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On November 25, 2003, the Cordell Hull Institute held a Trade Policy Roundtable discussion, "Getting the WTO Negotiations Back on Track".

The meeting was held at Arnold & Porter, attorneys-at-law in Washington, DC. Pictured above is the well of the firms building.



Reproduced opposite is the paper by **Edward Menzies** (above).

About the Author

Edward Menzies is the President of the Canadian Agri-Food Trade Alliance. He represented CAFTA at the WTO 5th Ministerial held in Cancun, Mexico in September 2003.

Before that he was a registered NGO Delegate at the WTO 3rd Ministerial

PAUSE FOR REFLECTION...

Need for Change in Canada's Agri-food Trade Policy

Edward E. Menzies

CANADA is the major trading nation on the planet. One in every three Canadian jobs depends on trade. Exports account for over 40 percent of Canada's total gross domestic product. That is four times the level of the United States and Japan. Imports account for over 36 percent of Canada's gross domestic product. Every Canadian imports twice as much as the average American. That means that of all the developed economies on the planet, Canada has the most open economy – in exports and imports.

Trade is vital to the Canadian economy and to the country's agriculture and agri-food sector. We are now the world's third largest exporter of agriculture and agri-food products and the fifth largest importer. In agriculture and agri-food, more than half, and for some products more than 80 percent, of Canada's agriculture and food production is exported. More than 80 percent of total farm cash receipts are from exports and over 90 percent of the farm population relies on exports. It is clear that Canada needs a strong, rules-based multilateral trading system.

Impact of the Uruguay Round

The Uruguay Round of multilateral trade negotiations was an historic round because, after forty odd years, it was the first to incorporate rules for agricultural trade under its own agreement. It also took some first tentative steps to reform because it did put some disciplines on subsidies and protection, but it also allowed for the continuation of protection and subsidies. At the end of the implementation of the Uruguay Round Agreement on Agriculture, Canada's trade-dependent industries – grains, oilseeds, cattle and beef, hogs and pork, sugar and value added processors (crushing, malting, milling, meat processing and consumer products manufacturers) – found that they were still at a very substantial disadvantage in the international market place. For example:

Agri-Industry Trade Group which convened in Seattle, Washington in December 1999.

About the Meeting

Efforts are proceeding in Geneva to find a basis on which to get the Doha Round negotiations back on track, even as the "Quad" countries continue to blame others for the Cancún debacle, and others blame the Quads, as if none of them had anything to do with what happened. In the meantime, the multilateral trading system is again drifting, its fragmentation quickening.

So what are the chances of re-starting the WTO negotiations this year? Is it likely to complete them by the end of next year? If that's not on, what about completing them before the trade-negotiating authority of the U.S. Administration expires at the end of June 2007, assuming a two-year extension?

These are the questions that were addressed at this particular meeting of the Cordell Hull Institute's Trade Policy Roundtable.

Other Speakers

In addition to Edward Menzies, other speakers at the meeting included **Rubens Barbosa**, Brazilian Ambassador to the United States, Washington, DC; **Harald B. Malmgren**, President, Malmgren Group, business consultants, Warrenton, Virginia; **Andrew Stoeckel**, Executive Director, Centre for International Economics, Canberra; and **Clayton Yeutter**, Counsel, Hogan & Hartson, attorneys-at-law, Washington, DC.

