

Deal or No Deal - Feature Article - *World Trade*

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by Jeremy N. Smith May 1, 2007



About 13 million people—half of them fewer than 20 years old—inhabit Burkina Faso, a landlocked, tropical west African nation slightly larger than the state of Colorado. Limited natural resources on the savanna include limestone, phosphates, pumice, and salt. Winters are dry, summers hot and wet. Soil degradation, deforestation, recurring droughts, and desertification plague arable land, only 100 square miles of which are irrigated. Ninety percent of working Burkinabe are subsistence farmers. Exactly 12 years ago next month, Burkina Faso became a member of the World Trade Organization.

No administrative head or leadership board rules the WTO. Decisions are made not by voting, but by consensus. The organization comprises almost 150 member states, the vast majority of them least-developed and developing countries. Among these nations, on average, agriculture accounts for 35 percent of national economic output and employment. World prices for just one or two commodities—coffee and cocoa, for example, or, in the case of Burkina Faso, cotton—determine the entire annual trade surplus or deficit.

Naturally, for these people, the fate of farmers matters as much or more than that of manufactured goods or intellectual property. For them the future of agriculture and the future of world trade are indivisible. And they have an almost half-trillion-dollar problem with the developed world.

Unsurprisingly, it is developed countries—not least-developed or developing nations—that boast the resources best to protect and promote their domestic agriculture. Though fewer than two percent of Americans and five percent of Europeans are farmers, these governments alone disburse direct farm payments, product price supports, protective tariffs, and export assistance totaling more than \$300 billion a year—almost the GDP of the entire African continent. Estimates suggest about half of the annual value of all European agriculture—some \$360 billion—comes from such direct payments. Of the strength of the American agricultural supports lobby, former House Majority Leader Richard Armey told the *Washington Post*, “I don’t think there’s a smaller group of constituents that has a bigger influence.”

Government supports spur overproduction. Overproduction, in turn, reduces world market prices—as much as 50 percent for commodities like sugar and cotton, broadly subsidized by the EU and U.S., respectively. Corn, soybeans, wheat, and rice are likewise “dumped” worldwide at prices below the cost of production. “Consider a farmer in Ghana who used to be able to make a living growing rice,” Lyle Vanclief, Canada’s former Minister of Agriculture, said to an audience at Harvard University. “Several years ago, Ghana was able to feed and export their surplus. Now, it imports rice. From where? Developed countries. Why? Because it’s cheaper. Even if it costs the rice producer in the developed world much more to produce the rice, he doesn’t have to make a profit from his crop. The government pays him to grow it, so he can sell it more cheaply to Ghana than the farmer in Ghana can. And that farmer in

Ghana? He can't feed his family anymore."

European Union aid just to farm cows averages two dollars per cow per day. Half of all human beings live on less. In the United States, "Subsidies to 25,000 American cotton farmers exceed the value of what they produce and so depress cotton prices that it is estimated that the millions of cotton farmers in Africa alone lose more than \$350 each year," writes Joseph E. Stiglitz, former chief economist of the World Bank. "For several of Africa's poorest countries, losses from this one crop exceed America's foreign aid budget for each of these countries."

The original goal of agricultural supports in the United States was protection of the independent farmer (as late as 1930, one in four Americans lived on a farm); in Europe, the policy thrust was self-sufficiency, achieved not only through direct payments and price controls, but also export subsidies and import tariffs (both measures adopted, too, in time, by the United States and, to a lesser extent, Japan). But what place self-sufficiency in an era of global capitalism, where each market participant ideally produces only that which it makes best? Critics from left and right argue that the vast majority of agricultural supports waste money and harm the environment, violate free market principles and block free trade agreements, all while supporting large agribusinesses—"giant farms, grain brokers, food processors, fast-food chains, and prepackaged food companies" in the words of Scott Fields—rather than the vast mass of poor small farmers worldwide. Summarizes Joseph Stiglitz: "Reforms would cost developed nations little—in most cases nothing at all, as taxpayers would save billions from subsidies and consumers would save billions from lower prices—and developing countries would benefit enormously."

