WTO Compatibility of Agricultural Policy Changes in North America

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Outline

- Nature of WTO constraints on North American Agriculture
- Compatibility of Policy Changes with WTO Constraints
- Timetable and Progress in Current WTO talks
- Harbinson proposals for WTO modalities
- Implications of these proposals for North American Agriculture
- Impact on Harmonisation, Covergence and Compatibility in NA Agricultural policy

WTO constraints on North American Agriculture

- URAA provided a framework for national policies
- Certain instruments disallowed (quotas, new export subsidies)
- Certain instruments encouraged (decoupled payments)
- Certain instruments introduced (TRQs)
- Certain instruments disciplined (coupled payments, current export subsidies)
- Levels of instruments became subject to negotiation (tariffs)

Market access commitments

- Tariffication
  - Most effect on Canada (dairy, poultry)
  - Tariffs for US (and Canadian) Beef
  - Mexico had already begun to “tariffy”
- TRQs
  - Became key to opening up these markets
  - NAFTA TRQs fitted in to WTO commitments
- SSG
  - Supplemented NAFTA safeguards
  - Used by US, not Mexico and Canada

Import Tariffs by Farm Sector, Percent

	Rice	Wheat	Other Grains	Oil Seeds	Sugar Crops	Veg., Fruits, Nuts	Live-stock	Wool, Silk
Canada	0.0	62.8	8.9	0.0	0.0	1.9	17.7	2.3
United States	4.9	2.6	0.6	17.7	0.7	4.7	0.7	0.9
Mexico	15.0	67.0	38.4	3.1	23.0	17.9	10.2	8.2
Rest of Americas	19.6	5.8	11.2	6.7	11.1	13.0	7.7	10.8
Australia/ New Zealand	0.8	0.0	0.8	1.3	0.0	1.7	0.3	0.6
Japan	409.0	249.2	20.2	76.4	0.0	44.9	26.1	54.7
Rest of Asia	3.8	15.5	130.8	64.8	7.7	24.8	9.2	13.3
European Union	43.1	10.7	8.3	0.0	110.8	5.5	4.2	0.0

Source: *How Would Food Markets Be Affected By Liberalizing Trade in Processed Foods?* Working Paper, U.S. International Trade Commission, August 2001.

Import Tariffs by Processed Food Sector, Percent

	Meats	Dairy products	Veg. oils and fats	Sugar	Other
Canada	28.0	214.8	8.6	4.9	14.1
United States	4.7	42.5	4.3	53.4	11.4
Mexico	48.5	37.5	19.2	4.1	17.9
Rest of Americas	14.9	20.4	13.9	17.0	15.7
Australia/ New Zealand	3.8	3.0	2.6	1.4	5.1
Japan	48.8	287.0	6.6	116.1	38.3
Rest of Asia	16.2	18.9	31.6	18.4	20.5
European Union	11.3	6.5	5.1	36.2	9.2

Source: *How Would Food Markets Be Affected By Liberalizing Trade in Processed Foods?* Working Paper, U.S. International Trade Commission, August 2001.

TRQ commitments for the NAFTA countries in the WTO schedules

	Number of TRQs	Number that are country - specific	Fill rate in 1995	Fill rate in 1996	Fill rate in 1997	Fill rate in 1998	Fill rate in 1999
Canada	21	5	78	85	82	85	n.a.
Mexico	11	9	80	n.a.	n.a.	n.a.	n.a.
US	54	33	45	53	55	66	73

Source: WTO (G/AG/NG/S/7).

