



WTO Doha Round: Implications for U.S. Agriculture

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Summary

The Doha Round of multilateral trade negotiations began in November 2001. From an agricultural viewpoint, the goal of the negotiations was to make progress simultaneously across the three pillars of the World Trade Organization's (WTO's) Agricultural Agreement—domestic support, market access, and export competition—by building on the specific terms and conditions established during the previous Uruguay Round of negotiations. In the give-and-take of negotiations, use of export and domestic subsidies was to be restricted, while market access was to be expanded among all WTO member countries. However, as a concession to poorer WTO member countries, the degree of new conditions was to be less stringent for developing nations than for developed nations.

By early 2008, substantial progress had been made in the Doha Round negotiations in narrowing or resolving differences in negotiating positions. As a result, a WTO Ministerial Conference was held in Geneva during July 21-29, 2008, in hopes of resolving the remaining differences. However, the Ministerial failed to narrow the gap on the most contentious issues.

In order to revive the negotiations before momentum was lost, the chair of the WTO's Committee on Agriculture released a new draft text in December 2008, referred to as a "modalities framework" (i.e., specific formulas and timetables for reducing trade-distorting farm support, tariffs, and export subsidies, and for opening import markets). The "modalities framework" summarized the current mutually agreed changes to existing disciplines, as well as highlighting the areas of disagreement. As such, it was an attempt to lock in the status of current concessions, while adding detail to outstanding issues and providing a basis for further, more specific talks.

Simultaneously, WTO Director General Pascal Lamy had tentatively planned a Ministerial Conference for December 13-15, 2008, to attempt to conclude the Doha Round. However, the proposed Ministerial was cancelled after major trading powers signaled uncertainty that a deal could be finalized. In particular, U.S. trade officials, Congress, and commodity groups expressed concern that proposed modalities included too many exceptions for foreign importers to ensure that an adequate balance could be achieved between U.S. domestic policy concessions and potential U.S. export gains. Since the failure to convene the proposed December 2008 Ministerial, the Doha negotiations have been stymied.

The WTO Ministerial Conference, the highest-level WTO governing body, met in Geneva November 30 to December 2, 2009. The conference was not a negotiating session for the Doha Round, but one of its main agenda items was the Doha Round work program for 2010. Director-General Lamy had said that the 2009 Ministerial Conference would be "an important platform for [trade] ministers to send a strong signal of commitment to concluding the Doha Development Round." At the Ministerial, the U.S. Trade Representative, Ambassador Kirk, stressed that to address gaps in the agriculture and other negotiations, the multilateral negotiations in the Doha Round need to be supplemented with sustained direct bilateral engagement, especially with advanced developing countries. The WTO Director-General has called for a stocktaking during the last week of March 2010 to assess whether concluding the Doha Round in 2010 is "doable".

This report reviews the current status of agricultural negotiations for domestic support, market access, and export subsidies, and their potential implications for U.S. agriculture.

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Introduction

WTO multilateral trade negotiations have been ongoing since November 2001. The negotiations—referred to as the Doha Development Agenda (DDA) or simply the Doha Round—encompass four broad areas of trade reform: agriculture, non-agriculture market access (NAMA), rules, and services.¹

Not much progress toward negotiating a conclusion to the round has been made since the agriculture modalities text was presented to WTO member countries in December 2008. Disagreements between developed and developing countries (especially larger developing countries like Brazil, China, India, and South Africa) have slowed progress toward a conclusion. Nevertheless, world leaders have called for completion of the Doha Round. At a meeting in Italy in July 2009, the G8 (Canada, France, Germany, Italy, Japan, Russia, the United Kingdom, and the United States) endorsed completing the Doha Round in 2010.² The G20 Summit in Pittsburgh in September 2009, which brought together the G8 countries and some of the large developing countries, also voiced broad support for reaching “an ambitious and balanced conclusion to the Doha development round in 2010.”³ Most recently the Asia Pacific Economic Cooperation (APEC) forum in Singapore affirmed its support for the multilateral trading system and added its voice to those calling for completing the round by the end of 2010.⁴

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The Agriculture Negotiations

An important goal of the Doha Round negotiations is to liberalize trade in goods and services, including agricultural products. This report focuses exclusively on agriculture, where new disciplines are being negotiated in three broad areas—domestic agricultural support programs,

¹ For more information, see CRS Report RL32060, *World Trade Organization Negotiations: The Doha Development Agenda*, by Ian F. Fergusson.

