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The WTO Doha Development Agenda Negotiations And U.S. Agricultural Support Programs

The suspension of the WTO Doha round of negotiations in July is likely to mean a significant delay in the conclusion of the trade round. Some have even suggested, pessimistically, that it is the beginning of its demise.

If history is any indicator of the pace of progress, however, the slow pace of Doha is not unprecedented. It took eight years (between 1986 and 1994) for the conclusion of the Uruguay Round talks.

Under a best case scenario for Doha, with substantial progress by March 2007 leading to an extension of the President's authority to negotiate in July[1], a final agreement might be attainable in early 2008. That would put the Doha Round, which began in 2000, on the same time-table as the Uruguay Round. Again, this is a very optimistic scenario, but it highlights the urgent need for keeping the talks alive to bring about an agreement which has the potential to offer significant market access gains for U.S. producers.

Historical and Political Context for Discussion of Agriculture in WTO Trade Negotiations

The Uruguay Round

In the 1986-94 Uruguay Round of multilateral trade negotiations[2], the United States worked hard for an agreement that would eliminate non-tariff barriers in agricultural trade, reduce tariffs, put meaningful limits on export subsidies for the first time, and establish rules to prevent the use of sanitary and phytosanitary measures as disguised trade barriers. Even if these goals were accomplished, the U.S. and other countries recognized that unless some disciplines were also placed on the use of domestic subsidies, countries could easily find ways to continue to distort trade and restrict imports using internal support mechanisms.

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[1] The Administration's authority (Trade Promotion Authority, or TPA) to conduct trade negotiations runs out in June 2007. Given the formal notification requirements in the trade law, an agreement not concluded by the end of March 2007 cannot meet those deadlines. If an agreement is not finalized by that time, therefore, the negotiations will either have to be put on hold until the Administration is able to obtain new negotiating authority from Congress. Supporters of the negotiations, including foreign officials, hope that it the Administration can show sufficient progress toward a meaningful outcome by early spring, it may be possible to convince Congress to grant the President a short and "clean" TPA extension bill. A "clean" TPA bill would be one that does not place so many conditions on the Administration's negotiating flexibility that it becomes impossible to conclude a deal.

[2] Under the General Agreement on Tariffs and Trade (now the WTO).

After lengthy discussions, it was agreed to place domestic farm subsidies in three categories based on how trade distorting they are, and to put limits on the most trade-distorting ones.[3] The categories have come to be known as amber, green and blue "boxes". Essentially, WTO members agreed to reduce the amounts of payments made under domestic support programs where payments were linked to current production or prices. These programs were called "amber." Countries did not have to make any reductions in programs that already contained specific production-limiting features (blue box), or in programs where payments were de-coupled from current production or prices (green box). In addition, the negotiators agreed that "de minimis" levels of subsidies (less than 5 percent of the value of production) would not have to be included at all.

The important thing about the agreement on domestic support was that it required reductions in "amber box" spending of 20 percent from levels that were spent during the agreed base period, 1986-1988. Spending on programs in the other boxes would not be required to be reduced. Probably the best way to describe what types of domestic support programs fit into the amber box (and therefore have spending limits), is to list the programs that fit into the green and blue boxes; everything else is "amber."

Green box: In very general terms, a program can be considered "green box" if it meets several criteria. Green box programs, involving direct payments to producers are limited by three important criteria. Payments may *not*

- provide price support to producers;
- be related to current prices; and
- be related to current production.

Examples of payment programs that would fit under various green box criteria include:

- direct de-coupled payments,
- income insurance,
- conservation and environmental payments,
- resource retirement and disaster assistance.

The green box also includes various general services programs that do not involve payments to producers, such as pest and disease control, inspection, and domestic food aid (e.g., food stamps). It is important to note that the criteria for each type of green box exemption are quite restrictive and were clearly developed to prevent misuse.

Blue box: A program can be considered "blue box" and also be exempt from limitations, if payments are made on:

- fixed areas and yields for crops (covers certain EU programs);
- a fixed number of head (also covers certain EU programs); or
- 85% or less of base production (this covered the pre-1996 U.S. deficiency payment programs for grains).[4]

[3] The original proposal -- to use the red, amber and green traffic light concept, with red programs being those that would be abolished, amber being those that would be limited, and green being those that would be permitted – lost favor in both the U.S. and the European Union (EU) because of the red category. Neither side had the desire to ban programs that each was at the time using.

