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Destruction of US credibility at WTO

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The tenth ministerial conference of the World Trade Organization (WTO), to be held in Nairobi on 15-18 December, is already mired in discord, with negotiators unable to agree on a mandated post-Bali work programme.

At issue are US and European Union (EU) proposals to scrap the texts agreed to thus far in this interminable round of trade negotiations. Yet again, the developed world led by the US and the EU are pitched against developing countries led by India, China and Indonesia, who have over the past two years tried unsuccessfully to move towards the promise—made at the ninth ministerial conference in Bali in 2013—of a permanent solution to the public stock-holding issue in food security, while advancing the stalled Doha development round.

The irony that a country such as India, which witnessed more than a quarter of a million farm suicides between 1996 and 2014, has to fight to retain its farm subsidies, which are a fraction of what the US and the EU provide their farmers, is not lost on most observers. Nor is US intransigence in refusing to consider a proposal from the group of 33 countries (G-33) to resolve the stockholding issue simply by bringing the WTO agreement into line with 21st century prices.

The 2014 US farm bill is one of the main reasons the US government is walking away from the post-Bali agriculture negotiations. Studies show that the US is likely to exceed the subsidy limits agreed in Doha negotiations in 2008, and it will probably exceed even current WTO limits.

US Congress thumbs its nose at WTO

The 2014 farm bill, which takes effect this crop year and will be in effect for five years, is decidedly more trade-distorting than its predecessor. It eliminates direct payments to producers, which were considered less trade-distorting than price or production-based programmes. It replaces them with production and price-based programmes that offer producers of supported commodities a choice between payments to compensate for low prices (price loss coverage or PLC) or payments to compensate for revenues lower than the recent five-year revenue average (agricultural risk coverage or ARC). On top of that, producers get subsidized crop insurance from the federal government, and special or different programmes support dairy, cotton and other crops.

How do these programmes work? Producers opt in to one of the programmes for each crop for the five-year terms of the farm bill. The price-based coverage is much like the US's previous countercyclical payments (CCP), setting a price trigger and compensating producers when prices fall below that level, up to a fairly high limit. Wheat producers, for example, would be covered for prices below the PLC price of $202 per tonne.

The revenue-based programme, ARC, pays producers if their crop revenues fall below historic averages for their area based on yields and prices. The programme uses the previous five years as the baseline, years in which prices and yields have been unusually high. That makes producers eligible for an almost absurdly high level of support, levels that will, however, evaporate if there is a long run of low prices. In the early years of this farm bill, though, ARC coverage is high, particularly for corn and soybean, with effective support prices of $179 per tonne and $388 per tonne compared with PLC support prices in 2014 of $146 per tonne and $309 per tonne. Not surprisingly, most corn and soybean farmers opted for ARC over PLC.

Why does the 2014 farm bill limit the US government's negotiating room in the WTO? According to projections from researchers at the University of Missouri, farm supports are likely to remain at or above current levels, leaving the US little room to agree to proposed cuts. Projected outlays for 2014 crops are around $12 billion.

More important, virtually none of the US support under these new programmes would fall in the Green Box, exempted from limits based on the assumption that they are minimally trade distorting. Both programmes are, indeed, tied to specific crops, prices, or levels of production, so they will be disciplined as Amber Box support subject to reductions under the current WTO agreement. (See analysis here.)

Under the proposed Doha agreement, based on the texts agreed in 2008, the new programmes will likely fall in the Blue Box, which will be subject to new caps. The US limit will be $4.7 billion. They will also contribute to the new limits on overall trade distorting support (OTDS), which for the US will be $14.5 billion. And with the so-called de minimis exemption reduced from 5% to 2.5% of the value of each crop, more of that trade-distorting support will count against the US limits.

The University of Missouri researchers ran a series of 500 simulations for the next 10 years comparing the results to the proposed Doha limits as if the agreement were in effect as of 2014. They found that in 34% of those simulations, the US exceeds its reduced Amber Box allowance in at least one year. Worse, nearly 99% of the simulations showed Blue Box caps being surpassed in at least one year. OTDS limits were nearly 100% likely to be breached in at least one year, with a 40% probability that they would be exceeded in any given year.

