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Agricultural Liberalization in the Doha Round

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Patrick Messerlin

Abstract

Agriculture is an urgent and vital problem for developing countries, and even more so for the poorest countries that are often dependent on a very small set of commodities, many of which are highly subsidized and protected in the OECD countries. The Uruguay Round brought agriculture into the WTO legal framework, but did not lower the effective level of OECD farm protection after 1995 and granted many exceptions to WTO rules that reinforced agricultural protection. While there are a number of diverging forces that are potential sources of change in the levels and patterns of agricultural protection, the recent farm policies adopted by the U.S. and EU reflect an absence of significant domestic reform and appear to be going in the wrong direction.

The analysis of agricultural liberalization reveals very large potential gains for both developed and developing countries that will come especially from own-country liberalization as well as from inter-country trade, significant benefits that may be realized by the poorest developing countries, and limited benefits from existing preferential agricultural arrangements. An ideal program for agricultural liberalization in the Doha Round would involve substantial reductions in the high tariffs that exist in both developed and developing countries using the Swiss formula approach and limiting exceptions and special and differential treatment, elimination of agricultural export subsidies, and making meaningful reductions in domestic supports. The negotiations should not get hung up on issues of food security and the effects of higher prices for low-income consumers, and a special safeguard for agriculture is not recommended. It is imperative that agricultural liberalization should be combined with appropriate domestic policies and actions and international assistance, if needed, to help finance emergency food inventories and aid to disadvantaged groups.

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KEYWORDS: agriculture, Doha, WTO

INTRODUCTION

The Doha Round focus on agriculture is often misunderstood in OECD countries because this sector represents barely 2-4 percent of OECD GDP and employment, and because the history of the OECD countries underlines the importance of manufacturing and services as engines of growth during the last century. But agriculture represents 40 percent of GDP, 35 percent of exports, and 50-70 percent of total employment in the poorest developing countries—12, 15 and 15-40 percent, respectively, in the other developing countries. Three-quarters of the world's poorest people live in rural areas, the proportion in the poorest countries being as high as 90 percent (on average less than 20 percent in OECD countries). Arguably, a minority of these developing countries will specialize in agriculture in the long run. But most of them desperately need to go through a period where they could accumulate wealth and skills in farm activities, before shifting to manufacturing and services.

In sum, agriculture is an urgent and vital problem for developing countries, and even more so for the poorest countries. It is *not* solely a problem for major farm exporting countries such as Argentina, Brazil or Thailand. It also affects the poorest developing countries which are often dependent on a very small set of commodities, many of them highly subsidized and protected by OECD countries, such as sugar, cotton, or rice. Absent protection in the North, greater diversification in the South would be feasible.

THE URUGUAY ROUND HERITAGE

The Uruguay Round brought agriculture into the WTO legal framework. But it did so at a substantial cost.

First, it did not go further than putting in place a legal framework for *future* liberalization. The Uruguay commitments did not noticeably lower the effective level of OECD farm protection after 1995 (OECD, 2005). Total net transfers from consumers and taxpayers to farmers in OECD countries constituted 79 percent of the farm gross value added in 1986-88. In 2002-04, they still amounted to 60 percent of farm gross value added (US\$348 billion, that is, more than 5 times the total OECD official development assistance to developing countries, or about 100 times the share of OECD official development assistance granted to agricultural production in developing countries). In sum, roughly two-thirds of OECD value added at the farm gate is still derived from transfers. As the number of active OECD farmers continued to decline sharply between 1986-88 and 2002-04, support per farmer has risen in many OECD countries—by 20

percent in the U.S. and 50 percent in the EC, sending the wrong signal in terms of resource allocation.

It is important to note that all these subsidies do not take into account two kinds of subsidies which tilt the balance even more in favor of OECD countries: the indirect subsidies generated by an inadequate pricing of water, and fiscal deductions on profits and incomes granted to agricultural households. For some OECD countries, one or both kinds of subsidies may be very large.

