WTO Compatibility of Agricultural Policy Change in North America

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Paper presented at the:

Policy Disputes Information Consortium's
Ninth Agricultural and Food Policy Information Workshop
"Farm Policy Developments and Tensions with NAFTA"
Montreal, Canada
April 23-26, 2003

Revised Draft: 6/16/03

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Introduction

The Uruguay Round Agreement on Agriculture (URAA) imposed significant constraints on domestic farm policy in the three North American countries, as it did in other parts of the developed world. This paper considers the nature of those constraints, the compatibility of recent policy changes with the letter and the spirit of the URAA, and the position taken by the three North American countries in the agricultural component of the current Doha round of negotiations in the World Trade Organisation (WTO). Some tentative conclusions are reached on the impact that agreement on a package similar to that contained in the recent Harbinson draft text would have on the agricultural policies of Canada, Mexico and the US.

The Nature of the WTO Constraints

The Uruguay Round Agreement on Agriculture introduced in effect the first multilateral agricultural policy. Though not defining what domestic farm policy should be in the WTO member countries it provided a comprehensive framework for the development of such policies. It prohibited some instruments and encouraged others. It limited the extent of protection that could be provided at the border and moved countries toward

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compatibility and convergence in the management of their agricultural markets. Though the shape of the agreement and the flexibility it contained were in large part a reflection of the existing farm policies in the leading economies, several countries have had to make substantial adjustments. Over time the constraining influence has become more noticeable, and a conclusion to the Doha round will further tighten the restrictions imposed by the URAA. The North American countries are no exception to this rule.

Overview of WTO Constraints on North American Farm Policy

Canada was among those countries whose domestic policies were most significantly impacted by the URAA. Certainly, policy had already been moving in the direction of replacing support for commodities with more targeted income assistance, reducing subsidies to grain transportation, and even relaxing some rigidities in the provincial supply control systems. First the Canada-US Free Trade Agreement and then the North American Free Trade Agreement had imposed restrictions on the way in which Canadian agricultural policy evolved, but had avoided any direct confrontation with that policy. It was only in the context of the URAA that major shifts in policy could be effected. Sufficient potential benefits were at stake in the broader negotiations to make it possible to over-ride domestic political interests. In particular, the conversion of quantitative import restrictions, deemed necessary by the supply-controlled sectors to regulate the domestic market, and apparently sheltered from outside challenge by Article XI of the GATT, was possible in the broader context of the Uruguay Round. And the transportation subsidies to grain moving to Eastern Canada as well as to Pacific ports could also only be eliminated in the context of the WTO package.

In the case of Mexico, reform had come in advance of the URAA commitments, first with the unilateral reforms of the mid-1980s and the joining of the GATT and then with the passage of the NAFTA. As a consequence, the direct implications for Mexican farm policy of the WTO accord are less obvious: domestic policy was moving at a faster rate that required by the WTO. But even in this case the WTO constraints have influenced the choice of policy instruments over time, and Mexico has benefited from the rules governing plant and animal health regulations enshrined in the SPS Agreement. For Mexico, unlike Canada, the regional trade agreement provides the most effective constraint on domestic policy. The WTO provides a useful multilateral framework for the

US-Mexican bilateral to operate.[1]

The impact of the WTO URAA on US policy is perhaps the most difficult to define. On the one hand, the Blair House agreement with the EU was intended in large part to shelter existing US policy instruments from the influence of the WTO rules. The Blue Box and the Peace Clause were agreed as a way of ensuring that constraints on domestic policy did not unduly force policy changes.[2] On the other hand, the US gave up the use of Section 22 quotas and agreed to tariffication in sensitive meat and dairy sectors. In addition, the restraints on export subsidies had a potential impact, though high prices in the first few years of the agreement made such restraints less binding.

The 1996 FAIR Act in essence removed many of the constraints, at least temporarily, by moving much of the direct payments from the Blue to the Green Box. The WTO constraints on domestic support essentially were removed. However, this was soon offset by the emergency payments of 1998-2001, that increased payments notified under the amber box. The WTO constraints became even more of an issue in the debate over the 2002 Farm Bill. Passage of that Bill raised the question as to whether the US might indeed exceed its "amber box" constraints in the near future. Firmer commodity prices have delayed such an eventuality, but the margin for additional coupled payments is now much smaller, and guarantees that the issue of compatibility is likely to be around for some time.

