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Agricultural market access versus subsidies: what's more important for developing countries?

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The Doha negotiating agenda is complex, spanning traditional tariffs, nontariff barriers, policies affecting trade and investment in services, WTO rules, and agricultural subsidies. The latter have attracted an enormous amount of attention, reflecting not only the detrimental effects of subsidies but the patent unfairness of the need for developing country farmers to compete against subsidized produce from rich countries.

That subsidies are pernicious and can have major negative repercussions on developing country farmers is perhaps best illustrated by cotton, a product that is so heavily subsidized by the United States that it lowers world prices substantially – estimates are in the 10-20 percent range. This has hurt thousands of households that produce cotton in West Africa. Recent research illustrates however, that for most developing countries traditional market access barriers matter more than do subsidies. This is important, as an excessive focus on subsidies may result in less attention being paid in the Doha Round to market access barriers. If this were to be the result, the potential benefits of a Round would be much reduced.

Industrialized countries apply policies that transfer some US$ 250 billion per year to their farmers. What is often not recognized is that two thirds of this amount involves transfers from consumers, through higher prices paid for food. The instrument used to raise prices is border protection: tariffs. The average agricultural tariff in rich countries is 23 percent. If one adds non-tariff measures such as tariff-quotas and the effects of sanitary and phytosanitary measures, agricultural protection reaches 42 percent; ten times higher than for manufacturing. Moreover, the variability of agricultural tariffs is enormous, with some products benefiting from tariffs that are over 100 percent..

What matters most from the perspective of developing country farmers are the policies that most affect (lower) export prices for their goods. The available research indicates that on this measure market access barriers in both developed and other developing countries have a larger overall impact than production and export subsidies (see figure). Clearly this is not the case for all commodities – the cotton case is an example. But many products are not subsidized – not just manufactured goods but also many agricultural products.

Another reason for ensuring that negotiators do not neglect the traditional market access agenda is that open borders provide "automatic" discipline on the ability of governments to subsidize domestic production. If domestic consumers are able to import at the world market price, the more inefficient are domestic farmers, the higher the fiscal cost of supporting them will be.

A growing share of agricultural subsidies is being 'decoupled' from production. That is, subsides are not conditional on production, but, for example, on the assets owned by the

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farmer. These types of subsidies will still distort production insofar as they benefit households that are engaged in farming. However, they are less likely to induce major trade distortions, especially if countries have agreed to maintain low trade barriers. Income support may also be an effective means of internally redistributing income to rural households, allowing governments to move forward to liberalize access to their markets.

A Doha Round that achieves significant cuts in agricultural domestic production subsidies, but little in terms of improved market access, will miss the point. For farmers in developing countries what matters is market access.

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