



WTO Doha Round: The Agricultural Negotiations

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Summary

The pace of efforts to revive suspended World Trade Organization Doha Round trade negotiations has quickened as the July 2007 expiration for fast-track or trade promotion authority for expedited congressional consideration of trade agreement legislation approaches. Although technical negotiations have addressed specific formulas for reducing trade-distorting farm support and tariffs, high-level political discussions have yet to produce a satisfactory compromise among WTO members for future agricultural trade liberalization.

Negotiations were suspended in July 2006 when a core group of WTO member countries—the United States, the European Union (EU), Brazil, India, Australia, and Japan—known as the G-6 reached an impasse over specific methods to achieve the broad aims of the round for agricultural trade: substantial reductions in trade-distorting domestic subsidies, elimination of export subsidies, and substantially increased market access for agricultural products.

The WTO is unique among the various fora for international trade negotiations in that it brings together its entire 150-country membership to negotiate a common set of rules to govern international trade in agricultural products, industrial goods, and services. Regarding agriculture, because policy reform is addressed across three broadly inclusive fronts—export competition, domestic support, and market access—WTO negotiations provide a framework for give and take to help foster mutual agreement.

Doha Round negotiators were operating under a deadline effectively imposed by the expiration of U.S. trade promotion authority (TPA), which permits the President to negotiate trade deals and present them to Congress for expedited consideration. To meet congressional notification requirements under TPA, an agreement would have to be completed by the end of March 2007. TPA, which could be extended by Congress, preserves Congress's key role in approving trade agreements while providing the President with credibility to negotiate with trading partners who otherwise might fear that Congress would amend an agreement that had been negotiated.

As a result of the suspension of the negotiations, a major source of pressure for U.S. farm policy change will have dissipated. Supporters of farm bill changes were looking to a Doha Round agreement to require changes in U.S. farm subsidies to make them more compatible with world trade rules. Proponents of continuing farm subsidy programs appear strengthened by the indefinite suspension of the Doha talks. The United States must still meet obligations under existing WTO agricultural agreements, and some trade analysts think that, without a new trade agreement, there could be an increase in litigation by WTO member countries alleging they are harmed by U.S. farm subsidies.

This report assesses the status of agricultural negotiations in the Doha Round and will be updated as developments unfold.

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Introduction

This report discusses agricultural issues in World Trade Organization (WTO) multilateral trade negotiations—the so-called Doha Round or the Doha Development Agenda (DDA). The initial focus is on the implications of the suspension of Doha negotiations in July 2006 for future trade negotiations and the next U.S. farm bill. The report discusses current efforts to revive the suspended negotiations, the reasons for the July 2006 suspension of negotiations, and the agreements reached at the December 13-18, 2005, Hong Kong Ministerial meeting. Briefly discussed also are the role of the U.S. Congress; the major negotiating issues and proposals at play in the Doha Round; the historical development of agricultural trade negotiations since the Uruguay Round; and the potential economic benefits estimated to ensue from a successful trade agreement according to several recent studies.

Current Status of Doha Round Agricultural Negotiations¹

Numerous meetings between leading member countries of the World Trade Organization have been taking place since the July 2006 suspension of formal negotiations. The pace of efforts to revive the Doha Development Agenda multilateral trade negotiations has quickened as the expiration of fast-track or trade promotion authority for congressional consideration of trade agreements approaches. TPA (in Title XXI of P.L. 107-210) expires June 30, 2007, unless the 110th Congress votes to extend it, and there is little likelihood that a comprehensive trade agreement could survive congressional debate without the expedited procedures that TPA provides. Some Members of Congress have discussed extending TPA either in its present form or with amendments that would give greater weight to labor and environmental considerations.² TPA authority would be needed for a speedy consideration of a multilateral trade agreement but also for various other free trade agreements that are currently being negotiated.³

Just as disagreement over agricultural issues was the principal cause of the July 2006 suspension of negotiations, agriculture has been at the center of efforts to restart the negotiations. After resuming on November 16, 2006, negotiations have focused on various formulas for reducing trade-distorting subsidies and tariffs. There have also been discussions at the political level involving presidents and prime ministers as well as trade ministers. The political discussions have involved expressions of support for successfully concluding the round as well as expressions of willingness to reach satisfactory compromises on the issues dividing WTO members.⁴

¹ Many of the technical terms and negotiating positions referred to in this “Current Status” section are explained later in the report.

² See “A Democratic Trade Agenda,” by Senator Max Baucus, *Wall Street Journal*, Jan. 4, 2007, p. A14.

³ For a detailed discussion, see CRS Report RL33743, *Trade Promotion Authority (TPA): Issues, Options, and Prospects for Renewal*.

⁴ See, for example, “U.S., EU Renew Pledge at Highest Levels to Reach Doha Deal,” *Inside U.S. Trade*, Jan. 12, 2007, available at http://www.insidetrade.com/secure/dsply_nl_txt.asp?f=wto2002.ask&dh=71669914&q=Doha; and “Lavin Upbeat on India, But Notes Several Trade Problems,” *Inside U.S. Trade*, Dec. 22, 2006, available at http://www.insidetrade.com/secure/dsply_nl_txt.asp?f=wto2002.ask&dh=70472824&q=Bush.

In policy discussions, the United States is being asked by the European Union (EU) and the developing countries, led by Brazil and India, to make a more generous offer for reducing trade-distorting domestic support. The United States is insisting that the EU and the developing countries agree to make more substantial reductions in tariffs and to limit the number of import-sensitive and special products that would be exempt from cuts. Import-sensitive products are of most concern to developed countries like the European Union, while developing countries are concerned with special products—those exempt from both tariff cuts and subsidy reductions because of development, food security, or livelihood considerations. Brazil has emphasized reductions in trade-distorting domestic subsidies, especially by the United States (some of which it successfully challenged in the WTO U.S.-Brazil cotton dispute discussed below), while India has insisted on a large number of special products that would not be exposed to wider market opening.

Discussions have been particularly intense between the United States and the EU. The U.S. President has met with the president of the European Commission, and there have been several meetings between the U.S. Trade Representative and the EU Commissioner for Trade. While U.S. and EU negotiators have not changed their official positions since suspension of negotiations as described below, there have been suggestions that each could show more flexibility: the United States might offer a greater percentage reduction in domestic support if the EU offered to reduce tariffs further and limit the number of import-sensitive products. However, new offers on domestic support and market access by the United States and the EU are constrained by domestic political considerations. Neither U.S. nor EU farmers have professed a willingness to support further concessions on subsidies or tariffs. No clear idea has yet emerged as to how much tariff reduction would be needed to match domestic subsidy cuts or vice versa to satisfy U.S. or EU farm interests.

While U.S. and EU agreement is a necessary condition for successfully concluding a Doha Round agreement, it is not sufficient. The 1994 Uruguay Round was concluded due in large part to a U.S.-EU agreement on the major issues. In Doha Round negotiations, however, developing countries are playing a major, even decisive, role. Brazil's position on both domestic support and tariff reduction (discussed below) is considered by many as a middle ground, although the United States has said that Brazil's proposal for tariff reduction (an average cut of 54%) falls short of the kind of ambition in tariff reduction it has called for (an average cut of 66%). India, as a member of the G-20 group of developing countries, has endorsed the G-20 proposal, but has yet to demonstrate any flexibility in its demand for a large number of special product exemptions from new trade rules.

The next step in restarting the Doha Round negotiations will be an informal WTO Minister's meeting "on the margin" of the World Economic Forum in Davos, Switzerland, in January 2007. The aim of the meeting will be to take stock of trade ministers' views and, if possible, make decisions about resuming negotiations at the ministerial level. Around 30 trade ministers representing the full range of WTO member country interests are expected to attend the meeting. A successful Davos meeting could result in a new schedule for resuming negotiations in the Doha Round, not a broad outline for resolving the main negotiating issues.

The July 2006 Suspension of Doha Round Negotiations

On July 24, 2006, the Director General of the WTO, Pascal Lamy, announced an indefinite suspension of further negotiations in the Doha Round. The principal cause of the suspension was that a core group of WTO member countries—the United States, the European Union (EU), Brazil, India, Australia, and Japan—known as the G-6 had reached an impasse over specific methods to achieve the broad aims of the round for agricultural trade: substantial reductions in trade-distorting domestic subsidies, elimination of export subsidies, and substantially increased market access for agricultural products. The United States maintained that it had made an ambitious offer of reductions in trade supporting domestic support (discussed below) that had not been matched by agricultural tariff reductions by the EU or by market opening for agricultural and industrial products by Brazil and India, both large developing countries. The EU and Brazil argued that the U.S. offer on domestic support did not go far enough in reducing trade-distorting support and would in fact leave the United States in a position to spend more on such subsidies than under the current WTO (Uruguay Round) Agreement on Agriculture.

Doha Round negotiators were operating under a deadline effectively imposed by the expiration of U.S. trade promotion authority (TPA), which permits the President to negotiate trade deals and present them to Congress for an up or down vote without amendment. To meet congressional notification requirements under TPA legislation, an agreement would have to have been completed by the end of 2006. TPA expires on June 30, 2007. Some trade policy analysts think that reauthorization of TPA faces uncertain prospects in the 110th Congress. Some, however, suggest that Congress might extend TPA temporarily if a Doha Round agreement seemed imminent, as was the case in 1994 for the Uruguay Round Multilateral Trade Agreements.

A number of agreements had already been reached in the Doha Round agricultural negotiations, but they are contingent on a comprehensive agreement in the single undertaking (“nothing is agreed until everything is agreed”) that is the round and will now be put on hold. Those include an agreement by the EU to eliminate its agricultural export subsidies by the end of 2013 and an agreement by developed countries to extend duty and quota free access to 97% of the exports of the least developed countries. The agreement at Hong Kong to provide early and ambitious subsidy reduction for cotton also is dependent on there being a comprehensive Doha round agreement. The WTO will continue to provide aid for trade funds to help developing countries participate more fully in the world trade system. Aid for trade discussions were conducted outside the framework of Doha Round negotiations.

