



IMF Policy Discussion Paper

Trade Issues in the Doha Round: Dispelling Some Misconceptions

Stephen Tokarick

IMF Policy Discussion Paper

Research Department

Trade Issues in the Doha Round: Dispelling Some Misconceptions

Prepared by Stephen Tokarick

August 2006

Abstract

This Policy Discussion Paper should not be reported as representing the views of the IMF.

The views expressed in this Policy Discussion Paper are those of the author(s) and do not necessarily represent those of the IMF or IMF policy. Policy Discussion Papers describe research in progress by the author(s) and are published to elicit comments and to further debate.

The current round of multilateral trade negotiations—the Doha Round—presents an opportunity for countries to reap the benefits of trade liberalization. Unfortunately, a number of misconceptions about the likely impact of trade reforms has, in part, impeded more rapid progress toward completion of the Round. This paper addresses some of the most egregious of these misconceptions and presents results from IMF research that sheds light on these issues. In particular, this paper argues that: (i) developing countries have much to gain from their own trade liberalization; (ii) preference erosion could be significant for some countries, but it is not a justification for postponing tariff reductions; (iii) tariffs applied against agricultural products in rich countries actually harm developing countries more than subsidies; and (iv) a disproportionate share of agricultural subsidies in rich countries goes to large wealthy farmers.

JEL Classification Numbers: F11

Keywords: Trade liberalization, preference erosion, tariffs, subsidies, developing countries

Author(s) E-Mail Address: stokarick@imf.org

I. INTRODUCTION

The Doha Round presents an opportunity for all countries to reap benefits from multilateral trade liberalization. The World Bank has estimated that a plausible outcome to the Round could generate gains in real income for all countries of close to US\$100 billion in 2015, with about one-fifth accruing to developing countries. This represents only about one-third of the total gains that could result from removal of all trade barriers by all countries, so there is scope for additional liberalization even after Doha. These estimates probably understate the magnitude of the potential gains because they do not take into account the dynamic effects that trade liberalization could induce, which are difficult to quantify, but could be very large.

Progress toward completion of the Doha Round has been slowed by several obstacles, such as the inability of member countries to reach an agreement on the magnitude of reductions in agricultural trade barriers (e.g., tariffs and subsidies). In the public discussion of these and other trade issues, a number of misconceptions have arisen due to inaccurate information and a lack of sound economic analysis. The purpose of this note is to dispel these misconceptions and bring clarity to the discussion.

In particular, this note addresses the following four misconceptions:

- **Developing countries would benefit more from liberalization by rich countries than they would from their own liberalization.** In fact, research shows that developing countries have much to gain from their own trade reforms.
- **Tariff reductions on a multilateral basis could wipe out a large portion of trade between rich countries and developing countries as a consequence of preference**

- erosion.** On the contrary, research shows that the magnitude of any erosion is small in aggregate and is of concern for only a few countries and products.
- **Agricultural subsidies in many Organisation for Economic Co-operation and Development many (OECD) countries are more damaging than other types of policies, such as tariffs.** Actually, import tariffs in OECD countries harm developing countries much more than either production or export subsidies, with the exception of subsidies on cotton. Export subsidies in OECD countries actually benefit developing countries that are importers of subsidized products because they reduce the price of imported goods.
 - **The recipients of agricultural subsidies in rich countries tend to be small, low-income farmers.** The facts, based on data for both the United States and the European Union, are that a disproportionately large share of government support goes to wealthy farmers.

II. DEVELOPING COUNTRIES STAND TO GAIN FROM THEIR OWN REFORMS

There is a popular perception that the greatest harm to developing countries comes from agricultural trade policies in rich countries. For example, in discussing the effects of the European Union's sugar policy, Oxfam (2002) states:

EU consumers and taxpayers pay a high price for the excessive production, but the real burden falls far beyond Europe's borders. Not only is Europe depressing the world price and keeping out efficient suppliers like Brazil and Thailand, but it is also destroying prospects for some of the least developed countries (LDCs), such as Mozambique (p. 4).

