Summary

Agricultural trade barriers and producer subsidies inflict real costs, both on the countries that use these policies and on their trade partners. Trade barriers lower demand for trade partners' products, domestic subsidies can induce an oversupply of agricultural products which depresses world prices, and export subsidies create increased competition for producers in other countries. In 2000, World Trade Organization (WTO) members continued global negotiations on agricultural policy reform. To help policymakers and others realize what is at stake in the global agricultural negotiations, this report quantifies the costs of global agricultural distortions and the potential benefits of their full elimination. It also analyzes the effects on U.S. and world agriculture if only partial reform is achieved in liberalizing tariffs, tariff-rate quotas (limits on imported goods), domestic support, and export subsidies.

Key findings include:

Global agricultural policy distortions impose substantial, long-term costs on the world economy; in the long term, the full elimination of these policy distortions would result in an annual world welfare gain of $56 billion, about 0.2 percent of global GDP. These projected welfare gains, or increased purchasing power, can be decomposed into the removal of distortions in production and consumption ($31 billion), the effects of policy reform on global savings and investment ($5 billion), and increased productivity gains, mainly in emerging and developing countries ($20 billion). Total, long-term welfare benefits to the United States from eliminating world agricultural policy distortions are $13.3 billion annually — about 24 percent of global gains. U.S. gains would mainly come from our trade partners' policy reforms.

Elimination of agricultural trade and domestic policy distortions could raise world agricultural prices about 12 percent. Import tariffs lower food demand, and domestic support and export subsidies encourage excess supply — all result in lower world agricultural prices. European Union (EU) agricultural policies account for 38 percent, and Japanese plus Korean policies combined account for 12 percent, of global price distortions. U.S. agricultural policies account for about 16 percent of global price distortions.

Tariffs and tariff-rate quotas account for more market distortions than domestic subsidies and export subsidies. Tariffs and tariff-rate quotas account for most of the agricultural price distortions (52 percent) from agricultural protection and support. Post-Uruguay Round agricultural tariffs remain high, with a global average rate of 62 percent and an industrial country average of 45 percent. Domestic subsidies (31 percent) and export subsidies (13 percent) have comparatively smaller, direct roles in reducing world prices. The remaining 4 percent measures the interaction effects of the three policies combined.

Continuing the Uruguay Round reductions (an additional 20 percent) in the Aggregate Measurement of Support (AMS) will have less of an impact than leveling domestic support across countries and commodities, an alternative, generic approach to reducing domestic support. An additional 20-percent reduction in the Uruguay Round ceilings on total support expenditure would affect a small number of OECD countries, because many countries' expenditures are already below their AMS limits, based on 1998 policies. Leveling and reducing domestic support on a commodity basis would engage more countries and commodities in the reform process. Commodity impacts would also differ under the two approaches.

Despite their relatively small aggregate price effects, export subsidies play an important role in the reform process. Tariffs and domestic support policies of many countries contribute to distorted global markets. The global effects of export subsidies, however, are mostly attributable to a single region, the EU. Export subsidies significantly affect trade in some markets, create increased competition that strains trade relationships, and are an integral part of related domestic price support programs.

Many trade and domestic policies operate interdependently, and options for reform of some policies are linked. A reduction in tariffs would reduce the problems related to TRQs by reducing over-quota tariffs. Trade policy reforms can help achieve reforms of domestic market price support, because price support programs generally rely on tariffs and export subsidies to be effective. Greater constraints on export subsidies can help some countries ease their reluctance to reduce their import barriers because of unfairly subsidized competition, and can create pressures for reducing related domestic price support that encourages surplus production.

Emerging and developing countries can benefit from further policy reforms. These countries have diverse, and sometimes divergent, interests in the negotiations. Global policy reform will lead to increased agricultural exports by many emerging and developing countries and improved terms of trade. Most of the potential benefits from policy reform will come from emerging and developing countries' reform of their own policies. Their full engagement in a global reform process could increase their welfare by $21 billion annually. Low-income developing countries' food aid needs will decline 6 percent as their domestic food production expands in response to higher world prices.