Export Competition

- Export subsidy constraints
  - Impact on Canadian transport subsidies
  - Impact on US programs muted by high prices in first three years
  - Mexico removed subsidies autonomously
- Export credits
  - US managed to avoid direct discipline (put off to OECD talks)
- STEs
  - Canada avoided direct constraints on CWB

Export subsidy commitments and notifications, NAFTA countries

	Number of Export subsidy commitments	Expenditure on export subsidies notified, ($US million)			
		1995	1996	1997	1998
Canada	11	38	4	0	0
Mexico	5	0	0	0	0
US	13	26	122	112	147

Source: WTO (G/AG/NG/S/5)

Domestic Support

- Canada had already began to move to income insurance, away from commodity support
- Mexico introduced “decoupled” PROCAMPO program
- US negotiated Blue Box and then decoupled payments in FAIR Act, reducing AMS

Domestic Support commitments and notifications, NAFTA countries

Total AMS (US$million)						
	Commitment in year 2000	1995	1996	1997	1998	1999
Canada	Can$4,300	568	450			939
Mexico	Mex$25 billion (2004)	452	Mex$0.9 billion		Mex$3.8 billion	
US	US$19.1 billion	6214	5898	6238		

Source: WTO (G/AG/NG/S/12)

WTO constraints on Recent Policy Changes

- Canada:
  - APF well within constraints of WTO
  - Whole-farm programs not commodity-specific
  - Risk Management programs tailored to WTO definitions
  - Insurance programs still commodity-oriented, but no AMS constraint
  - Dairy policy most under WTO challenge
  - CWB case brought by US could also give problems

WTO constraints on Recent Policy Changes

- Mexico:
  - No effective constraints on the increase in payments through PROCAMPO
  - No constraint on Alianza payments
  - PSE/TSE rising but not in conflict with WTO limits

Direct Payments Under PROCAMPO Programme 1996-01					Provisional
	1996	1997	1998	1999	2000	2001
Total payments (million pesos)	6,793	7,533	8,492	9,372	10,379	11,752
Rate of Payments (pesos/ha)						
Autumn-winter	440	484	556	626	708	778
Spring-summer	484	556	626	708	778	829
Area (thousand hectares)	14,305	13,885	13,869	13,528	13,571	14,000
Benefiting producers (1000s)	2,987	2,850	2,780	2,724	2,681	2,800
TPR - pp 86						

Budgetary Outlays allocated to the Alliance for Agriculture programme, 1996-01 (million pesos)						
	1996	1997	1998	1999	2000	2001
Total outlays	1,880.20	2,918.50	3,512.70	4,513.00	4,737.50	6,449.60
State share (%)	36	38	32	33	31	27

Mexico: Total support estimate					
	1998	1999	2000 (provisional)		
TSE					
Million pesos	50,786	52,158	71,048		
US $	5,559	5,456	7,514		
GDP %	1.3	1.1	1.3		
TPR - pp 90, citing OECD					

WTO constraints on Recent Policy Changes

- US:
  - 2002 Farm Bill “uses up” much of the AMS slack, particularly CCPs, Marketing loans
  - No problem with export subsidy limits, but FSC includes some agricultural export subsidies
  - Lamb import case imposed changes on meat import regulations

The Timetable of Agricultural Negotiations

- March 2000
  - Establishment of Negotiating Committee and appointment of Chairman
- March 2000 – March 2001
  - Phase I. Initial Position papers presented
- March 2001-Feb 2002
  - Phase II. Elaborations by countries on specific topics
- November 2001
  - Doha Ministerial confirmed and elaborated objectives and set timetable for negotiations

Timetable (contd.)

- March 2002 – March 2003
  - “Modalities” phase. Developing modalities for further trade reform steps (deadline missed)
- March 2003-September 2003
  - Preparation of draft schedules to give effect to modalities (now looking too ambitious)
- September 2003
  - WTO Ministerial in Cancun to take stock and integrate with other aspects of the negotiations (talks may be heading for delay)

Timetable (contd.)

- January 2004
  – Peace Clause expires (unless renewed): possibility of challenges to subsidies under SCM Agreement
- January 2005
  – Presumed end of negotiations, but many are suggesting 2006 as earliest date

Current WTO talks and proposals

- Canadian Proposals
  - Cairns Group member but not always in step
  - Own proposal on Market access
  - Own proposal on Domestic support (discipline all domestic support)
  - Pushing “sectoral initiatives” (zero-for-zero)
  - Defensive on CWB

Current WTO talks and proposals

- Mexican Proposals
  - Not a CG member, but quite consistent
  - Eliminate export subsidies
  - Discipline export credits
  - PC continued, but for developing country imports (?)
  - Tie market access to progress in other areas
  - Concern about GIs and challenges to SPS

Current WTO talks and proposals

- US proposals
  - Many papers on individual topics and the first comprehensive proposal
  - Use Swiss Formula for tariff cuts
  - Expand TRQs
  - End SSG
  - Eliminate export subsidies
  - Reduce high domestic support to a maximum level in relation to agricultural ouput

What is on the Table?