Quantitative constraints from the WTO schedules

WTO constraints on policy are of a quantitative as well as a qualitative kind, built in to schedules agreed in the Uruguay Round. Quantitative constraints are obligations entered into by the countries concerned and can be monitored: violations can be subject to the dispute settlement regime, and thus entail considerable costs in retaliation. The monitoring is implemented through the Agriculture Committee of the WTO, and is based

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[1] NAFTA, it will be recalled, combines a trilateral set of principles with three contractual bilateral agreements. Of these, the US-Mexico agreement is the most ambitious and liberal. As a consequence, Mexico-US trade is dominated by this bilateral rather than the WTO.

[2] During the Uruguay Round the mantra had been that farm policy was made in Washington, not Geneva.

on “notifications” by members. In North America, as in other OECD countries, there has been essentially full compliance with the quantitative constraints built in to the schedules agreed in the UR. Though notifications have been somewhat slow, impairing the usefulness of the Committee as a place for timely challenges and the exchange of information, the evidence is that countries have taken their obligations seriously.[3]

The constraints on policies related to market access are relatively easily monitored. Tariff schedules are the most transparent means of protection and it is rare that countries violate their obligations in this regard.[4] Tariff rate quotas and the use of the special safeguard mechanism are somewhat more difficult to track, but have not been the subject of great controversy. Table 1 shows the tariff rate quotas that the three NAFTA countries agreed to in their WTO schedules. Canada converted quotas on dairy products and poultry into tariffs, and set relatively high tariffs for these product groups. The TRQs have generally been filled at a relatively high rate, reflecting the low within-quota tariffs that Canada has employed.[5] The in-quota volumes scheduled under the WTO Agreement on Agriculture are however in many cases small. Moreover, for certain dairy products, such as skim milk powder, there is no in-quota access commitment at all: Canada specified in-quota and out-of-quota rates of duty but no quota volumes (WTO Canada TPR, 2003).

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[3] A more effective if less formal monitoring process is carried out for the OECD countries through the annual Monitoring and Evaluation process. Indeed one could argue that the OECD has remained the preferred location for debate about agricultural policy changes.

[4] Annex Tables A and B show some US, Canadian and Mexican tariffs for selected products, both raw materials and more processed products. Some other countries are included to give a point of comparison.

[5] The Trade Policy Review, carried out by the WTO Secretariat, reports that “Tariff quotas are administered in a variety of methods, such as first-come, first-served at the border, licenses on demand, and on the basis of the past performance of the applicants, their market share or on the basis of equal share. Some are restricted to downstream users (e.g. dry whey, concentrated or condensed milk). Hatching eggs and chicks are allocated to federally registered hatcheries on the basis of the number of chicks hatched by them in a 12-month period preceding the allocation. The entire tariff quota for butter is allocated to the Canadian Dairy Commission.” (Canada TPR, 2003)

Table 1: TRQ commitments for the NAFTA countries in the WTO schedules

	Number of TRQs	Number that are country-specific	Fill rate in 1995	Fill rate in 1996	Fill rate in 1997	Fill rate in 1998	Fill rate in 1999
Canada	21	5	78	85	82	85	n.a.
Mexico	11	9	80	n.a.	n.a.	n.a.	n.a.
US	54	33	45	53	55	66	73

Source: WTO (G/AG/NG/S/7) and ERS website.

As part of its accession to GATT in 1986, Mexico bound its entire tariff schedule at a maximum 50 percent *ad valorem* rate. In the Uruguay Round, Mexico agreed to reduce bound rates from the general base rate of 50 percent to 35 percent *ad valorem* for non-agricultural products, with certain exceptions. As a result, Mexican tariffs on agriculture are somewhat higher than for non-agricultural goods, though the difference is less marked than for Canada and the US.

