Update on Agricultural Trade Policy Issues

NBGA Summer Board Meeting

June 18, 2006

Agriculture trade remains highly distorted

- Despite far-reaching efforts in the last round – Uruguay Round – to discipline agriculture subsidies and import barriers, significant distortions remain today.

- U.S. ag tariffs average 12% vs. 62% worldwide.

OECD Producer Support Estimates 2003, $/Acre

Japan	$5162
South Korea	$4002
Switzerland	$1377
Norway	$1054
EU	$ 346
United States	$ 54
Canada	$ 23
Australia & NZ	$ 1

Average Producer Support in OECD Countries, 2003, $ per farmer

Iceland	$32,109
Switzerland	$31,231
Norway	$30,976
Japan	$25,190
United States	$20,803
EU	$16,026
NZ	$ 335

Background – Doha Development Round

- Uruguay Round Agriculture Agreement completed in 1994 – took 8 years to complete.
- WTO negotiations collapsed during Seattle Ministerial in late November 1999, but **Doha Development Agenda** was successfully launched in November 2001 in Doha, Qatar. Goal was to complete talks by January 2005.
- Cancun Ministerial ended without framework agreement in September 2003.
- US brokered serious re-engagement in mid 2004. Technical negotiations held monthly starting in March.
- **Doha Framework Agreement** was reached in the early hours August 1, 2004.
- First Approximation on Modalities due by July 2005 – missed.
- Agreement on Modalities at Hong Kong Dec 2005 – missed.

Status - WTO Doha Negotiations

- Modalities were to be completed by April 30, 2006 – missed deadline.
- Draft texts now expected week of June 19. Select group of Trade Ministers will meet week of June 26.
- Rest of world is asking US to improve domestic support offer and lower market access ambition.
- US agricultural groups sent letter to President Bush on June 1, strongly opposing any deeper cuts in domestic support and appropriate balance between market access gains and domestic support cuts.
- House Ag Committee Chairman Bob Goodlatte met with WTO Director General on June 13…"there is absolutely no support in Congress for further concessions on our part."

Status - WTO Doha Negotiations

- EU appears to be content with their positions.
- Trade Commissioner Peter Mandelson has offered to make modest improvements on market access (increase ave. cuts from 40% to under 50%).
- Brazil appears more concerned about domestic support cuts than market access barriers.
- **Clock is ticking**… U.S. Trade Negotiating Authority expires July 2007.

Export Subsidies

- **Eliminate export subsidies by 2013.** EU insists on parallel reductions. Cairns and G-20 want cuts front-loaded.
- **STEs** – may not circumvent other disciplines; still discussing phase-out of monopoly powers.
- **Export credits** – text is well developed; some unresolved issues on period over which credit programs must be self-financing and implementation schedule.
- **Food aid** –

  -- Bona fide emergency food aid okay (safe box).

  -- Disciplines for in-kind food aid and monetization.

Market Access

Least amount of progress; have agreed to tiered reductions.

- **Reduction percentages offered…**

  -- US – 55% to 90% (average 66%)

  -- EU – 35% to 60% (average 40%)

  -- G-20 – 45% to 75% (average 54%)

  -- G-10 – 27% to 45%

Market Access

- **Sensitive Products...**
  - **percentage of tariff lines**

    -- US and G-20 – 1%

    -- EU – 8%

    -- G-10 – 10% to 15%
  - **Tariff rate quota expansion**

    -- US – 7.5% of domestic consumption

    -- EU – formula - higher the tariff the lower the expansion %; base for expansion actual imports

    -- G-10 – straight % expansion; base of expansion is current TRQ; higher the level of import penetration the lower the expansion %

Domestic Supports

- Agreed to principle of tiered reductions (three bands).