² See Declaration of the L’Aquila Summit, Responsible leadership for A Sustainable Future, at http://www.g8italia2009.it/static/G8_Allegato/G8_Declaration_08_07_09_final.0.pdf.

³ See Leaders’ Statement—Pittsburgh Summit, September 24-25, viewed at <http://www.pittsburghsummit.gov/mediacenter/129639.htm>.

⁴ See 17th APEC Economic Leaders’ Meeting, 2009 Leaders’ Declaration - “Sustaining Growth, Connecting the Region,” Singapore, 14 - 15 November 2009, viewed at http://www.apec2009.sg/index.php?option=com_content&view=article&id=311:2009-leaders-declaration-qsustaining-growth-connecting-the-regionq&catid=39:press-releases&Itemid=127.

⁵ “Lamy Outlines Roadmap to Doha Stocktaking in March,” WTO 2009 News Item, December 17, 2009, at http://www.wto.org/english/news_e/news09_e/tnc_chair_report_17dec09_e.htm.

export competition, and market access—often referred to as the three pillars of the Agreement on Agriculture.

The Doha Round negotiations have attempted to maintain a balance across the three pillars by simultaneously achieving concessions from exporters and importers alike in the form of tighter spending limits on trade-distorting domestic support; elimination of export subsidies and new disciplines on other forms of export competition; and expansion of market access by lowering tariffs, increasing quota commitments, and limiting the use of import safeguards and other trade barriers.⁶ From the U.S. perspective, a successful Doha agreement (under the current negotiating text) would significantly lower allowable spending limits for certain types of U.S. domestic support and eliminate export subsidies, while allowing U.S. agricultural products wider access to foreign markets.

Domestic Support

The WTO categorizes domestic support programs by the degree to which they distort price formation in agricultural markets. WTO member countries have agreed to specific spending limits on the most highly market-distorting domestic programs—amber box programs—while allowing member countries the ability to intervene in national agricultural policy by shifting their support to certain categories that are exempt from restrictions such as the green box.⁷ In addition, certain market-distorting programs are exempted from spending disciplines under special circumstances—the blue box contains market-distorting but production-limiting programs, while the *de minimis* exclusions (one at the individual product level, the other at the aggregate level) comprise market-distorting policies that are deemed benign because spending outlays are small relative to a country's overall agricultural sector.

In general, WTO trade negotiations have emphasized tightening spending limits on the most highly market-distorting domestic programs, while capping and reducing spending under the blue box and *de minimis* exclusions. Green box spending is presently unlimited.

Tighter Spending Limits in Aggregate, and for Specific Products

The current draft modalities propose cutting trade distorting domestic support simultaneously across three levels (see **Table 1** for details).

- First, spending limits for each category—amber box, blue box, and the two *de minimis* exclusions—would be reduced substantially.
- Second, within each of these categories additional constraints would apply to support for any individual product (i.e., product-specific limits).

⁶ For current negotiating modalities, see “Revised Draft Modalities for Agriculture,” TN/AG/W/4/Rev.4, Committee on Agriculture, WTO, December 6, 2008. For a lay overview of the modalities, see “Unofficial Guide to the Revised Draft Modalities—Agriculture,” Information and Media Relations Division, WTO, corrected December 9, 2008.

⁷ All support programs subject to spending limits are counted under the aggregate measure of support (AMS). For more information on AMS-exempt programs, see CRS Report RL32916, *Agriculture in the WTO: Policy Commitments Made Under the Agreement on Agriculture*, by Randy Schnepf.

- Third, a global spending limit—referred to as the overall trade-distorting domestic support (OTDS)—encompassing the four categories of amber box, blue box, and the two *de minimis* exclusions would be established at a level substantially smaller than the sum of their limits.
- In addition, the qualifications needed for exemption status in the green box have been tightened.

