MARKET ACCESS, EXPORT SUBSIDIES, DOMESTIC SUPPORT AND THE WTO NEGOTIATIONS : A REVIEW AND SYNTHESIS

by

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Summary : *The aim of this review is to provide a preliminary assessment of the implementation of the Uruguay Round Agreement on Agriculture (URAA) in order to highlight the directions that might take the next stage of reform. A particular focus is made on the Quads[1] countries. Our findings are that, in spite of the URAA arrangements, tariffs on agricultural products are still three times higher on average than on manufactured products. The tariffication process has often led to prohibitive duties and to an increase in tariff dispersion. Tariff rate quotas (TRQs) have not always been filled and market access has shown only limited improvement. Export subsidies still exist and domestic farm policies have often experienced only minor changes to match the Agreement requirements. These points, which have been identified as live issues for the next Round of Negotiations, are then debated in the rest of the document. We discuss in particular the modalities of ameliorating market access, with the definition of a more effective tariff cut and the improvement of TRQs' administration and efficiency. As far as exports are concerned, we tackle the issue of effectiveness of a new reduction of export subsidies, the status of export credit and of export restrictions. The more general question of state involvement in agricultural trade is also discussed. Finally, we pose the question of a deepening of the reduction of support to agriculture, with an elimination of the "blue box" and a new definition of the "green box" content.*

Key words : WTO, trade negotiations, agriculture, market access, export subsidies, support to agriculture.

[1] Quads countries are constituted by Canada, the European Union, Japan and the United Sates.

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I- INTRODUCTION

Agriculture has always been a politically sensible topic as far as international trade is concerned as 40 percent of the multilateral disputes brought to the GATT has originated in this sector, this percentage having reached 60 percent in the 80s. Until the Uruguay Round Agreement on Agriculture (URAA) signed in Marrakech in 1994, this sector benefited from a special treatment which made it possible to escape the liberalisation process. In this context, the URAA constituted an historical turning point in the reform of the agricultural trade system.

URAA commitments in the area of market access, export competition and domestic support, have represented a fundamental deviation from the way agriculture had traditionally been considered. As a result, the URAA has been recognised as a serious move toward liberalisation of agricultural markets. The World Trade Organisation (WTO) Dispute Settlement arrangements make it more difficult to escape from the common discipline. As a result, WTO commitments have generally been considered seriously and completed correctly by the various member countries, even though the various reports of the WTO Commitee of agriculture show that a lot of grey areas persist as far as the technical aspects of the URAA implementation.

In spite of the URAA arrangements, tariffs on agricultural products are still three times higher on average than on manufactured products. The tariffication process has often led to prohibitive duties and to an increase in tariff dispersion. Tariff rate quotas (TRQs) have not always been filled and market access has shown only limited improvement. Export subsidies still exist and domestic farm policies have often experienced only minor changes to match the Agreement requirements. Many countries have used any opportunities for lessening the impact of the agreement as far as import restrictions are concerned.

In this context, the aim of this review is to provide a preliminary assessment of the implementation of the URAA in order to highlight the directions that might take the next stage of reform with a particular focus on Quads countries. Hence, after summarising the main elements of the Agreement, we will focus on those points which implementation have been identified as live issues and which might be a subject of concern during the next talks. Particularly, we will tackle the question of market access with the modalities of the new tariff cuts and the administration and efficiency of the TRQs, of exports with the reduction of export subsidies, the status of export credit and the issue of export restrictions, as well as the question of the re-instrumentation of domestic support.

II-THE MAIN ELEMENTS OF THE URAA

The Agreement on Agriculture issued from the Multilateral Trade Negotiations of the Uruguay Round (WTO, 1995) contains the general commitments of the countries in terms of market access, export competition and domestic support, as well as each country's schedules as part of its contractual commitment. Aside the URAA, the Modalities for the Establishment of Specific Binding Commitments under the Reform Programme (" Modalities ") do not form part of the Agreement and cannot be used as the basis for dispute settlement proceedings (this is the case for example for the minimum access provisions that are not necessary included in the Agreement). Two separate Agreements concern the Sanitary and Phytosanitary Measures (SPS), as well as the Technical Barriers to Trade (TBT). Theses two Agreements are not discussed here.

II.1.- Market Access

Market access improvements were a core element of the URAA and of the WTO system as a whole. The market access provisions are:

- The conversion of all non-tariff barriers (NTBs) to tariffs (i.e. the " tariffication " process) based on the 1986-88 difference between average internal and world market prices. This

measure has been completed for the commodities concerned by (at least) the maintain of the current access of domestic market (in order to tariffication not to reduce trade flows), as well as by the definition of a minimum access of 3 percent of 1986-88 consumption, to be increased to 5 percent at the end of the implementation period (2000). These minimum access objectives are reached by using Tariff-Rate Quotas (TRQs), i.e. defined import quantities with a reduced tariff rate. The minimum access should in principle be achieved through low tariffs applied to the quantities concerned. Current access must be maintained, in practice also through TRQs.

- The binding of all tariffs, that is to say the fixation for each commodity of the maximum tariff to be applied (defined as " bound " tariff), and the reduction of 36 percent (24 percent for Developing Countries (DC)) of average tariffs over a 6 years period (10 years for the DC), with a 15 percent minimum cut (10 percent for DC) per tariff line, generally in five equal annual reductions. Least Developed Countries (LDC) are not subject to this obligation.

- The definition of Special Safeguard Provisions (SSP), which allow the application of additional duties on tarified commodities imported when their increase in volume or their drop in price exceeds certain trigger level[2]. These provisions apply only to imports over tariff-quota volumes. Additional duty may, however, not exceed one-third of the ordinary duty and may only be maintained until the end of the year during which it has been imposed[3].

- The definition of Special Treatment conditions (ST), which allow not to apply the tariffication process to commodities (defined in the Agreement) on fulfilment of certain conditions (such as for example a minimum access going from 4 percent to 8 percent of 1986-88 consumption during the implementation period). The continuation of the Special Treatment provisions after the implementation period is submitted to additional concessions to be determined during the new Round of Negotiations.

II.2. Export Commitments

If the high level of protection was the main concern of the negotiations on Agriculture, export subsidies have long been identified as particularly damaging for agricultural markets and the focus of earliest attention of the GATT. The main commitments of the countries in the area of export consist in:

- The reduction by 21 percent (14 percent for DC) of quantities exported with subsidies and by 36 percent (24 percent in the case of DC) of budget expenditures on export subsidies over a six years period (10 years for DC) from the 1986-90 level (1990-91 if budget and quantities are for this period higher than during the base period). The Agreement allows to withhold the non used quota of export subsidies up to 2001. LDC are exempted from these obligations.

- The prohibition of new programs of export subsidy.

- A commitment to work toward internationally agreed disciplines on export credits and to observe certain practices concerning food aid (which for example should not to be tied to

[2] The safeguards are triggered if the volume of imports exceeds the average of the previous 3 years by a certain percentage (which differs depending on the imports' proportion of consumption) or if the price of the imported product drops at least 10 percent below the base period (1986-88) world reference price.

[3] The extent to which the duty can be increased is on a sliding scale.

commercial exports and should be conducted following FAO Principles of Surplus Disposal and Consultative Obligations).

- The consideration of the effects on food security of export prohibitions and export restrictions, the consultation of the importing countries concerned and the advance notice to the Committee on Agriculture.

II.3. Domestic Support

Through the URAA, domestic policies appear for the first time a legitimate concern of trade talks. The main provisions in the area of domestic subsidies can be summarised in:

- The measurement of domestic support (aggregated across all commodities) through a Total Aggregate Measure of Support (Total AMS). This indicator is supposed to include all distorting subsidies (defined as belonging to the " Amber Box ") going from price to direct support, which motivate producers to increase or decrease current resource use or current production. These incentives are known as "coupled" incentives[4]. Non distorting support (or "decoupled" support) is defined in the Annex of the Agreement as constituting the "Green Box"[5]. Domestic support minimally trade distorting (called "de Minimis" exemptions)[6] or aimed at limiting production[7] (defined as belonging to the " Blue Box ") are temporary excluded (up to 2000) from the AMS. For DC, support to encourage agricultural and rural development, as well as investment and input subsidies are exempted from AMS reduction. All new or modified domestic policies for which exemption is claimed have to be notified to WTO.

- The reduction of 20 percent (13 percent for DC) referring to 1986-88 (1986 if Total AMS is higher this year) of Total AMS by the year 2000 (2005 for DC). LDC cannot exceed 1986-88 level.

- The introduction of a Due Restraint provision or " Peace Clause ", which specifies that domestic and export policies will not be contested up to 2003, as far as the countries are in full conformity with their commitments under the URAA and that 1992 level is not exceeded.

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[4] Examples of "coupled" subsidies are administered price supports, input subsidies or direct per unit payments. When support is " decoupled ", farmers base their production decisions on expected market return, and not on expected government support. As stipulated by the Agreement, (§ 6, Annex 2) "The amount of decoupled payments in a given year shall not be related to the type or volume of production … neither to the price … or factors of production of any year after the base period … No production shall be required in order to receive such payments".

[5] The list of subsidies excluded from AMS consists in a wide range of general services (training, extension, marketing, promotion, research), domestic food aid, decoupled income support, government financing of income insurance and income safety net programmes, structural adjustment assistance, environmental payments and regional assistance programmes. These exemptions rely in particular on the political need of governments to deal with questions of equity (aid and food security), market failure (environmental programs) and the absence or inadequacies of risk markets (insurance and income safety net programs).

[6] Defined principally as product specific support which amounts to less than 5 percent of the value of the product and non product specific support which amounts to less than 5 percent of the total of agricultural production of a country.

[7] In particular, if such payments are based on a fixed area, a fixed yields or a fixed number of head; or are made on 85 percent or less of the 1986-88 base level of production (these forms of support are part of the Blair House Agreement).

III-THE IMPLEMENTATION OF THE AGREEMENT

III.1. Market Access

As a first evaluation of the market access provisions, various studies have pointed out that — in spite of the highly significant potential benefits in the long term — the impact during the implementation period would be low (IATRC, 1994 and 1997 ; Josling, 1998 ; OECD, 1995 ; Tangermann, 1995 and 1996). In the short term, it has been shown that the almost all countries have acted in order to minimise the constraints of the Agreement, using a combination of factors that are going to be discussed into more details.

III.1.1-Tariffication and Conversion of Non Tariff-Barriers (NTBs)

Thanks to tariffication, tariff structures are more predictable and they provide a more transparent basis for further reductions. This commitment constitutes a fundamental change for agricultural trade policies, countries being no longer allowed to implement an extensive quantity of border measures such as quantitative import restrictions, variable import levies, minimum import prices, discretionary import licensing, non-tariff measure through state trading or voluntary exports restraints. According to OECD (1997), in almost all countries fewer imported products faced NTBs in 1996 than in 1993.

A number of factors has however reduced the immediate importance of commitments and explain their low impact in terms of trade flow. Some countries such as Japan, Korea and Philippines (for rice) and Israel (for various products) have benefited from the Special Treatment (ST) provisions which exempt them of tariffication of the products concerned.

More important, most of the countries has set many new tariffs at a higher level of protection than the true tariffs equivalent of the NTBs that they replaced — the highest levels being recorded in the most sensitive sectors (such as sugar and dairy products for example, tables A1 to A4 in Annex). This has been partly due to the period of reference chosen for the tariffication process (1986-88), world prices being very low during this period of time. But in addition, some countries overstated their domestic prices level or understated measures of world prices level, increasing artificially the apparent gap between domestic and world price — and consequently the new tariffs established (Finger and alii, 1996)[8].

This phenomenon — denominated " dirty " tariffication — has led to an unused protection identified as the " water " in the tariff. In fact, this has been a general characteristic of the principle of bound tariffs that have followed URAA implementation. This has also resulted in an increase in the (already high) tariff dispersion, as well as of the important number of tariff peaks (OECD, 1995 and 1997).

Hence, in the majority of non OECD countries, post-URAA bound tariff rates have remained much higher than applied MFN tariffs (OCDE, 1999a). In some countries, for a certain number of commodities MFN applied tariffs are higher than actual protection as measured by the Nominal Protection Coefficient (NPC). This has been particularly true for Canada and the EU (table 1). This situation, in addition of giving the possibility to increase applied tariffs when necessary, can lead to a further reduction of the bound tariffs without improving market access.

The problem of persistent tariff peaks have also been raised by many observers. The welfare losses associated with tariffs is not only a function of the mean tariff rates, but also depend on the variance in these rates across products. For a given tariff average, the higher the dispersion, the larger are the distortionary effects of tariffs. Moreover, tariff uniformity makes the trade regime more transparent and easier to administer (Panagariya and Rodrik, 1993). Two indicators of the degree of

[8] This discretionary procedures used when consolidating tariffs at a higher level than the tariff in operation has been particularly used by some Developing Countries (DC).

dispersion are commonly used. One is the standard deviation of tariffs from their mean, the other one is the tariff "spikes" or "peaks" which is the proportion of items for which the tariff rate exceeds a reference level. Tariff rates in excess of a given national reference is defined as “domestic peaks”, “international spikes” referring to tariffs which exceed 15 percent.

Using national definitions, “domestic peaks” were in 1996 5 percent in Canada, 9 percent in the US, 22 percent in Japan and 28 percent in the EU (these percentages being respectively of 5, 7, 22 and 36 when using international definition as the one used by OECD, 1999a). The majority of non-OECD countries shows high shares of tariff peaks when using international definition (between 90 and 100 percent of commodities). The largest number of tariff peaks are also found in agriculture (compared to industrial sector). In fact, these peaks have increased for most countries in 1996 relative to 1993, the EU showing one of the most important expansion. Agricultural sector exhibits also above average standard deviations of tariff rates, this indicator having also augmented for most OECD countries from 1993 to 1996 (OECD, 1997 and 1999b).

Table 1. Applied Tariffs and Protection Rates in Selected OECD Countries

(in %)		Applied Tariffs	NPC
Canada (1996)	Wheat	86	0
	Barley	106	0
	Butter	351	147
	Milk and Cream Products	327	82
	Cheese	275	87
	Poultrymeat	278	4
	Eggs	266	36
EU (1997)	Wheat	77	-4
	Maize	49	8
	Rice	92	26
	Beef	108	80

Source: OECD (1999b)

Some very well-known examples of peak tariffs are the ones of sugar and dairy products (see tables A1 to A4 in Annex). In Japan, ad valorem equivalents of tariffs on butter reached 650 percent in 1995, these rates being of respectively 350 percent, 250 percent and 140 percent in the case of Canada, the EU and the US. As far as sugar is concerned, tariffs were of 274 percent in the EU, 252 percent in Japan, and 216 percent in the US. In Japan and the EU, wheat and beef markets show also high levels of protection, with tariffs of 280 percent for wheat in Japan and of more than 150 in the EU, as well as of 174 percent for beef in the EU and of 93 percent in Japan. In this context, there is little doubt that agricultural protection as evidenced by these high tariffs remains one of the major distortion in the world economy.

