The WTO Agricultural Negotiations:
Reform Options and Outcomes For New Zealand

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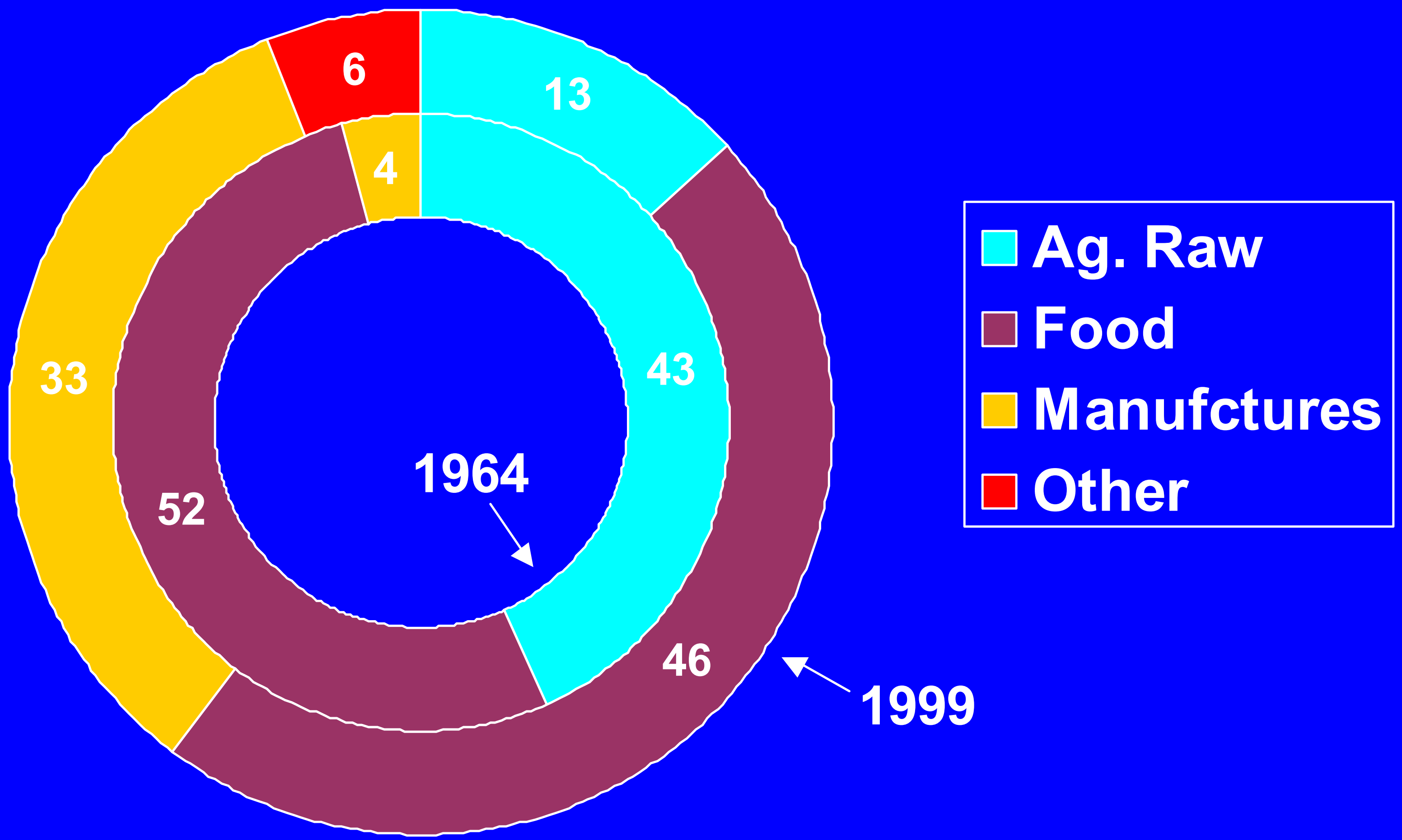
Significance of Agricultural Reform to New Zealand