As in the case of Canada, Mexico converted many non-tariff trade barriers to tariffs at a high level in the Uruguay Round. Mexico included tariff rate quotas on such products as poultry meat, animal fats, milk, cheese, beans, potatoes, coffee, wheat, barley and maize, as well as on products with a high sugar content (WTO, Mexico TPR). A number of commodities (293 tariff items) were designated by Mexico as being subject to the Special Safeguard under the URAA, but these provisions have not yet been used (WTO, G/AG/NG/S/7).

The United States also converted many quantitative trade restrictions, in particular the quotas that had been authorized by Section 22 as mentioned above. The Meat Import Laws that had given rise to "voluntary" export restraints on meat from New Zealand and Australia also were modified, and tariffs replaced these import arrangements. The US has resorted to the Special Safeguard provisions of the WTO Agreement on Agriculture on several of the products that underwent tariffication. In 1999, under the SSG, price-based duties were assessed on certain products (including fresh and frozen beef, sweetened milk, milk fats and oils, milk based drinks, cheeses, sugar, and peanuts); no volume-based actions were taken during that period.[6] No SSG measures were applied in 2000 (WTO, US TPR, 2001).

Somewhat less transparent, but nevertheless monitorable are the constraints on export competition, in particular the quantitative limits to export subsidies. Both the expenditure on export subsidies and the volume of goods that could be exported with the aid of those subsidies were limited in the schedules. Table 2 shows the constraints on export competition for the NAFTA countries.

Table 2: Export subsidy commitments and notifications, NAFTA countries

	Number of Export subsidy commitments	Expenditure on export subsidies notified, ($US million)				
		1995	1996	1997	1998	1999
Canada	11	38	4	0	0	0
Mexico	5	0	0	0	0	0
US	13	25.6	121.5	112.2	146.7	80.2

Source: WTO (G/AG/NG/S/5) and ERS Website

Export subsidies are allowed, under the schedules agreed by Canada in the WTO, for 11 product groups comprising cereals, oilseeds, dairy products, and vegetables, and these were made subject to reduction commitments. Canada's latest WTO export subsidy notification was made in March 2001 for the year 1999/00.[7] As in the three previous years, Canada notified no subsidies for any of the scheduled products, with the exception of dairy products.

The issue of whether Canada provides dairy export subsidies in excess of commitment levels has been under legal challenge at the WTO since 1997 (WTO, Canada TPR 2003).

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[6] WTO document G/AG/N/USA/33 of 15 September 2000.

[7] WTO document G/AG/N/CAN/41, 14 March 2001.

A WTO panel examined the pricing system whereby the Canadian Dairy Commission delivered permits to provincial marketing boards for the sale of milk to dairy processors and exporters at prices below the levels otherwise available in Canada. The Panel found in 1999 that this system constituted an export subsidy and, thus, concluded that dairy exports provided through Special Milk Classes 5(d) and (e) were subject to Canada's export subsidy reduction commitments.[8] Canada subsequently changed its policy, but that too was found to constitute an export subsidy.[9] Currently, the issue of the changes needed in Canadian dairy policy to bring it into conformity with the WTO is still on the policy agenda.

According to the WTO Secretariat, Mexico notified that in 1997 and 1998 export subsidies were granted to sugar and wheat. In 1997, some 241,000 tonnes of sugar were subsidized, representing an outlay of US$40.9 million (commitment levels stood at 1.446 million tonnes and US$525 million); while in 1998 some 224,000 tonnes of wheat were subsidized, representing an outlay of US$5 million (commitment levels were 374,000 tonnes and US$10.9 million). No other export subsidies for agricultural products have been notified to the WTO (Mexico TPR, 2002).

The US notified 13 export subsidy commitments and spending on such subsidies climbed somewhat as prices on world markets rose in 1995-97, but jumped in 1997 to $147 million in 1998 before falling back to $15 million by 2000. The products that were favored by subsidies included coarse grains and wheat, oilseeds, milk, beef, pork and poultry, as well as fruits and vegetables on an occasional basis. But export subsidies are no longer a major aspect of US policy, and the economic impact of the residual spending on such subsidies has not been extensive. However, there are other export enhancement devices that have caused some concern among trade partners: export credits and guarantees are given frequently to sellers of US commodities to underwrite the

[8] WTO documents WT/DS103/R, 17 May 1999 and WT/DS103/AB/R, 13 October 1999.

