The New Agricultural Trade Negotiations: Background and Issues for the U.S. Wheat Sector

Erik Dohlman and Linwood Hoffman[1]

Abstract: New negotiations on trade in agriculture were recently initiated by the World Trade Organization (WTO). It is likely that these negotiations will focus on issues previously addressed by the Uruguay Round Agreement on Agriculture (URAA), which placed limits on the use of tariff and non-tariff barriers to trade, export subsidies, and the type and level of spending countries are permitted on domestic support programs. These disciplines restrict the ability of member countries to use trade-distorting policies, but for U.S. wheat producers, the agreement has not been accompanied by an increased volume of exports or share of world trade. Consequently, U.S. objectives for the upcoming negotiations include further reducing tariffs and improving market access, eliminating and prohibiting the use of export subsidies, and placing further limitations on trade-distorting domestic support programs.

Keywords: Wheat, trade, policy, WTO, market access, tariffs, tariff-rate quota, export subsidy, domestic support

Introduction

New multilateral agricultural trade negotiations under the World Trade Organization (WTO) were recently initiated. During these negotiations, officials from WTO member countries will work to continue the process of reforming agricultural trade rules begun in the Uruguay Round, which concluded in 1994.

The global wheat market is very reliant on trade, with about 20 percent of global production and nearly one-half of U.S. production destined for export, but it is also heavily influenced by a range of trade-distorting policies. Under WTO agreements, the maximum allowable ("bound") tariff rates on wheat are still potentially prohibitive among some major consuming and importing countries, although applied rates are often much lower than those allowed. Domestic farm programs, export subsidies or taxes, sanitary and phytosanitary measures, and state trading also have the potential to distort trade. With about 7.5 percent of U.S. agricultural export revenue coming from the sale of wheat, the U.S. wheat sector is naturally interested in the outcome of the new round of agricultural trade negotiations.[2] This article identifies and discusses issues affecting global trade in wheat that are likely to be considered during the negotiations. Other issues related to wheat trade, such as the U.S.-China agreement on China's WTO accession and potential disciplines on state trading enterprises (STEs) are also covered. As an introduction, the importance of trade to U.S. wheat producers and the U.S. position in global markets are reviewed.

Production and Trade in the U.S. and Global Wheat Market

In 1998/99, wheat production represented about one-fifth of total U.S. grain output by volume, and the value of U.S. wheat production averaged about $8.6 billion each year between 1995/96 and 1998/99.[3] With about 45 percent of U.S. wheat being sold to foreign markets, exports represent a crucial source of demand for U.S. wheat producers, and wheat exports also make a large net contribution to the U.S. agricultural trade surplus. Wheat accounts for about 7.5 percent of all U.S. agricultural exports by value, and the United States has averaged about a $4.4-billion trade surplus in wheat between fiscal 1996/97 and 1998/99 (nearly one-fifth of the trade surplus recorded by U.S. agriculture during those years). Over 50 percent of U.S. wheat exports are destined for the top seven importers of U.S. wheat, but U.S. wheat exports are otherwise widely dispersed (table C-1).

U.S. exports of wheat flour are modest compared with unmilled wheat, averaging just under $140 million per year (fiscal 1996-98). Wheat flour exports are limited, in part, because many importing countries choose to import wheat grain for milling by domestic enterprises. Ocean shipping of flour is more likely to incur spoilage and, as a processed good, flour is often subjected to higher tariffs than those

[1] Agricultural economists, Field Crops Branch, Market and Trade Economics Division, ERS.

[2] A glossary of terms can be found in USDA (1996) and Nelson (1997).

[3] Among U.S. grains, the average (1995/96-98/99) value of wheat production ranks second to corn ($22.7 billion), and ahead of all other grains combined. Sources: USDA, WASDE, 12/99; USDA, *Crop Values* (1998 and 1999 Summaries).