- Canadian wheat producers found themselves facing tariffs in Japan of over US\$400 per ton while barley exporters hit tariffs of over US\$210 per ton.
- The Canadian flour-milling industry was forced out of the European market by high domestic subsidies and out of the entire export market by export subsidies.
- Canadian pork producers and processors hit tariff walls of up to 139 percent in Malaysia and suffer restrictions in access to European Union because it skews its minimum-access requirements away from pork in order to protect its market.
- The Canadian oilseed-processing industry is precluded from competing in many of the world's largest markets for vegetable oils because of the application of tariff escalation and tariff discrimination. Two of the more egregious examples are the vegetable oil tariff barriers employed by Japan and India. Canadian canola and soybean oils face import tariffs of approximately 20 percent in Japan while unprocessed seed is imported free of tariffs. Canadian canola oil faces an applied over-quota tariff of 85 percent in India while unprocessed canola seed has a tariff of 35 percent and soybean oil has a tariff of 45 percent.
- Tariff escalation also affects the Canadian meat industry. For example, Korea applies a 40 percent tariff on beef and a 70 percent tariff on beef jerky, a more value added form of beef. In Japan, the bound tariff on beef is 38.5 percent, but the tariff on seasoned beef, such as prepared ham-burger patties, is 50 percent.
- The Canadian refined sugar sector saw its access to the U.S. market decline with the implementation of the Uruguay Round agreement. High subsidies and tariffs often reaching higher than 300 percent prevented the industry from finding new markets for the product. The result – the loss of two sugar-refining plants and the entire sugar-beet production industry in the Province of Manitoba.
- Domestic support programs in the United States and the European Union cost our grains and oilseed farmers at least \$1.3 billion each year.
- Export subsidies, which have been eliminated in virtually every other industry covered by the World Trade Organization (WTO), still are allowed in agriculture and still deny markets for farmers and processors around the world.

Rise of the Trade-dependent Industries

The export-oriented industries, upon reviewing the results of the Uruguay Round negotiations, realized that while there were some

Trade Policy Roundtable

The Cordell Hull Institute's Trade Policy Roundtable is sponsored by seven international law firms in Washington, DC: Akin Gump Strauss Hauer & Feld, Arnold & Porter, Hogan & Hartson, O'Melveny & Myers, Sidley Austin Brown & Wood, Steptoe & Johnson and Wilmer Cutler Pickering Hale & Dorr.

improvements in transparency, and some modest disciplines on subsidies, there were few real benefits. At first they blamed Canada's negotiators, but they quickly realized that it was the trade-dependent industries themselves that were to blame.

These industries were not present in the Uruguay Round negotiations. Assuming that trade negotiations were about trade and not protectionism, they did not make their needs and views known to the Canadian government and negotiators. They did not seek active participation in international alliances that supported more open trade; and they did not speak publicly about the benefits of liberalized trade.

Given their silence, it should not have come as a surprise that Canada's policy makers and negotiators did not aggressively pursue the liberalization needs of our industries and expended greater energy in defending protections like GATT Article II, which allowed countries to impose quantitative restrictions on imports.

Canada's attempts to "balance" the need for liberalization with its strong mandate to protect its domestic markets resulted in its isolation from countries and groups of countries that, like Canada, relied on trade, but which, unlike Canada, chose to aggressively pursue liberalization. Canada found itself increasingly on the outside of the Cairns Group countries and offside with the United States in their pursuit of increased market access. Some believe that the effectiveness of the Cairns Group was compromised by the lack of total consensus on market access and that Canada missed opportunities to make input to the negotiations between the United States and the European Union as they developed what became the Blair House accord and, eventually, the WTO Agreement on Agriculture.

The realization that the outcome for Canada could have been different had they been present, prompted the trade-dependent industries in Canada's agriculture sector to pledge that they would not be silent during the first WTO round, the Doha Round negotiations now in progress.

Representatives of the Canadian cattle and beef, pork, meat processing, grain, oil-seeds and sugar industries formed an informal coalition to share information and strategies and to facilitate their input to the development of the Canadian negotiating position on agriculture. The Canadian Alliance of Agri-Food Exporters allowed exporters to speak together and to pool resources to put forward common positions and concerns. At the same time, in the province of Alberta, a similar group of companies and organizations, with the support of the Government of Alberta, formed the Agri-Industry Trade Group. The group held a major conference in the fall of 1998 with the goal of making international trade an issue for industry and for governments across Canada. The AITG and the CAAFE, in recognition of their common goals,



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

Papers in the online series, *Trade Policy Analyses*, are published by the Cordell Hull Institute, which is a non-profit organization

merged in 2001 to become of the Canadian Agri-Food Trade Alliance (CAFTA). Over the past two years, CAFTA has grown in stature and reputation, speaking out, both nationally and internationally, on behalf of the trade-dependent industries in the Canadian agriculture and food sector.

