

# THE DOHA DEVELOPMENT ROUND AND AGRICULTURAL TRADE

The developing food crisis that affects millions of people around the globe requires renewed interest to make sure the Doha Round of negotiations among World Trade Organization (WTO) members has a successful outcome.<sup>1</sup> Last month, Ban Ki-moon, United Nations Secretary General, commented: “Clearly, we need a successful conclusion to the Doha Round. At a minimum, that would mean opening new and significant markets for agricultural and non-agricultural exports and services from low-income developing countries. It is time for wealthier nations to rethink old-fashioned programmes of agricultural subsidies. Economists agree that they inhibit trade and disproportionately penalize poorer nations, contributing to the current emergency. If we cannot scrap these relics today, in an era of high prices, then when can we?”<sup>2</sup>



This Economic Note was prepared by **Sylvain Charlebois**, associate professor in marketing at the University of Regina, and **Marcel Boyer**, vice president and chief economist of the Montreal Economic Institute and Bell Canada professor of industrial economics at the University of Montreal.

It may sound counterintuitive, since countries tend to isolate themselves during difficult times, but the challenge of the current food crisis invites all nations to agree collectively to policies that promote trade. The protectionist policies of developed countries and the distorted trade rules they lead to in agriculture are the fundamental factors that prevent the adjustments in worldwide food production and distribution needed to meet increased demand from emerging countries. A freer trade environment would allow more flexibility and innovation in order to adapt to market conditions, as in any other sector or industry. There is no indication that food production capacity is insufficient, but there are many signs of ill-conceived public policies that tamper with incentives and equilibrium mechanisms and thereby prevent existing worldwide food production capacity from being put to efficient use.



## The Doha Round

The Doha Development Round started at Doha, Qatar, in November 2001 and is ongoing. Its primary objective is to lower global trade barriers and facilitate free trade among countries of varying prosperity. Agriculture has taken center stage in Doha, as it did in the Uruguay Round

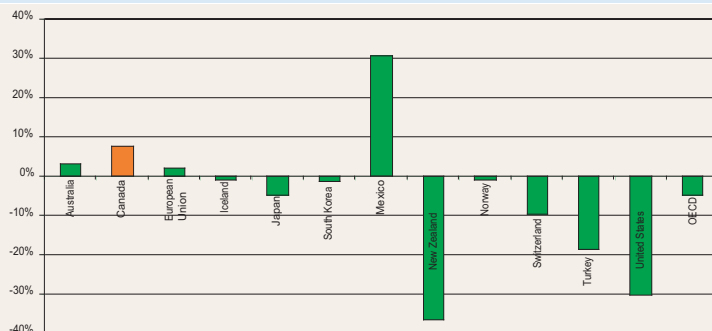
which ended in 1994. At the time, the Uruguay Round brought about the most significant reform of the world’s trading system since the General Agreement on Tariffs and Trade (GATT) was implemented after the Second World War. The Marrakesh agreement that concluded the Uruguay Round included commitments to reopen negotiations on agriculture and services at the turn of the century. These began in early 2000 and were incorporated into the Doha Development Agenda in late 2001.

Many global trade negotiations approached collapse before succeeding at the last possible moment. The Kennedy, Tokyo, and Uruguay Rounds are all examples of this. However, virtually all observers concur that the WTO’s current Doha Round of multilateral trade negotiations is faltering very badly. We observe significant political pressures, in France and Canada in particular, to exclude agriculture markets from the Doha negotiations in favour of a separate deal that could be more easily controlled by interested parties in developed countries. Many countries have already announced new protectionist measures to deal with the current food crisis. France has called for stronger support of the Common Agricultural Policy within the European Union to

1. See Ian Irvine, *Viewpoint on the world food crisis*, Montreal Economic Institute, May 2008.  
2. Addressing the 12<sup>th</sup> United Nations Conference on Trade and Development in Ghana on April 20, 2008 ([http://www.un.org/apps/news/infocus/speeches/statments\\_full.asp?statID=222](http://www.un.org/apps/news/infocus/speeches/statments_full.asp?statID=222)).