A. Import Barriers Discourage Exports

Of course, protectionist policies in developed countries are harmful to developing countries, but a less appreciated fact is that developing countries' own trade

barriers also retard their development by creating disincentives to export. Tariffs on imports create a bias against exports by raising the domestic price of imports relative to exports, or equivalently, by lowering the domestic price of exports relative to imports. Thus, import tariffs are equivalent to a tax on exports. Import tariffs also create a disincentive to export by increasing the cost of imported intermediate inputs used by export industries. For a given price of exports, a tariff on imported intermediate inputs effectively acts as a “cost penalty” on the production of exports. Duty drawback and similar schemes are designed to eliminate the bias against exports, but they can be difficult to administer.

Empirical research has shown that the size of the export tax arising from import tariffs can be substantial. Tokarick (2006) studied 26 low-income countries and found that, on average, import tariffs in these countries were equivalent to about a 12½ percent tax on their exports and 4 of these countries had export-tax equivalents between 26 and 34 percent. These estimates do not take into account the disincentives that arise from other types of import barriers, namely nontariff barriers (NTBs), so the actual bias against exports from all types of import barriers is likely larger. Developing countries typically have many “informal barriers” to trade as well, such as high levels of port and internal transportation charges that make it even more difficult for these countries to expand their exports.

Reducing import tariffs, therefore, is an export-promotion strategy that countries can implement, regardless of whether their trading partners reduce their tariffs. Countries should be careful, however, as to how they design tariff reductions. In order to maximize the benefits, research shows that countries should reduce higher tariffs by more than lower ones and not exempt sectors from reductions. At the WTO Ministerial Meeting in Hong Kong SAR in December 2005, countries agreed in principle to reduce

higher tariffs by a larger percentage than lower ones on non-agricultural products, and this represents a real achievement. If high-tariff sectors are exempt from tariff cuts, then tariff reductions in other sectors may actually harm a country by directing resources toward the high-tariff sectors.

B. Impact of Protection on Real Income

In theory, the extent to which a country benefits from reductions in its own trade barriers depends on whether it is able to influence its terms of trade. Small countries—countries that are too small to influence their terms of trade—stand to gain from tariff reductions because they enjoy improvements in efficiency without any terms-of-trade losses. For countries that are large in world markets, tariff reductions will worsen their terms of trade (because these reductions raise the world prices of their imports relative to their exports), but improve efficiency, so the net effect on their own well being depends on the magnitudes of these two offsetting effects.¹ Changes in trade policies in large countries also have spillover effects on other countries through these terms-of-trade changes. Since tariff reductions worsen the terms of trade for the liberalizing country, they also worsen the terms of trade for other countries that import the protected product, making them worse off. However, the terms of trade of exporting countries would improve, making them better off.

Empirical work has shown that about half of all the gains accruing to developing countries from full trade liberalization would come from their own reforms. Anderson, Martin, and van der Mensbrugghe (2005) estimate how real income would change for

¹ It is possible for tariff reductions to make a country worse off, if the magnitude of the terms-of-trade deterioration is greater than the efficiency gains. For this outcome to occur, a country must be large in world markets (i.e., be able to influence its terms of trade), and its current tariff levels must be below the “optimal” ones. Recent empirical work has not produced this outcome.

developing and high-income countries if all trade barriers were eliminated and they find that if all countries were to liberalize, real income in developing countries would increase by US\$86 billion, and half of this amount (US\$43 billion) comes from their own liberalization. The proportion of the gains to high-income countries due to their own reform is a bit higher at 58 percent (116 out of 201), reflecting their highly distorted agricultural policies. As previously noted, tariff reductions have two offsetting effects on a country's real income: they improve efficiency, but they worsen a country's terms of trade. The estimates of Anderson et al. (2005) assume that both high-income and developing countries have the ability to influence their terms of trade. If countries were unable to influence their terms of trade, the proportion of the real-income gains that would accrue to each region from their own reforms would be larger, because there would be no offsetting terms-of-trade losses. For example, Tokarick (2005) estimated the effects of eliminating all tariffs and subsidies on agricultural goods and showed that the proportion of the gains accruing to developing and developed countries from their own reforms could be as high as 90 percent if these regions had very little ability to influence their terms of trade.