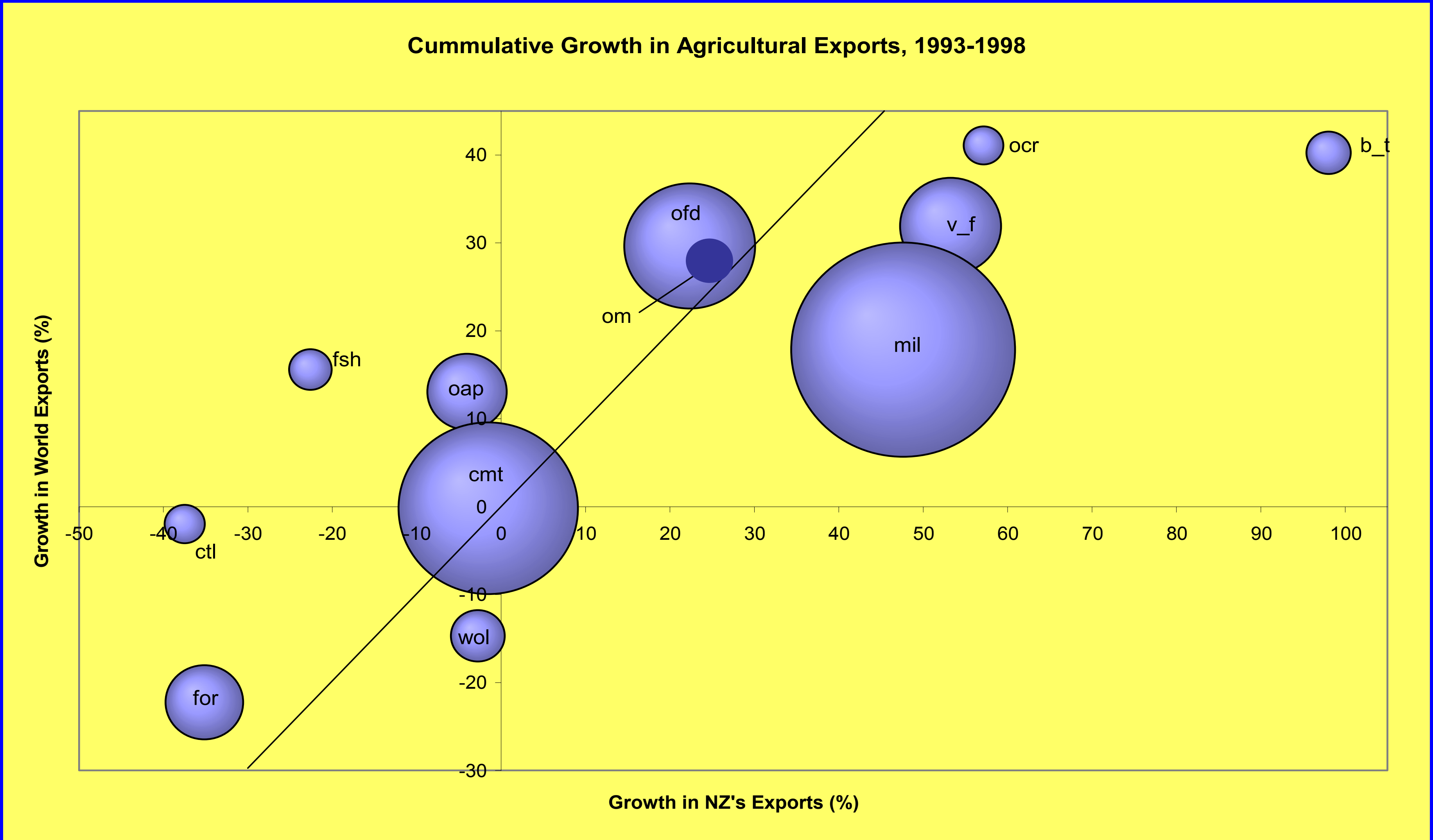
- NZ has historically had a comparative advantage in agricultural production
- Agriculture and food still generate a very large proportion of New Zealand's exports
  - There has been a decline in the relative importance of agricultural raw materials
  - But the share of exports accounted for by food products has remained relatively stable over recent decades

Changing Commodity Export Shares, NZ



- Globally agriculture is one of the most protected sectors
  - with protection of ruminant meats and dairy products particularly high
- International agricultural market distortions make it difficult for NZ to fully exploit its efficient agricultural production
- But despite this, NZ appears to performed quite strongly on world markets for some key agricultural products