Second, the Uruguay Agriculture Agreement granted a reverse “special and differential treatment” to OECD WTO members by allowing them to adopt many exceptions to the traditional WTO rules: export subsidies (the so-called “Peace Clause” which lapsed in January 2004); production subsidies having significant impact on trade flows; “specific” tariffs (denominated as a fixed sum of money per unit of product, in contrast with *ad valorem* tariffs expressed in percentage terms of the import price) which are devastatingly protectionist when world prices are low (precisely when protection is very much sought after by domestic farmers); tariff-rate quotas (restrictions combining a lower (in-quota) tariff rate for a specified volume of imports and a higher (over-quota) tariff rate for imports above this volume) often used as a way to maintain existing preferences; etc.

POTENTIAL SOURCES FOR CHANGES

During the last decade, the Uruguay Round heritage has been subjected to diverging forces which are all potential sources for changes.

First, the range of producer support across OECD countries is wide. The tariff equivalent of the “producer support estimate” (PSE) estimated by the OECD for 2002-04 is less than 5 per cent in Australasia, 21 per cent in North America, 52 per cent in the EC, more than 135 percent in Japan and Korea, and culminating to 240-252 percent in Switzerland and Norway. The range of PSE estimates across emerging countries is widening, with noticeable increases in Turkey, and some new EC Member States (such as Hungary and Poland).

Secondly, OECD farm households earn much higher incomes than non-farm households: Netherlands (250 percent) Denmark (175 percent) France (160 percent) Belgium (127 percent) Japan (120 percent) U.S. (110 percent) and Poland (105 percent). In wealth terms, the discrepancy is even wider: for instance, the U.S. farm household wealth is estimated six times the average of U.S. household wealth (Riedl, 2004). In sum, resources are transferred from poorer OECD households to richer ones—a powerful equity argument for policy reform from the broader OECD countries’ own perspective. The last irony is that current OECD farm policies have largely failed to protect the rural environment

because of their intensive use of fertilizers and polluting production methods, hence hurting strongly rural (non-farmers) households.

Thirdly, the ultimate beneficiaries in OECD countries are increasingly diverse. Farmers get only a small portion of all the money poured into agriculture—only 25-30 cents of every dollar or euro of support. The remaining 70-75 cents end up in the pockets of landowners and suppliers of other farm inputs, or are completely wasted.

Lastly, among farmers themselves, there are huge differences. The smallest 25 percent of European farms receive less than 4 percent of total European support (same in the U.S.), whereas the largest 25 percent of European farms receive 70 percent (80 percent in the U.S.) of the total. This provides a rationale for reform from the perspective of farmers themselves—with small OECD farmers feeling increasingly closer to developing countries' farmers than to OECD large farmers.

YET, THE ABSENCE OF SIGNIFICANT DOMESTIC REFORMS

Both the U.S. and the EC have adopted farm reforms since the 2001 Doha Ministerial, but these reforms are going in the wrong direction (the U.S.) or are largely virtual (the EC).

The 2002 U.S. *Farm Security and Rural Investment Act* (FSRIA) will last until 2006. In a significant backward step compared to the 1996 Federal Agriculture Improvement and Reform Act (FAIR Act) which “decoupled” 60 percent of U.S. farm subsidies, the FSRIA reinforces the links between subsidies and production decisions by reintroducing support (“target”) prices. Target price-based subsidies will largely insulate U.S. farmers from world prices—providing higher support when world prices decline and smaller support when world prices increase.

That the FSRIA economic impact is projected to be only marginally worse than the FAIR Act impact flows from the fact that the FSRIA locks in the actual level of support provided since 1998 because large *ad hoc* subsidies have been added, between 1998 and 2002, to those allowed under the FAIR Act. But the FSRIA will undoubtedly have a stronger systemic impact over the longer term because it has re-fueled hopes for ongoing farm protection in the U.S.—causing the chairman of the Indiana branch of the Farm Bureau (the largest U.S. farmers' association) to say that “*we are turning into Europeans*” (*Financial Times*, 15 January, 2004).

