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Trade Policy Analyses

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This paper was presented at the meeting of the Cordell Hull Institute's Trade Policy Roundtable on "Taking a Framework Agreement on Agriculture Seriously," held in Washington, DC, on 28 May 2004.

The meeting convened at the offices of Hogan & Hartson, attorneys at law, in the Columbia Square building (pictured above), designed by I.M. Pei.

Reproduced here is the text of the paper presented by **Liam McCreery** (above).

About the Author

Liam McCreery is President of the Canadian Agri-Food Trade Alliance, Ottawa, Canada. He is also an active member of the Ontario Soybean Growers, serving as a member of the

A NOTE ON…

On Dealing with Unfair Export Competition

Liam McCreery

Currently, in Geneva, hopes are running high for progress this summer. Much of the optimism finally being experienced is the result of the decision by the European Union to negotiate an end date for the elimination of all export subsidies.

Like Mr de Camargo, I believe that an agreement to end export subsidies is fundamental to this round of negotiations. Export subsidies are the most blatant form of market interference. They have been prohibited for industrial products for more than 40 years. They are only permitted in agriculture and only for 25 of the WTO's richest member countries. It is understandable that the G-20 and other developing countries have made the elimination of export subsidies a requirement for further concessions.

The United States Department of Agriculture estimates that export subsidies account for about 13 percent of world price distortions. Their use has certainly had an impact on the Canadian agriculture and agri-food sector. For example:

1. Canada used to be one of the world's largest exporters of wheat flour. Export subsidies provided by the United States and the European Union gained substantial world market share for those two countries at Canada's expense. Now Canada is virtually shut out of offshore markets because of the continued use by the EU Union of export subsidies.

2. The European Union has granted subsidies to Sweden and Finland for the export of oats for over seven years. Sixty five percent of Sweden's exports of oats go to the United States -- this year with an average subsidy of over $CAN 30 per ton. This has had a direct impact on Canada's ability to serve that market. Since 2003 Swedish exports of oats have increased by 18 percent, exports from Finland have more than tripled, while Canada's exports have dropped 28 percent.

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Board of Directors since 1993, and as Chairman from 2000 to 2002.

Mr McCreery is also on the Board of Directors at Agricorp, Ontario, Canada. He is a member of the Guelph Food Technology Centre and of the Woodstock Hospital Board.

About the Meeting

Participants included representatives of farm organizations in Argentina, Australia, Brazil, Canada, New Zealand and the United States.

Others who spoke at the meeting were **Allen Johnson**, Chief Agriculture Negotiator in the Office of the U.S. Trade Representative; **Bob Stallman**, President of the American Farm Bureau Federation; **Thomas Lambie**, President of the Federated Farmers of New Zealand, Wellington; **Andrew Stoeckel**, Executive Director of the Centre for International Economics, Canberra; and **Pedro de Camargo**, former Secretary for Production and Trade, Brazilian Ministry of Agriculture.

Others who spoke were **Clayton Yeutter**, former U.S. Secretary of Agriculture; **Hugh Corbet**, President, Cordell Hull Institute, Washington, DC; **Robert L. Thompson**, Chairman of the International Food & Agriculture Trade Policy Council, Washington, DC; and **Eugenio Diaz-Bonilla**, an executive director (Argentina) of the Inter-American Development Bank, Washington, DC.

Trade Policy Roundtable

The Cordell Hull Institute's Trade Policy Roundtable is

3. The European Union in 2001-02 provided export subsidies of almost $CAN 650 million on exports of almost 500,000 tons of beef, shutting Canada out of growing markets in the Middle East. In the last year, Canada's efforts to recover from its BSE crisis by diversifying markets have been hindered by export subsidies. In particular, our potential access to Russia was totally lost because the European Union provided export subsidies of over $US 1,500 per ton on Italian beef.