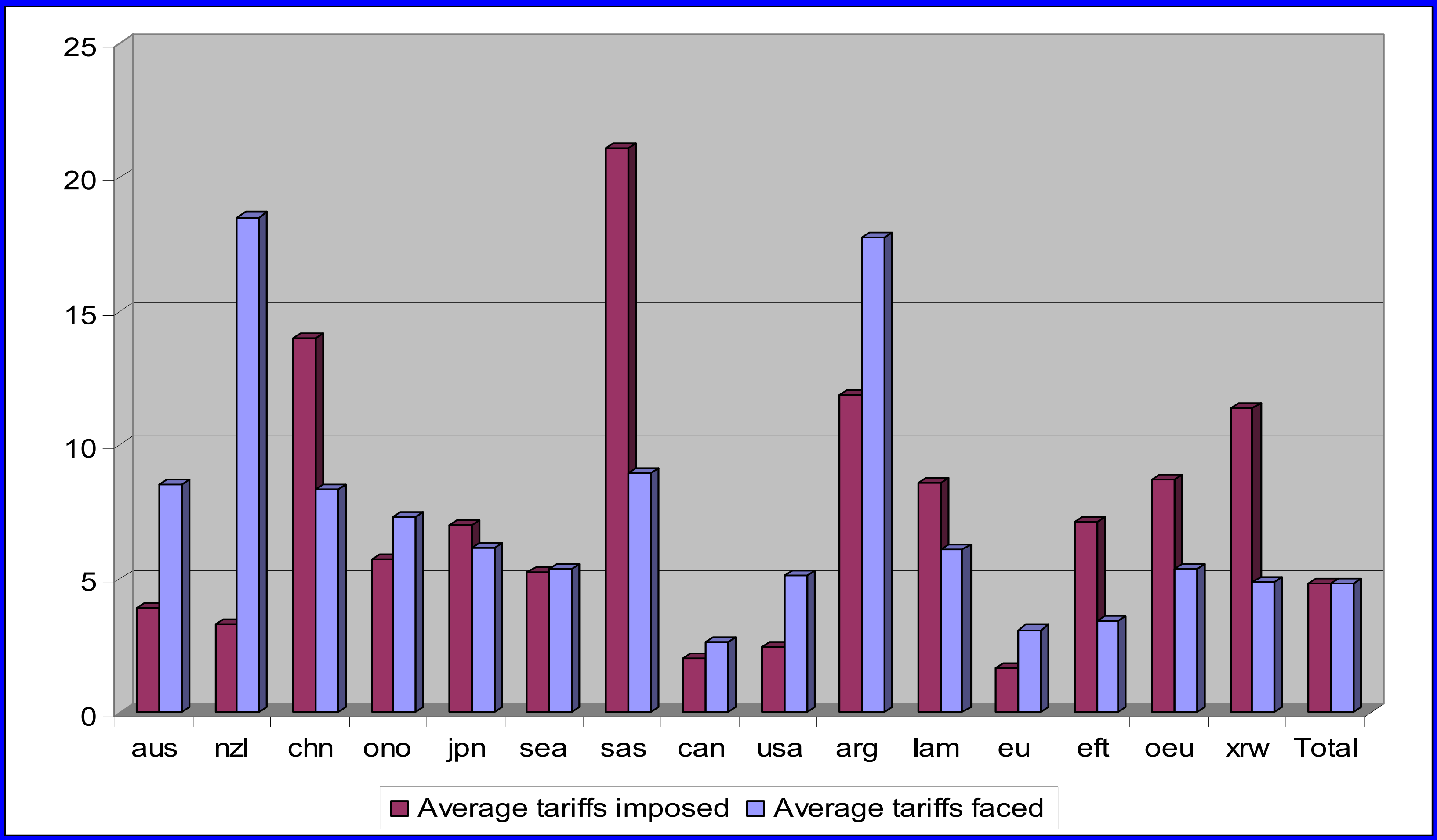
Recent Performance of New Zealand's Agricultural Exports



