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Recent Trade Outcomes and Implications for the World Dairy Industry

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24 November 2004
World Dairy Summit – Melbourne

Introduction

Good morning and thank you for inviting me to be with you today for a discussion of how recent developments in international trade are likely to impact on the world dairy industry.

[SLIDE 2]

In my remarks this morning, I plan to start with a brief review of where we found ourselves at the end of the Uruguay Round implementation period; take a look at the outcome in certain bilateral negotiations as they affect dairy trade; and talk a bit about where I think we are in the current Doha Round of multilateral trade negotiations.

Post Uruguay Round Situation

I am not going to spend a lot of time going back over the past, but I do think that before we talk about where we are going in the current Doha Round negotiations, we need to recall briefly where we were at the end of the last Round. It was only in the Uruguay Round results at the end of 1994 when we first saw some alleviation of the distortions caused by market access barriers and subsidies. Even if the results were not as dramatic as some hoped, they were the beginnings of movement in the right direction.

[SLIDE 3]

From where we were, we set targets to cut tariffs by 36%, a 20% cut in AMS support by sector for domestic subsidies and reductions of 36% by value and 21% by volume in the quantity of subsidized exports. Developing countries had to do less to meet the targets, but it was still seen as a significant result.

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[SLIDE 4]

The problem is that the Uruguay Round result was a first effort and like many first efforts it was only as good as it could be at the time – meaning that it had a certain number of loopholes and flex provisions that made it possible for WTO Members to meet the letter of their commitments without necessarily reducing the actual level of supports to many product categories. By 2002, domestic support payments should have been only 80% of what they were in the 1986-88 period. Instead, the loophole options have allowed some major subsidizers to maintain PSE support levels nearly as high as in the base period.

[SLIDE 5]

Now I am not telling you anything you don't already know, but a quick run-through of the policies still on the books in major trading countries shows trade distorted by income and price supports, tariff rate quotas and high tariffs and export subsidies.

[SLIDE 6]

In the US, dairy products face significant barriers to market access and American producers receive assistance in the form of income and price supports and export subsidies.

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[SLIDE 7]

In the European Union, the situation is very similar and equally discouraging.

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[SLIDE 8]

Market access in Canada is hampered by TRQs and tariffs and fresh milk producers receive both income and price supports.

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[SLIDE 9]

Rounding out the Quad countries, in Japan, milk other than drinking milk qualifies for income and price supports and the value added products face restrictive market access policies.

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The continuing impact of these measures on dairy trade is very significant even at the end of the Uruguay Round implementation period. Out-of-quota tariff rates range from 50 to Over 200% in major markets.

[SLIDE 10]

Access under tariff rate quotas is not very generous either. In-quota access for cheese in the EU is less than 2% of domestic consumption and less than 4% in the United States. But this should not be taken to mean that in-quota access is not commercially significant: fully one quarter of internationally-traded cheeses move through in-quota TRQ allowances.

[SLIDE 11]

What is really curious in all of this is that there is substantial amount of underfill in TRQs these days. One would wonder why, given that there is a strong economic incentive to fill the quota. ABARE speculates that this is due to other NTMS, such as TRQ administration and the operation of importing STEs.

[SLIDE 12]

Although I have been highlighting market access issues, it is also true that ten years after the end of the Uruguay Round, the percentage of global trade in dairy products receiving subsidies is very significant: 35 percent of full cream milk powder, 30 % of skim milk powder and 27 percent of butter are heavily subsidized.

With the WTO's last round of negotiations having delivered such modest results for agriculture, is it any wonder why so many countries have succumbed to the lure of "easier" free trade agreement negotiations in the period since the Uruguay Round?

[SLIDE 13]

Since the WTO was established in 1995, the number of FTAs and other preferential agreements has sky-rocketed. The number of FTAs officially on the books has doubled in the

period and about fifty more are currently under negotiation. Only 2 of WTO's 148 Members are not now party to an FTA.