Table C-1--U.S. wheat and product trade by major destination or source country (1996-98 average)

Item and Destination	U.S. exports		Source	U.S. imports	
	Value	Share of U.S. exports		Value	Share of U.S. imports
	Million dollars	Percent		Million dollars	Percent
Wheat1/					
Egypt	609	13.0	Canada	291.3	99.7
Japan	554	11.8	Other	0.8	0.3
Philippines	288	6.1	Total	292.1	100.0
Pakistan	287	6.1			
S. Korea	256	5.5			
Mexico	238	5.1			
EU15	198	4.2			
Taiwan	176	3.8			
China	176	3.8			
Nigeria	136	2.9			
Israel	118	2.5			
Venezuela	107	2.3			
Morocco	78	1.7			
Other	1,465	31.3			
Total	4,686	100.0			
Wheat flour 2/					
Haiti	38.5	30.0	Canada	38.6	93.5
Mexico	13.5	9.8	Other	2.7	6.5
Bosnia-Herc.	8.5	6.1	Total	41.3	100.0
Peru	7.6	5.5			
Bolivia	6.9	5.0			
Canada	6.2	4.5			
Russia	5.9	4.3			
Other	50.5	36.7			
Total	137.6	100.0			
Other wheat products 3/					
Canada	37.6	56.8	EU15	187.0	55.7
Japan	9.3	14.1	Canada	39.7	11.8
Russia	3.9	5.9	Australia	30.0	8.9
Mexico	3.2	4.8	China	13.7	4.1
EU15	1.9	2.9	Mexico	13.0	3.9
Other	10.3	15.6	Other	52.6	15.7
Total	66.2	100.0	Total	336.0	100.0

1/ All classes. Export category is “unmilled wheat’; Import category is “Wheat, excluding seed.”

2/ Export category is “wheat flour.” Imports include wheat or meslin flour and durum wheat flour.

3/ Exports includes wheat starch, gluten, doughs and mixes, and pastas. Imports include uncooked, unstuffed pastas, wheat starch and wheat gluten.

Sources: USDA, Economic Research Service, Foreign Agricultural Trade of the United States (FATUS), 1996 through 1998 calendar years average.

imposed on whole wheat – a situation known as tariff escalation. In addition, U.S. flour exports are limited by competition from the EU, by far the largest wheat flour exporter, which heavily subsidizes its exports. Although starting from a low base, U.S. exports of other processed wheat products, such as pastas, starch, gluten, and doughs and mixes have more than doubled in the 1990’s, but the United States has averaged a trade deficit of roughly $270 million in recent years for these products (table C-1).

U.S. imports of wheat are small compared with exports, but the United States is the world’s eleventh largest wheat importer (1996-98). U.S. wheat imports, consisting mainly of durum and hard red spring wheat from Canada, have grown from an average of under 550,000 metric tons per year in 1986-88 to over 2.6 million metric tons per year during 1996-98. Imports of other wheat products consist mainly of pasta and noodles from the EU, Canada, and Asia, and wheat gluten from the EU and Australia (FATUS).

In the context of global markets, the United States is the world’s leading wheat exporter, and for 1996/97 – 1998/99 ranked third in wheat production. China, the European Union, the United States, India, Russia, and Canada produce over two-thirds (69 percent) of the nearly 600 million metric tons of global wheat output, and the United States, Canada, Australia, EU, and Argentina account for over 85 percent of world wheat exports (table C-2).

Table C-2--Major world wheat producers, exporters, and importers (1996/97-1998/99 average)1/

Leading producers (Volume and share of world production)			Leading exporters (Volume and share of world exports)			Leading importers (Volume and share of world imports)		
	1,000 mt	Percent		1,000 mt	Percent		1,000 mt	Percent
China	114,533	19.3	U.S.	27,977	27.3	Egypt	7,116	6.9
EU15	98,574	16.6	Canada	18,113	17.7	Brazil	6,311	6.2
U.S.	66,280	11.2	Australia	16,856	16.4	Japan	6,116	6.0
India	65,785	11.1	EU15	16,000	15.6	Iran	4,774	4.7
Russia	35,333	6.0	Argentina	9,621	9.3	Algeria	4,416	4.3
Canada	26,052	4.4	Ukraine	2,256	2.2	S. Korea	4,024	3.9
Australia	21,743	3.7	Turkey	1,758	1.7	Indonesia	3,622	3.5
Pakistan	17,417	29.0	Hungary	1,607	1.6	Pakistan	3,449	3.3
Turkey	16,833	2.8	Other	8,351	8.1	EU15	3,367	3.3
Ukraine	15,630	2.6	Total	102,540	100.0	Russia	2,700	2.6
Argentina	14,233	2.4				U.S.	2,637	2.6
Iran	11,000	1.9				Morocco	2,309	2.3
Other	90,164	15.2				Yemen	2,253	2.2
Total	593,579	100.0				Mexico	2,202	2.1
						Philippines	2,145	2.1
						Iraq	2,114	2.1
						China	1,869	1.8
						India	1,723	1.7
						Other	39,395	38.4
						Total	102,540	100.0