FIGURE 1

Change in agricultural producer support by country (from 2005 to 2006)



Source: OECD, *op. cit.*, footnote 21.

protect its farmers from the more intense international competition that a successful Doha Round would necessarily impose. But without agriculture, there is no Doha.

Freer trade requires three major policy changes: first, a significant reduction, if not outright abolition, of direct and indirect subsidies to agriculture, including import tariffs and quotas for farm products in developed countries; second, a significant opening of stronger developing countries, such as Brazil, India, and China, to industrial products from developed countries; third, more efficient aid programs aimed at revitalizing the agricultural sector in poorer countries through investment in agricultural infrastructure.<sup>3</sup>

Those policy changes could do more to free poorer countries from malnutrition and poverty than all food aid from developed countries (which often resembles dumping that distorts local economies). Food aid efforts must be accompanied by significant medium and long term actions to neutralize the greatest underlying drivers of food crises, namely trade distortions and deficient infrastructure in developing countries. Today's manipulated trade flows and conditions contribute to social waste by misdirecting

production efforts and investment, in both developed and developing economies.

The Doha Round's main objectives are to address three categories of policies that distort trade in a significant way: market foreclosure policies such as tariffs and import barriers or quotas, domestic policies such as price support and supply management or production quotas, and finally export subsidies.<sup>4</sup>

The developing food crisis has, with reason, revived interest in a positive conclusion of the Doha Round. The reduced government support of agribusiness in developed economies and the rise in food prices that is likely to result even after the current food crisis has recessed would not only favour a better and more efficient allocation of resources through proper prices but would also offer hope for a better life to hundreds of millions of farm families in Asia, Africa, and Latin America.<sup>5</sup>

Negotiations between the G4 countries<sup>6</sup> stalled numerous times following disagreements about agriculture and market access for industrial products.<sup>7</sup> The G10 of food-importing countries,<sup>8</sup> which often have a highly protectionist domestic agricultural sector, has resisted plans to reduce trade barriers.<sup>9</sup> Canada has taken a similar position. As for the difficult period expected for the global economy and the emerging food crisis in particular, they could help revive interest in a global Doha deal, but it may also prompt different nations to overprotect their own domestic industries in trade negotiations.<sup>10</sup> This is already happening as many countries have imposed constraints on their exports of agricultural products.

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3. This would help counter the protectionist line that prevails in some third world forums; see for instance the speeches by governmental and NGO representatives at the UNCTAD XII Civil Society Forum in Ghana: <http://allafrica.com/stories/printable/200804210606.html>. Between 2003 and 2005, \$1.3 billion in development aid was spent on governance issues in the world's poorest economies, compared to just \$12 million on agricultural development.

4. W.H. Furtan, A. Guzel and K. Karantininis, "The Doha Talks and the Bargaining Surplus in Agriculture," *The Estey Centre Journal of International Law and Trade Policy*, Vol. 8 (2007), No. 2, pp. 138-154.

5. Simon Evenett, "Reciprocity and the Doha Round Impasse: Lessons for the Near Term and After," *Aussenwirtschaft*, Vol. 62 (2007), No. 4, p. 391-415; John Ikenberry, "The Rise of China and the Future of the West: Can the Liberal System Survive?," *Foreign Affairs*, Vol. 87 (2008), No. 1, pp. 23-28; Mark S. LeClair, "Fair Trade for All: How Trade Can Promote Development," *Eastern Economic Journal*, Vol. 33 (2007), No. 4, pp. 575-578; Mohamadou L. Fadiga, Samarendu Mohanty, Mark Welch and Suwen Pan, "Doha development agenda: implications for the US and world cotton markets," *The Journal of International Trade & Economic Development*, Vol. 17 (2008), No. 1, pp. 135-153.

6. This particular G4 (other groups have the same name) includes the United States, the European Union, Brazil and India.

7. Marc Champion, "Blair tells candidates to be flexible on trade," *Wall Street Journal*, January 28, 2008, p. A8.

8. This group includes Switzerland, Japan, South Korea, Bulgaria, Iceland, Israel, Mauritius, Norway, Taiwan and Liechtenstein.

