Disciplines on agricultural trade: Path to trade liberalization and policy reform?

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1. Introduction

Motivation:

- Objectives
  - Assess coherence of WTO rules on agricultural trade
    - WTO MA commitments
    - Implications of compliance
  - Analyze changes under Doha (and a comment on Bali)

Introduction continued . . .

- Related questions
  - Have multilateral disciplines resulted in trade liberalization and agricultural policy reform?
  - Would new commitments under Doha be binding?
  - Did Bali represent a break-through in multilateral trade negotiations?

2. WTO disciplines on agriculture

2.1. Market access (MA)

- General rules
  - Tariffs: *ad valorem* (AV) rather than specific rates
  - Tariffs rather than quotas
- Country-specific commitments
  - MFN bindings and reduction commitments
  - Tariff-rate quotas (TRQs) for minimum MA
- Flexibilities or safeguards

WTO disciplines, continued . . .

Tariffs, non-ad valorem bindings, TRQs and SSGs

		Tariff regime, %			Non-AV, %		Bindings, %		TRQs lines, %	SSGs lines, %
		Total	Ag	non -ag	Ag	non-ag	Total	non-ag		
US	Final bound, avg	3.5	4.9	3.3	40.2	3.4	100.0	100.0	4.5	2.9
	MFN applied, avg	3.5	5.0	3.3	40.8	3.3				
	Trade weighted avg	2.1	4.5	2.0						
Japan	Final bound, avg	5.3	22.8	2.6	15.1	1.7	99.7	99.6	5.7	5.4
	MFN applied, avg	5.3	23.3	2.6	12.1	2.0				
	Trade weighted avg	2.1	11.2	1.3						
EU-27	Final bound, avg	5.2	13.8	3.9	32.0	0.6	100.0	100.0	11.3	23.9
	MFN applied, avg	5.3	13.9	4.0	32.4	0.6				
	Trade weighted avg	2.8	9.9	2.4						
Switzer	Final bound, avg	**10.5**	**59.7**	3.0	**77.3**	81.9	99.7	99.7	17.5	36.8
	MFN applied, avg	**7.8**	**43.5**	2.4	**70.4**	81.2				
	Trade weighted avg	3.3	34.0	1.3						
Norway	Final bound, avg	**20.3**	**132.7**	3.2	**65.6**	2.3	100.0	100.0	30.4	46.4
	MFN applied, avg	**7.8**	**55.8**	0.5	**51.3**	0.1				
	Trade weighted avg	3.0	36.0	0.4						

Source: www.wto.org, tariff profiles, 2011 data

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WTO disciplines, continued . . .

Distribution of tariff lines by rate, % of total lines

Selected countries	Agricultural tariff lines						Non-agricultural lines			
	Duty-free	1-9%	10-24%	25-99%	100%+		Duty-free	1-9%	10-24%	25%+
Norway										
Bound	29	22	2	5	42		49	40	11	0
Applied	**45**	10	7	19	**19**		**95**	0	5	0
Switzerland										
Bound	23	28	11	22	17		18	75	6	1
Applied	29	35	11	14	**11**		19	76	5	0
EU-27										
Bound	32	26	24	15	1		28	64	8	0
Applied	30	26	27	12	1		27	66	8	0
Japan										
Bound	34	34	19	8	5		56	41	3	0
Applied	35	34	19	8	5		57	40	3	0
US										
Bound	33	56	8	2	1		48	44	7	1
Applied	30	58	8	2	1		48	44	7	1