Additional Changes to Domestic Support

Two other potential changes could have implications for U.S. farm policy. First, blue box criteria would be expanded to include payments that do not require any production, but are based on a fixed amount of historical production, e.g., U.S. counter-cyclical payments (CCP) previously categorized as amber box. Second, trade-distorting domestic support for cotton would be subject to greater cuts (82%) than for the rest of the agricultural sector, and the product-specific blue box cap for cotton would be one-third of the normal limit.

U.S. Offers Tighter OTDS Bound

To motivate the July 2008 Ministerial negotiations, U.S. Trade Representative Susan Schwab announced on July 22, 2008, that the United States would commit to an OTDS bound of \$15 billion—compared with the modalities range of \$13 to \$16.4 billion (as proposed in the draft “modalities framework” text of July 10, 2008) and the current bound of \$48.2 billion—conditional upon other countries expanding their offers of market access for U.S. farm exports. On July 25, the United States accepted a further proposed reduction in its OTDS to \$14.5 billion as part of its conditional acceptance of a negotiating proposal put forward by WTO Director General Pascal Lamy in an attempt to break a negotiating deadlock.

What the Draft Modalities Might Mean for U.S. Agriculture

Under a successful Doha Round agreement, the United States would have to address any inconsistencies between its WTO commitments and current U.S. farm policy authorized by the 2008 farm bill (P.L. 110-246). The degree of changes to U.S. farm policy needed to comply would likely hinge on market conditions. Under a relatively high price environment (as projected by USDA and most market analysts), U.S. amber box outlays could easily fall within the new limits with only modest changes. However, if market prices were to return to levels substantially below support levels, then amber and blue box outlays could escalate rapidly and threaten to exceed spending limits.⁸ Many market analysts also expressed concern that high revenue guarantees set by formula under the new Average Crop Revenue Option (ACRE) program could lead to larger-than-expected outlays if market prices were to weaken substantially in the future. However, relatively low sign-up for ACRE in 2009 (about 8% of farms and 13% of base acres enrolled in the program) makes such an outcome unlikely.⁹

⁸ For more information, see *Implications for the United States of the May 2008 Draft Agricultural Modalities*, by David Blandford, David Laborde, and Will Martin, International Center for Trade and Sustainable Development (ICTSD), June 2008.

⁹ For more information, see CRS Report R40422, *A New Farm Program Option: Average Crop Revenue Election (ACRE)*, by Dennis A. Shields.

Revisions under the 2008 farm bill to the definition of the price support mechanism for the U.S. dairy program appear likely to dramatically reduce annual dairy price support as notified to the WTO. Dairy program changes coupled with a reclassification of the counter-cyclical program as blue box could provide additional flexibility in accommodating the tighter amber box limits. However, two commodities—sugar and cotton—could pose problems in meeting product-specific AMS bounds. Sugar was given higher loan rates in the 2008 farm bill, while for cotton the draft modalities would impose larger, more immediate cuts to allowable domestic support. In addition, cotton would confront a much tighter blue box support limit.

Table I. U.S. Domestic Support: Average Outlays Compared with WTO Commitments—Current and Proposed

Category	Avg. Outlay		Current WTO Limits	Doha Modalities Proposal Specific to United States ^a		
	1995-2005	2006-2007				
	\$US billion	\$US billion		Status	\$US billion	Status
OTDS	\$16.1	\$9.9	Unbound (due to blue box)	\$48.2 ^b	Bound, with tiered cuts totaling 70%	\$14.5
Amber box (Bound AMS)	\$10.7	\$7.0	Separate Bound for each country	\$19.1	Tiered cuts totaling 60%	\$7.6
Amber box (per product bound)	varies	varies	No per product limit	—	Capped at average support of 1995-2000	varies ^c
Blue box	\$0.6	\$0.0	Unbound	—	Bound at 2.5% of TVP ^d	\$4.9
Blue box (product specific)	—	—	None	—	Bound at 110% or 120% of 2002-07 ave.	—
De Minimis: non-product specific	\$4.4	\$2.7	Bound at 5.0% of TVP ^d	\$9.7	Bound at 2.5% of TVP ^d	\$4.9
De Minimis: commodity specific	\$0.3	\$0.2	Bound at 5.0% of SCVP ^c	\$9.7	Bound at 2.5% of TVP ^d	\$4.9
Green Box	\$55.6	\$75.9	Unbound	—	Unbound but tighter qualifying criteria	—

Source: “Revised Draft Modalities for Agriculture,” TN/AG/W/4/Rev.3, WTO, July 10, 2008. U.S. outlays are from official U.S. notifications of domestic support outlays as submitted to the WTO.

