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Agriculture in the WTO Doha Round: The Framework Agreement and Next Steps

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Summary

Member countries of the World Trade Organization (WTO) reached agreement on July 31, 2004 on a framework for negotiating agricultural trade liberalization in the multilateral trade round known as the Doha Development Agenda (DDA). The framework, part of a work program for all negotiating issues in the DDA (non-agricultural market access, services, trade facilitation, etc.), sets the stage for negotiations, now underway, to determine specific targets or formulas (“modalities”) for curbing trade-distorting domestic support, reducing trade barriers and eliminating export subsidies. A draft report on agriculture modalities is expected by July 2005, but disagreement over a reduction formula for agricultural tariffs has slowed preparation of the report. If agreed to, the agriculture modalities report would be on the agenda of the WTO’s Sixth Ministerial Conference in December 2005, and negotiations could be completed during 2006. In the meantime, the President has requested a two-year extension of trade promotion authority procedures (TPA, also known as fast-track) for considering legislation to implement trade agreements. DDA negotiations, which could affect farm programs and spending levels authorized in the 2002 farm bill, could be wrapping up as Congress begins considering the next farm bill. This report will be updated as events warrant.

Introduction

The WTO’s July 31 work program for completing multilateral trade negotiations in the Doha Development Agenda (DDA) includes an overall decision to complete the negotiations launched in Doha, Qatar, in November 2001 with annexes that lay out negotiating frameworks for agriculture and other DDA issues.¹ WTO member countries failed to reach such an agreement at their Fifth Ministerial Conference in Cancun, Mexico, in September 2003. Agreement now means that negotiations will continue into

¹ The framework agreement known as the *Doha Work Programme: Decision Adopted by the General Council on August 1, 2004* can be viewed at [http://www.wto.org/english/tratop_e/dda_e/ddadraft_31jul04_e.pdf].

the next phase to determine negotiating modalities. Failure to agree on a framework, conversely, would have created uncertainty about prospects for concluding the DDA and about the viability of the WTO as a global forum for negotiating further trade liberalization. According to several economic analyses, failure to further liberalize world trade would mean foregone opportunities for economic gains for developing and developed countries alike.² Other analysis suggests, however, that trade liberalization also would impose adjustment burdens on many agricultural sectors, including some commodity sectors in developed countries.³

The Agriculture Framework

The agriculture framework (Annex A of the July 31 Decision) addresses the three “pillars” of agricultural trade liberalization identified in the 2001 Doha Ministerial Declaration: substantial reductions in trade-distorting domestic support; the phase-out, with a view to total elimination, of all export subsidies; and substantial improvements in market access.⁴ The framework now becomes the basis for establishing specific formulas, schedules, end dates and other parameters (modalities) for achieving those objectives during the next phase of negotiations now underway.

Domestic Support

The framework agreement provides that reductions in overall trade-distorting support will be accomplished using a “tiered” or “banded” approach. The tiered formula will be applied to achieve “harmonization” in the levels of support, i.e., the WTO member countries having higher levels of trade-distorting domestic support will make greater overall reductions. As a “down payment” on the overall cut, the framework calls for a 20% reduction from bound (maximum permitted) levels of support in the first year after negotiations are completed.

Not only will member countries make an overall reduction in support, but separate reduction commitments will be made for the components of trade-distorting support, i.e., amber box (most trade-distorting), *de minimis* (a category of spending now exempted from cuts if it accounts for less than 5% of the value of production), and blue box

² World Bank, *Global Economic Prospects: Realizing the Development Promise of the Doha Agenda, 2004*. This World Bank study estimates that “a deal to lower global trade barriers could add more than \$500 billion a year to global incomes by 2015”; it can be viewed at [<http://www.worldbank.org/prospects/gep2004/full.pdf>.]; University of Michigan, School of Public Policy, *CGE Modeling and Analysis of Multilateral and Regional Negotiating Options*, January 23, 2001. This study estimates that world welfare would increase by \$613 billion with reductions in world agricultural, industrial and service barriers (available at [<http://www.spp.umich.edu/rsie/workingpapers/wp.html>]). Such analyses illustrate the potential impacts of trade liberalization; real outcomes may not match the studies’ results if their assumptions are not matched by the reductions in barriers in the negotiated agreements.

³ Daryll E. Ray, “World Bank Study: Trade liberalization would shut down two-thirds of EU’s grain and oilseed production,” AgDM Newsletter, January 2004, viewed at [<http://www.extension.iastate.edu/agdm/articles/others/RayJano4.htm>].

⁴ The Ministerial Declaration launching the DDA negotiations can be viewed at [http://www.wto.org/english/tratop_e/dda_e/dda_e.htm#dohadeclaration].

(payments based on fixed areas and yields; a fixed level of production or a fixed number of livestock). Member countries may make greater than negotiated reductions in each component of support in order to achieve the overall required cut in trade distorting-support.