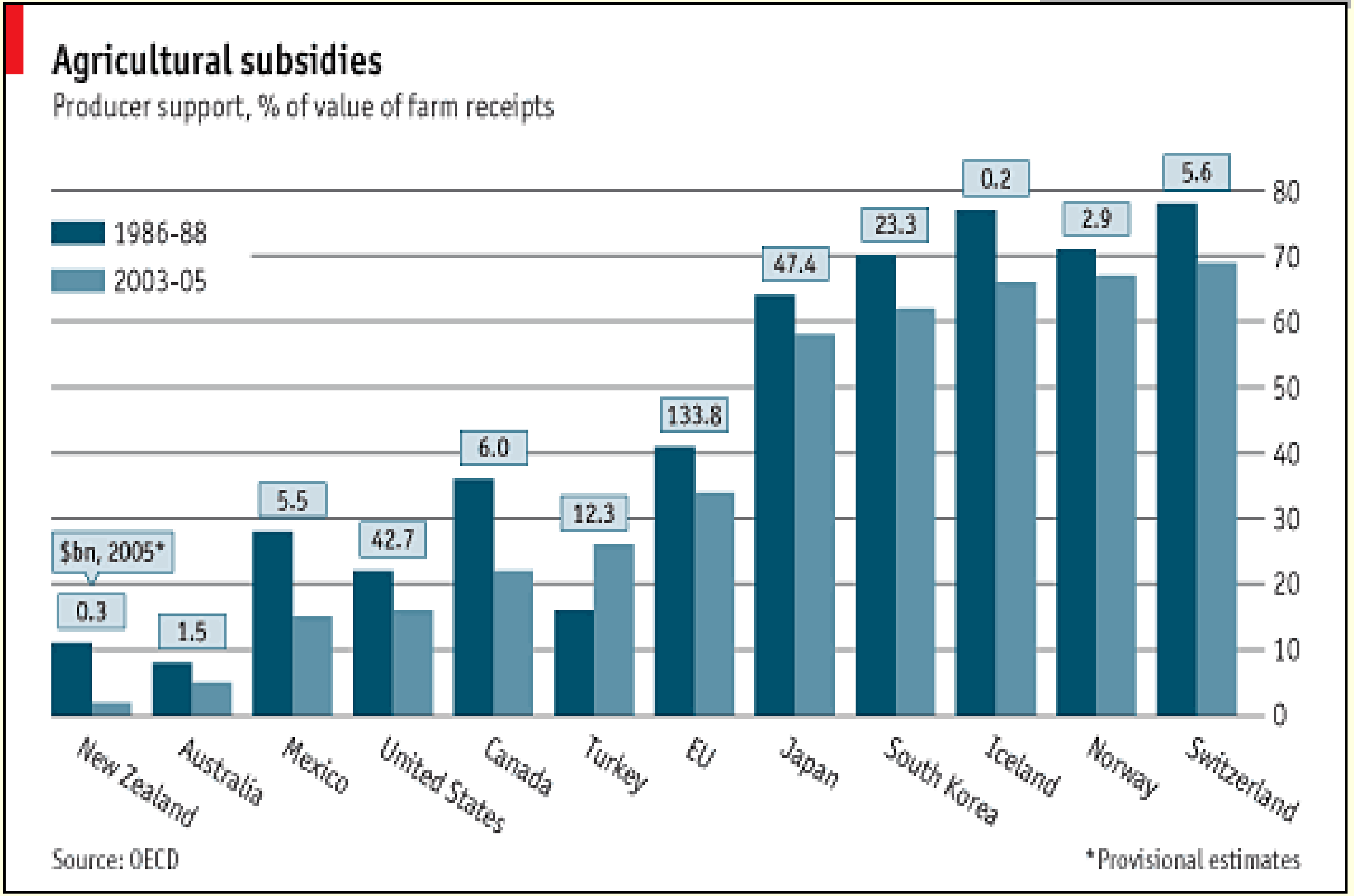
WTO disciplines, continued . . .