In June 2003, the European Council adopted the *Luxembourg Reform* of the Common Agricultural Policy (CAP). Enough information is available to suggest that the 2003 reform, though still incomplete, is very modest—most prices will not change by more than 2 percent, compared to the situation which

would have prevailed in the absence of the reform (FAPRI, 2003). That the EC reform will have no impact on the EC level of protection is best illustrated by the insignificant expected decline of the EC average tariff equivalent of the overall “producer support estimate” (PSE) from 57 to 56 percent as a result of the reform (OECD, 2004).

More importantly, the 2003 mini-reform is generating several new problems: it tends (1) to perpetuate the existing regressive European farm policy (helping more the rich than the poor farmers, hence unlikely to slow down production), (2) to introduce new quantitative restrictions in EC production (fruits and vegetables) and imports (rice), (3) to overcompensate farmers, and (4) to over-regulate for alleged environmental reasons, a sure recipe for further fragmentation of the EC farm markets and more pressures for local defensive attitudes. In sum, the 2003 EC reform is almost exclusively an exercise in “box playing” (shifting subsidies from the Amber to the Green Box) with no noticeable impact on non-EC farmers.

However, both the U.S. and the EC reforms are due to be revisited in 2006-2007, as part of the normal legislative process in the U.S. and of the enlargement process in the EC, and under budgetary pressures. Increasing decoupling will have the political benefit of being friendlier to small OECD farmers and promising in terms of building the coalitions necessary for taking on the extraordinary political forces which hold back agrifood liberalization in OECD countries, particularly in Europe.

TECTONIC FORCES AT WORK

The political forces on farm reform are already undergoing a shift due to two major factors. First, public support for current OECD farm policies has been eroded by the critical campaigns of a few NGOs—from Consumers’ Association to Oxfam—who have become key agents for farm reform. In particular, the split between large and small farmers may play a non-negligible role in the EC. It has escaped the attention of many observers that the CAP protects, on average, the farm sectors of some Member States more heavily than others. This is because CAP trade barriers are defined at the EC level, while their effective impact on each Member State varies with its individual production structure. A member State producing mostly goods protected by high EC measures is *de facto* more “protected”, on average, than a Member State producing mostly moderately protected goods. For instance, EC barriers provide an average level of protection of more than 70 percent to the farm output of free trade oriented Member States, such as Britain or Sweden, compared with 59 percent for protectionist France, and 55 percent for the EC15. This little-known fact shows that the CAP-related trade policy is entirely designed to protect the interests of large operations.

Second, sanitary crises in OECD countries (such as mad cow) have undermined public support for their own domestic farmers. While relatively few, these outbreaks have been traumatic for the populations involved, and they have contributed to increased public questioning of the existing farm policies.

The tensions between the forces at work and the absence of significant reforms raise the following question. Will the OECD farmers realize that, in this context, it is better for them to negotiate *now* in the WTO forum—when they still have some power for shaping the instruments and speed of liberalization—than in a decade or two when their political weight will be even smaller, maybe to the point to be too small to influence future WTO negotiations?

LESSONS FROM SIMULATIONS OF FARM LIBERALIZATION

Simulations of the impacts of farm liberalization noted in Anderson et al. (2001), bring six important lessons when designing a possible farm deal.

First, for developing and developed countries alike, farm reform is the main source of welfare gains from liberalizing trade in goods. Of all the economic gains that developing countries could get from global elimination of barriers to trade in goods, almost half would come from farm and food policy reforms alone.

Second, developing countries' welfare gains will mostly come from the developing countries' own farm liberalization, and most of the OECD gains will come from OECD countries' own farm liberalization. This reflects the basic point that protection hurts the consumers of the protecting country.

