Recent Trade Outcomes and Implications for the World Dairy Industry

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Dairy Trade Policy Post-WTO

- Aftermath of the Uruguay Round
- Bilateral Trade Developments
- WTO's Doha Round of Trade Negotiations
- Prospects for the Future

Uruguay Round Targets

	Developed Ctys 1995-2000	Developing Ctys 1995-2004
TARIFFS : Average cut all products	- 36%	- 24%
TARIFFS: Minimum cut per product	- 15%	- 10%
DOMESTIC SUPPORT: Cuts in total AMS Support for the Sector	- 20%	- 13%
EXPORT SUBSIDIES: Reduction of Value of Subsidies (Outlays)	- 36%	- 24%
EXPORT SUBSIDIES: Reduction of Subsidized Quantities	- 21%	- 14%

WTO Secretariat

Aftermath of the Uruguay Round

- Agreement on Agriculture made a start in global reform process
- But loophole provisions and lack of rigid discipline have often allowed WTO Members to meet AOA requirements without reducing overall level of support.
- At end-2002, PSE for agriculture in Japan, EU and USA was nearly as high as in pre-"reform" 1986-88 period*

* abare

Post – UR Policy Mix in Major Players

- Most major players in the global dairy sector continue to maintain a complex policy mix in support of exports and limitation of imports.
- Major instruments employed:
  - Domestic Support: Income and price supports
  - Market Access: TRQs and Tariffs
  - Export Competition: Export subsidies

United States	Domestic Support				Trade Policies		
	Income Support		Price Support	Other	Market Access		Export Competition
Commodity	Direct & Counter-cyclical Paymts	Disaster Aid	Government Purchases	Marketing Orders	TRQs	Tariff	Export Subsidies
Milk	X	X		X			
Butter			X		X	X	X
Cheese			X		X	X	X
NFDM			X		X	X	X
Whole Milk Powder					X	X	

USDA - ERS

European Union	Domestic Support				Trade Policies		
	Price Support			Other	Market Access		Export Competition
Commodity	Supply Mgmt	Interven-tion	Other Storage Aid	Consumer Subsidies	TRQs	Tariffs	Export Subsidies
Milk	X			X			
Butter		X	X	X	X	X	X
Cheese			X		X	X	X
NFDM		X	X	X	X	X	X
Whole Milk Powder					X	X	X

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Canada	Domestic Support			Trade Policies		
	Income Support	Price Support		Market Access		Export Competition
Commodity	Disaster Aid	Supply Mgmt	Support Prices	TRQs	Tariffs	Export Subsidies
Milk	X	X	X			
Butter			X	X	X	X
Cheese				X	X	X
NFDM			X	X	X	X
Whole Milk Powder				X	X	

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Japan	Domestic Support			Trade Policies	
	Income Support	Price Support	Other	Market Access	
Commodity	Producer Payments	Production Quotas	Consumer Subsidies	TRQs	Tariffs
Milk	x*	x*	x		
Butter				x	x
Cheese				x	x
NFDM				x	x
Whole Milk Powder				x	x

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* Not for drinking milk

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Tariff & TRQ Impact on Dairy

- Tariff-only countries generally impose 15-60% range
- Out-of-quota TRQ tariff rates:
  - European Union -> 100%+
  - United States -> 60-70%
  - Canada -> 200%+
  - Mexico -> 125-130%

Substantial opportunities for liberalisation

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Other TRQ Issues

- Tariff Quota Access
  - Cheese access in EU <2% of consumption
  - Cheese access in USA <4% of consumption
  - But nearly ¼ of internationally-traded cheese moves through TRQ channels
- Quota "Underfill"
  - abare speculates underfill arises out of other NTMs like quota administration, STEs or other problems since the economic incentive to fill quota is strong.

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Big Distortions in Export Trade

- Percentages of global trade in dairy subsidized are significant:
  - 35% of full cream milk powder
  - 30% of skim milk powder
  - 27% of butter
- And the subsidies' impact is important:
  - Average subsidy applied to US Skim Milk Powder exports amounted to 44% of the average domestic market price.

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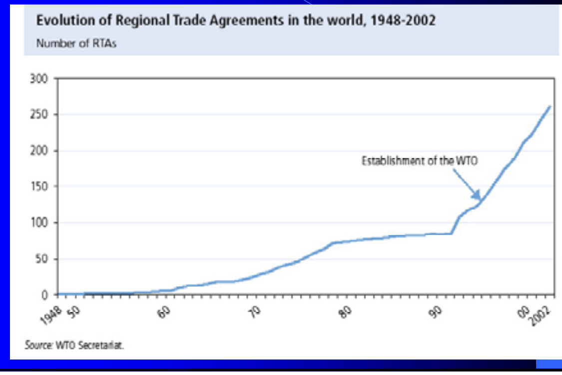
Bilateral Trade Developments - Global

- Pre-WTO (1995) > 124 PTAs notified to GATT
- Year-end 2003 > 250+ PTAs
- Currently 40-50 under active negotiation
- Of 148 WTO Members only 2 not now in a PTA