[9] To comply with the recommendations of the Panel, the Special Milk Class 5(e) was eliminated and exports under 5(d) were restricted to Canada's export subsidy commitment levels (WTO, Canada TPR 2003). In addition, Canada introduced a new category of milk for export processing known as commercial export milk (CEM).

commercial risks that would otherwise inhibit exports.

Much more arcane is the process of monitoring domestic support. Countries are required to notify several categories of domestic support, including that which is in the Green Box, the Blue Box, that which qualifies under Article 6.2 (special and differential treatment for developing countries) as well as that which is subject to reduction commitments (AMS, or Amber Box).[10] Table 3 shows the constraints on domestic support and the notifications made by the NAFTA countries to the WTO since the application of the URAA.

Table 3: Domestic Support commitments and notifications, NAFTA countries

Total AMS (percent utilized)						
	Commitment in year 2000	1995	1996	1997	1998	1999
Canada	Can$4,300	15.0	12.3	10.8	16.9	n.a.
Mexico	26,721 mill pesos	4.8	3.2	11.5	16.9	n.a.
US	US$19.1	26.9	26.5	29.0	50.2	84.7

Source: WTO (G/AG/NG/S/12) and ERS website

Canada agreed in the Uruguay Round to reduce its Aggregate Measure of Support (AMS) from Can$5.2 billion in 1995 to Can$4.3 billion in 2000. Actual support notified to the WTO in 1999 included Can$1.1 billion of *de minimis* support, Can$0.9 billion of AMS support, and Can$1.75 billion of Green Box support. Amber box programs include such schemes as Canada's "safety net" programmes include the Net Income Stabilization Account (NISA), crop insurance and the income stabilization programmes at the provincial level. (WTO Canada TPR, 2003). Approximately Can$2.5 billion was paid out as income support and stabilization by the Federal Government and the provinces in 2001/02. The dairy subsidy (Can$28 million in gross payments in 2001/02), which is product-specific, was eliminated in February 2002. Payments under crop insurance

[10] Total Domestic Support is made up of Green Box (minimally trade distorting), Blue Box (subject to supply control), Article 6.2 support (special category for developing countries) and Amber Box (price or input related). Amber box support in turn includes the AMS, which is subject to reduction, and the *de minimis* support that is not. The AMS is further divided into crop-specific and non-crop-specific payments.

programmes (Can$451 million in 2001/02) have been notified as non-product-specific amber support. Ad hoc and cost reduction expenditures (e.g. artificial insemination, land rental assistance) are also generally notified as non-product-specific amber support (WTO Canada TPR, 2003}.

The U.S. constraint on the total Aggregate Measurement of Support (AMS) for 2000 was about US$19 billion. In the period October 1998–September 1999, the US notified a total AMS of US$10.4 billion, up from US$6.2 billion the previous year; and *de minimis* payments amounting to US$4.7 billion, up from US$811 million. Notified "green box" support, which is not limited under the WTO in terms of budgetary outlays, were US$49 billion, down from US$51 billion in 1997.[11] The sharp increase in AMS outlays has been mainly the result of emergency market loss payments (ELPs) and ad hoc disaster assistance.

In addition, the US has provision for programmes that provide a fixed income floor for producers of eligible crops (WTO US TPR, 2001). These programmes take two forms: commodity loan programmes and the more recent marketing loan programmes. The loan rate provides incentives to continue planting when prices fall, through the compensation provided by the marketing loan programme. For this reason, the United States has notified these loan programmes as in the "amber box" under the WTO Agreement on Agriculture. Marketing loans can link the economic incentive for production decisions to a government-determined price, thus introducing market distortions.