2.2 Domestic support (DS)

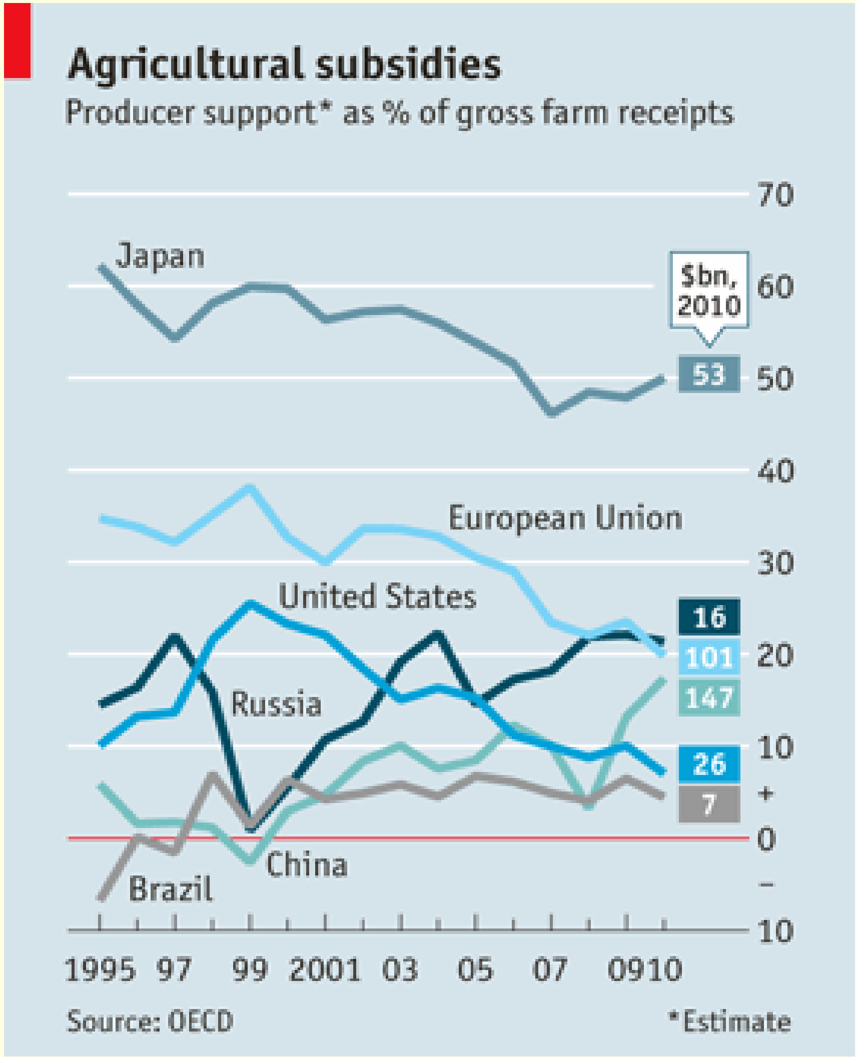
- General rules
  - Definition of a subsidy
  - Categories of subsidy classified by degree of trade distortion (green, blue and amber boxes)

- County-specific commitments
  - Bindings and reduction commitments on most trade distorting support programs
  - Computation of aggregate measure of support (AMS)

WTO disciplines, continued . . .



WTO disciplines, continued . . .



Source: *Economist*, "Economic and Financial Indicators: Agricultural Subsidies", 24 Sep 2011, p. 103

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WTO disciplines, continued . . .

Green and blue box support values

	1995-00	2001-05	2006-11
US, $ billion			
Green box, total	49.8	**62.6**	**97.2**
Food aid	35.1	**42.2**	**74.3**
Income support	4.6	3.5	6.0
Blue box	0.0	0.0	0.0
EU-15 and -27, € billion			
Green box, total	20.3	**25.6**	**61.4**
Income support	0.4	**3.0**	**31.3**
Blue box	20.9	22.8	5.4
Norway, NOK billion			
Green box, total	4.1	**4.5**	**6.9**
Environmental	0.2	**0.9**	**4.1**
Vacation scheme	1.4	1.3	1.2
Blue box	7.5	**6.7**	**4.1**

Source: www.wto.org, WTO DS notification documents

WTO disciplines, continued . . .

Aggregate measure of support and amber box values

	1995-2000	2001-2005	2006-2011
US $ billion			
Bound AMS	21.1	19.1	19.1
AMS	10.4	11.1	5.6
MPS	5.9	5.9	4.8
EU-15 and -27, € billion			
Bound AMS	72.9	67.2	72.4
AMS	48.4	31.7	15.4
MPS	45.0	28.5	12.4
Norway, NOK billion			
Bound AMS	12.6	11.4	11.4
AMS	10.6	10.7	10.4
MPS	10.8	11.3	11.3
Source: WTO DS notification documents			

WTO disciplines, continued . . .

2.3 Export subsidies (ES)

- Bindings on total value of ES
- Bindings on the commodity-specific volume exported and the value
- Country-specific commitments and reduction requirements

WTO disciplines, continued . . .