Even though they would benefit, some small countries have been reluctant to reduce their tariffs on a unilateral basis for at least two reasons. First, some countries rely heavily on tariff revenue to finance government expenditure. Second, although tariff reductions will benefit the economy in the aggregate, they will create "gainers" and "losers" and the losers may be able to block tariff reductions through the political process.

III. PREFERENCE EROSION: HOW BIG A CONCERN?

One reason why some countries—both developing and advanced—have expressed reservations about ambitious tariff-cutting proposals in the Doha Round is that they fear that

such proposals would be harmful for a number of developing countries because of large losses stemming from preference erosion. For example, in discussing the possible effects of tariff reductions on trade between the European Union and African, Caribbean, and Pacific (ACP) countries that benefit from trade preferences granted by the European Union, EU Commissioner for External Trade Peter Mandelson has stated that “a tariff-cutting spree in Europe of the sort being demanded [referring to the U.S. proposal] would spell disaster, wiping out a possible two-thirds of their agricultural trade with Europe.”² Partly for this reason, the European Union has rejected the offers on market access made by the United States and others that call for far-reaching tariff reductions.

Concerns over possible large deleterious effects from preference erosion are not supported by the results from current research. For example, the following points are relevant in forming a judgment regarding the impact of removing preferences:

- **Preferences may not be as generous as they might appear.** Amiti and Romalis (2006) point out that average tariffs applied against exports from non-African LDCs in the U.S. and EU markets are higher than the tariffs applied against other developing countries in these markets.
- **The value of preferences is small relative to total exports from beneficiary countries.** For example, for sub-Saharan Africa, the value of preferences is only 4 percent of their exports to the EU market, about 1½ percent of their exports to the

² Mandelson (2005). In a statement a few days earlier, Mr. Mandelson said that if the U.S. proposal on market access had been accepted, “the resulting tariff cuts would wipe out 6 out of 9 billion euros of agricultural trade with Europe from ACP countries.” See “New EU Offer in Doha Talks,” available at http://europa.eu.int/comm/commission_barroso/mandelson/speeches_articles.

U.S. market, and only one-tenth of one percent of their exports to Japan (Brenton and Ikezuki, 2005).

- **The benefits from existing preference schemes are concentrated in a few countries.** For sub-Saharan Africa, 80 percent of the benefits from the EU's preference schemes and 95 percent of the U.S.'s preference schemes go to 10 countries. For LDCs as a whole, 91 percent of the benefits from the EU's schemes and 100 percent of the benefits from the U.S. schemes go to 10 countries (Brenton and Ikezuki, 2005).
- **The value of preference schemes are confined to a narrow range of products.** Although the EU's schemes apply to all imports, the value of these preferences accrues mainly to agricultural products and the U.S. schemes cover mostly clothing products. For example, three products account for 56 percent of the EU's preference schemes and 80 percent of the U.S.'s schemes (Brenton and Ikezuki, 2005).
- **Preference schemes entail some costs of compliance for the exporting country.** Francois, Hoekman, and Manchin (2005) estimate that these costs amount to about 4 percent of exports on average.³ Thus, in order for the preference schemes to be beneficial, the preference margin—the difference between the MFN tariff rate and the preferential rate—must be large enough to compensate the exporter for these costs. The average preference margin reported in Hoekman, Martin, and Braga (2005) is less than 4 percent on average across preference-receiving countries, but larger in

³ When traders request preferences, they must comply with administrative and technical requirements. Also, the largest costs arise from complying with rules-of-origin requirements. Therefore, exporters must keep records to document that they have satisfied all the requirements to benefit from a preference scheme.

some cases, depending on the country grouping. Thus, preference schemes are really only beneficial for products exported from countries that face tariff peaks.