Another bias of the tariffication process can be seen in the frequent conversion of the NTBs into specific duties in the place of ad valorem tariffs. This has been the case of Japan and Canada, but the US and the EU are still among the countries using the most specific duties (table 2 and OECD, 1997 and 1999b). Specific duties provide a growing level of protection when world prices are falling (which effect is worsening the world price declines). Moreover, specific duties offer a higher protection to low unit value products. In fact, it is the complexity of the system (and less its economical justification) that has been criticised, as well as its lack of transparency that generally hides high levels of protection (tables A1 to A4 in Annex). Specific duties are consequently more prevalent in the agriculture area than in other sectors (table 2 and tables A5 to A8 in Annex). All these characteristics justify that countries have often used a combination of specific and ad valorem duties, in order to offer a wide protection to some of their production.

Although many of the tariffs resulting from the tariffication process appear to have been set at a very high level, several factors have to be taken into consideration in order to assess the real level of

protection. First, the trade restrictive effects of tariffication have been attenuated by the commitments taken in term of current and minimum access. Also, these new tariffs have to be considered as maxima, the applied tariffs being generally inferior. It is the case of most of the countries, which choose to implement a lower tariff than the bound level — in particular through bilateral arrangements. In fact, these high tariffs give, if necessary, the possibility to increase the duties, while respecting URAA's commitments.

Table 2. Specific and Compound Duties in Selected OECD Countries

(in %)	Agriculture		Whole Economy	
	1993	1996	1993	1996
Canada	16	20	7	8
EU	30	33	12	12
Japan	9	14	5	7
US	33	34	17	16

Source: OECD (1999b)

III.1.2-Reduction of Tariffs

This issue can be considered as one of the most disappointing of the URAA. In fact, protection does not seem to have been reduced. Simple and production weighted average of applied tariffs have increased in most of the countries (Ingco, 1995). This is the case of the US (4.1 to 7.9 percent between 1993 and 1996 for weighted tariffs), as well as of the EU (6.1 to 10.7). For Japan and Canada, protection has been more stationary (respectively around 5 percent, and 4 to 5.5, OECD, 1997).

In spite of the difficulty in comparing countries experiences, various indicators show that, in average, protection is still higher in the EU and Japan, than in the US and Canada. This can be illustrated by the ratio of domestic to world prices (or Consumer Nominal Assistance Coefficient, NAC) which goes in average for 1995-97 from 1.1-1.2 in the US and Canada, to about 1.4 in the EU and almost 2 in Japan. Protection has however slightly decreased since the 1986-88 base period, where these coefficients amounted of respectively 1.2-1.3, 1.8 and 2.3 (OECD,1998), global protection being globally 13 percent lower (Finger and alii, 1996).

Consequently, agriculture remains much more protected than industry. In most developed countries and in an increasing number of middle-and low-income economies, many bound manufacturing tariffs are about 5-10 percent, several countries with an average of less than 10 percent (table 3). Agricultural tariffs by contrast can average more than 40 percent (table 3 and 4), with in addition a greater dispersion of tariffs and particular high tariff peaks.

Table 3. Post-Uruguay Round Simple Bound AverageTariff Rates

(in %)	Canada	EU	Japan	US	Quad Countries	Non-Quad OECD Countries	Other Countries
Agriculture	4.6	19.5	11.7	5.5	8	42	63
Industry	5.3	4.1	3.6	3.8	4	14	39

Source: from OECD (1999b)

Table 4. Average Unweighted Ad-valorem Bound Tariff Rates (20 Countries)

Product	Percent	Product	Percent
Grains	46.7	Dairy Products	47.1
Oilseeds	41.7	Sugar	48.7
Fats and Oils	41.6	Fresh Fruits and	35.5

		Vegetables	
Meats	39.3	Processed Fruit and	35.3
		Vegetables	
Milk	40.7	Other Agriculture	24.4

Source : Josling (1998)

This result can be explained by the way countries have applied their tariff reduction. Tariffs being required to be reduced by a simple average of 36 percent (with a minimum of 15 percent), this has been generally achieved by deep cuts of tariffs that were already low and minimum cuts to less competitive sectors. This phenomena of " dilution " of tariffs reduction has been well studied (Josling and Tangermann, 1994 ; Tangermann, 1996). Peak tariffs, in particular, can be seen as a major cause of the global inefficiency of tariffs reduction, tariffs cut been less than the " water " in the tariff. This process can be illustrated by some country experiences (tables A5 to A8 in Annex).

In the US, the relatively low tariffs applicable to cereals (except durum wheat) and oilseeds have been bound and cut of 36 to 74 percent during the implementation period (16 percent for durum wheat). On the contrary, in the more sensible sectors generally submitted to tariffication — such as sugar, beef and dairy products — tariffs cuts were minimum (15 percent) and relatively high duties will still be implemented in 2000. In the case of the EU, where a wide range of products have been submitted to tariffication, tariffs cuts of 36 percent were applied in a more homogeneous way — except for sugar and milk products where reduction did not exceed 20 percent. Tariffs will however still be relatively high at the end of the implementation period (tables A5 to A8 in Annex).

For Canada, minimum tariffs reduction of 15 percent have been used to sensible products (such as wheat and wheat products, barley, dairy, beef and veal, poultry). In most sectors submitted to tariffication, relatively high tariffs will continue to be applied in 2000. Similarly in Japan, for almost all tariffied commodities (wheat, barley, dairy products and pigmeat) tariffs cut was settled at the minimum level of 15 percent and high tariffs will be used at the end of the implementation period.

III.1.3. Tariffication and Current-Minimum Access

Current and minimum access commitments were justified by the predictable high level of tariffs that would result from the URAA implementation and that would question trade flow and market access improvements. A total of 1366 TRQs were notified to the WTO. 36 countries were concerned by these commitments[9] among which Norway (232 notifications) Poland (127), Iceland (90), the EU (85), the US (54), Japan (21) and Canada (20). Such arrangements are particularly frequent for fruits and vegetables (350), meat products (249), cereals (215), dairy products (182) and oilseed products (124).

However, commitments were not very strict. Relevant provisions were not always included into the schedules of the Agreement (provisions contained into the Modalities are not legally binding). In addition, these provisions do not require a country to import a given volume, but rather to establish an access opportunity. Moreover, pre-existing or new bilateral arrangements have been indirectly allowed to be incorporated to the current access commitments (what is not really consistent with MFN principles and has been criticised by various countries)[10].

[9] Countries having provided for increases in quota levels from base levels include Austria, Canada, Colombia, Costa Rica, Czech Rep., Salvador, European Communities, Finland, Guatemala, Hungary, Japan, Republic of Korea, Mexico, Morocco, New Zealand, Nicaragua, Philippines, Poland, Romania, Slovak Rep., South Africa, Switzerland-Liechtenstein, Thailand, United States and Venezuela.

[10] Articles 13 and 14 permit countries to allocate tariff-quota access to specific exporting countries under specific conditions (WTO, 1995). The maintain of current access could in consequence incorporate some of the previous bilateral agreements. However, annual notifications of TRQs to the WTO generally not distinguishing between current and minimum access commitments, it is impossible to evaluate to which extent minimum access has been filled through these pre-existing agreements.

Some countries have also managed to lower their commitments by calculating the quota at a broad level of product aggregation (such as “meat” or “dairy products”) and allocate the total TRQ among the components of the aggregates in a way to minimise the effect on sensitive commodities. In some cases, the aggregated quotas were not allocated to individual commodities, leaving flexibility to allocate quantities based on market conditions. This justify why access opportunities have not always fully translated into increased trade and why, in many cases, countries have not filled their quota.

Nevertheless, *w*ith respect to crop commodities, there has been some expansion in access under the minimum access provisions, in particular for rice in Japan and Korea, maize in the EU and wheat in Canada. There has also been increased access for dairy products and meat, specially in the EU but also in the US. The important commitments made by the EU for butter, cheese, pigmeat, poultry and beef have to be highlighted. In several circumstances, however, quantities reported in the EU schedule reflect bilateral or plurilateral agreements already in place (with Central and Eastern Europe for example, Tangermann, 1995). This is the case, in particular, for some dairy and meat products.

In fact, the greatest beneficiaries from the current and minimum access provisions among OECD countries appear to be New Zealand for dairy products and Australia for meat and some dairy products. The US and Australia are gaining from increased opportunities to export rice in Japan and Korea.

TRQs Fill Rates

TRQs fill rates were in average for WTO countries of 65, 63 and 46 percent respectively in 1995, 1996 and 1997 (table 7)[11]. These averages hide a large degree of dispersion, more than half of TRQs being highly filled (over 80 percent) and a quarter showing low fill rates (under 25 percent, table 5). In fact, distribution of fill rates shows large fluctuations depending on the countries (table 7) and the products (tables 6 and 8).

Table 5. Distribution of TRQs by Fill-Rates Categories

(in %)	1995	1996
0 to 20	24.3	26.6
20 to 80	21.4	21.4
80 to 105	26.3	30.6
over 105	28	21.4

Source: Analysis of WTO notifications

With respect to commodities, tobacco and fibres appear to be the least utilised TRQs (46 percent over 1995-97). On the opposite, fruits and vegetables perform the highest fill rates (76 percent on average). Following the average changes of fill rates by countries over time, the rate of utilisation of TRQs declined for most products, particularly in the case of fibre, sugar and livestock. Fill rates increased only for coffee and oilseeds.

Table 6. TRQs Fill-Rates by Product Category

(in %)	1995	1996	1997
Cereals	64	64	60
Dairy Products	67	68	63
Livestock	63	60	56
Oilseeds	60	60	64

[11] It should be noticed that no allowance is made for differences in size between TRQs, a small TRQ being given the same weighting as a large TRQ.

Fruits and Vegetables	73	71	68
Sugar	72	64	59
Agricultural Fibbers	77	37	23
Tobacco	52	37	48
Coffee	44	61	70
Beverages	49	47	49
Other	67	62	62
OECD	*66*	*64*	*62*

Source: OECD (1999b)

As far as countries are concerned, Canada, the UE and Japan indicate above average fill rates (respectively 82**,** 73 and 70 percent, against 58 for WTO countries for 1995-97, table 7). On the opposite, the US perform rather low fill rates (55 percent).

In the EU, fill rates are low for drinks (4 percent), eggs (46 percent), fruits and vegetables (62 percent), and cereals (61 percent, table 8). This is the case of fibres (5.3 percent), coffee-tea (46.1 percent), fruits and vegetables (44 percent) and to a lesser extent dairy products (62 percent) in the US. In Japan, oilseeds and dairy products (56 percent) exhibit rather low fill rates. Canada performs exceptionally well, except for oilseeds (for which quota are not fill at all) and coarse grains (54 percent rate of fill).

Table 7. TRQs Fill-Rates for Selected Countries

(in %)	1995	1996	1997	1998	Average	Number of TRQs
US	47.8	53.1	55.5	61.8	54.6	54
EU	76.3	70.5	72.7	na	73.3	85
Canada	78	85	83	na	82	20
Japan	69.5	71.5	69.6	na	70.2	21
WTO Average	*65*	*63*	*46*	*na*	*58*	*1366*

Source: Analysis of WTO notifications

Table 8. Countries TRQs Fill-Rates for Selected Products (average 1995-97)

(in %)	US	EU	Canada	Japan
Coarse grains		61	54	94
Dairy products	62	98	91	56
Meat products	68	80	100	
Eggs		46	98	
Oilseeds	96		2	56
Fruits-vegetables	44	62		93
Sugar	76	89		
Fibres	5			89
Tobacco	68			
Coffee-tea	46			
Drinks		4		

Source: Analysis of WTO notifications

The rate of fill of TRQs depends on several factors related to the level of protection, as well as on who receives the market rent and the extend of this market rent[12]. In particular, the administrative arrangements matter, and so do the within and beyond TRQs tariff rates, the TRQs quantity, supply

[12] Market rents arise from the difference between internal supported prices and the within TRQ tariff rate. Depending of the administrative arrangements, these rents can be caught by importers, government or exporters.

and demand conditions in importing and exporting countries, possible infrastructure constraints, and world price levels.

TRQs Administration Methods

A major issue concerns the allocation and the administration of the TRQs. Countries have basically two ways of allocating their TRQs: the first one is global, the second one is country-specific. Global allocation apply on imports regardless of country of origin, all countries being free to compete. Generally in this case, it is the importer which holds the quota and the importing country which administrates it. Under country-specific allocation, the importing country grant one part of the TRQ to an exporting country. Since the importers and the exporters already know from where the product will originate, either country can administer the TRQ and catch the rent.

In addition, countries have adopted rather different approaches to administer their current and minimum access commitments, which influence trade, prices, market rents and consequently fill rates. Several possibilities exist. A country can decide not to allocate the TRQs and to choose between two methods: applied tariffs or first-come first-served. Otherwise, allocation can follow different forms: licenses on demand, historical importers, auctioning, lottery, state trading or producer groups or associations (see Box 1 for definition and analysis of these administration methods).

Analysis of WTO notifications reveals that — by far — the two most frequent administrative methods chosen by the countries are "applied tariffs" (for around half of TRQs) and "licenses on demand" (for a quarter, table 9). "First-come first served" appears in less than 10 percent of the cases and "historical importer" in 5 percent. In these cases, the large (or relative large) number of observations allows to draw inference between fill rates and administrative methods. Less confidence can be placed on other observations.

Table 9. TRQs by Allocation Methods

(% TRQs)	1995	1996	1997
Applied Tariffs	52	51	47
License on Demand	26	26	25
First-Come	8	8	7
Historical	4	5	5
Auction	3	2	2
State-Trading	2	2	1
Producer Groups/Association	1	1	1
Mixed Allocation	3	3	3
Other	2	2	1
Not Specified	1	7	7
Total of above	*1261*	*1278*	*1370*
Total of TRQ in Schedules	*1370*	*1370*	*1370*

Source: calculated from WTO notifications

As far as fill rates are concerned, the highest average for 1995-97 appears in the case of auction (89 percent), state-trading (82 percent) and — on a more reliable base — applied tariffs (79 percent, table 10). On the contrary, licenses on demand (55 percent), first-come first-served (52 percent) and historical importers (35 percent — on a less representative way in these two last cases — result the poorest average fill rates.

The particularly high rate of fill of the applied tariffs method (under which the within TRQ tariff rate is extended to all exports), can be justified by the fact that this arrangement is equivalent to a tariff-only system at the within TRQ rate. On the contrary, cost of obtaining licences and of complying with licenses conditions may have resulted in higher levels of protection. Non reallocation of licenses — when not fulfilled by importers — may also have played an important role.

In the case of first-come first-served, uncertainties about conditions within this category — especially when imports approach the TRQ total quantity — as well as differences in seasonality between importing and exporting countries can have discouraged importers and exporters of the TRQ products. As far as historical importers is concerned, low fill rates may be associated to a possible absence of reallocation of TRQ unfilled shares — in particular when individual supplying countries are attributed specific allocations.

Box 1: TRQs Allocation Methods: Definition and Characteristics

Applied Tariffs Import quantities are not restricted and no right to import or export are issued. Imports are solely determined by the first-tier tariff. Under this definition, only the within tariff-quota tariff applies. The difference with having a bound tariff at the within tariff-quota tariff is that the importing country can, if necessary, increase the tariff up to the above tariff-quota tariff. Except in the case of prohibitive within tariff-quota tariff, this system results in a larger import access for the product. It also avoids inefficiencies in quota allocation.