Amber box support will be reduced using a harmonizing “tiered” or “banded” approach, and product-specific amber box support will be capped at average levels according to a methodology to be negotiated. The definition of the blue box will be modified to include direct payments that do not require production (e.g., U.S. counter-cyclical support), and capped at 5% of a member country’s average total value of agricultural production during an historical period. Additional blue box disciplines will be negotiated. *De minimis* spending also will be reduced according to a formula to be negotiated. Non-trade distorting measures (green box) will be reviewed to ensure that they have no, or at most minimal, trade distorting effects or effects on production. Developing countries will receive special and differential treatment for all types of trade-distorting support in the form of longer implementation periods and lower reduction commitments.

The harmonizing approach in the agriculture framework suggests that others, notably the European Union (EU), would have to cut trade-distorting support more than would the United States. In the EU case, its bound level of amber box support is currently (depending on exchange rates) around \$80 billion while the U.S. bound level is \$19 billion. According to U.S. trade negotiators, the United States should have no difficulty in meeting the aim of cutting the sum of trade-distorting support levels by 20% in the first year as reductions would be made from “bound”, or permitted, rather than “applied”, or actual, levels.⁵ The U.S. Dept. of Agriculture (USDA) estimates that the U.S. bound level of domestic support could be as high as \$49 billion (the current U.S. bound level of support for amber box spending plus estimates of the future bound levels of *de minimis* and blue box spending), while actual spending could be considerably less, rendering the 20% cut in the first year meaningless for the United States. However, depending on the outcome of the negotiations, future cuts could be higher. Some in the 108th Congress expressed opposition to cuts in “safety-net programs” put in place by the 2002 farm bill, as would be required by the agriculture framework agreement.⁶

Export Competition

The agriculture framework stipulates that by “the end date” to be negotiated, WTO member countries will eliminate: export subsidies; export credits, credit guarantees or insurance programs with repayment periods beyond 180 days; terms and conditions for export credits ... not in accordance with disciplines to be agreed including, *inter alia*, interest payments, minimum interest rates, and minimum premium requirements; trade distorting practices of exporting State Trading Enterprises (STEs); and provision of food

⁵ See for example “Draft Ag Trade Framework Provides Solid Opportunity for Ambitious Reform”, Press release, International Food and Agricultural Trade Policy Council, July 30, 2004; and “Differing Views on Domestic Support Cuts in WTO Framework Deal,” by Jim Weisemeyer, viewed at [<http://www.agweb.com>].

⁶ See for example, “Bush Administration’s Trade Negotiations Hurt Family Farms,” press release dated August 3, 2004, Sen. Tom Daschle.

aid not in conformity with disciplines to be agreed, including disciplines to prevent commercial displacement. Developing country WTO members will benefit from longer implementation periods for phasing out export subsidies, with differential treatment for export credit programs provided in favor of least-developed and net food-importing countries. STEs in developing countries which enjoy special privileges to preserve domestic price stability and ensure food security will receive special consideration for maintaining monopoly status.

The elimination of EU export subsidies has been a longstanding objective of U.S. agricultural trade policy as has requiring greater transparency in STEs such as the Canadian Wheat Board. In exchange for agreeing to the elimination of its export subsidies, however, the EU demanded and got agreement that disciplines would be negotiated for all forms of export subsidies, including U.S. export credit guarantees and food aid. USDA's export credit guarantee programs, which have provided guarantees for about \$4 billion of agricultural exports annually in recent years, would be substantially altered by the agreement. As presently constituted, these programs can provide credit guarantees from 180 days to 10 years.⁷

U.S. food aid for humanitarian relief and development projects (e.g., P.L. 480 Title II donations) which meet the criterion of not displacing commercial sales appear to be unaffected by the framework agreement. Earlier versions of the framework implied that commodity food aid would be eliminated in favor of cash grants. However, the framework does indicate that "...(t)he question of providing food aid exclusively in fully grant form" will be addressed in the negotiations. The role of international organizations vis-a-vis WTO member countries' food aid programs will also be addressed in the negotiations.

Market Access

The agriculture framework calls for all WTO member countries (except the least developed countries — LDCs) to reduce import tariffs using a tiered formula. Harmonization of tariff levels will be achieved through deeper cuts in higher tariffs. Tariff reductions will be made from bound, not applied, rates; higher tariffs will be subject to deeper cuts with some flexibility for "import-sensitive" products. The number of tiers (bands) and the tariff reduction for each band remain to be negotiated. A prerequisite of modalities for reducing tariffs is agreement on a formula for converting specific tariffs (e.g., cents per kilogram) into ad valorem equivalents (tariffs expressed in percentages). WTO countries may designate a number (to be negotiated) of sensitive products for which "substantial improvement" in market access must be achieved through a combination of tariff quota increases and tariff reductions applied to each product. Developing countries will be able to designate a number of products as "special products," based on criteria of "food security, livelihood security, and rural development needs." These special products will be eligible for more flexible treatment as regards market access. A Special Safeguard Mechanism (SSM) will be established for developing countries, while a Special Agricultural Safeguard (SSG) for developed countries (as currently provided for in the Uruguay Round Agreement) remains under negotiation. (Safeguards permit reversion to previous tariff levels if imports surge.)

⁷Details on USDA's export credit guarantee programs are at [<http://www.fas.usda.gov/excredits>].