In other words, if the US agrees to the 2008 Doha text on agriculture, it is virtually assured to be in violation of its commitments because of the 2014 farm bill.

US loses credibility in Doha negotiations

US intransigence in following through on the commitment in Bali to negotiate a permanent outcome on India's programme of administered prices and stockholding for food security looks all the more hypocritical in light of the 2014 farm bill. University of California professor Colin A. Carter wrote in a 2014 commentary, "The provisions of the 2014 Farm Bill... may well have cost the United States any credibility in future agricultural trade negotiations in the Doha round."

The US government was already hypocritical in calling out India for a programme that uses all the same policy measures the US used in its earlier history. It was hypocrisy as well to call for close disciplines on payments to some of the poorest farmers in the world in order to feed some of the hungriest people in the world when US farmers are far better off and recipients of US government food assistance get four times the amount of food. And it was further hypocrisy to call India's programme highly trade-distorting when very little of the procured food finds its way into export markets while, by contrast, the US exports a significant portion of nearly every supported crop.

But the 2014 farm bill adds a new layer of hypocrisy to US claims. Consider that the new legislation increases support prices by one-third or more. And consider what that means for US maize. The support price under the PLC programme is up 41% and at $146 per tonne is now higher than the current market price for maize by $2 per tonne. That would trigger payments if applied to 2014 prices and production. But most maize farmers opted for revenue insurance, which has a 2014 supported price of $179 a tonne, a $35 per tonne subsidy. Projections suggest that payments to maize farmers for the 2014-15 crop year will be more than $6 billion.

Now, imagine if payments to US maize farmers were subject to the same archaic WTO discipline the US is insisting on for India, calculating the supposed subsidy not on the basis of current market prices but compared with the stipulated 1986-88 reference price, with no adjustment for inflation. That already high US subsidy, when compared to the reference price of $92 per tonne, would appear to be $87 a tonne and a ridiculous $32 billion, just for the US maize crop.

Of course, the US subsidy is not that large. Neither is India's for rice or wheat. But the US hypocritically holds India to that archaic calculation of its subsidies while not having to do the same for its far larger and more trade-distorting farm supports.

Will the Doha round survive Nairobi?

The Barack Obama administration is relentlessly pursuing two large trade agreements—the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP). These allow for far greater trade liberalization in market access and investment rules than what the Doha round offers while excluding US agricultural subsidies from the discussion. The US is simultaneously pushing the WTO to move beyond the Doha round to the so-called Singapore issues of government procurement, trade and competition and trade and investment.

The Narendra Modi government successfully called the bluff of the developed world after Bali by threatening not to ratify the trade facilitation agreement unless the "constructive ambiguity" of the peace clause, which left India and other developing countries vulnerable to being dragged to the dispute settlement mechanism at the WTO, was clarified. India rightly recognizes the temporary gains from the Bali agreement and is clear-eyed that the DDA can only be concluded by addressing all issues of the 2008 Doha Framework. Since Bali, India has gained strong allies, with backing from China and Indonesia. Brazil, too, is insisting on respect for the 2008 negotiated texts.

Despite the unity of the developing world, the road to Nairobi remains uphill. Kenya, which is projecting the Nairobi ministerial conference as the first African one, wants to make it successful, and that could mean settling on a less ambitious outcome. Even though many African countries are united behind the G-33 proposal, it is possible that the US and EU may (again) drive a wedge, like they did by pushing a minimalist package for least developed countries (LDC) at Bali, unless India and China step up the diplomatic effort. The India-Africa summit in New Delhi in October may offer India another chance at making a decisive push to get African countries to close ranks at Nairobi.

In the meantime, India must not succumb to US pressure to reduce domestic support to farmers or replace the public distribution system with cash transfers in order to be WTO-compliant. India's national food security law promotes security not only by providing subsidized food to the poor but by supporting poor farmers with stable and profitable prices, just as the US did in its early farm programmes when it had a large and poor farm population.

The developed world certainly dominates the global market for hypocrisy, and the US Farm Bill, passed by a Congress unconcerned with the rest of the world, is a case in point. Hopefully, the developing world can hold firm to join India in defending public stockholding programs for food security and in reviving the promise of development embodied in the Doha development round.

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