

PolicyPennings by Dr. Daryll E. Ray

## Is it as simple as: EU lowers farm tariffs, US benefits?

We are all familiar with the voice that comes across our television speaker saying, “We interrupt this program to bring you an important commercial announcement.” Well, we want to interrupt our discussion of US Trade Representative Portman’s subsidy reduction plan for agricultural trade to bring you an important announcement.

In an October 9, 2005 letter to Agriculture Secretary Johanns, Senator Saxby Chambliss, R-GA, Chair of the Senate Committee on Agriculture, Nutrition, and Forestry, wrote “Let me be clear, the Congress will be writing the next farm bill in 2007, and I am deeply concerned the Administration is using the current [trade] negotiations to reshape farm policy without the full input of Congress and grassroots support. ... I am looking forward to a successful conclusion to the negotiations, but not at the risk of a bad agreement that lacks the support of farmers and ranchers in the United States.” (A copy of the full letter is available on the web at [http://agriculture.senate.gov/wtosc\\_usda.pdf](http://agriculture.senate.gov/wtosc_usda.pdf).)

With Chambliss’ comments in mind, let us return to our discussion of Portman’s recent proposals for reforming agricultural trade negotiations. Portman’s proposals are based on three pillars: pillar one – increasing market access; pillar two – eliminating trade-distorting domestic support; and pillar three – eliminating export subsidies in all forms.

Last week’s column looked at the third pillar noting that export subsidies, including cotton’s Step 2 Program, would have to be eliminated; government credit programs used to finance exports would have to be brought into line with commercial practices; state trading enterprises would lose their monopoly; export taxes that favored processed material over raw products would have to be eliminated; and food aid would have to be administered in a manner that would not undermine local markets.

Pillar one, which did not draw much direct attention from Chambliss, uses a “tiered formula,” which was agreed upon in the July 2004 framework agreement, to increase market access. Portman’s proposal calls for developed countries to cut their tariffs by 55-90 percent with lowest tariffs being cut by 55 percent while the

highest tariffs are cut by 90 percent. In addition an upper limit is set for tariffs.

At the insistence of a number of countries, trade negotiators are prepared to allow some agricultural products to be given “sensitive product” treatment, meaning that these domestic products can be protected from imports. Portman proposes to limit tariff lines subject to “sensitive product” treatment to one percent of total dutiable tariff lines. That would ensure that a country would not place the bulk of its agricultural production into the “sensitive product” category.

Consistent with the Doha Round trade negotiations goal of making sure that developing countries benefit from trade liberalization, the US proposal allows for slightly less cuts and longer phase-in periods for developing countries. The goal is to provide real improvements in access while ensuring import-sensitive sectors in those economies are afforded appropriate protection.

From our perspective the expected benefits for the US of expanded market access seem to be a little high, especially when it comes to access to the EU market. At this point it is unclear to us to what extent the opened markets will be captured by the US. For instance, there is little chance that the US will benefit from increased access to the vegetables market, a market that will undoubtedly be served by countries closer to the EU. With regard to commodities, we can provide wheat and corn and we are betting that we will. But others will be chasing those markets as well. Countries like Brazil, Argentina, and Australia are as adamant about expanding their exports as the US. The net result may be an expansion of total export demand with little impact on price as the result of increased availability by US competitors.

In next week’s column we will deal with pillar two – domestic support, - a topic that drew considerable attention from Senator Chambliss.

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