Other market access issues to be negotiated include tariff escalation (where value-added products from developing countries receive higher tariffs than unprocessed products) and the erosion of trade preferences for developing countries. The framework declares that developed countries, and developing countries in a position to do so, should provide duty-free and quota free market access for products of the LDCs.

Although the agreement is less specific on market access than on the two other pillars, the United States succeeded in getting a number of important principles into the agriculture framework. These include harmonization of tariffs (deeper cuts in higher tariffs), a single approach to improving market access for both developed and developing countries alike, and applying the principle of “substantial improvement” to all, including sensitive, products. However, the United States yielded greater flexibility to the EU and a group of developed/industrialized countries (e.g., Japan, Switzerland, Norway, South Korea) in their selection of import-sensitive products. Market access conditions for special products from developing countries also remain under negotiation. Some maintain that the market access provisions are not as ambitious as proposed by the United States in its comprehensive negotiating proposal,⁸ but others maintain that the framework’s approach to tariff cuts and market opening is stronger than the proposal that was under consideration during the Cancun Ministerial Conference.⁹

Cotton

Although cotton was not mentioned in the Doha Ministerial Declaration, a number of African cotton producing and exporting countries succeeded in getting into the framework their proposal for eliminating all trade-distorting cotton subsidies and providing compensation for economic losses of African cotton producers while subsidies were phased out.¹⁰ The United States, while not agreeing with the African proposal, worked with the African countries on a formulation in the framework to address the cotton initiative.¹¹ The framework stresses the importance of the cotton initiative, provides that work on cotton will be carried out under all three pillars, and provides that the DDA will work to achieve “ambitious results expeditiously.”

Cotton is the only commodity specifically mentioned in the framework. Singling out cotton is an indication of the crucial role developing countries played in the framework negotiations. As the WTO operates on the basis of consensus, each of its 147 member countries had to agree to the framework before it could be adopted. Disagreement over cotton could have jeopardized agreement on the entire framework. Ultimately, the Africans agreed to keep negotiations on cotton within the agriculture negotiations, while

⁸ The 2000 U.S. comprehensive negotiating proposal for WTO agriculture negotiations can be viewed at [http://www.wto.org/english/tratop_e/agric_e/ngw15_e.doc].

⁹ Draft Cancun Ministerial Declaration is at [http://www.wto.org/english/thewto_e/minist_e/min03_e/draft_decl_rev2_e.htm].

¹⁰ See Poverty Reduction: Sectoral Initiative in favour of Cotton: Joint Proposal of Benin, Burkina Faso, Chad, and Mali (TN/AG/GEN/4, May 16, 2003) at [<http://docsonline.wto.org/DDFDocuments/t/tn/ag/GEN4.doc>].

¹¹ For background, see CRS Report RS21712, *The African Cotton Initiative and WTO Agriculture Negotiations*.

the United States committed “to achieve ambitious results expeditiously.” And both endorsed the framework with these provisions. Frustrated by the pace of negotiations on cotton, the African producing countries have proposed accelerating the elimination of cotton subsidies and the provision of compensation for adverse market effects. The United States maintains its position that changes in cotton subsidies should be part of an overall DDA agriculture agreement.¹² U.S. cotton subsidies are also threatened by Brazil’s successful challenge to them in WTO dispute settlement.¹³

Next Steps

The work program does not establish a new deadline for completing the DDA, originally January 1, 2005, but does fix December 2005 as the date for the Sixth WTO Ministerial Conference, to be held in Hong Kong. Agriculture negotiations in the modalities phase are proving no less difficult than the ones just completed on the framework. If modalities are agreed to by July 2005, they would be on the agenda of the Hong Kong Ministerial. With agreement on agriculture modalities, DDA negotiations could be completed during 2006, assuming agreements in other negotiating areas.

If DDA negotiations do result in a trade agreement, then Congress could presumably take up legislation to implement it under trade promotion authority (TPA), or fast-track, procedures (Title XXI of P.L. 107-210). Under fast-track, if the President meets the trade negotiating objectives and satisfies consultation and notification requirements in P.L. 107-210, then Congress would consider legislation to implement a trade agreement with limited debate, no amendments, and with an up or down vote. TPA, however, covers trade agreements signed by June 1, 2005. A two-year extension is possible if the President requests it, which he has done, and Congress does not disapprove.¹⁴ If the extension is granted, then the effective deadline for U.S. participation in the DDA round and for congressional consideration of implementing legislation becomes June 2007. That time frame also coincides with the expiration of the 2002 farm bill in 2007 (P.L. 107-171). Farm bill changes may be needed to meet U.S. commitments in a final DDA agreement on agriculture.

¹² “The U.S. and Cotton” in *Washington Trade Daily*, Vol. 14, no. 86, May 2, 2005.

¹³ See CRS Report RL32571, *U.S.-Brazil WTO Cotton Subsidy Dispute*.

¹⁴ *2005 Report to the Congress on the Extension of Trade Promotion Authority*, available at [http://www.ustr.gov/Document_Library/Reports_Publications/2005/2005_TPA_Report/Section_Index.html?ht=]. An extension disapproval resolution (S.Res. 100) was introduced in the Senate on April 6, 2005.