In 2001, in Doha, Qatar, the WTO began the "development round" of trade negotiations, so named because its avowed intent was to help developing countries more fully participate in and benefit from world trade. Delegates committed to "special and differential treatment for developing countries," starting with a "substantial reduction in trade-distorting domestic support" for all-important agricultural products. Politicians in those developed countries, however, have not been so easily persuaded.

Take the United States. In 1996, when the U.S. Congress eliminated price supports for specific agricultural products, they committed to paying agricultural landholders a fixed amount based on what their acreage had grown—whether it would anymore or not. Within four years, such payments, which could be sold or traded, exceeded an annual \$22 billion—triple the cost of the subsidies they replaced. Then the 2002 Farm Bill both continued farm payments and returned subsidies. If maintained as scheduled until 2012 this policy will distribute \$190 billion.

The European Union likewise lowered price supports throughout the 1990s, starting with wheat, oats, corn, and beef. But it paid and continues to pay farmers to leave land fallow or even to reforest. As the EU has expanded to the east, 60 percent more farmers, 30 percent more agricultural land, and 20 percent more crop production have become eligible for internal assistance. Though total subsidies across the continent remain fixed until 2011, implementing the common agricultural policy still requires some 44 percent of the entire EU budget, approximately \$60 billion.

Without a deal on liberalized trade and agriculture, ambitious multi-party trade compacts on any subject seem unlikely. With this understanding, representatives of developed governments agree that they must promote reform. Deciding which agricultural supports to target, to what degree, and when, though, spurs bitter

argument. High tariff rates and other export barriers particularly trouble the United States. For the European Union and Japan, price and production supports are more pernicious. "The U.S. is seeking greater market access," explains Brian Peck, counsel with the law firm Crowell & Moring LLP and a senior director at the office of the United States Trade Representative from 2003 to 2005. "The EU and Japan are protecting their domestic market."

Caught in the middle are developing countries, which crave both much lower tariffs and greatly reduced supports. "Most developing countries have underdeveloped agricultural operations," Peck says. "They would like lower tariffs for developed countries so they can start or increase exports for their economy. They would like a reduction of subsidies that keep prices too low to compete domestically or on the global market."

How far apart are participants? For the record, talks were declared at an impasse last year by WTO Director-General Pascal Lamy and 'de facto' suspended. In accord with Doha's development agenda, all proposals to that point would have reduced developed countries' domestic subsidies while allowing developing countries higher tariffs to protect their agricultural sectors. While the U.S. proposed cutting average agricultural tariffs for developed countries over 60 percent, however, the European Union insisted on cuts closer to 40 percent. The bloc of developing nations known as the G20—led by China, India, and Brazil—in turn proposed an average rate cut of almost 55 percent.

"What led to the breakdown was neither side would budge," Brian Peck says. "The EU won't move on tariffs until the U.S. moves on subsidies and the U.S. won't move on subsidies until the EU moves on tariffs."

A deal on Doha may yet happen. At this January's World Economic Forum in Davos, Switzerland, senior executives from almost fifty major multinationals released a joint statement urging "all WTO member governments to make their contribution to revive the Doha round and conclude it successfully as soon as possible." Common global customs procedures alone would save importers and exporters close to \$400 million, the executives noted. "Should governments allow all this to be lost because of disagreements over certain aspects of agricultural policy? Absolutely not," they said. "All WTO members, including the EU and the U.S., must make the necessary compromises."

Negotiations were "back in business" and "in the endgame," EU Trade Commissioner Peter Mandelson said by way of reply. "This is going to end in success or failure in the next two to three months." Pascal Lamy agreed, predicting either breakthrough by June, when President Bush's 'fast track' authority to negotiate trade agreements expires, or multi-year suspension of substantial talks.

Timothy A. Wise, deputy director of Tufts University's Global Development and Environment Institute, is both less alarmed and less optimistic. "Some reform is already happening and will continue to happen," he says. "It's in very few people's interests to have an unregulated world trade in agriculture. In that sense, most people see a value in some kind of agreement, hopefully one that is fairer to developing countries."

At the same time, what's striking about the projected economic gains from a Doha agreement is how small they are: \$80 billion for developed countries and \$15 billion dollars for the entire developing world in 2015 "If you're in a family where the dollars for the entire developing world in 2015. If you re in a family where the

members make one hundred dollars a month, they might see a sixteen cent raise in ten years," Wise says. "That is not going to bring anyone out of poverty or bring any country to a significantly higher stage of development."