[4] The agreement to exempt blue box programs occurred in 1994, before the U.S. abolished the deficiency payment programs under the 1996 FAIR Act. The U.S., therefore, no longer has any "blue box" programs, whereas the EU continues to use such programs. The U.S. is currently attempting to gain approval in the

Amber box: As indicated above, amber is the residual category. Anything that cannot be categorized as green or blue is "amber." These are almost by definition considered to be "coupled" support programs. In other words, they are payments that are tied in some way to output, prices, or both.

Impact on U.S. Programs

As a result of the agreement to reduce amber box supports by 20 percent, U.S. spending limits for that category of farm programs was reduced over six years from about $23 billion to $19.1 billion per year.[5] At the time of the agreement, commodity prices were relatively high, so U.S. spending in amber box programs was only about $6.2 billion. No one at the time expected the U.S. might one day come close to or even exceed its limits on amber box spending.

This belief became even more entrenched after enactment of the 1996 FAIR Act, when farm legislation was changed significantly to place greater emphasis on market returns. The key provision of the FAIR Act -- the Agricultural Market Transition Assistance (AMTA)[6] program -- was classified by the U.S. as a "green box" measure because payments were not related to current prices or current production, and recipients were not required to produce anything to receive a payment. Therefore, those AMTA payments were not counted in determining U.S. compliance with its reduction commitments.

Other payments under the FAIR Act were clearly "amber," however. These include various price support programs, LDP's, and marketing loan gains. They were not de-coupled and were (and still are) subject to the $19.1 billion per year limit. When world commodity prices began to fall at the end of 1997, U.S. amber box spending grew to unexpected levels.

Supplemental AMTA's[7] were introduced for 1998 to help offset those price declines. Arguments were made at the time that these payments should also be considered "green." But, unlike the initial AMTA payments, which were fixed in 1995 without regard to subsequent planting levels or prices, the supplemental AMTA payments were made to farmers expressly to offset low prices on "current" production. The U.S., therefore, notified them in June 2001 -- after a two-year's delay -- as non product-specific amber box payments. But, since they did not exceed the 5 percent "de minimis" exemption[8] for non product-specific programs, they were also notified as "de minimis" and thus not required to be counted against the $19.1 billion amber box ceiling. The ability to shield this program (as well as the subsequent Countercyclical Payment

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Doha Round to modify the blue box criteria to encompass the U.S. countercyclical payment program

[5] That limit will remain in effect until another WTO agreement changes it.

[6] Also referred to as "Production Flexibility Contract" payments (PFCs).

[7] Also referred to as "Market Loss Assistance" payments (MLA's).

[8] Payments under the program did not exceed 5 percent of the value of agricultural production in the U.S. (or about $11 billion).

program) from inclusion in the U.S. amber box using the "de minimis" exemption prevented the U.S. from exceeding its AMS commitment in several recent years.

However, Brazil's WTO challenge of the U.S. cotton program in 2003 and the resulting WTO panel rulings significantly complicates the ability of the U.S. to operate current programs within its current WTO limits.[9] In addition to the core rulings that three U.S. support programs[10] were causing "serious prejudice" to Brazil's trade interests, the panel also determined that AMTA payments (or production flexibility contract payments (PFCs)) and the Direct Payment program should have been (and, in the case of Direct Payments, should still be) notified in the amber box. As indicated above, the U.S. considered AMTA's to be de-coupled income support and therefore eligible for the green box. The presumption was that the Direct Payment program was also eligible for the green box, but the U.S. has not yet notified it to the WTO. In short, this panel decision means that the current set of U.S. "safety net" programs may not in some recent years have remained within the $19.1 billion amber box limit.[11]

Pressures to Find Green Box Alternatives to Trade-Distorting Policies

There are at least five forces at play with respect to the future direction of U.S. farm programs. Most are overlapping pressures to reduce and/or change the form of supports, but at least one is a competing force aimed at keeping the supports virtually unchanged.