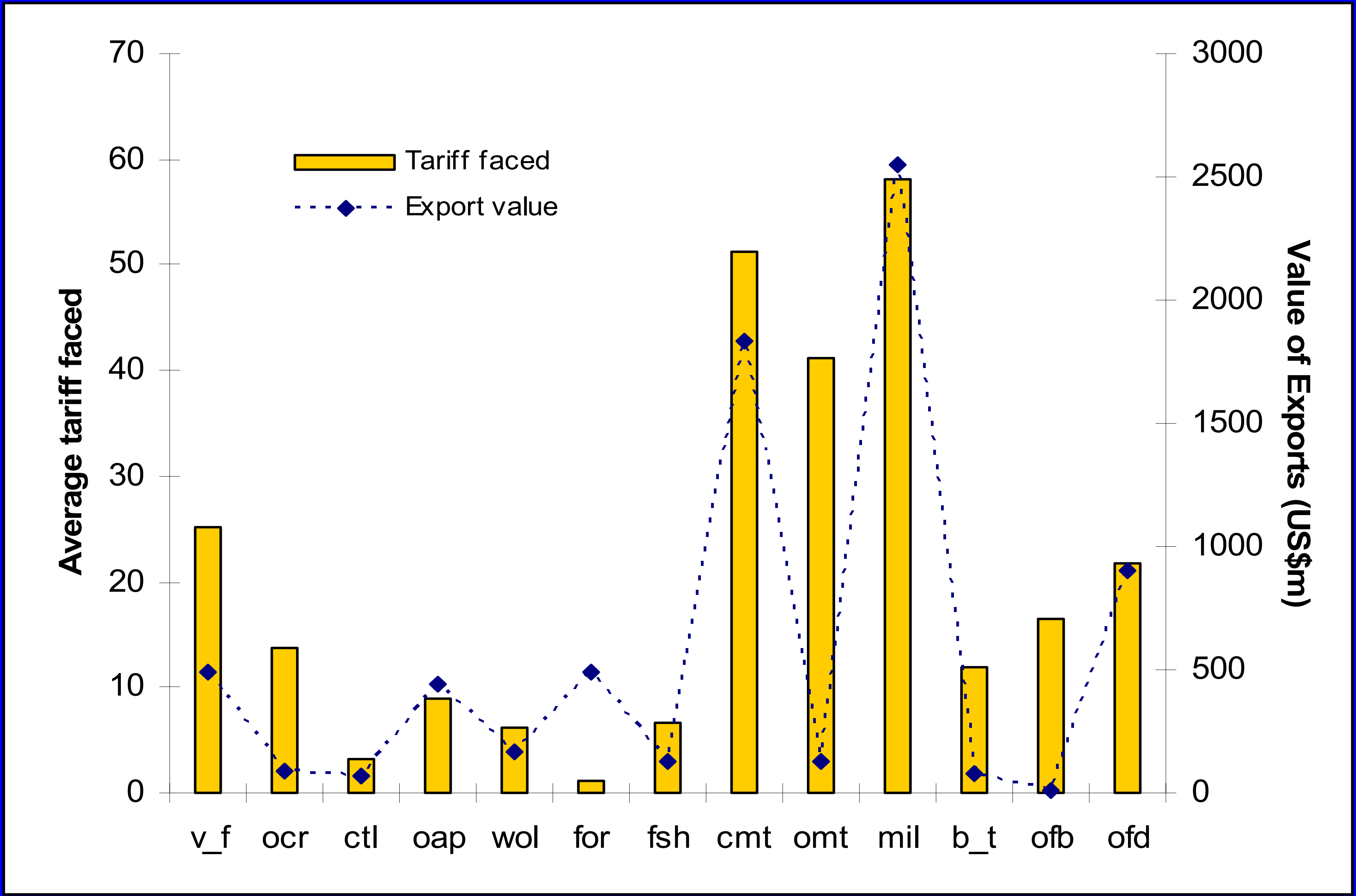
What Can be Gained from Trade Reform?

- NZ imposes relatively low average tariffs
- But NZ exporters face an average tariff rate of over 18.5%
- This is the highest average tariff rate imposed on exports from *any* country or region in the current GTAP database
- Therefore potential gains from reform are likely to be large