Third, however, developing countries would still make significant gains from OECD farm liberalization. Similarly, OECD countries get noticeable welfare gains from developing countries' farm liberalization. In other words, developing countries still have a strong interest in liberalizing OECD farm policies, and vice-versa—hence an *economic* incentive to get a successful Doha Round between developing and OECD countries (in addition to the usual political and mercantilist incentives related to trade negotiations).

Fourth, beyond these broad similarities, crucial differences between countries will define negotiating strategies. Among OECD countries, Western Europe (the EC) gains most from the OECD (indeed its own) farm liberalization, whereas the U.S. gains almost as much from OECD and developing countries' liberalization. Among the developing countries, some key WTO members (Brazil, India) gain more from the liberalization of the trade between developing countries than from the opening of OECD markets. In the Doha Round context, these observations suggest that: (i) opening the EC markets is the main source of welfare gains from OECD liberalization, but also that (ii) Brazil and India (among

others) should be more interested in opening developing countries' farm markets than OECD farm markets.

Fifth, most of the poorest developing countries stand to gain from farm liberalization, and they may even gain proportionally more than the other developing countries..

Last, contrary to a widespread perception in many poorest countries, preferential (tariff-free) access to the EC or U.S. markets, through the Generalized System of Preferences (GSP), Everything But Arms (EBA) or African Growth and Opportunity Act (AGOA) is hardly helpful. This is because the absence of restrictions at the OECD borders does not prevent behind-the-border measures—price support and other domestic production subsidies. Heavily subsidized OECD producers in the market makes it very hard for farmers from the poorest countries to compete in OECD markets, despite preferential tariffs. Moreover, poor countries (excluding China and India) are much more affected by farm protection than other countries: 29.3 percent of their farm exports comprise products that are subsidized by one or more WTO members, compared to 6.4 percent for middle income developing countries and 4 percent for the OECD countries, with China and India's exposure rate being around 5 percent. For countries such as Benin, Burkina Faso, Burundi, Chad, Malawi, Mali, Rwanda, Sudan, Tanzania, Uganda and Zimbabwe, 60 to 80 percent of their total exports comprise goods subsidized by OECD countries (Hoekman, Ng and Olarreaga, 2001).

A HONG KONG DEAL ON AGRICULTURE?

Since late September 2005, negotiations have become more intense. Moreover, the focus has largely shifted to tariffs—a positive move which should lead to another one on domestic support. At the time of writing (October 6, 2005), it seems interesting to recall what would be the content of an “ideal” deal, and to emphasize that the economic impact of the Doha Round will be determined much more by the level of ambition than by the choice of one formula over another (that is, by the technicalities of the negotiations *per se*).

TARIFFS

The priority of the Doha negotiations should be a substantial reduction in the high *tariffs*. Non-discriminatory (MFN) tariff cuts by OECD countries will have a much more powerful impact on the two other OECD instruments of protection—export and production subsidies—than preferential tariff reductions have had for two reasons. They will, almost automatically, generate equivalent cuts in export subsidies. And they will substantially erode the protectionist impact of the production subsidies mostly granted by the EC and U.S. to their farmers—the lower the tariff rates, the larger the domestic subsidies need to be to provide a

given level of protection (severe budgetary pressures in the EC and U.S. will help to cap the overall level of subsidies).

MFN tariff cuts focusing on high tariffs should be made by OECD *and* by developing countries. As tariffs are the main instrument of protection used by developing countries on imports from other developing countries, tariff cuts are the best tool for unleashing the gains to be expected from farm trade *between* developing countries (the expected main source of the welfare gains for developing countries, as seen above).