First-Come First-Served Import quantities are restricted but no share is allocated to importers. Imports are allowed at the in-quota tariff rate until the TRQ is filled. Then the higher tariff automatically applies. In spite of being open to all importers — and therefore less subject to inefficiencies in quota allocation — this system reveals several disadvantages. The first one is to destabilise trade through concentrating imports at the beginning of the import season. This might happen in the case of large importing countries — in particular if several have similar marketing years. This can be all the most damaging — specifically for exporting countries which seasonality is out of phase with the tariff quota imports. But importing countries may suffer higher importing prices and higher storage costs than otherwise. In addition, if the timing of import coincides with the domestic off season, this will not encourage competition for domestic producers. Moreover, the way of reducing this problem — which consist in dividing the tariff-quota into tranches (Podbury and Roberts, 1999) — can reproduce it at different periods of the year and still introduce unnecessary rigidities.

Another problem of this system can be seen in the market power acquired by the importer(s) or exporter(s) in the case of a very limited number of traders involved in the share of the tariff-quota. This asks also the question of the appropriation of the rent — which reflects the difference between the internal supported price and the world price plus the within tariff-quota — one particularity of tariff-quotas being to allow for market rents to be extracted. In fact, the particular groups that may obtain the rent depend on the TRQ administration method, the degree of market competition and the market power of importers or exporters.

Finally, in addition to the monitoring cost for the importing country (in order to get information on the changeover from charging the within tariff-quota), the increasing tariff uncertainties when the within tariff-quota is about to be reached can discourage imports, or result in delays to delivery that can affect various parties in the supply chain.

Licenses on demand. Import quantities are restricted and shares are allocated to importers through imports authorisations. Import licenses are generally issued before physical imports occur and in relation to quantities demanded within the country. This includes methods where licenses are issued on a first-come first-served basis or are proportionally reduced when exceeding total TRQ. This allocation process can require security deposits, or use, or use-it-or-lose-it policies associated.

Despite reproducing some of the handicaps of the first-come first-served system (such as administrative costs or, if not regimented, the excessive power market of a limited number of traders, Podbury and Roberts, 1999), allocation of licenses provides a greater degree of certainty to importers on the tariffs and conditions of entry. It may also overcome the problem of seasonality.

However, some problems may arise from the way of administrating allocation. Information on who holds licenses and on the timing of distribution is not always available in advance to exporting

countries. Period of validity can place pressure on the importing firm. Reallocation of licenses may not be allowed between traders. Allocation can be subject to arbitrary changes or can authorise governments to manipulate competitive forces.

Historical Importers Shares are allocated to importers (or imports licenses are issued) in relation to past imports of the product. Although maintaining established trading relationships, this system discourages new traders. In particular, a rigidity of the system lays in the appropriation of the rent by the historical importers — or historical exporters if they have specific quantities allocated to them by historical importers — which can lead to significant administrative and rent seeking costs. As far as minimum access is concerned, it can be seen as being in contradiction with Article XIII of the GATT. In addition — similarly to the first-come first-served system — if tariff-quota is allocated to high cost supplying countries, internal prices may be maintained well above world prices (which in turn may result in being more depressed). Some of the supplying countries may even not be able to obtain rents because of their high costs.

Auctioning. Importers' shares or imports licenses are based on a competitive bid system. Number and timing of auctions are held at the discretion of the importing country. The advantage of this system lays on the fact that it minimises the trade distortions that may occur under the TRQ scheme (Josling, Tangermann and Warley, 1996). It ensure, in addition, that a substantial component of the market rent is appropriated by the government of the importing country. This represent a major argument (equity) in favour of auctioning, since quota rent will benefit to all citizens rather than to specific private ones.

The principle involved is that competition between bidders will increase the auction price to the point that the return obtainable is just sufficient to provide a margin for risk over the normal level of profit. Another argument is transparency. Auctioning reveals to all parties the degree of protection attached to the quota. Finally, auctioning can promote quota fill, since it is likely that any importer who invest in a license will actually import.

Some limits of the system can been seen, however, in the additional costs imposed on potential importers to obtain information and participate in the auction — specially when the volumes available within the tariff-quotas are small. This situation — which increases import charges beyond those committed by the countries — questions also the legal status of the system regarding the WTO Agreement on Agriculture. Other potential problems — such as a monopolisation of the market by trading companies, producer or consumer groups, the importing country or exporting firms — can also be of concern.

Lottery. Importers' shares or imports licenses are based on a lottery system. Such as auctioning, this system minimises the trade distortions that may occur under allocation of licenses. In addition, it avoids the supplementary costs associated to auctioning, as well as the potential monopolisation of the market. Inefficiencies can however arise if, once the right to import is given, it cannot be transferred. Identically, if speculators who are not importers acquire the licenses, this can give rise to a secondary market of import licenses which can generate uncertainty. Unless there is penalty for non performance, there is a danger that imports do no occur if speculators do not succeed in selling their licenses.

Imports by State Trading Enterprises (STEs) Importers' shares are partially or entirely allocated to a state trading entity which imports or controls the import of the product. STEs are generally considered by governments as instruments to manage domestic markets. In particular, they can stabilise these markets in face of low import prices. However, they can also be used to restrict imports in the case of political pressures or to protect rent seeking activities. STEs can also be seen as a convenient way of ensuring that market rents are appropriated by the government of the importing country, which revenue can be used for public objectives.

Producer Groups or Associations. Importers' shares are partially or entirely allocated to a producer group or association which imports or controls the import of the product. An important issue regarding this system is the one of the tradeoffs between the benefits that the producer groups or associations can obtain through importing, and the benefits that their members can obtain through

restricting imports. This can result in a potential for highly unstable imports within tariff-quotas, as well as the formation of cartels restricting trade further and capturing more rents.

Finally, the good performances of the State Trading Enterprises (STEs) in allocating TRQs have to be highlighted. This result may be mainly due to the high control that these entities can have on the quantities imported. On the opposite, costs associated to the auctioning system should have more discouraged importers than the observation lets appear. Note, however, that the small number of observations for these two categories weakens our results.

Table 10. TRQs Simple Average Fill Rates by Allocation Method

(in %)	1995	1996	1997	Average
Applied Tariffs	72	66	100	79
License on Demand	55	63	47	55
First-Come First-Served	57	55	44	52
Historical Importers	32	38	na	35
Auction	91	81	94	89
State-Trading	81	83	na	82
Producer Groups/Associations	74	53	na	64

Source: calculated from WTO notifications

TRQs Additional Conditions

In many instances, other conditions (see Box 2 for definition) apply to TRQs arrangements. In 1996, 15 of the 36 WTO members which had applied TRQs reported in 236 cases using additional conditions (corresponding to 18 percent of total TRQs), most of them been applied in Europe[13]. Most frequent additional conditions are limits on tariff-quota shares per allocation, past trading performances and — to a lesser extent — domestic purchase requirements and provision of export certificates (table 11).

Table 11. TRQs Additional Conditions with Allocation Methods

(number of TRQs)	1995	1996	1997	Average
Domestic Purchase Requirement	46	46	46	46
Limits on TRQ Shares	102	111	118	110
Export Certificates	25	25	25	25
Past Trading Performance	71	71	70	71
Past Trading Performance + Limits on TRQ Shares	3	3	3	3

Source: calculated from WTO notifications

These conditions participate in some of the low fill rates observed. They even can become the primary determinant of TRQs imports. WTO (1997) analyses some complementarity between TRQs administration methods and additional conditions that can explain some differences in tariff-quota fill rates. Relative lower fill rates seem to be associated to limits in tariff-quota shares when combined with licenses on demand or auctioning. This can be explained by the supplementary costs associated to these two forms of allocation, this cost discouraging imports when the tariff-quota shares are too small. This does not concern applied tariffs and first-come first-served, which association with limits in tariff- quota shares performs larger fill rates. As far as other additional conditions are concerned, domestic purchase requirements, as well as export certificates (which are less frequently used) do not seem to have particularly discouraged imports, contrary to past trading performances which association with limits in tariff-quota shares perform particularly bad in term of rate of fill.

[13] Eastern European countries accounting for more than 110 and EU for 47.

Box 2: Additional Conditions Attached to TRQs Administration Methods

Domestic Purchase Requirement. A certain obligation of purchase or absorption of domestic production of the product concerned is required in order to be eligible to secure a share of the tariff-quota. This condition, by increasing the price of the domestically produced good concerned, extends the demand for imports within the tariff-quota, but hinder efficient resources allocation. Similarly, consumption being reduced, the final level of trade and import is lower than if the market were liberalised. Local content schemes can, in addition, be subject to frequent changes depending on the level of domestic production and consumption or on political pressures.

Limits in Tariff-quota Shares per Allocation. A maximum share or quantity of the tariff-quota is specified for each importer or shipment. The interest of this additional condition is to limit the market power acquired by the importer(s) or exporter(s) in the case of a very limited number of traders involved in the share of the tariff-quota. On the opposite, if shares are too small, this can discourage imports, specially when the allocation process is costly (like in the case of licenses on demand or auctions).

Export Certificates. An export certificate or a license issued by the exporting country is required as an additional criteria of the eligibility. This additional condition gives to the importing country a supplementary insurance that the contract will be respected and the tariff-quota filled. It constitutes, however, an additional cost.

Past Trading Performances. Although allocation is not made in proportion to past-trade share, the existence of past trading is required to be eligible to secure a share of the tariff-quota. Neither this condition constitutes a mean of maintaining established trading relationship, it deters "new" trade.

Administration of TRQs: Countries Experiences

As far as countries are concerned, the ***EU*** notifies separately to the WTO its commitments in terms of current and minimum access (respectively 44 and 35 TRQs), along with the administration method and the tariff applied. Current access concerns essentially milk products and fruits and vegetables, and minimum access meat products. Current access commitments — which are issued of previous contracts[14] — are administered on a country basis. Minimum access commitments — which administration follows the MNF principal — do not include a list of countries. However for 18 TRQs (concerning pigmeat and poultry meat, eggs and milk products), the EU specifies that minimum access can be filled through existing accords. In addition, European notifications of TRQs relate to the quantities committed but not to the quantities really imported. These two points have been criticised by several countries.

The EU has used three different allocation methods: licenses on demand (for most TRQs), historical importers and first-come first-served (no license being issued in this last case). Licenses are granted only to importing companies which have been registered in the EU. In this way, the EU has abstained from allocating quotas to groups directly related to producer interests. Pro-rata reductions are used if applications exceed availability. For fruits and vegetables, licenses are not issued. Instead tariff reductions are reimbursed ex-post if it turns out that quota were not filled at the time of importation (the banana regime is very specific and will not be discussed here).

In the case of historical importers (durum wheat, banana, butter, poultry, turkey, meat of swine), a small part of the TRQs is reserved to new entrants (8 percent for example in the case of banana). Exporters do not get access to quotas, except in a few cases of country specific TRQs. Export licenses are required for casava and rice, but only for Indonesia, Thailand and Australia. This situation — which is contrary to the MFN principle — could be questioned by these countries.

[14] These contracts concern East Europe, ACP countries, Australia, Canada, Chile, Groenland, India, Indonesia, Island, New Zealand, Thailand, Uruguay, and the US.

Additional conditions are generally associated to the allocation process. These conditions go from registration of enterprises on VAT lists, obligation of processing of the imported product, certificates of origin (raw cane sugar, bovine meat), or past-trading performances (brown rice, various cereals, raw cane sugar, eggs, poultry meat). The length of validity of the licenses is also generally limited in time. This is true for 59 TRQs on a total of 85. This length of validity — which varies greatly with the products — can be very constraining. This is the case for example of wheat (5 days), durum wheat (7 days) and sugar (1 month). The conformity of this point with the article 3 (5g) of the URAA could be of some concern.

As far as fill rates are concerned, minimum access commitments are slightly better filled than current access commitments (on average 74 percent against 69 percent for 1995-97 period). Finally under many TRQs, quota rents accruing to traders seem to be significant.

In ***Canada*** — like the import quotas they replaced — most TRQs are administered on a global quota basis (16 on 21). However, a number of partial country allocation was maintained or established. This has been the case of EU for most cheese, of New Zealand for most butter, of Australia for all condensed milk and cream, and of New Zealand and Australia for most bovine meat. These TRQs must be part of the current access commitments, although no distinction can be made in the Canada's notifications between current and minimum access commitments.

In most of the other cases, allocation follows the first-come first-served and historical importers approaches[15]. Most TRQs allocations are valid for a 12 month period, with import permits issued for a length of 30 days. In fact, administration of TRQs has constituted the most controversial issue of URAA implementation for Canada. The arrangements have been developed through extensive consultations with industry groups and have varied across commodities and over time. The underlying principles have been to keep the rent inside the country (through domestic importers), as well as to provide for transferability of import rights and for flexibility in the light of past experience.

Underfilled TRQs correspond to two types of commodities. The first one is includes products whose domestic price is very low (wheat and barley in particular). The second one must have faced administrative barriers (dairy products enter this category). However, for commodities which are characterised by high fill rates, market access does not seam to have neither improved. This is the case of dairy products, which volume commitments have been under estimated through specific calculation methods. But more generally, most of TRQs imports have been made through NAFTA arrangements.

Among the 54 TRQs notified by the ***US*** to the WTO, no distinction is made between current and minimum access commitments. For most of TRQs, one part is allocated to domestic importers, and the other part to specific export countries. In this case — which should correspond to existing contracts extended to the current access commitments — the list of countries and the quantities concerned are part of the US schedule. As far as domestic importers and minimum access commitments are concerned, administration of TRQs is made on the basis of licenses on demand (sometimes associated to lottery in the case of butter oil and cheese for example), as well as of first-come first served (tariff-quotas fill rates being rather low in this case).

Another anomaly concerns the rather low (or non existent) part of TRQs allocated to domestic importers when the allocation is also associated to export countries. This questions the reality of the minimum access commitments or the respect of the MFN principle (although no verification can be done). Moreover, in this case, most TRQs perform low fill rates. This can be due to earlier non performing contracts attached to the current access commitments, as well as to the non-reallocation of the countries shares (although permitted) when not filled

[15] The first-come first-served method is used for cereals. In the case of condensed and concentrated milk, as well as powdered butter milk, one historical importer has the exclusive right to in-quota imports. For butter, the Canadian Dairy Commission has the monopoly of imports.

For ***Japan*** also, no distinction is made between current and minimum access. Moreover, no countries list is added to the schedule — allocation being made on a global basis. This does not allow to verify each commitment separately. Two ways of administration of the tariff-quotas are used in Japan. One part of TRQs is attributed directly to domestic importers through licenses generally to traditional importers or to producer groups. This is the case of earlier import quotas of weak domestic consumption products, as well as of tariff-quotas related to sensible products[16]. In this last case, additional conditions — such as limits in tariff-quota shares or non reallocation of licenses — are attached to the acquisition of licenses. All these conditions (low domestic demand, traditional importers, producer groups and additional conditions) explain the low rates of fill perform for these categories of TRQs.

