Volume 7 Number 1 2006/p.32-48

esteyjournal.com



Canadian Agriculture and the Doha Development Agenda: The Challenges*

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The WTO Framework Agreement that negotiators accepted in July 2004, and built upon at the 2005 Hong Kong Ministerial meeting provides a guide to the commitments a Doha Development Agenda agreement may contain. These commitments will relate to direct and indirect export subsidies, domestic support and market access. Commitments in each of these areas will have implications for Canadian agriculture. This article explores these implications for supply management, the Canadian Wheat Board and domestic support programs.

Keywords: Canadian agriculture, Doha, trade liberalization, WTO

Introduction

Relative to the typical lifespan of multilateral trade negotiations, the five years since the launch of the Doha Development Agenda (DDA) have been a mere blink of the eye. The recent Hong Kong ministerial meeting kept the negotiation process rolling, but just barely. Over the course of the next year, the negotiators have the difficult task of agreeing to a set of modalities (that is rule changes and reduction formulas) that will hopefully lead to the completion of this round. In anticipation of those modalities the objective of this study is to explore the challenges faced by Canada's primary agriculture and agrifood sectors in adapting to a more liberal trade regime.

In July 2004 a "Framework Agreement" for the DDA was accepted as a guide for the remainder of the negotiations.² This agreement and subsequent discussions provide a reasonably good indication of what the modalities might look like. It is possible to anticipate the new disciplines for export competition that are likely to emerge from a final set of modalities. All direct export subsidies, and measures with equivalent effect, are to be eliminated by the end of 2013, and new disciplines will apply for indirect export subsidies. To a lesser extent it is possible to predict disciplines for domestic support, because the Framework Agreement preserves the fundamental Agreement on Agriculture (AoA) disciplines and adds new disciplines on overall support and blue-box programs and caps on support for individual commodities. What is more difficult to predict is the outcome of the negotiations on market access. However, even within this pillar of the AoA there is agreement that there will be a tiered formula approach, with deeper cuts for higher tariffs, and there is agreement that flexibility will be provided for self-designated "special and sensitive products". What isn't known is the depth of tariff cuts and which products will be defined as "special or sensitive".

While there are a number of uncertainties about the details of the modalities, there is enough insight as to what might happen that it is time to ask a number of questions about the future of Canadian agriculture under the potential new trade disciplines. Will the elimination of export subsidies solve Canada's agricultural problems? Will the Canadian Wheat Board be eliminated? Is it possible to have effective market access and still have special and sensitive products? What are the implications for supply management? Do disciplines on domestic subsidies really make a difference? This article will attempt to answer these questions, even though the information available remains less than complete.

Will Export Subsidy Elimination Solve Canada's Agricultural Problems?

In the case of industrial products, there has been a long-standing prohibition on subsidies that are contingent on export performance. In the case of agricultural products, however, such subsidies have persisted. A major achievement of the Uruguay Round AoA in this respect is that it put limits on existing export subsidies and prohibited the use of new export subsidies (Young, Abbott and Leetma, 2001). The Framework Agreement lays out a plan for the elimination of all forms of *direct* and *indirect* export subsidies in agriculture.³ Subsidies subject to elimination include direct subsidies; government export credit arrangements with terms of more than 6 months⁴; government financing of exporting state trading enterprises and underwriting of the losses of these enterprises; and food aid that is used as a means of surplus disposal or has the effect of displacing commercial sales (WTO, 2004).⁵ Also up for negotiation are the terms and conditions under which export monopolies can be used.

From a Canadian perspective, does the elimination of direct export subsidies matter? Yes, there are two sectors that are directly affected by export subsidy elimination. First, although Canada is not a major player in international dairy markets, historically it has had to use export subsidies to export products that are surplus to its supply-managed regime. The loss of the export market will put financial pressure on domestic milk producers and dairy processors. In the early 1990s Canada's dairy product exports were valued around \$150 million; they peaked in 2001 at \$425.5 million and then declined to \$264.8 million in 2004. Between 2001 and 2004 the volume of dairy product exports declined by 38 percent, largely as a result of coming into compliance with the WTO decision on Canada's dairy export regime, which was ruled to provide an illegal export subsidy (WTO, 2003). Most of these export sales will be lost as a result of the elimination of the remaining export subsidies. However, to put this in perspective, Canada's farm cash receipts from milk sales are about \$4.5 billion.