As a result of the suspension of the negotiations, a major source of pressure for U.S. farm policy change has dissipated. The current farm bill (P.L. 107-171) expires in 2007, and many were looking to a Doha Round agreement on curbing trade-distorting domestic support to require changes in U.S. farm subsidies to make them more compatible with world trade rules. The option of continuing current farm subsidy programs appears strengthened by the indefinite suspension and uncertain prospects of the Doha talks. Legislation (H.R. 4332, H.R. 4775, and S. 2696) already had been introduced in the 109th Congress to extend the 2002 farm bill by one year. The American Farm Bureau, at its 2007 annual meeting just concluded, endorsed “the concepts of the

2002 farm bill” for its farm safety net features (i.e., the set of direct payments and price-related commodity support).⁵

The United States must still meet obligations under existing WTO agricultural agreements, which limit its trade-distorting spending to \$19.1 billion annually. Some trade analysts think that there could be an increase in litigation by WTO member countries that allege they are harmed by U.S. farm subsidies.⁶ The expiration of the “peace clause” (Article 13 of the 1994 Uruguay Round Agreement on Agriculture) means that WTO member countries are no longer bound by an agreement to refrain from challenging each other’s agricultural subsidy programs so long as commitments under the agreement are being met. Brazil’s successful challenges of U.S. cotton subsidies and EU sugar subsidies in WTO dispute settlement are cited as illustrations of the possible kinds of legal actions that WTO members might take.⁷ Canada’s recent challenge to U.S. corn and other farm subsidies appears aimed at influencing the next farm bill.⁸

Another consequence of the suspension of Doha Round negotiations is that the United States may pursue more aggressively bilateral and regional free trade agreements (FTAs). Currently, the United States is negotiating nine FTAs. Agreements with larger economies will be particularly attractive to U.S. agricultural interests. The U.S. Trade Representative has indicated that in the near term priority will be given to negotiating FTAs with such larger U.S. trading partners as Korea and Malaysia.⁹ TPA procedures also apply to legislation to implement bilateral FTAs, lending some urgency to the completion of ongoing negotiations in time to meet TPA deadlines for congressional notification. Congress also could choose to extend TPA for bilateral trade agreements.

The Hong Kong Ministerial Declaration

On December 18, 2005, in Hong Kong, WTO member countries reached agreement on a broad outline of negotiating objectives for liberalizing global trade in agriculture, manufactures, and services in the Doha Round of multilateral trade negotiations.¹⁰ However, only limited progress was made in reaching agreement on precise numerical formulas or targets (termed “modalities”) for liberalizing agricultural trade, the original aim of the Hong Kong (HK) Ministerial.

⁵ See, for example, American Farm Bureau press release, “Delegates Support Farm Safety Net, Immigration Reform,” available at <http://www.fb.org/index.php?fuseaction=newsroom.newsfocus&year=2007&file=nr0109.html>.

⁶ For discussions of the potential for WTO legal challenges to U.S. farm subsidies, see CRS Report RL33697, *Potential Challenges to U.S. Farm Subsidies in the WTO*; “When the Peace Clause Ends: The Vulnerability of EC and US Agricultural Subsidies to WTO Legal Challenges,” by Richard H. Steinberg and Timothy Josling, *Journal of International Economic Law*, vol. 6, No. 2 (July 2003), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=413883; and “Why the EU and the USA must reform their subsidies, or pay the price,” *Oxfam Briefing Paper 81*, November 2005, available at http://www.oxfam.org/en/policy/briefingpapers/bp81_truth.

⁷ For an analysis of the Brazil-U.S. cotton dispute, see CRS Report RL32571, *Brazil’s WTO Case Against the U.S. Cotton Program*, by (name redacted); and CRS Report RS22187, *Brazil’s WTO Case Against the U.S. Cotton Program: A Brief Overview*, by (name redacted).

⁸ For more information on the Canadian corn case at *Farm Policy.Com* available at <http://www.farmpolicy.com/?cat=21>.

⁹ Statement of U.S. Trade Representative, Susan C., Schwab, at her joint press conference with Malaysian Minister of Commerce and Industry, Datuk Rafidah Aziz, Kuala Lumpur, Malaysia, August 25, 2006, viewed on August 30, 2006, at http://www.insidetrade.com/secure/pdf9/wto2006_5220.pdf.

¹⁰ The declaration of the WTO’s Sixth Ministerial Conference in Hong Kong, hereafter referred to as the Hong Kong (HK) declaration is available at http://www.wto.org/english/thewto_e/minist_e/min05_e/final_text_e.pdf.

The Hong Kong agreement set new deadlines for completing the Doha Round in 2006 (see 0). None of these deadlines were met prior to the July 2006 announcement that the negotiations had been suspended indefinitely. According to the HK agreement, modalities for cutting tariffs on agricultural products, eliminating export subsidies, and cutting trade-distorting domestic support would be agreed to by April 30, 2006. Based on these modalities, member countries would then submit comprehensive draft schedules by July 31, 2006. The Doha Round would be concluded in 2006. Completing negotiations by year's end would have allowed enough time to submit an agreement to Congress before the expiration of the President's TPA authority in mid-2007.

Incremental Progress on Agriculture in the Hong Kong Declaration

The Hong Kong (HK) declaration (adopted on December 18, 2005) deals with all three pillars of the agricultural negotiations—export competition, domestic support, and market access—and also with the controversial issue of the nature and pace of reform of trade-distorting cotton subsidies in the United States and other developed countries. Most progress was made in negotiations on the export competition pillar with an agreement on a specific end date for the elimination of export subsidies, but difficult negotiations remained on establishing new disciplines for other forms of export competition. Detailed negotiations were not carried out for domestic support and market access.

As throughout the Doha agricultural negotiations, trade-distorting domestic support and market access, especially how to deal with access for import-sensitive products and special products, remain the thorniest issues. Some agreement was reached on how to deal with export subsidies and market access for cotton, but this issue still pits the United States, which argues for handling the reduction of trade-distorting support for cotton within the domestic support pillar, against the cotton-producing African countries who insist on an early harvest of reductions in cotton support.

Export Competition

The most concrete outcome of the Hong Kong Ministerial was an agreement to eliminate agricultural export subsidies by the end of 2013. The European Union (EU), the largest user of export subsidies, had opposed setting an end date, maintaining that WTO members needed to determine first how other forms of subsidized export competition—export credit programs, insurance, export activities of State Trading Enterprises (STEs), and food aid—would be disciplined. The United States and Brazil, among others, had been demanding an end to such export subsidies by 2010 to be followed by negotiations on other forms of export completion. As a compromise, the HK declaration calls for the parallel elimination of all forms of export subsidies and disciplines on measures with equivalent effect by the end of 2013. The end date will be confirmed, however, only after the completion of modalities for the elimination of all forms of export subsidies.

With respect to other forms of export competition, the HK declaration included the following.

- Export credit programs should be “self-financing, reflecting market consistency, and of a sufficiently short duration so as not to effectively circumvent real commercially-oriented discipline;”
- On exporting STEs, disciplines will be such that their “monopoly powers cannot be exercised in any way that would circumvent the direct disciplines on STEs on export subsidies, government financing, and the underwriting of losses.”

- On food aid, a “safe box” will be established for “bona fide” food aid “to ensure there will be no impediment to dealing with emergency situations.” However, disciplines will be established on in-kind food aid, monetization, and re-exports to prevent loopholes for continuing export subsidization leading to elimination or displacement of commercial sales by food aid.

Domestic Support

On trade-distorting domestic support, WTO members agreed to three bands for reductions, with the percentages for reducing support in each band to be decided during the modalities negotiations. The EU would be in the highest band and be subject to the largest reduction commitments, while Japan and the United States would be in the middle band. (The U.S. proposal would have subjected Japan to a higher percentage cut of its domestic support.) All other WTO members, including developing countries, would be in the bottom band.

The HK declaration states further that “the overall reduction in trade-distorting domestic support will still need to be made even if the sum of the reductions in the three categories of trade-distorting support—amber box, blue box, and de minimis—would otherwise be less than the overall reduction requirement.”¹¹ (This appears intended at ensuring that the United States does not engage in box shifting to maintain its current spending levels.)

Market Access

The HK declaration calls for four bands for structuring tariff cuts, with the relevant band thresholds and within-band reduction percentages to be worked out during modalities negotiations. The treatment of sensitive products (those to be exempted from formula tariff reductions) was also left to modalities negotiations. A preliminary draft of the declaration would have required WTO member countries to ensure that, for sensitive products, the greater the deviation from agreed tariff reduction formulas, the greater would be the increase in tariff rate quotas. The extent to which tariff rate quotas for sensitive products are expanded remains a key determinant of the market access gains that would result from the Round.

The HK declaration also ensured that developing countries would have two privileges not otherwise available to developed countries: (1) the right to self-designate a number of tariff lines to be treated as special products (with lower cuts in tariffs) based on certain criteria—food security, livelihood security, and rural development; and (2) the ability to impose a special safeguard mechanism (SSG) on imports based on both import quantity and price triggers.¹²

Cotton

On cotton, the HK declaration reaffirms the commitment (made in the July 2004 framework agreement discussed below) to ensure an explicit decision on cotton “within the agriculture negotiations and through the Sub-Committee on Cotton expeditiously and specifically.” The HK

¹¹ See **Appendix C** for definitions of these terms.

¹² SSGs are presently available to all WTO members (not just developing countries) that have them listed in their country schedules. See CRS Report RL32916, *Agriculture in the WTO: Policy Commitments Made Under the Agreement on Agriculture*.

declaration calls for developed countries to eliminate all forms of export subsidies on cotton in 2006. This coincides with the United States's elimination of its Step 2 program for cotton by August 1, 2006, as contained in the 2006 budget reconciliation act (P.L. 109-171, the Deficit Reduction Act of 2005). Step 2, which compensates U.S. millers and exporters for using high-priced American cotton, was declared in violation of WTO rules in the Brazil-U.S. cotton case.¹³

On cotton market access, the HK declaration calls on developed countries to give duty and quota free access to cotton exports from least-developed countries (LDCs) from the beginning of the implementation of a Doha Round agreement. Not agreed to, but certain to be revisited during the modalities negotiations in 2006, was a provision that “trade-distorting domestic subsidies for cotton should be reduced more ambitiously than under whatever general formula is agreed and that it should be implemented over a shorter period of time” than for other commodities.

Agriculture, NAMA, and LDCs

Two other provisions in the HK declaration touch on agriculture. One is a provision in the declaration calling for balance between agricultural and non-agricultural market access (NAMA) modalities. The HK declaration recognizes that it is important to advance the development objectives of the Round through enhanced market access for developing countries in both agriculture and NAMA. As a result, the HK declaration calls for a “complementary high level of ambition” in market access for both these components of the round. Second, in a departure from special and differential treatment, the HK declaration calls for all developed countries, and developing countries in a position to do so, to provide duty-free and quota-free market access for products originating from LDCs, with some exceptions, by 2008 or no later than the beginning of the implementation period.

