



**WORLD TRADE
ORGANIZATION**



Inter-American Development Bank
Integration and Regional Programs Department
Institute for the Integration of Latin America and the Caribbean

Export Competition Issues and Solutions

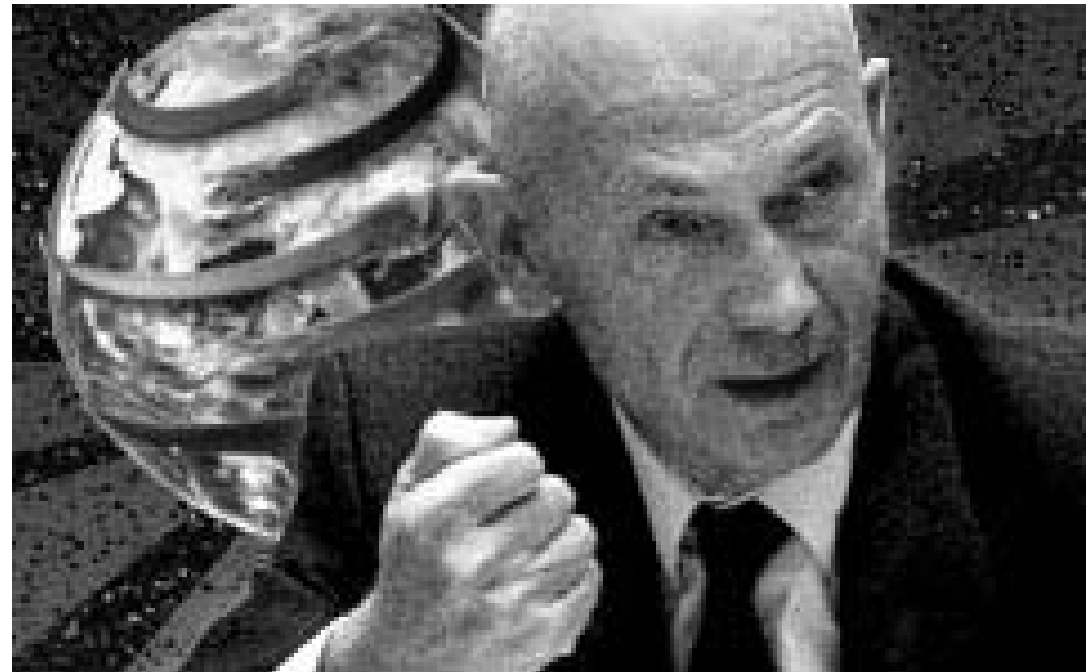
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Issues, Solutions and Implications

- **Export Credits**
- **Food Aid**
- **State Trading Enterprises**
- **Export Subsidies**

- **Problem of one country, one policy**



Export Credits

- Government programs improving terms on loans for agricultural exports between private banks or governments of exporting countries and importers
- Credit guarantees (most prevalent), also direct interest rate subsidies, insurance
- Total of US\$6-8 billion per year of agricultural exports benefit from export credits (outdated data)
 - US responsible for half
 - EU, Australia and Canada equal shares other half
- Low subsidy component to these programs
 - US 6.6% of the credit programs
 - (but 88% of total subsidy)
 - EU 1.2%

Little Credit Extended to Developing Countries

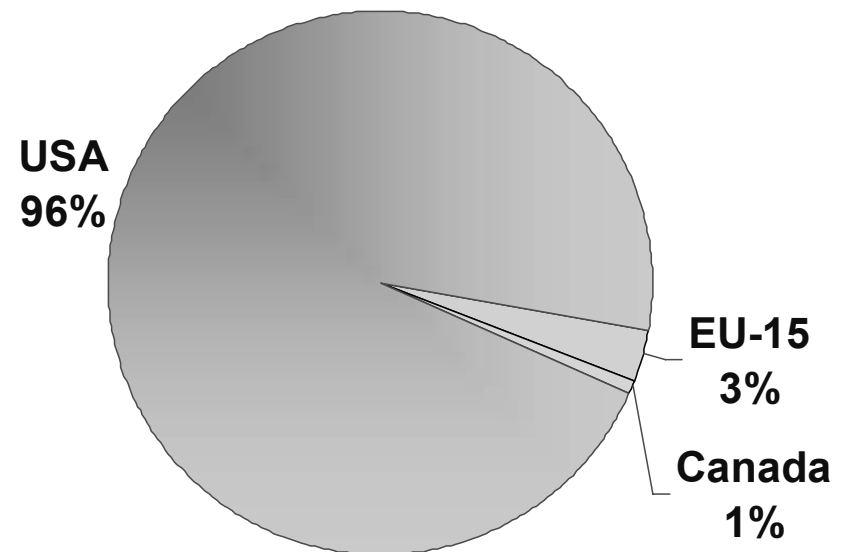
- 9% to NFIDCS
- 2 % to LDCs
- Additionality not realized
 - Could benefit all exporters by alleviating liquidity constraints