Definitions:

AMS—aggregate measure of (trade-distorting domestic) support defined in Agreement on Agriculture.

OTDS—overall trade-distorting domestic support = amber box + blue box + *de minimis* exclusions.

SCVP—total value of agricultural production for a specific commodity.

- These figures are specific to the United States. The level and timing of proposed reductions in domestic support commitments vary across both category and WTO Member status, e.g., developed versus developing country. See source for more information.
- Assumes a value of \$9.7 billion each for the two *de minimis* exemptions and the blue box, plus the \$19.1 billion amber box limit.
- Per-product outlays and bounds vary by product, but sum to TVP. U.S. calculations apply the proportionate average product-specific AMS from the 1995-2004 period to the total AMS for 1995-2000.
- Based on the average annual total value of agricultural production (TVP) for the 1995-2000 period.

Market Access

Formula Tariff Cuts

The main approach to cutting tariffs in the modalities agreement is a tiered approach based on the principle that higher tariffs have higher cuts. Developed country tariff cuts would range from 50% to 70%, but subject to an overall 54% minimum average cut (**Table 2**). The cuts are made from legally “bound rates” which could be substantially higher than rates actually applied. The range for developing countries would be two-thirds of the equivalent tier for developed countries (i.e., 33.3% to 46.7%), subject to a maximum average cut of 36%. Least-developed countries and so-called small and vulnerable economies would be exempt from any tariff cuts. Very recent new members of the WTO also would be exempt from new market access commitments.

Table 2. Tiered Formula Tariff Cuts

Tier	Developed Countries		Developing Countries	
	Current tariff	Reduction	Current tariff	Reduction
Bottom	0% to ≤ 20%	50%	0% to < 30%	33.3%
Lower Middle	> 20% to ≤ 50%	57%	> 30% to < 80%	38%
Upper Middle	> 50% to ≤ 75%	64%	> 80% to < 130%	42.7%
Top	> 75%	70%	> 130%	46.7%
Average cut	Minimum	54%	Maximum	36%

Deviations from Formula Cuts

A limited number of products would have smaller tariff cuts because of *flexibilities* that are provided for in the draft text. In particular, there are two primary designations: *sensitive* products (available to all countries) and *special* products (available to developing countries).

Sensitive Products

All countries (developed and developing) can declare certain products as “sensitive” to shield them from the full impact of general tariff cuts. In return they must let in an additional quota of imports at a lower tariff. Developed countries can designate up to 4% of products (as measured by tariff lines) as sensitive and would apply tariff cuts that are one-third, one-half, or two-thirds of the modalities-proposed formula tariff cut. Canada and Japan are demanding up to 6% and 8%, respectively. Developing countries can designate up to 5.3% of products as sensitive. Countries that choose to designate products as sensitive would have to “pay” for the designation with expanded market access under a tariff quota (where quantities inside the quota are charged a lower or no duty and the above quota tariff is determined according to the reduction formula). The larger the deviation from the modalities-proposed formula cut, the greater would be the amount of in-quota market access. For example, countries that reduce the normal tariff cut by one-third must admit a quota of 3% of domestic consumption. Similarly, a 3.5% quota accompanies a reduction of half of the normal tariff cut, and a 4% quota accompanies a reduction of two-thirds. In addition, sensitive products with tariffs above 100% must increase their quota by

an additional 0.5% of domestic consumption. The United States recently indicated that developed countries could exercise the option of designating a higher number of tariff lines (i.e., greater than 4%) as sensitive products only if they agree to a proportionately substantial increase in market access.¹⁰ There is disagreement over whether new products can be designated as sensitive, or only those products which already have a tariff-rate quota.