Agricultural Negotiating Developments Preceding the Hong Kong Ministerial

Overview

On October 10, 2005, the United States offered a detailed proposal with specific modalities (i.e., schedules, formulas, and other criteria for implementing tariff and subsidy reduction rates and other aspects of the reform) for the adoption of new disciplines on the three major agricultural reform pillars—export competition, domestic support, and market access—in the ongoing round of WTO multilateral trade negotiations. The U.S. proposal appeared to break a negotiations log-jam as it was followed closely in mid-October, by separate proposals for agricultural modalities from three other major negotiating participants—the EU, the G-20 developing countries, and the G-10, a group of mainly developed countries that are net importers of agricultural products. These negotiating proposals revealed that wide differences exist, especially between the United States and the EU, in the modalities proposed for market access, the most difficult issue encountered by negotiators. (The proposals are examined below. See **0, Appendix B, and Appendix C** at the end

¹³ See CRS Report RS22187, *Brazil's WTO Case Against the U.S. Cotton Program: A Brief Overview*, by (name redacted).

of this report for a schedule of key events, a description of the various negotiating groups, and a brief list of key WTO terms.)

During oversight and consultation with the Administration on the Doha Round agriculture negotiations, Chairmen of both House and Senate Agriculture Committees expressed their views on the kind of WTO agricultural agreement that would garner their support.¹⁴ According to the chairmen, the four principles that should guide any WTO agreement are:

- Substantial improvement in real market access.
- Greater harmonization in trade-distorting domestic support.
- Elimination of export subsidies; and
- Greater certainty and predictability regarding WTO litigation.

Negotiations on the agricultural modalities in U.S. and other country proposals continued in preparation for the Hong Kong WTO Ministerial during November and December, but as the meeting approached, the negotiations appeared to have reached another impasse. The United States, the G-20, and the CAIRNS group called for the EU to improve and resubmit its offer on market access because it was not as extensive as its current reform proposals for domestic support and export competition, and thus provided insufficient bargaining room. The EU (with at least partial backing from the G-10 and India) claimed that it was unable to improve its market access offer without some formal proposals from other countries on reform in the non-agricultural trade sectors—primarily services and industrial goods.

With the prospect of little movement at Hong Kong under prevailing circumstances (e.g., limited time to bridge U.S.-EU-developing country differences and internal EU-country disagreements over the nature of the EU's offer), news reports surfaced about scaled-back ambitions for the Hong Kong Ministerial.¹⁵ In the draft ministerial declaration for the Hong Kong meeting, the WTO Director General Pascal Lamy suggested that, rather than agreeing on modalities, trade ministers set deadlines for establishing modalities and agreeing to schedules of concessions, both before the end of 2006.¹⁶

Comparison of Major Agricultural Negotiating Proposals

The four major DDA negotiating proposals for agricultural modalities are from the United States, EU, G-20, and the G-10. Each proposal (described below) varies in terms of its degree of specificity for each of the three negotiating pillars. **Tables 1 and 2** summarize domestic policy reforms and market access reforms, respectively, under each of the negotiating proposals.

Export competition negotiations were facilitated by the EU's July 2005 pledge to end export subsidies (conditioned on parallel treatment of other forms of export subsidies). Domestic support disciplines hinge primarily on commitments by three countries: the United States, the EU, and Japan. In contrast, market access has been the most difficult issue, especially for the EU and the

¹⁴ Letter to the Honorable Rob Portman, U.S. Trade Representative, Oct. 6, 2005, from Senator Saxby Chambliss, Chairman of the Senate Committee on Agriculture, Nutrition and Forestry, and Representative Bob Goodlatte, Chairman, House Committee on Agriculture.

¹⁵ "A Less Ambitious Hong Kong Conference," *Washington Trade Daily*, vol. 14, no. 222, Nov. 9, 2005.

¹⁶ The draft ministerial text is available at http://www.wto.org/english/thewto_e/minist_e/min05_e/draft_text_e.htm.

G-10, but also for the G-20. The EU's latest offer on market access (October 27, 2005)—average tariff cuts of 35%-60% coupled with extensive protection for “sensitive products”—falls short of the “level of ambition” of the G-20 proposal which proposes tariff cuts of 45%-75% and limited protection for “sensitive products.”

The U.S. Proposal

The U.S. modalities proposal of October 10, 2005, is credited with unblocking stalled modalities negotiations. It addressed domestic support and market access with specifics for the first time, and put the EU on the defensive especially on market access. It proposes a three-stage reform: five years of substantial reductions in trade-distorting support and tariffs, followed by a five-year pause; then five more years to phase-in total elimination of all remaining trade-distorting domestic measures and import tariffs.

Export Competition

- Eliminate all agricultural export subsidies.
- Establish disciplines for export credit guarantees, STEs, and food aid.

Domestic Support

- Cut the U.S. amber box bound by 60% based on 1999-2001 period.
- Reduce the EU and Japanese amber box bounds by 83%.
- Reduce overall level of trade-distorting support by 75% for EU, and by 53% for the United States and Japan.
- Cap blue box spending at 2.5% of value of production.
- Cut *de minimis* exemptions to 2.5% of value of production (for both total and for specific products).
- Maintain green box criteria without caps.
- Establish a new peace clause to protect domestic supports against WTO litigation.

Market Access

- Cut highest tariffs by 90%; cut other tariffs in a range of 55%-90%.
- Cap the maximum agricultural tariff at 75%.
- Limit sensitive products to 1% of tariff lines.
- Expand TRQs: i.e., larger quotas with lower tariffs.
- SDT for developing countries (TBD), but cap maximum developing country agricultural tariff at 100%.

Conditions

U.S. domestic support commitments are conditioned on “ambitious” market access proposals especially from the EU and the G-20.

The EU Proposal

Under pressure from France and 12 other EU countries (but not a qualified majority) not to improve its offers, the EU made a new market access proposal on October 27 and provided additional detail on its proposal for domestic support, export competition, and Geographical Indications (GIs are place names associated with particular products). The EU’s “level of ambition” in market access does not reach that of the G-20 or the United States. A major criticism of the EU’s agricultural proposal is that its market access offer does not provide an inducement for developing countries like Brazil, Thailand, or other G-20 members to make concessions in non-agricultural market access or services. The United States and G-20 countries continue to pressure the EU to offer further concessions on agricultural market access.

Export Competition

- Eliminate all agricultural export subsidies, contingent on “parallel” disciplines for export credits, food aid, and STEs by 2012.
- Establish a “short-term self-financing principle” for credits: programs must demonstrate that they charge adequate premiums to ensure self-financing.
- STEs: eliminate price-pooling, anti-trust immunity, direct and indirect preferential financing, and preferential transport services; and eliminate single-desk selling.
- Food Aid: phase out food aid that leads to commercial displacement but maintain commitments to adequate food aid levels; move gradually to untied and in-cash food aid; permit in-kind food aid only in exceptional, emergency situations under agreed criteria.

Domestic Support

- Reduce the EU’s amber box ceiling by 70% (in line with already established EU spending limits); reduce the U.S. amber box ceiling by 60%.
- Base amber box product-specific caps on the Uruguay Round implementation period of 1986-88.
- Reduce the *de minimis* exemptions ceiling by 80% of the Framework’s proposed 5% cap (i.e., establish a cap of 1% of the value of total production).
- Blue box: freeze the existing price difference between linked price support prices and limit the price gap to a percentage of the base price difference.
- Reduce overall trade-distorting support in three bands: 70% (EU), 60% (U.S.), and 50% (rest-of-world).
- Maintain the green box without limits.

Market Access

- Reduce the highest tariffs by 60%; cut other tariffs in a range of 35%-60%.
- Reduce the number of sensitive products to 8% of tariff lines (given the EU's approximately 2,200 tariff lines this would result in about 176 protected tariff lines for the EU).
- Apply both tariff cuts and expanded TRQs to sensitive products.
- Cap the maximum agricultural tariff for developed countries at 100% (but with no cap for sensitive products).

Special Safeguard Mechanism (SSG)

- Keep the SSG available for both developed and developing countries. Specifically, the EU wants the SSG to be available for beef, poultry, butter, fruits and vegetables, and sugar.

Geographical Indications (GIs)

- Extend protection available to wines and spirits under Article 23 of TRIPS to all products, while leaving existing trademarks unaffected.
- Establish a multilateral system of notification and registration of GIs, open to all products, with legal effect in all Member countries not having lodged a reservation to the registration.
- Use of well-known GIs on a short list should be prohibited, again subject to existing trademark rights.

Special & Differential Treatment (SDT) for developing countries

- Establish higher tariff bands, lower tariff cuts, and a maximum tariff of 150% for developing countries.
- No tariff cuts for the 32 WTO-member LDCs.

Conditions

- *NAMA*: agreement before Hong Kong on a progressive formula that cuts into applied tariffs for manufactured products.
- *Services*: agreement at Hong Kong to establish mandatory country targets for services trade liberalization.
- *Rules*: Negotiate before the Hong Kong Ministerial meeting a list of issues to be resolved including antidumping.
- *Development*: prepare for Hong Kong a Trade Related Assistance package for developing countries and extend tariff and quota free access to all LDCs no later than the conclusion of the DDA.

The G-20 Proposal

The G-20 proposal on market access reflects differences between Brazil, an agricultural exporter, and India, an agricultural importer.

Export Competition

- Eliminate all forms of export subsidies over five-year period.
- New food aid disciplines should not compromise emergency humanitarian assistance.

Domestic Support

- Cut the bound for overall trade-distorting domestic support in three bands: >\$60 billion, 80%; \$10-\$60 billion, 75%; and \$0-\$10 billion, 70%.
- Cut the amber box ceiling in three bands: >\$25 billion, 80%; \$15-\$25 billion, 70%; and \$0-\$15 billion, 60%.
- Reduce *de minimis* exemption allowances so as to meet the cut in the overall bound.
- Address the cotton issues no later than the Hong Kong Ministerial meeting.

Market Access

- Cut developed country tariffs by 45%-75%; cut developing country tariffs by 25%-40%.
- Cap the developed country maximum agricultural tariff at 100%, developing country maximum tariff at 150%.
- Limit the number of sensitive products; compensate for designation as sensitive with a combination of tariff cuts and expanded TRQs.
- Maintain Special Safeguard Mechanism (SSG) for developing countries; eliminate SSG for developed countries.
- Address issue of preference erosion for developing countries with expanded access for LDCs and trade capacity building.
- Special & Differential Treatment (SDT): exempt LDCs from reduction commitments.

The G-10 Proposal

The G-10 is a group of mainly developed, net-agricultural importing countries led by Japan, Norway, and Switzerland. The G-10 has tabled proposals on market access and domestic support, but not on export competition. The G-10 takes a relatively “defensive” posture on market access that calls for lower tariff reductions and a larger number of sensitive products than do other proposals.

Market Access

- Reduce agricultural tariffs by 27% to 45% for most products.
- The number of sensitive products would be 10% of tariff lines with linear cuts within tiers, 15% of tariff lines would have flexibility for within-tier adjustments.
- There would be no cap on the highest agricultural tariff allowed.

