FAPRI Analyzes the U.S. Proposal to the WTO

John C. Beghin  
beigin@iastate.edu  
515-294-5811

In addition to our preliminary baseline for the 2006 U.S. and World Agricultural Outlook, this year economists with the Food and Agricultural Policy Research Institute (FAPRI) also undertook an analysis of the proposal to the World Trade Organization (WTO) submitted by the Office of the U.S. Trade Representative in October. The proposal was an effort to jumpstart negotiations leading up to WTO’s sixth ministerial conference in December. The Hong Kong conference brought 149 member countries together to further negotiations on agricultural trade reform and other topics.

The U.S. WTO proposal includes changes in export competition, market access, and domestic support. The FAPRI analysis covers the first seven years of policy changes implied by the proposal, during which the most significant reductions in tariffs and trade-distorting domestic support and elimination of export subsidies would be phased in starting in 2007/08.

The U.S. proposal reduces the permitted current U.S. aggregate measures of support to $7.64 billion and limits so-called blue box support to $4.77 billion. These limits imply lower loan rates and support prices and reduced countercyclical payments. The proposal lowers domestic support in the European Union to €11.4 billion, implying large reductions in actual domestic support in sugar, dairy, cereals, fruits, and vegetables. The proposal includes significant tariff reductions or tariff rate quota (TRQ) expansions. These market access reforms would open the protected rice, sugar, and dairy markets. All export subsidies would be eliminated, which would mostly affect E.U. production and trade of sugar, rice, meat, and dairy products.

Effects on Commodity Prices
The FAPRI analysis finds that these proposed reforms would moderately increase world prices for most commodities, with larger increases for sugar, rice, and dairy. Dairy and livestock would be directly impacted, which in turn would affect feed sectors. U.S. exports of pork, beef, and rice would greatly expand. Corn and wheat exports would grow moderately. U.S. cotton exports would decline.

FAPRI projects that in many cases, the increase in world prices and gains in world markets would not fully compensate for the removal of coupled domestic support in the United States and European Union. Decoupled payments could compensate for the loss of farm income from coupled payments. They would not have to be as large because distortions would be removed and world prices would be higher. Select results of the analysis for major world commodities are given on pages 7 and 8.

U.S. Proposal versus Hong Kong Declaration
The sixth WTO ministerial meeting ended with a declaration on December 18 that falls short of the U.S. proposal. It does not provide the so-called modalities necessary to implement the proposed reductions in tariffs and domestic support. Countries have tentatively agreed to reduce trade-distorting domestic support using a three-tier system, with proportional cuts in total support and aggregate measures of support decreasing by tier; the European Union would be in the top tier, Japan and the United States in the second tier, and everyone else in the lower tier.

Cotton export subsidies of developed countries must be eliminated in 2006. The declaration states that other cotton subsidies “should be reduced more ambitiously” but does not provide modalities for achieving this. Special and differential treatment is still being negotiated. Therefore, it is hard to know if the eventual WTO agreement will have as much impact as the U.S. proposal would if it were implemented.