Average Tariffs Faced and Imposed by Region



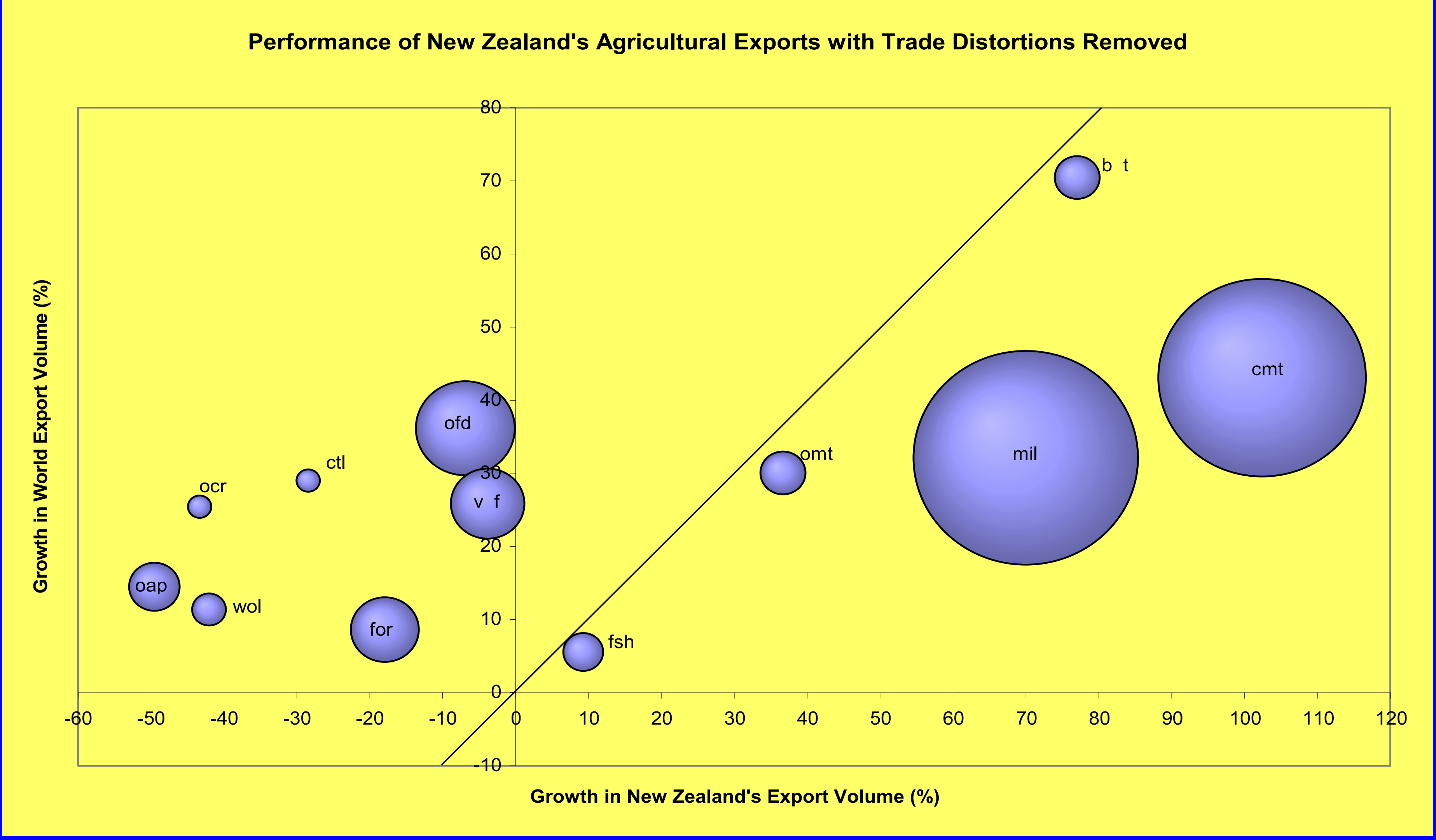
Tariffs Faced by NZ Exporters



An Extreme Simulation: Removal of all Distortions

- What would be the impact of the removal of all global import and export distortions?
  - i.e. complete liberalization across all markets
  - We use GTAP v5 to simulate removal or all tariffs, export distortions and output taxes/subsidies
- What are the potential impacts on New Zealand?