Dairy Trade Liberalization in PTAs

- While WTO negotiations have slowed, some progress is being made in liberalising restrictions on dairy trade through PTAs.
- Recent Examples:
  - Chile – USA Free Trade Agreement
  - Australia – Thailand CER FTA
  - Australia – USA Free Trade Agreement

Chile-USA FTA Dairy Provisions

- 12-year phase-out of TRQ and tariff restrictions for cheese, milk powder, butter, condensed milk and other dairy products.
- In-quota amounts expanded by 7% p.a. then unlimited in year 12
- Out-of-quota rates stay at base rate level through year 7 and then 5 equal stages of reduction to tariff elimination in year 12.

USTR

Australia – Thailand CER FTA

- Immediate elimination of Thai tariffs on infant formula, lactose, casein and milk albumin.
- Phased tariff elimination (to 2010) for butterfat, milkfood, yoghurt, dairy spreads & ice cream
- Phased tariff elimination (to 2020) for butter, cheese, other milk powders and concentrates
- Immediate additional quota for Australia of 2,200 tonnes for skim milk powder and 120 tonnes for liquid milk and cream – expanding by 17% at five-yearly intervals to 2025 when all tariffs and quotas will be eliminated.

DFAT

Australia – USA FTA

- Significant increases in in-quota volumes permitted in year one of the agreement (2005)
- Differentiated (by product) growth rates for in-quota TRQ volumes
- In-quota TRQ tariffs to zero on all products
- Out-of quota tariffs unchanged
- Tariffs on non-TRQ dairy products to be eliminated – most in equal annual instalments over 18 years

DFAT USTR

TRQ Growth Under AUSFTA

PRODUCT	Existing WTO Quota (Tonnes)	Additional FTA Quota in Year One (Tonnes)	Growth of Additional FAT Quota Post Y1
Milk / Cream / Ice Cream (litres)	0	7.5 million	6 %
Condensed Milk	92	3,000	6 %
Butter / Butterfat	0	1,500	3 %
Skim Milk Powder	600	100	3 %
Other Milk Powder, including WMD	57	4,000	4 %
Other Dairy	3,016	1,500	6 %
Cheddar Cheese	2,450	750	3 %
American – Type Cheese	1,000	500	3 %
Swiss Cheese	500	500	5 %
European – Type Cheese	0	2,000	5 %
NSPF (Other) Cheese	3,050	3,500	5 %
Goya	0	2,500	5%

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WTO Doha Round Objectives for Agriculture

2001 Ministerial Declaration (Para 13):

- “substantial improvements in market access”
- “reductions of, with a view to phasing out, all forms of export subsidies”
- “substantial reductions in trade-distorting domestic support”

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July 31, 2004 Framework Text

Builds on Doha Declaration & intervening developments:

- Failure of “Harbinson text” in March, 2003
- US-EU August 2003 text
- G-20 text (August 2003)
- Derbez text (produced at failed Cancun Ministerial)

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“substantial improvements in market access…”

- Progressivity through deeper cuts in higher tariffs (P.29)
- Substantial improvement through combinations of tariff quota commitments and tariff reductions applying to each product. (P.33)
- A base for tariff quota expansion will be established. (P.34)

BUT

- Members may designate a negotiated number of tariff lines to be treated as “sensitive” (P.31)

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

- Agreement to set modalities ensuring parallel elimination of all forms of export subsidies by a credible end date. (P.17)
- Modalities to provide for disciplining or elimination of export subsidies and range of measures with equivalent effect, such as certain export credit arrangements, trade-distorting practices of exporting STEs and certain forms of food aid. (P.18)

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“substantial reductions in trade-distorting domestic support…”

- Higher levels of support to be subject to deeper cuts (P.6)
- Overall commitment to include substantial reductions in Final Bound Total AMS and permitted de minimis levels (P.6)
- Sum of all trade-distorting support in year one not to exceed 80% of Final Bound Total AMS + Blue Box (P.7)
- Substantial reduction in Final Bound Total AMS with anti-circumvention caps on product-specific AMS (P.9)
- Green Box criteria reviewed to ensure no trade-distorting effects (P.16)

What would Doha success mean for dairy?

- 2001 abare study* found a 50% cut in volume of product sold with export subsidies would have raised 1999 world prices by 17-35 percent.
- The abare study* also found 20-35% rise in world prices for main dairy products if TRQ access was doubled and in- and out-of-quota tariffs cut by 50%
- USDA ERS 2003 study** (less realistic with full liberalisation scenario) found price rises of up to 60%

*Shaw / Love Project 1829. **Suchada Langley et al (USDA-ERS)

Prospects for Doha Round

- Framework agreements restored confidence and delegations are back to work
- External developments will slow progress until 2Q 2005
- Realistic objective: Agreement on modalities by Hong Kong Ministerial Conference (December 2005)
- End of negotiations? Late 2006…

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