In addition to the "loan", support programmes, a number of other federal government programmes are in place to reduce the financial consequences of uncertainties in weather, yields, prices, government policies, global markets and other factors (WTO, US TPR, 2001).[12] These insurance programmes have been notified to the WTO as amber box, under *de minimis* provisions. Crop insurance is delivered through the private sector, with premiums subsidized by the Government at a cost of about US$1.5 billion per year.

[11] WTO document G/AG/N/USA/36, 22 June 2001.

[12] Crop insurance and revenue insurance aim to protect farmers against price declines. Premiums for catastrophic production losses are fully paid for by the Government, which also partly subsidizes coverage against non-catastrophic events such as price declines.

Almost US$30 billion in risk protection is provided on about 190 million acres, which is about 70% of the country's insurable acreage. The historical average indemnity payout is US$1.40 for every dollar in premium. This subsidization increases revenue and reduces its variance, and thus encourages planting. According to one estimate, crop insurance subsidies have contributed to an estimated 900 thousand acre increase in planted area, with wheat and cotton showing the largest percentage gains.[13]

Crop insurance programmes underwent reform during the second half of the 1990s, notably following the falls in farm incomes after 1997. In particular, the Agricultural Risk Protection Act, a US$15.3 billion package for fiscal years 2001 to 2005, expanded crop insurance funding by more than 80%. The crop insurance schemes pose some challenge to the WTO, as they are sometimes in conflict with the definitions of allowable subsidies under the green box.

Recent Policy Changes in North America

If compliance with WTO constraints has been generally satisfactory over the period of application of the WTO rules, what can one say about recent policy changes? Do they also comply with the letter and the spirit of the URAA? Or is there a movement away from the reform path outlined in the Agreement?

Perhaps because the changes to Canadian policy that were brought about by the URAA were in a direction that Canada would have gone eventually, the recent policy changes are less impacted by WTO constraints. The one sector where Canada is having some difficulty in designing a policy that is compatible with the WTO is that of dairy. A WTO panel ruled in a case brought by New Zealand and the US that the domestic rules for management of the milk market (and hence the high price for domestic milk) in itself gave export processors an unfair edge in world markets.

In the case of Mexico, WTO compatibility has not been a problem. Reforms started before and have continued since the Uruguay Round. Mexico cannot afford to subsidize exports, and has opened up import markets more rapidly than required by either the WTO

[13] Economic Research Service (2000), p. 11.

or the NAFTA. Recent changes in Mexican policy are more likely to challenge NAFTA rules than those of the WTO.

The most significant policy change in North America in recent years was the passage of the 1996 Farm Bill, the Federal Agriculture Improvement and Reform (FAIR) Act. In WTO terms, the FAIR Act meant that the US did not need to use the Blue Box to shelter the direct payments. These payments were no longer based on acreage planted, and could therefore be considered firmly in the Green Box. In the light of these changes one can see the 2002 Farm Bill (the Farm Security and Rural Investment Act) as a partial return to policies that the WTO is attempting to discipline. Though the new aspects of US policy have not yet been notified much less challenged by trading partners, they raise some serious questions about the direction of change.

North American Proposals for the Doha Round

Another way to shed light on the WTO compatibility of farm policy change in North America is to look at the proposals that the three countries have made in the context of the current agricultural talks in the WTO. Countries will frame these proposals with their effect on domestic policies as well as the impact on the agricultural policies of trading partners. Each country expresses its view of a desirable trade system through its proposals for reform, but also exposes its own political constraints.

Canadian proposals

Canada is a member of the Cairns Group, and thus has been a major player in the push toward more liberal trade policies. As part of the Cairns Group, Canada has sought the complete elimination of all forms of agricultural export subsidies, and has called for tighter disciplines on export restrictions and taxes.[14] However, the Canadian and the Cairns Group positions on some aspects of farm trade are not always coincident. To be sure that its own viewpoint is adequately represented, Canada has been submitting its own proposals on certain issues.[15] Canada submitted a paper containing specific

[14] WTO document G/AG/NG/W/93, 21 December 2000.

