The United States WTO agriculture proposal of October 10, 2005

Excerpted from
Sailing Close to the Wind:
Navigating the Hong Kong WTO Ministerial

A PUBLICATION OF THE INSTITUTE FOR AGRICULTURE AND TRADE POLICY
IATP.ORG

The United States WTO agriculture proposal of October 10, 2005

By
Sophia Murphy
Director
Trade Program
IATP

smurphy@iatp.org

Overview

- The U.S. proposal ignores a number of the most sensitive issues that will need careful handling to bring about an acceptable compromise in Hong Kong. Most glaring is the lack of acknowledgement of differentiated responsibility among WTO members for building a more transparent and fair global trade system for agriculture. This round was supposed to focus on development and on righting the perverse imbalances of the Uruguay Round Agreement on Agriculture that allowed rich countries to increase their spending on support to agriculture and to maintain their ability to dump unmanaged production in world markets. The U.S. proposal fails to even go as far as the 2004 July Framework in acknowledging the need for effective special and differential measures for developing countries.
- The U.S. offer is conditional on a number of unlikely trade-offs. The offer only stands if countries make commitments they have already explicitly rejected (e.g., both Japan and the EU have said they cannot cut their domestic support by 83 percent) and with several new requests that have already been strongly denounced (particularly the call to renew the Peace Clause, which protects countries that use subsidies from retaliation).
- The U.S. does not address its lack of timely notifications of domestic support (their last notification was in 2001). Without these numbers, it is impossible to fully understand the impact of the proposal made to cut U.S. spending. Any new agriculture agreement must require complete and independently audited annual notifications. Before a Doha Agreement on Agriculture can be finalized, WTO members should insist on seeing notifications of the post-2002 Farm Bill spending on agriculture.
- The U.S. is refusing to acknowledge widespread criticism of existing WTO categories for domestic support, particularly the lack of effective criteria to define legitimate Green Box spending. Moreover, although the U.S. has offered to reduce the cap on Blue Box spending by half from what was agreed in the July Framework of 2004, it is refusing to consider criteria to restrict the kind of payments that would be eligible for inclusion in the Blue Box.
- The U.S. suggests it is in favor of a zero-tariff, zero-trade-distorting support model of agriculture. The vision—which is not supported by Congress or U.S. farm organizations—does

not challenge the distortions created by highly concentrated commodity trading and processing. The model also leaves food production to be driven by import and export commercial interests rather than by public interest priorities, such as food security, jobs and the need to protect an already stretched and damaged natural resource base.

- The U.S. continues to ignore dumping, which is the single most damaging aspect of agricultural trade today. Under the U.S. proposal, dumping by U.S.-based multinational corporations will continue and could even accelerate.

Background

This vision is of questionable merit and dubious validity, and it does not have political support in the United States. After the U.S. proposal was announced, the powerful chairs of the U.S. Senate and House Agriculture Committees warned U.S. Trade Representative Portman in a letter that "the negotiations and modalities should not preempt the responsibilities and prerogatives of Congress," and that "they should not write the next farm bill."[1] Congress is following developments with concern. The U.S. proposal, while not forcing significant cuts today, would curtail the level of expenditures currently authorized under existing farm legislation in the future.

As IATP has consistently documented in its analysis, eliminating tariffs and trade-distorting support will not end dumping: most commodities (subsidized and unsubsidized alike) are over-produced and sold at prices below the cost of production, impoverishing farmers around the world.[2] Subsidies complicate the picture, but are not alone responsible for the problem. Global agricultural trade rules need to recognize some inherent features of agriculture, including a tendency toward over-production and depressed prices, interrupted by brief periods of scarcity accompanied by sharp price peaks that can lead to hunger and even starvation. Agriculture does not need expensive programs of support nor should it sanction the distortions that arise from highly concentrated control of processing and distribution. Appropriate regulation of agricultural markets, sound marketing structures and more careful investment in the future of agriculture would all contribute to a fairer, more stable and more economically viable sector for all concerned. Unfortunately, the U.S. proposal ignores these needs and the underlying reality of agricultural markets.

