle-income countries only.
- 2 See William R. Cline, *Trade Policy and Global Poverty*, Washington: Center for Global Development and Institute for International Economics, 2004; and Kym Anderson, Will Martin, and Dominique van der Mensbrugge, “Market and Welfare Implications of Doha Reform Scenarios,” in *Agricultural Trade Reform and the Doha Development Agenda* edited by Kym Anderson and Will Martin, Washington: World Bank, 2005. The broad results from a second World Bank study do not appear to differ significantly from the Anderson and Martin study once the authors control for different modeling assumptions and baselines (see the annex to the latter analysis). See Thomas W. Hertel and Roman Kenney, “What is at Stake: The Relative Importance of Import Barriers, Export Subsidies, and Domestic Support,” in Anderson and Martin, *op cit*. For an excellent review of the differences among the most prominent models and an analysis of how those differences affect the results, see Antoine Bouet, “What Can the Poor Expect from Trade Liberalization? Opening the ‘Black Box’ of Global Trade Modeling,” Washington: International Food Policy Research Institute, 2005.
- 3 This \$100 billion gap is almost identical to that between this and an earlier World Bank study that used the same model but the earlier GTAP database and baseline used by Cline and that projected welfare gains in 2015 of more than \$380 billion. See Dominique van der Mensbrugge and John C. Beghin, “Global Agricultural Reform: What is at Stake,” in *Global Agricultural Trade and Developing Countries*, edited by M. Ataman Aksoy and John C. Beghin, Washington: World Bank, 2005.
- 4 See Hertel and Keeney *op cit*.
- 5 For an overview of arguments that concerns about preference erosion and food import costs are exaggerated in the case of Africa, see Ousmane Badiane, “Agricultural Trade Liberalization Under Doha: The Risks Facing African Countries,” Paper Presented at a Workshop on Agricultural Trade Liberalization and the Least Developed Countries: How should they respond to developments in the WTO? An H.E. Babcock Workshop organized by Cornell University, Wageningen University, and the African Research Consortium, December 2-3, 2004.
- 6 For details on the domestic support negotiations and the US and EU proposals, see Kimberly Elliott, *Delivering on the Doha Agenda: Are the Proposed Cuts in EU and US Agricultural Subsidies Real?* Washington: Center for Global Development, 2005.
- 7 Currently, payments that would otherwise be included in the AMS can be deducted as long as they are “*de minimis*,” adding up to no more than 5 percent of production of individual commodities or 5 percent of total production if they are non-product specific.
- 8 CCPs are based on acreage planted in particular crops in the past and do not require current production to be eligible, but the calculation involves a comparison of current market prices with a legislated target price.
- 9 Tariff-rate quotas (TRQs) allow a designated quantity of imports to enter at a lower, in-quota duty with a higher, over-quota duty imposed on imports above that level.
- 10 The EU wants tariffs less than or equal to 30 percent to be cut on average 35 percent but with flexibility to get that by cutting some tariffs as little as 20 percent and others by as much as 45 percent.
- 11 CAP reform lowered the administered price for rice by enough that it is unlikely to be declared sensitive.
- 12 In developed countries, bound and applied tariffs are typically close. The difference between applied and average (mean) tariffs in the table is more likely due to the weights used. See David Roodman, *Production-Weighted Estimates of Aggregate Protection in Rich Countries Toward Developing Countries*, Working Paper 66, Center for Global Development, 2005.
- 13 EU negotiators have also proposed that the “special safeguards” mechanism created in the Uruguay Round Agriculture Agreement be extended for beef, poultry, butter, fruits and vegetables, and sugar.
- 14 See Badiane *op cit*.



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