Second, Canadian grain exports have often had to compete against subsidized exports from the European Union (EU). Its recent use of export subsidies for grains has been sporadic but may become more frequent given the recent strength of the euro. As recently as mid-February 2005 the EU used a small restitution on a wheat sale. Prior to this sale the EU had not used a wheat export subsidy since 2003. Despite reduced intervention prices, the increased value of the euro (relative to the U.S. dollar) and increased transportation costs could create pressure for the EU to expand its use of export restitutions for grain. What is the probability that the EU will be forced to use export subsidies? A simplistic extrapolation of the potential use of EU export

subsidies can be achieved by determining the probability that the EU intervention price for wheat will exceed the world price for a comparable grade of wheat. Our analysis suggests that the probability of the EU needing to use export subsidies for wheat is 15-30 percent depending on the exact assumptions used in the analysis. So, from a practical standpoint there is some value in disciplining the EU in its use of export restitutions.

When will the elimination of direct export subsidies occur? The Hong Kong Ministerial Declaration calls for the parallel elimination of all forms of export subsidies, and disciplines on all export measures with equivalent effect⁹, by 2013. Furthermore a substantial part of the liberalization is to be realized by the end of the first half of the implementation period. How quickly this early harvest on export subsidy reform will happen depends on the speed of the EU's agricultural policy reform process that will not be completed until 2013.

The elimination of export subsidies, direct and indirect, will have a small positive impact on world grain prices. The impact on international dairy prices is potentially much larger. However, the most fundamental benefit is that the reform will bring agriculture into conformity with the rules for industrial products and prevent any backsliding with respect to the use of export subsidies. The elimination of export subsidies will not solve Canada's agricultural problems, but it is a long overdue reform of international trading rules.

Will the Canadian Wheat Board Be Eliminated?

The Canadian Wheat Board (CWB) is western Canada's exclusive exporter of wheat and barley. As a government-backed producer marketing board the CWB is classified as a state trading enterprise (STE). STEs are permissible under the GATT (General Agreement on Tariffs and Trade) as long as they are in compliance with Article XVII, which requires that their practices be consistent with non-discriminatory behaviour and their sales or purchases be made in accordance with commercial practices.

The Framework Agreement only addresses exporting STEs – it does not consider disciplines on importing STEs such as the Canadian Dairy Commission. ¹⁰ The proposed disciplines are to be applied under the export competition provisions of a revised AoA. Article XVII is not being negotiated, so any new disciplines will only apply to agricultural STEs. The Framework Agreement calls for the end of "trade distorting practices with respect to exporting STEs including eliminating export subsidies provided to or by them, government financing, and the underwriting of losses" (WTO, 2004). Disciplines on the length of term and other conditions for

export credit sales provided through the CWB are also addressed in the Framework Agreement. Finally, the issue of whether state trading monopolies should be eliminated is under negotiation.

The operations of the CWB are based on three principles: single-desk selling, price pooling and a government guarantee of the initial payment to producers. The Framework Agreement will result in the eventual elimination of the government guarantee for the CWB's borrowing as well as the guarantee for the initial payment. Does the elimination of these guarantees affect the three core principles of the CWB?

The CWB borrows for a number of reasons: to finance its current operations, to finance its current credit sales and to service old debt. In 2002/03, the CWB's net borrowing was \$6.4 billion. Borrowing to service old debt, associated with overdue and rescheduled debt from foreign customers, was \$5.87 billion. This old debt is associated with credit sales under the Credit Grain Sales Program, which was guaranteed by the Government of Canada; the repayment terms have been rescheduled. As such, this debt could be transferred to the books of the federal government, and for all practical purposes the old debt is not relevant to the potential disciplines in the Framework Agreement. The remaining borrowing of \$558 million is associated with financing new credit sales and the operating expenses (inventory storage, inventory financing and grain movement) of the CWB. The borrowing guarantee allows the CWB to obtain better financing than it could if it had to obtain funds commercially. The fact that the CWB owns very few assets means that without the government guarantee its credit worthiness declines and its borrowing costs increase.