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Of course, one major problem with trying to address agricultural issues generally and dairy trade problems in particular in the context of a bilateral agreement is that the negotiating dynamics do not work in terms of addressing domestic supports and export subsidies.

[SLIDE 15]

It is possible, however, to use the bilateral FTAs to gain more access to the market of the preferential trading partner than might be possible on the multilateral front. We can see this through a quick reference to the recently negotiated FTAs between Chile and the USA; between Australia and the USA and also in Australia's agreement with Thailand.

[SLIDE 16]

Let's start with a look at what Chile was able to obtain for dairy in the United States market. Although the realisation of the final benefits takes 12 years, Chile has managed to get a pretty exciting deal from the USA. In 12 years, the USA will eliminate TRQ and tariff restrictions for cheese, milk powder and a range of other products. In the meantime, in-quota volumes will be permitted to expand by roughly 7% year-to-year before the limitations are removed in year twelve.

[SLIDE 17]

Australia's agreement with Thailand is a very different agreement from its agreement with the USA or the USA-Chile FTA agreement. Nevertheless, Australia was able to use the device of the Thai negotiations to gain significant reductions in Thai barriers to imports of dairy products from Australia. Australia obtained an immediate increase in quota for skim milk powder of 2,200 tonnes; expanded quota with impressive growth rates for liquid milk and cream and phased tariff eliminations – to 2010 or 2020 for a large range of additional dairy products.

[SLIDE 18]

While many commentators have been critical of the Australia – USA FTA due to its relative stinginess in agriculture, the fact is that the dairy industry in this country was once again able to achieve important improvements in access to the USA market for many dairy products. In year one, a number of products will see a significant expansion in the in-quota volumes permitted under TRQs. The in-quota tariff will drop to zero and differentiated in-quota growth rates will kick in over the period of the concession. Tariffs on non-TRQ dairy products will be eliminated over the 18 year phase-in period.

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This is what the overall picture looks like for access to the American market through the AUSFTA.

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[SLIDE 20]

Promise of the Doha Round Negotiations

Recognising that the achievements of the Uruguay Round were just a start and that by 2001 it had become clear that many countries were making use of loopholes to avoid real liberalisation, the 2001 Doha Declaration set some ambitious targets, including:

“substantial improvements in market access”

“reductions of with a view to phasing out all forms of export subsidies”

and

“substantial reductions in trade-distorting domestic support”.

[SLIDE 21]

Unfortunately, the road from November 2001 to this past July has been pretty rocky with a lot of mishaps along the way that have cost the Doha Round a considerable amount of time. The trouble started with the Harbinson text which was dead on arrival in March 2003 because it expressed already at that early date what amounted to a final outcome to the agriculture negotiations. The August 2003 US-EU text disappointed nearly everyone and the Cairns' Group's failure to respond in a timely manner to that effort undoubtedly had much to do with the creation of the Brazil-led G-20 later that month. By the time negotiators get to Cancun, it was too late to save the Ministerial and even if the talks had not foundered on the Singapore issues, they surely would have failed on agriculture.

But all of these efforts – the parts that worked and the parts that did not – were the building blocks that Tim Groser used to get to the July Framework text. Although this text is still only another step on the way to agreement on modalities for the agriculture negotiations, it is an important step forward and it is worthwhile matching the framework text against the ambitious goals set in Doha in 2001.

[SLIDE 22]

Let's start with market access. At Doha, we agreed on the goal of realizing substantial improvements in market access. Does the framework text help us toward that goal? I think it does.

In paragraph 29, the text commits us to progressivity through deeper cuts in higher tariffs. This will result from the proposed tiered (or banded) approach – but the details, such as the number of bands, the thresholds for defining the bands, the type of tariff reductions and the reduction figures for each band remain subject to negotiation.

Paragraph 33 is very important in closing off future loopholes because it obligates Members to substantial market access improvements for each product. This really is a key achievement since the Doha mandate only established this principle in general terms.

There is also a commitment in paragraph 34 to establish a base for tariff rate quota expansion.