Table 12 : Tariff-Rate Quotas by Allocation Methods (1995-97)

	Canada		EU		Japan		US	
	Nb TRQs lines	Fill Rate	Nb TRQs lines	Fill Rate	Nb TRQs lines	Fill Rate	Nb TRQs lines	Fill Rate
Applied tariff	1	100						
License on Demand	6	71	39	67	13	59		
First-Come First-Served	4	54	15	71			21	45
Historical Importers	6	96	4	90				
Auction State-Trading	1	100			4	100		

Source: OECD (1999b)

Another part of TRQs is attributed to state enterprises[17]. Such enterprises import the product concerned and resell it to domestic importers under some conditions (such as past trading performances for example). This generally applies to TRQs which procure new access opportunities[18]. These tariff-quotas are on average correctly filled (more than 85 and even 95 percent).

The case of rice has been particular in Japan, this product having been exempted from tariffication under the "Special Treatment" (ST) provisions. However from April 1999, Japanese government decided to return to the tariffication and to exit the TRQs system.

TRQs Tariff rates

By some aspects, such as the modalities of administration, TRQs maintain some non tariff obstacles to trade. This also happens when the beyond tariff-quota tariff is high enough to prohibit trade — the TRQ being assimilated to an import quota in this case. In fact, another outcome of TRQs is the one of above-quota (OTRQs) tariffs, which remain often prohibitive or too high to allow imports to compete.

This concerns in particular Canada and Japan (which OTRQs tariff rates of respectively 203 and 274 percent exceed by far WTO average), the US and the EU applying much more reasonable rates (respectively 29 and 45 percent, table 13). In fact, this situation affects specific commodities. This is the case of sugar and some dairy products in the US, the EU and Japan, of wheat products in

[16] Various dairy products, oils and fats, pulses, starches, and silk cocoons enter these two categories.

[17] Three of them share the imports of TRQs : ALIC (Agriculture and Livestock Industry Corporation), the Office for Raw Silk and Sugar Price Stabilisation, and the Office of Control of Food Products.

[18] These TRQs concern essentially cereals and cereals products (wheat, barley, rice).

Canada, the EU[19] and Japan, of eggs, poultry meat and some dairy products in Canada, of beef and fruits and vegetables in the EU, and of pigmeat meat in Japan (table A9 in annex).

In-quota (ITRQs) tariffs have, in some cases, been found little or not different from those resulting from the tariffication (table 13 and table A9 in Annex). Although URAA does not give any precise definition of the within-tariff rates, these must be less than the gap between the domestic and world price to generate the full quota volume. Precise assessment of countries experiences is difficult.

Table 13. Average Tariffs and TRQs Tariffs in Agriculture

(in %)	Agriculture	ITRQs	OTRQs	All Products
Canada	5	8	203	5
EU	20	8	45	7
Japan	12	20	274	5
US	6	10	29	4
OECD	*36*	*36*	*120*	*15*
non-OECD	*63*	*59*	*125*	*43*

Source: OECD (1999a)

As far as the EU is concerned, within tariff-quotas tariffs seem to have been generally set at less than 20 percent of beyond tariff-quotas tariffs. Similarly, in Japan these rates are a little proportion of the bound tariffs issued from the tariffication process (a maximum tariff of 35 percent is reported for butter). In the US, within tariff rates do not seem neither excessive and not a cause of low fill rates[20]. In the case of Canada, imports within quota pay the duty applicable depending of the country of origin. This may be the MFN tariff (that has been cut of 57 percent following URAA commitments in terms of tariffs reduction)[21] or preferential tariff applicable to imports from the US, Mexico, Israel, Chile, Australia, New Zealand, and from countries benefiting from the GSP (Generalised System of Preferences)[22]. This makes the in tariff-quotas tariff rates particularly low (specially compared to the beyond one. Excessive in-TRQs tariff rates are the ones of butter in Canada and the EU (respectively 144 and 77 percent), as well as of sugar in the US (44 percent, table A9 in Annex).

III.1.4- Special Safeguard Provisions

One consideration regarding the Special Safeguard Provisions (SSP) was their possible reduction of the trade impact of tariffication (Tangermann, 1995). In addition, by enabling the importing countries to increase their levels of protection, the safeguards intensify the depressed world market situation. These provisions have however been fundamental in the approval of the market access measures by the most protectionist importing countries. In practice, tariffs being set at a high level, SSP have not been used to the extend many commentators predicted. From 1995 to 1997, they

[19] In the case of cereals, another reason of low fill rates (in addition of the general question of TRQs administration) can be seen in the CAP changes which have led to a cut in cereals prices and in cereal substituted demand. Consequently, imports of manioc and cereal residues have fallen significantly short of the quota which have been negotiated with Thailand and other exporters.

[20] Recall that a substantial part of TRQs is filled through the NAFTA or through other preferential agreements at a zero or low tariff rate.

[21] Canada has chosen to apply the URAA average tariff cut of 36 percent in a way that gives more protection to its tariffied products. This has led to the minimum cut of 15 percent of over-quota tariffs, while in-quota tariffs were reduced of 57 percent.

[22] Since 1979 Tokyo Round, GSP preferential scheme has offered to developing countries access to developed countries market through zero tariffs or lower tariff rates on certain products and quota allocation.

have only been utilised by 6 Members, mainly Japan, the US, and the EU to a lesser extent (particularly in the case of sugar, Carson, 1998). In addition, except in the case of pigmeat in Japan, SSP have not been a source of controversies. They have generally touched products where minimum quantities imports (TRQs) were taking place.

In OECD countries, volume-based safeguard was invoked on 130 tariff lines over 1995-98 period. Japan has applied it the most frequently in 1996 (61 lines), as well as the EU (47 lines, table 14b). Price-based safeguards were however used more widely (for 199 lines), specially by the US (in 146 cases from 1995 to 1997, table 14a). The price-based safeguard was more widespread in dairy, sugar, coffee, tea and cocoa, while the volume-based one was used mainly on fruits and vegetables and meats (OECD, 1999b). In the EU, price-based safeguard has only been implemented in three sectors (sugar, poultry and molasses), while volume-based safeguard was only used in 1996 and in one sector (fruits and vegetables).

Three main issues seem however of some concern. First, it appears that in a number of case, the additional duty has been imposed on very small quantities. This has been the case for example in the US for some cheese and in Japan for some milk products. But more importantly, the trigger prices countries apply in the price-based safeguard are, in many cases, higher than the external reference prices used to calculate tariff equivalents. In fact, if URAA do not commit countries to define SSP trigger prices, it stipulates than this one should be the 1996-88 average cif unit value of the product concerned (in domestic currency). Finally, the level of commodity aggregation for application of the SSP is generally broader from that used for tariffication.

In addition, several complains relate to the extensive use of SSP by Japan. Various products have been concerned — such as pigmeat, starch and some dairy products — for which the trigger volume levels are very low. The question addressed to Japan has been the one of calculation of these levels. In fact, calculations have most of the time been done at an aggregated level, the allocation to the individual commodities being made in a second time in a more arbitrary way. In addition to the lack of transparency of the system, the low level of fill rates of the corresponding TRQs has also been highlighted by several countries.

Table 14a. Price-Based Special Agricultural Safeguard

(number items)	1995	1996	1997	1998	Total
EU	12	13			26
Japan	3	1			4
US	24	49	73		146
Total OECD	*42*	*71*	*83*	*3*	*199*

Table 14b. Volume-Based Special Agricultural Safeguard

(number items)	1995	1996	1997	1998	Total
EU		47			47
Japan	5	61	5	2	73
US				6	6
Total OECD	*5*	*108*	*8*	*9*	*130*

Source: OECD (1999b)

The very specific Japanese safeguard system for pigmeat has also to be explained. As emergency protection measures against rapid increase in pigmeat imports, two types of safeguard system can be used in Japan. One is the domestic Japanese safeguard system (sanctioned by the WTO), the other one is the URAA SSP. The increase in pigmeat imports triggered safeguard measure under the Japanese safeguard regime in four of nine quarters between 1995 and 1997, and the WTO SSP was invoked in one quarter. Although the legality of the Japanese regime cannot really be questioned, it has been criticised by pigmeat exporting countries like Canada and the EU. The

switching on and off of the safeguard has specifically been accused to increase the instability of the pigmeat market.

III.2.- Export Commitments

III.2.1. Export Subsidies

Limitation of export subsidies constituted the most controversial issue of the negotiations, being the one which could have the most immediate impact on markets and trade. The choice of the reference period has allowed the US (for wheat, rice, vegetable oil, and eggs), the EU (for wheat, cheese, poultry meat, beef and tobacco), Australia (for dairy products) and Canada (for wheat and butter) to base their commitments on large quantities of exports (see table A10 in Annex). Hence, in spite of the globally significant fall of subsidised exports, the quantities authorised is still disruptive in the short-medium term to international trade for some important products.

The consequences of the Agreement remain, however, potentially important for a certain number of reasons. Firstly, the introduction of new export subsidies has been prohibited. Secondly commitments are, in one way, more strict than the market access ones, in the sense that the Agreement includes an exhaustive list of products concerned. This limits the capacity of the countries to restrain the impact of their commitments by aggregation of commodities and concentration of actions on the less sensitive ones. Thirdly, the adoption of a double discipline on value and volume constitutes another strength, trade growth in particular reducing automatically in the long run the overall significance of subsidies. Finally, the commitment of the countries to work on other questions such as export credits, food aid and export restrictions represents a positive point for the future.

Globally, 32 countries have been affected by the reduction of export subsidies. The impact of commitments differs according to the magnitude and the frequency of the subsidies used. The countries which have been the most affected are the EU for a wide range of products (wheat, cheese, beef, pigmeat, poultry, fresh fruits and vegetables, olive oil) and the US (specially for wheat, dairy products and some meat products, table A10 in Annex). Canada was principally concerned for milk and cereals transport costs. Norway, Poland, Hungary, Israel and South Africa have also been involved to different degrees.

The impact of commitments has also been limited in the short term, by the high level of agricultural prices at the beginning of the implementation period (table 15). For cereals, the use of subsidies fell dramatically in 1995-96, with around one quarter of the quantities permitted reported for this period. Subsidised quantities of dairy products were in 1995 between 35 percent (for butter) and 80 percent (for cheese and other milk products) of the maximum level allowed, with quasi no subsidies in 1996. Meat products registered in 1995 around 60 percent of the maximum authorised and also no subsidies in 1996. Consequently, only five countries exceeded one or more of their commitments in 1995 and three did in 1996[23].

Prices having returned during 1997 to level more consistent with long term trends, a number of countries reached their permitted subsidies limits for certain commodities. In some cases, unused subsidies allowances from previous years were used to subsidise exports in excess. This was the case for the European beef exports, which reach their limit in volume. The EU also reached its limits for subsidised exports of cheese. Export subsidies had to be reintroduced for grains. In the US, no export subsidies were paid for crops, but those for dairy products increased sharply. The fall of world prices in 1998 let think that the constraint on exports was also more active last year.

Grains still represented the largest volume of subsidised exports (although they were far below commitments, especially in 1995). Fruits and vegetables, other milk products, beef and sugar account for most of remaining subsidised exports (table 15). In fact these commodities, along with oilseeds

[23] Cyprus, Hungary, Norway, Switzerland and South Africa in 1995, and the EU, Poland and South Africa in 1996.

and vegetable oils, have been allotted the largest permitted quantities. In term of volume, those that have been closed to fill their commitments are other milk products, cheese and bovine meat.

The possibility to utilise the non-used quota of export subsidies has been criticised by several countries (among which the ones of the Cairn group[24]). The Canada's new dairy regime consistency with the WTO rules on export subsidies has also been questioned. Another controversy has surrounded the use by the EU of the "Inward Processing Relief" (IRP) system to subsidise more quantities of cheese than agreed. In these two cases, Canada and the EU have been accused by their trading partners to circumvent their export subsidy commitments[25].

Table 15 : WTO Export Subsidy Commitments and Outcomes

(in 1000 tons)	1995			1996		
	Commitments	Realised	Share Used (%)	Commitments	Realised	Share Used (%)
Wheat	59452	4 350	7	42 820	14 110	26
Coarse Grains	2 856	7 666	27	19 213	11 845	34
Rice	784	99	13	726	227	19
Oilseeds	2 799	5	0	638	4	0
Vegetable Oils	2 000	202	10	1 765	140	-2
Oilcakes	360	0	0	74	0	0
Sugar	6 085	897	15	4 443	1 373	16
Butter and Butter Oil	631	155	35	584	287	24
Skim Milk Powder	754	399	53	666	359	1
Cheese	555	447	81	515	425	2
Other Milk Products	1 538	1 267	82	1 437	1 248	4
Bovine Meat	1 561	1 020	65	1 486	1 178	14
Pigmeat	79	380	56	655	296	-11
Poultrymeat	784	463	58	755	414	-3
Sheepmeat	29	1	4	38	1	-3
Live Animals	171	59	34	165	66	6
Eggs	30	97	75	125	70	-19
Wine	842	297	35	82	470	23
Fruits and Vegetables	7 258	1 594	22	6 646	1 894	7
Tobacco	268	16	6	250	4	-4
Cotton	55	0	0	54	0	0
Total	*114 900*	*19 414*	*17*	*83 876*	*34 712*	*24*

Source: WTO Secretariat, based on Notifications as of November 1997

III.2.2. Medium Term Impact

In the medium term, assessment of the impact of the export subsidy commitments must be related to supply, demand and prices adjustment resulting from the policy changes. One question is, in particular, whether the evolution of world prices and of national policies will allow exporters who normally resort to subsidies to export without them.

The international wheat market has always been subject to great tensions, because of the extended use by exporters of subventions in order to maintain or increase their market share.

[24] This group is composed of Argentina, Australia, Brazil, Canada, Chilli, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, Philippines, Thailand and Uruguay.

[25] Canada established a two-tier price system for milk, that prices milk cheaper to processors when used in the exports manufactured dairy than when used domestically (this system laying on producer levies). As far as the EU is concerned, processed cheese issued from an amalgamation of butter, skim milk powder and natural cheese has been subsidised through the subsidies of the three component products.

Limitations of these practices will result in an improvement in the functioning of world market, as well as in a rise in the world price (probably accentuated by an augmentation in the world demand). The US has already benefited from the situation in increasing their production, as well as their market share. This will, in turn, temperate the rise in world prices, as already noticed in 1997 and 1998. Limitations in export subsidies will, however, require reorienting production towards domestic markets. Nevertheless in the future — due to the important policy changes through the FAIR Act (Federal Agriculture Improvement and Reform Act) — the US will not have difficulties in meeting its commitments[26]. Similarly in Canada, policy adjustments make it possible to fulfil export subsidy commitments without a decrease in production.

As far as the EU is concerned — through the Agenda 2000 Agriculture Reform (see Box 3) — wheat exporters will also be in the future in a better position to meet their URAA commitments. Despite the 1992 CAP reform — which led to a 30 percent drop in domestic wheat price — the continuation of the set aside program and the possible increase of the world price, the EU would have faced an important growth of its stocks in cereals (72.3 millions of tons in 2005 according to EU Commission's evaluations) which would have questioned the export subsidies reduction. The further cut of 15 percent of the intervention prices and the continuation of the compulsory set-aside program is expected to decrease further the supply of cereals, as well as to increase the domestic demand and the competition on world markets.