Meanwhile, obsessing on agriculture alone means trade negotiations absent essential *quid pro quos* for developing countries, says Peter Morici, an economist at the University of Maryland business school and a former chief economist at the United States International Trade Commission. "The issues that were important to the U.S. trade deficit—such as [other countries'] currency manipulation, subsidies for manufacturers, and foreign-investment restrictions—were absent from the Doha negotiations," Morici says. "The Bush Administration is guilty of willful and malicious neglect. We have a national agriculture policy. We don't have a national industrial policy."

"If Doha fails and trade promotion authority is not renewed you're going to see a surge in bilateral and regional agreements among other countries, and the U.S. is going to be put at a distinct disadvantage," Crowell & Moring's Brian Peck predicts. "Japan is negotiating with India, Thailand, Australia. The EU is looking at Korea. Korea is looking at the U.S., Canada, and the EU." Daniel K. Tarullo, a Georgetown University legal professor specializing in international economic regulation, agrees: "An American initiative to bring the Doha Round to a successful conclusion serves our interests in maintaining a healthy multilateral trading system. A world dominated by bilateral and regional trade agreements would not only be less efficient; it would also reduce the U.S. influence that comes from being the most important single actor in any global arrangement."

Viewed from this perspective, the dilemma of Doha is not politicians' intransigence on the subject of supports for agriculture. Instead, it is uncertainty—even anxiety—about who controls the future of world trade. Within the decade, disputes may center less on competing visions from the European Union and the United States than on what sacrifices developed and developing countries must make for each other. "The Doha development agenda was a result of the developing world rising in power and being able to dictate much more of the agenda," says Brian Peck. "Countries like Brazil, India, China are huge and are increasingly playing a larger role in global trade issues. Their power will continue to grow as their economies and exports and slice of the global trade pie grows."

It's a whole new world, agrees Timothy Wise. "It's widely understood that the [previous] agreement on agriculture was written by the U.S. and EU and presented to other nations as what we're going to do. Now we're in a much more interactive process. When the G-20 emerged in September 2003, we're talking about some of the biggest developing economies in the world. They're still negotiating as a bloc three and half years later."

Twenty to thirty powerful participants, of course, find it harder than two or three to reach consensus on any subject, and courts may decide what politicians cannot. "There will be an agreement in agriculture, but it may have very different features [than originally envisioned]," says Wise. "The agreement may be driven more by filings of disputes against the EU and the U.S. rather than negotiations. There are no restrictions now on developing nations bringing suits on supports for agricultures. You can expect to see a lot more dispute in the future if there is not an agreement."

Yet leading developing nations, at least, would rather negotiate than litigate. "Take a look at India, a developing country and very vocal spokesperson for the

developing world," says Brian Peck. "For a long time their intellectual property policy, at least in the U.S. view, was weak. They've said that intellectual property protects developed countries at the expense of developing countries. They've felt innovation and technology should be shared. In the last year or two, there's been a large change. Now they have a large pharmaceutical and software industry that are interested in patents and copyrights. Five years from now, as you see economies in China, India, and Brazil develop and become more dependent on exports and the global marketplace, they will realize the need to reach consensus."

If only for lack of an alternative, then, the World Trade Organization will almost certainly survive its current travails. "Does a rules-based international trading system have a future? Yes, by default," says Timothy Wise. Meanwhile, real progress on major, multi-party trade issues likely awaits the next American presidential administration, a long but not unprecedented negotiating delay of at least two years. "Everyone needs dependable, enforceable rules for trade to happen in an efficient, less-costly fashion," Wise reminds. "The question is really when are the largest economic powers at the table ready to make the kind of concessions [necessary] to keep that system going?" wt

### **Sidebar: Specialty Crops, Specialty Supports**

Remember this number: \$52 billion.

That's the combined global cash receipts of America's five major commodity crops: cotton, corn, rice, soybeans, and wheat. As chance would have it, \$52 billion is also the combined cash receipts of specialty fruits and vegetables growers.

Yet, while the federal government spends more than \$15 billion a year to bolster the big five commodities, most controlled by major agribusinesses, specialty fruits and vegetables, still grown largely by independent farmers, have settled for spare change.