Chair's Reference Paper Export Credits

April 13, 2006

- Agreed: Export credits, export credit guarantee or insurance programs with repayment periods over 180 days to be eliminated
- At issue: terms and conditions for programs of less than 180 days

Export Credits,
1 Year or More, 1998



Chair's Reference Paper Export Credits

April 13, 2006

- Interest payable
- Minimum interest rate
- Premiums adequate to cover costs
- Self Financing
 - US proposal: 15 years
 - EU proposal: one year
- “*Non-conforming export financing*” considered export subsidies
- Transparency: important
 - Discussion relied heavily on ONE study
 - OECD study with confidential information
 - More information valuable

EU 24 April, 2006 Proposal

- Notes difficulty in rules, technical complexity
- Proposes core disciplines to establish subsidy elimination
- Relies on self-financing instead of multitude of rules
 - Self financing over *one year*
 - *Raises questions over unusual events*

Special and Differential Treatment

somewhat neglected

- Chair:
 - Developing country longer phase out period
 - Preferential treatment LDC and NFIDC; but no suggested wording
 - Special Circumstances: under certain conditions, risk based premium (not market based), and self-financing not required
- G-20:
 - S&D and Special Circumstances to be developed
- EU: no proposal
- US:
 - longer repayment for LDC and NFIDC (36 months) and;
 - Emergency situations enable more favorable terms with notification to COA with max repayment of 36 months

Special and Differential Treatment

- Past credit programs did not serve LDCs and NFIDCs, but;
- Credit constraints most likely to inhibit imports by developing country members
- Could assist the WTO in meeting food security goals
- Eliminate self-financing restrictions for designated recipients at least for NFIDCs and least developed countries,

Disciplining Food Aid in the WTO?

- Food aid is small as a domestic subsidy
- And also as an export subsidy
- Distortions to trade small
 - Programs have changed
- And its main purpose humanitarian
- However, food aid historically regulated by institutions dominated by agricultural exporter interests
- Doha Round gives evidence that this is continuing with the WTO

Food Aid Mandates

- *July 2004 Modalities ...objective to prevent commercial displacement ...* The role of international organizations as regards the provision of food aid by Members, including related humanitarian and developmental issues, will be addressed by the negotiations.
- *Hong Kong 2005 ... we reconfirm our commitment to maintain an adequate level and to take into account the interests of food aid recipient countries.* To this end, a “safe box” for bona fide food aid will be provided to ensure that there is no unintended impediment to dealing with emergency situations. Beyond that, we will ensure elimination of commercial displacement.

Proposals in the WTO Chair 22 June 2006

Draft Modalities (Annex K)

- Safe box for emergency food aid (defined)
 - Cash or in-kind food aid
 - Appeal from the UN & a few other humanitarian agencies
 - [recipient governments] or in exceptional situations (notification required)
 - Discussion due to fear of loopholes
- Argues WTO should not define duration of emergency
- Non-emergency
 - General guidelines
 - *No agreement* on if in-kind to be phased out;
 - *No agreement* on restrictions on monetization, or phased out;
 - *No agreement* on how to meet requirement of parallel elimination

Should Non Emergency In-kind Food Aid be Eliminated?

- Discussions don't distinguish between programme food aid and project
- Programme food aid is large, volatile, historically from stocks- candidate for elimination

Should Non Emergency In-kind Food Aid be Eliminated?

