

World Bank study: Trade liberalization would shut down two-thirds of EU's grain and oilseed production

In the wake of the collapse of the World Trade Organization (WTO) talks in Cancun in mid-September a number of news reports have referred to a World Bank Report that estimates that "a deal to lower global trade barriers could add more than \$500 billion a year to global incomes by 2015, lifting 144 million people out of poverty." These results are based on a "pro-poor" scenario that is reported in *2003 Global Economic Prospects: Realizing the Development Promise of the Doha Agenda*.

The World Bank's "pro-poor" scenario assumes that all developed nations reduce their agricultural tariffs to a maximum of 10% and tariffs on other goods to 5% while all developing nations reduce agricultural tariffs to a maximum of 15% and other goods to 10%. In addition, payments to producers would be decoupled from production. "The 'decoupling' part of the scenario is achieved by removing all domestic support in agriculture—input and output subsidies and payments to land and capital. These would be replaced by direct payments to farm households (2003 Global, p. 50)."

The prospect of a \$500 billion income gain, and the lifting of 144 million people out of poverty got me to wondering how this feat would be accomplished and what its impact would be on agricultural production in various countries of the world. Because one of the main issues at Cancun was the Agreement on Agriculture and the call for support reduction, I assumed that changes in agriculture would be a significant component of the pro-poor scenario. Indeed, \$358 billion of the gain comes from agriculture of which \$240 billion would accrue to low and middle income countries.

For a change of this magnitude to occur, significant adjustments would need to take place in the developed countries. The effect of this policy change would be felt differently in various countries and regions around the world. It appears that one of the areas that would experience the greatest change under this trade liberalization scenario is the European Union.

Right now, the EU is just barely a net exporter of major field crops. Aggregating across corn, barley, wheat, soybean, rapeseed, sunflower seed, and rice, over the last five years the EU annually consumed an average of 140 million metric tons of these commodities. While she imports and exports various amounts of individual crops, in total, EU exports averaged about 4 million tons of major crops more than it imported.

The results of the study's "pro-poor" scenario show a decline in total European crop and livestock output of 30% below baseline projections for 2015 (2003, p. 54). Break-outs of individual commodities were not published in the World Bank report but a study published by Iowa

State University on a similar application of the World Bank's model does provide commodity detail.

Based on the more detailed information in the Iowa State study, we have estimated the crop-output implications from the World Bank's reported total drop in EU agricultural output of 30% for the pro-poor scenario. The results are staggering.

In the case of wheat, this estimation approach suggests that the "pro-poor" trade liberalization agenda would result in the loss of 26.4 (60%) million of Europe's 44 million wheat acres by 2015. This would transform Europe from a net wheat exporter to a significant importer.

In other grain production, Europe would lose 18.9 (70%) of its 27 million acres devoted to the production of other grains. With oilseeds the corresponding drop would be 6.2 million acres (59%) out of 10.5 million acres. In both of these cases Europe would be a significant net importer. The imports would come from lower cost producers elsewhere in the world.

According to our calculations, the World Bank study implies that the relatively self-sufficient EU would become dependent on imports for two-thirds of its grain and oilseeds. Europe would return to the same kind of ship-to-mouth existence that it experienced following WWII. It was this ship-to-mouth to existence that led to the establishment of the European Common Agricultural Policy (CAP) in 1962.

Can this be? Do we really think that the EU will reduce its total acreage of wheat, oilseeds, and other grains by 63% or 51.5 million acres in the next decade under this or any other trade liberalization scenario?

As one who has worked with economic simulation models for over thirty-five years, I can understand how the World Bank's model, that views the world "as one large field" to use ADM's words, would produce these results. As a policy analyst, however, I find it extremely hard to believe that the French and other Europeans would be content to sit idly by while EU's major field crop production drops by nearly two-thirds.

Again, I ask, can this be? Are we missing something here? Can the real-world adjustments that would be required to achieve a \$358 billion agriculturally based increase in global income from trade liberalization be reasonably expected to occur? Perhaps, but what a gigantic departure from previous adjustment-experience it would be.

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