More specifically on the U.S. proposal:

Timing

A calendar of the U.S. proposal on timing looks like this:

- 2007: Coming into effect of Doha Agreements.
- 2008–2012: Five-year implementation period.
- 2013–2017: Five-year hiatus to assess effects of the Doha round.
- 2018–2022: Second five-year implementation period to eliminate all remaining tariffs and trade-distorting domestic support. Of course, this assumes the only negotiations required would take place alongside the assessment, which seems highly unlikely.

The proposed timing reflects the tentative nature of the proposal. Under this proposal, full implementation would not occur until 2022. For administrations with a four-year time horizon, this sounds like Never-Never Land. Industrial tariffs have been under negotiation for over 50 years, after all, and the world has still to see zero tariffs there. Of course, there is also the question of whether a zero-tariff and zero-trade-distorting support world is something many other WTO members are even interested to pursue. Given how many countries are resisting the changes now proposed, it seems doubtful the vision will rally much support.

It is important to point out that the end of the first five-year implementation coincides with the 2012 U.S. Farm Bill and the end of hiatus (2017) would coincide with yet another scheduled Farm Bill renewal (the legislation is usually renewed every five years). The language for the second stage of implementation leaves open the opportunity to "change course." **If the U.S. were to de-**

cide to reinstate domestic support programs in the U.S. in one of the Farm Bills (as it did with countercyclical payments in 2002), after developing countries have cut and bound their tariffs, it could prove disastrous for developing countries. If a change of course is to be considered, then the possibility of future increases in tariffs should also be explicitly on the table.

> **Bottom line:** The timing proposed by the U.S. includes remarkable flexibility to change course midway. Such flexibility leaves developing countries negotiating in uncertainty. Overall, the calendar is not credible: we are now five years since the expiry of the last implementation period for agricultural reform at the WTO, and even an optimist would say we are at least two years away from a new agreement coming into place.

Domestic support

The u.s. proposal looks at support in its various wto categories: the aggregate measure of support or AMS (the Amber Box), the Blue Box, the two forms of *de minimis* exemptions and the Green Box. The first three elements are also considered jointly, with a proposal for an overall target to reduce trade-distorting supports (all support not in the Green Box).

Amber Box

There are three main types of domestic support for U.S. agriculture: loan deficiency payments (also called marketing loans), direct payments and countercyclical payments. Loan deficiency payments are classified in the Amber Box, while direct payments—because they are decoupled from current production and current prices—are classified in the Green Box. The U.S. tried to classify countercyclical payments in the Green Box, but a WTO dispute panel ruled they properly belong in the Amber Box. The proposal says the U.S. will cut its Amber Box support by 60 percent.

Numbers for total trade-distorting domestic support vary significantly each year because a number of support programs are price-related. When U.S. prices fall, a number of program supports are automatically triggered and spending rises, although no new budgetary authorization is made. Additionally, a few programs (sugar, dairy and peanuts) do not give farmers subsidies but instead fix a minimum domestic price, which is higher than the world price (called the external reference price). The difference between the fixed domestic price and the external reference price is calculated and added to the Amber Box total. Obviously, the value of the market price support fluctuates as world prices fluctuate. These factors cause the value of domestic support to fluctuate considerably and make it hard to assess the U.S. offer. They also make the choice of base years for spending cuts critically important (spending can rise or fall by billions from year to the next).

The reported cost of U.S. support categorized in the Amber Box has therefore fluctuated wildly. In 1999 it reached $21.5 billion, up from about $7.5 billion in 1997 and $12.3 billion in 1998. In 2002 and 2003, higher prices for commodities meant support payments fell to about $13 billion in 2002 and $16.4 billion in 2003.[3] The U.S. government says its current Amber Box support is about $15 billion. Since the proposed 60 percent cut to Amber Box support is from the $19.1 billion bound level, a 60 percent cut would result in a new Amber Box ceiling for the U.S. of $7.6 billion.

The U.S. won agreement from WTO members to expand the criteria for the Blue Box in the 2004 July Framework. The new criteria will allow the countercyclical payments to be moved there, out of the Amber Box. The USDA estimates countercyclical payments will reach $3.9 billion in 2005 and $5.9 billion in 2006.[4] If countercyclical payments are removed from the Amber Box (as the U.S. intends to do), and we assume a countercyclical payment total of $4 to $5 billion, the U.S. is left with between $10 and $11 billion of Amber Box support, depending on which year is used to make an estimate of likely cuts: in other words, cuts would be required equivalent to $2.4 to $3.4 billion.