[15] In the Uruguay Round, the Canadian government submitted a paper at the same meeting as did the Cairns Group, even though it was a leading member of the Group. The reason given at that

proposals for market access in June 2000 (G/AG/NG/W/12). Canada's market access proposal seeks "real and substantial market access improvements for all agricultural and food products". The proposal constituted a comprehensive and ambitious approach that encompasses tariffs, tariff quotas and their administration. Later that year the Canadian government presented to the Committee a proposal on domestic support (G/AG/NG/W/92). In addition, Canada presented a "non-paper" to the informal session on sectoral initiatives.

Canada has been pressing two issues that make its proposal stand out from that of other Cairns Group countries. The first is that all support, including that in the Green Box, be disciplined. Pressure from farm groups that suspected that farmers in other countries were getting generous "non-distorting" payments sheltered in the green box was a major reason for the government to take this position. Unfortunately, it undermines the logic of the green box as being a preferred way of satisfying the political needs of countries to support farm incomes. It reduces the incentive to switch from more to less trade distorting policy instruments. Other countries have not taken up the proposal. The other subject that is the use of zero-for-zero sectoral deals, which would eliminate tariffs and exports subsidies for chosen sectors (oilseeds and pigmeat are often given as examples). However, this idea has not been taken up by the Cairns Groups or indeed is it explicit in the Harbinson proposals discussed below.

Mexican proposals

The Mexican position on the WTO negotiations was presented in a paper to the Agriculture Committee in March 2001 (G/AG/NG/W/138). In character the proposal is relatively close to that of the Cairns Group, emphasizing the need to eliminate export subsidies and discipline export credits. But Mexico has not joined the exporters group, and harbors some sympathies for the plight of developing importing countries. The proposal contains a suggestion that the Peace Clause be continued with respect to developing country imports, though why that should be beneficial to Mexico is not clear. On market access, Mexico is ambivalent, tying such reductions in tariffs to progress in

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time was that Canada was not sure that the Cairns Group would reach a consensus in time.

reducing export subsidies and domestic support. But in some respects, the proposal is consistent with those of the US and Canada, expressing concern about the spread of GIs and the challenges to the SPS Agreement. The proposal also is wary about the use of "non-trade-concerns" as backdoor protection for producers.

US proposals

The US was the first country to present a comprehensive proposal to the Committee, in June 2000 (G/AG/NG/W/15). At the same meeting it tabled a supplementary paper on domestic support (G/AG/NG/W/16), and later one on TRQs (G/AG/NG/W/58). In addition, the US contributed a series of "non-papers" to the informal sessions of the negotiating committee exploring the issues of export credits, state trading enterprises, export restrictions and food security.

In the second stage of the WTO agriculture negotiations, the United States submitted a comprehensive proposal for long-term agricultural trade reform.[16] Improved market access would be achieved by reducing tariffs by means of a formula (a Swiss Formula) that would reduce high tariffs to about 25 percent have less of an impact on the lower tariffs. The proposal also called for expanding tariff quotas and removing the Special Safeguard (SSG) of the Agricultural Agreement. The eventual aim would be to eliminate tariffs altogether. In common with Canada's position, as well as Mexico and the large majority of WTO members, the US suggested the complete elimination of export subsidies, and promised to consider modifications to export credit and food aid. But, like the EU and in contrast to Canada, the US proposed that single-desk sellers of agricultural goods, such as the Canadian Wheat Board, be subject to competition from alternative (private) export firms.

It was in the area of domestic support that the US proposal was more innovative and more controversial. The proposal was that trade-distorting domestic support (amber box policies) would be reduced to a level fixed in proportion to the value of agricultural production. Blue box policies would also be disciplined, though green box support would be untouched. The US suggested no change in the *de minimis* allowance, to the

[16] WTO document G/AG/NG/W/15, 23 June 2000.

disappointment of the EU that considered that the US was gaining an unfair advantage by being able to grant up to 10 percent of its value of output (5 percent non-product specific and 5 percent product specific) without constraints.