1/ Totals may not equal 100 percent due to rounding. Trade figures exclude intra-EU trade.

Sources: Economic Research Service, PS&D View; Foreign Agriculture Service website: http://www.fas.usda.gov/grain/circular/1999/99-12/graintoc.htm

Since 1975/76, U.S. wheat exports have fluctuated from a high of nearly 50 million tons in 1981/82 to a low of about 25 million in 1985/86. In 1981, the U.S. share of global exports also peaked at about 45 percent. In recent years (1996/97-1998/99), U.S. wheat exports have averaged less than 30 million tons, and the U.S. share of global exports has fluctuated between 25 and 30 percent since 1990/91. Rising U.S. production and a growing share of global production since 1995/96 have not translated into increased exports or a larger share of global exports (see figure C-1).

There are a number of reasons for the decline (during the 1980's) and stagnation (during the 1990's) of the U.S. export market share. One important cause is increased foreign wheat production, which grew 46 percent between 1975/76-1979/80 and 1994/95-98/99, while U.S. wheat output increased only 15 percent. A particularly important development has been the rapid growth of wheat production by China and the EU. In 1975, the United States was the world's leading wheat producer, whereas in 1998/99 it ranked third, behind China and the EU, and just ahead of India.

Another important reason is that trade in wheat is highly regulated by tariffs and other trade-distorting policies. Top consumers of wheat, such as the EU, China, Japan, India, the Philippines, and Morocco, maintain high applied tariffs (25 percent or more), or limit imports with tariff-rate quotas (TRQs) or government controls over imports by state trading enterprises (see later sections for an explanation of these issues). Exporters and importers have also used other trade-distorting policies designed to stabilize internal prices, such as the minimum price policies. These policies create incentives to boost wheat production, which limit imports or exacerbate the use of export subsidies.

Even without substantial reductions of foreign import barriers (tariffs and TRQs) and domestic support policies, prospects for increased U.S. wheat exports are moderately positive. According to USDA projections (USDA, 2000), which assume no new WTO agreement on agricultural trade liberalization, world wheat trade is expected to increase at a pace of 2.2 percent per year until 2009, well above growth in the 1980's or 1990's. Much of the forecast growth in wheat import demand will come from middle and lower income countries that are expected to experience strong economic and population growth in the coming years, including North Africa, the Middle East, China, Indonesia, and Pakistan. The United States will compete with Australia, Argentina, Canada, and the EU to fill increased demand for imports, but slower growth in exports by these countries than by the United States is expected to raise the U.S. share of global exports.[4]

Product Composition of Trade[5]

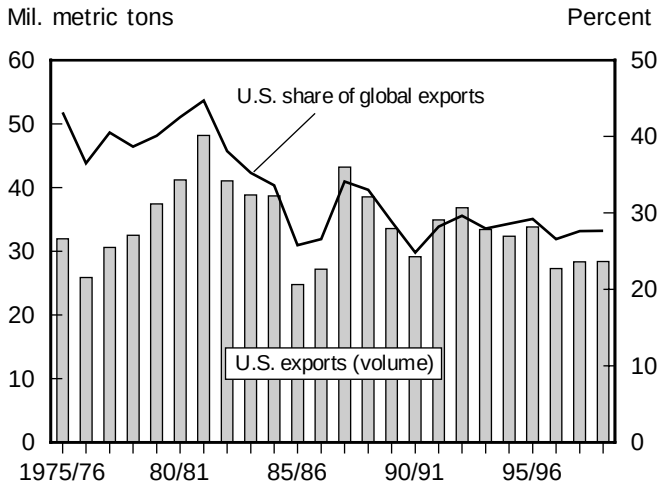
The composition of wheat classes produced and products traded is changing and adding to the complexity of the world wheat market. In different parts of the world, wheat is

[4] From 29.3 percent of global exports in 1999/2000 to 33.5 percent in 2009/2010 (USDA, 2000b).

