

**NATIONAL BARLEY GROWERS ASSOCIATION
PRIORITIES FOR DOHA ROUND AGRICULTURAL TRADE NEGOTIATIONS
CANCUN MINISTERIAL, SEPTEMBER 2003**

I. DOMESTIC SUPPORTS

From the outset it is important to stress that U.S. barley producers believe that protecting a strong and balanced domestic support program must be their primary objective in the current WTO trade negotiations.

The National Barley Growers Association calls on US trade negotiators to preserve overall domestic supports at levels authorized in the 2002 US Farm Bill, while recognizing the importance of moving toward less trade distorting support programs.

U.S. barley producers further support the U.S. Administration's proposal to harmonize trade-distorting domestic support by bringing funding of these programs down to a fixed percentage of a country's gross agricultural output value. This approach will ensure that cereals produced in the European Union will not continue to receive higher support levels than received by U.S. barley producers, as they would under Chairman Harbinson's approach (March 2003).

Clearly, domestic supports take different forms, with the U.S. relying primarily on direct decoupled payments, loan deficiency payments (LDPs) and subsidized crop insurance to provide a farm safety net for producers. Although amber box, the U.S. marketing loan program works as a market clearing support mechanism that benefits U.S. and global grain producers by preventing stocks from accumulating in the U.S. and thus weighing on world grain markets.

II. EXPORT COMPETITION

Export subsidies are the most egregious form of trade distortion in agricultural trade today and their elimination should be the top priority in the Doha Round Agricultural Trade Negotiations. All export subsidies should be eliminated, including the discretionary pricing practices of State Trading Enterprises (STEs).

The EU is the most blatant user of export subsidies to boost their cereal exports. As recently as 1999-2000, the EU subsidized more than 11.7 MMT of barley onto the world market, with subsidies as high as \$50/MT. Although no subsidies were used in 2001 and 2002, the EU began subsidizing barley exports again in spring 2003 and have already subsidized more than 1 MMT to date. Under the Uruguay Round Agreement, the EU has the ability to subsidize as much as 10.8 MMT of coarse grain exports per year under the terms of the Uruguay Round Agreement.

Chinese coarse grain (mainly corn) exports also remain a concern. Although China was to abolish these agricultural export subsidies upon WTO entry, it continues to sell

corn below world price and below the cost of domestic procurement into large markets such as South Korea and Malaysia.

III. STATE TRADING ENTERPRISES

The ability of State Trading Enterprises to undercut competitors in a domestic or export market without concern for profit or loss produces inefficiencies, distorts trade and diminishes prices for all producers. Our negotiating goal should be to insist that a STE, whether exporter or importer, operate at the risk of the market, allow voluntary participation, and price commodities based on their true value. Furthermore, government-supported STEs should not be shielded from transparency requirements simply because they must compete with private companies that are not subject to the same scrutiny.

Specifically, STE marketing activities must be subjected to major reforms, including:

(1) Pricing disciplines – Exporting STEs must be subject to market risk. The ability of exporting STEs to unload their products in global markets at below the full acquisition or replacement cost (including full freight differentials for different markets) should be constrained under export subsidy and antidumping principles. Basing price on full acquisition or replacement cost should be considered the highest priority in resolving the long-standing grain trade dispute with Canada.

(2) Freight pooling disciplines -- Full freight costs must be used in pricing commodities. In the bulk commodity market, freight costs are an essential risk factor in determining real market prices. Producers/sellers, with a natural competitive advantage in particular markets, are penalized and market signals are distorted, when freight pooling schemes encourage sales that would otherwise fail an economic feasibility test. A supply/export monopoly, already shielded from market pricing, is further alienated from the market when full freight costs are not incorporated in the decision-making process for a pending sale.

(3) Grade pricing disciplines -- The practice of paying a consistent price for all commodities within a particular grade creates distortions in grain marketing. This practice completely ignores customer specifications and limits the potential for price improvement through cleaning and blending. For example, Canada categorizes slightly damaged wheat as “feed wheat” which must then be sold in feed channels, competing with barley, corn and other feed grains, without considering that this wheat could potentially obtain higher value through cleaning or blending.

(4) Price pooling disciplines -- A STEs’ price pooling system creates distortions by ignoring carrying charges and risks in forward contracting, thus understating the value of specific sales. In the open market, all pricing decisions must eventually be reconciled with cash-grain market prices. Discretionary pricing exists, but market participants are disciplined by the requirement to “pay” for speculative pricing decisions

at the cash market. Supply and export monopolies like the Canadian Wheat Board can establish domestic prices at some future date without effective competition for available grain supplies. Without a working price arbitrage system, a STE can hold domestic prices artificially low and offer grain to international customers at firesale prices. It can utilize profits from sales to captured markets, where it has no real competition, to undercut competitors in more open markets. The STE can do so without exposing itself to market risk, and without reconciling the sales prices offered with the domestic value of the grain at any particular point in time.