Improvements in the functioning of dairy market are also expected in the medium term. World prices of butter, skim milk powder and cheese should be rising in response to the slow down of production, allowing Australia, Canada and the US to satisfy their export subsidy constraints through relatively minor policy changes. Structural shifts in production and consumption in the field of butter and milk powder following Agenda 2000 reform should also permit the EU to fulfil its commitments. Some difficulties may, however, remain for cheese products.

The EU was the only subsidised exporter of beef, and was particularly hit by the export subsidies discipline in this sector. In fact, the structural slow down in domestic demand and the absence of an increase in the world price — which could have led to a rise in European stocks up to 1.464 millions of tons in 2005 — made it urgent to consider further policy adjustments. The implementation of the cut of 20 percent in the intervention prices through the new CAP reform will in this context help the EU to respect its commitments.

Limitations on subsidised exports of pig meat and poultry meat also affect almost exclusively the EU — and to a lesser extent poultry in the US. As far as the EU is concerned, the new CAP reform which further reduces input costs through feed-grain price, will help in meeting URAA requirements. Specific policy changes might, however, be necessary in the mid term in response to the export subsidy constraints.

Similarly, the EU could experience difficulties in meeting its export subsidies commitments in some other areas not taken into consideration by the Agenda 2000 Agriculture Reform. This may be the case of rice, sugar, fruits and vegetables, wine and to a lesser extend olive oil — which export subsidies expenditures in 1995 and 1996 are far above the final bound rate in 2000/01 (table 16). This issue might be of some concern during the new Round of Negotiations if further cuts in exports subsidies are decided.

Box 3: The EU Agriculture Agenda 2000 Reform

Ministers of Agriculture reached an agreement on the Agenda 2000 for agriculture in March 1999. The Agreement includes the following arrangements:

[26] Although the 1996 FAIR Act continues authorisation for export subsidies, the US no longer maintains high support prices and no longer requires farmers to idle croplands. Therefore the US exports are now in a better position to compete on world markets without export subsidies.

Arable Crops. The reduction of the intervention prices by 15 percent in two equals steps in the marketing years 2000/2001 and 2001/2002. The establishment of a non crop-specific payment to compensate half of the prices reduction. Compulsory set-aside program at a rate of 10 percent on the period 2000/2006.

Bovine Meat. The reduction of the intervention prices by 20 percent in 3 equal steps starting on 1 July 2000, along with the development of a safety net. The endowment of a premium to compensate 85 percent of the prices cut and the creation of a special premium for suckler cows.

Dairy Products. The maintaining of the milk quotas until 2006. The reduction of the intervention prices for butter and skimmed milk powder of 15 percent from 2005/2006. The development of new premiums based upon quota levels.

Table 16. UE Export Subsidies in base period, 1995, 1996 and 2000 bound Rates

(millions of ECU)	Base	1995	1996	2000 Bound Rates	1996/Bound Rates
Wheat	2 015	119	318	1 290	0.25
Coarse Grains	1 636	303	389	1 047	0.37
Rice	58	30	72	37	1.96
Oilseeds	43	0	0	28	0
Olive Oil	85	62	39	54	0.72
Sugar	780	379	525	499	1.05
Butter and Butter Oil	1 481	256	552	948	0.58
Skim Milk Powder	431	141	170	275	0.62
Cheese	53	438	271	342	0.79
Other Milk Products	1 090	728	732	698	1.05
Bovine Meat	1 958	1 507	1 527	1 254	1.22
Pigmeat	299	101	71	191	0.37
Poultrymeat	142	116	73	91	0.8
Eggs	68	13	7	44	0.16
Wine	61	51	60	39	1.52
Fruits and Vegetables	9	82	72	61	1.18
Tobacco	63	18	3	40	0.08
Incorporated Products	448	491	566	413	1.37
Other Agricultural Products	150	51	119	96	1.23
Total Export Subsidies	*11 438*	*4 885*	*5 565*	*7 746*	*0.72*

Source: From WTO data, based on Notifications as of November 1997

III.2.3.- State Trading Enterprises (STEs): Market Access and Export Competition

STEs continue to be important to the trade of staple agricultural commodities because many countries consider them an appropriate mean to meet domestic agricultural policy objectives, such as price support to farmers, economies of scale or food security (WTO, 1995c, see Box 4 for definition). STEs operate in a wide range of agricultural products, but have been more active in grain and dairy commodities (butter and milk powder, USDA, 1997).

From 1994 to 1997, 33 percent of wheat exports were handled by two large STEs (the Australian and Canadian Wheat Boards). The two other large wheat exporters (the US and the EU) maintain government institutions that subsidise private traders' exports. STEs are also present in Central European countries. For the same period of time, STEs imports accounted between one-third and one-half of wheat imports, among which China, Japan, Egypt and Pakistan are well represented. Countries such as Indonesia, Israel, Mexico, South Korea, Morocco, the Philippines an Algeria have however recently open their sector to the private enterprises. STEs account for about half of world rice exports (mainly in Vietnam, Australia and China) and nearly one third of imports (among which in Indonesia, the Philippines, China, Japan, South and North Korea and Malaysia).

As far as dairy products are concerned, the New Zealand Dairy Board handled around 30 percent of world exports in 1997. Australian, Canadian and Polish STEs being also well represented in the market. The Mexican Conasupo used to dominate imports of milk products with 35 percent of world imports (this sector being presently privatising).

Although there are no provisions in the URAA relating to STEs, several countries have highlighted the excessive market power of these entities. In fact — regardless the fact that STEs do not seem to have constituted an obstacle to TRQs fill rates — these bodies retain the ability of restricting the volume of imports. In particular, when purchase decision are based on political rather than commercial criteria, they may leave domestic demand unsatisfied (Ackerman, 1997). The lack of transparency in pricing and operational activities of STEs has also led some WTO members to express concern about possible use of STEs to circumvent URAA commitments — specially on market access and exports subsidies. It is also argued that statutory authorities provide STEs with opportunities unavailable to commercial firms that compete against them (Dixit and Josling, 1997 ; Ackerman, Dixit and Simone, 1997).

Box 4: State Trading Enterprises (STEs) and International Trade

The 1947 GATT, while acknowledging STEs as legitimate participants in international trade, established guidelines for their trading activities. Among these, GATT article XVII requires that STEs not discriminate among importers or exporters when they purchase or sale, and that they act "in accordance with commercial considerations". Countries must report information about their STEs to the GATT (the WTO now). While recognising that STEs might create trade barriers, the GATT advocates countries to negotiate to reduce obstacles to trade created by STEs.

Following URAA, the WTO defined STEs as "governmental and nongovernmental enterprise — including marketing boards — which have been granted exclusive or special rights or privileges — including statutory or constitutional powers — in the exercise of which they influence through purchases or sales the level or direction of imports or exports". URAA also established stronger notifications requirement, as well as a working party under the Council of Trade in Goods to review the countries' notifications.

III.2.4. Other Export Commitments

In addition to the practices of single-desk selling agencies which have been questioned by several countries, utilisation of export taxes and export restraints through quantitative control have neither been properly addressed. This happened in recent years, when world prices of grains rose to relatively high levels, these practices being used in order to limit the outflow of grains and to prevent domestic prices from rising to world market levels. Similarly, the use of export credits has continued, despite efforts to negotiate within the OECD some restraints on the benefits that some exporters get from such schemes. This has been particularly the case of Canada, the US and the EU (as far as the US is concerned, delays of payment of three years have sometimes been recorded). Both points have been specifically pointed out by the countries of the Cairns group.

III.3- Domestic Support

Commitments have not led to significant policy changes which had already been decided or implemented. These commitments are, moreover, of great interest in the sense that they have conditioned policy changes (e.g. the FAIR Act in the US and the grain transportation reform in Canada) and that they will influence future policy developments.

III.3.1- Reduction of AMS

Support reduction commitments were implemented by 28 countries, other member countries agreeing not to increase support above the base years level. Among these countries, the EU, Japan and the US account for about 90 percent in absolute terms of Amber support (table 17)[27]. Similarly, the 1995 rate of subsidy per dollar of output from Amber and Blue policies was about 30 percent in the EU and Japan, and 7 percent in the US. While Japan do not report Blue Box payments, these account respectively for 12 and 24 percent of total support in the US and the EU (table 17).

Table 17. Total Support for Specified Policies (1995)

	Total Support (millions of US$)	Green Policies (%)	Amber Policies (%)	Blue Policies (%)	De Minimis (%)
Australia	822	86	14	0	0
Canada	3 031	51	19	0	30
EU	113 239	21	54	24	1
Japan	69 607	47	52	0	1
New Zealand	128	100	0	0	0
US	60 926	76	10	12	3
All countries	*285 724*	*44.4*	*40.4*	*12.3*	*1.8*

Source: WTO Secretariat, based on Notifications as of May 1998

Actually, the discipline imposed on domestic policies through the reduction of AMS was rather weak. An important feature that has limited the impact of domestic support commitments is the aggregated disposition of AMS reduction. This has allowed most of the countries to reduce support in a limited number of sectors, while maintaining or increasing it in others. This possibility has constituted a key factor in the Agreement on domestic policies.

The EU, for example, has completed its commitments by lowering support to cereals and oilseeds sectors, assistance to other commodities such as sugar, beef or fruits and vegetables being maintained or increased (provided that 1992 level was not exceeded). In the US, deficiency payments being excluded from current annual AMS calculation, commitments were automatically fulfilled without any modifications (allowing even for an increase of other measures). No reduction has been necessary in other sectors such as dairy products or sugar. In Japan, commitments have been met through already implemented cutting of administered prices and production in the rice sector.

Another factor which has contributed to reduce the impact of domestic support commitment is the base years of AMS calculation which constituted an historic peak for many commodities and countries. Moreover, the base year being 1986 when assistance peaked during this year, AMS reduction for most of the countries has de facto been less than 20 percent. With the new decline in world prices, the constraint could however become more effective.

The exclusion of production-limiting programmes from AMS calculation has also restrained the impact of the commitments in the sense that — although less production and trade distorting — these programmes enter in contradiction with the principle of decoupling defined in the Agreement. The US and the EU — which are at the origin of these exemptions through the Blair House Agreement — have particularly benefited from this disposition which has temporary avoid them to go further in their reform process[28]. The Peace Clause has, in addition, protected countries against disputes on the

[27] This result — which in any case reflects the large degree of agriculture subsidisation in these countries — has also to be analysed in regard to the size of their agricultural sectors, as well as of the special conditions (such as weather and demand factors) that have affected them during this year.

[28] Examples of "Blue Box" policies are the former US deficiency payments and the EU compensatory payments.

subject. The constraint could however become more active in case of a radical fall of world prices, the amount of support entering the " Blue Box " being consolidated.

These conditions explain why the countries had not difficulties in meeting their support reduction commitments. In Canada and New Zealand, 1995 support did not exceed 20 percent of AMS commitment level, this ratio being comprised between 20 and 40 percent in the case of Australia and the US, and between 60 and 80 percent for Japan and the EU. Similarly, on a global basis, the total value of the 1995 AMS for the 24 countries who notified to the WTO reached 57 percent of 1986-88 base period (73 percent if the "Blue Box" is included). These results cannot, however, be analysed independently of the particularly high world market prices.

Nevertheless, the fact that the AMS reduction has not been binding for the large majority of countries does not mean that the constraints on domestic policies have been ineffective. The process of re-instrumentation of domestic support programs — away from those that most impede trade — has begun and the AMS constraint puts useful pressure on countries to continue this process. Exemption from the AMS has constituted a powerful incentive for making domestic policies conform with the "Green Box ". This justify that global support from "Green Box" policies has increased by 54 percent from 1986-88 base period to 1995 — going principally to domestic food aid (40 percent), infrastructure services (28 percent), general government service programs (24 percent) and investment aids for structurally disadvantaged producers (12 percent). Of 19 countries having notified "Green Box" support, 16 reported an increase in nominal terms since the base years, most of it being concentrated in three countries (Japan, the EU and the US)[29].

Policy changes have occurred, in particular, in the US (in 1990 and in 1996 with the "FAIR Act", Federal Agriculture Improvement and Reform Act), and in the EU (with in 1992 the new CAP and in 1999 the Agenda 2000 Agriculture Reform, see Box 3), these two area relying less now on prices support and more on direct payments and "Green Box" policies. The EU total support from AMS plus "Blue Box" payments was already 15 percent below the base period in 1995. In the US, AMS plus "Blue Box" payments decreased of 42 percent during the same time (total support and "Green Box" payments increasing however on parallel). Acreage reduction programs were eliminated in 1996, as well as deficiency payments in 1995 which were replaced by decoupled production payments.

Finally, a strength of the AMS can also be seen in the consolidation of the level of total domestic support in nominal term. This means that inflation will reduce the real value of support over time and will constraint the distortion caused by the remaining policies (although provision has been made in case of high inflation).

III.3.2- The Global Support to Agriculture

If a real cut in the global support to the agricultural sector seems to have taken place in several countries, the importance of the task ahead should not be underestimated (OECD, 1998a and b).

Actually in the OECD countries, the global support to agriculture as measured by the total transfers from tax payers and consumers to the farm sector has shown a downward trend since 1986-88 base years up to 1997 (table 18). Although no change in value can be noticed (total transfers still being around 280 billions of US$), the decline in real terms is more effective (25 percent), as well as related to population growth (8.5 percent) and to GDP (from 2.2 to 1.3). The same conclusions can be drawn from the Producer Subsidy Equivalent (PSE, in percentage, in real term per farmer and per

[29] It has to be noticed that the URAA provision established criteria for which policies may be considered "Green Box" policies, but did no explicitly limit the amount of the subsidy. Any policy that transfers income to producers can have nevertheless some effects on production by increasing wealth and limiting risk, especially if funded with a large amount of government expenditures.

hectare)[30], as well as from the producer Nominal Assistance Coefficient (NAC, which is the level of protection expressed with the border price as a base, table 18)[31].

However, a more in depth analysis reveals that these improvements are largely due to 1995-96 high world prices and could be partially inverted. In fact, the PSE decline has been rather slow from 1986-88 to 1995 (from 45 to 40 in percentage) and the recent acceleration (35 percent in 1996-97) due to the fall in market price support (with little changes in producer prices). Hence, reflecting a shift to direct payments (table 19), the percentage Consumer Subsidy Equivalent (CSE, which measures the implicit tax on consumers due to agricultural policies, table 18)[32] fell from 37 percent in 1986-88 to 24 percent in 1996-97.

