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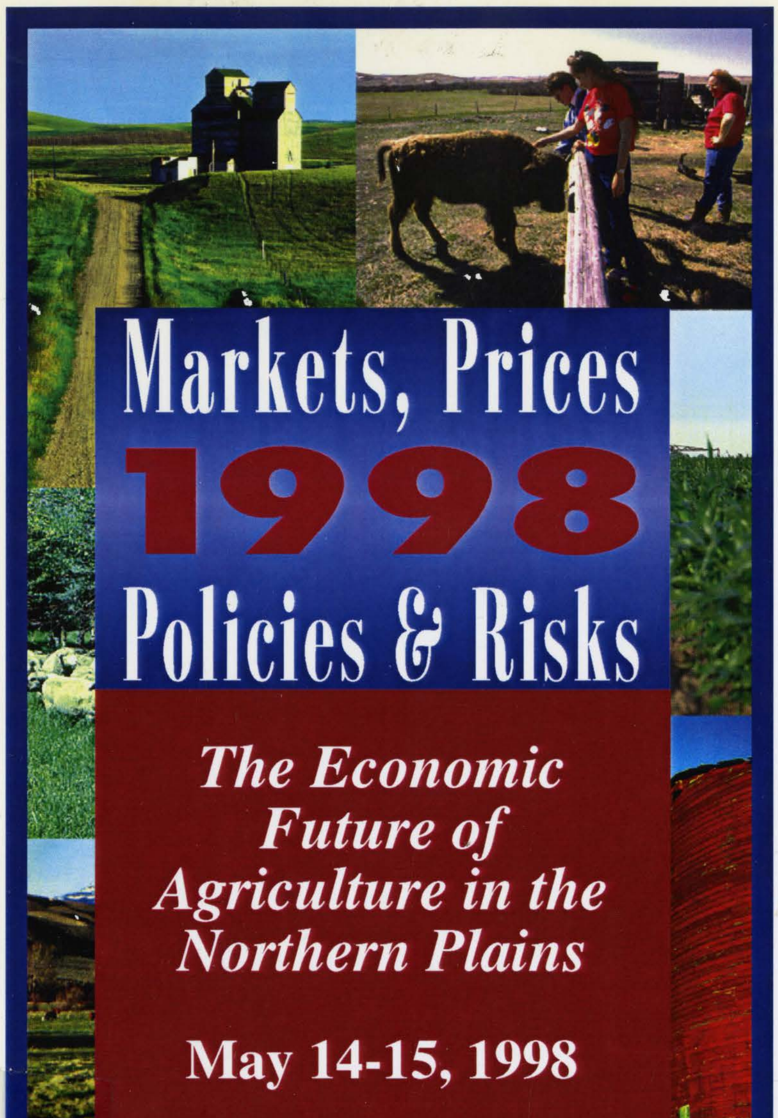

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CONFERENCE PROCEEDINGS

Objective
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Challenges and Consequences of International Trade Agreements for Wheat and Other Grains

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The United States has been a co-signatory to three major bilateral and multilateral trade agreements since 1988. The Canadian-United States Free Trade Agreement (CUSTA) was signed in 1988 and implementation began on January 1, 1989. The North American Free Trade Agreement (NAFTA) was signed in 1993 and implementation began on January 1, 1994. The General Agreement on Tariffs and Trade (GATT) was signed in 1994 and implementation began on January 1, 1995. Each of these agreements has affected the conditions under which trade in wheat and other grains takes place between the United States and other countries. In some cases, there have been implications for domestic programs. Provisions of the GATT also established the World Trade Organization (WTO). The WTO members are those countries that have signed the 1994 GATT agreement. In addition to being signatories of the GATT, which deals with trade in commodities, most WTO members have also signed trade agreements dealing with intellectual property rights, trade in services, and international investments.

International trade agreements address many aspects of trade-related domestic and international economic policies and typically involve several common objectives. The agricultural provisions of CUSTA, NAFTA and GATT are targeted toward six general objectives: (1) improving market access, (2) reducing export subsidies, (3) reducing internal supports, (4) establishing appropriate guidelines for sanitary and phytosanitary regulations, (5) establishing and improving the effectiveness of dispute resolution procedures, and (6) establishing safeguards to prevent trade liberalization from creating extreme economic hardship for a sector during transition periods (see Table 1).