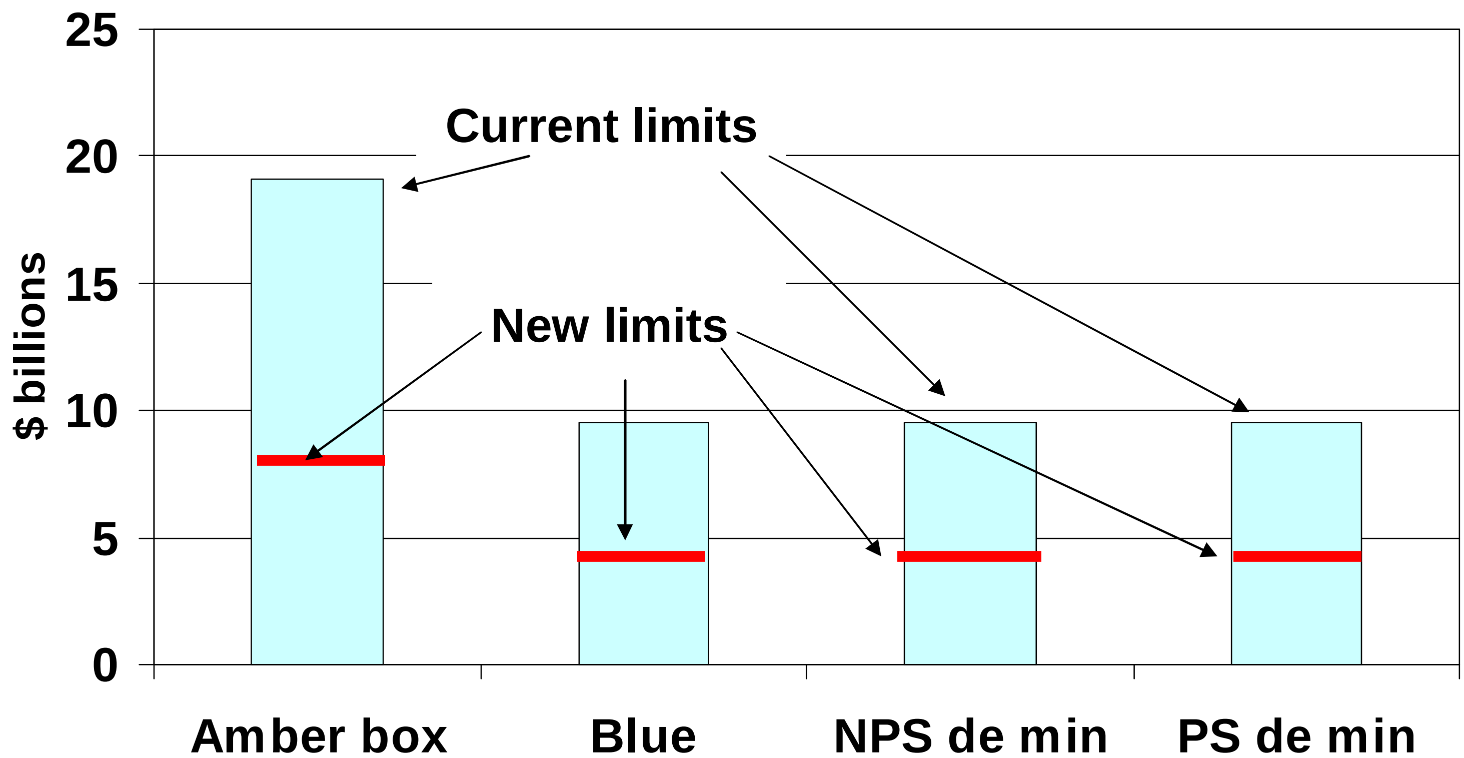
- EU in top tier; US and Japan in 2nd tier; all others in 3rd tier.

- Still to be determined…
  - Reduction percentages
  - Criteria for Blue Box
  - Criteria for Green Box

US & EU Proposals

Bound AMS Levels $25 billion $12 – 25 billion $0 - $12 billion	**US** Cut by 83% (EU & Japan) Cut by 60% *US cut from $19.1 b. to $7.6 b. Cut by 37%
	EU – 70% cut in Amber Box
Blue Box	**US** – Cap at 2.5% of total ag value ($5 b.) **EU** – Cap at 5%
De minimus	**US** – 50% cut Nonprod. spec - $5 b. Prod. spec. - $5 b. **EU** – 65% cut
Overall	**US –** EU/Japan – 75% cut US – 53% cut <$10 b – 31% cut

Illustration of U.S. Proposal



Developing Countries

- Reduction percentages and implementation timetable.
- Special products and special safeguard measures.
- Differentiation – some developing countries have world class export sectors (certain ag products) and should be subject to same terms as developed countries.

FTAs on Fast Track

- **CAFTA** – approved by Congress summer 2005; still be implemented by Guatemala, Dominican Republic and Costa Rica.
- **Peru FTA** -- completed Dec. 2005 and signed April 12, 2006. **Expect congressional action before August recess?** PFTA sets 0% import tariff on barley and malt.
- **Colombia FTA** -- completed Feb. 28 but still some debate over some ag market access provisions.
- **South Korean FTA** – 1st round of talks began June 6; on fast track to be completed by end of year. U.S. barley faces above-quota tariffs in excess of 350%.
- **Malaysia FTA –** 1st round of talks in mid-June.
- **Pending FTAs** – Ecuador, Panama, United Arab Emirates, Thailand and South African Customs Union and FTAA

Other Trade Issues

- Deputy USTR Susan Schwab confirmed as new US Trade Ambassador on June 8.

Vietnam – WTO Accession

- US and Vietnam reached bilateral market access agreement. Vietnam has concluded all required bilateral market access talks for WTO Accession Protocol.
- Congress must grant permanent normal trade relations (PNTR) tariff treatment to Vietnam in order to receive benefits of their WTO accession.

USGC Outreach Education – March 2006

- Producers must understand that recent trade actions on corn and cotton highlight the current vulnerability of our farm safety net programs. Concluding successful rules-based global trade negotiations on agriculture is critical to ensuring future farm program viability.
- Agriculture benefits from rules-based trading. The WTO remains the primary mechanism for establishing global trade rules. In its absence, uncertainty and disorder reign.
- Lower trade barriers have benefits the world over. Rising global incomes generate greater demand for all U.S. agricultural products.
- Increasing global market share increases net farm income for U.S. producers.
- International trade is one of several variables that can and often does influence domestic prices.