Table 18. The Support to Agriculture : Selected Countries

	OECD		Canada		EU		Japan		US	
(in nominal terms)	1986-88	1997	1986-88	1997	1986-88	1997	1986-88	1997	1986-88	1997
PSE										
Percentage	45	35	42	20	48	42	73	69	30	15
Per Full Time Farmer	14	17	15	8	12	18	16	24	20	13
Per Hectare (US$)	148	137	111	60	485	526	8872	8062	92	59
Producer NAC	1.8	1.5	1.6	1.2	2	1.7	3.3	2.8	1.4	1.2
Percentage CSE	-37	-24	-24	-14	-44	-25	-57	-46	-13	-8
Consumer NAC	1.6	1.3	1.3	1.2	1.8	1.3	2.3	1.9	1.2	1.1
Total transfers										
US$ billions	279	280	7.3	4.3	114.1	111.3	62.5	67.3	68.4	72.4
% of GDP	2.2	1.3	1.7	0.7	2.4	1.2	2.6	1.6	1.4	0.9
Per Capita (US$)	341	312	276	143	352	297	512	533	282	270
GDP Deflator	100	133	100	125	100	145	100	111	100	135

Source: from OECD Statistics

Other concern relates to the nature of the domestic support. Although the certain shift — partly due to the recent high market prices — toward direct payments has to be noticed (from 18 to 23 percent of total support), assistance is still dominated by market prices support which still amounts 60 percent of the agricultural support (table 19). Thus, the majority of countries still rely more heavily on the most trade distorting support measures, than on all other types of supports. In addition, this shift has not always reduced the dependency of the agricultural sector on subsidies, being due most of the time in an increase in direct payments to compensate farmers for reduction in administrative prices. Moreover, direct payments scheme seems to remain largely linked to production or production factors, as well as little progress seems to be made in targeting measures to specific needs or in making them less production and trade distorting (Carson, 1998).

[30] The PSE is an indicator of value of monetary transfers to agriculture, which includes transfers from consumers of agricultural products (through domestic market prices) and transfers from taxpayers (through budgetary expenditures or tax exemptions). Not all these benefits go to farmers, input suppliers and marketing agents being also concerned.

[31] The NAC is an indicator of the effective price wedge between domestic and world markets created by agricultural policies. The producer NAC is the ratio of the border price in national currency plus the unit PSE, relative to the border price.

[32] The CSE is an indicator of monetary transfer to consumers resulting from agricultural policies, which is generally negative because market price support policies exceed budgetary-financed consumer subsidies. The data are also shown as a percentage of the farmgate value of consumption. The consumer NAC is the ratio of the border price in national currency plus the unit CSE (measured at the farmgate), relative to the border price.

In addition, significant variations in the level and in the evolution of support persist between countries. In fact, countries are characterised by wide differences in farm and production structures, natural, social and economic conditions, as well as level of support to agriculture. In 1997, PSE ranged from 3 percent in New Zealand to 76 percent in Switzerland. The lowest consumer NACs were around 1 (in Australia, Mexico, New Zealand) while the highest were above 2 (Norway, Switzerland).

Table 19. Composition of Support to Agriculture

	OECD			Canada			EU		
(in %)	1986-88	1992-94	1997	1986-88	1992-94	1997	1986-88	1992-94	1997
Market Price Support	65	68	60	40	62	48	79	69	54
Direct Payments	18	16	23	28	22	14	8	18	31
Other Support	17	16	17	32	17	38	13	13	15

	OECD			Japan			US		
(in %)	1986-88	1992-94	1997	1986-88	1992-94	1997	1986-88	1992-94	1997
Market Price Support	65	68	60	84	83	86	40	48	42
Direct Payments	18	16	23	7	6	4	36	24	24
Other Support	17	16	17	9	11	10	24	28	35

Source: OECD (1998a et b)

Three groups of countries can be distinguished. The first one — including Australia, Canada, New Zealand and the US — has recorded continual and substantial reduction in their PSEs since 1986-88, and their support levels are now significantly below OECD average (table 18). The EU occupies an intermediate position, with a level of support just above the OECD average and a percentage PSE significantly below 1986-88 level since 1996-97. Finally the third group — among which Japan — supports its agriculture sector at double or more the OECD average level as measured by the percentage PSE, most of the countries concerned having however changed the way in which support is provided.

Level of support varies also among commodities, specifically between crops and livestock products, but also within these commodity groups (table 20). The level of support for crops has decreased significantly from 57 percent in 1986-88 base years period to 38 percent of output in 1997, with a particularly strong fall since 1995. The largest decline has been seen for maize, followed by wheat, oilseed and other grains. Support in the rice sector has however remained very high (at 80 percent) and has increased in the case of sugar (reaching over 50 percent). However it has to be noticed that, due to world market fluctuations, support for sugar has been subject to wide variations during the last decade.

Table 20. OECD PSE by Commodity

(%)	1989-91	1996	1997		1989-91	1996	1997
Crops	45	34	37	Livestock	35	34	32
Wheat	*41*	*25*	*32*	*Milk*	*61*	*52*	*52*
Maize	*29*	*15*	*20*	*Beef and Veal*	*31*	*36*	*33*
Other Grains	*43*	*34*	*37*	*Pigmeat*	*16*	*17*	*16*
Rice	*82*	*82*	*80*	*Poultry*	*16*	*15*	*12*
Oilseeds	*31*	*15*	*20*	*Sheepmeat*	*59*	*37*	*33*
Sugar	*49*	*46*	*49*	*Wool*	*13*	*8*	*7*
				Eggs	*12*	*14*	*10*

Source: OECD (1998a and b)

With a PSE of 38 percent in 1986-88, the livestock sector had initially a lower support than the crop sector. This situation has recently quasi been inverted, PSE still accounting for 33 percent in

1997. Within this sector, sheep meat and poultry meat have shown an above average decline, the corresponding cut being small in the case of milk, wool and egg and null for beef, veal and pig meat. Pig meat, poultry meat, eggs and wool sectors indicate however a particularly week level of support (with a PSE at 15 percent), as opposed to milk which is the second highest supported sector after rice (53 percent PSE).

Finally, the major shift from market price support to direct payments has taken place in the crop sector, this shift being less important in the livestock sector. Direct support now accounts for more than one-third of crops support and still only 10 percent of livestock support.

III.3.3.- Countries Experiences

In the ***US***, recent developments have been marked by the shift from set-aside and deficiency payments for crops, to degressive direct income payments. Through the 1996 FAIR Act, support is now less market oriented and essentially based on direct payments to the farmers. Support to the crop sector relies on the predetermined annual Production Flexibility Contract (PFC)[33], together with minimum price provisions operating through non-recourse loans and marketing loans (export subsidies still exist for wheat and rice exports, and the price of sugar is on its side supported by a tariff-quota along with non-recourses loans). As far as the milk sector is concerned, minimum prices still operate until 1999, as well as government purchase of dairy products, tariffs, import quotas and export subsidies. Other livestock industries are only supported through border measures, including tariff-quota for beef and export subsidies for pigmeat, poultry and eggs.

Consequently total support (as measured by PSE, table 18) has steadily decreased since 1986-88 — in particular because of the fall in commodity-linked deficiency payments and non-commodity PFC payments — and market price support now accounts for less than half of the total support (table 19). Similarly, US domestic prices — as measured by the consumer NAC — are very closed to the world prices (only 10 percent above, table 18). This does not hold for sugar and milk that were around 80 percent above the border price, despite the reductions in domestic prices.

Over the last decade and particularly in recent years, ***Canada*** has also increased the market orientation of its agricultural sector through a reduction in transfers and a shift away from market price support to direct income payments measures. This can be seen through the sharp reduction in the percentage PSE (from 42 to 20 percent between 1986-88 and 1997, table 18), as well as the increase of the share of direct payments (from 10 to 30 percent, table 19). Canada terminated in 1997 the transitional compensatory payments (already delinked from production) granted in 1995 to farmers for the elimination of the grains transportation programme. This illustrates a more general change in government practices away from ad hoc and temporary measures. In the grains and oilseeds sectors, as well as for beef and horticultural products, support is now increasingly provided through income protection and crop insurance measures.

However, the milk, poultry meat and egg sectors — with support instruments such as supply management, price supports and trade measures — are still less market oriented. In particular, no major changes were recently implemented in the dairy sector, which remains the most heavily supported one in Canada (with 50 percent of total support and 90 percent of total price market support). Industrial milk production continues to be restricted through production quotas and dairy subsidies will not be phased out before 2003.

In the ***EU***, there has been a clear downward trend in the market price support — especially since the early 90s — which can be attributed in roughly equal part to the decrease in price support (through the 1992 CAP reform) and the increase in world prices. In 1997, about half of total support was in the form of market price support, against more than three-quarter in 1986-88 base years period

[33] PFC is one support of the least linked to commodities or production factors. PFC payments are based on historical contracts area and related neither to the type of nor amount of crop currently produced. They are also degressive and associated with an individual payment ceiling.

(table 19). Consequently, the percentage CSE declined faster than the percentage PSE and domestic prices — as measured by the consumer NAC — were in 1997 only 30 percent above world prices (table 18). The new Agenda 2000 CAP reform — through cuts in intervention prices and more direct supports to farmers — should accelerate this process.

With the 1992 CAP reform, direct payments for cereals and oilseeds were introduced, based on historic regional yields and paid on condition of set-aside commitments. Administrative prices for cereals were retained (although with a 20 percent cut) but not for oilseeds. Direct payments for beef were also implemented, based on fixed reference numbers of livestock, along with the maintain of administrative prices, intervention purchase, import protection and export subsidies. Administrative prices and production quota are used for dairy and sugar products, in conjunction also with import protection and export subsidies. Agenda 2000 agricultural reform plan further cuts in administrative prices of cereals (15 percent), beef meat (20 percent) and dairy products (15 percent) and an increase in direct decoupled support to these productions.

Finally in ***Japan***, the level of agricultural support, as measured by the percentage PSE, has remained among the highest in the OECD. This ratio was still in 1997 almost double of OECD average, as well as domestic prices (through consumer NAC) amount the double of world prices (table 18). In addition, 85 percent of support was market price support, this share being remarkably stable since 1986-88 (table 19). In fact in Japan, support is mainly provided through administrated prices, trade measures and supply management programmes, these measures having been applied for almost all major commodities.

Recent trends (1996-97) show however a clear improvements of these indicators, due in particular to the cut in 1997 of all administered prices (including rice). Similarly, in addition to a certain liberalisation of the beef sector, the New Rice Policy (NRP) reinforced in 1997 the previous diversion scheme through the introduction of a new type of direct payments and of market mechanisms.

IV- PROSPECTS FOR THE NEW WTO ROUND OF NEGOTIATIONS

The Uruguay Round itself initiated the next step for multilateral process of trade liberalisation in agriculture. The URAA calls for talks to be started no latter than 1999. The WTO Minister Meeting in Singapore in December 1996 confirmed this schedule. In spite of the failure of the Seattle meeting, some of the issues that will most likely form the basis for the new Round of Negotiations can already be anticipated from the distance to be travelled in term of agricultural trade liberalisation, as well as from the questions raised by several countries (Josling, Tangermann and Warley, 1996 ; Josling,1998 ; Miner, Josling, MacLaren and Tangermann, 1996 ; Tangermann, 1996 and 1997).

The essential point that will obviously be addressed during the next Round of Negotiations consists in the deepening of agriculture trade liberalisation. Actually, a strategy will have to be agreed on, regarding additional market access provisions, further reduction in export subsidies and more discipline in the area of trade-distorting domestic support. Specific issues could be the question of STEs and of quantitative export restraints that have not been precisely addressed by the URAA.

Some initial talks might, in addition, concern the improvement of URAA's functioning. A number of potential problems identified during the Singapore Ministerial Meeting includes the administration of the Tariff Rate Quotas (TRQs), the operation of the Special Safeguard Provisions (SSP) and the implementation of the export subsidy restraints. Additional points could be the incompletion of the Agreement such as the authorisation given to Japan, Korea, Philippines and Israel to postpone tariffication of some products (through the Special Treatment (ST) conditions), or the question of export credits on which the countries were supposed to work on.

Finally, structural issues could also be considered, such as the question of the ongoing entry of China, as well as the potential one of Russia, Ukraine and other countries into the WTO — which

terms of accession and agreed schedule will influence the next talks — as well as the possible increase in markets volatility or the relation between regional trade groups and the multilateral process.

IV.1. Market Access

One major market access question is to reduce significantly the high level and dispersion of agricultural tariffs. But URAA issues on administration of TRQs, Special Safeguard Provisions (SSP) and completion of tariffication should also be addressed.

IV.1.1. Improving Market Access

The longer term objective will certainly be to lower the gap between average agricultural tariffs and those in other sectors. Among the Quads countries, this is particularly the case of Japan, and to a lower extend of the EU, which protection is still higher than in the US and in Canada. The experience of past GATT negotiation in reducing industrial tariffs provides options for approaching agricultural tariff negotiations and several techniques have already been thought for implementing the improvement in market access (Josling,1998 ; Tangermann, 1996).

One possibility could be to use the same reference period as the URAA and apply a further reduction of, say 36 percent as previously, for the next tariffs cut. This would have the advantage of continuity and simplicity, a reopening of this issue being potentially controversy. Another advantage can be seen in an acceleration of the liberalisation process, the same percentage cut having greater impact the higher the base tariff used. The continuation of the same schedule asks however the question of the provision allowing countries to lower tariffs by only 15 percent for some items (while cutting more the less sensitive commodity tariffs), which has led to an increase of prohibitive duties and of tariff dispersion. An constraint could be to increase significantly this minimum of 15 percent, or to introduce a weighted tariff reduction (that would permit to take into consideration imbalance between high and low protected products).

As an alternative, countries could agree on a rule of " no exception ", which has the advantage of simplicity and transparency. This becomes an " across-the-board " tariff reduction, the same cut being applied to all tariffs. An inconvenient of this system is that it leaves some tariffs at a very high level. Another possibility could be to apply to agriculture the " Swiss Formula " (used for tariffs reduction in industrial goods in the Tokyo Round) which consist in reducing more the highest tariffs. This formula would reduce tariffs dispersion. Same results could be obtained by defining a maximum level of tariff, to which all higher tariffs would have to be reduced.

In fact, an important issue of the next Round of Negotiations will be to reduce effectively protection, the "dirty" tariffication process allowing countries to accept important reductions in bound rates without a significant improvement in market access. That increases the importance of achieving reductions in bound rates that are sufficient to reduce actual rates. It is therefore important to have a clear idea of relative levels of both bound and actual rates for these high tariffs items before deciding on an approach to reducing tariffs. This question also highlights the important role that provision of minimum access and assurance of current access will need to continue to play in the coming Negotiations.

All countries are concerned to various degree by this phenomena of "dirty" tariffication, and specially non OECD countries. Among the Quads countries, the EU and Japan register a higher tariff dispersion, as well as the most important increase in tariffs peaks. As far as products are concerned, sugar and dairy products are still the sectors the most protected. This is the case in Japan, the EU, the US and Canada (for dairy). But wheat and beef products exhibit also high level of protection in Japan and the EU, these two countries being globally still in addition the most protected of the Quads countries.

A somewhat different approach could consist in negotiating " zero-for-zero " agreements that would eliminate tariffs completely on particular goods. The objective of this technique is to permit to

trade to expand in markets where protection has been reduced and to liberalisation to spread progressively to all commodities (Miner, Josling, MacLaren and Tangermann, 1996). This seems however to be a very optimistic scenario which in turn might introduce new distortions between products.

An alternative procedure to tackle the problem of the high levels of tariffs resulting from tariffication could be to expand the guaranteed market access — although the replacement of TRQs with tariff-only protection permitting greater volumes of trade is a preferred option. In spite of the problems associated with TRQs, which in particular are not binding, they still in principle provide more market access that NTBs they replaced, particularly when compared with absolute quotas. Under TRQs, imports can exceed the quota amount as long as the market is willing to incur the tariff applied on quantities in excess of the quota. Likewise, tariffs are a transparent instrument of protection compared to NTBs.