The U.S. has not notified its expenditures since the passage of the 2002 Farm Bill—an omission that should be rectified before WTO Members will have sufficient information to make an informed judgment on the

quality of the U.S. offer. The point cannot be stressed enough: **A simple and essential demand to be made on the U.S. (and EU) is to require complete and independently audited notifications within a calendar year (365 days) of each fiscal year's end. Any agreement on new agriculture rules must be contingent on annual notifications; otherwise it will be impossible to hold countries accountable for their commitments.**

The U.S. proposal also suggests a new product-specific cap on AMS spending, a proposal that came first from some groups of developing countries. The U.S. proposes such a cap should be based on 1999–2001 spending levels. The proposal does not say what the cap should be. The base years chosen were expensive years in recent U.S. spending on agriculture, which suggests the U.S. is offering a nominal concession rather than to actually constrain its product-specific spending levels.

> **Bottom line:** WTO members should not finalize a deal on Amber Box reductions until the U.S. submits notifications that indicate how the U.S. has classified its domestic support since the 2002 Farm Bill. As best as can be determined, actual U.S. spending would hardly be affected by the proposal, but if implemented, the new rules would curb existing U.S. farm programs by limiting their capacity to respond to fluctuations in domestic prices (which in the U.S. are generally close to world prices). The WTO ceiling on elements of program spending would be lower than current Farm Bill ceilings.

Blue Box

The U.S. won a major concession from WTO members with the inclusion in the 2004 July Framework of an agreement to expand the current Blue Box. Under the Uruguay Round rules, the Blue Box is restricted to production-limiting programs based on historic acreage or livestock counts. With the July Framework, programs that are decoupled from production but still linked to price can also be included. The U.S. did this to be able to move countercyclical programs from the Amber Box, where spending is constrained, to the Blue Box, which is currently unconstrained, and where the U.S. has no existing programs to accommodate.

The G-20, the G-33 and some other countries continue to seek further restrictions on the expanded Blue Box, including a criteria to ensure Blue Box programs are less trade-distorting than Amber Box programs and an explicit obligation to include only programs with a production-limiting objective. The U.S. refuses these further conditions. Instead, the proposal offers a lower cap than had been envisaged for total Blue Box spending (2.5 percent of the total value of agricultural production, rather than the 5 percent set out in the 2004 July Framework).

The 5 percent cap proposed in the July Framework would mean a Blue Box cap of just under $10 billion for the United States. The U.S. proposal would now lower that cap to more like $5 billion. According to the USDA, countercyclical payments were $1.7 billion in 2003 and $0.8 billion in 2004. The proposed Blue Box ceiling could accommodate the countercyclical payments at the levels estimated for 2005 ($2.5 billion).

The 2002 Farm Bill allows as much as $7.6 billion in countercyclical payments, although this amount has not yet been spent in any year. The new proposed cap on the Blue Box would constrain this spending. The Farm Bill is due for renewal in 2007, before the Doha Agreements are likely to come into force, but the proposal would force Congress to make a more modest proposal for countercyclical support if these payments continue. Countercyclical payments give farmers some degree of income predictability and are supported by U.S. farm organizations as a safety net against low commodity prices. However, a substantial and growing number of farm groups would prefer a price floor and production limits that would allow them to obtain more of their income from the marketplace, i.e. from the agribusinesses they sell to rather than from taxpayers.

> **Bottom line:** The expanded Blue Box gives the U.S. a new category for allowed trade-distorting domestic support. Current levels of countercyclical payments are below the proposed Blue Box spending limit. The proposed cap on the Blue Box is lower than the spending authorized for countercyclical payments under the provisions of the 2002 Farm Bill.

