

Policy Pennings by Dr. Daryll E. Ray

WTO Framework Approved

In a marathon negotiating session during the last week of July 2004, the WTO General Council approved a framework agreement that reinvigorates the Doha round trade negotiations that were stalled at last year's WTO Ministerial Meeting in Cancun, Mexico. At that meeting a group of developing nations, now called the G-20, refused to move forward with trade negotiations until the developed countries, primarily the U.S., the E.U., and Japan, agreed to reduce their agricultural subsidies. The G-20 blamed farm subsidies in the developed countries for stimulating overproduction of agricultural products and driving agricultural commodity prices below the cost of production, harming farmers in developing and least developed countries.

While the agreement does breathe new life into the Doha trade negotiations it may not be as stunning an agreement as is being portrayed in some news articles. This step in the multi-year process of trade negotiations was supposed to establish the framework or general principles that will be used in the next step which is called modalities. Because of sharp disagreements among the negotiators, some of the framework decisions that were to be made at this stage have been put off until a later time. In essence, for the sake of reaching an agreement at this time, the negotiators have agreed to disagree on several key issues.

The next stage of negotiations which begins in September in Geneva will start work on the modalities. The modalities stage of negotiations is where the principles that have been agreed upon in the framework stage are fleshed out item by item, commodity by commodity, country by country. It is where the rubber meets the road. The problem negotiators will face is the fact that several key framework principles require substantial additional work.

That being said, it is clear that further negotiations will have a significant impact on farmers. Cotton farmers will want to pay particular attention to what happens as negotiations move forward. In light of the recent ruling of the WTO Dispute Settlement Body on Brazil's complaint about the U.S. cotton program and in response to the complaints of West African nations that the U.S. is dumping cotton on the world market at below the cost of production, cotton negotiations will be given special attention. The West African nations wanted cotton to be discussed outside the agriculture agreement, but this request was refused and instead cotton was singled out for additional attention within the agriculture agreement.

Agricultural export subsidies will be eliminated under the terms of the framework agreement. In addition export credit and export guarantee programs will be reworked to ensure that they are not trade distorting. The goal is to level the playing field between the developed countries that can afford these programs and the countries that can't.

The framework calls for deep cuts in tariffs that provide a barrier to the importation of agricultural products. Those countries with the highest tariffs will be called upon to make the deepest cuts in an attempt to harmonize tariff levels across all countries. The goal is to expand market access to all producers.

The long-held U.S. goal of eliminating the trade distorting practices of State Trading Enterprises has been included in this agreement. Action on this issue will affect groups like the Canadian Wheat Board and the Australian Wheat Board as well as the state trading companies in China.

The U.S. Trade Representative's office says that "trade-distorting forms of domestic support for agriculture will be cut substantially, with caps on support levels for specific commodities and cuts in the overall level of trade-distorting support.

Once the modalities have been agreed upon by the 147 member WTO, the Doha round will move into the implementation phase. In the first year of the implementation phase, "each member's total trade-distorting support will be cut by 20% from currently allowed levels."

One of the factors that has the potential to significantly shape the next farm bill is what happens during the next stage of WTO trade negotiations. For most of the past seventy years, the terms of various trade agreements has had little impact on farm legislation, but with this agreement that may no longer be true. The requirements of this trade agreement may be as important in determining the content of the next farm bill as the wishes of corn farmers in Iowa and cotton farmers in Texas and Louisiana.

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