In fact, some of the beyond tariffs have been set at such a high level, that it might be difficult to reduce them to levels that could allow significantly trade to occur. This have been the case in particular of Japan and Canada. But all the countries are concerned to various level depending on the commodities. Questions could touch sugar and some dairy products in the US, the EU and Japan ; wheat products in Canada, the EU and Japan ; eggs, poultry meat and some dairy products in Canada ; beef and fruits and vegetables in the EU ; as well as pigmeat in Japan. In this context, the possibility of increasing TRQs quantities could also provide — in addition of lessening the impact of these high " above tariff " quota — a simple way of reducing the importance of TRQs. Of course, this would only happen if TRQ administration allow to effectively attract the guaranteed access quantity.

However, the question remains how much TRQs have to be expanded before the high " above-tariff " quota on imports would be made irrelevant. Another question is the one of preferential access which WTO members give to some countries and which is part of current access. The EU is particularly touched by this point, as well as the US and Canada. Some forms of negotiation could concern, at the same time, the level of the " within quota " tariffs generally left to the discretion of the importing country. Quads countries are however not really concerned by this point — except for butter in Canada and the EU, and for sugar in the US. Finally, some countries could be questioned on their way of calculating TRQ at a broad level of aggregation without specific allocation, which permit in a second time to lower their commitments.

A relative issue could be the one of the complexity of the tariff structure, which appears most of the time as a combination of various tariffs (specific and ad valorem), depending in addition on the country or the period of time. This is the case of the US and the EU, which still use the most this possibility among the Quads countries (Japan and Canada having however recently registered a complication of their tariffs' structure). Some countries might ask a simplification of the tariff structure, as well as an elimination of the specific duties which lack of transparency have also been criticised.

Finally, it is worth stressing that many grey areas in tariff reductions could be avoided by binding tariffs at the 6 digit level of the Harmonised system. This might seem a very technical question, but the fact that beyond the 6 digit level, classifications are country specific and no longer internationally harmonised makes it possible to use many statistical tricks in order to lessen the impact of the agreement, or at least to make assessment of the implementation almost impossible. Practitioners have noticed that an assessment of the effect of market access commitments for the URAA is extremely difficult because of the complexity and the lack of transparency of the Schedules in the US, the EU and Japan, for example.

IV.1.2- Administration of TRQs

The difficulty of TRQs to open up significantly agricultural protected markets has been clearly identified, as well as the urgent need of revision of their administration. While TRQs were settled to eliminate the application of NTBs, they often leave some non tariff barriers to trade. It is the case when beyond tariffs are prohibitive, but also through administration methods which allow to manage

the flow of imports. A particular way by which world price signals to the domestic market of the importing countries can be impaired, is through the importers' market power. When such a power exists, importers can influence the volumes imported and manipulate internal prices. Consequently, although tariffication provides a useful tool for market access with a view to negotiating reduction, it might be an insufficient instrument.

The next Round of Negotiations could ask for additional discipline to ensure access as agreed by the schedules, TRQs fill rates exhibiting rather different level depending on the countries. Even if Canada, the EU and Japan show upper WTO average rates of fill — compared to the US which perform poorly in this field — progress could be asked to every country. In fact, rates of fill vary also according to commodities. The EU could have to justify its low fill rates in the field of drinks, eggs, fruits and vegetable, and cereals. The US on their side could be questioned in the case of fibres, coffee-tea, fruits and vegetables and dairy products. Japan and Canada could be concerned by their low fill rates respectively in oilseeds and dairy products, and oilseed and coarse grains.

Actually for several countries (among which the US), administration of TRQs raises the question of state involvement in agricultural trade. Although administration of TRQs by STEs do not seem to have constituted a mechanism to restrict imports (see section III-A3), these entities retain the ability to do it. New interference seems also to have been generated — for example through licensing procedures — which has generated an increase in rent seeking activities and has countered market opening (Hataway and Ingco, 1996 ; Josling, 1998). But the lack of transparency in the pricing and operational activities of STEs has also be identified as potentially masking import barriers (as well as export subsidies).

In this context, the opacity of the trade regime of some countries where STEs play a large role will figure as an issue of the next Round of Negotiations. In particular, countries like Australia, Canada, New Zealand, Japan, Korea, as well as Central European countries — regarding the markets of wheat, rice and dairy products — could be asked to go further that just ensuring that state trading importer do not give more protection than bound tariffs. A solution could be to require an increase in the share of TRQs privatly traded.

The Negotiations will also no doubt focus on developing a more uniform system for the administration of TRQs. If it is not possible to stipulate a single procedure, a set of acceptable methods could be considered which could go, in addition of applied tariffs method which is the easiest and more efficient one, from auctioning (as economically efficient technique), to the administratively simple allocation on the basis of first-come first-served patterns (improvement of TRQs fill rates being searched in this case). An auction system would, however, not prevent the exporter (in order to capture the rent) to sell at a maximum price on the domestic market. The question of additional conditions could also be discussed, in order to improve TRQs administration methods.

Another issue could relate to the conversion of TRQs into an obligation to import rather than an opportunity or — rather than fine-tuning the administrative process — to steadily increase TRQs in order to weaken their impact. Finally, the question of including previously trade arrangements into actual current access commitments may also be discussed by several countries (such as Canada, Australia and New Zealand).

More specifically, the EU could be questioned on the possibility (notified for some products to the WTO, but not used) to fill minimum access commitments through existing preferential accord, as well as on the notification of quantities committed but not necessary imported. The problem of the very short delays of validity of licenses for wheat, durum wheat and sugar could also be pointed out by some exporting countries. The Canadian TRQs administration methods could also be questioned — and specifically the dairy products regime — as well as the importance (although permitted) of existing preferential accords (essentially through NAFTA) in filling market access commitments. The US could be inquired on the respect of the MNF principle regarding their minimum access obligations, along with the non reallocation of licenses (although permitted) attached to their current

access commitments. Finally, Japan could have to justify the low TRQs fill rates attached to some of its administration methods (such as allocation to traditional importer and to producer groups) and its additional conditions (such as limits in TRQs shares and non reallocation of licenses).

IV.1.3- Special Safeguard Provisions

Trade safeguards have generally been considered by governments like a condition to trade liberalisation. The issue that might be part of the next agenda, is the possible utilisation of the SSP by developed countries to maintain protection against imports. Although the utilisation of the URAA SSP have not been exaggerated, Japan, the US and to a lesser extend the EU could be inquired on the subject. More specifically, the question of the calculation of the trigger price and trigger volume levels could be raised by some a countries, among which the ones of the Cairns Group [34]. A proposed solution could be to use the external prices which enter into the calculation of tariff equivalent, as trigger prices for the SSP. This would guarantee that additional duties would neither be used too often, nor set at a too high level. Commitments to phased out SSP after a period of transition could also be required.

IV.1.4- Completion of Tariffication

Next talks will also surely address the question of Special Treatment, which allowed some countries to delay tariffication of some commodities. This is the case Korea and Philippines for rice, as well as of Israel for some other products. Pressure might appear this time on these countries. Japan on its side — which had liberalised progressively its rice market in increasing in particular the amount of rice privately trade — has recently achieved the tariffication of its rice sector. Korea could be following in the near future. Philippines and Israel will not be neither in a strong position to resist the implementation of tariffication.

IV.2. Exports

The concern of export subsidies will also be of great importance during the next Round of Negotiations. The practice of subsiding exports survived the URAA — despite in reduced form — and it will probably become more difficult to persuade countries who export with little or no subsidies to allow countries such as the US or the EU to continue these practices. This will be the point of the Cairns Group, which is surely going to require significant progress on this question. Relative issues are the ones of the state trading exporter (which practices have often be assimilated to hidden subsidies), as well as of export credits (which have continued despite efforts to negotiate within the OECD). The questions of export taxes and of export restraints will obviously be other concerns of the talks.

IV.2.1. Reduction of Export Subsidies

As for market access, the simplest way of reducing the importance of export subsidies could be to extend the URAA modalities. In spite of the initial weak constraint due in particular to the reference period of calculation, this would imply an additional cut of 36 percent in budget expenditures, as well as of 20 percent in the volume of subsidised exports. This means — compared to pre-URAA situation — that 60 percent of total exports would have to be subsidised with only 29 percent of 1986-90 expenditures. This would reduce distortions in a considerable proportion and make commitments more binding than the URAA ones. Hence, in spite of on going reforms, the Quads countries could suffer from the new export subsidies restrictions. This could be the case of the EU for commodities such as beef, cheese, grain, rice, sugar, wine and fruits and vegetable, as well as of the US and Canada for some dairy products.

[34]This group is composed of Argentina, Australia, Brazil, Canada, Chilli, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, Philippines, Thailand and Uruguay.

A way to guarantee a real improvement in the field of export subsidies could also consist, in addition, to remove the facility regarding unused export subsidies. This possibility has been utilised in particular by the EU and the US to a lesser extend. This point will be argued essentially by the countries of the Cairn Group. A more definitive way defended by these countries could also be to phase out export subsidies at the end of the new implementation period. Finally, specific topics such as the consistency of the Canada's new dairy regime with WTO rules, as well as the utilisation by the EU of the "Inward Processing Relief" system to subsidise more quantities of cheese could also be of some concern.

IV.2.2. Export Credits

Though OECD countries have negotiated a code for non-agricultural export credits which put limit on credit term and length of credit extension, it has not been possible to include agriculture in this agreement. This point is perceived by several countries as having to be included in the export subsidies commitments. New progress on this issue will surely be required during the next Round of Negotiations and agreement on the allowable terms for such credits seek. This will be the point for example of Australia, Canada and New Zealand that have criticised the abusive use of such instruments by the US in particular. However, the question of to what extend is such credit necessary to compensate the financial risk of transactions with some countries, will surely be raised.

IV.2.3. State Trading Exporters

The issue of state trading exporters that might be addressed during the next talks, could be the one of monitoring and transparency, these enterprises being accused to compete unfairly with the private sector. Actually, there is a widespread preoccupation in those countries where agricultural products are privately traded, that STEs for example obtain cheap credit from their government and offer better terms to buyers, which practices can be considered as hidden subsidies. In fact, a more general concern regards STEs activities which — through the exclusive rights given to them — contribute to trade distortions. Although the fact that only a few of the major STEs have the potential to significantly affect world trade and that reform has begun to erode the powers of some of the most powerful STEs (Ackerman, 1997), concerns about STEs trade practices and on going and potential accession of countries such as China, Russia or Ukraine will keep STEs on the WTO agenda. These point will be particularly argued by Australia, New Zealand, the EU and the US.

IV.2.4. Exports Restrictions

Within the GATT, export controls are generally disallowed, though export taxes are deemed innocuous. However, an explicit exception is done for " export restrictions temporally applied to prevent or relieve critical shortages of foodstuffs or other essential to the exporting contracting part ". This issue has not up to now represent a really concern, as exporter do not usually complain about restriction imposed on their competitors. The problem to be taken into consideration is that the export restriction exacerbate the shortage on the world market. This is inconsistent with the Food Security Declaration appended to the URAA and might be considered as damaging for countries like Japan or DC, which depend on the world market for their supplying. This situation is all the most subject to criticism that these countries have generally made efforts to open their markets. It is moreover inconsistent with an open trade system. Restrictions on exports in times of high prices distort the trade system as much as subsidies that operate when prices are weak, and it is difficult to ask producer in exporting countries to absorb the risk of low prices without subsidies, but to deny those producers the rewards of satisfying a market in times of high prices. The EU 1996 export taxes on cereals may be criticised at this occasion.

IV.3.- Domestic Support

The reduction of domestic support through the AMS have been assessed to be the least effective of the URAA, because in particular of the choice of the year of reference and of the aggregate level of AMS reduction, as well as of the creation of the "Blue Box" . In front of the actual

weak output on this matter, a question for the next Round of Negotiations could be whether to reinforce or to abandon the attempt to constrain agricultural domestic policies. In fact, in spite of the reduction of the "Amber Box" support, global financial assistance to agriculture has little decreased and is still dominated by market subsidies. In addition, support to agriculture is still important in countries such as Japan and the EU to a lesser extend, which could be more particularly questioned on the subject.

A positive point can be seen, however, in the fact that most developed countries have progressively modified their domestic programs to improve the targeting and reduce the output-increasing nature of farm income supports. This is the case of Canada, as well as of the US, with the new Farm Bill (Young and Westcott, 1996) which made further progress in decoupling payments to farmers from output, in order to be compatible with the " Green Box ". The EU is going into the same direction with the continuation through the Agenda 2000 of the reform started in 1992, as a way of making CAP consistent with enlargement. Large uncertainties persist, however, as to the qualification of the Agenda 2000 direct payments for the "Green Box" category. Given the present definition of the Green Box, EU direct payments do not qualify.

In this context, the tightening of AMS constraint could permit to avoid a reversion of these policy changes and to promote further reforms. This would made the " Green Box " more active. One possibility could consist, following the Uruguay Round initial project, in making AMS commodity specific. This possibility had previously been abandoned under the pressure of the US and the EU — the aggregation allowing to weaken the impact of the AMS constraint. This position could be argued by countries such as Australia, and New Zealand. Another possibility could consist in closing the " Blue Box ". But the definition of the " Green Box " and the existence of other potentially trade distorting programmes, such as crop insurance (which may increase the incentive to produce by reducing the risk, Goodwin and Smith, 1995) or environmental payments could also be questioned. These two last points could be raised by Australia, New Zealand and Canada in particular.

V- CONCLUSION

In spite of the failure of the Seattle conference and the mix results of the URAA, all the countries have expressed the wish to continue the liberalisation of the agricultural sector. In this context, it is probably certain that, in order to deepening the scope of the next set of reforms, the analysis of the implementation of the URAA will be part of the next Round of Negotiation. Improvement of URAA functioning will be seek and a strategy regarding additional market access provisions, further reduction in export subsidies and more discipline in the area of trade-distorting domestic support will be discussed.

In addition, some structural issues will constitute other important subjects of the next talks. This is particularly the case of the entry of new countries into the WTO which has a strong agricultural component. In fact, the prospective new WTO members are major players, actual or potential, in agricultural markets. Under what terms they join the WTO will influence the nature of those markets.

Thirty countries are seeking accession to the WTO, among which China has recently been accepted. Of the 30, almost half are Baltic countries and the New Independent States of the former Soviet Union, and 6 are Asian countries. Agriculture contribute significantly to the economies of many of these countries, which very often are net importers of agricultural goods. This is the case of the Russian federation, Taiwan, South Arabia and Algeria. In China, which food imports are also consequent, agriculture goods trade contributes to a quarter of agricultural trade of the group of acceding countries. Consequently, accession of these new

countries could spur agricultural trade and benefit to actual WTO members as these economies become more open.

In particular, the opportunities that result of the strong economic growth and the huge market potential of China, will make of this country a major player in the agricultural trade. For example, China's growing economy points to increased demand for many agricultural products such as meats, fruits, vegetables, dairy products, sugar and tobacco. But the question of under what conditions such trade will take place constitutes an important issue to address. Another question that is to debated, is the one of the economic structure of the country where sate-owned firm still produce much of the output.