ES bound value and budgetary outlays

	Total 1995-00	1995-00	2001-05	2006-10
US ES commitments, $ million				
Bound	5 283.7	880.6	594.4	594.4
Outlay	501.5	83.6	167.2	6.1
EU-15 and -27 ES commitments, € million				
Bound	**57 539.6**	10 832.8	7 448.0	7 963.0
Outlay	**28 524.3**	5 565.0	2 644.3	662.6
Norway, ES commitments, NOK million				
Bound	**4 342.9**	862.4	493.2	493.2
Outlay	**4 286.5**	505.3	393.2	288.2
Source: www.wto.org; WTO ES notification documents				

WTO disciplines, continued . . .

ES volume usage, averages over 1995-00 and 2001-10

Selected products	EU-15 and -27		US		Norway	
	Use, avg %	Bound vol	Use, avg %	Bound vol	Use, avg %	Bound vol
Wheat, mill tons	**68/26**	14.4	0	14.5		-
Grain, mill tons	**93/24**	18.4	0	1.6		-
Sugar, mill tons	**84/78**	12.7		-		-
Cheese, 000 tons	**88/81**	321.0	**96/42**	3.0	**100/91**	16.2
Other milk, 000 ton	**99/63**	958.0	**195/0**	0.0		-
Beef, 000 tons	**87/27**	822.0	0	17.6	**91/20**	1.5
Pork, 000 tons	**83/26**	444.0	0	0.4	**70/41**	3.8
Chicken, 000 ton	**99/59**	286.0	17/**4**	28.0	0	0.0
Sheep, 000 tons		-		-	58/35	0.7

Source: own calculations based on WTO ES notification documents

3. Doha round commitments

3.1 Modalities on market access

- Goal was substantial increase market access

Proposed bound value and budgetary outlays

Developed countries		Developing countries	
Tariff range	Reduction commitment	Tariff range	Reduction commitment
$0 < \tau \leq 20\%$	50%	$0 < \tau \leq 30\%$	⅔ the cut of DCs
$20 < \tau \leq 50\%$	57%	$30 < \tau \leq 80\%$	
$50 < \tau \leq 75\%$	64%	$80 < \tau \leq 130\%$	
$\tau > 75\%$	75%	$\tau > 130\%$	
Source: WTO draft modalities for agriculture, TN/AG/W/4/Rev.4, 6 Dec 2008			

Doha round, continued . . .

- Tariff-rate quotas
  - Nothing on TRQ volume or in-quota rate
  - MFN – in-quota margin should not increase
  - TRQ administration to be consistent with WTO import licensing (recycle licenses)

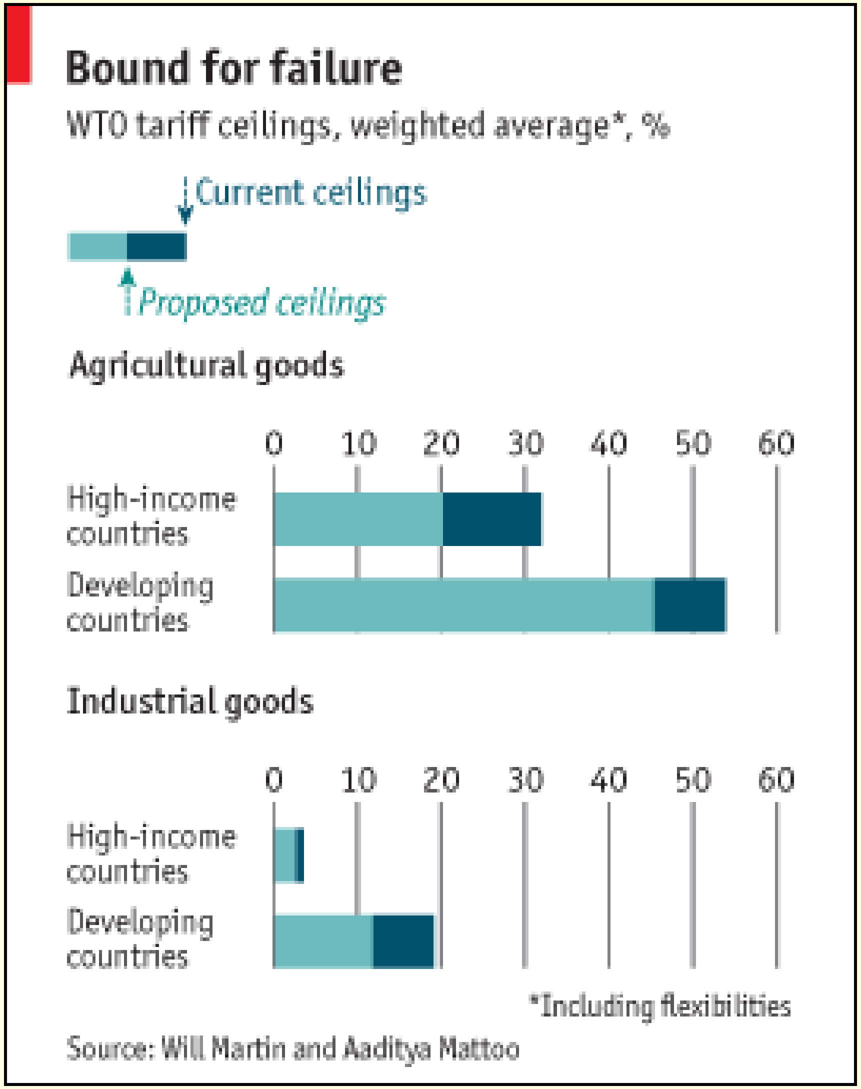
Doha round, continued . . .

