∆ **Contact Dr. Daryll E. Ray** at the UT's Agricultural Policy Analysis Center by calling (865) 974-7407, faxing (865) 974-7298, or emailing dray@utk.edu.
For more info, visit: www.agpolicy.org

WTO Trade Negotiations: Implications For The U.S. And Developing Countries

DR. DARYLL E. RAY
Agricultural Economist
University of Tennessee

As we wrote last week's column offering some key concepts that we hope the new Secretary of Agriculture will keep in mind in developing agricultural policy, President-elect Barak Obama had not announced his choice for that office.

No sooner had we finished the column and sent it to press and he announced that he had chosen former Iowa Governor Tom Vilsack. We congratulate Governor Vilsack on his selection and hope that he will follow in the footsteps of other great Iowans who have served as Secretary of Agriculture: particularly Tama Jim Wilson, Henry Cantwell Wallace, and his son Henry Agard Wallace who developed the New Deal agricultural policy.

This week we are continuing with the "key concepts" theme. The focus in this column is on agricultural trade policy, especially as influenced by negotiations related to the World Trade Organization (WTO).

One of the key objectives of some trade negotiators is the elimination of agricultural subsidies.

They are operating under the assumption that with the elimination of subsidies, particularly in the US, the EU, and Japan, the farmers who needed subsidies to survive – again those in the US, the EU, and Japan – would reduce their production, prices would increase, and farmers in the rest of the world, particularly developing countries, would move in and capture those markets, thus raising the GDP of those countries and lifting people out of poverty.

First, let us say that the current policy instruments like direct payments, marketing loan payments, and counter-cyclical/ACRE payments are indefensible from an economic perspective – they are not oriented toward ameliorating the underlying market failure, they only backfill with money.

Second, we believe there is a need for policies that allow farmers around the world to engage in farming as a family livelihood strategy.

That being said, we are reminded of the old question about the old farm dog that chases every car and truck that runs up and down the road. What is he going to do with it if he catches it?

In this case, would the advocates of the elimination of farm subsidies achieve their "increase-the-income-of-developing-country-farmers" and other objectives even if all impediments to completely free trade were eliminated in WTO trade negotiations?

To answer that question we would like to pose some questions.

If subsidies are the reason why farmers in developing countries suffer from low cotton prices, then why are coffee prices so depressed from their peak two-and-a-half decades ago? The US has no coffee subsidies.

If US subsidies are the problem for soybean farmers around the world, then why are cocoa prices generally far below their peak? The US has no cocoa subsidies.

We could ask the same question about tea and a number of other crops that the US neither produces nor subsidizes.

The fact is that a major reason why the prices of these crops and major US crops have experienced periods of low prices in recent decades is because of the elimination of supply influencing policy mechanisms in the US for major crops and internationally for tropical crops.

The current set of US farm programs does not regulate supply which means that corn, soybean, wheat, rice, and cotton prices already behave in much the same way that coffee, tea, and cocoa prices behave: long periods of low – read unprofitable – prices interrupted by occasional price spikes.

Trade negotiators may succeed in eliminating farm subsidies, but this will not eliminate the chronic price and income problems of crop agriculture in both tropical and temperate regions.

It would take regulating supply to offset the extreme lack of market responsiveness when prices plummet. Once resources are in agriculture, they tend to be used to produce crops even the face of low prices. And low prices do not cause consumers to eat more meals per day.

What would occur with the elimination of subsidies would be a crash in land prices and other fixed resources in agriculture – production levels would largely continue but with somewhat of change in the cast of players.

While the key objective of developing country negotiators is the elimination of subsidies, the focus of both US and several other countries' negotiators has been "market access." Will the advocates of market access get what they want if the trade negotiations open up market access?

To begin to answer this questions we must remember that the US is the residual supplier of storable commodities like corn, soybeans, wheat, and cotton. We get what is left over after our export competitors have cleared their last bushel or bale out of port.

The US exports and year-ending stocks vary widely from year-to-year while our export competitors export whatever they produce that is not needed for their domestic consumption. Their ending stocks are typically driven down to minimal levels. Our stock levels vary, theirs don't, so much.

Given that, the billions-of-dollars-worth-of-exports question is: even if WTO negotiations resulted in substantial – let's say complete – access to the agricultural markets of all countries, would the US capture the markets.

Or would our export competitors grab the lion's share of the export gain with the US filling in gaps? All one has to do is look at soybean exports to China to see that risk in spades. Soybean exports to China have gone up dramatically, but most of the increase in exports to Asia have been captured by Brazil and Argentina.

To the extent that developing countries increase their sales with increased market access, will the level of poverty in those countries be reduced? Or will those with access to capital be stimulated to purchase land of a large number of small land-holders to put together mega-industrial farms run by a small number of people? If that happens on a large scale in a relatively short period of time, what will those who sold their land do for a living when the sale receipts run out, as they inevitably will?

What about those who have only traditional use rights to the land but no formal title? Will market access help them when their government gives the rights to the land to buyers from another country?

Without addressing these kinds of issues, market access may be detrimental to the very people in developing countries that it is supposed to lift out of poverty.

Nowhere have we seen any evidence that agricultural trade negotiators have made any provision for the need for the world to have an agricultural production capacity that runs well ahead of population growth and demand from other uses.

We believe we need to develop an agricultural production capacity that runs well ahead of demand. We just don't need to use it all the time.

Agricultural trade negotiators also ignore the needs for physical reserves of storable commodities. Trade theory assumes that if country A runs short of a commodity, they don't need physical reserves because they can get it from country B, or C, or D. But occasionally a number of countries have production problems in the same crop year. That is when physical reserves are needed. Virtual reserves will not do. ∆