Domestic Support

- Reduce the amber box ceiling by 80% for support >\$25 billion; by 70% for support in the \$15-\$25 billion range; and by 60% for support <\$15 billion.
- Reduce the overall support ceiling by 80% for support >\$60 billion; 75% for \$10-\$60 billion; and 70% for support <\$10 billion.
- Blue box and *de minimis* spending are not addressed.

The G-33 Proposal for Special Products

The G-33 is an alliance of 42 developing countries including larger countries like China and India, but also least-developed countries like Benin and Zambia. The G-33 calls for the following.

- 20% of tariff lines of developing countries to be designated as Special Products (those deemed essential for food security, rural development, and other factors).
- 50% of the tariff lines so designated would be exempt from any tariff reduction commitment.
- An additional 15% of designated tariff lines would be exempted from tariff reductions if there are “special circumstances” (e.g., low bound tariffs, high ceiling bindings, high proportion of low income or resource poor producers).
- A further 25% of designated special products would be subject only to a 5% reduction in bound tariff rates while the remaining tariff lines would be subject to cuts no greater than 10%.

Table I. Comparison of Proposals for Domestic Policy Reform: U.S., G-20, EU, and G-10

	Highest Tier	2 nd Tier	3 rd Tier	Developing Countries	LDCs
U.S. Proposal^a	EU, Japan	U.S.	Other Developed		
Amber Box Cuts	83%	60%	37%	n.s.	n.s.
—De Minimis cuts	Bound at 2.5% of TVP	Bound at 2.5% of TVP	Bound at 2.5% of TVP	n.s.	n.s.
—Blue Box Ceiling	Bound at 2.5% of TVP	Bound at 2.5% of TVP	Bound at 2.5% of TVP	n.s.	n.s.
Overall Ceiling Cuts	75% (53% Japan)	53%	31%	n.s.	n.s.
G-20 Proposal	EU, Japan	U.S.	Other Developed		
Amber Box Cuts^b	80%	70%	60%	n.s.	n.s.
Overall Ceiling Cuts^b	80%	75%	n.s.	n.s.	n.s.
EU Proposal	EU (Japan?)	U.S. (Japan?)	Other Developed		
Amber Box Cuts^c	70%	60%	50%	n.s.	No cuts
Overall Ceiling Cuts	70%	60%	50%	n.s.	No cuts
—De Minimis cuts	Bound at 1% of TVP	Bound at 1% of TVP	Bound at 1% of TVP	n.s.	No cuts
—Blue Box Ceiling	Bound at 5% of TVP	Bound at 5% of TVP	Bound at 5% of TVP	n.s.	No cuts
G-10 Proposal	EU, Japan (\$25 +)	U.S. (\$15 - \$25)	Other Developed (\$0 - \$15)		
Amber Box Cuts	80%	70%	60%	n.s.	n.s.

Source: Assembled by CRS from various news releases of the USTR and World Trade Online.

n.s. = not specified

- a. The U.S. proposes different value ranges for amber box and overall ceilings; however, the within-tier country composition remains unchanged under the different ranges: 1st tier: EU and Japan; 2nd tier: U.S.; 3rd tier: rest-of-world.
- b. The G-20 is also calling for product-specific caps both in the overall AMS and the Blue Box.
- c. The EU also proposes commodity-specific amber box spending limits.

Table 2. Doha Round Negotiations Market Access Proposals: G-10, G-20, EU, and U.S.

Developed Countries		G-10		G-20		EU		United States ^a	
Tiers % and Within-Tier Cuts		Tiers %	Linear flexibility	Tiers %	Linear	Tiers %	Linear	Tiers %	Progressive
1	0 ≤ 20	27%	32% ± 7%	0 ≤ 20	45%	0 ≤ 30	35% (20%-45%) ^b	0 ≤ 20	55-65%
2	> 20 ≤ 50	31%	36% ± 8%	> 20 ≤ 50	55%	> 30 ≤ 60	45%	> 20 ≤ 40	65-75%
3	> 50 ≤ 70	37%	42% ± 9%	> 50 ≤ 70	65%	> 60 ≤ 90	50%	> 40 ≤ 60	75-85%
4	> 70	45%	50% ± 10%	> 70	75%	> 90	60% ^c	> 60	85-90%
Tariff Cap %		No Cap		100%		100% (no cap for sens. prod.)		75%	
Estimated Average Tariff Cut		25-30%		54%		46% (39%) ^d		75%	
Sensitive Products		15% w/linear cuts; 10% w/flex cuts		1% of total tariff lines and subject to capping		8% of tariff line ^e		1% of total tariff lines	
Sensitive Products & TRQs				Minimum access level = 6% of annual domestic cons in base period. ^f		Small TRQ expansion on small # of products ^g		Expanded TRQs	
Special Products		Not defined		Not defined		Not defined		Not defined	
Special Safeguard Mechanism (SSM)				Limited to developing countries		Available for all members for selected commodities			
Geographical Indicators (GIs)						Extend TRIPS, Art.23 to all products ^h		Existing trademark laws are sufficient.	
Developing Countries		G-10		G-20		EU		United States ^a	
Special & Differential Treatment (SDT)		More flexibility on sensitive products.		2/3 treatment in tiers ; ≤ 2/3 treatment in cuts		Higher thresholds for top tiers; 2/3 lower in cuts		Slightly smaller cuts and longer phase-in periods	
	Tiers %	Linear	flexibility	Tiers %	Linear	Tiers %	Linear	Tiers %	Progressive
1	0 ≤ 30	27%	32% ± 7%	0 ≤ 30	< 30%	0 ≤ 30	25% (10-40%) ^b	0 ≤ 20	TBD
2	> 30 ≤ 70	31%	36% ± 8%	> 30 ≤ 80	< 40%	> 30 ≤ 80	30%	> 20 ≤ 40	TBD
3	> 70 ≤ 100	37%	42% ± 9%	> 80 ≤ 130	< 50%	> 80 ≤ 130	35%	> 40 ≤ 60	TBD
4	> 100	45%	50% ± 10%	> 130	< 60%	> 130	40%	> 60	TBD
Tariff Cap %		No Cap		150%		150%		100%	
Sensitive Products		Not defined		1.5% of total tariff lines		Not defined		Not defined	

Least-Developed Countries	G-10	G-20	EU	United States ^a
LDC Treatment	Not defined	Same as EU plus exemption from tariff reduction commitments.	All developed countries should allowfull duty-free access for EBA.	Not defined

Source: Assembled by CRS from USTR, EC, and World Trade Online news releases. Data are as of October 28, 2005.

Notes:

EBA = Everything But Arms (i.e., all products except weaponry and munitions).

TBD = To Be Determined.

TRQ = Tariff Rate Quota. This involves a quota level (TBD) within which all imports enter duty-free or subject to a minimal tariff duty (TBD). All over-quota imports are subject to a higher (often prohibitive) duty (TBD). Greater market access (or greater TRQ) is achieved by raising the quota level and reducing the over-quota tariff rate.

- a. The U.S. has proposed applying the set of tiered tariff cuts described below during the 1st five-year period of implementation; to be followed by a period of stability during the next (2nd) five years; then totally eliminating tariffs during the 3rd five-year period. This same reduction-stability-elimination sequence would be applied to trade-distorting domestic support as well.
- b. The EU proposes additional FLEXIBILITY be given for tariff cuts within the lowest tier (0-30%) such that the tier's overall average cut of 35% (25% for developing countries) is still respected, but that within tier cuts may vary between 20% to 45% (10% to 40%).
- c. The EU has expressed a willingness to consider 70% cuts for the top tier of tariffs.
- d. The EU estimates the average tariff cut, according to its proposed tier/tariff reduction formula, would be 46% across all tariff lines. However, USTR suggests that a more accurate estimate would be 39%. Since the average tariff cut across all tariff lines must also consider the level of protection provided by TRQs for sensitive products, it would appear that the EU's estimated average tariff cut of 46% grossly overstates the true average as it apparently ignores the large degree of protection provided by allowing 8% of tariff lines to hide behind TRQs. (See next footnote.)
- e. The EU has approximately 2,200 8-digit tariff lines. An 8% limit on sensitive products would imply a maximum of about 176 sensitive products to be subject to TRQs with expanded market access. The EU currently has 300 to 400 tariff lines covered by TRQs under the Uruguay Round Agreement. The EU suggests that such a large number of sensitive products is necessary to achieve both protection for its agricultural sector while allowing for substantial tariff cuts across unprotected tariff line items. Furthermore, the EU states that its sensitive products, although numerous, would be structured to allow for "substantial increases in market access that would nonetheless still be lower than that granted by the result of the full tariff cut."
- f. The G-20 proposes that no new tariff-rate quotas (apart from existing TRQs agreed to under the Uruguay Round's Agreement on Agriculture) be created for products designated as sensitive, and it calls for a maximum deviation from the tariff reduction formula of 30%. It said existing TRQs on developed country sensitive products should at least be expanded so that a minimum access level is increased to a level equivalent to 6% of annual domestic consumption.
- g. The EU proposal calls for the possibility of new TRQs. In addition it recommends a TRQ formula linking the quota increase to the level of tariff reduction, proposing that the quota increase is: $[(\text{Normal tariff cut}) - (\text{applied cut})] / [(\text{import price}) + (\text{ad valorem for that tariff line})] * (0.8)$. At the same stage there should be a minimum tariff reduction in each of the bands of 5%, 10%, 15%, and 20%, respectively.
- h. EU proposes that GIs receive the same protection as a trade mark in line with protection currently available for wine and spirits under Article 23 of TRIPS agreement. For products with existing trade mark protection that would otherwise be invalidated by GI protection elsewhere, Article 24 of TRIPS would be adjusted such that existing trade marks would not be affected. The EU considers this a major concession.

Table 3. U.S. Domestic Spending Limits and Outlays: Current Status, Framework Agreement, and U.S. Reform Proposal

Category	Current Outlays		Current WTO Limits	Framework Proposal	U.S. Proposal			
	1995-2001 ^a	2005 ^b						
	US\$ Billion	Status	US\$ Billion	Status	US\$ Billion	Status	US\$ Billion	
Total Overall Ceiling	\$16.3	\$19.1	Unbound (due to blue box)	—	20% initial cut; further cuts implemented gradually. Final total cut TBD	~\$45.4	Bound and subject to cuts that vary based on level of domestic support (Table 3).	~\$23
Amber box (Bound AMS)	\$11.0	\$12.7	Separate Bound for each country	\$19.1	20% initial cut; further cuts implemented gradually; with product-specific AMS caps TBD.	\$15.4 ^c	Tiered; subject to substantial cuts during 1 st five years; stable for 2 nd five years; then eliminated in 3 rd five-years. ^d	\$7.6
Blue box	\$1.0	\$0.0	Unbound	—	Bound TBD but < 5% of TVP	~\$10	Bound at 2.5% of TVP	~\$5
De Minimis: aggregate	\$4.2	\$6.2	Bound at 5% of TVP	~\$10	Bound TBD but < 5% of TVP	~\$10	Bound at 2.5% of TVP	~\$5
De Minimis: commodity specific	\$0.1	\$0.1	Bound at 5% of SCVP	~\$10	Bound TBD but < 5% of SCVP	~\$10	Bound at 2.5% of SCVP	~\$5
Green Box	\$49.9	—	Unbound	—	Unbound	—	Unbound	—

Source: Assembled by CRS from news releases of various sources. For a detailed description of U.S. domestic spending by category for both commitments and actual outlay notifications, see CRS Report RL30612, *Agriculture in the WTO: Member Spending on Domestic Support*, by nae edaced.