- Project food aid small, project oriented
- Varies: 2001 3 mmt, 2005 2mmt
- 2004: WFP 28 %, United States 67%,
- WFP : school feeding, HIV/AIDs, food for work, and food for women
- Its small:
 - US ODA US\$26 billion in 2004-2005
 - US non-emergency food aid was budgeted at US\$500 million (now less) about 2 % ODA
 - Small, but questionable outcome for development round

Proposals for Cash Only Food Aid

- Trade-off : efficiency and quantity of food aid
- WTO is not the right institution to make that trade-off
 - Trade ministers ?
 - Development/food aid experts more involved
- Certain to reduce levels of US food aid significantly
 - US has stated that

G-20

If G-20 wants cash only:

- First secure higher commitment from Food Aid Convention
 - Lowest level of guaranteed food aid in 30 years after the Marrakech Decision
- Difficult: US has indicated unwillingness
- Cash only not a panacea
 - More fungible, open to abuse
 - No trade-offs between emergency, project and program
 - No development projects

State Trading Enterprises

- Entities with exclusive or special rights that influence level and direction of exports
- Many concerns parallel, STES and private firms
 - STES more easily violate export subsidy commitments
 - also lack of transparency on part of private firms
 - price discrimination
 - practiced by private firms
 - price pooling: combining returns within a year
 - private firms other strategies dealing with risk
- Concern should be directed at domestic market protection-an outcome like export subsidies

Lack of Agreement on Trade Impacts

- Viewpoints on consequences and acceptability differ
- Sometimes categorized on basis of contestability
 - Markets contestable when entry precludes use of market power
- Disagreement on market power (grain markets)
- Price discrimination and pooling
 - CWB Case by WTO
 - Cannot generalize results to other cases

• ***July Framework:*** “Eliminate trade distorting practices with respect to exporting STEs including

- 1) export subsidies provided to or by them;
- 2) government financing; and
- 3) the underwriting of losses.

• ***Hong Kong:*** disciplines to ensure that monopoly powers not used to circumvent disciplines listed above

- disagreement over Chair’s interpretation to remove monopoly powers

Key Question: Monopoly Powers?

- Few STEs coexist with the private sector
 - Evidence suggests coexistence results in demise
- Removes scale (and scope) economies in marketing initiatives, quality control and reputation, branding and related areas
- *funneling any rents to producers*
- Possible private firms, in imperfect markets, will benefit (discussing exporting STEs, not consumer benefit)
- Negotiate in context of competition policy
 - Recommended by Josling, Scopolla, others

STE Proposals in Chair's Paper

- Eliminated by 2013
 - Export subsidies
 - Government financing
 - Underwriting of losses
- Actual disciplines to depend on question of elimination of monopoly powers

In Addition

- Require STEs to provide duty-free access for the goods they manage
 - Eliminate the possibility of high-price domestic market used to subsidize exports
 - Canadian dairy- WTO complaint

STEs: S&D Treatment

- ↑ recognition markets don't always perform functions abandoned by the
 - Removal of STEs has/can result in lack of R&D
- Special consideration (re monopoly status) for STEs in developing countries to achieve consumer price stability and food security –

Export Subsidies

- EU offer to eliminate by 2013
- US, NZ, Australia: 80% ↓ by 2010
- G-20: 50% ↓ end of first year, 30% more 2010
- Concerns: *this should have been easy!*
- Implications
 - Price impacts: 2% (Anderson and Martin 2005) 13% (ERS 2001) of total gains from trade reform; price impact small and variable

- Reductions to start in 2008
 - EU could meet some goals by 2010 (rejected total)
 - Limited number of commodities could be given longer transition period
- Maintain the current system of commitments on both the volume of subsidized exports and the value of expenditures on export subsidies; no rollovers
- Accelerated reduction for commodities with higher levels of subsidies – politically difficult