- Right to designate sensitive products
  - Smaller tariff rate cuts
  - Larger quota volume

<table>
<tr><td>Country type</td><td colspan="2">Developed</td><td>Developing</td></tr>
<tr><td>Limits on the number of sensitive products</td><td colspan="2">4-6% of all ag tariff lines</td><td>⅓ more tariff lines than DCs</td></tr>
<tr><td rowspan="2">Reductions in tariffs</td><td>Min rate cut</td><td>Max rate cut</td><td rowspan="2">Same min and max rates as DCs using LDCs rate cuts</td></tr>
<tr><td>⅓ rate cuts as that for non-sensitive products; larger quota volume required</td><td>⅔ rate cut as that for non-sensitive products; quota volume larger</td></tr>
</table>

Source: WTO draft modalities for agriculture, TN/AG/W/4/Rev.4, 6 Dec 2008

Doha round, continued . . .



Economist, 31 Jul 2008

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Doha round, continued . . .

3.2 Modalities on DS

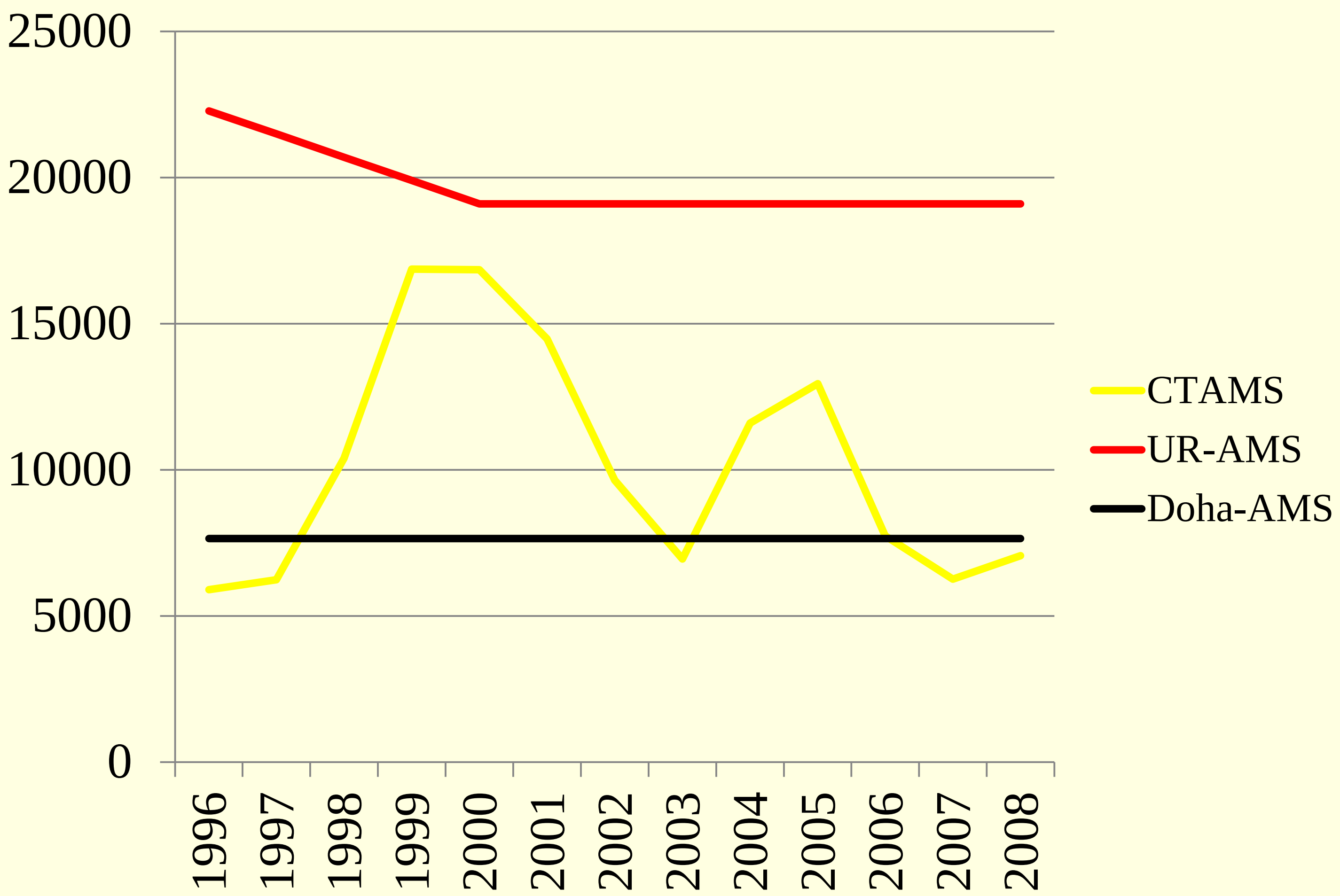
- Goal: substantial reduction in trade-distorting DS
  - New concept, overall trade-distorting DS (OTDS) and bindings on OTDS, AMS and blue box