Changes in NZ's Exports with Global Distortions Removed

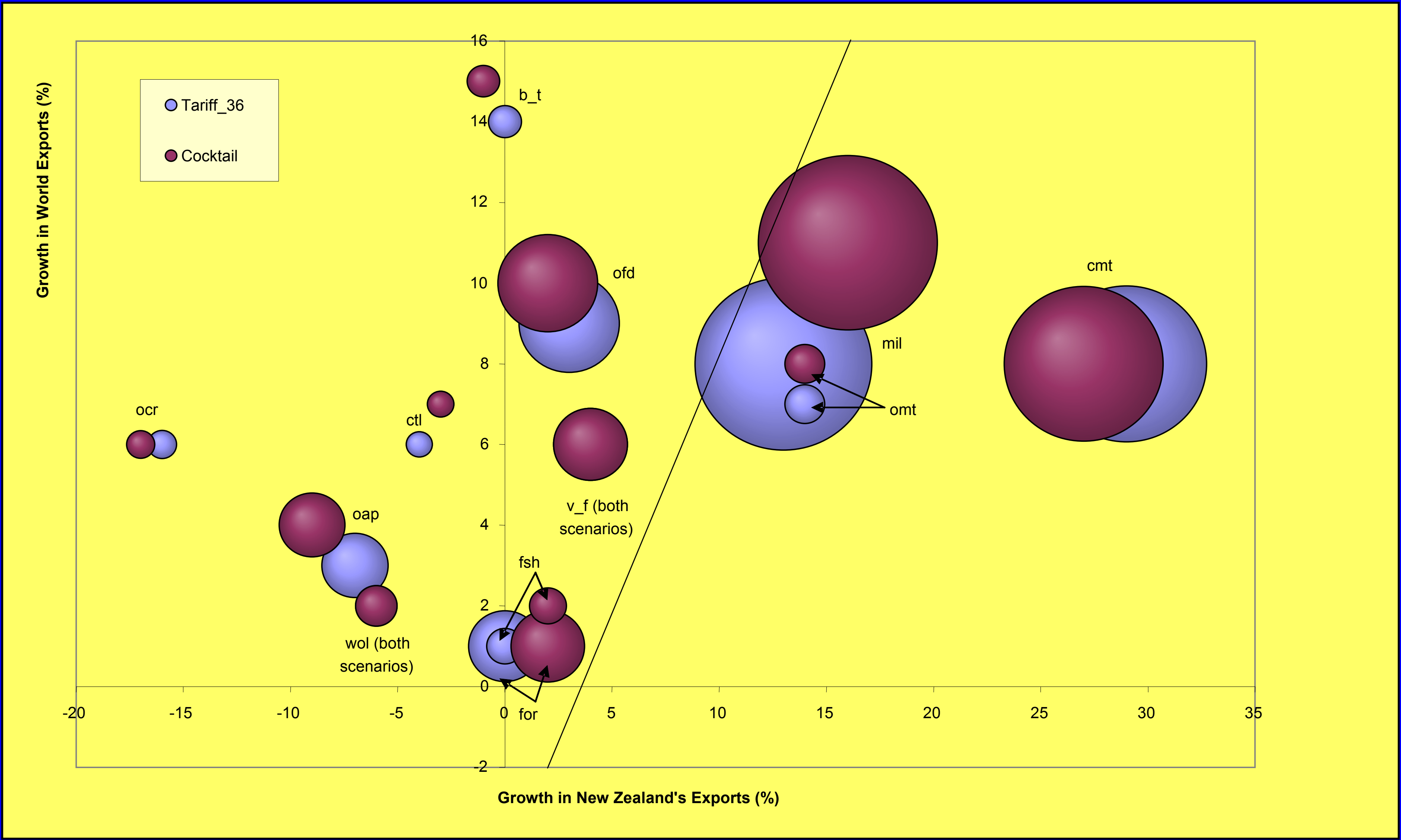


Modelling the Impacts of the New WTO Round

- Cuts to protection that will be agreed to in the new WTO Round are far from certain
- We model two different WTO trade reform scenarios:

1. A 36% reduction in all tariffs
2. A cocktail approach:
    - tariffs between zero and 5 percent reduce to zero
    - tariffs between 5 and 100 percent reduce by 36%
    - tariffs over 100 percent reduce by a Swiss formula