(1) Possible WTO agreement in the Doha Round: A "successful" agreement will reduce the U.S. amber box limit by as much as 60 percent, from $19.1 billion to as low as $7.6 billion. It will also put new limits on the blue box[12] and on the "de minimis" exemption. It is widely accepted that current U.S. programs, depending on the strength of prices, would not always fit under those new limits.

(2) WTO ruling against certain U.S. cotton programs: As referred to previously, a WTO panel ruled in 2005 that certain U.S. cotton programs have operated either

[9] Beginning with a call for the elimination of cotton subsidies by four cotton-producing African countries and a concurrent report on those programs by Oxfam International in May 2003, U.S. and EU cotton subsidies have become a lightening rod for developing country and NGO displeasure with agricultural supports in developed countries. Demands for special treatment of cotton in the Doha negotiations have subsequently delayed and disrupted negotiations during the Cancun ministerial in September 2003, on the Framework Text in July 2004, and during the Hong Kong ministerial in December 2005. Opponents of cotton subsidies have argued that the subsidies have led to a steep drop in global cotton prices to the detriment of producers in poor countries and have demanded that cotton be negotiated on an expedited basis in the Doha Round – something the U.S. has consistently opposed.

[10] The marketing loan program, the countercyclical payment program, and the market loss assistance payments.

[11] Since the U.S. has not notified domestic supports to the WTO since the marketing year 2001, there is no official basis for a judgment. With farm prices currently strong, the risk of exceeding the limit has more recently been lessened.

[12] The U.S. is attempting to gain acceptance of a change to the blue box criteria to enable the countercyclical payment program to be covered. Even if successful, the limits anticipated for both the amber box and the new blue box would make the operation of current programs untenable in most if not all years.

inconsistently with U.S. WTO obligations or in a manner that caused "serious prejudice" to Brazil's trade interests. The U.S. made changes to certain aspects of the cotton program, but Brazil is insisting that further changes be made in order to completely eliminate the serious prejudice it argues it has suffered from the cotton program. As of the time this paper was prepared, a WTO arbitration panel had not yet ruled on Brazil's demand. Changes may also have to be made in the operation of the Direct Payment program as a result of the original ruling. The WTO panel determined that these direct payments must be counted in the amber box as long as fruits and vegetable production is prohibited on program acres[13].

(3) Lack of a new "peace clause": There is a likelihood that, without a new "peace clause"[14], which could be incorporated into a Doha agreement, additional "cotton-like" dispute settlement cases will be brought against other U.S. supported commodities. Such cases might result in required reductions in levels of amber box support to them.[15]

(4) Federal budget deficit: As a result of the federal budget deficit and the expressed desire of the new Congress to control spending, there is growing pressure to reduce outlays in all programs that are considered "discretionary," and this may well include farm support programs.[16]

(5) Domestic farm community pressure: A competing force to all those mentioned above is pressure from the domestic farm community. Many producers of supported commodities are fond of the current set of farm programs, which they view as providing a necessary income safety net. These producers do not want to see the current programs restricted in any fundamental way.

The desire to maintain a "safety net" for producers in light of the strong international forces seeking significant reforms in U.S. programs is a principal reason attention has been paid to support program options that would fit into the green box. The

[13] The panel determined that the direct payments could not be considered purely de-coupled from production decisions (as required to be considered green box) as long as producers were prevented from producing certain types of crops in order to receive those payments.

[14] The "Peace Clause" is a provision of the Uruguay Round Agreement on Agriculture (URAA) that was agreed upon late in the negotiations at the insistence of the European Union. The Peace Clause essentially protected a WTO member country from the application of certain provisions of the of the WTO Agreement on Subsidies and Countervailing Measures (Subsidies Agreement), as long as that member country is in conformity with its URAA subsidy reduction commitments and has not increased subsidies for a particular commodity above the level decided during the 1992 marketing year. The expiration of the Peace Clause at the end of 2003 means that all agricultural subsidies may now be challenged under the Subsidies Agreement, if they are in breach of a country's obligations under that Agreement.