- **Preference schemes can be underutilized.** Utilization rates, defined as the ratio of the value of exports receiving preferential treatment to the value of all exports covered by preferential schemes, are far less than 100 percent in some cases. For example, in 2001, the utilization rate for LDCs of the U.S. Generalized System of Preferences (GSP) was 96 percent, but for the EU's GSP scheme, it was only 47 percent, UNCTAD (2003). However, utilization rates are higher if the EU's ACP preferences are included.

Quantitative Assessment of Preference Erosion

A number of IMF studies have estimated the magnitude of preference erosion and they all conclude that the aggregate losses are likely to be small, but the impact could be significant for some countries. Subramanian (2003) reported that a 40 percent cut in MFN tariffs in Quad countries (United States, Canada, European Union, and Japan) would lead to a reduction in exports from LDCs of 2 percent on average. He found, however, that a number of sub-Saharan African countries could suffer significant losses in export earnings: Malawi (11½ percent), Mauritania (9 percent), Cape Verde (6¼ percent), São Tomé and Príncipe (5¼ percent), and Tanzania (4½ percent). Subramanian pointed out that, despite these losses, any MFN tariff reductions would likely be phased in over some time, so these countries would have time to adjust.

Alexandraki and Lankes (2004) estimated the magnitude of preference erosion on middle-income countries from a 40 percent reduction in MFN tariffs and concluded that any losses were likely to be small in aggregate, but some countries could experience

large losses, especially small island countries that export bananas, sugar, and textiles and garments. For example, Mauritius could suffer a reduction in export earnings of nearly 20 percent, as a result of lower sugar exports to the European Union. Several other countries would experience significant losses in export earnings: Seychelles ($7\frac{3}{4}$ percent), Swaziland ($5\frac{3}{4}$ percent), and Tunisia, Côte d'Ivoire, and Morocco ($4\frac{1}{4}$ percent each). The actual losses suffered by these countries would likely be higher, since Alexandraki and Lankes (2004) did not consider how the phase out of textile quotas in 2005 might affect export earnings, and this factor would be very important for Mauritius and Swaziland.

The magnitude of any losses in export earnings due to preference erosion are mitigated substantially once MFN tariff reductions on products not benefiting from preference schemes are taken into account. Amiti and Romalis (2006) add to previous studies by estimating the effects of three types of tariff reductions (a uniform 40 percent tariff cut in the United States and the European Union, exempting the three highest tariff lines from any reductions, and a formula by which higher tariffs are cut by a larger percentage) on products exported by LDCs that do not currently receive preferential treatment. The main results from their analysis are:

- On average, all country groupings, except African LDCs, experience an increase in export earnings in the U.S. and EU markets following a 40 percent cut in tariffs. The losses for African LDCs average about one-tenth of one percent of their exports. Countries that could experience large reductions in export earnings are Lesotho and Cape Verde.

- Non-African LDCs would enjoy the largest percentage increase in market access to the combined U.S. and EU markets (8½ percent), under all three tariff-cutting scenarios.
- The gains in market access for all country groupings are reduced if there were no reductions on goods facing the highest tariff rates, that is, the highest three percent of tariff lines.
- The largest gains for all countries would occur under a tiered-reduction formula—a reduction in average tariffs in the European Union of 50 percent and an average reduction in the United States of 47 percent.
- There are some countries that would suffer losses regardless of the type of tariff reductions, including Cape Verde, Equatorial Guinea, Haiti, Lesotho, Madagascar, Mauritania, and Senegal. Dominica and St. Lucia could suffer losses between 20 and 40 percent as result of lower banana exports.