Notes:

AMS = Aggregate Measure of (trade-distorting domestic) Support as defined in the Agreement on Agriculture.

TBD = To Be Determined.

TVP = Total Value of agricultural Production for all commodities.

SCVP = Total Value of agricultural Production for a Specific Commodity.

- a. Average for 1995-2001 period for which official WTO notification data is available.
- b. Estimate for 2005 period based on CRS calculations from various USDA projections.
- c. Reflects only the 20% initial cut.
- d. The three five-year period phase out would apply to all trade-distorting domestic support and tariffs (including safeguard mechanisms).

The Cotton Issue: Background

Among the unresolved issues going into the Hong Kong Ministerial was the so-called African Cotton Initiative. Four least-developed African countries—Benin, Burkina Faso, Chad, and Mali—proposed (May 2003) a sectoral initiative for cotton that would entail the complete elimination of export subsidies and trade-distorting domestic support by all WTO members.¹⁷ Although not specifically mentioned in the Doha Round negotiating mandate, cotton was identified as a key to a successful conclusion of the Doha Round following the Cancun Ministerial in September 2003. A preliminary agreement on a “framework” for the Doha Round negotiations reached in July 2004 (see detailed discussion below) also recognized the importance of cotton for certain developing countries and stated that cotton will be “addressed ambitiously, expeditiously, and specifically” within the agriculture negotiations.¹⁸ In addition, the Framework called for the establishment of a “Cotton” Sub-Committee (established on November 19, 2004) to deal with the initiative.

Going into the Hong Kong meeting, there were two main proposals for dealing with the trade-related aspects of the sectoral initiative on cotton.¹⁹ One was a revised proposal from the African group and the second was an EU proposal. Both called for decisions to be made at the Hong Kong Ministerial. The African proposal called for export subsidies on cotton to be eliminated by the end of 2005. Trade-distorting domestic support would be completely eliminated by January 1, 2009, with 80% eliminated by the end of 2006 and 10% each in 2007 and 2008. The market access aspects of the initiative would be addressed by duty-free and quota-free access for cotton and cotton products from least-developed countries. An emergency fund would be established to deal with depressed international prices. Additionally, this proposal called for technical and financial assistance for the cotton sector in African countries.

The EU proposal called for the Hong Kong Ministerial to endorse more ambitious and faster commitments on cotton than for agriculture as a whole. The EU provided details of its proposal for cotton, but without assigning numerical targets, which is consistent with its position that Hong Kong should not be about deciding numbers (i.e., actual modalities). For export subsidies, the EU proposed an earlier end date for elimination. As to market access, the EU indicated its willingness to eliminate all duties, quotas and other quantitative restrictions on imports from all countries. For domestic support, the EU would eliminate all trade-distorting subsidies for cotton. The EU indicated that all its cotton commitments “will already be in place, as far as the EU is concerned, from 2006.”

The U.S. position on the cotton initiative has been that cotton should be dealt with as an integral part of the agriculture negotiations. Thus cotton subsidy reductions or market access

¹⁷ For a detailed discussion of the initiative, see CRS Report RS21712, *The African Cotton Initiative and WTO Agriculture Negotiations*, by (name redacted). The original proposal, *WTO Negotiations on Agriculture, Poverty Reduction: Sectoral Initiative in Favour of Cotton: Joint proposal by Benin, Burkina Faso, Chad, and Mali*, Committee on Agriculture, Special Session, TN/AG/GEN/4, May 16, 2003, was revised in WTO, General Council, *Poverty Reduction: Sectoral Initiative on Cotton: Wording of Paragraph 27 of the Revised Draft Cancun Ministerial Text: Communication from Benin*, WT/GC/W/516, October 7, 2003. These documents can be retrieved from <http://www.wto.org>.

¹⁸ Paragraph 1(b) of the July Framework agreement addresses the cotton issue.

¹⁹ These two proposals are reviewed at the WTO website at http://www.wto.org/english/news_e/news05_e/cotton_18nov05_e.htm.

commitments would be made as part of an overall agreement on agriculture. A more ambitious result for cotton, then, would depend on the underlying agriculture agreement. According to the WTO summary of the cotton subcommittee meeting in which the initiative was discussed most recently, the U.S. Deputy Trade Representative indicated that the United States agreed that the outcome for cotton should be “more than the average” (i.e., the general outcome for agriculture).²⁰

Role of Developing Countries

The active participation of developing countries in the Doha Round distinguishes it from previous multilateral trade rounds held under the auspices of the General Agreement on Tariffs and Trade (GATT), the predecessor of the WTO. During the Uruguay Round, an agreement between the United States and the EU on agricultural issues at Blair House in 1992 paved the way for a successful conclusion of this last GATT round. However, a U.S.-EU joint proposal on agriculture during the 2003 Cancun Ministerial meeting was greeted with strong opposition from a group of developing countries.²¹ This group, led by Brazil, India, and China, known as the G-20, has remained together since Cancun and is playing a key role in the Doha agricultural negotiations. The G-20 was first among the major players in the Doha Round to offer a proposal on agricultural modalities in advance of the Hong Kong meeting, and its proposal became a benchmark for evaluating other, developed country proposals.

Not only the more advanced developing countries like the G-20 members, but also the least developed countries (LDCs) are participating actively in the Doha negotiations. The African Cotton Initiative (discussed above) is an example of the LDCs attempting to use multilateral trade negotiations to accomplish their policy objectives. The LDCs also were instrumental in blocking an overall agreement at Cancun when they rejected an EU proposal to enlarge the negotiating agenda to include discussion of the so-called “Singapore issues” of trade facilitation, competition policy, investment, and transparency in government procurement. Subsequent agreement to limit negotiations of Singapore issues to just one—trade facilitation—was a victory for the LDCs.

Other Negotiating Issues

A number of other issues are on the agenda of the Doha Round.²² These include negotiations to reduce tariff and non-tariff barriers to trade in industrial products (referred to as non-agricultural market access or NAMA negotiations), liberalization of trade in the services sector, reviews of anti-dumping and countervailing duty measures and dispute settlement procedures, a number of specific issues of interest to developing countries (for example, access to patented medicines, implementation of existing WTO agreements, and changes in special and differential treatment provisions), and trade facilitation (which refers generally to harmonizing and streamlining customs procedures among WTO members).

²⁰ The African and EU proposals for a sectoral initiative on cotton as well as the U.S. reaction are also discussed in “U.S. Links Cotton-Specific Moves on Overall Agriculture Deal,” *Inside U.S. Trade*, November 18, 2005.

²¹ See CRS Report RL32053, *Agriculture in WTO Negotiations*, by (name redacted).

²² See CRS Report RL32060, *World Trade Organization Negotiations: The Doha Development Agenda*, for an overview of Doha Round negotiating issues.

Role of Congress: Trade Promotion Authority and the Farm Bill

If DDA negotiations result in a trade agreement by the end of March 2007, then Congress would presumably take up legislation to implement it under trade promotion authority (TPA), or fast-track, procedures (Title XXI of P.L. 107-210). Under fast-track, if the President meets the trade negotiating objectives established in the legislation and satisfies consultation and notification requirements in P.L. 107-210, then Congress would consider legislation to implement a trade agreement with limited debate, no amendments, and with an up-or-down vote. However, unless it is extended by Congress, TPA only covers trade agreements signed by July 1, 2007. As such, TPA expiration is the effective deadline for U.S. participation in the Doha Round and for congressional consideration of implementing legislation. Congress could, of course, vote to extend TPA authority if it thought that progress was being made in Doha Round negotiations or for the purpose of considering promising bilateral free trade agreements.

How a Doha Round agreement on agriculture would affect the preparation of the next farm bill is uncertain. TPA expiration coincides with the expiration of the 2002 farm bill (P.L. 107-171) on September 30, 2007. Farm bill changes may be needed to meet U.S. commitments in a final DDA agreement on agriculture. Most farm bill programs expire in 2007, and new legislation is already under consideration in Congress. Legislation was introduced in the 109th Congress to extend the 2002 farm bill for a year pending completion of the Doha Round negotiations (H.R. 4332, H.R. 4775, and S. 2696). But with uncertainties surrounding the completion of the Doha Round, supporters of extending the farm bill contingent on a successful conclusion of WTO negotiations are now calling for a more comprehensive rewrite of the 2002 law. The American Farm Bureau Federation has now withdrawn its insistence that the current farm bill be extended until a new WTO agreement is reached and calls for a farm bill that includes the basic concepts of the 2002 farm law.²³

Background on the Doha Round

Agricultural Negotiations: Doha to Cancun

The previous round of multilateral trade negotiations—the Uruguay Round—which spanned 1988 to 1994 was the first international trade agreement to include agricultural policy reform. The Uruguay Round’s Agreement on Agriculture (AA) was the first multilateral agreement dedicated entirely to agriculture. The AAs implementation period lasted six years (1995-2000) for developed countries and 10 years (1995-2004) for developing countries. Article 20 of the AA included a provision for the continuation of the agricultural policy reform process.

At the WTO’s Fourth Ministerial Conference (held in Doha, Qatar, on November 9-14, 2001), WTO member countries agreed to launch a new round of multilateral trade negotiations, including negotiations on agricultural trade liberalization.²⁴ This new round, because it

²³ See, for example, American Farm Bureau press release, “Delegates Support Farm Safety Net, Immigration Reform,” available at <http://www.fb.org/index.php?fuseaction=newsroom.newsfocus&year=2007&file=nr0109.html>.

²⁴ The Doha Ministerial Declaration launching the DDA negotiations is at http://www.wto.org/english/tratop_e/dda_e/ (continued...)

emphasized integrating developing countries into the world trading system, was called the Doha Development Agenda (DDA). The new round incorporates agriculture into a comprehensive framework that includes negotiations on industrial tariffs, services, anti-dumping and countervailing duty measures (referred to as rules), dispute settlement, and other trade issues.