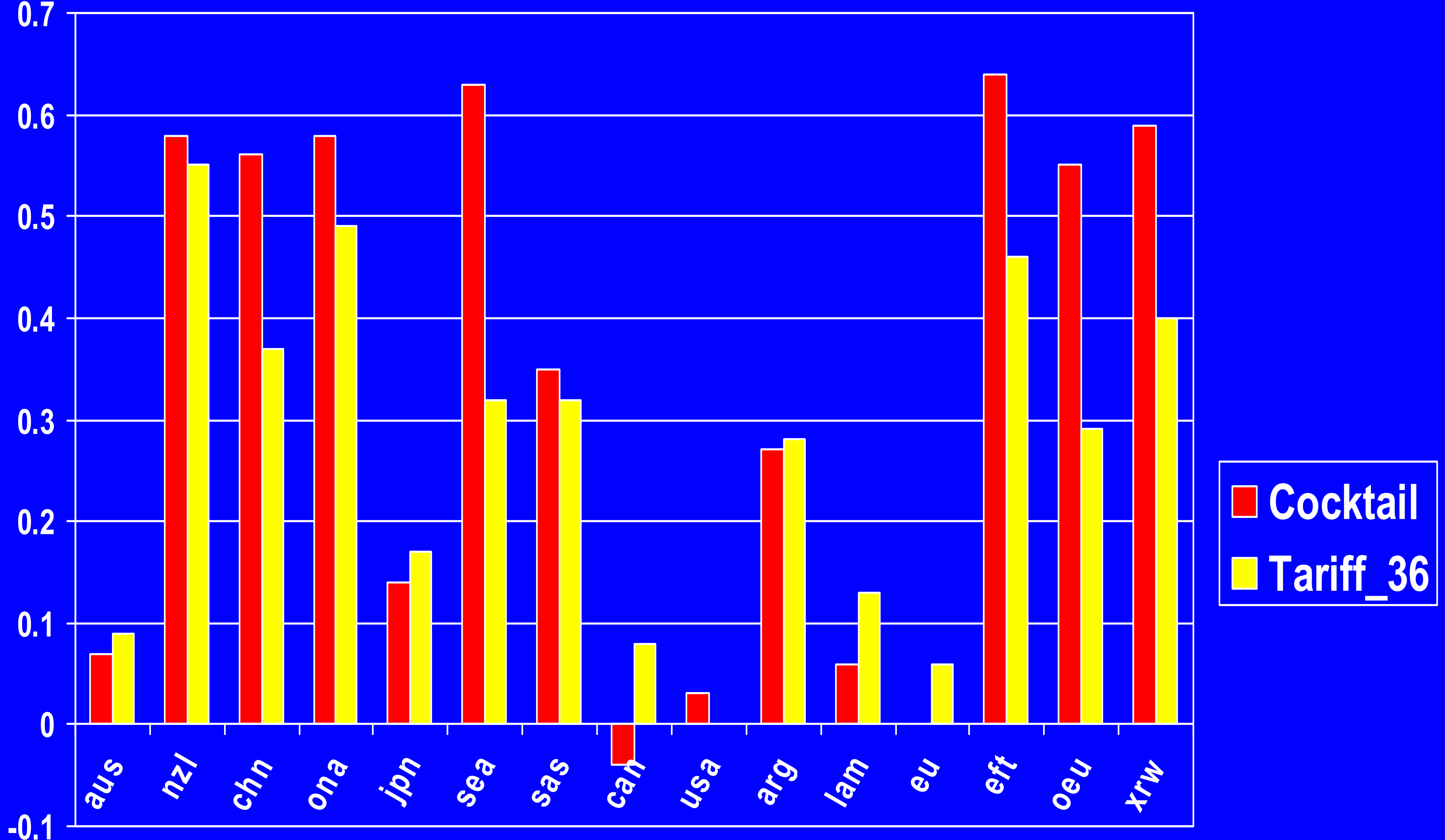
Changes in NZ's Exports with Trade Reform