The elimination of the federal government's underwriting of losses also affects the guarantee on initial payments. It is possible for the CWB to establish a contingency fund to backstop the initial payment; however, it will take time to build such a fund. Therefore, the CWB may seek a one-time infusion of capital to help form a contingency fund and to help it reduce its borrowing costs. Although the CWB has generally been conservative in setting initial payments, without the government guarantee it will have to protect itself from sharp price declines after initial prices are announced. Consequently, it will face additional costs associated with risk management. However, the tightening of the financial privileges the CWB now receives is something it can live with, and price pooling and the provision of initial payments remain feasible. 14

The Framework Agreement calls for effective transparency provisions for export competition. The transparency provisions are to be consistent with commercial confidentiality. There are currently notification rules that require STEs to report on their activities every three years. The notifications involve a questionnaire concerning the products covered, the reason and purpose for the STE, a description of its functions and annual statistical information including product quantity and value as well as trade flows. It is unclear what form new reporting requirements might take. The CWB is concerned about reporting information that may be of commercial value to its competitors such as transaction-specific prices. Private firms are not compelled to publicly release this type of information. Typically, reporting requirements have involved yearly aggregations of data similar to the type of information the CWB already provides in its annual report.

The biggest issue with respect to the future of the CWB involves the negotiation of its continued monopoly status. The Hong Kong Ministerial Declaration provides some insight about the future of the CWB's single desk. The declaration does not call for the end of monopoly status *per se*, but requires that "...the future use of monopoly powers so that such powers cannot be exercised in any way that would circumvent the direct disciplines on STEs on export subsidies, government financing and the underwriting of losses (WTO 2005, p. 2)." So at this point in time it does not appear that the CWB's monopoly status will be eliminated as long as it can live within the new disciplines for government financing and the underwriting of losses. The US and EU may pursue further disciplines on STE behaviour, including cross subsidization, price pooling and specific export sales at less than acquisition price. Additional conditions that equate these types of actions with export subsidy practices would make it more difficult for the CWB to continue its current practices while being allowed to continue its monopoly position; however, for the time being the single desk appears to be secure.

Can Market Access Be Improved While Sensitive and Special Products Are Given Special Treatment?

The Framework Agreement calls for substantial improvements in market access for all products. The Framework Agreement does not define what "substantial" is, but it commits negotiators to reducing bound rates using a tiered formula that would make deeper cuts to higher tariffs. The depth of the tariff cut will depend on whether a product is classified as a "non-exempt", a "sensitive", or a "special" product. Most agricultural products will not be subject to any special exemption. Market access liberalization for these products will involve a progressive system of tariff reduction, with deeper cuts for higher tariffs. The exact size of the tariff cut will be determined by the level of the current bound tariff and the development status of the country. Negotiators are now working from a proposal tabled by the G-20¹⁶ that contains five tariff tiers for developed countries and four for developing countries

(ICITSD, 2005). Controversy surrounds the issue of whether "flexibility" will be allowed inside each tariff tier or whether all products in a given tier should face the same size of cut. The EU argues that there must be flexibility on the size of cut within each tier, while most other negotiators feel that if any flexibility is allowed it should be sharply constrained. In addition to the basic tariff-cutting formula, the G-20 also advocates that individual tariffs be capped at 100 percent for developed countries and 150 percent for developing countries. This issue is not yet resolved.

Members will also be allowed to select for themselves an appropriate number of sensitive products that will be given special consideration in the application of the tariff harmonization formula. The only selection criterion appears to be to take "account of existing commitments for these products" (WTO, 2004). It is difficult to speculate how many "sensitive" products will be notified, as the only limit on the number of these products is a yet to be determined maximum percentage of each member's total agricultural tariff lines¹⁷. The Framework Agreement stipulates that "substantial improvement" in market access will apply for these sensitive products, but it does not explain how this improvement will be less substantial than for nonexempt products. The improvement in market access for sensitive products is to be accomplished by a combination of tariff cuts and the expansion of tariff-rate quotas (TRQ). This suggests that the smaller the tariff cut the bigger the expansion of the tariff-rate quota. The average over-quota duty for all members notifying TROs is 128 percent (Gibson et al., 2001). Given the very high over-quota tariffs it is likely that tariff liberalization will only take the redundant protection out of the tariffs, and effective liberalization will depend on quota expansion (Gifford, 2005). It is through the specification of sensitive products that Canada hopes to spare its supply-managed commodities from significant new import competition.