(5) Import licensing and segregated handling requirements -- Import STEs often use variety licensing, identity preservation and control over domestic grain infrastructure to impede imports. Canada is a prime example, with one-way access for Canadian barley into the US, but little access for US barley into Canada (except for feed barley deliveries direct to end users). These barriers must be eased or eliminated.

Deregulation of Australian barley board -- There are encouraging developments in the deregulation of some exporting grain STEs that clearly demonstrate the benefits of eliminating STE monopoly powers. The Australian state of Victoria eliminated the monopoly control of barley exports by the Australian Barley Board, effective July 2001, ending 62-year monopoly control over barley export sales in the state of Victoria. Upon deregulation, barley prices in the state of Victoria rose about 20% above prices in the neighboring state of South Australia where barley is still under the monopoly control of the ABB. Victoria produces about 25% of Australia's barley but has historically represented about 30% of total barley exports. Single desk monopoly control of barley exports was scheduled to be reviewed in South Australia (ABB) and Western Australia (GPWA) this year.

IV. MARKET ACCESS

We support the U.S. position on expanding market access for U.S. agricultural products by reducing substantially or eliminating disparities in tariff levels among countries, reducing substantially or eliminating tariff escalation and ensuring effective market access opportunities for all products in all markets.

Tariffs on agricultural products remain high, compared to industrial goods. Tariff rates on barley average 79% worldwide, compared to 1% in the U.S. Both Japan and South Korea maintain tariffs on barley in excess of 200%.

Tariff rate quotas (TRQs) need to be expanded to reflect true domestic consumption needs. Purchasing decisions should be based on delivered price and quality considerations, not import tariffs. In addition, the administration of tariff-rate quotas (TRQs) must be improved so importers and exporters are able to plan with certainty when import permits will be issued and delivery can be made.

The monopoly power of importing STEs must be eliminated.

Japanese Food Agency implements partial deregulation of barley imports --

Another example of STE deregulation that has been greatly beneficial to global and US barley trade is the implementation of a Simultaneous Buy-Sell System by the Japanese Food Agency (STE). Before 1999, total barley imports were controlled by the JFA, which maintained a long-standing practice of buying barley from the Australian and Canadian barley exporting STEs. Since partial deregulation began in 1999 with approximately a quarter of barley imports opened to competition (360 TMT), the US market share in Japanese feed barley imports skyrocketed. In 2001 (third year of SBS), the SBS share of total imports rose to 700 TMT or half of total estimated barley imports and the U.S. share of SBS imports rose to 51%. Total U.S. share of Japanese barley imports in 2000-01 was 26% (388 TMT), up sharply from five years before when the US share was only 3% (45 TMT).

The U.S. share of Japanese barley imports under SBS (total 800 TMT) in 2002-03 declined to 22% (down from 51% the previous year) due to smaller U.S. crop in 2002.

V. SECTORAL INITIATIVES -- ZERO-FOR-ZERO FOR BARLEY AND MALT

We support the International Barley and Malt Coalition for Free Trade Zero-for Zero proposal, with the following Zero-for-Zero Objectives:

Market Access-

- Complete elimination of import tariffs, import quotas, import licenses and other non-tariff barriers on barley and malt.
- All Sanitary/Phyto-Sanitary restrictions subject to internationally accepted scientific review.
- Constrain the monopoly powers of Importing State Trading Entities by making the import of barley and malt subject to progressively greater levels of competition with private traders.

Export Measures -

Simultaneous implementation of the following:

- Complete elimination of overt export subsidies
- Prohibition of export taxes on barley and malt
- Exporting State Trading Entities must:
 - Operate at risk of the market
 - Eliminate monopoly/monopsony powers
- If a phase out schedule for export subsidies is agreed to, barley and malt shall be dis-aggregated so that each is separately disciplined according to the original base period (1986-90) used by the Uruguay Round. Scheduled reductions on each product will be taken as if dis-aggregated reductions had been in place since UR implementation.

VI. SAFEGUARDS AGAINST IMPORT SURGES

The United States must retain its Section 201 safeguard provisions to protect American agricultural producers against import surges (consistent with WTO safeguard provisions). Arbitrary selling decisions, divorced from market signals, continue to distort US markets. Until we achieve a level playing field in global barley and cereals markets, we must retain the right to protect US farmers from the effects of export subsidy regimes and state trading enterprises.

VII. SANITARY AND PHYTOSANITARY STANDARDS

Sanitary and phytosanitary (SPS) measures continue to be used as non-tariff barriers to trade and must be disciplined. The United States must continue to insist that SPS measures be based on sound science using rational risk assessments. The US also must take the leadership in ensuring that international standards are developed and adopted by the relevant human, animal and plant health organizations (CODEX, OIE and IPPC). The United States must insist that other WTO members abide by science-based principles and disciplines of SPS risk assessment.

Genetically Engineered Products -- It is imperative the United States provide strong leadership in the development and implementation of international standards to regulate the commercial trade of biotech crops and products.