[15] There is some debate about the level of vulnerability of other U.S. crops to WTO challenges. While most crops appear to be less vulnerable than was cotton based on the factors considered by the cotton panel, all products that receive supports are "vulnerable" in the sense that they are challengeable. The outcome of a challenge would depend on a panel's judgment about the extent to which the supports caused serious prejudice to the interests of other WTO members.

[16] Supporters of current farm programs argue that with higher market prices, the cost of the programs will decline without the need for legislative changes. Opponents of current programs argue that this is a good time to lock in lower payments and to make U.S. programs more compatible with WTO rules.

proposal by the National Corn Growers Association for a form of income insurance program, for example, has the attraction of arguably being green box under current WTO rules.

The Agricultural Negotiations in the Doha Round -- Pre-Suspension

Most of the progress toward agreement on a set of so-called negotiating "modalities"[17] occurred in the Framework Text, which was adopted in July 2004. Little meaningful convergence on specific issues occurred either before then or has occurred after that text was adopted, and important deadlines have come and gone.

The WTO Ministerial Conference in Hong Kong in December 2005 did achieve several positive results, but most participants viewed the outcome as relatively positive simply because it did not implode as had the previous such meeting in Cancun in 2003.

Here is a brief overview of the status of the negotiations in agriculture in the key areas of market access, export competition, and domestic supports.

Market Access

Issues that have been settled:

- There will be four "bands" of tariff levels with tariffs in the higher bands to be reduced by a higher percentage than tariffs in the lower bands. This was agreed upon in Hong Kong.
- There is to be substantial improvement in market access for all products, including those designated as "sensitive products."
- Developing countries will be given additional flexibility for their "special products" and will be able to use "special safeguard" actions to deal with surges in imports or falls in prices.
- It was also agreed in Hong Kong that market access commitments in agriculture will be commensurate with market access commitments in non-agricultural market access (NAMA).
- Developed countries must provide duty-free and quota-free access to least-developed countries on 97% of their tariff lines.
- In-quota tariffs are to be bound and tariff quotas will be expanded to provide for the required "substantial improvement in market access for all products" in the case of sensitive products. Previous language linking size of the tariff rate quota (TRQ) increase to the deviation from formula cut was deleted in the Hong Kong discussions.

Issues that remain to be settled:

- The levels of tariff bands.
- The formula for tariff reductions within each band (flat percentage or harmonizing)

[17] Methods or techniques for reducing or eliminating trade barriers and other distortions to trade, such as tariff cutting formulas and transition periods for implementation of the agreements.

- Whether there will be a tariff cap and, if so, at what level.
- The number of sensitive products[18] allowable.
- Whether an EU proposal for flexibility in formulas cuts from within the tariff bands will be adopted.
- The extent to which TRQs will be expanded for sensitive products.
- How to deal with TRQ administration, tariff simplification, and tariff escalation.

Export Competition

Issues settled:

- Direct export subsidies and export measures with an equivalent effect are to be eliminated by the end of 2013 and substantial cuts will be required in the first half of the transition period (front-loading).
- Export credits with repayment periods longer than 180 days must be eliminated.
- Subsidies and the underwriting of losses by state trading enterprises (STE's) must be eliminated; the monopoly practices of STEs cannot be exercised in a manner that circumvent other general WTO disciplines on STEs.
- Food aid may not used in a manner that is disruptive to commercial markets.

Issues that remain to be settled:

- Disciplines on other forms of export credits.
- Rules on food aid.
- Whether and how to discipline differential export taxes (DETs).

Domestic Supports

Issues settled:

- The total AMS (amber box) must be reduced substantially, using a tiered approach with three tiers; the EU will be in the top tier, the U.S. and Japan will be in the second tier, and all other countries will be in the lowest tier.
- Overall trade-distorting domestic support (amber box, blue box and *de minimis*) must be reduced using a tiered formula, also with three tiers; the EU will be in the top tier, the U.S. and Japan will be in the second tier, and all other countries will be in the lowest tier.
- Reductions must be made in both the product-specific and non-product-specific *de minimis* thresholds.
- The blue box will be limited to 5% of the value of production[19]; new criteria for the blue box which will in practice allow U.S. countercyclical payments to be notified in that box rather than in the amber box or under *de minimis*.