Other studies have found that MFN tariff reductions in OECD countries could affect the real incomes of preference receiving countries in a variety of ways. For example, Francois, Hoekman, and Manchin (2005) estimate that tariff elimination in OECD countries would reduce real income for LDCs by US\$110 million. After adjusting their estimates for the impact of compliance costs mentioned earlier, the authors conclude that multilateral tariff reductions could actually generate a small gain in real income for LDCs in sub-Saharan Africa (US\$6.3 million). Within this group of LDCs, there are some losers and some gainers. Anderson, Martin, and van der Mensbrugghe (2005) estimate the impact of a plausible outcome for the Doha Round on sub-Saharan Africa and conclude that the effect on

real income for the region could range from a loss of US\$200 million to a gain of US\$1.2 billion, depending on the precise outcome of the negotiations.

Financial assistance and policy reforms can help mitigate the adverse effects from preference erosion. In 2004, the IMF introduced the trade integration mechanism (TIM) to support countries that experience a reduction in export earnings as a consequence of multilateral trade liberalization, by making resources more predictably available under existing IMF arrangements. It should be emphasized that assistance under this policy is limited to multilateral liberalization and does not cover possible adverse effects that might arise as a result of unilateral liberalization.

IV. AGRICULTURE: WHY TARIFFS HURT DEVELOPING COUNTRIES MORE THAN SUBSIDIES

The purpose of this section is to dispel the notion that agricultural subsidies in many OECD countries are the most harmful type of policy in terms of their impact on developing countries. On the contrary, agricultural tariff barriers in OECD countries have a much larger impact on developing countries than subsidies, with the exception of subsidies applied to the production of cotton. In addition, empirical work reveals that production subsidies in OECD countries harm developing countries to a small degree, but export subsidies actually *benefit* developing countries because they reduce the prices of imported goods in importing countries. Although export subsidies benefit importing countries in the aggregate, they have different effects on various groups *within* the importing country: they benefit consumers, but harm producers. While export subsidies benefit importing countries, this does not mean that they should be retained, because they are a source of inefficiency.

Subsidy Data

On an annual basis, the OECD publishes “producer support estimates” (PSEs), that capture all transfers from consumers and taxpayers to support agricultural producers in OECD countries. Support to producers is classified into eight categories, and one of these is “market price support” which measures the assistance provided by altering the prices received by producers and paid by consumers. The other seven categories can be lumped into one group called “domestic support” which includes payments to agricultural producers that are based on output levels, as well as payments not directly tied to production, such as direct transfer payments. Market price support itself comprises any measure that creates a wedge between the domestic and international price of a product, such as import tariffs, export subsidies, and quantitative restrictions. Domestic support is not included in the OECD’s calculation of “market price support” because it does not alter the price paid by the consumer.

Data from the OECD dispel some misconceptions about the importance of various types of agricultural support to producers in OECD countries. First, market price support accounted for the largest portion of the aggregate PSE for OECD countries—about 60 percent in 2004—while domestic support accounted for the remaining 40 percent. Market price support has actually been declining in importance, falling from about 67 percent of producer support in 1999. Second, in 2004, import tariffs accounted for nearly all of the market price support component, as export subsidies were used by only a few countries, namely the European Union.⁴ For example, out of total support to agricultural producers in

⁴ The OECD does not separate market price support into its two components in its published data, but it is possible to estimate the export subsidy component. Once this is done, the tariff component is calculated by residual.

OECD countries of US\$280 billion in 2004, export subsidies accounted for no more than about US\$6 billion.

Economic Impact of Tariffs and Subsidies in Agriculture

In general, import tariffs and export subsidies would have larger impacts on real income and trade flows than production subsidies, because the former alter both the price paid by the consumer and the price received by the producer. For example, since imports of a commodity equal the difference between consumption and production, an import tariff levied at a rate of x percent is equivalent to a tax on consumption of x percent, *plus* a subsidy on domestic production of x percent—it alters two margins. Thus, a tariff of x percent must have larger effects than a production subsidy alone of x percent.

