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Summary of U.S. and EU Agricultural Proposals in the WTO

The U.S. and the European Union have made proposals in all three “pillars” of the WTO negotiations – export competition, market access and domestic support. The following provides a very brief overview of the proposals and a general assessment of how they compare.¹ The paper focuses on how the proposals will affect developed countries (mainly the U.S. and the EU). All proposals provide for differential treatment for developing countries.

Export competition:

The U.S. has proposed eliminating export subsidies within 5 years. The EU, which is a much bigger user of export subsidies, has agreed to eliminate export subsidies by a date to be decided. But the EU is seeking additional limits on export credits and food aid, which are key U.S. programs. The U.S. is willing to consider new disciplines in these areas but is not prepared to go as far as the EU wants. A key area of disagreement is whether food aid should be cash only, an EU proposal, which the U.S. rejects. Both sides agree that there should be strict new rules on state trading enterprises. The U.S. is also seeking the elimination of differential export taxes, whereas this is not an issue of major importance for the EU.

Market access:

The U.S. has proposed a formula that would cut high tariffs more than lower tariffs and would limit a country’s ability to exempt sensitive products to a small number (1% of a country’s agricultural tariff lines). The U.S. would also require significant tariff quota expansion to provide for meaningful market access for such sensitive products. The U.S. has few high tariffs in relation to other importing countries. In short, the U.S. would cut tariffs above 60% by between 85-90% and would put a cap on the highest tariffs at 75%. Depending on a country’s tariff structure, the average overall cut resulting from the U.S. plan would probably range between 65-75%.

The EU’s proposal would make the deepest cuts in tariffs that are currently 90% and higher, and would then only cut them by 60%. The EU is very concerned about having to make deep cuts in tariffs below 90% and is seeking to avoid that. The EU would allow 8% of tariff lines to be designated as sensitive and exempt them from the formula reduction. The average overall tariff cut resulting from the EU formula would be just 39%. The EU’s complicated formula for determining the increase tariff quotas for sensitive products would actually allow products with higher tariffs a lesser quota expansion – just the opposite of what was intended in the July 2004 Framework Agreement. The EU would also provide a tariff cap, but at 100%. Importantly, this modest EU market access proposal is also contingent on obtaining numerous and difficult concessions from other countries in areas both inside and outside the agricultural negotiations.

Domestic support:

The U.S. proposal would cut allowable trade-distorting supports under the so-called “amber box” by 60% for the U.S., 83% for both the EU and Japan, and 37% for all others, and would introduce product-specific limits based on 1999 – 2001. The current U.S. amber box limit is \$19.1 billion and covers such programs as marketing loans, LDP’s, countercyclical payments, and price

¹ This short summary does not attempt to describe in detail each of the proposals, since they are numerous and quite complicated.

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supports for dairy and sugar. The U.S. would cap the “blue box,” which covers certain production-limiting programs, at 2.5% of the value of agricultural production. The U.S. does not use the blue box currently, but new rules would allow U.S. countercyclical payments to be notified there – moving them out of the amber box and making it somewhat easier to undertake the proposed amber box reduction. The U.S. proposal would also reduce the so-called “*de minimis*” categories; these cover programs where expenditures are either non-product-specific and less than 5% of the value of total agricultural production, or product-specific and less than 5% of the value of production of the specific crop. The U.S. proposal would reduce both *de minimis* thresholds to 2.5%. The U.S. has notified relatively small programs, such as crop insurance, grazing fees, and irrigation subsidies under the non-product-specific *de minimis* category, and certain small programs for crops such as apples, honey, and potatoes in the product-specific category. The net effect of all of the cuts proposed by the U.S. would be an overall reduction in trade-distorting supports of 75% for EU, 53% for the U.S. and Japan, and 31% for all others.

The EU’s amber box proposal would require a 70% cut for the EU and “proportional but not equal reductions by others.” The EU proposes to maintain the blue box at the current 5% limit, but says it can show some flexibility in that regard. However, the EU is insisting that disciplines be placed on the use of the new blue box criteria to limit its use by the U.S. for the countercyclical program. The EU would cut both *de minimis* categories – neither of which it uses to any great extent – by at least a 65%. The EU has undertaken significant reforms in its domestic support system and as a result is probably able to reduce its amber box subsidies by at least 70%. The 83% reduction proposed for the EU by the U.S. will be more difficult.

Summary:

As deep as the reductions may be for the United States, in all three “pillars” they will be deeper for the EU. Because of recent reforms in its domestic farm programs, however (shifting them from trade-distorting price-based to non-trade-distorting income-based), the deep cuts in domestic supports and the elimination of export subsidies will not be as politically or economically difficult for the EU as one might imagine. On the other hand, for some products, the EU is convinced that deep reductions in tariffs or the expansion of tariff quotas will cause them major problems. It is for this reason that the WTO negotiations appear to be hung up on market access, with the EU, along with countries such as Japan, Korea and Switzerland, arguing against substantial market access improvements.

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Side-by-Side Comparison of the EU and U.S. Market Access Proposals

U.S.		European Union			
Tier	Cut	Developed		Developing	
		Tier	Cut	Tier	Cut
0-20%	55-65%	0-30%	35% (20-45%) _T	0-30%	25% (10-40%) _T
20-40%	65-75%	30-60%	45%	30-80%	30%
40-60%	75-85%	60-90%	50%	80-130%	35%
>60%	85-90%	>90%	60%	>130%	40%
Cap: 75%		Cap: 100% (but not for sensitive products)		Cap: 150%	
Sensitive products: limited to 1% of tariff lines		Sensitive products: limited to 8% of tariff lines. Minimum deviation of 1/3 and maximum deviation of 2/3 of the tariff cut for sensitive tariff lines Special Safeguard Clause maintained for beef, poultry, butter, fruits and vegetables, and sugar.			
TRQ expansion: No mention in Oct 10 paper, but proposed informally 50% reduction in out-of-quota duty and expansion of TRQ quantity by 7.5% of domestic consumption.		TRQ expansion: Quota increase linked to level of tariff reduction. Quota increase = [Normal tariff cut – applied cut] / [1+ AVE for that tariff line]. The result is multiplied by a Market Access Coefficient of 0.8 and then multiplied by current imports under the TRQ. The formula yields TRQ expansion obligations of between 5% and 32%, depending on the amount of deviation and the level of the out-of-quota tariff. Under this approach, the higher that tariff, the lower the TRQ expansion obligation. Moreover, the expansion percentage would be applied to <u>current imports</u> rather than maximum TRQ quantities. TRQs that have not filled in the past (due to high in-quota tariffs, poor TRQ administration or any other factor) would be increased by less than those that have been fully utilized.			
Developing countries: Thresholds – same as developed countries. Cuts – “slightly” less, longer phase in Cap – higher		Developing countries: See above.			
LDCs: No mention		LDCs: All developed countries should allow full duty-free access for all products (EBA)			