[18] "Sensitive products" are products that will not be subject to the full tariff reduction that would otherwise be necessary under whatever formula is agreed.
[19] The U.S. has proposal reducing it to 2.5% but this has not been formally agreed upon (see section "Issues that remain to be settled."

- The reduction in overall trade distorting support will still need to be made even if the sum of the reductions in the AMS, *de minimis*, and blue box would otherwise be less than that overall reduction.

Issues that remain to be settled:

- The percentage reductions to be used to cut both the AMS and the total trade-distorting supports in each of the tiers; the percentage reductions in *de minimis*.
- The base periods for the calculation of support levels, the transition periods, whether there should be front-loading and, if so, to what extent.
- Whether there should be product-specific caps within the amber box and, if so, how they should be established (base level, level of specificity).
- Whether there should be product-based limits in the blue box.
- Whether the new blue box criteria for the U.S. countercyclical payment program (from the 2004 Framework Text) will be retained.
- Whether and, if so, how green box criteria might be modified.

Developing Country Issues

Developing countries have played a much more active and aggressive role in this round of trade negotiations than in any previous round. The fact that the Round was named the Doha Development Agenda demonstrates the extent to which developing countries have influenced the agenda for this negotiation. Demands and expectations of developing countries have affected both the pace of the talks and the ability to reach agreement on certain issues, especially during ministerial-level meetings.

In addition to the traditional demand for "special and differential treatment" (S&D), developing countries have sought special benefits in the cotton sector and were successful in gaining agreements from the U.S. and the EU to apply commitments in the sector on the first year of implementation. S&D for developing countries generally means those nations having to undertake lesser obligations in all three pillars and being given greater flexibility to exempt certain sensitive products. Examples of S&D in this negotiation include longer transition periods for market access commitments, lower tariff reductions, the ability to designate certain products as "special"[20] and the right to implement "special safeguards."

Developing countries are still expected to undertake "meaningful" market access commitments, but with the exception to the general rules they are seeking and their insistence on reducing tariffs from "bound" levels rather than "applied" levels, how much additional market access they will finally offer is very much up in the air. In some cases, developing countries are advanced enough either in general or in specific product sectors that the justification for special treatment is more than a little suspect. The U.S. soybean industry is leading an effort to ensure that certain developing countries are

[20] Members agreed in the Framework Agreement that developing countries would be allowed to designate an "appropriate number of Special Products, based on criteria of food security, livelihood security and rural development needs." Negotiators have yet to agree on the precise scope of this derogation.

"differentiated" based on the share of world exports they have in specific agricultural products. Countries thus considered to be "world class" producers and exporters would be expected to undertake Doha commitments equal to those of developed countries.

The Agricultural Negotiations in the Doha Round -- Most Serious Problem Areas

Market access

Many of the issues remaining to be resolved are sensitive to one or more countries, and any number could potentially permanently derail the negotiations. However, the most troublesome discussions currently center on the size of the tariff cuts in the market access negotiations and the number of sensitive products that would be exempt from the full cuts. The U.S. and other exporting countries favor a substantial general formula cut and a small number of allowable sensitive products. The EU, Japan, Switzerland and other G-10[21] countries are seeking a much more modest tariff cutting formula and a sizeable list of sensitive products. This has been a major point of disagreement for many months.

The U.S. has proposed a maximum of 1% of a country's agricultural tariff lines be eligible for sensitive product designation. The EU has proposed that 8% of tariff lines be eligible. Under the EU proposal, virtually all EU tariff lines that are currently protected by tariff rate quotas (TRQs) would be eligible for sensitive product treatment. Together these products account for a large majority of the value of EU agricultural production.

Aside from the critical issue of the number of sensitive products to be allowed is the question of how countries are to provide for meaningful market access improvements for those products, as required by under the Framework Text. The U.S. has proposed expanding tariff rate quotas as an offset to lesser tariff cuts on sensitive products. The U.S. proposal would employ a formula for tariff quota expansion under which the minimum expansion would be 4% of domestic consumption, and the expansion percentage would rise in direct proportion to the level of deviation from the formula cut.[22]

The EU's TRQ expansion proposal would yield expansion obligations of between 5% and 32%, depending on the amount of deviation and the level of the out-of-quota tariff. But it would have the odd effect, from the U.S. point of view, of establishing an

[21] The G-10 is led by Switzerland and includes Chinese Taipei, Rep of Korea, Iceland, Israel, Japan, Liechtenstein, Mauritius and Norway and Switzerland.