De minimis

The current *de minimis* exemptions are set at 5 percent of the total value of production for non-commodity specific support and 5 percent of the total value of a given commodity for commodity-specific support. For the U.S., this means up to $9.9 billion in general support and up to $9.9 billion in aggregate product-specific support. For 2001, the U.S. notified $6.8 billion in non-specific *de minimis* eligible support. A large part of this spending was for so-called emergency payments, which the U.S. government then instituted more formally as countercyclical and loan deficiency payments in the 2002 Farm Bill. Non-product specific spending also includes public support for irrigation, subsidized insurance programs and grazing on public lands.

To meet the *de minimis* criteria, the total value of each commodity-specific program cannot exceed 5 percent of the total value of that commodity's production. Additionally, to be eligible the commodity in question cannot receive more than the 5 percent limit in Amber Box support payments. Many of the major U.S. commodities, including rice, sugar, soybeans, cotton, canola and corn, receive more than the 5 percent limit, so their product-specific support is not eligible for any product-specific *de minimis* exemption. Wheat, barley, oats, rye and tobacco do qualify for the product-specific *de minimis*. For 2001, the U.S. notified $216 million in product-specific *de minimis* support (far less than the almost $10 billion it is allowed to spend).

The U.S. proposal calls for a 50 percent cut to *de minimis* levels. No mention is made of a special and differential exception, suggesting developing countries would have to cut their *de minimis* exemption from 10 to 5 percent of their total value of production. The 2.5 percent threshold for developed countries would cap the *de minimis* (both general and product specific) for the U.S. at about $4.95 billion for each category. The new ceiling on product-specific support would push wheat and barley programs into the Amber Box. The EU has proposed eliminating the *de minimis* altogether for developed countries because little of its agricultural spending is eligible for the category anyway. It withdrew this proposal after bilateral talks with the U.S. in September 2005. **A 50 percent cut for developing countries would be drastic since the *de minimis* is often the only mechanism available to developing countries to provide support to their agriculture.**

Again, given the U.S. failure to submit notifications since 2001, the actual effect of such a cut is difficult to calculate. Using the most recent notifications, the U.S. strategy seems to be to move the countercyclical payments to the new Blue Box, thereby relieving the pressure on the non-product specific *de minimis* spending. Product-specific *de minimis* is much less used, but the new ceiling would affect wheat and barley programs in particular. Other commodities receiving product-specific *de minimis* support would meet the proposed 2.5 percent of total value spending limit.

> **Bottom line:** A *de minimis* ceiling of 2.5 percent of the value of production would not force cuts to the current programs now included in non-product specific *de minimis* (or their addition to the Amber Box) if the U.S. is successful in shaping the revised Blue Box to accommodate its countercyclical payments (which now make up the bulk of this category of support). The product-specific *de minimis* is barely used by existing programs; using the 2001 notifications, a reduction to 2.5 percent of the value of production will affect spending in only two commodities: wheat and barley.

A cap on total trade-distorting support

The U.S. proposes to cap total trade-distorting support (all support not in the Green Box, including *de minimis*). The U.S. falls into the second of its three proposed tiers, implying that it would cut its total trade-distorting support by 53 percent (the highest overall cut, for the European Union and Japan, would be 75 percent). The G-20 counterproposal has called for a cut of 75 percent for the U.S. and 80 percent for the top-tier spenders (who spend over $60 billion a year in trade-distorting support). The base total of trade-distorting support allowed to the U.S. is ***$48.2 billion, while its actual spending (in 2001) was*** $21.5 billion. A 53 percent cut would allow the U.S. a new ceiling of $25.6 billion (i.e. no

change to current expenditure) while a 75 percent cut would force cuts in actual spending.

The bottom line for U.S. domestic support under U.S. proposal

- **Amber Box cuts:** New ceiling of $7.6 billion real cuts: $2.4 to $3.4 billion
- **Blue Box:** New ceiling of $4.95 billion real cuts: Zero but ceiling may be too low for countercyclical payments in some years.
- **De minimis:** New exemption: $4.95 billion for each of general and product-specific; high enough ceiling for the latter, but not for the 2001 notified level of non-product specific support. This could increase the Amber Box and imply larger cuts to those programs.
- **Green Box:** Unchanged

Until the U.S. gives up-to-date notifications, the numbers can only be indicative. And in any case, they will vary significantly from one year to the next because of the nature of some of the programs, which are designed to move with world prices.