Impact of Harbinson's Proposal on North American Farm Policy

The negotiating proposals discussed above are evidence of the desired direction of trade rules as seen by each of the three countries. But the negotiators have tried to move beyond the consideration of the proposals of individual countries and consider a single proposal. The Chairman of the Agriculture Committee, Stuart Harbinson, was asked to prepare a draft of the "modalities" that could be used to form the basis for an agreement. The "Harbinson draft" was presented to delegates for discussion at the February meeting of the Agriculture Committee, and revised for the March meeting. [17] The discussion below relates to the revised Harbinson draft of 18 March 2003 (TN/AG/W/1/Rev.1).[18]

The Harbinson proposal takes a relatively bold approach to the need for further liberalization, while giving some support to those that wish to see a more modest outcome. This section looks in brief at the impact that the adoption of the Harbinson text would have on the agricultural policy pressures in North America. Of course, negotiators could choose to abandon the Harbinson approach, but in negotiations such as these the first unified document has an good chance to form the basis for the eventual agreement.

The suggested tariff reduction schedules in the Harbinson draft are reproduced in Tables 4 and 5. If agreed, there would be a major reduction in the high tariffs in the Canadian and US schedules, with somewhat less impact on those imposed by Mexico. However, as preferential tariff under NAFTA are much lower (and in most cases are zero between Mexico and the US), the impact on trade may not be so great as the percentage reductions would suggest. The preference margins themselves will be reduced, of course, which could allow some third-country agricultural produce to enter. Notable among the

[17] The Agriculture Committee meets in Special Session as the negotiating body for agriculture, in addition to performing its regular monitoring functions.

[18] The numbers used in the tables are enclosed in square brackets (i.e. suggestions that will be subject to negotiation) in the Harbinson draft.

suggestions for developing countries is the designation of a few commodities as being of special significance in domestic production and development: countries may designate these "special products" and reduce the height of their tariff protection less rapidly.

Table 4: Suggested tariff reduction schedules for developed countries

Existing tariff	Average reduction (%)	Minimum reduction (%)	Period (years)
Above 90 percent	60	40	5
Between 15 and 90 percent	50	35	5
Less than 15 percent	40	25	5

Source: Harbinson draft (revised)

Table 5: Suggested tariff reduction schedules for developing countries

Existing tariff	Average reduction (%)	Minimum reduction (%)	Period (years)
Above 120 percent	40	30	10
Between 60 and 120 percent	35	25	10
Between 20 and 60 percent	30	20	10
Less than 20 percent	25	15	10
"SP" items	10	5	10

Source: Harbinson draft (revised)

Domestic support reductions suggested by the Harbinson draft are shown in Table 6. Reductions of 60 percent in the allowable trade-distorting domestic support (the AMS) would represent a major constraint on the US, if the 2003 Farm Bill is still in place when the Round ends. The reduction in support however has to be seen in conjunction with other aspects of a possible package. The Harbinson proposal makes no attempt to reduce high levels of domestic support at a higher rate than that for lower support. And three different ways of dealing with the Blue Box are suggested, each designed to eliminate over time the distinction between the blue and amber boxes. Harbinson suggests no change in the Green Box criteria, except to add the compensation payments for animal welfare regulations to those currently allowed in the green box for environmental payments, and to ease somewhat the categories applying to developing countries.

Table 6: Suggested reduction for domestic support (AMS)

	Reduction (%)	Period (years)
Developed Countries	60	5
Developing Countries	40	10

Source: Harbinson draft (revised)

On export subsidies, the Harbinson draft suggested further reductions, but with some flexibility, as shown in Table 7. But as the North American countries do not use export subsidies extensively, the reductions are not likely to be binding.[19] But Harbinson picks up on the US (and EU) notion of requiring private sector exporters to compete with current "single-desk sellers" such as the CWB, and also responds to the EU proposal for disciplining export credits. So both the US and Canada would have to modify their programs if these proposals were to be adopted.

Table 7: Suggested reduction schedule for export subsidies (expenditure and volume)

	Developed Countries	Developing Countries
Products accounting for 50 percent of bound budget outlay	30 % each year to zero in 6th year	25 % each year to zero in 11th year
The remaining export subsidies	25 % each year to zero in 11th year	20 % each year to zero in 13th year

Source: Harbinson draft (revised)

Applying these Harbinson suggestions to the current WTO constraints gives an indication of some possible issues of WTO compatibility that might arise in the future in these three countries.