Special and differential treatment will be available to developing countries in terms of smaller tariff reductions and TRQ expansion and in their capacity to select a number of "special products". These "special products" will enjoy still greater flexibility. Unlike "sensitive products", "special products" are selected according to a set of criteria, and these criteria include food security, livelihood security and rural development needs.

As a major agri-food exporter Canada has a huge stake in pushing for improved market access, especially for consumer-ready products. This means Canada should be a strong proponent of using a harmonization formula for tariff reductions and of rules to reduce tariff escalation. Canadian consumers will benefit as Canada's tariffs come down and a greater variety of lower-cost imports are made available. From this perspective the enumeration of a new class of "special" and "sensitive" products is

troubling. While Canada's producers of supply-managed commodities have a vested interest in maintaining protection for their commodities, the creation of a set of "special and sensitive" products risks creating a permanent set of products where serious trade liberalization will be delayed for decades. Since sugar and rice will be prominent among the list of "sensitive" products in developed countries, such designations also send the wrong signal to developing countries that have a comparative advantage in producing these crops. At the very least, the number of tariff lines treated differently must be very limited, in-quota tariffs for these commodities should be reduced to zero, and meaningful minimum access commitments should be created.

What Are the Expected Impacts on Supply Management?

The modalities on market access will be by far the most difficult to resolve. These are the issues that are also the most important to Canada's supply-managed sectors. All supply-managed products have tariffs far in excess of 80 percent, so these products will be classified in the fifth tier and face the most aggressive cuts (probably in excess of 60 percent). No doubt Canada will attempt to notify all products derived from supply-managed inputs as "sensitive". However, these sectors will not be entirely insulated from competition. One possible modality for sensitive products is to require quota expansion to be proportional to the reduction in the tariff-cutting formula. For example, a 50 percent reduction in the formula cut may require a doubling of the in-quota access.

The Canadian dairy sector will have to adjust to the elimination of export subsides, the expansion of tariff-rate quota volumes and a ceiling on product-specific domestic support that will limit increases in administered prices for the dairy sector. Incremental increases in minimum access combined with export subsidy elimination can have a significant positive impact on world dairy product prices given how little is traded, and this will partially relieve the competitive pressures faced by this sector.

It is unlikely that Canada will be able to export dairy products without subsidies. Canada's export subsidy commitments currently limit subsidized export volumes to 44.9 thousand tonnes of skim milk powder, 3.5 thousand tonnes of butter, 9.1 thousand tonnes of cheese and 30.2 thousand tonnes of other dairy products. Canada has not notified export subsidies since 1999 and consequently it is difficult to determine the exact quantities of subsidized dairy products that are exported. Nonetheless, yearly exports of skim milk powder have seldom exceeded the volume commitment and this is not a significant amount of skim milk powder (SMP) to absorb into the domestic market. Exports of butter in recent years have been

minuscule. Cheese and other dairy products are exported in higher volumes, and while some of these products are sufficiently unique that they do not require subsidization, products sold as bulk commodities do require subsidization.

Over-quota dairy tariffs range from 200-300 percent. Formula reductions for "sensitive products" will still result in prohibitively high dairy tariffs. ¹⁸ Canada's dairy TRQs currently represent less than 3 percent of consumption (zero percent SMP; 4 percent butter; and 7 percent cheese). A likely outcome of the market access negotiations for "sensitive" dairy products could increase minimum access to 7-10 percent of an updated base level of consumption. This increase in market access commitments will create some additional pressure for adjustments in the domestic dairy market, through either a corresponding reduction in domestic production or a decline in domestic prices. Lariviere and Meilke (1999), using 1995 data, suggest that requiring a minimum access commitment of 7 percent of domestic consumption under dairy product TRQs could lower Canada's butter and cheese prices by 11 percent and 1 percent respectively and increase skim milk powder prices by 2 percent.

Finally, the product-specific ceilings on domestic support may force the dairy industry away from cost-of-production based administered prices to prices negotiated between milk producers and processors. Prices determined in this fashion would not be subject to AMS disciplines (disciplines based on Aggregated Measurement of Support). This may help to constrain future increases in milk prices, which, at the producer level, are about 40 percent higher than in the highly protected United States dairy market (Meilke, Sarker and Le Roy, 1998).