Green Box

The U.S. proposal calls for the Green Box to be left unchanged and rules out the possibility of a cap on Green Box spending. The Green Box is where the U.S. and EU have moved the bulk of their domestic support. For 2001, the U.S. notified almost $50.7 billion in Green Box spending. A rough breakdown shows about $9 billion is spent on the bureaucracy that works on agriculture, including research, extension, inspection and statistical services. About $34 billion is spent on domestic food aid, especially the food stamps provided to low-income Americans. In 2001, decoupled income support was just over $4 billion and emergency relief was around $1.5 billion. The remainder of the spending was on environmental programs (around $300 million) and programs that pay farmers to take their land out of production.

The U.S. has said it hopes to shift still more of its agricultural expenditures into the Green Box as part of the 2007 Farm Bill. Presumably, this reflects their intention to continue and even expand decoupled income support, which is the most controversial element of Green Box spending allowed by WTO rules. The congressional budget process this year targeted a number of the least trade-distorting Green Box programs, such as conservation payments and domestic food assistance, for the largest cuts in overall spending on agriculture.

The G-33 and the G-20 have made specific proposals to tighten the criteria for what can be included in the Green Box. They are concerned about the mounting evidence that decoupled income support affects production and therefore trade. The July Framework referred to these concerns, although no action was promised in this trade round. The U.S. is refusing to take these concerns into consideration in its proposal, missing an opportunity to build confidence and show its commitment to removing trade distortions in global agricultural markets.

Because of the expectation that the U.S. and the EU will move still more spending into the Green Box, any new agreement on agriculture should include some more general criteria to enable assessment of the possible damage to developing countries' domestic producers and exporters from continued support that results in dumped agricultural exports. The proposal by the G-33 to automatically make any commodity that receives export subsidies or Amber or Blue Box domestic support eligible for special product status in affected developing countries is an important step in this direction.

> **Bottom line:** The U.S. refuses to address the criticism that its decoupled payments do not properly meet the minimally trade-distorting criteria required for inclusion in the Green Box.

A renewed Peace Clause

This is an extraordinary request from the U.S.—to renew one of the most controversial elements of the Uruguay Round, which lapsed in December 2003. The restoration of so-called protection from litigation in the

Agreement on Agriculture would renew the tension between it and other WTO agreements, particularly the Agreement on Subsidies and Countervailing Measures (SCM). Effectively, a Peace Clause would grant agricultural subsidies a privileged place at the WTO, even if the subsidies are found to nullify and impair another member's expected benefits from signing a round of agreements.

The inclusion of this provision comes at the request of the U.S. Senate and House agriculture chairs, who are frustrated with losing several WTO dispute resolution cases, in particular the Brazilian cotton case. They would like assurances that future Farm Bill programs will not be challenged through the WTO dispute resolution process. Given that the Brazilian challenge was not impeded by the existence of the Peace Clause, it is unclear how much assurance Congress can expect.

The response to date from developing country members has been hostile—rightly so. Such an exemption from WTO disciplines dramatically undermines U.S. credibility as a country that seeks fair rules for agriculture that treat all countries alike. Countries using billions of dollars to support agriculture, like the U.S., are not the countries that need an additional advantage by exempting their subsidies from all challenge. This demand for an exemption from WTO disciplines is all the more outrageous given the failure of the U.S. to meet notification requirements. The U.S. is three years behind in notifying its domestic support spending and has rejected all proposals to tighten notification requirements.

Bottom line: The U.S. proposal to renew the Peace Clause should be rejected.

Market access

The U.S. is proposing a 75 percent cap on developed country agricultural tariffs and a cap (unspecified) on developing country tariffs. The U.S. proposes that developed and developing countries face the same tiers for the tariffs, grouping tariffs of 0 to 20 percent, 20 to 40 percent, 40 to 60 percent and tariffs over 60 percent, with each group facing a graduated percentage cut that rises as the tariff rises.

