

**Szczepan Figiel**

University of Warmia and Mazury in Olsztyn

## **TOWARDS GLOBAL MARKET COMPETITION IN WORLD AGRICULTURE: IMPLICATIONS OF THE DOHA ROUND**

### **1. Introduction**

Agriculture around the world is one of the most protected and internally supported sectors in many countries, hence, farmers may be considered as almost immune to global market competition, which other type of producers have to face [Beierle 2002]. This refers especially to a number of well developed countries, where agriculture is highly protected by trade barriers and enjoys various forms of domestic support. Classic examples of such situations are the EU and the USA where farmers are not really fully exposed to a global free market competition. Nevertheless, ongoing debates on free agricultural trade between developed and developing countries on the WTO forum may eventually result in changing institutional world trade settings and lead to some significant market adjustments [Figiel, Rembisz 2005]. Particularly under pressure remains the Common Agricultural Policy, which since 1992 has been undergoing reforms representing major shift from price support to direct compensatory area payments and single farm payments. However, the overall effects of these “decoupled” policy tools are not yet fully understood [Scokokai, Moro 2006]. Also, the rationale for them may be questioned if they prove not to be production neutral and related public expenditures become not well justified. The objective of this paper is to examine potential agricultural trade and farmers welfare implications of the Doha Round of the WTO negotiations based on results of analytical studies presented in literature, and formulate some policy recommendations regarding viable alternatives to support farming incomes.

## 2. Doha Round Background and Objectives

A significant first step towards fairer competition and a less distorted agricultural sector was the WTO's Agriculture Agreement negotiated in the 1986-94 Uruguay Round. It comprised specific commitments by WTO member governments to improve market access and reduce trade-distorting subsidies in agriculture. Participants have also agreed to initiate negotiations for continuing the reform process by the end of 1999. These negotiations have been incorporated into the broader agenda set at the 2001 Ministerial Conference in Doha, Qatar. By November 2001 and the Doha Ministerial Conference, 121 governments had submitted a numerous negotiating proposals. The negotiations continue with the mandate given by the Doha Declaration, which builds on the work already undertaken, confirms and elaborates the objectives, and sets a timetable. Member governments commit themselves to comprehensive negotiations aimed at achieving the following goals: improving market access, reductions of all forms exports subsidies with a view to phasing them out, and substantial reductions for domestic support that distort trade. Such non-trade concerns as environmental protection, food security, rural development, etc., reflected in the negotiating proposals already submitted are also taken into account during the negotiations, as provided for in the Agriculture Agreement<sup>1</sup>.

According to the World Bank estimates full liberalization would increase the total gains from trade for about 287 billion dollars including 201 billion dollars captured by the developed countries and 86 billion dollars going to developing countries. Agricultural products account only for about 3% of the total value of the world output and as much as 10% of total value of the world trade, yet liberalization of agricultural markets is extremely problematic mainly because it is against the interest of farmers in developed countries. Therefore, results of the recent 6th Ministerial Conference in Hong Kong are still far from reaching expectations of the developing countries, however, some important promises have been made by the EU and the USA regarding substantial reduction of the domestic support for their farmers. The EU announced eradication of subsidies worth yearly 2.7 billion euros by the end of 2013. Also until 2008 tariffs and quotas imposed by the EU are supposed to be abolished with respect to 97% of the goods produced by the developing countries. Another important statement is the declaration of the USA to withdraw the next year cotton export subsidies of 4 billion dollars.

Considering their scope and goals it not surprising that Doha Round of the WTO negotiations generates a lot of interests in the context of its results and the impact of their potential implementations on world agricultural trade patterns and consequently on welfare of farmers [Beierle 2002; Beghin and Aksoy 2003; Blandford 2005; Bureau et al. 2005; Diaz-Bonilla et al. 2003; Hart and Beghin 2004;

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<sup>1</sup> <http://www.wto.org>.

Keeney and Hertel 2004; van der Mensbrugghe and Beghin 2004]. The findings regarding these issues presented by various authors are not uniform but there are rather prevailing arguments that farmers in developing countries will gain, while farmers in developed countries are likely to lose due to new trade patterns.

As estimated by van der Mensbrugghe and Beghin [2004] reform of agriculture and food provides 70 percent of the global gains from merchandise trade reform of 385 billion dollars, and the global gains are shared equally among industrial and developing countries. They argue that developing countries gain more as a share of initial income, and income gains occur in developing country agriculture, reducing poverty. Both groups of countries would gain more from their own policy reforms than from the other group's reforms. The key role in determining the overall level of the income gains is played by trade elasticities. The higher elasticities the smaller terms-of-trade effects and larger (more than proportional) increase in trade and real income gains. They also suggest that these effects can be very large for individual countries (e.g. Cairns group countries and the USA).