[22] It would work as follows: Formula: Y=MX+B, where Y is the required level of additional expansion, expressed in terms of percentage of consumption; X is the difference between the final tariff that would have resulted under the regular formula and the final tariff that the country implements under the sensitive products derogation; M is the slope (a constant determined by negotiation; the U.S. proposed a slope of 0.2); and B is the intercept, expressed again in terms of percentage of consumption (a constant to be determined by negotiation; the U.S. proposed 4%). Sample calculation: A country designates a product as sensitive. That product carries a tariff that would have been reduced to 80% under the normal formula cut. The country reduces that tariff to only 100%. The required tariff quota expansion under the formula proposed by the U.S. would be 8%, figured like this: (0.2 x (100-80)) + 4 = 8.

inverse relationship between the level of the tariff and the level of TRQ expansion – i.e., the higher that tariff, the lower the TRQ expansion obligation. Moreover, the expansion percentage would be applied to current imports rather than maximum TRQ quantities. TRQs that have not filled in the past (due to high in-quota tariffs, poor TRQ Administration or any other factor) would be increased by less than those that have been fully utilized. This would be impossible for the U.S. to accept.

Export competition

The single most difficult issue remaining under this pillar is food aid. Negotiations on this issue have not progressed much since the Framework Agreement in July 2004. Even that text offered little in the way of convergence on the issue.[23] The EU is calling for food aid to be in only the form of cash. Although this concept has not been widely accepted, the EU has been at least somewhat successful in making the U.S. appear to be no more flexible on food aid than the EU is on market access.

The U.S. position has not changed since it tabled a paper on October 5 in which it called for:

- The UN World food Program's definition of an emergency to be the basis for emergency food aid;
- The establishment of lists of net food importing and least developed countries for which food aid would be legitimate; and
- A set of disciplines for all other situations in order to avoid commercial displacement. Such disciplines would include –
    - An appeal would be required from the government, the UN or other international bodies, or charitable NGO's;
    - Deliveries must be untied from commercial transactions;
    - Re-exportation would be prohibited;
    - A determination that a recipient country cannot import commercially; and
    - Aid must be transparent.

Domestic supports

Clearly, the single most important question to be answered under the domestic support pillar is by how much the U.S. and the EU will be required to reduce their amber box limits. The other remaining issues (for example, how much to reduce the blue box, *de minimis* and total support) are also important and will likely have to be agreed upon as part of a total package, but the amber box is the primary target of non-subsidizers and the prime concern of producers of supported commodities in the U.S.

[23] "Provision of food aid that is not in conformity with operationally effective disciplines to be agreed. The objective of such disciplines will be to prevent commercial displacement. The role of international organizations as regards the provision of food aid by Members, including related humanitarian and developmental issues, will be addressed in the negotiations. The question of providing food aid exclusively in fully grant form will also be addressed in the negotiations."

The EU has offered to reduce its amber box limit by 75 percent if the U.S. agrees to reduce its limit by 65 percent. The U.S. is proposing that the EU reduce its amber box limit by 83 percent and has offered to reduce its own by 60 percent. The EU is able to make reductions of this magnitude because its 2003 agricultural reforms are gradually moving the EU out of amber and blue box forms of support into de-coupled income support through direct payments. For this reason, a deep cut in domestic supports has become more difficult for the U.S. than for the EU, or for any other country that provides support to its farmers.

The U.S. is prepared to accept such reductions in return for substantial gains in market access, the key to which is acceptance by the EU of a substantial tariff-cutting formula and meaningful improvements for sensitive products.

Assessment of Implications of the Suspension of the WTO Negotiations

What's next for the Doha Development Agenda?