The Doha Ministerial (DM) Declaration mandate for agriculture called for comprehensive negotiations aimed at substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support. These topics—domestic support, export subsidies, and market access—have become known as the three pillars of the agricultural negotiations. The DM declaration also provided that special and differential treatment (SDT) for developing countries would be an integral part of all elements of the negotiations. The DM declaration took note of non-trade concerns reflected in negotiating proposals of various member countries and confirmed that they would be taken into account in the negotiations. March 31, 2003 was set as the deadline for reaching agreement on “modalities” (targets, formulas, timetables, etc.) for achieving the mandated objectives, but that deadline was missed. During the rest of 2003, negotiations on modalities continued in preparation for the fifth WTO Ministerial Conference held in Cancun, Mexico September 10-14, 2003.

While the United States and the EU reached agreement on a broad framework for negotiating agricultural trade liberalization before the Cancun meeting, a group of developing countries, the G-20 which includes Brazil, China, India, and South Africa, among others, made a counter-proposal. The G-20 proposal emphasized agricultural subsidy and tariff reduction for developed countries with fewer demands on developing countries. The Chairman of the Cancun ministerial circulated a draft declaration at the meeting that attempted to reconcile differences between developed (especially the United States and the EU) and developing countries (especially the G-20) on the agricultural issues. Neither the proposals made by the United States and the EU, the G-20, nor the Chairman’s draft declaration proposed specific modalities (formulas, targets, or timetables) for reducing tariffs and trade-distorting support and for phasing out export subsidies.

The Cancun Ministerial Conference thus failed to reconcile differences on agricultural issues as well as differences between developed and developing countries over expanding the negotiating agenda to include such issues as competition and investment policy. The Cancun Ministerial ended without an agreement on modalities or a framework for continuing multilateral negotiations on agricultural trade liberalization. The inconclusive end of the Cancun ministerial largely eliminated the prospect that the DDA would conclude by its scheduled end date, January 1, 2005.

July 2004 Framework Agreement for Agriculture

On July 31, 2004, WTO member countries reached an agreement on a work program for completing the DDA negotiations. The July 31 work program includes annexes that lay out negotiating frameworks for agriculture and other DDA issues.²⁵ The agricultural framework (referred throughout this report as the Framework) set the stage for negotiations to determine

(...continued)

dda_e.htm#dohadeclaration. Paragraphs 13 and 14 of the Doha declaration set out the agricultural negotiating mandate.

²⁵ See CRS Report RS21905, *Agriculture in the WTO Doha Round: The Framework Agreement and Next Steps*, by (name redacted). The framework agreement known as the *Doha Work Programme: Decision Adopted by the General Council on August 1, 2004* is at http://www.wto.org/english/tratop_e/dda_e/ddadraft_31jul04_e.pdf.

modalities (i.e., the specific targets, formulas, timetables, etc.), for curbing trade-distorting domestic support, reducing trade barriers and eliminating export subsidies. Negotiators set for themselves a deadline of July 2005 for completing a first draft of the agricultural modalities, another deadline that was subsequently missed. The following three subsections describe what was agreed to in the July 31 Framework, and the issues that remained to be negotiated for each of the three negotiating pillars.

Pillar 1—Export Competition

Although 36 WTO members are permitted to use export subsidies as listed in their country schedules, only 24 countries have actually used export subsidies. Most countries with permissible export subsidies have used them very sparingly. During the 1995-2001 period for which WTO notification data are available, the EU accounted for nearly 90% of all export subsidies used by WTO members.²⁶

What Was Agreed to in the Framework

Under the Framework, WTO members agreed to establish detailed modalities ensuring the parallel elimination of all forms of export subsidies and disciplines on all export measures with equivalent effect by a credible end date. The following will be eliminated by the end date to be determined (TBD):

1. Export subsidies.
2. Export credits, export credit guarantees or insurance programs with repayment periods beyond 180 days.
3. Terms and conditions—e.g., interest payments, minimum interest rates, minimum premium requirements, and any other subsidy elements—relating to export credits, export credit guarantees or insurance programs with repayment periods of 180 days or less which are not in accordance with disciplines TBD.
4. Trade distorting practices of exporting State Trading Enterprises (STEs) including elimination of export subsidies they receive and government financing and underwriting of losses.
5. Provision of food aid not in conformity with disciplines TBD.
6. Developing countries will benefit from longer implementation periods TBD for eliminating all forms of export subsidies.

Export Competition Issues to Be Resolved

1. Schedule for eliminating export subsidies.

²⁶ USDA, Economic Research Service, WTO Agricultural Trade Policy Commitments Database, WTO Export Subsidy Notifications, “Total export subsidies by country, 1995-2001” available at http://www.ers.usda.gov/db/Wto/ExportSubsidy_database/Default.asp?ERSTab=2.

2. Nature of “parallel treatment” of export credit programs.
3. Rules for exporting STEs.
4. New disciplines for food aid to prevent commercial displacement.
5. An assessment of whether and to what extent food aid should be provided in grant form.
6. A review of the role of international organizations in providing food aid.

Pillar 2—Domestic Support

Only 35 out of 149 members have notified use of trade-distorting domestic subsidies in their country schedules. During the 1995-2001 period for which notification data are available, three countries—the EU, the United States, and Japan—accounted for 91% of all domestic subsidies used by WTO members.²⁷

What Was Agreed to in the Framework

1. General Concepts

- a. Doha Ministerial Declaration calls for *substantial reductions in trade-distorting domestic support*.
- b. **Special and Differential Treatment (SDT)** remains an integral component of domestic support: developing countries to be given *smaller cuts with a longer implementation period* and continued access to AA, Article 6.2—special exemptions for investment and input subsidies.
- c. There will be a strong element of **harmonization** in the reductions made by Developed Members. A tiered, progressive formula TBD will be used for implementing all reductions.

2. Amber Box—Current bounds are detailed in country schedules.

- a. Substantial reductions (TBD) from bound levels.
- b. Limits (TBD) will be placed on supports for specific products in order to avoid shifting support between different products.

3. De Minimis exemptions—The current bound for non-product-specific support is 5% of the total value of agricultural production (TVP); for product-specific support it is 5% of the value of production for each specific product (PVP). Developing countries are bound at 10% for both measures.

- a. Substantial reductions, TBD, that take into account SDT.

²⁷ See Appendix Table 4 in CRS Report RL30612, *Agriculture in the WTO: Member Spending on Domestic Support*, by (name redacted).

4. **Blue Box**—Currently unbound; includes only production limiting direct payments.
 - a. “Members recognize the role of the Blue Box in promoting agricultural reforms.”
 - b. To be bound at no more than 5% of TVP (or PVP for individual products) during an historical period TBD.
 - c. Will be expanded to include direct payments that do not require production under certain conditions (e.g., U.S. counter-cyclical payments (CCP)).
 - d. Criteria TBD will be added to ensure that blue box payments are less trade distorting than AMS measures.
5. **Overall Ceiling for Trade-Distorting Domestic Support**—The sum of amber box, blue box, and de minimis is currently unbound.
 - a. Substantial reductions (TBD) including an initial 20% cut enacted in the first year, with further cuts to be negotiated.
 - b. If the sum of bound ceilings for amber box, de minimis, and blue box is still above the Overall Ceiling, then additional cuts in at least one of them must be made to comply with the Overall Ceiling commitment.
6. **Green Box**—Criteria will be reviewed and clarified to ensure that Green Box measures have no, or at most minimal, trade-distorting effects on production.

Domestic Support Issues to Be Resolved

1. Formula for reductions in bounds for Overall and Amber Box:
 - Levels and number of tiers.
 - Rate and formula for within-tier cuts encompassing greater harmonization.
 - Levels for individual commodity limits within the amber box.
2. Blue box disciplines:
 - Formula for establishing bound levels as a share of production value.
 - Base period against which to measure bounds.
3. De Minimis disciplines:
 - Formula for establishing bound levels as a share of production value.
 - Base period against which to measure bounds.

Pillar 3—Market Access

All countries have market access barriers, whereas only some have export subsidies or Amber or Blue Box domestic support. Therefore, the range of interest in market access reform is more complex and is proving more difficult to achieve.

What Was Agreed to in the Framework

1. All members must improve market access substantially for all products.
2. The Framework gives no tariff reduction formula, but provides direction:
 - a. **All members** except LDCs **must improve market access**.
 - b. **Tiered and progressive**: larger within-tier cuts for higher tiers.
 - c. **Reductions to be made from “bound” rate**, not (generally lower) applied rate.
 - d. **Special & Differential Treatment (SDT)** for developing countries:
 - i. Smaller formula commitments in tariff reductions.
 - ii. Greater access to and treatment of sensitive products.
 - iii. A longer implementation period.
 - iv. Designation of a number of products as Special Products, eligible for more flexible tariff treatment, based on criteria of food security, livelihood security, and rural development need.
 - e. **Sensitive Products**:
 - i. Principle of substantial improvement in market access TBD.
 - ii. Appropriate number of permissible sensitive products TBD.

Market Access Issues to Be Resolved

1. **Harmonized tariff reduction scheme**:
 - a. Levels and number of tariff tiers.
 - b. Rate and formula for within-tier tariff cuts.
 - c. Tariff caps, i.e., a bound maximum tariff rate.
2. Parameters governing **Sensitive Products**:
 - a. Limit on sensitive products (how many and what treatment?).

- b. Tariff rate quota (TRQ) formula for linking quota to reduced tariff via:
 - (1) MFN-based tariff quota expansion required of all sensitive products;
 - (2) within and over-quota tariff reductions.
 - c. Improved administration of TRQs.
 - d. Reducing or eliminating tariff escalation associated with increasing stages of value-added products.
3. Exact nature of **SDT** for developing countries:
- a. Lesser commitments; longer implementation period; greater flexibility for sensitive products
 - b. Special products (i.e., related to food or livelihood security, or rural development) given additional flexibility.
 - c. Special Safeguard Mechanism (SSG)—to deal with surges in imports or falling prices—are to be available for developing countries. Their status is TBD with respect to developed countries.
 - d. Special treatment of agricultural product alternatives to illicit narcotic crops.
 - e. Erosion of trade preferences when the WTO agreement supercedes bilateral or regional trade agreements.
4. Treatment of **Least-Developed Countries (LDCs)**: should LDCs be given a “free” round with no new market access commitments TBD?
5. **Geographical Indications (GIs)**: will GIs be a part of any final agreement and, if so, how will they be defined and implemented?

Potential Effects of a Successful Doha Round

The economic and policy implications of trade liberalization are briefly reviewed at three levels: analysis of global trade and income effects; existing U.S. policy context; and analysis of U.S. domestic agricultural income and policy effects.