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This discussion examines the provisions of each of the three trade agreements with respect to these six objectives for wheat and other grains, their effects on U.S. wheat producers and wheat trade, and some challenges that are likely to confront U.S. trade negotiators in future trade negotiations and trade disputes. The primary focus of this discussion is on market access, export subsidy, and internal support provisions.

Improved Market Access

Access by producers in other countries to any given country's market is often restricted by that country's trade policies. These import restrictions are generally classified as either nontariff barriers or tariff barriers. Nontariff barriers include import quotas or even product bans, import license arrangements, quarantine restrictions, domestic content requirements, and other restraints on imports such as product standard rules. Tariff barriers are import taxes levied on imported, but not on domestically produced, commodities.

Table 1. Major Objectives of the Agricultural Provisions of CUSTA, NAFTA, and GATT

Objective	Primary Intent
Improving market access	Abolition of nontariff barriers to trade, tariffication of trade barriers, reductions in tariff rates, guarantee of minimum access levels.
Reducing export subsidies	Reducing both the volume and the value of export subsidies on a commodity-to-commodity basis.
Reducing internal supports	Reducing domestic subsidies, particularly those that encourage additional domestic production.
Establishing appropriate guide-lines for sanitary and phytosanitary regulations	Preventing restrictions on trade based on spurious scientific claims that products are harmful to human health, animal health, or plant life.
Establishing and improving the effectiveness of dispute resolution procedures	Establishing clear and timely procedures that are "unbiased" and effective; that is, the procedures are seen to be fair and recommen-dations result in effective implementation of policy change.
Establishing agricultural safeguards	Countries may introduce short-term import control measures to prevent trade liberaliza-tion from creating extreme economic hard-ship for a sector during transition periods.

CUSTA, NAFTA, and GATT each include provisions that address market access. Under CUSTA, Canada and the United States agreed to remove all tariffs on all products and all import restrictions for most products by January 31, 1998. This goal has largely been accomplished for wheat and barley. Canadian and U.S. import tariffs on shipments of those commodities have been abolished. However, it should be noted that the operations of the Canadian Wheat Board (CWB) effectively limit the ability of individual U.S. farmers to ship unprocessed wheat or barley to Canada. The CWB's marketing monopoly on the sale of Canadian wheat and barley for domestic human consumption and for export effectively prohibits the development of a genuine continental market for those commodities. After hearings in 1994 before the U.S. International Trade Commission about large increases in Canadian wheat exports to the United States, the Canadian and U.S. governments signed a memorandum of understanding to restrict Canadian exports of wheat to the United States to no more than 1.5 million metric tons for the 1994/95 crop year. In addition, U.S. farm and commodity organizations and government agencies continue to closely monitor Canadian grain shipments into the United States. The U.S. government's rationale for careful surveillance of these trade patterns is that, as a Canadian government crown agency, the CWB has the ability to pursue trade-distorting export policies by practicing price discrimination in international markets.

Under NAFTA, the United States and Canada rolled forward all of the provisions of CUSTA. In addition, the United States and Mexico (and Mexico and Canada) have also agreed to remove tariff and nontariff import barriers over a fifteen-year implementation period. Prior to NAFTA, Mexico had restricted wheat import access through the use of import licenses and also applied a 10 percent tariff on durum wheat imports. Mexico also levied high tariffs and implemented quantity restrictions on barley via import licensing arrangements. All wheat and barley import license requirements were eliminated in 1994. Mexico agreed to apply a modest tariff on all wheat imports. This tariff will be eliminated in 2003. For barley, Mexico established an initial import quota of 120,000 metric tons per year, which is to increase by 5 percent per year until the quota is abolished in 2004. No tariffs are levied on under-quota imports. However, over-quota imports were initially subject to a tariff of the greater of either $212 per metric ton ($4.60 per bushel) or a tariff rate of 175 percent. This tariff rate is to be reduced to zero by 2004.