Using well-researched facts, and acting as the voice of reason, CAFTA has begun the long and difficult process of changing Canada's approach to international trade. Through regular meetings with negotiators, appearances before committees in the House of Commons and the Senate, public fact sheets, speaking engagements, seminars and conferences and education sessions with Members of Parliament and departmental staff, CAFTA has increased the knowledge of the importance of trade for Canadian agriculture and has significantly affected the Canadian negotiating position. In the Doha Round negotiations, Canada is seeking "the elimination of agricultural export subsidies, substantial reductions in trade-distorting domestic support, and real and substantial market access improvements for all agriculture and food products".

CAFTA, its members and its objectives are also becoming better recognized internationally. Alliances are forming with other trade dependent countries and, while not welcomed by Canada's official member, the Canadian Federation of Agriculture, CAFTA now participates in meetings of the Cairns Group Farm Leaders at Australia's invitation.

The growing recognition of CAFTA as the true voice for Canada's international trade interests was reflected in an international declaration supporting liberalized trade that was developed by CAFTA and supported by 58 organizations and companies from 15 different countries.¹

Challenge Facing the Trade-reliant Sector

In spite of Canada's acknowledged dependence on international trade, Canadian negotiators are not always able to pursue trade liberalization aggressively. While Canada's position calls for substantial increases in market access for all products, the mandate approved by the Canadian cabinet calls for negotiators to work just as aggressively to protect Canada's domestic system of supply management for dairy, poultry and eggs. The domestic supply-management system controls production and adjusts consumer prices to provide producers with their cost of production and a return on investment. It is protected with tariff-rate quotas and very high over-quota tariffs. Once again this has resulted in Canada not always being in agreement with our Cairns Group partners. For example:

- Instead of joining the Cairns Group and other WTO members in the call for deep cuts to all tariffs, Canada is proposing to

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give countries a choice to either substantially reduce tariffs or to create new tariff-rate quotas under those high tariffs to provide minimum access of "at least 5 percent of domestic consumption".

- Instead of joining the call for maximum reductions in "amber-box" support on a disaggregated basis, and the reduction of the *de-minimis* category, Canada continues to advocate disciplines on domestic support on an aggregate basis and the maintenance of the *de-minimis* category.

The Canadian government position in the Doha Round negotiations, while more ambitious in general, is still strongly reflective of the two realities that exist in Canada. The market and export dependent industries, by far the largest and most important to the economy, but with a history of silence, are now demanding that Canada aggressively pursue an ambitious, trade-liberalizing result. At the same time, those industries under the protection of supply management are demanding that Canada protect the tariff-rate quotas and over quota tariffs around which the system has been structured. These industries are well organized, well financed and primarily concentrated where the political power lies, in the more densely populated central areas of the country.

The challenge for CAFTA and the trade-dependent industries lies in convincing all Canadians of the importance of trade to them as workers, as consumers and as citizens of this highly trade-dependent country.

¹ See the "International Call for Serious Negotiations at the WTO" issued on July 28, 2003, in which agriculture and food-industry organizations from around the world called for trade liberalization. The statement was supported by Agricore United (Canada), Canada Beef Export Federation, Canadian Agri-Food Trade Alliance, Canadian Cattlemen's Association, Canadian Meat Council, Canadian Oilseed Processors Association, Canadian Restaurant and Food Services Association, Canadian Seed Trade Association, Canadian Sugar Institute, Canola Council of Canada, Cargill Limited, Dairy Farmers of New Zealand, Federated Farmers of New Zealand, Food and Consumer Products Manufacturers of Canada, Food Processors of Canada, Global Dairy Alliance, Global Alliance for Sugar Trade Reform and Liberalization, Grain Growers of Canada, Grocery Manufacturers of America, Meat Export Federation (United States), Malting Industry Association of Canada, Meat and Livestock Australia, Meat New Zealand, National Corn Growers Association (United States), New Zealand Food and Grocery Council, New Zealand Grains Council, New Zealand Meat and Fibre Producers Council, Ontario Soybean Growers (Canada), Sociedad Nacional de Agricultura (Chile), Sociedad Rural Argentina, Western Barley Growers Association (Canada)