Special Products

Developing countries can designate up to 12% of tariff-line farm products as “special” for reasons of food and livelihood security or rural development. Up to 5% of these can be exempt from any tariff cuts, while the other portion may receive lower tariff cuts. However, the average tariff cut on all special products must be 11%. Recent new members are granted larger rates.

Safeguards

The draft modalities identify two types of safeguards that are available to temporarily protect importing countries from unexpected surges in imports—Special Agricultural Safeguard (SSG) and Special Safeguard Mechanism (SSM).

Special Agricultural Safeguard (SSG)

An SSG permits a country to reimpose or raise tariffs if, because of an import surge, certain price or quantity triggers are met. However, an SSG may not raise tariffs above the pre-Doha “bound rate.” For developed countries the number of products eligible for SSG would be reduced to 1% of product tariff lines and would be eliminated after seven years. Tariff quota expansion rules apply if the product has been declared sensitive (see above). Developing countries could apply the SSG to not more than 2.5% of their tariff lines, although this number is expanded to 5% for small and vulnerable countries.

Special Safeguard Mechanism (SSM)

The SSM is a controversial proposed new safeguard mechanism that could be used by developing countries to temporarily protect producers of special products when imports surged. Disagreement over the size of surge in import volume needed to trigger an SSM, as well as the size of the temporary SSM tariff, was a primary factor behind the failure of the July Ministerial. India and China proposed a modality for the SSM that would allow developing countries to impose tariffs 15% above bound rates if imports surged 10% above average trade levels. The U.S. counterproposal was for a higher SSM trigger of 40% above average trade levels, and tariff increases that would not exceed existing bound rates. According to USTR, the modality proposed by India and China would reduce existing market access, thus offsetting potential market access gains under proposed tariff cut modalities. For example, USTR estimated that a 10% trigger would have enabled China to invoke the SSM in eight of the last ten years for soybeans, and India to restrict trade in six of the last nine years for palm oil.

¹⁰ *Inside U.S. Trade*, “U.S. Push For Change On Sensitive Farm Products Meets Resistance,” October 23, 2009.

Due to the controversy surrounding the proposed SSM, the chair of the agriculture negotiating group issued a separate paper (TN/AG/W/7) on December 6, 2008, in which he tentatively offered the following SSM modalities:

- if imports rise by at least 40% above the previous three-year average, then tariffs could rise above the bound rate by an additional 12 percentage points; and
- if imports rise by at least 20% but less than 40% above their previous three-year average, then tariffs could rise above the bound rate by an additional 8 percentage points.

In addition, the side paper proposes possible disciplines to avoid the SSM being triggered frequently and frivolously, with more leniency proposed for small and vulnerable countries.

Implications for the United States

In general, U.S. agricultural exports would gain greater market access under the terms of the existing draft text, primarily in other developed countries; however, the extent of access gains depends on the scope of exceptions granted under sensitive and special product flexibilities, as well as the proposed SSM. A recent study suggests that application of the tiered formula would reduce the average applied agricultural tariff faced by U.S. agricultural exporters from 18.7% to 9.1% in the absence of sensitive and special product flexibilities, and from 18.7% to 13.2% when such flexibilities are in effect.¹¹ Although the sensitive product designation would limit the market access opportunities somewhat, the number of such products would be limited. Also, the higher tariff protection afforded by sensitive product status is partially offset by new or expanded quotas access.

Export Competition

Export Subsidies

The draft modalities on export competition would require developed countries to eliminate export subsidies by 2013 with half cut by 2010; developing countries would have until 2016. All existing WTO commitments concerning food aid, technical and financial assistance in aid programs to improve agricultural productivity and infrastructure, and financing of commercial imports of basic foods would be unaffected by the elimination of export subsidies.

Export Financing

Government-supported export financing would be disciplined to avoid hidden subsidies and ensure the programs operate on commercial terms. Proposed conditions include limiting the repayment period to a maximum of 180 days and ensuring that they are self-financing—that is, returns must cover all costs. Export financing includes direct financing support (direct credits, refinancing, or interest rate support); export credit insurance or reinsurance and export credit

¹¹ *Implications for the United States of the May 2008 Draft Agricultural Modalities*, by David Blandford, David Laborde, and Will Martin, ICTSD, June 2008

guarantees; government-to-government credit agreements; and other forms of government support such as deferred invoicing and foreign exchange risk hedging.