The proposal breaks with the July Framework agreement, which promised to take developing countries' tariff structures into account in the cuts and to require proportionately less reduction from their tariffs. In developed countries, tariffs are quite varied, with a few products very heavily protected (tariffs in the hundreds of percent) and most products with comparatively much lower tariffs. For developed countries, an approach that makes relatively large tariff cuts with room for exceptions (such as the sensitive products) is suitable. But the majority of developing countries have bound most of their agricultural tariffs between 50 and 130 percent. This tariff profile means developing countries need the tiers for reduction commitments to have higher average starting points. Developing countries need more tariff flexibility not only to meet development needs but also as a defense against the dumped agricultural production that plagues world markets, much of it originating in developed countries.

The U.S. proposal does not mention preferences, tariff escalation and tariff peaks, or possible exemptions for recently acceded WTO members, all of which are issues that have been the subject of a number of proposals. The U.S. language on special and differential treatment under market access is so grudging ("slightly lesser reduction commitments and longer phase-in periods" and "developing counties must make meaningful commitments which reflect their importance as emerging markets") that it betrays a total lack of interest in effective special and differential measures that would respond to development needs.

Market access is the most aggressive section of the U.S. proposal and is where its demands are least likely to be accommodated by the EU, G-10 and the G-33. For example, on October 10, the G-10 again rejected the notion of capped tariffs, and proposed very different tiers for the cuts they would make to their tariffs (0 to 20 percent, 20 to 50 percent, 50 to 70 percent, and 70 percent and over). While the U.S. proposal is credited

in the press for "jumpstarting" stalled talks, in truth the lack of U.S. compromise in the area of market access is going to make agreement in time for Hong Kong very difficult.

Another fight is looming on the narrow definition of sensitive products offered by the U.S., which wants to allow only 1 percent of tariff lines to be eligible for the more lenient tariff reduction proposed. In practice, this will allow the U.S. around 40 product exemptions (a given product, such as rice or sugar, will have more than one tariff line, depending on the type and degree of processing that has taken place). The U.S. also requires that any product designated as sensitive also be given an increased tariff rate quota (TRQ, an amount of import that has to be let in at lower or zero tariffs). Few developing countries have any TRQs in the first place. The U.S. insists that where there are no TRQs, even sensitive products must cut according to the formula, although some additional flexibility at the margin could be possible. This means that sensitive products will offer little by way of policy space to developing countries.

The main demands of a large group of developing countries in market access are for the establishment of a category of special products (SPs) and the creation of a special safeguard mechanism (SSM) exclusively for developing countries. The U.S. proposal does not accept the basic premise for these demands. The proposal suggests these would provide "transitional protection... while still providing meaningful improvement in market access," undermining the purpose of both tools. Special products are intended to deal with structural challenges confronting developing country agriculture, including food security concerns, the high proportion of employment still provided by agriculture and the importance of rural development for generating growth in the economy as a whole. None of these are transitional issues for most developing countries, certainly not in a five-year time span envisaged by the U.S. proposal. These are challenges many developing countries can expect to face for a long time to come; for some, food security and other concerns may mean full agricultural trade liberalization is simply not a desirable path. The U.S. either does not understand or has chosen to ignore this reality.

Bottom line: The U.S. proposal for market access shows no interest in accommodating developing country concerns (nor those of the G-10 developed countries, whose agricultural sectors are generally small, highly protected, and for the most part not especially trade-distorting as exporters, although market access for would-be exporters are tightly controlled in a number of products). The proposal insists that even special products for all non-least developed countries should be subject to significant tariff cuts.

In effect, the end of the Doha Round as the U.S. proposes it would see the U.S. with an unlimited Green Box that includes decoupled payments, de minimis exemptions worth almost $10 billion, a Blue Box worth almost $5 billion and Amber Box spending up to $7.6 billion. On top of this, the U.S. would have a renewed Peace Clause to head off possible challenges to subsidy use under existing WTO rules in other agreements. In exchange, developing countries are given no concessions for their different tariff structure or needs, no support for their carefully crafted proposals for special and differential treatment, and are expected to "pay" for the so-called cuts to support with deep tariff reductions. This payment is demanded of countries whose reliance on agriculture for food security, employment and foreign exchange earnings is much greater than that of the developed world, and whose policy options are severely constrained by the scarcity of public funds to support agriculture directly.

