APAC Agricultural Policy Analysis Center
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PolicyPennings by Dr. Daryll E. Ray

US unveils triple 5-year subsidy reduction plan for agricultural trade

On Monday, October 10, 2005, US Trade Representative Rob Portman increased the heat on other Japan and the EU by proposing a two stage process for the reformation of global agricultural trade. Portman's proposals are an attempt to break the deadlock in World Trade Organization's (WTO) agriculture negotiations in order to as he says, "unleash the potential of [the]Doha" round of trade negotiations. The assumption behind trade liberalization is that greater trade leads to greater wealth, particularly for developing countries.

Portman's stage 1 calls for "substantial reductions of trade-distorting support measures and tariffs, along with the elimination of export subsidies, to be phased-in over a five year period." Because stage 1 calls for changes in US farm support measures, the current strategy is to have the beginning of this stage coincide with the implementation of the 2007 Farm Bill.

The administration also wants the Doha Round of WTO negotiations completed before Trade Promotion Authority (TPA) expires in 2007. TPA gives the President authority to negotiate trade agreements subject only to an up or down vote, but not amendment, by Congress. Without TPA, negotiating a trade agreement that would satisfy Congress could be more difficult.

After completion of stage 1 a second five year interlude period would be used to review the effects of the first stage reforms. The second stage will deliver the elimination of remaining trade-distorting policies in agriculture unless WTO member states agree to a change in course.

To summarize what can be seen as a triple five-year plan: stage 1 calls for the elimination of export subsidies and substantial reduction in tariffs and trade-distorting subsidies; the interim stage calls for a period of assessment of how well the policies are working; and stage 3 calls for the full elimination of remaining tariffs and trade-distorting domestic support.

Portman's agricultural proposal for the US is based on three pillars. The first pillar is focused on increasing market access – the ability of countries to gain access to each other's domestic markets. The second pillar is domestic support – the elimination of trade-distorting domestic support. The third pillar is export competition – the elimination of export subsidies. In this column we will look at the third pillar with future columns looking at the other pillars.

The third pillar calls for the elimination (not reduction) of export subsides in all forms by 2010. The urgency in this pillar was heightened by the recent WTO ruling against the US in a dispute brought about by Brazil. In that ruling the US Step 2 cotton program was found to be in violation of trade rules.

All direct agricultural subsidies would need to be eliminated. In addition, export credit programs would need to be brought into line with commercial practice, including a maximum repayment period of 180 days. State Trading Enterprises, like those in Canada and China would be subject to new disciplines that would end their monopoly export privileges, prohibit export subsidies, and expand transparency obligations.

Some countries tax raw materials more highly than processed products in order to encourage the development of domestic industry. That practice would have to be eliminated under Portman's proposal.

Food aid would also be subject to additional discipline to make sure that food aid does not result in displacement of commercial production, while at the same time assuring that emergency shipments can be made in a timely manner.

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