



IIBE&L

Institute for International Business, Economics & Law  
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World Dairy Summit 2004

# 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%



## 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	



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



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





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



## 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*



## Other TRQ Issues

### ❖ Tariff Quota Access

- Cheese access in EU <2% of consumption
- Cheese access in USA <4% of consumption
- But nearly  $\frac{1}{4}$  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.



## 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.



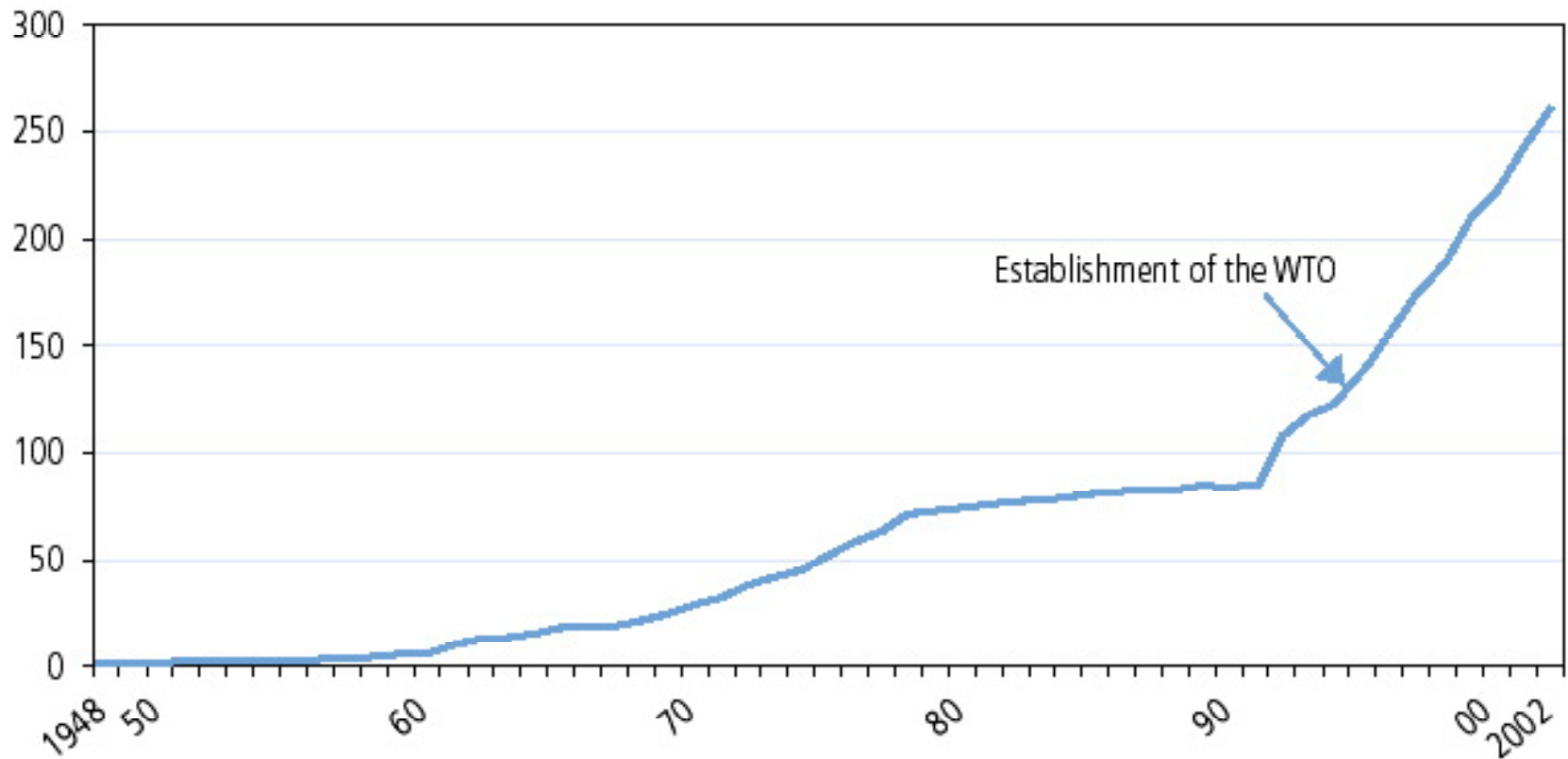
## Bilateral Trade Developments - Global

- ❖ 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



### Evolution of Regional Trade Agreements in the world, 1948-2002

Number of RTAs



Source: WTO Secretariat.



## 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.





## 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.



## 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



### 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%



# 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”



## 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)



## “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)



“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)



## “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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