Total overall trade-distorting DS		Final bound total AMS	
Range of value of OTDS	Proposed % cuts	Range of value of AMS	Proposed % cuts
> $60 bln	80	> $40 bln	70%
$10-60 bln	70	$15-40 bln	60%
< $10 bln	55	< $15 bln	45%
Additional cut if blue box is 40% of AMS			7,5%
Blue box: ceiling of 2,5% of value of ag prod, 1995-00 avg; for Norway blue box ceiling is same as that for AMS, 52,5%			

Source: WTO draft modalities for agriculture, TN/AG/W/4/Rev.4, 6 Dec 2008

Doha round, continued . . .

- US AMS commitments under Doha ($ mln)



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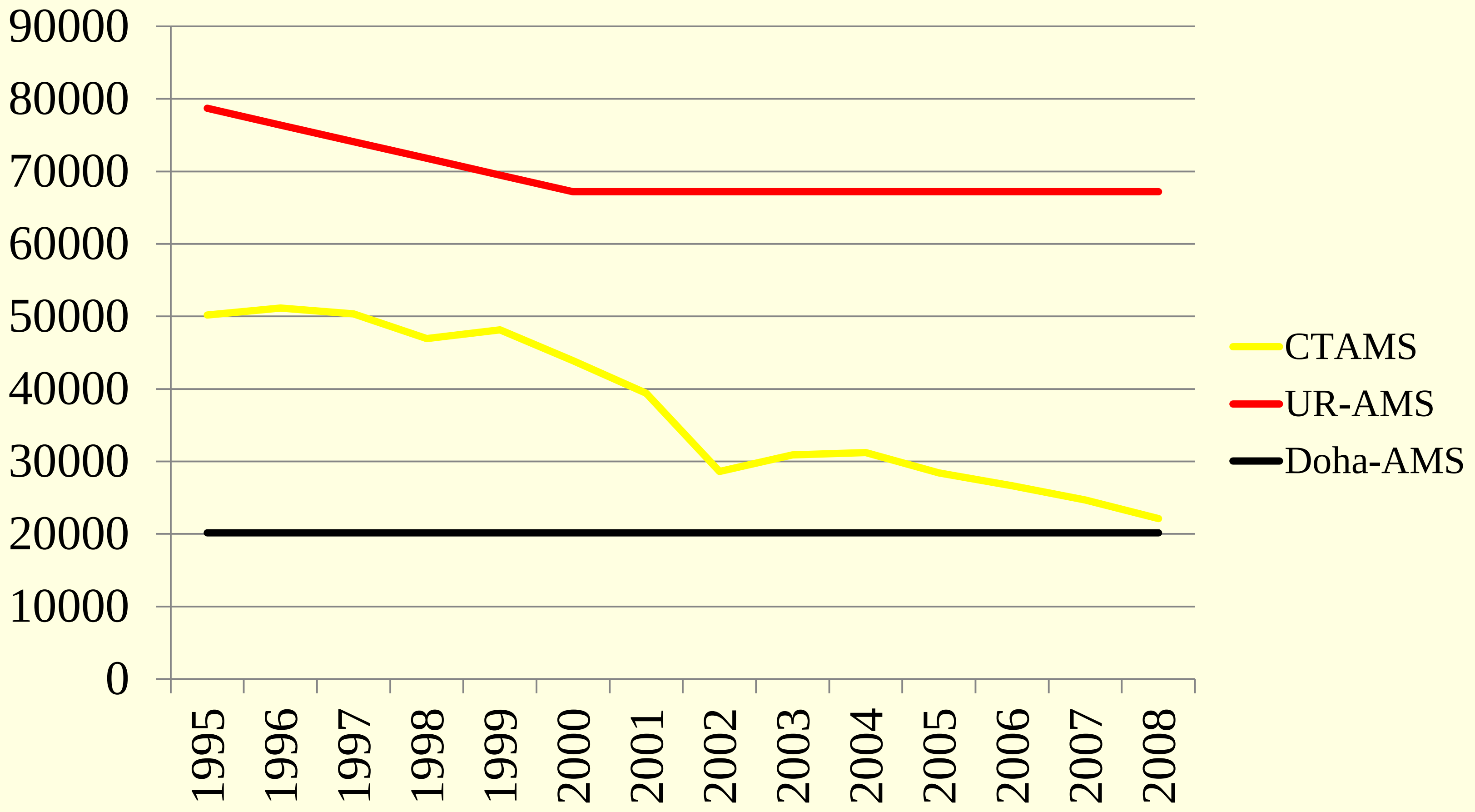
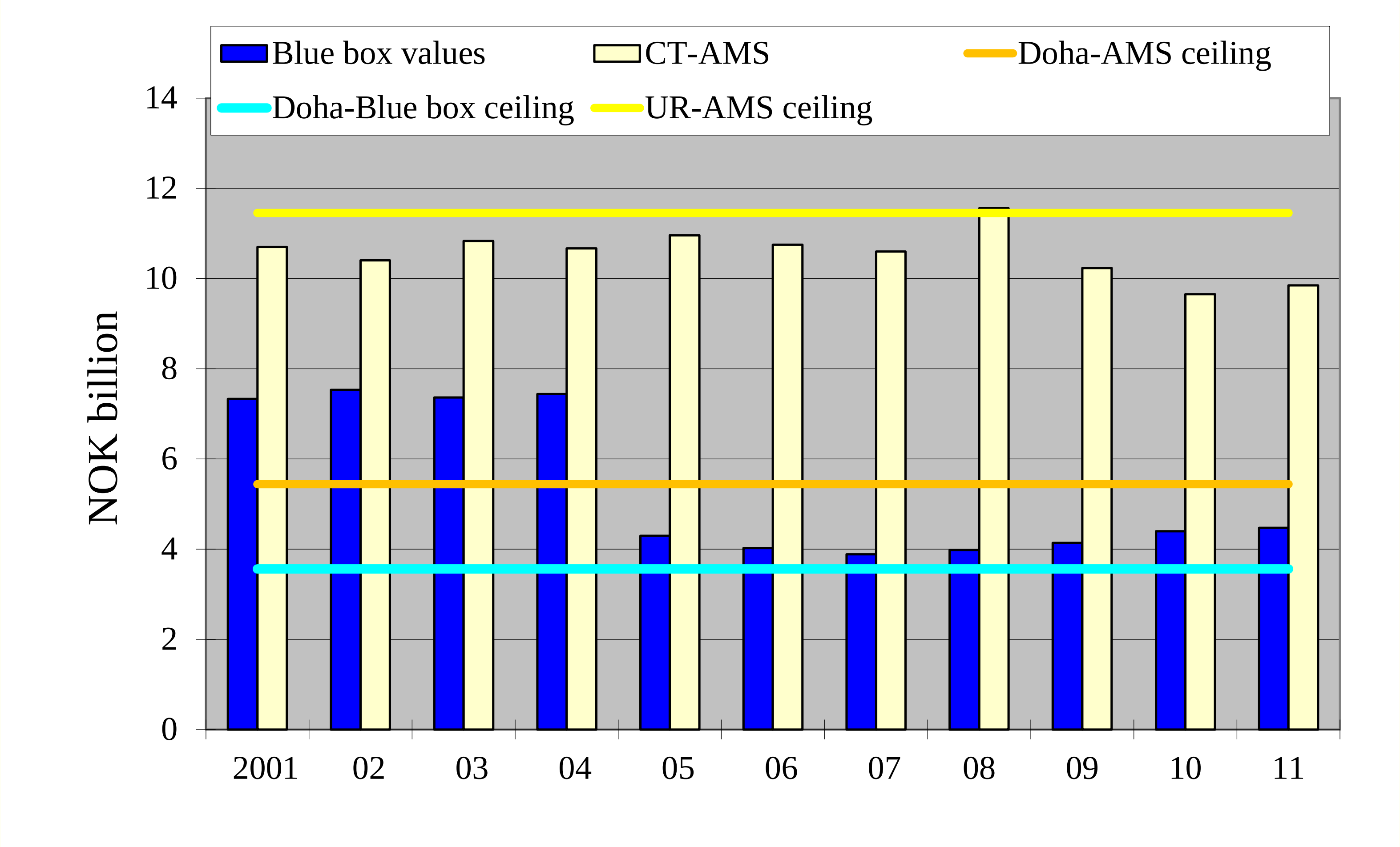
Doha round, continued . . .