Export competition

Export subsidies

The U.S. does not spend more than a few million dollars a year on export subsidies. It's proposal for a full elimination by 2010 is directed at other Organization for Economic Cooperation and Development (OECD) countries (and possibly the tiny handful of developing countries) that use export subsidies.

State trading export enterprises

The U.S. proposal to eliminate monopoly export rights would effectively kill both the Canadian Wheat Board (CWB) and the AWB Ltd. (formerly the Australian Wheat Board). No exception is made for developing countries, however the proposal is targeted on export enterprises, not agencies, such as Indonesia's Bulog, which manage imports. The elimination of the CWB and AWB Ltd would do nothing to increase export competition for grains; the giants of the industry (Cargill, Archer Daniels Midland, Bunge and Dreyfus) will basically absorb the Canadian and Australian supply into their existing global grain processing and trading businesses.

It is disappointing that the issue of monopoly power generally, and the more complex but possibly more disturbing issue of oligopoly power, in agricultural commodity markets continues to be ignored by WTO negotiators. The issue should not be ownership—public or private—but the trade-distorting impact of the companies' market power. CWB and AWB Ltd. offer an effective second-best solution to the market failures and imperfections inherent in bulk commodity trading. Their private counterparts are much less constrained by public oversight and, at least for the producers they deal with, offer less benefit.

Food Aid[5]

Food aid should strive to meet legitimate humanitarian and development objectives with minimal displacement of commercial trade (whether of local or imported food) through careful targeting. The problems with U.S. food aid are well known and well documented in the literature.[6] In brief, the U.S. restricts a large percentage of its food aid to in-kind donation of commodities, reducing flexibility and considerably increasing the average cost for each bushel of food delivered. The U.S. allows a considerable portion of its food aid to be sold in recipient markets, both in programs that offer budgetary support to developing countries, and in the practice of monetization, in which food aid is sold on local markets in recipient countries to generate funds for development projects. The end result is food aid that is slow in arriving, twice as costly, and that competes directly with farmers in the countries receiving the aid. The U.S. even sells a portion of its food aid, using export credits to subsidize the sale. Most other food aid donors around the world have switched to a grant-only, predominantly cash-based system, that allows the country to source aid locally where possible.

The U.S. food aid proposal sidesteps these real issues, and invents a few that simply confuse the debate.

1. The U.S. proposal puts food aid in three categories: emergency food aid; food aid to net food-importing developing countries (NFIDCs) and least-developed countries (LDCs); and the rest. This is an absurd categorization. None of the literature looks at food aid in this way. The suggestion made is that NFIDCs and LDCs are too poor to have local producers and commercial importers with an interest in their local and national markets. There is a presumption that displacement of local farmers cannot take place, which is absolutely contradicted by the empirical evidence. Even in emergencies, displacement can and does take place. For many NFIDCs and LDCs, protecting local producers from dumped competition is essential, as production needs to be stimulated not depressed.
2. NFIDCs and LDCs together comprise 76 countries, many of them with very significant numbers of farmers and rural laborers dependent on agriculture for their livelihoods. Food aid is not about national GDP levels. It is especially in the poorest countries that every effort must be made to avoid displacing local producers in their own markets.
3. The reference to the Food and Agriculture Organization's Consultative Subcommittee on Surplus Disposal (CSSD) makes no sense, given that very few transactions are now registered there and most food aid officials now dismiss the committee as irrelevant. In 1993, 80 percent of all food aid transactions were reported to the CSSD; by 2001, less than 5 percent of transactions were. It is not coincidental

that the international body for food aid oversight chosen by the U.S. is one that barely functions, and one that condones the sale of food aid and monetization to generate development program funds. These practices are widely condemned by the food aid community and its international bodies.

4. In section III, D of its proposal, the U.S. suggests that perfect avoidance of commercial displacement through food aid is possible. It is not. The point should be to ensure the most effective targeting possible so as to increase the proportion of addition consumption to displaced purchases. The U.S. proposes what appears to be a new test—a CIR—to test that the food aid will not displace local production or commercial importers. The current test for U.S. food aid distributors—the so-called Bellmon analysis—has been widely discredited for being easy to manipulate and not subject to independent verification. Any new standard should at a minimum test all non-emergency food aid for trade-displacing impact using an independent third party verification system that measures the displacement of local and regional production, not just of imports.

