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Contact:
IFPRI: Michael Rubinstein
+1. 202-862-5670, m.rubinstein@cgiar.org
IPC: Charlotte Hebebrand
+1 202 328 5001, hebebrand@agritrade.org
ICTSD: Jonathan Hepburn
+41 22 917 8756, jhepburn@ictsd.ch

New trade deal could boost Brazilian farm exports

Caps on subsidies and less distorted trade flows seen as key outcomes of a WTO agreement

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With the financial crisis and economic slowdown focusing governments' attention on the struggling negotiations at the World Trade Organization, ministers are expected to meet in Geneva next month to try once more to hammer out the details of a framework accord on cutting tariffs and farm subsidies.

A successful push by world leaders for a global trade deal would boost Brazilian agricultural exports by opening up new markets and reducing subsidies for such key products such as cotton, soybeans and sugar a new study shows.

The study, by the International Centre for Trade and Sustainable Development (ICTSD), the International Food & Agricultural Trade Policy Council (IPC), and the International Food Policy Research Institute (IFPRI), assesses the implications of a plausible Doha Round agriculture agreement for Brazil. Similar analyses have been carried out for the EU, the US, and India.

The study's authors say that a Doha Round agreement would benefit Brazil, one of the world's largest agricultural exporters, by reducing the tariffs that Brazilian exports face in other markets, and by reducing Western farm subsidies that distort prices, production, and trade. The study cautions that the caps on support for specific products are needed to prevent the price depressing effects of subsidies, especially when prices are low. The trade distorting effect of product specific subsidies tends to be higher during times of low prices because developed countries pay their famers the difference between their higher domestic cost of production and lower world prices. This allows subsidized famers to continue to flood global markets with farm goods that do not reflect their cost of production. Efficient agricultural exporters, such as Brazil, among other non-subsidizing countries, are hurt in this process.

Looking at some of the key figures for tariff and subsidy cuts currently on the negotiating table, the authors find that a 54 percent average reduction in developed country farm tariffs, and a 70 percent reduction in limits on trade-distorting US subsidies, "will be a meaningful result."

According to the study, prices for heavily traded agricultural commodities, such as cotton, soybean, corn, rice, and wheat have been historically depressed by product-specific subsidies in developed countries, at the expense of Brazilian producers as well as the world's other non-subsidized producers. In recent years the distortion in prices has varied from nearly 10 percent for cotton to less than 6 percent for wheat. The trade agreement currently on the table proposes limits on product-specific subsidies that have the potential to reign in developed country spending that distorts international trade.

Furthermore, "Brazil will not have to make major changes to its tariffs and subsidies" under a Doha deal, the authors underline. Current proposals would bring Brazil's farm subsidy spending cap down from US$14 billion to US$8 billion per year, still well in excess of US$3 billion that is the most Brasilia has spent since 1995. Similarly, likely tariff cuts would reduce import duties beyond current levels for no more than 10 percent of all agricultural products.

Developed countries are likely to continue to use exceptions to protect certain import sensitive products through high tariffs applied through the Special Agricultural Safeguard (SSG) and tariff rate quotas (TRQs). For example, Brazilian exports of poultry, beef, and sugar to the EU are unlikely to increase due to these measures. Brazil also has concerns about the developing country Special Safeguard Mechanism (SSM), in particular if it leads to allowed levels of protection above the bound rates of the current agreement.
The study is available online at:

Implications for Brazil of the July 2008 Draft Agricultural Modalities
By Andre Nassar, Cinthia Cabral da Costa, Luciane Chiodi
http://ictsd.net/i/publications/33784/

The complete series of country studies on the EU, US, India, and Brazil, as well as forthcoming studies are available at:
http://ictsd.net/programmes/agriculture/

Notes to editors:

1. The World Trade Organisation (WTO) is an organisation based in Geneva, Switzerland, which is responsible for liberalising and regulating international trade in goods, services and other areas. It has 153 Members.

2. The WTO Doha Round of trade negotiations was launched in Doha, Qatar, in 2001. It seeks to reduce trade barriers to a variety of goods and services, but has been plagued by repeated missed deadlines and breakdowns. In agriculture, it aims at *"substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support"*.

3. The International Food & Agricultural Trade Policy Council (IPC) promotes a more open and equitable global food system by pursuing pragmatic trade and development policies in food and agriculture to meet the world's growing needs. IPC convenes influential policymakers, agribusiness executives, farm leaders, and academics from developed and developing countries to clarify complex issues, build consensus, and advocate policies to decision-makers. More information on the organization and its membership can be found on our website: www.agritrade.org.

4. The International Food Policy Research Institute (IFPRI) seeks sustainable solutions for ending hunger and poverty. IFPRI is one of 15 centers supported by the Consultative Group on International Agricultural Research, an alliance of 64 governments, private foundations, and international and regional organizations. www.ifpri.org

5. The International Centre for Trade and Sustainable Development (ICTSD) is a non-governmental organization, based in Geneva, which – by empowering stakeholders in trade policy through information, networking, dialogue, well-targeted research, and capacity building – seeks to influence the international trade system such that it advances the goal of sustainable development. www.ictsd.org

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