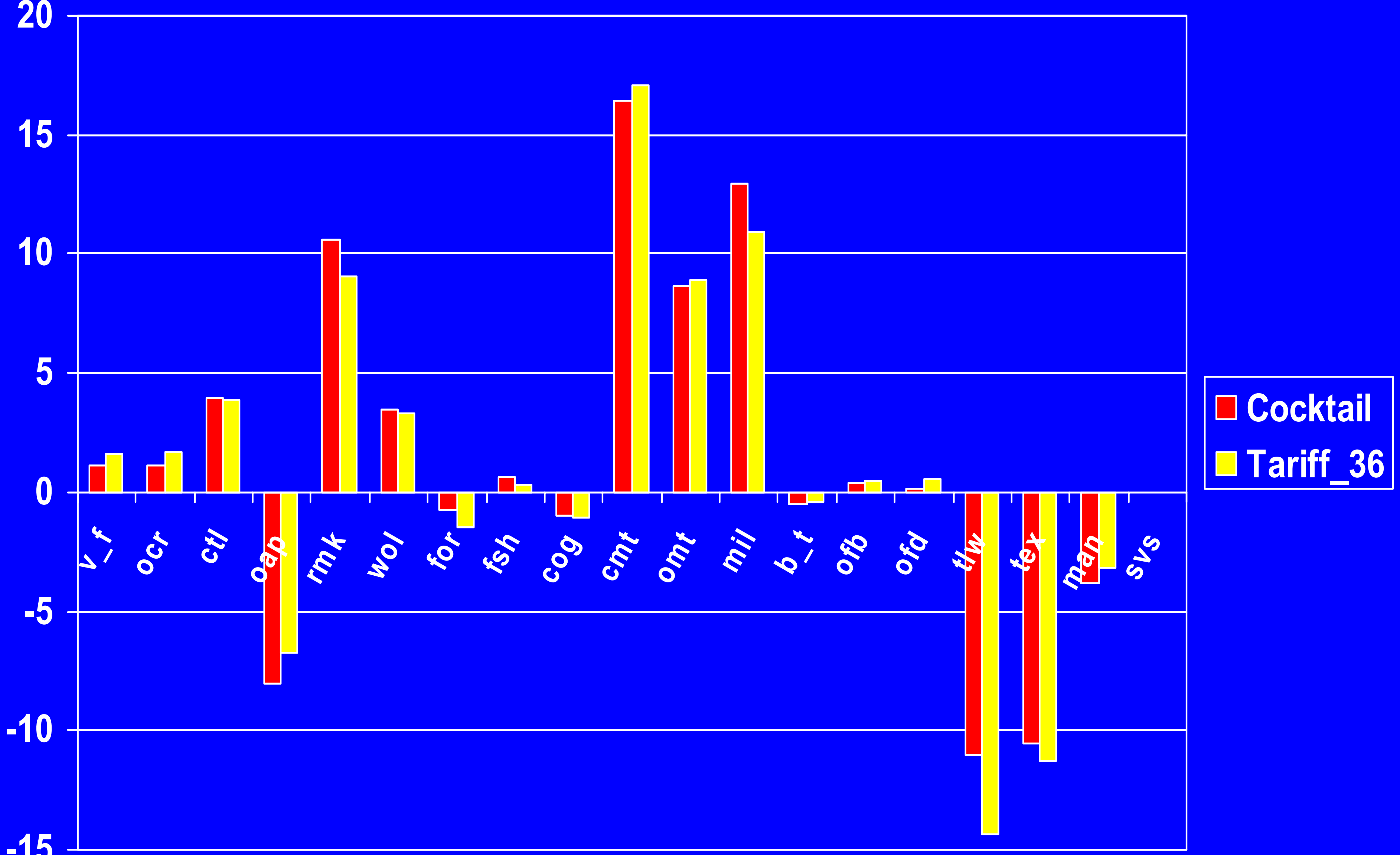
Welfare effects of trade reform

	Change in EV ($USm)		EV/GDP (%)	
	Cocktail	Tariff_36	Cocktail	Tariff_36
aus	266	367	0.07	0.09
nzl	380	358	0.58	0.55
chn	4774	3161	0.56	0.37
ona	5157	4364	0.58	0.49
jpn	5958	7415	0.14	0.17
sea	4136	2064	0.63	0.32
sas	1862	1673	0.35	0.32
can	-277	512	-0.04	0.08
usa	2439	135	0.03	0.00
arg	895	919	0.27	0.28
lam	969	2122	0.06	0.13
eu	-231	5060	0.00	0.06
eft	2642	1899	0.64	0.46
oeu	4836	2527	0.55	0.29
xrw	9049	6154	0.59	0.40

Welfare effects of Trade Reform, EV/GDP



Output Changes by Sector, NZ



Preliminary Conclusions

- Results from both WTO trade liberalization scenarios suggest that:
  - Significant gains are possible from a multi-sector approach to reform that includes the heavily protected agricultural sectors
  - Projected gains for the dairy and meat product sectors in New Zealand are shown to be large since these sectors faced particularly high tariffs
  - Across all countries, such reform will lead to improved allocative efficiency and increases in real GDP

Limitations and Future Directions

- Results presented in this paper are very preliminary, limitations of the current work include:
  - Simulated reforms are very much open to debate
  - Inadequate modelling of TRQs
  - No attempt is made to model some other impacts that may be important e.g. environmental effects