The cleanest way to make high tariff cuts remains the *Swiss formula* which has many virtues. By reducing dispersion in tariff rates, it leads to a “uniform tariff” (same tariff rates on all the goods) which ensures both the minimization of domestic distortions between exportables and importables and, if moderate, the maintenance of fiscal revenues. By reducing the gap between the levels of bound and applied tariffs, it reduces uncertainty. By requiring to transform specific tariffs into *ad valorem* tariffs, it removes an implicit bias against developing countries which often have lower unit value exports (reflecting lower quality, less processing, etc.). It offers immediate, costless information on the post-liberalization tariff rates—a huge benefit for the small negotiating teams of many developing countries. Lastly, it is friendlier to developing countries than to OECD countries because the farm tariffs currently applied by developing countries are generally lower than those imposed by OECD countries (see the discussion below).

Focusing on high tariffs should help to diminish the use of tariff-rate quotas. Expanding in-quotas have severe negative features: they generate quota rents that convert would-be free traders into supporters of the protective regime, they introduce scope for discriminating between countries, and they can reduce national welfare by much more than similarly protective import tariffs.

The Swiss formula approach is perfectly compatible with a “special and differential treatment” (S&D). A full discussion of S&D goes beyond the scope of this paper. One could argue that a S&D approach could be justified for the poorest developing countries under some conditions—the most important one being the adoption of an as uniform (and moderate) as possible tariff schedule by the poorest countries (Messerlin, 2003). Taking into account the dynamics of negotiations, the S&D dimension could be accommodated by a Swiss formula based on three maximum tariffs, a low one for the OECD countries, a higher one for the poorest countries, and an intermediate one for the other countries. The fact that developing countries have a relatively low rate of farm protection (compared to OECD countries) should be taken into account by the Doha negotiators so that farm liberalization for the poorest countries would be concentrated on cutting high tariffs and on binding tariffs—the two main sources of large welfare improvements over the current situation.

Current negotiations seem far from this ideal approach. The EC scenario dividing tariffs into four bands would reduce tariffs from 24 to 36 percent. Meanwhile, the U.S. scenario which would reduce tariffs by 55 to 85 percent has been criticized as too “radical”. More importantly, almost all the proposals include “flexibility” devices (from “pivots” to sensitive products to special products to special safeguard, etc.) which would allow to protect the key farm products of most WTO members from effective liberalization. Flexibility is a nice word for “exclusion from the negotiations process”.

In these conditions one may fear that the effective level of liberalization generated by the Doha Round will be low. Some “early” harvest could be done—but as history has amply shown—this is a self-defeating approach (delivering the post-early harvest is made difficult by the early harvest itself).

EXPORT SUBSIDIES

Export subsidies are almost exclusively an EC phenomenon (five-sixths of all export subsidies in the mid-1990s were granted by the EC) although other OECD and eight non-OECD countries can provide export subsidies under the Uruguay Agreement. Export credits, food aid (mostly used by the U.S.) are equivalent to export subsidies, but only proportionally to the subsidization component in interest rates or transaction terms.

Focusing on export subsidies reflects the economic interests of countries convinced to have comparative advantage in agricultural products—the U.S. during the Uruguay Round, Brazil and a few other developing countries today. It is thus understandable that such a concern drives WTO negotiations. But, limiting the Doha negotiations to export subsidies would be a mistake. Net-importing countries may lose their benefits from the prices depressed by the OECD farm policies, while they will not be able to benefit from the new market-access opportunities provided by tariff reductions. Existing calculations suggest that removing only OECD export subsidies would harm all the sub-groups of developing countries, except Brazil and the rest of Latin America, whereas removing them *plus* tariffs would be beneficial for all the sub-groups of developing countries (except for the North Africa-Middle East region).

The objective of the Doha Round should thus be to ensure that the same export subsidy rules apply to agriculture as to manufactures. That requires an elimination of the export subsidies faster than tariff cuts—but it should not divert from the main goal of tariff cuts. That being said, the EC export subsidies are declining at a rapid pace, meaning that the EC is trying to sell high a reform that it is prepared to do anyway (Hoekman and Messerlin, 2005).