- EU AMS commitments under Doha (€mln)



Doha round, continued . . .

- DS commitments on Norway



Sources: WTO modalities doc; WTO notifications, Gaasland, Garcia and Vårdal, 2008

Doha round, continued . . .

3.3 Modalities on ES

- Goal: reduce ES with a view to fully phasing out
  - No date set for full phase out
  - Declining trend in the use of ES
  - Mostly a non-binding constraint already

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4. Bali Agreement

4.1 Agriculture

- General services can contribute to rural development, food security and poverty alleviation, in developing countries
- Public stockholding for food security purposes
  - Flexibility to exceed AMS ceiling or *de minimis*
  - Staples procured under such programs must not distort trade or affect food security of other members
- TRQ as per Doha modalities
- Export competition – discipline measures with equivalent effect as ES

Bali agreement, continued . . .

4.2 Development and least developed country issues

- Duty-free, quota-free market access
  - 97% of all LDC good, defined at tariff line level
  - Notification of the schemes
- Preferential rules of origin for least-developed

4.3 Trade facilitation – reduce border inefficiencies through simplified customs rules

5. Concluding comments

5.1. WTO disciplines

- Rules and binding requirements make sense
  - TRQs were pragmatic approach to increase access
  - Ag subsidy boxes do reflect efficiency differences
- Problems
  - Ceilings on support/protection negotiated too high
  - Mistake not to require TRQs volume to be binding
- Incoherence of rules/disciplines and theory
  - Three pillars (MA, DS, ES) considered separately
  - MPS is based on an administrative price
  - Net trade reversals allowed

Concluding comments, continued . . .

5.2 Evidence of reform (EU)

- Reform is not the result of the multilateral process
  - Earlier: clear shift from amber to blue box
  - Recent: shift toward decoupled green box support
  - Export subsidies unilaterally being phased out
- Direct payments with more market orientation is more efficient for stated policy objective
- Problem: not clear how efficient direct payments are in the presence of MA protection

Concluding comments, continued . . .

5.3 Doha round disciplines

- Mostly removes redundant support/protection
- Another round needed to push liberalization/reform

5.4 Bali and preferential trade agreements

- Bali was an agreement of the "easy" bits and it was still difficult to conclude
- Other bilateral or regional agreements will not address existing multilateral shortcomings