Finally, some talks could also concern the interaction between the regional and the multilateral trade liberalisation process. Many regional trade agreements have now integrated agriculture in the free-trade provisions. This is the case of Nafta, Mercosur, Caricom, the CER between Australia and New Zealand, and the Europe Agreement with the Central and Eastern European countries. This gives a new significance to these agreements and necessitates some co-ordination with the multilateral process.

In particular, these blocs may begin to assume a role in the negotiations of agricultural rules and a special attention will have to be paid, such as to avoid trade diversion, on the level of protection on non-partner imports. On the contrary, regional trade agreements can be seen as a step toward free trade in agriculture and even provide more incentives to members countries to modify their domestic policies in order not to cause tensions among regional trading partners. In this context, the positive aspects of these new developments should have to be taken into consideration during the next Round of Negotiations.

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Table A1. Market Access Concessions, Commodities Subject to Tariffication

Wheat

Country	In quota				Tariffs/tariffs equivalent			Percentage reduction from base to final bound tariffs
	In quota tariffs 1995	In quota tariffs 2000	In quota volumes 1995 (1 000 tons)	In quota volumes 2000 (1 000 tons)	Base tariffs	Base tariffs in ad valorem equivalent	MPS* in ad valorem equivalent	
EU	-	-	300	300	Écu 149/t	173%	107%	36
					Écu 231/t	156%	84%	36
Canada	C$ 4.41/t	C$ 1.90/t	136,13	226,88	90%	90%	23%	15
					57,7%	57,7%	18%	15
Switzerland	SF 350/t	SF 350/t	70	70	SF 890/t	333%	301%	15
Japan	-	-	5 565	5 740	Y 65 000/t	280%	651%	15
	Y 51 700/t	Y 45 000/t						
Norway	NKr 2130/t	NKr 2130/t	252	252	NKr 3040/t	507%	266%	30
Iceland					350%	350%	na	50
Mexico	50%	50%	605	605	US$100	117%	na	10

Source: OECD (1995)

* MPS : unit market price support as measured for the PSE, as a percentage of the external reference price (average 1986-88).

Table A2. Market Access Concessions, Commodities Subject to Tariffication

Beef

Country	In quota				Tariffs/tariffs equivalent			Percentage reduction from base to final bound tariffs
	In quota tariffs 1995	In quota tariffs 2000	In quota volumes 1995 (1 000 tons)	In quota volumes 2000 (1 000 tons)	Base tariffs	Base tariffs in ad valorem equivalent	MPS in ad valorem equivalent	
US	US$ 44/t	US$ 44/t	656,6	656,6	31,1%	31,1%	7%	15
EU	20%	20%	157	157	20%	174%	90%	36
					Écu 2 673/t			34
Canada	-	-	76,4	76,4	37,9%	37,9%	3,4%	30
Switzerland	SF 940/t	SF 940/t	22,5	22,5	SF 8 920/t	296%	250%	15
Japan	-	-	-	-	93%	93%	173%	46
Norway	NKr 12 150/t	NKr 12 150/t	0,1	1,2	NKr 37 970/t	405%	144%	15
Iceland	115%	-	0,057	0,095	358%	358%	113%	15
Mexico	-	-	-	-	50%	50%	na	10

Source: OECD (1995)

Table A3. Market Access Concessions, Commodities Subject to Tariffication

Sugar

Country	In quota				Tariffs/tariffs equivalent			Percentage reduction from base to final bound tariffs
	In quota tariffs 1995	In quota tariffs 2000	In quota volumes 1995 (1 000 tons)	In quota volumes 2000 (1 000 tons)	Base tariffs	Base tariffs in ad valorem equivalent	MPS in ad valorem equivalent	
US	US$ 31/t	US$ 31/t	22	22	US$ 421/t	216%	144%	15
	US$ 9/t	US$ 9/t	1 117	1 117	US$ 399/t	na	na	15
EU	-	-	1 304,7	1 304,7	Écu 524/t	274%	235%	20
	-	-	-	-	Écu 424/t	na	na	20
Canada	-	-	-	-	C$ 41.67/t	16%	9,0%	15
					C$ 32.54/t	na	na	15
Switzerland	-	-	-	-	SF 720/t	293%	350%	15
Australia	-	-	-	-	A$ 140/t	53%	12%	50
Japan	-	-	-	-	Y 121 300/t	253%	184%	15
					Y 84 500/t	na	na	15
Norway	-	-	-	-	NOK 100/t	na	na	70
Iceland	-	-	-	-	350%	350%	na	50
Mexico	50%	50%	110	184	US$ 400	206%	na	28

Source: OECD (1995)

Table A4. Market Access Concessions, Commodities Subject to Tariffication

Butter

Country	In quota				Tariffs/tariffs equivalent			Percentage reduction from base to final bound tariffs
	In quota tariffs 1995	In quota tariffs 2000	In quota volumes 1995 (1 000 tons)	In quota volumes 2000 (1 000 tons)	Base tariffs	Base tariffs in ad valorem equivalent	MPS in ad valorem equivalent	
US	US$ 123/t	US$ 123/t	4	7	US$ 1 813/t	138%	134%	15
EU	Écu 868/t	Écu 868/t	76,7	86,7	Écu 2 962/t	254%	199%	36
Canada	C$ 2 646/t	C$ 1 138/t	1,96	3,27	351%	351%	199%	15
Switzerland	SF 200/t	SF 200/t	527	527	SF 19 320/t	1136%	1065%	15
Japan	35%	35%	137,2	137,2	35%	657%	507%	15
	Y 926 000/t	Y 806 000/t	-	-	Y 1 159 000/t	-	-	15
Norway	NKr 4 420/t	NKr 4 420/t	0,3	0,6	NKr 29 640/t	434%	124%	15
Iceland	216%	-	0,032	0,053	674%	674%	362%	15
Mexico	-	-	-	-	50%	na	na	25

Source: OECD (1995)

Table A5. URAA Tariffs Reduction Commitments:
US Schedule

Product	Base rate of duty $/t or %	Bound rate of duty $/t or %	Percentage reduction %	Special safeguard
Wheat				
Common Wheat	7,7	3,5	55	no
Durum Wheat	7,7	6,5	16	no
Coarse Grain				
Maise	9,8	2,5	74	no
Barley	3,4	1,5	56	no
Oats	-	-	-	-
Sorghum	8,8	2,2	75	no
Rice	33	21	36	no
Oilseeds				
Soyabeans	-	-	-	-
Rapesedd	9	5,8	36	no
Sunflower	-	-	-	-
Sugar				
Raw (Cane) Sugar	399	399	15	yes
Raw (Beet) Sugar	421	357	15	yes
Refined Sugar	421	357	15	yes
Milk				
Liquid Milk	0.017 $/l	0.015 $/l	12	no
Liquid Milk	175	154	15	yes
Skim Milk	1 831	1 556	15	yes
Butter	1 813	1 541	15	yes
Cheese (Emmental)	1 631	1 386	15	yes
Cheese (Cheddar)	1 443	1 227	15	no
Beef and Veal				
Live Animals	22	10	55	no
Beef Meat	31%	26,4%	15	yes
Pigmeat	-	-	-	-
Poultrymeat	110	88	20	no
Sheepmeat				
Sheepmeat	33	28	15	yes
Lamb	11	7	36	no
Wool	220	187	15	no
Eggs	0.035 $/douz	0.028 $/douz		
Eggs	49	40	20	no

Source: OECD (1995)

Table A6. URAA Tariffs Reduction Commitments

EU Schedule

Product	Base rate of duty Ecu/t or %	Bound rate of duty Ecu/t or %	Percentage reduction %	Special safeguard
Wheat				
Common Wheat	149	95	36	yes
Durum Wheat	231	148	36	yes
Coarse Grain				
Maise	147	94	36	yes
Barley	145	93	36	yes
Oats	139	89	36	yes
Rice	330	211	36	yes
Oilseeds				
Soyabeans	-	-	-	-
Rapesedd	-	-	-	-
Sunflower	-	-	-	-
Sugar				
Raw (Cane) Sugar	424	339	20	yes
Refined Sugar	524	419	20	yes
Milk				
Liquid Milk	354	227	36	yes
Skim Milk	1 485	1 188	20	yes
Butter	2 962	1 896	36	yes
Cheese (Emmental)	274	175	36	yes
Cheese (Cheddar)	2 611	1 671	36	yes
Beef and Veal				
Live Animals	16%	10,20%	36	yes
	1 454	931	36	no
Beef Meat	20%	12,80%	36	yes
	2 763	1768		
Pigmeat	838	536	36	no
Poultrymeat	410	262	36	yes
Sheepmeat				
Sheepmeat	20%	12,80%	36	yes
Lamb	2 677	1723	36	yes
Wool	-	-	-	-
Eggs	475	304	36	yes

Source: OECD (1995)

Table A7. URAA Tariffs Reduction Commitments
Canada Schedule

Product	Base rate of duty		Bound rate of duty		Percentage reduction	Special safeguard
	specific C$/t	ad valorem %	specific C$/t	ad valorem %	%	
Wheat						
Common Wheat	-	90	-	76,5	15	yes
Durum Wheat	-	57,7	-	49	15	yes
Coarse Grain						
Maise	1,97	-	1,26	-	36	no
Barley	-	111,4	-	94,7	15	yes
Oats	18,12	-	-		100	no
Rice	-	-	-	-	-	-
Oilseeds						
Soyabeans	-	-	-	-	-	-
Rapesedd	-	-	-	-	-	-
Sunflower	-	-	-	-	-	-
Sugar						
Raw (Cane) Sugar	32,54	-	27,66	-	15	no
Refined Sugar	41,67	-	35,42	-	15	no
Milk						
Liquid Milk	-	283,8	-	241,3	15	no
min	40,6	-	34,5	-	15	yes
SMP	-	237,2	-	201,6	15	yes
min	2 360	-	2 006	-	15	no
Butter	-	351,4	-	298,7	15	yes
min	4 708	-	4 001	-	15	no
Cheese	-	289	-	245,6	15	yes
(Cheddar)	4 149	-	3 528	-		
Beef and Veal						
Live Animals	22	-	11	-	50	no
Beef Meat	-	37,9	-	26,5	30	yes
Pigmeat						
Pigmeat	-	-	-	-	-	-
Poultrymeat						
Poultrymeat	-	280,4	-	238,3	15	yes
min	1 960	-	1 666	-	15	no
Turkey	-	182	-	154,7	15	yes
min	2 295	-	1951	-	15	no
Sheepmeat						
Lamb	66,1	-	42,3	-	36	no
Wool	-	-	-	-	-	-
Eggs		280,4		238,3	15	no
min	5 037,70	-	4 280,50	-	15	no
Eggs		192,3		163,5	15	no
min	1 381,80	-	1 174,50	-	15	no

Source: OECD (1995)

Table A8. URAA Tariffs Reduction Commitments
Japan Schedule

Product	Base rate of duty Y/t or %	Bound rate of duty Y/t or %	Percentage reduction %	Special safeguard
Wheat				
Common Wheat	65 000	55 000	15	yes
Durum Wheat	65 000	55 000	15	yes
Coarse Grain				
Maise for feed	-	-	-	-
Maise other	15 000	12 000	20	no
Barley	46 000	39 000	15	yes
Oats	10%	8,5%	15	no
Rice	-	-	-	-
Oilseeds				
Soyabeans	-	-	-	-
Rapesedd	-	-	-	-
Sunflower	-	-	-	-
Sugar				
Raw (Cane) Sugar	84 500	71 800	15	no
Refined Sugar	121 300	103 100	15	no
Milk				
Liquid Milk	25%	21%	15	yes
	134 000	114 000	15	no
Skim Milk	25%	21,3%	15	yes
	466 000	396 000	15	no
Butter	35%	29,8%	15	yes
	1 159 000	985 000	15	no
Cheese (fresh)	35%	29,8%	15	no
Cheese (processed)	79,7%	40%	50	no
Beef and Veal				
Live Animals	45 000	38 250	15	no
Beef Meat	93%	50%	46	no
Pigmeat				no
Gate price	553 000	489 000	12	no
Specific	425 000	361 000	15	yes
Ad Valorem	5%	4,3%	15	yes
Poultrymeat				
Poultrymeat	14%	11,9%	15	no
Sheepmeat				
Lamb	-	-	-	-
Wool	-	-	-	no
Eggs	20%	17%	15	no

Source: OECD (1995)

Table A9. TRQs Tariffs for Selected Products (%)

	Specific Country Allocation	Nominal Protection Coefficient		Tariff Rates (1995)			TRQs Fill Rates 1995
		Base 86-88	1995	Base 86-88	ITRQs	OTRQs	
Wheat							
Canada		36	13	90	20	90	18
EU	no	102	13	162	0	89	100
Japan	no	640	535	271	0	51	100
Sugar							
EU	yes	227	81	404	0	209	100
Japan	no	89	85	136		146	na
US	yes	137	54	198	44	115	100
Cheese							
Canada	yes	149	87	289	2	289	100
EU	yes	202	166	202	13	149	97
Japan	no	31	30	34	0	35	na
US	yes	89	31	111	10	63	87
Butter							
Canada	yes	198	129	351	114	351	100
EU (current	yes	205	165	258	70	225	na
EU (min)					77	225	
Japan	no	519	533	633	35	773	27
US	yes	138	7	141	7	97	6
Skim Milk							
Canada	yes	46	21	237	3	23	100
EU	yes	111	41	161	33	81	100
Japan(school)	no	266	189	321	0	287	58
Japan(other)	no			346	0	297	49
US	no	73	23	179	2	44	27
Beef							
Canada	yes	9	0	38	2	38	100
EU	yes	91	46	160	20	88	85
US	yes	6	0	31	3	31	66
Pigmeat							
EU	no	40	11	86	23	67	100
Japan(ad val)	no	70	149	5		5	na
Japan (spe)	no			235		285	na
Poultrymeat							
Canada	no	18	0	280	13	280	100
Canada(turk)	no	18	11	182	13	182	100
EU	no	48	30	48	14	41	100
Japan	no	13	12	14		14	na
Sheepmeat							
EU	yes	181	56	192	0	109	80

Source: OECD (1999b)

Table A0. Export Competition: Volume Commitment

(1 000 tons)	Average 1986-90	Average 1991-92	1995	2000
Wheat				
US	18 400	21 400	20 200	14 500
EU	17 000	20 300	19 100	13 400
Canada	112 000	14 500	13 600	8 900
Coarse Grain				
US	2 000	-	1 900	1 600
EU	12 600	-	12 200	10 000
Canada	4 600	-	4 400	3 600
Oilseeds				
US	200	700	600	100
Canada	2 200	-	2 100	1700
Butter				
US	27	47	43	21
EU	463	-	447	366
Canada	4,4	12,5	9,5	3,5
Australia	49,1	68,7	63,7	38,8
Cheese				
US	3,8	4,8	3,8	3
EU	386	427	407	305
Canada	11,5	13,1	12,4	9,1
Australia	63,1	76,4	72	49,9
Skim Milk				
US	86	116	108,2	68,2
EU	308	-	297	243
Canada	56,9	-	54,9	44,9
Australia	85,6	114	106,3	6,6
Beef				
US	22	-	21,5	17,6
EU	1 034	1324	1 119	817
Poultrymeat				
US	35	-	34,2	28
EU	368	470	440	290

Source: OECD (1995)