Two specific provisions of the Uruguay Round deserve attention. Exempting developing countries from export subsidy rules (Article 9.4) regarding marketing costs, internal transport and freight charges should be maintained under

an appropriate form. The “Peace Clause” (Article 13) which exempted farm export subsidies from the WTO dispute settlement procedure (lapsed in January 2004) is much more debatable, and could be re-introduced under a mild form only in case of very substantial progress in disciplining export subsidies.

DOMESTIC SUPPORT

Domestic support (price support, direct production subsidies, etc.) is a domain where OECD countries have received *de facto* a “reverse special and differential treatment” under the Uruguay Agreement. Domestic support measures that are deemed trade-distorting are listed in the “Amber” Box, and their aggregate monetary value (called the “Aggregate Measure of Support” or AMS) has been subjected to reduction commitments by the Uruguay Round. Moreover, the Amber Box has three main exceptions: the “Blue” Box (payments under production-limiting programs), the threshold of *de minimis* levels of domestic support (subsidies considered too small to be trade-distorting), and certain measures (Article 6.2) to encourage farm and rural development in developing countries. After the Uruguay Round, the OECD countries have allocated a large portion of their huge farm subsidies to the Blue Box, and benefited from the definition of the AMS on the basis of the whole farm sector, rather than on a product-specific basis. In sharp contrast, developing countries have only very marginally utilized Amber Box exceptions.

Amber Box disciplines raise two critical issues. First, farmers of certain developing countries have indirectly (but greatly) benefited from OECD domestic support via preferential access to protected OECD markets, as best illustrated by the EC sugar and banana regimes, with countries such as Mauritius (sugar) and the Caribbean states (bananas) enjoying quotas allowing them to sell their products on the EC markets at the much higher European prices. This has generated an “unholy alliance” between OECD farmers and farmers of these developing countries at the detriment of the rest of the world. A fair and economically sound alternative to maintaining preference margins would be to include in the Doha Green Box the adjustment measures—that is, decoupled subsidies—that OECD countries should take in order to compensate the farmers of the developing countries who benefit from the current situation.

Second, should developing countries seek to expand the coverage of permitted support instruments to allow them more freedom to subsidize? Indeed, many—including some of the poorest countries in the discussions on S&D—have argued that developing countries should counter-balance the current reverse special and differential treatment enjoyed by the OECD countries by demanding their own additional rights to subsidize.

This approach has three main flaws. First, the Uruguay Round Agriculture Agreement already gives developing countries a wide degree of freedom for

subsidizing the development of their farm sector provided that these measures are “an integral part of development programs” (investment subsidies) or that “they are targeted at low-income or resource-poor producers” (input subsidies). There is thus no need for much wider freedom, but rather for clarification of certain existing provisions. For instance, how can one define low-income or resource-poor producers, poor remote areas, poor people, support for diversification, transportation subsidies for farm products, consumption subsidies for domestic food aid, public assistance for establishing farm co-operatives or institutions promoting marketing and quality control of food products, etc.? Second, most of the poorest countries do not have the funds to finance additional subsidies. Fighting for unusable rights has heavy costs in WTO negotiations. It wastes negotiating capital, hence diminishes ability to fight for more urgent goals, such as tariff cuts. Last but not least, the extra rights that the poorest countries could get to subsidize would probably come at the expense of ceding greater rights (e.g., subsidies for animal welfare could easily become subsidies to livestock producers) to OECD countries who are invoking “non-trade concerns” and which are rich enough to use such rights—thus perpetuating or even amplifying the asymmetries which currently plague the system.

As a result, domestic support should be seriously curbed by the Doha Round. That could be done by using a Swiss formula on the current AMS (expressed in percentage of the value added) by farm product, the main task of the negotiators being to fix the maximum AMS rate. Again, some differentiation between countries in the name of the S&D principle could be envisaged (it would not raise a problem in the Swiss formula context).