The European Union is by far the greatest user of export subsidies. It accounts for 70 percent of all budgetary outlay commitments and 90 percent of actual expenditures on export subsidies. Until recently, the EU was resisting the calls from all other WTO members to totally eliminate export subsidies.

We were pleased to see recent confirmation by the Trade and Agriculture Commissioners of the European Union that it is now prepared to put its export subsidies on the negotiating table. This could be a critical step towards getting an agreement in agriculture. However, the movement by the EU doesn't come without conditions including:

- Equal disciplines on government supported export credits. Export credit can also confer substantial subsidies. The United States accounts for 55 percent of all of the government supported export credits, and according to the OECD it has the highest subsidy element – 6.6 cents per dollar of credit compared with 1.2 cents per dollar for other countries like Canada. The European Union, along with other countries, wants credit to be increasingly on commercial terms.

- Disciplines on the use of food aid to ensure that it isn't export subsidies in disguise. In the past, the use of food aid as a surplus disposal tool, and as a market development tool, has had negative effects on commercial markets. Again, the United States is the greatest user of food aid for surplus disposal.

- Substantial disciplines on export state-trading enterprises, including an end to price pooling, acquisition and export monopolies and government guarantees. It isn't any secret that this is aimed directly at the Canadian Wheat Board.

Even if these were not conditions for EU export subsidy elimination, they would have to be dealt with in the WTO. Elimination of export subsidies alone, without the implementation of rules to prevent them from being replaced by other damaging instruments, is not enough. With the elimination of overt export subsidies, must come the elimination of programs and practices that act as export subsidies.

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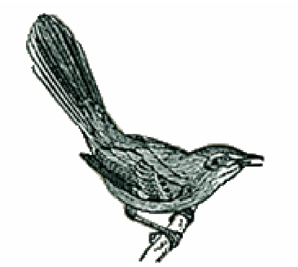

The **mockingbird** is the state bird of Tennessee. Cordell Hull represented a district of Tennessee in the Congress of the United States, and was elected a senator from there, before becoming U.S. Secretary of State (1933-44).

"The mockingbird is known for fighting for the protection of his home – falling, if need be, in its defense. Mockingbirds are not intimidated by animals larger than themselves and have been known to attack eagles"

– Diana Wells, *100 Birds and How They Got Their Names* (Chapel Hill, NC: Algonquin, 2002)

Trade Policy Analyses

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The Institute's purpose is to promote independent analysis and public discussion of issues in

Export subsidies and the subsidy components of export credit, food aid and in some cases the operations of exporting state trading enterprises, have the same effect as dumping:

- By depressing and destabilizing international market prices, the use of export subsidies by a small number of countries lowers farm incomes in other exporting countries.

- The use of export subsidies harms local production in food-importing countries, so desperately trying to build self-sufficiency. Subsidized imports displace local production leaving poor countries more vulnerable to production shortages resulting from adverse weather conditions or political interference.

- Moreover, many developing countries have large rural populations making their living from working the land. Export subsidies force them to compete with the richest treasuries, contributing to increased rural poverty, the swelling of overcrowded cities and the promotion of social unrest.

- Export subsidies stimulate over-production in the exporting country, potentially damaging fragile land resources that shouldn't be in crop production. Over-production results in a need to dispose of surplus, thus perpetuating the vicious cycle.

So I agree with Mr De Camargo. Export subsidies must be eliminated – the sooner the better. Countries must aggressively negotiate not just for total elimination in this round, but also for a meaningful down payment on elimination in the first years of implementation. This will not only have immediate and positive impacts but it will demonstrate a commitment by rich countries to international trade and to the Doha Development Agenda.

However, I must also make it clear that elimination export subsidies on its own will not satisfy the Doha mandate for agriculture. While export subsidy elimination might be the first step, a step that is required in order to move the negotiations forward, it is also critical that the other two pillars of the Doha mandate – substantial reductions in trade-distorting domestic support, and substantial increases in market access – are also achieved.

international economic relations.

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