The situation facing the poultry sector is somewhat different. This sector will not face pressure from a cap on product-specific AMS support, as there is no notified market price support for these commodities. Likewise, this sector will not face disciplines on export subsidies. Market access as a percentage of domestic consumption is also higher for poultry than for dairy. In 2000, imports as a percentage of domestic consumption were 7.5 percent for broilers, 21 percent for hatching eggs and 5 percent for turkeys and for eggs (Canadian Broiler Hatching Egg Marketing Agency et al., 2004). As a consequence these sectors should face less pressure from liberalized market access. During the early 2000s Canada's chicken prices were 15-20 percent above those in the United States; however, with the recent strength of the Canadian dollar the price gap has increased to around 30 percent (Huff, Meilke and Amedei, 2000).

Does Domestic Support Really Matter?

The AoA introduced disciplines on domestic agricultural subsidies that are not ▲ applied to industrial products. These disciplines categorize support as either subject to reduction commitments or exempt. The Framework Agreement preserves the fundamentals of the AoA domestic support disciplines while adding several new requirements (WTO, 2004). First, there is to be a reduction in total support (that is, in the sum of final bound total AMS plus both de minimis exemptions and blue-box support). This reduction comes in stages. In the first year of the implementation period members must reduce total support by 20 percent. Additional reductions in total support are based on a tiered formula that encompasses the principle of harmonization, where members with higher levels of support face larger reduction commitments. There seems to be general agreement that there will be three domestic support tiers and that the EU will be in the tier with the highest level of support, the United States and Japan will be in the second tier, and other developed countries in the third tier¹⁹. Second, the final bound AMS and permitted de minimis levels will also be reduced over the implementation period. Tiered harmonization reductions will also apply to the total AMS (but not necessarily by the same formula as for total support). Caps on support levels for specific commodities are to be negotiated to prevent shifts of support between commodities. Reductions in de minimis support will also be negotiated. Third, blue-box support will be capped at five percent of a member's average historic total value of production. The blue-box criteria are also being renegotiated. The Framework Agreement describes two types of blue-box programs, direct payments that are either associated with production-limiting programs (requires production) or that do not require production at all. Fourth, green-box criteria will be reviewed and clarified to further remove trade-distorting elements; at the same time, the review will take into account non-trade concerns.

From the perspective of many WTO members, especially developing countries, a successful round of negotiations will depend on how much additional discipline is applied to the domestic programs in the EU and the United States. Since 1995 the United States and the EU have reformed their domestic policies towards less distorting measures. Many of these revised programs have been notified as green-box measures. The major development in the Framework Agreement is the commitment to reduce total non-green support, most likely in the range of 50-60 percent. In a sense this overall limit is the price that the EU and the United States have to pay in order to not face reductions in green-box support. However, as Brink (2005) demonstrates, the United States would be able to reduce its overall domestic support base by 75 percent and still not be constrained in its domestic farm spending. Likewise the EU would be

able to reduce its overall domestic support base by 79 percent and still not face a binding commitment. If, however, the negotiators are able to find the political will to cut domestic support so that the overall commitment becomes a binding constraint, this commitment will limit spending on the individual components of domestic support. For instance, a sufficiently aggressive reduction in overall support may create an effective limit on blue-box support that is well below the 5 percent cap.

The impact of potential new WTO disciplines on Canada's domestic support expenditures is difficult to assess. Canada has not notified domestic support since 2000. At that time domestic amber-box spending was 21 percent of the AoA bound AMS limit. Since then government expenditures have increased as a result of BSE-related expenditures and the introduction of the Canadian Agricultural Income Stabilization (CAIS) program. At this time it is not clear how Canada will notify its CAIS payments. Green-box (reduction-exempt) programs require that payments be determined by income losses that exceed 30 percent of average gross income. However, CAIS begins to pay once the production margin falls below the reference margin. Canada has historically notified most of its safety net spending as non-product specific *de minimis* expenditures, but potential reductions in *de minimis* support may offer less opportunity to use this reporting option. Another important issue for domestic support reform facing Canada is that of the constraints on product-specific support, which may put pressure on market price support for dairy and certain product-specific provincial programs.