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Under GATT, some importers of grains, including Japan, South Korea, the Philippines, and Brazil, were required to increase their wheat and barley import quotas on which low or no tariffs are levied and to reduce tariffs on over-quota imports by at least 15 percent. However, in several countries the quotas for wheat and barley that are subject to low tariffs are very modest and tariff rates on over-quota imports were allowed to be very high at the beginning of the GATT implementation period. In addition, some major grain-importing countries, including Russia and China, are not currently signatories to the GATT or WTO members. The wheat and barley import access policies of these countries are currently not subject to GATT disciplines on improved market access. As a result, the 1994 GATT agreement did not accomplish a great deal in improving import access for grains but the little that has been accomplished does provide improved access to some markets for wheat and barley exporters.

The 1994 GATT also does not deal effectively with market access problems that arise from the operations of government-mandated agricultural import purchasing or state trading enterprises. State trading enterprises play important roles in determining import levels in several wheat-importing countries, including Japan, Indonesia, China, and Russia. A major challenge for the next round of GATT negotiations on agricultural trade issues—the proposed year 2000 GATT miniround—concerns the operations of these entities.

Reductions in Export Subsidies

Under CUSTA and NAFTA, export subsidies between the signatory countries were to be abolished for all commodities, including wheat and barley. However, the agreements addressed only explicit tax-funded export subsidies. The potential for the Canadian Wheat Board to subsidize grain sales in either the United States or Mexico through the practice of price discrimination was not considered. However, under CUSTA, Canada did agree to establish maximum prices for domestic sales to Canadians by the CWB by linking prices for domestic wheat sales to prices quoted on the Minneapolis Grain Exchange. This link has placed some limits on the CWB's ability to indirectly subsidize exports to the United States, Mexico, and other countries by limiting the CWB's ability to charge domestic consumers prices that are well above world market levels. Nevertheless, the fact that CUSTA and NAFTA (or for that matter, GATT) do not provide any discipline on the operations of the CWB is a continual source of irritation for both U.S. farmers and U.S. government policy negotiators.

The 1994 GATT also included important provisions for the reduction of agricultural export subsidies.

The 1994 GATT also included important provisions for the reduction of agricultural export subsidies. Under the GATT, both the United States and the European Union agreed to reduce annual volumes of wheat exports that received any subsidy by at least 21 percent relative to exports in the base period 1986–1988. They also agreed to reduce export subsidy expenditures by 36 percent. These GATT provisions have had important effects on both the United States and the European Union.

The Federal Agricultural Improvement and Reform Act (FAIR) passed by the U.S. Congress in 1996 was explicitly designed to authorize potential funding levels for the Export Enhancement Program over the period 1996 to 2003 that are consistent with GATT export subsidy obligations. The European Union (EU), which in most years relies on export subsidies to dispose of all wheat and barley production in excess of domestic requirements, was obligated to implement substantial reductions in wheat and barley exports. To accomplish this objective, under the 1992 reform of the EU's cereals and oilseeds program, the EU reduced guaranteed minimum prices (called intervention prices) for wheat and barley by about one-third over the three-year period 1993 through 1995. Also under the 1992 reform, the EU introduced a mandatory paid set-aside program to take land out of cereal and oilseed production.

Wheat and barley production in the EU declined quite sharply in 1995, largely because of severe drought in France, Germany, and the United Kingdom; wheat production recovered in 1996 and increased substantially in 1997. The European Commission, the agency responsible for developing EU policy options, has now become concerned that the EU will not be able to meet its GATT obligation to keep annual wheat export volumes below 79 percent of base-period levels. Thus, in May 1997, the Europe Commission developed recommendations to further reduce guaranteed minimum prices for wheat, but the EU Council of Ministers has not yet shown much interest in adopting those proposals.

Finally, the GATT, like CUSTA and NAFTA, has also not effectively addressed the problems associated with hidden export subsidies that arise when a country's agricultural exports are marketed by state trading enterprises such as the Canadian Wheat Board or the New Zealand Dairy

Board. These state trading enterprises deliberately practice price discrimination across international markets. The trade-distorting operations of such organizations have been targeted by both the United States and the European Union as an important issue in the proposed year 2000 GATT miniround.

Internal Measures of Support

Domestic policies that encourage increased domestic production through subsidies to agricultural producers are generally viewed as trade distorting. Trade distortion occurs either because the additional domestic production displaces imports (as has been the case with dairy products in the United States) or because the additional production is exported, adding to world supplies and reducing import prices.