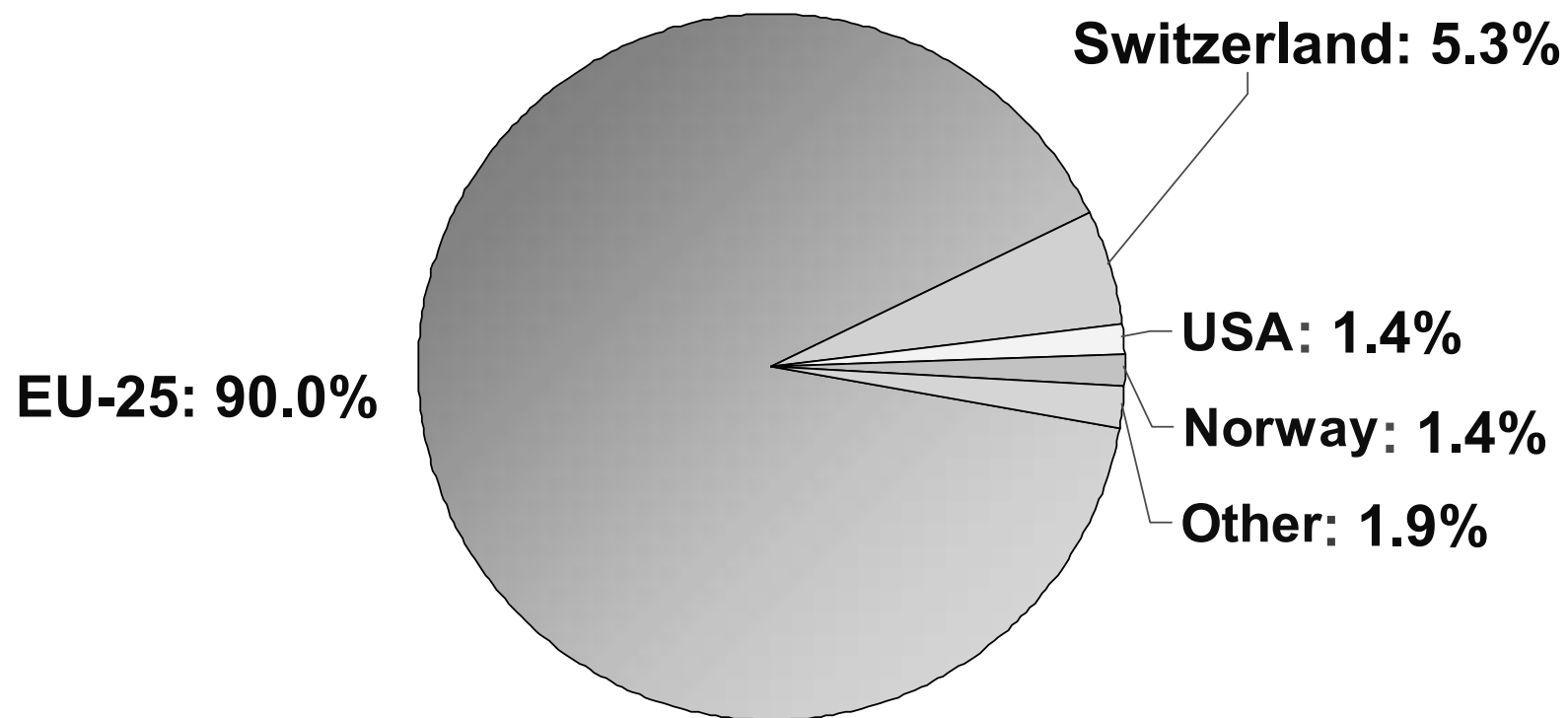
EU Export Refunds

million Euro

<i>Selected Crops</i>	<i>2003</i>	<i>2004</i>
Arable Crops	176	72
Sugar	1,021	988
Wine	20	13
Fruit & Veg	29	26
Milk and etc	1,595	1,495
Beef/Veal	295	251
Pigment	116	131
Total	3,729	3,384