The Framework Agreement adds more structure to the existing domestic support disciplines, with constraints on overall trade-distorting support and limits on blue-box expenditures. However, how effective the disciplines will be in limiting trade-distorting support is yet to be determined and it will depend on how aggressive the tiered formula reductions are for overall and total AMS. One thing is fairly clear – the domestic support disciplines will not sharply limit spending on the agricultural sector by developed countries willing to shift support into the blue and green boxes. As a result, subsidy envy by producers in some developed countries and most developing countries will continue unabated.

Conclusions

The Framework Agreement provides the basic building blocks on which the DDA will be constructed. Like any skeleton, it does not describe the features or specifics of the final product, but it does give an indication of the basic structure of a future agreement. In terms of ambition, a final judgment must await agreement on the modalities, but it appears that the Framework Agreement is ambitious enough to keep

the process of liberalization going. It does, however, reflect as much concern among the negotiators with continuing protection for special interests as with promoting opportunities for healthy competition.

What does the Framework Agreement mean for Canada? Canadian negotiators were looking for the elimination of all agricultural export subsidies as quickly as possible. The Framework Agreement will eventually eliminate direct export subsidies but this is unlikely to happen before 2013. Disciplines on government involvement in agricultural export credit programs are long awaited and should help to bring agriculture closer to the set of subsidy disciplines that apply to other sectors. Any discomfort that these disciplines might create for the CWB should be far less than the benefit of knowing that the United States will have less opportunity to promote its exports by offering export financing conditions that are better than those offered in a competitive market.

The loss of the government guarantee will force the CWB to develop innovative risk management techniques to underwrite its own losses. Furthermore, the CWB will need to increase its asset base in order to be able to establish a solid credit rating and lower its borrowing costs. Canada may have to accept some discipline on the actions of single-desk STEs, but the negotiators are still arguing from a strong position that disciplines for developed-country agricultural exporting STEs should not be significantly different from the disciplines applied to all other STEs.

Canada was pursuing a variety of market access negotiating techniques that would open foreign markets to the greatest possible extent while still protecting import-sensitive domestic industries. The Framework Agreement introduces a category of sensitive products. Market access liberalization for sensitive products will be made through a combination of tariff reductions and tariff-rate quota expansion. The supply-managed sector needs to have an appreciation of the potential reforms and the implications. The dairy sector faces limits on increased support prices because of product-specific AMS caps, increased competition from an increased volume of inquota access and the probable loss of a small export market. These impacts are relatively minor and the industry should be able to adjust. The Framework Agreement certainly does not mean the end of supply management.

It is not in Canada's interest that a plethora of exemptions be created with respect to market access commitments. It is important that the base for tariff-rate quota expansion be established through coherent and equitable criteria, and that members be discouraged from ignoring these criteria in their final offers. Reducing the dispersion of tariffs and their escalation is a goal that Canadian negotiators should be seeking given the proportion of our exports that are consumer ready.

The Canadian negotiators were seeking an overall limit on all types of domestic support (green, blue and amber programs) and the maximum possible reduction in amber-box and blue-box support. The Framework Agreement will discipline the total amount of AMS, blue-box, and *de minimis* support. At this time it is not known how large the required reduction in *de minimis* support will be, but a smaller threshold may create a challenge for Canada in terms of meeting its domestic support commitments. The harmonization approach will be more aggressive in reducing subsidies in those countries that subsidize the most. Product-specific caps on amber-box support will prevent members from continuing to provide trade-distorting domestic support to selected sectors as overall support levels are reduced. While these disciplines may not reduce the total level of support used in the EU or the United States, the reforms prevent a return to more distorting forms of support or increases in the level of support.

The next touchstone for the DDA negotiations will be the WTO general council meeting on July 27-28 2006. So a number of difficult technical issues still confront the negotiators, especially with respect to market access. Political will is the major requirement to make the tough decisions that are needed to bring the DDA to a successful conclusion.