9. Anne Effland, Mary Anne Normile and John Wainio, "Global Agriculture and the Doha Round: Market Access Is the Key," *Amber Waves*, Vol. 4 (2006), No. 4, pp. 22-27.

10. Heribert Dieter and Richard Higgott, "Linking Trade and Security in Asia: Has Washington's Policy Worked?," *Aussenwirtschaft*, Vol. 62 (2007), No. 2, pp. 151-173.

Authorities at the WTO have made it clear that significant progress towards freer markets must be achieved before the arrival of a new tenant at the White House in January 2009, as many economists believe the next president will be more protectionist than the current one,<sup>11</sup> and some fear that, if no deal occurs this year, the Doha Round may go into hibernation for several years.<sup>12</sup> The challenge is enormous, given the level of agricultural support and the new mood toward regional trade agreements (RTA).

The level of support to farmers in OECD countries has reached US\$268 billion annually, and nearly all those countries apply tariffs on subsets of agricultural imports, which may even exceed the value of the product. In May, the U.S. Congress adopted a new farm bill which other countries have accused of breaking trade rules.<sup>13</sup> It will make it much harder for poorer countries to develop their own agricultural sector through access to international markets. Joint policies of granting subsidies and erecting trade barriers have contributed to destroying their agriculture capacity.

Multilateral agricultural negotiations at the WTO could help national governments to resist local political pressures that present significant constraints to liberalizing agricultural trade. But in recent years, multilateral free trade agreements seem to have lost momentum on the global scene.<sup>14</sup> Many nations, including France, India, Brazil, the U.S. and Canada, are now more comfortable pursuing bilateral trade deals and regional trade agreements in which they can exert more control over the terms of reference<sup>15</sup> and which can be tailored more directly to specific industry needs or more generally to the supply chain and network requirements of multinational corporations.<sup>16</sup> For instance, in January, Canada signed trade deals with Peru and the

European Free Trade Association (Iceland, Liechtenstein, Norway, Switzerland). The United States alone has signed at least 100 regional trade agreements that have gone into force since 2002, and more than 100 are currently under negotiation.<sup>17</sup> The WTO lists more than 400 such agreements.

## Canada's role at the WTO

Canada could assume a leadership role in building an economic case in favour of expanded market liberation<sup>18</sup> and consolidate its position to take advantage of new trade opportunities that lie ahead. Doha may be the last major set of multilateral trade negotiations for a long time. Hence, bringing developing nations within the realm of internationalization and globalization at this time is a must.

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As the world's fourth largest exporter and fifth largest importer of agricultural products, Canada has the potential to provide the Doha talks with fresh initiative by committing to a series of domestic agricultural policy reforms.<sup>19</sup> The significant increase in agricultural prices worldwide provides an opportunity to move forward with reduced tariffs and subsidies, direct and indirect. But this will require a courageous change of policy.

The Canadian minister of agriculture reiterated the country's commitment to production quotas and high tariffs for "sensitive" products.<sup>20</sup> In 2006, Canada and Mexico were the only OECD countries where market price support for agricultural products increased significantly compared to the previous year.<sup>21</sup> In addition, while global support to agricultural producers declined by 4.7% on average in OECD countries from 2005 to 2006, Canada's support grew by 7.8%, the second biggest increase (see Figure 1).

11. Chris Giles and Gillian Tett, "Lamy sees good signs for global deal this year," *Financial Times*, January 28, 2008, pp. 2-3; *Financial Times*, "To what extent will the US election affect the world economy?," *Economists Survey*, January 1st, 2008.

12. Peter Morton, "Doha talks in danger of collapse," *National Post*, July 7, 2007, p. FP7.

13. Bradley Klapper, "WTO to probe US farm subsidies," *Globe and Mail*, December 18, 2007, p. B13.

14. Baybars Karacaovali and Nuno Limao, "The Clash of Liberalizations: Preferential vs. Multilateral Trade Liberalization in the European Union," *Journal of International Economics*, Vol. 74 (2008), No. 2, pp. 299-327.