Hertel and Keeney (2006) have shown that import tariffs on agricultural products are far more important than either export or production subsidies in terms of their economic impact. The authors calculate that removal of all tariffs on agricultural goods would account for 93 percent of the global gain in real income from eliminating all forms of agricultural support. Furthermore, for both high-income and developing countries, tariff removal would deliver much larger gains than removal of either export and production subsidies. Removal of export subsidies would actually harm developing countries that are importers of subsidized products because it would raise the prices of goods that they import. These aggregate effects disguise effects on individual developing countries: removal of export subsidies in OECD countries would benefit export-competing countries because their terms of trade would improve, but harm importing countries because their terms of trade would deteriorate.

An important exception to the finding that import tariffs in OECD countries have larger quantitative effects on developing countries than subsidies is the case of cotton. The distinguishing feature of cotton is that it is one of the few commodities that is subsidized and exported by OECD countries (mainly the United States), and exported by a number of low-income countries (e.g., countries in West Africa and Brazil). The reason for this is that products subsidized in OECD countries tend to be temperate zone products (e.g., wheat, maize, and dairy products), while developing countries export “tropical products” (e.g., coffee, tea, and ground nuts). Cotton subsidies in OECD countries depress the international price, and therefore the export earnings of countries that rely on cotton exports. Tariffs in OECD countries on cotton imports would also have the same depressing effect on world prices, but they are low and the subsidies have larger quantitative effects.

Empirical work shows that removal of all cotton subsidies in OECD countries would adversely affect developing countries as a group, but benefit a subset of very poor countries. Since removal of cotton subsidies would raise the world price, cotton-exporting countries would gain, and the main beneficiaries would be countries in sub-Saharan Africa (e.g., Benin, Burkina Faso, Chad, and Mali) and Australia. In the literature, the estimated effects of removing cotton subsidies vary widely. For example, Tokarick (2003) found that removing subsidies on cotton in the United States in 2000 would cause the world price to rise by only about 3 percent; thus the benefits to sub-Saharan Africa would probably be limited. Other studies, such as the one by the Overseas Development Institute (2004) find world price increases of 20 percent or more. This wide range of estimates results from different modeling assumptions and parameter values, and the choice of base year.

Empirical work does confirm that removal of cotton subsidies in OECD countries would raise real income for sub-Saharan Africa. Anderson, Martin, and Valenzuela (2005) estimate that the removal of all cotton subsidies would boost real income for sub-Saharan Africa by US\$147 million, relative to 2001. However, developing countries as a group would experience a reduction in real income of US\$182 million because cotton-importing countries, such as countries in Latin America and south Asia (especially Bangladesh and India), would be harmed by the higher world prices.

V. WHO RECEIVES AGRICULTURAL SUBSIDIES?

In both the United States and the European Union, wealthy farmers receive a disproportionately large share of government payments.⁵ One reason for this is that government payments are based, in part, on the area of land planted—the larger the area planted, the larger the government payments—which provides an incentive for farmers to increase the size of their farms.

United States

Since the late 1980s, government payments in support of agriculture have shifted to larger farms (in terms of the dollar value of sales) and toward higher-income farmers. In particular:

- In 2004, the smallest farms—those with production of US\$50,000 per year or less—which accounted for about 73 percent of all farms, received 15¾ percent of government payments (Table 1).

⁵ Data for other countries are not available.

- In 2004, farms with production value in excess of \$250,000, which made up only 9¼ percent of all farms, received 57½ percent of government payments. The proportion of farms falling into this category has grown steadily since 2002 (Table 1).

Table 1. United States: Distribution of Government Payments to Farmers

	2000	2001	2002	2003	2004
Value of production of Farms:					
< 50,000 U.S. dollars					
Share of all farms (in percent)	73.0	73.6	73.6	74.8	73.1
Share of all Payments (in percent)	12.8	16.9	18.5	17.2	15.7
> 50,000, but < 99,999 U.S. dollars					
Share of all farms (in percent)	9.7	8.8	8.8	8.6	8.9
Share of all Payments (in percent)	12.0	10.7	11.2	10.3	7.6
> 100,000, but < 249,999 U.S. dollars					
Share of all farms (in percent)	10.1	9.6	9.6	8.6	8.8
Share of all Payments (in percent)	29.0	25.2	24.9	23.5	19.1
> 250,000 U.S. dollars					
Share of all farms (in percent)	7.3	8.1	8.1	8.1	9.3
Share of all Payments (in percent)	46.2	47.2	45.3	49.1	57.6

Source: Economic Research Service (various years).