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Endnotes

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- * Funding for this project was provided by the Canadian Agricultural Trade Policy Research Network (CATPRN) and the Ontario Ministry of Agriculture, Food and Rural Affairs. The CATPRN is funded by Agriculture and Agri-Food Canada. The views expressed in this article are those of the authors and should not be attributed to the funding agencies.
- 1. This article draws heavily upon the material in Rude and Meilke (2005), which provides a more detailed summary of the implications of the Framework Agreement.
- 2. The official WTO (2004) document refers to the Framework Agreement as a "work programme" but we will use the more familiar term in this review.
- 3. Direct subsidies provide an explicit price subsidy to either the exporting or importing agent, lowering the price of the traded good. Indirect subsidies provide non-price benefits that ultimately lower the final cost to the importer.
- 4. The United States accounts for 88 percent of the subsidy elements of those export credit programs examined by OECD. The OECD analysis examined the impact of export credit programs on the world wheat market and found the degree of distortion to be relatively small for the time period studied (1998).
- 5. For loans under six months, additional disciplines will be negotiated with respect to minimum interest rates, insurance premium benchmarks and other loan conditions.
- 6. The large increase in exports leading up to 2001 was due to a special export program that sold milk to Canadian processors at lower prices when the products made from the milk were exported at world prices. This program was ruled to provide an export subsidy after a series of WTO panels. Following this decision Canadian dairy product exports declined.
- 7. Prior to 1992 the EU intervention price for wheat was 155 euro/mt; through a series of reforms it was reduced to 101 euro/mt in 2001 (about C\$160/mt at 2005 exchange rates).

- 8. Distributions on the United States Gulf price of soft red winter wheat and the euro/dollar exchange rate were obtained from weekly data for the period August 1, 1997 to February 4, 2005. Given these distributions, the probability of the intervention price exceeding the United States Gulf price, adjusted for the euro/dollar exchange rate and transfer costs, can be determined.
- 9. Negotiations on export credits have been ongoing for almost a decade. A great deal of work has been done on deriving specific disciplines. Disciplines for food aid are difficult to achieve because the negotiators must balance off the legitimate aspects of these programs with limiting the use of in-kind transfers for surplus disposal. The disciplines would concern such issues as the need for aid, appropriate forms for the aid, conditionality for the transfers and prohibition of reexport. With respect to international grains markets, food aid shipments are a very small share of these markets and the disciplines should not have a big impact on the prices faced by Canadian exporters. Likewise, disciplines on export credit arrangements are expected only to have a small positive impact on international prices (OECD, 2001).
- 10. The Canadian Dairy Commission has been granted the exclusive right to import butter; other dairy products are imported by the private trade under tariff-rate quota regimes.
- 11. Goodloe (2004) reports that the gross borrowings of the CWB were \$26.2 billion in 2002/03.
- 12. The CWB benefits from the interest payments on this restructured debt. Goodloe (2004) claims that these interest earnings "more than covered the costs of running the CWB".
- 13. A reviewer has pointed out that the CWB could borrow to cover the pool account loss and make up for the shortfall in next year's pooled return. A contingency fund would require a smaller yearly tax on producers than would a one-time adjustment in the subsequent pool account to recover the entire deficit plus interest costs.
- 14. One consideration that may change is the current relationship between AAFC and the CWB in terms of setting the initial payment. With no government guarantee there is no role for the government in setting the initial payment.
- 15. Given that price pooling involves several dimensions, including risk management and possible price discrimination, how price pooling might distort trade has never been clearly defined. One possible consequence of pooling, in conjunction with price discrimination, is that producers may receive higher and more stable prices and this may induce more production.
- 16. The G-20 is a group of developing countries that are active negotiating participants. The group includes: Argentina, Bolivia, Brazil, Chile, China, Colombia, Costa Rica, Cuba, Ecuador, El Salvador, Guatemala, India, Mexico, Pakistan, Paraguay, Peru, Philippines, South Africa, Thailand and Venezuela.
- 17. The US is proposing that sensitive tariff lines be limited to one percent of a member's agricultural tariff lines. The EU is proposing that this limit be set at eight percent of a member's tariff lines. Currently supply managed goods represent approximately 5.4 percent of Canada's agricultural tariff lines

- 18. Meilke, Lariviere, and Martin (2001) show that a 50 percent reduction in current over-quota tariffs would not be sufficient to bring the landed price below the current domestic price.
- 19. The Hong Kong Declaration provides a few more specifics about how domestic support reduction could be envisioned.

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