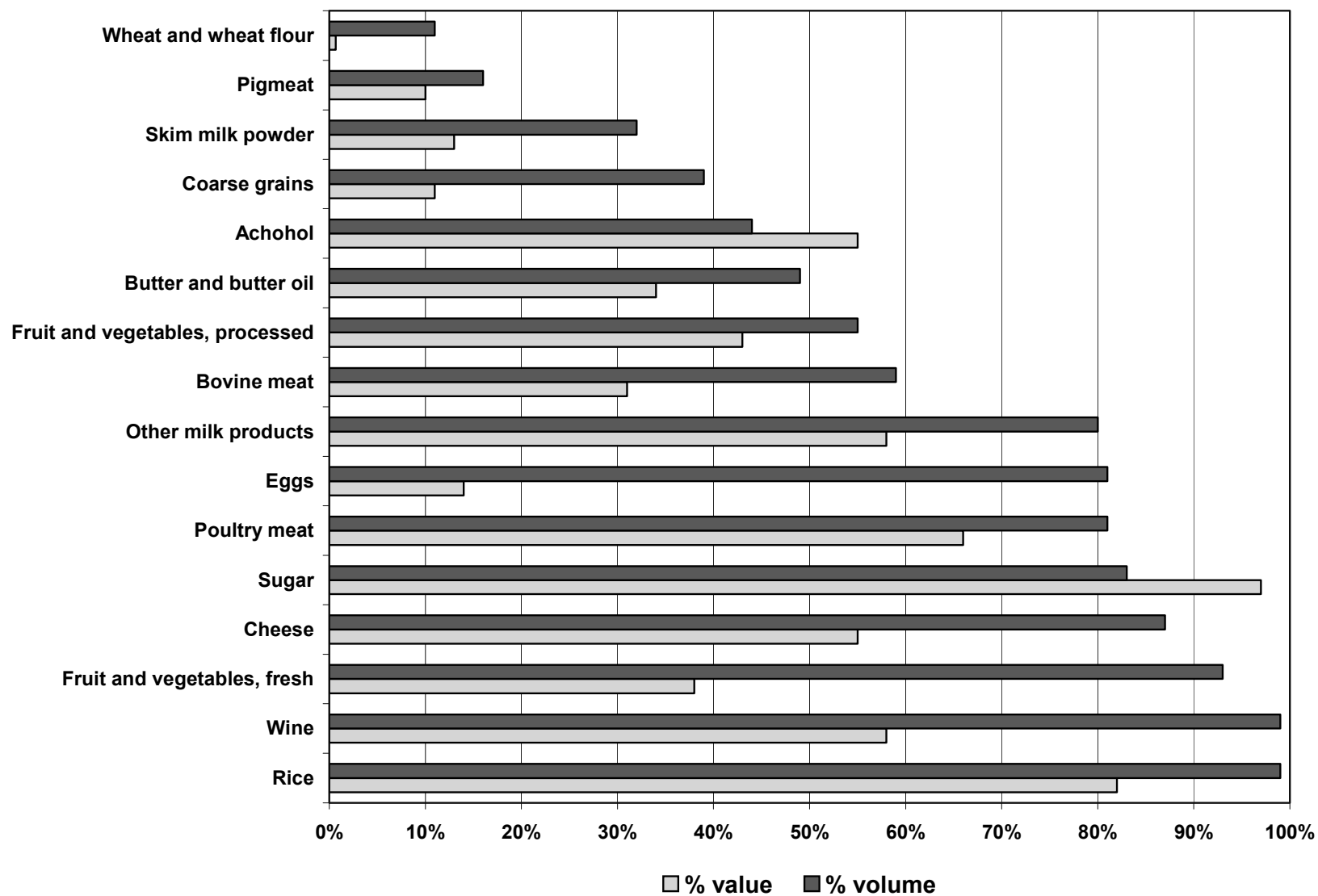
		Wheat and wheat flour	Coarse grains	Butter and butteroil	Skim milk powder	Cheese	Other milk products	Beef meat
		<i>Million Euros</i>	<i>Million Euros</i>	<i>Million Euros</i>	<i>Million Euros</i>	<i>Million Euros</i>	<i>Million Euros</i>	<i>Million Euros</i>
US, NZ and Australia		1,290	1,047	948	276	342	698	1,254
reduce by 40%	2008	774	628	569	165	205	419	752
reduce by 80%	2010	258	209	190	55	68	140	251
G-20								
reduce by 50%	2008	645	523	474	138	171	349	627
reduce by 80%	2010	258	209	190	55	68	140	251