- Secretariat produced an “overview” document in Dec 2002 that identified the areas of agreement (few) and of contention (many)
- Harbinson draft in Feb intended as text to suggest compromises
  - Some parts of US proposal (graduated tariff cuts, STE exporters)
  - Some aspects of EU ideas (across the board AMS cuts, export credits, food aid)
  - Some movement toward developing countries (Special Priority products, tariff escalation, special preferences)

Market Access

- Cuts in tariffs depending on their height
- Increase in TRQs to 10 percent of consumption
- Improvement in administration of TRQs
- Limits on SSG
- Formula for reducing tariff escalation

Suggested tariff reduction schedules for developed countries

Existing tariff	Average reduction (%)	Minimum reduction (%)	Period (years)
Above 90 percent	60	40	5
Between 15 and 90 percent	50	35	5
Less than 15 percent	40	25	5

Source: Harbinson draft (revised)

Suggested tariff reduction schedules for developing countries

Existing tariff	Average reduction (%)	Minimum reduction (%)	Period (years)
Above 120 percent	40	30	10
Between 60 and 120 percent	35	25	10
Between 20 and 60 percent	30	20	10
Less than 20 percent	25	15	10
“SP” items	10	5	10

Source: Harbinson draft (revised)

Domestic Support

- Cuts in AMS from current bound levels
- No changes in Green Box principles, but
  - Animal welfare payments allowed under same heading as environmental costs
  - Broader categories for developing countries
  - Tighter rules for de-coupled policies
- Options for folding blue box in with AMS
- Small decrease in *de minimis* allowance

Suggested reduction for domestic support (AMS)

	Reduction (%)	Period (years)
Developed Countries	60	5
Developing Countries	40	10

Source: Harbinson draft (revised)

Export Competition

- Elimination of export subsidies over a period
- Constraints on export credits, but recipient countries can request special exemption
- Tighten up food aid rules and make grants rather than loans
- State trading exporters have to allow private sectors to compete

Suggested reduction schedule for export subsidies (expenditure and volume)

	Developed Countries	Developing Countries
Products accounting for 50 percent of bound budget outlay	30 % each year to zero in 6th year	25 % each year to zero in 11th year
The remaining export subsidies	25 % each year to zero in 11th year	20 % each year to zero in 13th year

Source: Harbinson draft (revised)

Implications of Harbinson proposals for North American Agriculture

- Impact on Market Access
  - Significant cuts in high tariffs (Canadian dairy)
  - Expansion of TRQs
- Impact on Export Competition
  - CWB may have to allow competitors
- Impact on Domestic Support
  - Limits on US CC payments, Loan payments (but not until end of 2002 Farm Bill?)

Cereals			Percentages			Harbinson cut*	
			96/97-00/01	2002/03	2007/08	Havg	Hmin
Canada							
Wheat	TRQ	KT	314	350	350	700	560
	in quota tariff	%	2	1	1	1	1
	out quota tariff	%	71	70	70	35	45.5
Barley	TRQ	KT	335	399	399	199.5	638.4
	in quota tariff	%	1	1	1	1	1
	out quota tariff	%	61	58	58	29	37.7
Mexico							
Maize	TRQ	KT	2501	2501	2501	5002	4001.6
	in quota tariff	%	50	50	50	50	50
	out quota tariff	%	207	198	194	116.4	135.8
Barley	TRQ		5	5	5	10	8
	in quota tariff	%	50	50	50	50	50
	out quota tariff	%	123	118	115	74.75	86.25
USA							
Subsidised export limits							
Wheat*		mt	15.7	14.5	14.5	0	3.4
Coarse grains		mt	1.7	1.6	1.6	0	0.4
* - first column figures are for 99/00 not an average of 96/97-00/01							
OECD Agricultural Outlook pp 139-140, and author's calculations							
* 5 years for US and Canada and 10 for Mexico							