No more.

This January, a new national agricultural coalition—the Specialty Crop Farm Bill Alliance—opened office in Washington, D.C. Their members—growers of some 80 items, among them apples, almonds, broccoli, and peaches—want \$5 billion in mandatory spending over the next decade from the federal government. The money will not be direct subsidies, but rather support for marketing, research, and conservation.

At stake is survival say alliance members, many of whom face new competition from China's rising agricultural sector, which benefits from a controlled currency and half-billion-strong farm population. In the past five years, garlic imports from China to the United States have risen from almost zero to more than 110 million pounds. Abroad, China now exports onions, shallots, leeks, and broccoli to Japan; lettuce to Hong Kong; and apples to Indonesia in scales that dwarf the United States.

The White House backs the billion-dollar supports for specialty crops in the 2007 farm bill, as do many in a new United States Congress at least as farm-state-friendly as its predecessor. "The administration's proposal not only gives specialty crops a seat at the table of the farm bill debate, but one of the better seats. It is historic," Barry Bedwell, president of the California Grape and Tree Fruit League, said at the proposed bill's unveiling in his state. Agreed Kenneth A. Cook, president of Environmental Working Group, a Washington, D.C.-based public interest watchdog

group, in an interview with The New York Times, "This is like the tectonic plates of farm policy shifting, because you have a completely new player coming in and demanding money."

### **Sidebar: The Case for Cotton, by Michael Niemann**

At around 30 cents per pound, cotton farmers in Mali, West Africa, produce cotton for less than most other producers in the world. Not surprisingly, cotton accounts for more than half of Mali's agricultural exports. In comparison, U.S. production cost average 68 cents/pound. Yet, the International Cotton Advisory Committee estimated that U.S. exports of subsidized cotton cost Mali some \$43 million in lost exports in 2001/02, more than the country received in foreign assistance from the U.S. To Malian cotton farmers, such subsidies are not simply an abstract issue to be negotiated at one of the many Doha ministerial meetings—they are a question of survival.

Between 1992 and 2002, U.S. Department of Agriculture's direct and indirect subsidies to American cotton producers nearly doubled, reaching nearly \$3.9 billion in 2002. These subsidies took the form of direct payments, counter-cyclical payments, marketing loan payments and export credits. During the same time period, the world market price for cotton dropped from \$0.72 to \$0.42 per pound and there is plenty of evidence that the U.S. exports of subsidized cotton contributed to this decline. According to data available from the National Cotton Council, the U.S. was the second largest exporter of cotton in 1992 with 5,201,000 bales. In 2002, however, the U.S. exported by far the largest amount, some 11,900,000 bales, more than three times as much as Uzbekistan, the next largest exporter.

The rest of the world took notice. Four West African countries—including Mali—managed to add cotton to the agenda of the 2003 Cancun ministerial discussions. Although no agreement was reached in Cancun, the "Sectoral Initiative on Cotton" warranted a special paragraph in the draft text. The subsequent formation of the Cotton Sub-Committee highlighted the importance of the market distorting subsidies to developing countries in Africa and elsewhere. But the Doha negotiations stalled. Meanwhile, cotton farmers in Mali were feeling the impact. Farmer receipts for cotton remained low, debt incurred to purchase inputs mounted, school fees went unpaid and food security was compromised.

In 2004, Brazil, fed up with waiting for the slow negotiations, challenged U.S. cotton subsidies before the dispute settling mechanism of the WTO. In 2005, after considering an appeal by the U.S., the panel upheld its ruling declaring U.S. subsidies a contravention of WTO rules and giving the U.S. fifteen month to eliminate these. In 2006, Congress approved the necessary legislation to phase out preferential treatment of domestic cotton after the Bush administration had eliminated two credit programs.

In the meantime, the world price of cotton has risen again to nearly 60 cents/pound, providing some relief for Malian farmers. However, U.S. subsidies in 2005/06 still amounted to \$3.1 billion according to the ICAC. Sadly, the lesson here is that waiting for negotiations to succeed is less useful than using the dispute settling mechanism of the WTO. However, it was Brazil, not Mali, that challenged the U.S. Political power seems to remain the currency of international trade.

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