In estimating the economic benefits to the U.S. and world from a new round of trade liberalization, two points must be kept in mind. First, based on the current proposals for reforming the domestic and trade policy of WTO members, any agreement from the Doha Round will institute only a “partial” liberalization, i.e., it will allow countries to maintain some policies (whether domestic subsidies or border measures) that continue to distort agricultural trade. Second, current proposals deal with setting limits on aggregate spending categories. If adopted, each individual member country will ultimately decide how to implement their domestic policies so as to achieve the aggregate spending limits agreed to under a new trade agreement.

Global Trade and GDP

According to the several recent economic analyses of the potential economic benefits from global trade liberalization, the following common conclusions emerge.²⁸

- Policies that distort agricultural trade account for roughly two-thirds of all policies that distort trade in goods of any kind.
- Of policies that distort world agricultural trade, tariffs and tariff-rate quotas are by far the most costly—accounting for 80% to 90% of the cost—with domestic support and export subsidies comprising the remainder.
- A significant gap between bound and applied tariff rates for most products in most countries suggests that substantial tariff cuts in bound rates (those affected by Doha Round negotiations) will have to be realized before applied rates are actually lowered.
- Similarly, a significant gap between bound and actual domestic spending levels suggests that substantial cuts in bound domestic spending limits (those affected by Doha Round negotiations) will have to be realized before actual spending levels are lowered.
- Much of the eventual market access gains will be determined by the treatment of sensitive products, i.e., their number and the extent to which they are exempted from reform.

A 2005 World Bank study to measure the effects of a partial trade liberalization (using cuts to tariff and subsidy bounds similar to those contained in the G-20 proposal, but with no special treatment for “sensitive” or “special” products) found that such reform would produce annual welfare benefits to the world (in 2001 dollars) of \$74.5 billion once fully implemented.²⁹ This compares with a potential annual benefit of \$182 billion under full trade liberalization and suggests both the potential economic importance of a successful Doha Round as well as the extent of remaining policy reform needed to achieve full liberalization.

However, the World Bank study also found that if developed countries are allowed to select 2% of their tariff lines (4% for developing countries) as sensitive products and provide them with special TRQ protection that includes very high above-quota tariffs, then annual economic benefits from trade liberalization would fall to \$17.7 billion.³⁰ In other words, nearly 80% of the potential economic gains would be eliminated. The same study also found that a substantial portion of the potential economic benefits could be preserved, even with a 2% sensitive product threshold, if above-quota tariffs are capped at 200%. Under this scenario the annual economic benefits from trade liberalization are estimated at \$44.3 billion.

²⁸ The Congressional Budget Office (CBO) examined several economic studies of global trade liberalization completed during the 2001 to 2005 period and have summarized the results in its report, *The Effects of Liberalizing World Agricultural Trade: A Survey*, Dec. 2005; available at <http://www.cbo.gov/ftpdocs/69xx/doc6909/12-01-TradeLib.pdf>.

²⁹ *Ibid.*, p. 9.

³⁰ *Ibid.*, p. 10.

U.S. Farm Policy Implications

Current Doha reform proposals suggest that substantial changes would be needed in several aspects of existing U.S. agricultural policies. These are briefly reviewed below.

Export Competition

The United States uses export subsidies and export credit guarantees to support some of its commodity exports, and is a major donor of international food aid. As a result, changes in these programs will have some impacts on U.S. commodity markets and trade policy.

Elimination of Export Subsidies

Although the United States has the second-largest level of permissible export subsidies under current WTO limits, it uses only a very small share of its allowable level. Milk and milk products are the principal beneficiaries of U.S. export subsidies.

Reform of Agricultural Export Credit Guarantees

The United States is the world's leading user of export credit guarantees.³¹ In FY2004, nearly \$3.7 billion worth of U.S. agricultural exports (out of a total of \$62.4 billion) were facilitated with agricultural export credit guarantees. Current Doha reform proposals would likely reduce the effectiveness of traditional export credit guarantees at supporting U.S. commodity exports into price-competitive markets. However, on-going U.S. changes in its export credit guarantee program, made in response to a WTO dispute settlement ruling against certain features of the U.S. cotton program,³² are likely to bring them into compliance with Doha reform proposals, thereby necessitating little if any further changes.

Changes in Food Aid Programs

The United States is among the world's leading food aid donors. In FY2004, nearly \$2.2 billion worth of U.S. agricultural exports (out of a total of \$62.4 billion) were made under some form of U.S. food aid program (including PL480, Food-For-Peace, and McGovern-Dole International Food for Education and Child Nutrition Program). Since most of U.S. food aid is in the form of commodity donations rather than cash, U.S. food aid donations will likely be reduced to the extent that reforms to food aid limit or restrict the donation of actual commodities.³³

³¹ For more information, see CRS Report RL32278, *Trends in U.S. Agricultural Export Credit Guarantee Programs and P.L. 480, Title I, FY1992-2002*; and USDA, Foreign Agricultural Service, Export Programs at <http://www.fas.usda.gov/exportprograms.asp>.

³² For more information, see CRS Report RL32014, *WTO Dispute Settlement: Status of U.S. Compliance in Pending Cases*; and CRS Report RS22187, *Brazil's WTO Case Against the U.S. Cotton Program: A Brief Overview*, by (name redacted).

³³ For more information, see CRS Report RL33553, *Agricultural Export and Food Aid Programs*.

Domestic Support

The United States together with the EU and Japan account for nearly 90% of global agricultural domestic support subsidies.³⁴ As a result, these three countries are most likely to bear the brunt of the economic consequences associated with new disciplines on domestic support. **Table 1** contains information on U.S. domestic support and various Doha Round reform proposals.

Reductions to Bound Level of Amber Box Spending

Under the U.S. proposal for reform of domestic support (**Table 3**), the U.S. amber box ceiling would be lowered by 60% to approximately \$7.6 billion. This compares with current amber box spending in FY2005 of an estimated \$12.7 billion and an amber box ceiling of \$19.1 billion. As a result, U.S. domestic support programs would require some redesign (with likely box shifting) to be able to meet such a lower ceiling. Although there are many ways that such changes could be achieved, a likely candidate would include shifting away from market-distorting programs such as loan deficiency payments (LDP) or marketing loan gains (MLG) and towards greater use of green box programs such as decoupled direct payments, conservation payments, or rural infrastructure development.

Tightening of De Minimis Bounds

Under the U.S. proposal for reform of domestic support (**Table 4**), the *de minimis* exemptions, both non-product specific and product specific, would be bound at 2.5% of the value of relevant production (i.e., either aggregate or commodity specific). For non-product specific *de minimis*, this would result in a ceiling of about \$5 billion, compared with estimated exemptions of \$6.2 billion in FY2005. However, shifting the counter-cyclical payments (CCP) to the blue box (see below) would bring spending under the *de minimis* exemptions back into line with their proposed commitments.³⁵

Establishment of Bound on Blue Box

Under both the framework agreement and the U.S. proposal for reform of domestic support, CCPs would be eligible for the blue box. The U.S. proposal also recommends establishing a blue box ceiling of 2.5% of the total value of national agricultural production (TVP). For the United States, 2.5% of TVP would be approximately \$5 billion. The U.S. currently has no spending in the blue box, however, CCP outlays are estimated at \$4.2 billion in FY2005.³⁶

Market Access

There is substantial potential for U.S. agricultural exports to expand under an international system of improved market access based on lower tariffs and increased quotas. In contrast, further

³⁴ For more information, see CRS Report RL30612, *Agriculture in the WTO: Member Spending on Domestic Support*.

³⁵ The CCP program was first authorized under the 2002 farm bill. U.S. notification to the WTO of its domestic spending is complete through 2001. As a result, the U.S. has not yet notified CCP spending as pertaining to a specific box. However, its design and operation suggest that CCP spending would qualify as a non-product specific AMS outlay.

³⁶ See CRS Report RS21970, *The U.S. Farm Economy*, by (name redacted).

reductions in tariff levels are unlikely to produce significant increases in imports for most U.S. agricultural commodities since U.S. agricultural tariffs are already very low relative to most other nations and relatively few commodities receive tariff-rate quota (TRQ) protection.

Dairy products, beef, and sugar are three of the major U.S. beneficiaries of TRQ protection. Each of these products are likely to continue to receive protection as “sensitive” products under a new DDA agreement (although no specific information concerning the identification of sensitive products has yet been made by the United States or any other negotiating country). Expanded quota levels would likely result in increased imports for each of these commodities.

The U.S. proposal does not provide any specificity regarding the administration of TRQs; however, the G-20 proposal recommends that minimum access quotas be set at 6% of domestic consumption for some undefined base period. Australia recommended a higher access quota level of 8-10% of domestic consumption.

Potential Economic Impact on U.S. Agriculture

In response to a request by the Chairman of the Senate Agriculture Committee, Senator Chambliss, the Food and Agricultural Policy Research Institute (FAPRI) analyzed the potential impacts on U.S. agriculture of the U.S. proposal (see **Tables 1-3** for details of the U.S. proposal).³⁷ Under the U.S. proposal, the amber box (AMS) annual limit falls to \$7.6 billion (representing a 60% cut from the previous \$19.1 billion limit). To achieve this lower spending limit, FAPRI had to make specific assumptions about U.S. farm policy reform (see **Table 4**).³⁸ In particular, loan rates for grain, oilseed, and cotton, and the dairy support price were reduced by 11%; sugar loan rates were reduced by 16% (to avoid excessive stock accumulation); and CCP payments were redirected from the amber box to the redefined blue box. For all non-sensitive products, tariff reductions are made in accordance with the tiers described in **Table 2**. In addition, for each designated sensitive product TRQs were increased by 7.5% of the 1999-2001 level of domestic consumption. Finally, export subsidies are eliminated by 2010.

In addition to the above program changes, two scenarios were evaluated: an “uncompensated” scenario where all target prices were reduced by 7%; and a “compensated” scenario where instead of lowering target prices, direct payment rates were increased by 7%. CCP payments equal the target price minus the per unit direct payment rate minus the higher of the loan rate or the market price. Thus, both of these scenarios have the effect of lowering CCP payments by 7%. The difference is that in the “compensated” scenario government outlays are increased to offset the lower CCP payment. Replacing non-product specific CCP payments with decoupled direct payments represents shifting from the capped blue box to the unlimited green box. A summary of the net effect of these changes is presented in **Table 4** and are described briefly below.