Oilseeds						Harbinson cut*	
			96/97-00/01	2002/03	2007/08	Havg	Hmin
Canada	Rapeseed	%	7.6	6.4	6.4	3.84	4.8
Mexico	Soyabeans	%	35.2	33.7	33	23.1	26.4
	Soyabean meal	%	32	26.5	23.8	16.66	19.04
	Soyabean oil	%	48	46	45	31.5	36
USA	Rapeseed	%	2.9	3	3	1.8	2.25
	Soyabean meal	%	2.5	2.2	2.2	1.32	1.65
	Rapeseed meal	%	1.2	1.2	1.2	0.72	0.9
	Soyabean oil	%	13.5	12.7	12.7	7.62	9.525
	Rapeseed oil	%	3.3	3.2	3.2	1.92	2.4
Subsidized export limits							
	Oilseed oils	KT	320	141	141	0	33.5
OECD Agricultural Outlook pp 142, and author's calculations							
* 5 years for US and Canada and 10 for Mexico							

Meat			Percentages			Harbinson cut*	
			96/97-00/01	2002/03	2007/08	Havg	Hmin
Canada							
Beef	TRQ	KT	76	76	76	152	121.6
	in quota tariff	%	0	0	0	0	0
	out quota tariff	%	30	27	27	13.5	17.55
Poultry	TRQ	KT	45	45	45		
	in quota tariff	%	5	3	3	1.8	2.25
	out quota tariff	%	217	208	209	83.6	125.4
Mexico							
Pigmeat	TRQ	KT	79	90	94	188	150.4
	in quota tariff	%	10	2	0	0	0
	out quota tariff	%	48	46	45	31.5	36
Poultry	TRQ	KT	41	41	41		
	in quota tariff	%	50	50	50	35	40
	out quota tariff	%	243	233	228	136.8	159.6
USA							
Beef	TRQ	KT	693	697	698	1396	1116.8
	in quota tariff	%	5	5	5	5	5
	out quota tariff	%	28	26	26	13	16.9
OECD Agricultural Outlook pp 142, and author's calculations							
* 5 years for US and Canada and 10 for Mexico							

Dairy			Percentages			Harbinson cut*	
			96-00	2002/03	2007/08	Havg	Hmin
Canada							
Cheese	TRQ	KT	20	20	20	40	32
	in quota tariff	%	2	1	1	1	1
	out quota tariff	%	260	246	246	98.4	147.6
Export Subsidy Limits							
Cheese		KT	10	9	9	0	2.1
SMP		KT	49	45	45	0	10.7
Mexico							
Butter	Tariff	%	10	2	0		
Cheese	TRQ	KT	9	9	9	18	14.4
	in quota tariff	%	50	50	50	50	50
	out quota tariff	%	133	128	125	75	87.5
SMP	TRQ	KT	90	90	90	180	144
	in quota tariff	%	0	0	0		
	out quota tariff	%	133	128	125	75	87.5
USA							
Butter	TRQ	KT	11	13	13	26	20.8
	in quota tariff	%	9	9	9	9	9
	out quota tariff	%	110	117	117	46.8	70.2
Cheese	TRQ	KT	131	135	135	270	216
	in quota tariff	%	12.3	12.3	12.3	12.3	12.3
	out quota tariff	%	82	84	84	42	54.6
Export Subsidy Limits							
Cheese		KT	30	21	21	0	5.0
SMP		KT	84	68	68	0	16.1
OECD Agricutural Outlook pp 148, and author's calculations							
* 5 years for US and Canada and 10 for Mexico							

Conclusions

- Harmonization
  - Some harmonization but mainly in area of standards
- Convergence
  - Levels of support, protection converging
- Compatibility
  - Shift in types of policy enhancing compatibility