Share of Total Export Subsidies Notified to the WTO, 1995-2001

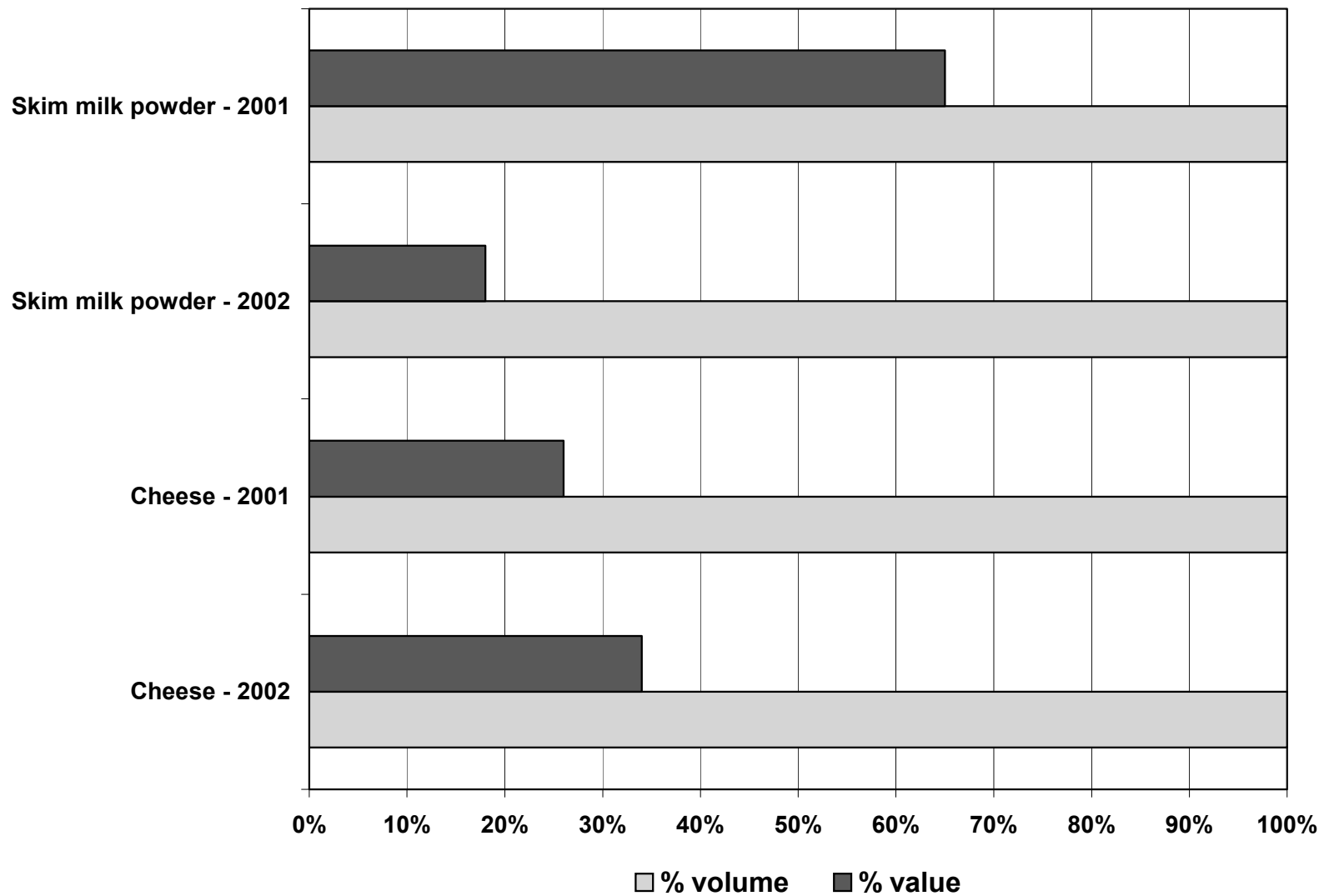


Source: ICONE (based on WTO notifications)

EU Export Subsidy Notifications by Commodity, 2001



U.S. Export Subsidy Notifications, 2001 & 2002



Differential Export Taxes

- Issue of interest , but not yet agreed
 - Argentina argues against inclusion without mandate
 - US, Brazil, Chile and EC to include
- OECD survey:
 - From 100 countries, 20 use export taxes
 - A few differential export taxes
 - Argentina 23.5% on soybeans, 20% soy oil and cake
 - Malaysia 16% tax crude palm oil, none on processed oil

US Adjustment to Credit Programs

- In light of Cotton findings:
 - US revised GSM programs
 - New structure for GSM 102; “risk-based premiums”; 3-10 year program eliminated
- Brazil:
 - no efforts to bring into compliance ECG issued prior to 1 July, 2005
 - GSM 102 and SCGP inconsistent
 - Premiums insufficient, thus subsidy