15. Yohei Harashima, "Trade and environment negotiations in the WTO: Asian perspectives," *International Environmental Agreements: Politics, Law and Economics*, Vol. 8 (2008), No. 1, pp. 17-34.

16. Bill Dymond and Michael Hart, *Navigating New Trade Routes: The Rise of Value Chains, and the Challenges for Canadian Trade Policy*, C.D. Howe Institute, March 2008.

17. U.S. Department of State, *Statement by U.S. Trade Representative Susan C. Schwab regarding the expiration and renewal of Trade Promotion Authority*, June 29, 2007.

18. Érick Duchesne, "Lumbering On: The State of the Canada-U.S. Trade Relationship," *American Review of Canadian Studies*, Vol. 37 (2007), No. 1, pp. 35-56.

19. Sidney M. Cone III, "Legal Services and the Doha Round Dilemma," *Journal of World Trade*, Vol. 41 (2007), No. 2, pp. 245-272.

20. Agriculture and Agri-Food Canada, *Government of Canada continues to stand up for Canadian agriculture at WTO*, News release, May 20, 2008.

21. OECD, *Agricultural Policies in OECD Countries: Monitoring and Evaluation (Highlights)*, 2007, p. 42.

Some countries have accused Canada of unjustly using price support programs such as supply management for eggs, poultry and dairy products to distort trade and of using government-supported monopolies such as the Canadian Wheat Board (the largest wheat and barley marketer in the world and, by law, the only organization in its industry allowed to trade in world markets) to distort global grain markets.<sup>22</sup>

This is a self-inflicted wound for Canada since milk, among other farm products, is becoming the new oil, thanks to the global milk boom.<sup>23</sup> Demand for milk from emerging countries such as China and India is growing quickly, putting intense pressure on world prices.<sup>24</sup> Why, then, restrict production at home instead of favouring freer trade in farm products? The conflict between a trade-oriented economy and the defence of trade barriers puts Canada in a debilitating and paradoxical situation at agricultural trade talks.

## Conclusion

Canada can expand, innovate, and prosper in the agribusiness sector. Hiding behind protectionist tariffs and staking its future on a mature domestic market is a recipe for disaster. Demand for agricultural products is growing rapidly in many parts of the world, and Canada

should be capitalizing on those opportunities. The current world food crisis creates an opportunity for Canada to demonstrate its willingness to eliminate trade-distorting mechanisms. The country could gain significantly by doing so: solid commitments to freer and fairer trade will provide a more efficient and competitive agricultural industry for the betterment of all.

In short, the necessary policy compact includes unilateral tariff cuts, abolition of the Canadian Wheat Board monopoly on barley and wheat, and a commitment to multilateral trade liberalization. The Doha Round remains the best option for mid-sized, market-oriented countries such as Canada,<sup>25</sup> which as a major agricultural exporter has plenty at stake with its grain, oilseeds and meat industries as well as non-agricultural industries.

Despite its highly protectionist measures, the country is losing farms. A price-fixing mentality has been dominant for years. Supply management, even if supported by all Canadian political parties, is hurting global trade as well as agricultural efficiency. Canada will inevitably be forced to adapt and make concessions if it wants to continue benefiting from the advantages of being part of the world trade system. The country had better get ready now: change will come whether we like it or not.

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Montreal Economic Institute  
6708 Saint-Hubert Street  
Montreal, Quebec  
Canada H2S 2M6  
Telephone (514) 273-0969  
Fax (514) 273-2581  
Web site www.iedm.org

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22. Sylvain Charlebois and Wolfgang Langenbacher, "Wheat board limits Canada's ability to compete," *Toronto Star*, January 10, 2007, p. A13.  
23. Wayne Arnold, "In a growing world, milk is the new oil," *International Herald Tribune*, August 31, 2007.  
24. Kate Connolly, "China's new appetite for milk forces price rise in Germany," *The Guardian*, August 2, 2007.  
25. Bill Robson, "Lost on trade – Instead of spending years negotiating trade deals, Canada should unilaterally eliminate remaining tariffs," February 6, 2008, p. FP18.