### **3. Some Implications for Agricultural Producers and Policy Recommendations**

Direct and indirect producer support for agricultural exporters in the North and forgone production, employment, and trading opportunities for farmers in the South are among the most controversial issues in the Doha Round negotiations. According to Beghin et al. [2002] real commitments to reduce agricultural support in high-income countries will induce substantial changes in world food prices and domestic agricultural rates of return and output and will cause dramatic shifts in agricultural trade patterns. Total trade expands and real output, wages, and incomes in developing countries, especially among the rural poor, increase substantially. At the same time, the UE and Japanese agricultural exports fall sharply and their imports rise. In other OECD countries the aggregate trade growth will be more balanced, however a number of strategic sectors can still be adversely affected.

Fabiosa et al. [2003] investigating effects of the multilateral removal of all border taxes and farm programs and their distortion of world agricultural markets found out substantial trade expansion for most commodities, especially dairy, meats, and vegetable oils. In their analysis net agricultural and food exporters (Brazil, Australia, and Argentina) emerge with expanded exports, whereas, net importing countries with limited distortions before liberalization are penalized by higher world markets prices and reduced imports. The USA gains significant export shares in livestock products and imports more dairy products, while the EU without protection and domestic subsidies loses many of its livestock and dairy export markets.

It is important to realize that in case of the EU that the resulting adjustments in member states' production and net trade positions are not equal. The new member states would generally lose part of their export shares in the EU market to external competitors in the cases of bovine meat and dairy products. In general, the EU-15 countries gain from improved efficiency as a result of the reform. The new member states, however, will only experience marginal efficiency improvements but will likely suffer terms-of-trade losses, thereby losing some of the related benefits of joining the EU [Yu and Jensen 2005].

Lips [2004] analyzing the potential impact of the EU CAP reforms that follow the Mid Term Review (MTR) and the Harbinson Proposal for negotiation modalities in the WTO Doha Round on the EU and the new accession countries calculated that in welfare terms the MTR would have a relatively small impact on both the EU-15 and the new member states, but agricultural incomes would decrease around 2,3 and 5 percent respectively. Under the Harbinson Proposal the losses of agricultural incomes are even greater mainly due to reduced outputs in the cereals, oil-seeds, and cattle sectors.

As Rae and Strutt [2003] pointed out the negotiation effort to reach agreement over reductions in domestic support to farmers is complicated by a number of factors. For example, the extent to which such support affects production decisions, the wishes of governments to support farmers for pursuing multifunctional outcomes from agriculture, and the categorization of countless policy instruments into green, blue and amber boxes. They rightly presume that these complications may lead to considerable broadening of the negotiations and diverting attention away from other areas of reform, whereas the sustainability of many domestic support policies depends on trade barriers, and reform of these trade barriers may force governments into reforming domestic support without requiring specific international agreements.

## 4. Conclusion

The Doha Round developments may eventually lead to substantial shifts in the world agricultural trade patterns causing consequently perceptible reductions of farming incomes in the developed countries. This seems to be especially true in case of the EU countries including its new member states. Such situation would be a major policy challenge particularly in country like Poland considering its relatively huge proportion of population dependent on agricultural incomes. Therefore, new ideas and relevant actions are needed to mitigate negative impact of the forthcoming agricultural trade liberalization on farmers incomes. Buckwell [2000] in his excellent of the Agenda 2000 analysis stressed the role of environmental and cultural landscape payments as well as rural development incentives. Bearing all this in mind next policy steps towards these directions should be taken, such as estab-

lishment of a market for environmental goods and services in the form of public procurement system to allocate public money in an efficient way based on market incentives. This alternative deserves a serious discussion and cannot not be ignored if income of the UE, and specifically Polish farmers, are not to be affected in near future.

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## **W KIERUNKU GLOBALNEJ KONKURENCJI RYNKOWEJ W ŚWIATOWYM ROLNICTWIE: IMPLIKACJE RUNDY W DOHA**

### **Streszczenie**

Z powodu rozległej ochrony rolnictwa w wielu krajach rolnicy są uważani za nieomal niezagrożonych globalną konkurencją rynkową. Pogląd ten przeanalizowano w kontekście obecnej rundy negocjacji WTO w Doha i potencjalnej implementacji ich rezultatów. Wyniki licznych analiz dotyczących potencjalnego wpływu proponowanych rozwiązań wskazują, że jeśli zostaną one przyjęte, jest bardzo prawdopodobne, iż producenci rolni w krajach, w których ma miejsce znaczące wsparcie przez interwencję rynkową (np. kraje UE w ramach WPR), mogą w nadchodzących latach doświadczyć poważnego spadku dochodów. Jeśli po wyeliminowaniu polityki zakłócającej światowe rynki rolne dochody rolników w tych krajach mają być nadal wspierane, potrzebna jest inna niż dotychczas filozofia i praktyczne rozwiązania. Jedną z możliwości jest utworzenie publicznego systemu zamówień na dobra środowiskowe i usługi publiczne, które mogłyby być oferowane przez rolników produkujących konwencjonalne dobra w harmonii ze zrównoważonym rozwojem obszarów wiejskich.