Order Code RS22927
Updated August 1, 2008

CRS Report for Congress

WTO Doha Round: Implications for U.S. Agriculture

Randy Schnepf and Charles Hanrahan
Specialist and Senior Specialist in Agricultural Policy
Resources, Science, and Industry Division

Summary

The World Trade Organization (WTO) Ministerial conference, held in Geneva from July 21 to July 29, 2008, failed in its attempt to resolve the remaining outstanding issues in the Doha Round negotiations. Prior to the collapse of talks, negotiators had neared agreement on a "modalities framework" — specific formulas and timetables for reducing trade-distorting farm support, tariffs, and export subsidies — that would significantly lower allowable spending limits for certain types of U.S. domestic support, eliminate export subsidies, and allow U.S. agricultural products wider access in foreign markets. According to the latest draft of modalities and the current market outlook, U.S. domestic farm program outlays would appear to fit within proposed tighter limits without substantial modification. However, U.S. trade officials had expressed concern that proposed modalities included too many exceptions for foreign importers to ensure an adequate balance between U.S. domestic policy concessions and potential export gains. The issue on which the Ministerial eventually foundered was a proposed Special Safeguard Mechanism (SSM) that would allow developing countries like India and China to impose tariffs higher than negotiated tariff rates (bound rates) if imports surged. Absent an agreement on the SSM, the trade negotiations collapsed. Whether or when Doha Round negotiations would continue is uncertain.

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. It will be updated if events warrant.

Introduction

WTO multilateral trade negotiations have been ongoing since November 2001.[1] 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. This report focuses exclusively on agriculture,

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

where new disciplines are being negotiated in three broad areas — domestic agricultural support programs, export competition, and market access — often referred to as the three pillars of the Agreement on Agriculture. 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.[2]

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 AMS-exempt categories such as the green box.[3] 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.

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).
- 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

---

[2] For current negotiating modalities, see "Revised Draft Modalities for Agriculture," TN/AG/W/3/Rev.3, Committee on Agriculture, WTO, July 10, 2008. For a lay overview of the modalities, see "Unofficial Guide to the Revised Draft Modalities — Agriculture," Information and Media Relations Division, WTO, corrected July 17, 2008.

[3] For more information, see CRS Report RL32916, *Agriculture in the WTO: Policy Commitments Made Under the Agreement on Agriculture,* by Randy Schnepf.

include 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.

Table 1. U.S. Domestic Support: Average Outlays Compared with WTO Commitments — Current and Proposed

Category	Ave. 1995-2005	Current WTO Limits		Doha Modalities Proposal Specific to United States[a]	
	$US Billion	Status	$US Billion	Status	$US Billion
OTDS	$16.1	Unbound (due to blue box)	$48.2[b]	Bound, with tiered cuts totaling 66% or 73%	$13 or $16.4
Amber box (Bound AMS)	$10.7	Separate Bound for each country	$19.1	Tiered cuts totaling 60%	$7.6
Amber box (per product bound)	varies[c]	No per product limit	—	Capped at average support of 1995-2000	varies[c]
Blue box	$0.6	Unbound	—	Bound at 2.5% of TVP[b]	$4.9
Blue box (product specific)	—	None	—	Bound at 110% or 120% of 2002-07 ave.	—
De Minimis: non-product specific	$4.8	Bound at 5.0% of TVP[b]	$9.7	Bound at 2.5% of TVP[b]	$4.9
De Minimis: commodity specific	$0.3	Bound at 5.0% of SCVP[b]	$9.7	Bound at 2.5% of TVP[b]	$4.9
Green Box	$55.6	Unbound	—	Unbound but tighter qualifying criteria	—

Source: "Revised Draft Modalities for Agriculture, TN/AG/W/4/Rev.3, WTO, July 10, 2008.
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.

a. 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.
b. Based on the average annual total value of agricultural production (TVP) for the 1995-2000 period.
c. 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.

U.S. Offers Tighter OTDS Bound. To motivate the Ministerial negotiations, U.S. Trade Representative Susan Schwab announced on July 22, 2008, that the U.S. would commit to an OTDS bound of $15 billion — compared with the modalities proposed range of $13 to $16.4 billion (**Table 1**) and the current bound of $48.2 billion — conditional upon other countries expanding their offers of markets 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. If a relatively high price environment continues (as projected by USDA and most market analysts), then 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.[4] Many market analysts have also expressed concern that high revenue guarantees set by formula under a new revenue support program — Average Crop Revenue Option (ACRE) — could lead to larger-than-expected outlays if market prices were to weaken substantially in the future, but such an outcome would depend on the participation rate in ACRE, which is still unknown.

Revisions to the U.S. dairy program under the 2008 farm bill appear likely to dramatically reduce annual dairy price support as notified to the WTO. Dairy program changes coupled with a reclassification of the CCP 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.

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 66% or 73%, but subject to an overall 54% minimum average cut. 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, 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

	Developed Countries		Developing Countries	
Tier	**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%	66% or 73%[a]	> 130%	44% or 48.7%[a]
Average cut	Minimum	54%	Maximum	36%

a. To be determined (TBD).

[4] 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.

Deviations from Formula Cuts. Some products would have smaller tariff cuts because of *flexibilities* that are provided for in the draft text. Foremost of these is the designation (available to all countries) of *sensitive* for a limited number of products. Developed countries could designate 4% or 6% (to be negotiated) of products as sensitive and would apply tariff cuts that are one-third, one-half, or two-thirds of the modalities-proposed formula tariff cut. Developing countries could designate 5.3% or 8% of products with the same deviations from formula cuts. 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 (e.g., the maximum amount of in-quota access would be 4% or 6% of domestic consumption if the full two-thirds deviation is applied). Developing countries could also exempt some products from full formula tariff cuts by designating some products as *special* (i.e., products deemed essential for food or livelihood security, or rural development).

Safeguards. The draft modalities identify two options for the Special Agricultural Safeguard (SSG) whereby countries can reimpose tariffs if, because of an import surge, certain price or quantity triggers are met. For developed countries the SSG would either be eliminated or the number of products eligible would be reduced. Developing countries could continue to use the SSG. In addition, the text provides for a new Special Safeguard Mechanism (SSM) that developing countries could apply to protect producers of special products when imports surged.

Implications for the United States. In general, U.S. agricultural exports would gain greater market access primarily in other developed countries. 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.[5] 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.

Talks Gridlock on SSM Proposals. In contrast to potential market access gains under proposed tariff cut modalities, 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 — 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.

---

[5] Ibid.

Export Competition

Export Subsidies. The draft modalities on export competition would require developed countries to eliminate export subsidies by 2013; 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 limited by a maximum repayment period of 180 days and would have to be 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 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. The intermediate 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 could entail some changes in U.S. programs.

The Future of Doha Round Negotiations

Following the collapse of the Ministerial, WTO member countries reiterated their commitment to completing the round for agriculture as well as for non-agricultural market access (NAMA) and services. The NAMA and agriculture negotiating chairpersons will issue status reports of the progress made in the July 21-29, 2008, Ministerial. These reports would not have the standing of modalities, but would only reflect the state of play including differences on issues that emerged during the Ministerial. No consensus has yet emerged as to a resumption of Doha Round negotiations.