CONCLUDING REMARKS

Two main concerns are often voiced about farm liberalization. First, it could affect food security—that is, the capacity of a country to ensure that its whole population will have enough food on a stable basis, whether domestically produced or imported. It is seen by many as a situation where rich, well equipped and trained OECD farmers will wipe out poor farmers in developing countries, and where the price volatility of food products will increase. Far from this, existing calculations show that OECD farm liberalization would increase the food production of most developing countries or groups of countries. And, contrary to popular belief, trade is a powerful insurance policy against climate shocks and other sudden differences between countries, as best illustrated by the increased intra-EC trade needed to cope with the heat wave of summer 2003 in Europe.

Second, it is often believed that farm liberalization will generate food price increases, hence having a negative impact on poverty (whether individuals can buy enough food to live decently). But, the current estimates of world price

increases of commodities after liberalization do not exceed 5 to 10 percent. Given that any liberalization would be implemented over 5 to 10 years (as for the commitments adopted during the previous GATT Rounds), the effects of such a change are quite manageable, even for the subset of poor countries that would be net food-importing economies after farm reform.

These concerns are strong enough to make popular the suggestion of a special safeguard for agriculture for with these issues. This is a bad idea for three reasons.

First, safeguards have proven to be difficult to control. The last thirty years of trade policy in developed and developing countries alike abundantly demonstrate that safeguards are seldom used for protecting the people for whom they were intended. More often, they fall into the hands of unrelated but powerful vested interests—farmers instead of consumers, traders instead of farmers, large farmers instead of small farmers, etc. The above concerns would be better addressed by introducing some flexibility during the Doha negotiations, for instance, by granting to the poorest countries a one-off opportunity to raise bound tariffs on a limited number of key specific products). Such an approach has many crucial benefits for the multilateral trading system that a special safeguard will not provide: it ensures that the measures taken will consist of tariffs, not quotas; it sets *ex ante* the maximum possible tariff increases (the difference between the applied rate and the maximum bound tariff); it sets such increases on a tariff line basis (safeguards tend to cover many tariff lines); it helps the poorest countries to start the crucial process of binding tariffs; it avoids the redundancy of making a special safeguard available to countries with very high bound tariffs; and last but not least, it will provide a key argument for developing countries to ask for the elimination of the special safeguard currently enjoyed by the OECD countries.

Second, in the context of WTO negotiations, granting a special safeguard to developing countries is likely to be “paid for” by keeping or “improving” the special safeguards currently enjoyed by the OECD countries. In this context, large countries have huge tactical advantages. They will not hesitate to impose safeguards, hence generating the price turbulences that developing countries fear. By contrast, small economies will often hesitate to displease their powerful trading partners by taking safeguards against them. They will generally end up by imposing safeguards on the imports from their fellow developing countries, spreading turbulence and magnifying the initial problems.

Lastly, a special safeguard for food security reasons is a less efficient instrument than an alternative instrument: emergency food stocks. From an economic perspective, such stocks are completely different from stocks used for stabilizing domestic prices—in particular, they should be bought and sold at market prices. To develop this instrument would not require a lot of effort (it can be based on the Uruguay Round Agriculture Agreement, Annex 2). One could go

further by creating a designated financial fund at the world level (with a capital estimated at US\$400 million). Such a fund would spread the costs over many countries, it would offer a transparent alternative to food aid as disguised export subsidies, and it would be available at the right time, that is, when food is necessary not when it is available in excess in developed countries (the most crucial and frequent problem of food aid).

If safeguards are not the correct answer, what are the appropriate answers to the above concerns about farm liberalization? They consist in combining farm trade liberalization with appropriate *domestic* policies and actions—such as infrastructure investments, for instance in transportation and telecommunications, well-functioning credit and other input (seeds, fertilizers) markets, competitive markets in distribution, etc.—not in closing domestic markets to foreign exports. These domestic complementary policies could be supported and, where necessary, financed by the international community (as in the case of emergency food stocks). They alone can ensure that the benefits of liberalization are reaped and its costs, particularly for the most vulnerable groups, minimized.

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