

## Elimination of agricultural subsidies

One of the bones of contention in trade talk in advance of the World Trade Organization meeting in Cancun, Mexico is the subsidies that the European Union and the U.S. provide to their farmers. The argument is that subsidies depress prices worldwide and if these subsidies were eliminated, farmers in developing countries would enjoy higher prices.

The International Food Policy Research Institute (IFPRI) recently conducted a study ("Impact of Alternative Agricultural Policies on Developing Countries," April 2, 2003) that examined this hypothesis. They used a model to look at the impact of a policy that required developed countries to remove protectionist measures and trade-distorting subsidies by 2006 while developing countries maintained their existing policies.

These restrictions are more strict than any that are being talked about in the current round of trade negotiations. As a result one would expect this study to reflect the maximum benefit that might come from the elimination of subsidies.

How did corn do? You might be surprised at the answer. Corn producers in developing countries would experience a price increase of 2.9% after twenty years. These mere traces of price movement, less than a nickel a bushel in 20 years, would be of little help in improving incomes of farmers in developing countries. By 2020, the price to U.S. farmers would decline by 9.5%.

The price gain for other crops in developing countries was even less than it was for corn. Producers in developing countries would gain 1.6% in the price of rice, 0.8% for wheat, and 1.1% for other coarse grains.

The picture for meat and dairy commodities is completely different. Baseline policies cause larger trade distortions for meat and milk compared to cereal. Thus it is no surprise that the complete removal of all protective barriers results in significant price impacts for some products.

World dairy prices experienced the largest change, increasing 19.2% by 2020. World price gains of beef, sheep, and goats were more modest, increasing 5.2% by 2020 while the gains for poultry and pork were 3.8% and 0.4% respectively. Notice the year here - 2020!

If the trade negotiators make changes in the subsidy levels in developed countries expecting strong benefits for developing countries, they may be disappointed in the results of their efforts.

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