The July suspension of talks made it impossible for an agreement to be reached by the end of 2006 as originally hoped. The Bush Administration's current authority (Trade Promotion Authority, or TPA) to conduct trade negotiations runs out in June 2007. Given the formal notification requirements in the trade law, an agreement not virtually concluded by the end of 2006 could not realistically be expected to meet those deadlines.

The negotiations will either have to be put on hold until the Administration is able to obtain new negotiating authority from Congress, or the Administration will at least have to show sufficient progress toward a meaningful outcome by early spring in order to convince Congress that it should enact a short and "clean" TPA extension bill. A "clean" TPA bill would be one that does not place so many conditions on the Administration's negotiating flexibility that it becomes impossible to conclude a Doha agreement.

The "short and clean TPA extension" approach is the one obviously preferred by the Director General of the WTO, Pascal Lamy. Lamy believes that the window of opportunity to resume global free trade talks will close in March, after which he believes it will probably be too late. He recognizes that, by then, the WTO would have to have a credible package of trade measures on the table so that the U.S. Congress might grant the Administration authority to conclude the negotiations some time in 2007.

But Lamy has also said that for meaningful negotiations to resume, the positions of key players would have to shift significantly. The European Union (EU) and India, among others, are being asked to make deeper cuts in agricultural market access barriers, but none have shown any willingness to do so. The U.S. is being asked to make even deeper cuts in domestic supports than it offered to do in its October 2005 package. But U.S. farm groups and some members of Congress believe that that offer went too far and are unwilling to offer any new reductions without significant improvements in the market access offers of importing countries. Without such signs of new flexibility, Lamy apparently believes it would be pointless to reopen the talks.

Informal bilateral negotiations have taken place throughout the fall, although countries remain largely tight-lipped about what positions, if any, have changed during these negotiations. Lamy noted in his December 14 report on the state of the negotiations that countries have expressed hints of flexibilities in their positions. The problem remains as to who will be the first to move.

It is widely recognized that the EU's offer on market access will ultimately become the basis of the market access commitments by other developed countries and will also become the benchmark for reduced commitments by developing countries. Thus, an unacceptable market access offer from the EU means an unacceptable market access package in the negotiations. The EU proposed a 39 percent average tariff cut in its tariffs; however, EU Trade Commissioner Mandelson said Nov. 18 that they were considering the possibility of accepting a 50 percent average cut.

The chairman of the agriculture negotiations, New Zealand's Crawford Falconer, has hosted a series of "fireside chats", involving 20 or so WTO members, including the United States, the EU, India and Brazil. In a late November meeting on domestic support, Falconer proposed that the EU and others accept a 60 percent average cut in their tariffs in return for the United States agreeing to a $15 billion annual spending cap on trade-distorting subsidies.

Recently, on December 19, USTR Schwab and EU Trade Commission Mandelson announced that they will meet in Washington in early January to discuss a way to restart negotiations. The meeting will precede the World Economic Forum to be held beginning January 24 in Davos, Switzerland, where twenty-something key WTO members will convene a mini-ministerial. This will be the first ministerial level meeting held since the suspension of talks in July. While officials have emphasized the need to have substantial progress by the end o f March in order to convince Congress to renew or extend TPA, there remains pessimism about the possibility of real substantial progress. Lamy and others have stated publicly that they do not expect much to come out of the Davos mini-ministerial.

While the key to resuscitating the negotiations clearly lies with agriculture, there also remain a number of key sticking points in non-agricultural areas. For example, Brazil and India have shown no willingness to make meaningful offers in the non-agricultural market access (NAMA) and services negotiations. The NAMA chair recently outlined a work plan to step up negotiations next month, including organizing consultations the week of January 15-19, one week before the mini-ministerial at the World Economic Forum.

Implications for the U.S. and its trade agenda

The current breakdown in talks is likely to increase the prospects for WTO dispute settlement cases, some of which could be aimed at U.S. crop subsidy programs. Brazil has already taken a more aggressive position with respect to implementation of the

WTO cotton panel findings, and may be authorized to retaliate in the coming months if the U.S. does not undertake further reforms to its cotton programs (see next section for additional elaboration).