³⁷ FAPRI, *Potential Impacts on U.S. Agriculture of the U.S. October 2005 WTO Proposal*, FAPRI-UMC Report #16-05, Dec. 15, 2005, hereafter referred to as FAPRI (2005); available at http://www.fapri.missouri.edu/outreach/publications/2005/FAPRI_UMC_Report_16_05.pdf. The Center for Agricultural and Rural Development (CARD) conducted supporting analysis of the effects on global markets in *U.S. Proposal for WTO Agricultural Negotiations: Its Impact on U.S. and World Agriculture*, CARD Working Paper 05-WP 417, Dec. 2005, hereafter referred to as CARD (2005); available at <http://www.card.iastate.edu/publications/DBS/PDFFiles/05wp417.pdf>.

³⁸ The program changes were selected so as to restrict violation of WTO limits to less than 5% of the stochastic outcomes from 500 simulations runs. See FAPRI (2005) for details.

Under the Uncompensated Scenario

Annual net government outlays are reduced by 22.5% but net farm income is still up by \$1.3 billion (2.4%) as increases in prices resulting from increased exports offsets at least some of the reduction in payments. Rice producers experience a sharp jump (5.7%) in combined market returns plus government payments. However, returns plus payments remain below baseline levels for corn, soybeans, and cotton.

Under the Compensated Scenario

Annual net farm income is up by \$3.4 billion (6.5%) as the increase in direct payments further offsets reductions in CCPs and loan benefits. For rice, wheat, corn, and soybeans, average estimated returns plus payments exceed the baseline levels. Of the five major program crops, only for cotton do returns plus payments remain below baseline levels.

Under Both Scenarios

Crop and livestock receipts are up by about \$2 billion and \$4.2 billion, respectively. Livestock receipts increase in response to higher prices for cattle, hogs, poultry, and milk, due to increased U.S. meat and poultry exports. Higher crop receipts result from both increased feed demand and exports. Key drivers behind the higher international commodity prices and higher U.S. exports include the following.³⁹

- Removal of export subsidies raises prices in the international wheat, barley, rice, sugar, beef, and dairy markets.
- Expansion of TRQs, in general, increase trade in those protected commodities by exposing highly protected markets to lower international prices.
- Tariff reductions, in general, raise the demand for traded products, while reductions of domestic support reduce competition from more inefficient producers.
- Expansion of rice TRQs in Japan and South Korea, in particular, push international rice prices higher by 8% on average.
- Tariff reductions and the removal of the Special Safeguard Mechanism in Japan raise both demand and prices for pork and beef.

In the FAPRI study, U.S. farm real estate values experience small, but significant changes. Under the uncompensated scenario, average U.S. farm land values decline by 1.4% as the reduction in government payments (-22.5%) more than offsets higher market returns. Factors other than net market returns and payments affect land values, but changes in profitability play an important role and (in the uncompensated scenario) translate into lower projected future revenue streams to the land. Under the compensated scenario, farm real estate values increase by 1.7% as slightly lower projected government payments (-1.8%) are more than offset by expected market returns suggesting improved long-run returns to the land.

³⁹ For more details see CARD (2005).

Table 4. Summary of FAPRI Analysis of U.S. Proposal

	Base-line ^a	Absolute Changes		Percent Changes	
		Uncomp-ensated ^b	Comp-ensated ^c	Uncomp-ensated ^b	Comp-ensated ^c
Policy change:					
Loan rates				-11%	-11%
Sugar loan rates				-16%	-16%
Milk support price				-11%	-11%
Target prices (TP)				-7%	-7%
Direct payment rates				0%	7%*TP ^d
WTO Indicators					
		\$ billion			
AMS limit	19.1	7.6	7.6	-60%	-60%
Product-Specific AMS	9.4	4.7	4.7	-50%	-50%
Blue box limit	9.5	4.8	4.8	-50%	-50%
CCPs	3.1	1.5	1.5	-50%	-50%
Net Govt Outlays	16.5	12.5	16.0	-24%	-3%
Crop Returns + Govt payments					
		\$ per acre			
Corn	424	418	434	-1.3%	2.4%
Soybeans	254	247	257	-2.5%	1.5%
Wheat	177	179	187	0.8%	5.1%
Upland Cotton	582	545	571	-6.3%	-1.8%
Rice	768	812	841	5.7%	9.5%
Farm Income					
		\$ billion			
Crop Receipts	125.1	127.1	127.1	1.6%	1.6%
Livestock Receipts	112.2	116.4	116.4	3.8%	3.7%
Govt payments	16.7	12.9	16.4	-22.5%	-1.8%
Production Costs	237.7	239.1	240.5	0.6%	1.2%
Net Farm Income	53.1	54.4	56.5	2.4%	6.5%

Source: Abridged from Table 1 of FAPRI (2005). The reported data for all categories represent averages for the three-year period, 2012-2014, where all program reforms have been fully implemented.

- Baseline assumes the elimination of the Step 2 program for cotton, but no other program reforms.
- The uncompensated scenario assumes program reforms commensurate with the U.S. proposal including a 7% cut in all target prices to achieve a reduction in CCP outlays.
- The compensated scenario is similar to the uncompensated but uses a 7% increase in per-unit direct payments, instead of a 7% cut in target prices, to achieve a reduction in CCP outlays.
- Direct payment rates are increased by 7% of the target price for each commodity.

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Appendix A. Chronology of Key Events

Dates	Key Events
1986-1994	Uruguay Round of multilateral trade negotiations.
1994	Uruguay Round culminated in the establishment of the World Trade Organization (WTO). The Agreement on Agriculture was one of 29 legal texts underwriting the WTO and its administration of rules governing international trade.
Nov. 9-13, 2001	Current Doha Development Agenda (DDA) or Doha Round of multilateral negotiations was initiated in Doha, Qatar.
July 31, 2004	WTO Doha Round negotiations produce an interim guideline document, the <i>Framework Agreement</i> , to solidify existing commitments and to guide negotiations of details for final agricultural agreement.
Jan. 1, 2005	Current Doha Round of multilateral negotiations was scheduled to end, but several 2003 and 2004 deadlines were missed. As a result, DDA negotiations continue with no formal schedule, but subject to several looming deadlines.
Summer 2005	USDA initiates farm bill listening sessions around the country.
Oct. 10-14, 2005	Series of position papers released by major negotiations participants including the U.S., EU, G-10, and G-20.
Oct. 27, 2005	EU released updated proposal in response to concerns about the inadequacy of its first proposal's market access offerings.
Dec. 13-18, 2005	WTO Hong Kong Ministerial.
July 24, 2006	Indefinite Suspension of Doha Development Agenda Negotiations.
July 1, 2007	U.S. trade promotion authority expires.
Sept. 30, 2007	2002 farm bill expires.

Source: Compiled by CRS from various sources.

Appendix B. Key Players in the WTO DDA Negotiations

Group	Members
Big Two	U.S. and EU.
Big Three	U.S., EU, and Japan.
New Quad	U.S., EU, India, and Brazil.
C-4	The group of 4 African cotton-producing countries—Benin, Burkina Faso, Chad, and Mali—that have proposed a sectoral Doha Round initiative for cotton.
FIPS	Five Interested Parties: U.S., EU, Brazil, India, and Australia.
FIPS Plus	FIPS plus Argentina, Canada, Switz., Japan, China, and Malaysia.
G-5	Group of Five: U.S., EU, Japan, India, and Brazil.
G-6	G-5 plus Australia.
G-7	A group of 7 nations—U.S., Japan, Canada, Britain, France, Germany, and Italy—whose finance ministers and/or Heads of State meet to discuss political and economic developments.
G-8	G-7 plus Russia.
(G-8)+5	G-8 plus 5 countries—Brazil, India, Mexico, China, and South Africa—with major emerging economies.
G-10	Group of 10 developed, net importing countries that subsidize domestic agriculture: Bulgaria, Iceland, Israel, Japan, South Korea, Liechtenstein, Mauritius, Norway, Switzerland, and Chinese Taipei.
G-20	Group of some 20+ major developing countries whose members vary but essentially includes Argentina, Bolivia, Brazil, Chile, China, Colombia, Costa Rica, Cuba, Ecuador, Egypt, El Salvador, Guatemala, India, Mexico, Nigeria, Pakistan, Paraguay, Peru, Philippines, South Africa, Thailand, and Venezuela.
G-33	Group of 33 (now expanded to 42) developing countries otherwise called the “friends of special products” including China, Turkey, Indonesia, India, Pakistan, plus some African, Caribbean, South American, and Asian countries.
G-90	Group of Least-Developed Countries (LDCs).
Cairns Group	Members are generally free-market oriented and supportive of increased trade liberalization. Members include Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand, and Uruguay.
LDCs	The WTO recognizes as least-developed countries (LDCs) those countries which have been designated as such by the United Nations. There are currently 50 LDCs on the U.N. list, 32 of which to date have become WTO members. A complete listing is available at http://www.wto.org/english/thewto_e/whatis_e/tif_e/org7_e.htm .

Note: For more information, see the WTO trade negotiations background report, *WTO Agriculture Negotiations: The Issues, and Where We Are Now*, “Key to Groups,” Dec. 1, 2004, pp. 83-84; available at http://www.wto.org/english/tratop_e/agric_e/ agnegs_bkgrnd_e.doc.

Appendix C. Key Terms From the WTO Agreement on Agriculture and the DDA

1. The Agreement on Agriculture (AA)

Text of agricultural policy reform commitments agreed to under the Uruguay Round (1986-1994) of WTO multilateral trade negotiations.

2. The Three Pillars of agricultural policy reform

a. Export competition

- i. Export subsidies
- ii. Export credit
- iii. Food Aid
- iv. State Trading Enterprises

b. Domestic Support

- i. **Aggregate Measure of Support (AMS)**: summary measure of a country's total level of trade-distorting domestic subsidies.
- ii. **Amber box**: non-exempt trade-distorting subsidies; individual members' amber box bounds are listed in their country schedules.
- iii. **Blue box**: production-limited subsidies; unbound.
- iv. **De Minimis-non-product specific**: bound <5% of total production. value.
- v. **De Minimis-product specific**: bound <5% of specific prod. value.
- vi. **Green Box**: minimally distorting subsidies; unbound.

c. Market Access

- i. Bound and Applied Tariffs
- ii. Sensitive Products Treatment
- iii. Tariff Rate Quotas (TRQs) administration
- iv. Special Safeguard Mechanisms (SSMs)

3. Special and Differential Treatment (SDT) for developing countries

- a. Smaller commitments and longer implementation periods
- b. Other flexibilities and privileges

4. Least-Developing Countries

- a. Free Round: no new commitments

5. WTO Framework Agreement (referred to as the "Framework")

- a. The Framework provided agreement on a general framework for reform within each of the three main "pillars" of agricultural trade with details to be worked out in subsequent negotiations.
- b. The Framework touched on several "non-pillar" issues: including cotton subsidies and geographical indications.

Source: For detailed definitions see "CRS Reports" listed in "Information Sources", above.

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