Income levels of the recipients of farm subsidies have risen more rapidly than the income levels of the entire U.S. population (Table 2). The top three rows of Table 2 show the income levels of individuals by where they fall in the distribution of farm subsidies. For example, in 2003, individuals with incomes equal to or greater than \$75,772 received half of all government payments; of these individuals those with incomes greater than or equal to \$342,918 received 10 percent of all farm subsidies. The bottom two rows of Table 2 report the income levels of all individuals in the U.S. population and show that the median

U.S. income in 2003, at \$43,318, was far lower than the income of farm households receiving the median level of farm subsidies. The striking feature of Table 2 is that since 1989, the income levels of those who received farm subsidies grew at a rate far exceeding the growth rate of the incomes of the population as a whole.

Table 2. United States: Government Payments and Income Levels of Recipients

	1989	1991	1997	2003	1989-2003 percent change
Household income (2003 dollars)					
Government payments Distribution:					
50 th percentile (median)	45,808	47,121	55,607	75,772	65.4
75 th percentile	94,784	98,657	122,868	160,142	69.0
90 th percentile	189,149	196,442	250,092	342,918	81.3
All U.S. Households:					
50 th percentile (median)	42,892	40,686	42,425	43,318	1.0
90 th percentile	107,580	103,394	112,589	118,200	9.9

Source: MacDonald, Hoppe, and Banker (2006).

European Union

As in the United States, government support to farmers in the European Union is highly skewed toward large, wealthy farmers (Table 3).

Table 3. European Union: Distribution of Government Payments to Farmers

	2000	2001	2002	2003
Sales of Farms:				
< 10,000 EUR				
Share of all farms (in percent)	87.8	86.6	87.8	86.8
Share of all Payments (in percent)	30.8	28.9	28.2	27.6
> 10,000, but < 100,000 EUR				
Share of all farms (in percent)	11.9	13.1	11.8	12.9
Share of all Payments (in percent)	56.3	57.8	57.1	60.2
> 100,000, but < 500,000 EUR				
Share of all farms (in percent)	0.3	0.4	0.3	0.3
Share of all Payments (in percent)	10.8	11.0	10.8	10.4
> 500,000 EUR				
Share of all farms (in percent)	0.01	0.02	0.02	0.01
Share of all Payments (in percent)	2.10	2.40	3.90	1.80

Source: European Union (various years).

Table 3 reveals that farms with 100,000 EUR in sales or more per year in 2003—representing less than ½ of one percent of the total number of farms—received about 12 percent of all government payments. By contrast, about 87 percent of European farmers in 2003 (those with sales of 10,000 EUR or less), received only about 28 percent of government payments.

VI. CONCLUSIONS

Unfortunately, the current discussions about the key trade issues in the Doha Round have been plagued by a number of misconceptions that have impeded the building of a consensus toward a more rapid completion of the Round. This note sought to clarify four of the most egregious of these misconceptions. In particular:

- **Developing countries have much to gain from reducing their own barriers to trade.** The well-being of these countries does not hinge exclusively on trade reforms in rich countries.
- **Preference erosion is not a legitimate rationale for rejecting ambitious tariff-cutting proposals.** While multilateral tariff reductions could erode some of the preferential access to rich-country markets that developing countries currently enjoy, the size of any losses would be nowhere near the magnitude suggested by the European Union.
- **The attention given to farm subsidies is misplaced.** Of the various types of support provided to agricultural producers in OECD countries, import tariffs are far more detrimental to developing countries than subsidies, with the exception of cotton.
- **Large, wealthy farmers receive a disproportionately large share of government support in the United States and the European Union.** This is due in part to the structure of government support, with payments being based on land area planted.