International Food Aid

All food aid transactions would be needs-driven; fully in grant form; not tied directly or indirectly to commercial exports of agricultural or other products; and not linked to market development objectives. Countries would refrain from providing in-kind food aid which could have an adverse impact on local production or could potentially displace commercial sales. Food aid (cash or in-kind) provided during an emergency would be put in a Safe Box and be subject to more lenient disciplines. Monetization (sale for cash) of in-kind food aid would be subject to stricter disciplines.

Implications for the United States

Elimination of agricultural export subsidies has been a long-standing objective of U.S. trade policy. The 2008 farm bill repealed legislative authority for the Export Enhancement Program (EEP), historically the largest U.S. agricultural export subsidy program. The draft modalities would require the elimination of the Dairy Export Incentive Program (DEIP), a much smaller export subsidy program that was re-authorized in the 2008 farm bill. The United States has already made changes in its export credit guarantee programs in response to an adverse decision in a WTO cotton case.¹² The intermediate export credit guarantee program (GSM-103) has been eliminated; risk-based interest rate determination has been established; and the 1% cap on origination fees has been lifted. To meet requirements laid out in the draft modalities, the term for GSM-102 short-term guarantees (six months to two years) would have to be limited to six months. To meet the self-financing criterion, in the draft modalities additional interest charges or fees could be required. Conforming to Doha Round modalities for food aid also could entail some changes in U.S. programs.

The Future of Doha Round Negotiations

Following the collapse of the July 2008 Ministerial, WTO member countries have reiterated their commitment to completing the round for agriculture as well as for non-agricultural market access (NAMA) and services. A seeming consensus has emerged as to completing Doha Round negotiations in 2010, and trade officials continue to meet in Geneva to address unresolved issues and work on modalities.

Despite high-level endorsements, the future of the Doha Round is still uncertain. WTO Director General Lamy has noted progress in the agriculture negotiations, but has said that the pace of negotiations must accelerate to reach conclusion in 2010.¹³ Many in Congress have expressed skepticism about the modalities text for agriculture and want to see more market access for U.S. agricultural products, particularly from large developing countries. The U.S. Trade Representative

¹² For more information, see CRS Report RL32571, *Brazil's WTO Case Against the U.S. Cotton Program*, by Randy Schnepf.

¹³ WTO, Trade Negotiations Committee, "Lamy calls for intensified, text-based Doha negotiations to bridge gaps," October 23, 2009, viewed at http://www.wto.org/english/news_e/news09_e/tnc_dg_stat_23oct09_e.htm.

(USTR) Ambassador Kirk has called for bilateral negotiations to advance the round. In remarks at a meeting of the Organization for Economic Cooperation and Development (OECD), he stressed “the need to build on our multilateral efforts through direct, bilateral engagement with one another to move to the final phase of negotiations as quickly as possible.”¹⁴ That approach has been met with some resistance from developing countries such as India, Brazil, and South Africa who insist that the United States cannot look to drastically change what is now on the table (i.e., the modalities text) through bilateral negotiations.¹⁵ The WTO Director-General has asked member countries to reserve the last week in March 2010 for stocktaking to assess whether concluding the Doha Round in 2010 is “doable”.

If a Doha Round agreement were reached in 2010, it would not likely be presented to Congress for its consideration before the convening of the 112th Congress in 2011, after the 2010 congressional elections.

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¹⁴ Remarks by United States Trade Representative Ron Kirk at the OECD Ministerial Council Meeting Session, “Keeping Markets Open for Trade and Investment,” Organization for Economic Co-operation and Development (OECD) Ministerial , June 25, 2009, Paris, France, viewed at <http://www.ustr.gov/about-us/press-office/speeches/transcripts/2009/june/remarks-united-states-trade-representative-ron->.

¹⁵ *Inside U.S. Trade*, “Doha Talks May Not Ramp Up Before Fall; U.S. Wants Bilaterals,” June 26, 2009, viewed at <http://www.insidetrade.com/secure/display.asp?dn=INSIDETRADE-27-25-17&f=wto2002.ask>.