The bad news is that WTO Members have also agreed to allow themselves to designate a certain number of products as “sensitive” and presumably treated less liberally.

[SLIDE 23]

WTO Members have finally achieved in the July framework document explicit agreement to eliminate all forms of export subsidies by a date certain. This is a very significant outcome even if we do not yet know when this objective will be achieved. From the closing loopholes standpoint, it is also very important that the negotiations are also supposed to ensure the elimination of measures having an equivalent effect to export subsidies.

At this stage, the text calls for working toward the elimination of:

- scheduled export subsidies
- export credits, credit guarantees and insurance programmes with repayment periods beyond 180 days
- trade-distorting practices of exporting state trading enterprises
- and food aid which is not in conformity with disciplines to be agreed to prevent commercial displacement.

[SLIDE 24]

Finally, on the domestic subsidies pillar, the July text promises the basis for achieving the Doha objective of “substantial reductions in trade-distorting domestic support”.

As with tariffs, a tiered formula is planned so that higher levels of support will be cut more deeply. A down-payment will be realised with the commitment that the sum of all trade-distorting support in year one should not exceed 80% of the Final bound total AMS and Blue Box. A potentially significant direction in the text promises anti-circumvention caps on product-specific AMS. The agreed framework also promises a review and clarification of criteria for Green Box subsidies in order to ensure that Green Box measures are really non-trade distorting.

[SLIDE 25]

I believe that we have in the July framework package a set of agreed directions that, when eventually filled out with the modalities for the negotiation, will give us the basis for a Doha Round result in agriculture that both goes substantially beyond what was achieved in the Uruguay Round and also closes the loopholes and opportunities for circumvention that have plagued the implementation of the Uruguay Round result.

What will this mean for Dairy? Potentially quite a lot. You are probably already familiar with the ABARE study from 2001 that found that a 50% cut in the volume of dairy products sold with export subsidies would have raised world prices by up to 35%. Since we now have the prospect of a total elimination of export subsidies the results are certain to be even more significant.

That study also found that big improvements in TRQ access and lower out of quota tariffs would also contribute to higher prices. Realisation of an eventual agreement along the lines of that foreseen in the framework text makes these predictions probable as well.

[SLIDE 26]

We now have a good basis for possible success in the Doha Round agriculture negotiations, but a good basis doesn't by itself ensure success. The degree of precision of the guidance provided by the framework differs as between the three pillars.

It is higher in export competition than in domestic support and higher in domestic support than it is in market access. A lot of technical work now needs to be done before the political options are really clear and the hard bargaining can begin.

WTO Members now have to fill the framework with concrete formulae, figures, details of criteria and specific rules.

It is not going to be easy. The United States will likely press for a very ambitious outcome on market access as a condition to deliver on the framework in the other two pillars. The European Communities, the G-10 and India will resist doing too much in the market access pillar.

The negotiations are back on track – but they are now delayed by two years. There will be at least six formal special sessions of the Agriculture Committee between now and the Hong Kong Ministerial Conference. Despite all of this activity, things in WTO move forward at an agonizingly slow pace and we have to accept that a realistic goal for the Hong Kong meeting in December of next year is not the end of the Round but agreement on the modalities – a target that WTO members had planned to meet in March 2003.

[SLIDE 27]

It is often hard to capture the interest of an audience with talk of the WTO negotiations because the time frames are so much longer than those of a bilateral negotiation. Because they appear to produce more immediate results, the FTAs tend to be sexier topics of discussion. I have nothing against FTAs either and I think they can help with incremental trade liberalising results. But in agriculture – at least – there is an important qualitative difference and that difference is that two of the three pillars of the WTO agriculture negotiations are only politically possible to address in the multilateral context.

If we want to do something about trade distorting subsidies, we need to be a bit more patient. Even if the studies I referred to are off by a factor of 50% in their predictions of the potential benefits to the dairy industry, the magnitude of those benefits are still worth waiting for.