REFERENCES

- Alexandraki, Katerina, and Hans-Peter Lankes, 2004, "The Impact of Preference Erosion on Middle-Income Developing Countries," IMF Working Paper 04/169 (Washington: International Monetary Fund).
- Amiti, Mary, and John Romalis, 2006, "Will the Doha Round Lead to Preference Erosion?" IMF Working Paper 06/10 (Washington: International Monetary Fund).
- Anderson, Kym, and Ernesto Valenzuela, 2006, "WTO's Doha Cotton Initiative: A Tale of Two Issues," March (Washington: World Bank).
- Anderson, Kym, William Martin, and Dominique van der Mensbrughhe, 2005, "Market and Welfare Implications of Doha Reform Scenarios," in *Agricultural Trade Reform and the Doha Development Agenda*, ed. by Kym Anderson and Will Martin (Washington: World Bank).
- Brenton, Paul, and Takako Ikezuki, 2006, "The Value of Trade Preferences for Africa," in *Trade, Doha, and Development: A Window into the Issues*, ed. by Richard Newfarmer (Washington: World Bank).
- Economic Research Service, various years, *U.S. and State Farm Income Data*, Washington: U.S. Department of Agriculture, Washington . Available via the Internet www.ers.usda.gov/data/FarmIncome/finfidmu.htm
- European Commission, 2001-05, "The Agricultural Situation in the European Union," Brussels.
- Francois, Joseph, Bernard Hoekman, and Miriam Manchin, 2005, "Preference Erosion and Multilateral Trade Liberalization," Policy Research Paper WPS3730, (Washington: World Bank).
- Hertel, Thomas, and Roman Keeney, 2006, "What Is at Stake: The Relative Importance of Import Barriers, Export Subsidies, and Domestic Support," in *Agricultural Trade Reform and the Doha Development Agenda*, ed. by Kym Anderson and Will Martin (Washington: World Bank).
- Hoekman, Bernard, William Martin, and Carlos Braga, 2006, "Preference Erosion: The Terms of the Debate," in *Trade, Doha, and Development: A Window into the Issues*, ed. by Richard Newfarmer (Washington: World Bank).
- MacDonald, James, Hoppe, Robert, and David Banker, 2006, "Growing Farm Size and the Distribution of Farm Payments," U.S. Department of Agriculture, Economic Brief No. 6 (Washington: Economic Research Service).

- Mandelson, Peter, 2005, "Where Next for Doha," *The Wall Street Journal*, November 3.
available via the Internet:
http://europa.eu.int/comm/commission_barroso/mandelson/speeches_articles.
- .Organization for Economic Cooperation and Development, 2005, *Agricultural Policies in OECD Countries: Monitoring and Evaluation* (Paris: OECD).
- Overseas Development Institute, 2004, "Understanding the Impact of Cotton Subsidies on Developing Countries and Poor People in Those Countries" (London: ODI).
- Oxfam, 2002, "The Great EU Sugar Scam: How Europe's Sugar Regime is Devastating Livelihoods in the Developing World," Oxfam Briefing Paper 27 (London) .
- Subramanian, Arvind, 2003, "Financing of Losses from Preference Erosion," paper prepared for the World Trade Organization, WT/TF/COH/14 (Geneva: WTO).
- Tokarick, Stephen, 2005, "Who Bears the Cost of Agricultural Support in OECD Countries?" *The World Economy*, Vol. 28, No. 4 (April), pp. 573-N93.
- _____, 2006, "Does Import Protection Discourage Exports?" IMF Working Paper 06/20 (Washington: International Monetary Fund).
- United Nations Conference on Trade and Development, UNCTAD, 2003, *Trade Preferences for LDCs: An Early Assessment of Benefits and Possible Improvements*, UNCTAD/ITCD/TSB/2003/8, New York and Geneva.