PolicyPennings by Dr. Daryll E. Ray

Reasons for Doha's collapse are more deeply-rooted than the "flood of imports" sound bite

At the end of July, 2008, the seven-year-old Doha trade talks failed, ostensibly on the issue of the special safeguard mechanism-a mechanism that would allow developing countries to use tariffs to protect themselves from a flood of low-priced farm products from elsewhere.

In the past couple of columns we have argued that the roots of the collapse of Doha go much deeper. Developed-country farmers are wary of politically-spawned expectations of long-term growth of crop exports that are based on promises of one kind or another-this time it is market access. Increased market access involves the reduction of import tariffs on various products including agricultural ones.

For bulk commodities, the assurances of growth of exports did not happen in the 1980s as promised following large reductions in loan rates. Neither did exports of corn and wheat following the adoption of the market-oriented 1996 Farm Bill. What farmers heard were promises of increased quantities of crop exports, what they saw were long periods of low to very low commodity prices, reflecting the long-term nature of crop agriculture.

While some farm and commodity organizations lent their support to the concept of trading increased market access for reductions in government payments, history suggested to others that farmers in developed countries may need more protection than could be delivered by "market access."

We have also asked the question of whether Doha was ever a development round-focused on developing countries-or just a way to open up developing country markets to manufactured products produced distributed by multinational companies.

While grain exporting countries, typified among developing countries by Brazil, want to see unrestricted trade in agricultural products, other developing countries have grave concerns about opening up access to their markets to pressures from major grain exporting nations.

Unlike in the US where less that 1 percent of the population produces most of the food, in many developing countries a large proportion of the population is engaged in the direct agricultural production of staples.

The economic stability of this population and their ability to feed themselves and a few others is of great importance to leaders of these countries. They are leery of trade rules that might threaten the livelihood of their farmers. The interests of these countries may not be the same as developing countries that already export agricultural products.

In some developing countries, part of the agricultural population is engaged in growing tropical crops like bananas, coffee, cocoa, and tea, none of which are grown in the US and the EU. Most of these crops do not face tariff barriers so changes in trade rules offer little benefit for countries exporting these crops.

Cotton is a special case and the World Trade Organization (WTO) Trade Disputes Panel has ruled against the US arguing that the Step 2 export subsidies and the Marketing Loan Program stimulated excess cotton production in the US resulting in lower prices for cotton farmers elsewhere in the world.

In determining the size of the lower payments, what is forgotten is that during the pre-1996 period the US in effect put a floor on cotton prices with the non-recourse loan program combined with the Commodity Credit Corporation (CCC) storage program, that took excess supplies off the world market. This program had been partially weakened by Marketing Loan Provisions as early as 1985, but the full impact was felt following the adoption of the 1996 Farm Bill.

It is likely that the elimination of all US cotton subsidies would have minimal impact on the world price of cotton, even if it brought about a reduction in US acreage.

In the absence of a supply management program, it is likely that cotton farmers in developing countries would face long periods of oversupply and low prices with occasional price spikes due to weather. The source of the "oversupply" would

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likely be developing countries, such as Brazil, but the price impact would be the same regardless.

In the process of preparing for global trade in agricultural products, it has been argued that developing countries need to shift their emphasis from the production of staples to the production of labor intensive crops like floriculture, fruits, and vegetables that can be exported to developing countries.

The profits from these exports can then in turn be used to purchase low cost staples from developed countries. While this sounds good in theory, there are several problems with this strategy.

One, the production of this type of export crops involves technical and capital requirements that are beyond the present capabilities of small farmers in most developing countries.

Refrigeration and large greenhouses are just the tip of the iceberg. That means that these industries are most likely to be financed by those with access to capital markets-to meet the phyto-sanitary standards this is no bootstrap operation.

Given the labor surpluses in these countries, those working in these industries are likely to be paid very low wages. They might earn enough to buy imported staples, but the owners of these industries are unlikely to use some of their profits to provide staples for those displaced by these operations.

The national GDP may increase but there is no guarantee that the poorest of the poor will benefit from this increase, they may even suffer as a result of it.

As a developing country, Brazil has access to cheap labor and vast land areas that can be brought into production with relative ease. Despite some internal transportation problems, Brazil is a low-cost producer of products like soybeans, cotton, sugar, beef and orange juice.

Brazil's continued growth depends upon unfettered access to world markets to absorb its excess production of these crops. Trade measures that would meet the needs of Brazil run counter to those countries that see special safeguard mechanisms as vital to protect their farmers.

As can be seen by this brief discussion, it becomes clear that various sets of developing countries have different goals in the trade negotiation process. The lack of recognition of these conflicting goals and the differential impact of free trade on various countries are two of the reasons that negotiators find themselves at a standstill.

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