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No explicit commitments were made under CUSTA by either the United States or Canada to reduce domestic subsidies. However, under Article 705 of the agreement, Canada agreed that when the levels of government support for wheat and barley in the United States become equal to or less than the levels of support for those grains in Canada, it would eliminate import licensing requirements. These conditions have now been satisfied according to the terms of the agreement. No explicit provisions relating to reductions in domestic wheat and barley support programs were included in NAFTA.

Under GATT, each developed country with relatively high levels of support for their domestic agricultural sectors agreed to reduce those levels of support by 20 percent from annual average levels during the 1986 to 1988 base period. Aggregate measures of support were estimated for each country. These aggregate measures included only government payments that could directly influence current production decisions. For example, payments under the price support loan rate program operated by the United States are included in U.S. aggregate measures of support for crops such as wheat and barley, but deficiency payments and market transition payments are not included in these measures of support. In addition, payments made to farmers under programs designed to improve the environment are excluded from a country's aggregate measure of support.

The GATT provisions requiring reductions in domestic support programs for farmers have been represented as an important component of the 1994 trade agreement. However, most major exporters and importers of agricultural products, including the United States, Canada, and the European Union, had met their GATT commitments to reduce government subsidies that could influence current production decisions prior to signing the agreement. The United States, responding to budgetary pressures, more than met its obligations to lower subsidies through the farm subsidy reductions that were implemented under the 1990 Food, Agriculture, Conservation, and Trade Act. The European Union met its obligations through the 1992 reforms of the Common Agricultural Policy and Canada implemented several major reductions in subsidies, including reductions in crop insurance subsidies and the abolition of grain transportation subsidies.

Other Provisions of Trade Agreements

Other aspects of the trade agreements are potentially important for grains. The sanitary and phytosanitary provisions of the NAFTA and the GATT provide potential safeguards against the arbitrary exclusion of U.S. wheat from important import markets on the basis of spurious scientific claims. The safeguard provisions included in NAFTA and GATT provide mechanisms for countries to prevent radical disruptions to domestic production conditions because of sudden surges in imports. Given the contentious nature of trade relations between Canada and the United States with respect to wheat imports, the trade dispute resolution provisions of both NAFTA and the GATT, which are clear and require more timely and more binding decisions by dispute resolution panels than in the past, may be useful in promoting more expedient and effective resolutions of those disputes.

Challenges for Future Trade Agreements

A persistent irritation in Canada-United States trade relations concerns the operations of the Canadian Wheat Board. The CWB is a state-constituted monopoly export marketing board whose day-to-day operations are cloaked in considerable secrecy and whose chief commissioner regularly claims that the CWB has the ability to price discriminate in world markets. There is fairly compelling evidence that the CWB regularly sells wheat and barley at below-cost prices in several export markets. However, in contrast to the export subsidy programs operated by the United States and the European Union, the potentially trade-distorting operations of the CWB are not currently subject to any substantive trade disciplines under CUSTA, NAFTA, or GATT. A useful step forward for world trade in wheat and barley would be to create provisions under a revised GATT that effectively monitor and lead to reductions in trade-distorting activities by state trading enterprises such as the CWB.

Market access is a particularly important issue for future trade negotiations. The provisions of the 1994 GATT required very little of many importing countries in the way of expanding access to their domestic markets to wheat producers in other countries. Several countries' import-restricting policies were simply deemed to be GATT compatible, even though they limited imports. One class of policies that falls into that category is price-band policies. These policies, used by countries such as Chile, Peru, and Venezuela, operate on the following basic principle: When world prices fall below prespecified target levels, tariffs are imposed on imports that raise the domestic cost of those imports to the target levels. When world prices rise, the tariffs are reduced, and if prices become high enough, the tariffs are eliminated. This type of complex trade-distorting tariff policy could usefully be addressed in the proposed year 2000 GATT miniround.

Finally, China and Russia, two major wheat-producing and wheat consuming countries, are not currently GATT signatories or WTO members. Both are interested in WTO membership. The entry of these countries into the WTO, and especially the terms on which they enter, will have important implications for the future of world grain markets.

About the Author

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