The combination of the suspension of the WTO negotiations and the initiation of new dispute settlement cases could result in deteriorated bilateral relations, presenting problems for sectors of agriculture that are export dependent and seek to avoid trade problems and find multilateral solutions to those that arise.

On the other hand, there is the counter-proposition that the failure of the WTO negotiations could also stimulate greater interest in bilateral or regional free trade agreements. This will certainly be the case among some U.S. producer groups, but even these agreements can only be negotiated if the Congress extends TPA. Therefore, the U.S. may find itself, beginning next year, with no immediate means of negotiating improvements to trade.

This could spur some congressional action to provide TPA, at least on bilateral and regional initiatives. Congress may see that other countries are not so constrained in seeking preferential bilateral or regional trade gains while the U.S. is forced to sit idly by.

Immediately following the breakdown of negotiations, the EU's Trade Commissioner said the EU would be looking to "enhance" its bilateral trade relationships, citing China in particular. The EU is also taking steps towards free trade negotiations with India, South Korea, and the ASEAN. Leaders of MERCOSUR said they would look to revive FTA talks with the EU, and possibly begin FTA negotiations with China, Russia and Turkey. Peru has proposed a "Community of the Pacific" free trade agreement that would encompass all countries in the Western Hemisphere bordering the Pacific in a common Free trade area.

While Japan and Korea have also begun to negotiate bilateral agreements that could result in preferential treatment for U.S. competitors in those markets, they are also looking to establish preferential arrangements within Asia. The Chinese have suggested a trilateral trade agreement with Japan and South Korea. Japan and the Association of South East Asian Nations (ASEAN) countries are on their way to accelerating negotiations for regional agreement. Japan's trade minister also proposed an ASEAN plus 6 (Japan, China, Korea, India, Australia, and New Zealand) FTA.

Implications for the Farm Bill

The current farm bill will expire with the end of the current crop years. The 109th Congress adjourned without addressing the farm bill and expert observers doubt that a new bill could be enacted before the summer recess in 2007. The suspension of the Doha round of trade negotiations has changed the dynamics of the farm bill debate. Several groups are calling for an extension of the current farm bill for at least a year, based on the fact that the Doha negotiations will now provide no clear road map for, or limits on, future U.S. programs for at least that long. Some key members of Congress have

expressed the view that there should be no extension and that a new farm bill should be enacted without awaiting an outcome from the trade talks. The Administration's long-standing position opposing an extension of the current bill has not changed, but it is not clear that the Administration would or could prevent such an outcome, if that is the direction in which Congress decides to go.

Regardless of any political pressures to extend the current legislation, many believe that a "clean" extension (that is, without meaningful modifications) is impossible. Most believe that budget pressures and the frustrations of Members from non-agricultural districts about the current level of subsidization would not allow for such an outcome. In addition, some members of Congress have spoken of the need to make U.S. programs more WTO compliant, regardless of the suspension of the Doha talks.

Finally, there are several other factors that work against a simple extension, including the demand by producers of non-subsidized horticultural crops for funding of certain programs of interest to them and the need to address the findings of the cotton panel in Brazil's challenge to certain cotton programs. There may be additional challenges to U.S. programs in the coming months that might influence the farm bill debate.

A clean extension of the farm bill might be more achievable if it were to be tied to an extension of TPA legislation. Likewise, TPA extension might be more achievable if tied to an extension of the farm bill. If tied together, the thinking goes, the two might gain sufficient support to extend them both. But, as mentioned before, support for extension of TPA will be weak unless some new progress toward achieving U.S. market access objectives in both agriculture and non-agricultural products can be demonstrated in the Doha talks before the expiration of TPA in June 2007.

Since the October 2005 U.S. proposal, the market price of most subsidized crops has increased. These price changes may allow the U.S. to offer further reductions in the cap on amber box payments. Under the current price structure, cuts in amber box payments would not negatively impact U.S. producers. This argument may be made by other WTO Members in an effort to get the United States to improve their offer to cut amber box of 60%.

In short, unless the suspension of the Doha negotiations is lifted before the first quarter of 2007, the next farm bill will not have to be written with new international disciplines on farm subsidies on the horizon. However, domestic and international pressures to change the current bill will not go away, and a simple extension of the current programs may be difficult to achieve.