Ultimately, emergency food aid also needs this kind of verification, as emergency food aid has been proven to disrupt local markets, particularly when it is poorly timed or targeted. The most recent crisis in Niger again exemplifies the kind of problems that arise when U.S. food aid arrives at the same time as local producers are harvesting their crops. If food aid undermines local markets by depressing prices, it contributes to insecurity and poverty. Understandably, WTO members will want to tread carefully around rules for emergency situations. However, involving the appropriate multilateral authorities could help ensure that the WTO is not making judgments in areas outside of its competence.

Bottom line: The disciplining of poorly designed and implemented food aid with a prohibition on all food aid not made in grant form is an obvious goal for the new Agreement on Agriculture, particularly as part of negotiations that style themselves a "development round." WTO members should firmly reject the U.S. proposal and continue to push for meaningful disciplines on U.S. food aid.

Export credits

The seemingly straightforward proposal to treat export credits on commercial terms in the October 10 proposal is contradicted by the U.S. attempt to exempt credits made available to LDCs and NFIDCs. Furthermore, the U.S. rejects any disciplines on subsidized interest rates and other terms of credit arrangements, a crucial element for an importer deciding whether to borrow at higher domestic interest rates or to buy from Cargill and other firms operating in the U.S. at the subsidized rate.

Conclusion

The full implications of the u.s. proposal on agriculture depend on notifications that are not yet available to the WTO membership. The proposal, if implemented in full, would considerably lower the ceilings on allowed domestic support, and would introduce some constraints on actual spending. In exchange for this modest offer on domestic support—remember, the U.S. would keep a minimum of $22 billion in permitted *trade-distorting* support, with unlimited Green Box support alongside—the U.S. is asking developing countries for very big concessions in market access. The U.S. proposal requires both considerable tariff reductions from developing countries and ignores the proposals for strong special and differential measures that would take account of food security, livelihoods and rural development concerns.

The U.S. proposal ignores the most trade-distorting problem of all: unmanaged production sold at less than cost of production prices into world markets, resulting in dumping, the impoverishment of commodity growers and the rapid consolidation of food processing and retailing at the expense of affordable food for consumers and fair prices for producers. The world must recognize the right of countries to curtail costly and unsustainable overproduction; to forge international agreements that curtail dumping on world commodity markets and raise world prices; and, to protect their local markets from

imports dumped at below the cost of production that threaten food security and rural livelihoods.

New thinking is needed on how to manage world commodity markets that, both in subsidized temperate products and largely unsubsidized tropical products, are characterized by very low returns to producers and concentrated ownership of processing capacity. A small number of firms overwhelmingly dominate trade in agricultural commodities. Governments urgently need to turn their attention to how to manage the distortions arising from this market power.

The U.S. proposes a vision of zero-tariffs and zero trade-distorting support that seems neither sincere nor desirable. Let us hope that emerging from Hong Kong, WTO members find a less impoverished and more comprehensive vision for agriculture, which after all is first and foremost responsible for feeding the world's six billion people using a resilient but limited natural resource base.

References

1. Senator Saxby Chambliss and Representative Bob Goodlatte letter to U.S. Trade Representative Rob Portman. Posted on *Inside US Trade*, October 14, 2005.
2. Institute for Agriculture and Trade Policy, *WTO Agreement on Agriculture: A Decade of Dumping, United States Dumping on Agricultural Markets.* February 2005. <http://www.iatp.org/iatp/publications.cfm?accountID=451&refID=48532>
3. *Ibid.*
4. From the 2006 Budget Estimates, available at the USDA website. <http://www.fsa.usda.gov/dam/bud/CCC%20Estimates%20Book/2006PresBud/Output%20Tbls%20Est%20Bk/CCC%20and%20PL480%20EXPENDITURES_Output%202.pdf>
5. This commentary is a response to the U.S. October 5, 2005 proposal specifically on food aid.
6. Sophia Murphy and Kathleen McAfee. *U.S. Food Aid: Time to Get it Right.* Institute for Agriculture and Trade Policy. July 2005. <http://www.tradeobservatory.org/library.cfm?refid=73512>