Acceptability of the Harbinson Proposals in North America

Canada and the US are both members of the informal "quad" group that has traditionally

[19] The US still subsidizes dairy product exports, through the DEIP.

provided political impetus to trade discussions. This gives these countries a particularly responsible role in the leadership of the Doha Round. But considerable differences remain between the Canadian and the US positions that will make it difficult for them to coalesce on the Harbinson Draft. First, the US would prefer more significant cuts in the high tariffs that protect the supply-control sectors (dairy and poultry). Second, the issue of requiring private sector traders to export Canadian wheat is likely to be politically difficult for Canada to accept. Similarly, Canada's concerns about the fact that the US domestic support levels are less vulnerable to further reductions are likely to keep it from supporting the US in this area. On the other hand, their concern to keep the role of science in health and safety regulations, their objections to European plans to apply "geographical indications" to a range of food products and their determination to see an end to the EU export subsidies may give them enough common cause.

Canada is (still) a member of the Cairns Group, and therefore subscribes in general to their positions. But there are specific differences with the Cairns Group over the role of state trading exporters, and some lack of agreement on elements of the market access positions. As a consequence, Canada may have less influence through the channel of the Cairns Group than might otherwise be the case.

Mexico is the host of the Cancun Ministerial in September, and also has some standing as a developing country with close trading ties to developed countries (and a member of the OECD). Whether this role will be useful in promoting compromises in the trade talks remains to be seen. But the host nation for a Ministerial has some scope for brokering deals and usually is reluctant to see a breakdown of a negotiation on home turf.

The three countries together have another role in the trade talks. That is to persuade countries outside the Americas that there is no threat to the trade system from the parallel talks on the Free Trade Area for the Americas (FTAA). On the other hand, these other countries are well aware of the boost that failure to move forward in the WTO would have on the prospects for the FTAA. Similarly, the three North American countries are leading players in the APEC process, which could also receive a jump-start from a failure in the Doha round. So in many ways, the three North American countries are at the interface between multilateral and regional trade systems.

Annex Table A: Import Tariffs by Farm Sector, Percent

	Rice	Wheat	Other Grains	Oil Seeds	Sugar Crops	Veg., Fruits, Nuts	Live-stock	Wool, Silk
Canada	0.0	62.8	8.9	0.0	0.0	1.9	17.7	2.3
United States	4.9	2.6	0.6	17.7	0.7	4.7	0.7	0.9
Mexico	15.0	67.0	38.4	3.1	23.0	17.9	10.2	8.2
Rest of Americas	19.6	5.8	11.2	6.7	11.1	13.0	7.7	10.8
Australia/ New Zealand	0.8	0.0	0.8	1.3	0.0	1.7	0.3	0.6
Japan	409.0	249.2	20.2	76.4	0.0	44.9	26.1	54.7
Rest of Asia	3.8	15.5	130.8	64.8	7.7	24.8	9.2	13.3
European Union	43.1	10.7	8.3	0.0	110.8	5.5	4.2	0.0

Source: *How Would Food Markets Be Affected By Liberalizing Trade in Processed Foods?* Working Paper, U.S. International Trade Commission, August 2001.

Annex Table B: Import Tariffs by Processed Food Sector, Percent

	Meats	Dairy products	Veg. oils and fats	Sugar	Other
Canada	28.0	214.8	8.6	4.9	14.1
United States	4.7	42.5	4.3	53.4	11.4
Mexico	48.5	37.5	19.2	4.1	17.9
Rest of Americas	14.9	20.4	13.9	17.0	15.7
Australia/ New Zealand	3.8	3.0	2.6	1.4	5.1
Japan	48.8	287.0	6.6	116.1	38.3
Rest of Asia	16.2	18.9	31.6	18.4	20.5
European Union	11.3	6.5	5.1	36.2	9.2

Source: *How Would Food Markets Be Affected By Liberalizing Trade in Processed Foods?* Working Paper, U.S. International Trade Commission, August 2001.