[5] Material in this section was contributed by Ron Trostle, ERS.

Figure C-1

U.S. wheat exports: Volume and share of global trade



Source: Economic Research Service, USDA.

classified using different characteristics and methods. In the United States, wheat has traditionally been divided into six classes: four hard wheats and two soft wheats. All of the classes are somewhat substitutable, but each class produces better quality grain in a particular ecosystem and each class has characteristics suited to particular end uses.

The United States produces and exports significant quantities of all the classes of wheat except hard white. The other major exporters, each with a more limited variety of ecosystems, tend to specialize in fewer classes. The EU primarily grows soft wheats, with most varieties selected for bread-baking qualities. The EU also grows durum, but since the 1992 CAP reform reduced the area eligible for supplemental payments, the EU has generally had to import some durum. Argentina also exports mainly medium-protein bread and noodle wheat. While Canada generally specializes in high-protein hard spring wheat and durum, it grows limited quantities of soft white wheat in the eastern provinces. Australia made a decision years ago to specialize in white wheats and exports both hard and soft white varieties. In recent years it has attempted to raise some higher protein white wheat and specialized wheats for niche markets such as the Asian noodle market.

Improved quality and more diverse end uses of grain are becoming more important as import decisions in some countries are being shifted from state trading enterprises to private sector millers. Consumer tastes and preferences for different types of wheat products are also changing, shifting demand for the classes of wheat needed to produce particular products. Rising incomes in many middle-income countries, for example, have generated demand for more consumer-ready products.

Uruguay Round Accomplishments and Issues for the New Agricultural Negotiations

After seven previous rounds of multilateral trade negotiations, the Uruguay Round (1986-1994) marked the first major effort by the GATT (the predecessor organization to the WTO) to include trade liberalization in agriculture as a central objective. One of the centerpieces of the pact was the Uruguay Round Agreement on Agriculture (URAA), which required signatories to cut average tariff levels on all agricultural products by set percentages, reduce the value and volume of subsidized exports, and lower aggregate spending on some domestic support programs for agriculture.[6] Separate agreements also established new disciplines on the use of sanitary and phytosanitary (SPS) measures that could be used to restrict trade based on health and safety concerns, and created a new process for settling trade disputes.

It is difficult to separate the influence of the URAA from other factors affecting trade, but the volume of world wheat trade has actually declined since the agreement was reached. Between 1991/92-93/94 and 1996/96-98/99, global trade fell by 5.5 percent (from 108.5 million tons to 102.5). On the other hand, 12 of the top 15 net wheat importing countries increased their wheat imports, with only China and Russia experiencing large declines (a combined drop of 15 million tons). For U.S. wheat producers, important issues for the new negotiations include furthering market access and reducing levels of trade-distorting programs. Developments in other areas—such as creating tighter disciplines on state trading enterprises, disciplining use of export taxes or credit guarantees, and the potential impact of China's WTO accession—could also have ramifications for U.S. wheat producers.

Because the main provisions of the URAA are detailed elsewhere (see USDA,1998a), only a summary table (C-3) and a general overview of the main accomplishments are given at the beginning of each section below. Trade issues related specifically to the wheat sector are then discussed in more detail.

Continuing Issues:

Market Access—The URAA required participating countries to reduce "base" period (those in effect in 1986 or 1986-88) tariffs on agricultural products by an average of 36 percent for developed countries and 24 percent for developing nations, and to cap tariffs at a final "bound" level by the end of the implementation period (table C-3). The minimum tariff cut on each product is 15 percent (10 percent for developing countries). The agreement also required signatories to convert all non-tariff agricultural trade barriers, such as quotas, to tariffs, a process referred to as "tariffication." Countries doing so established a two-tiered tariff system (a tariff- rate quota, or TRQ) in which a lower tariff (the in-

[6] Least developed countries do not have to make commitments to reduce tariffs or subsidies.

Table C-3--URAA targets for tariff and subsidy reduction

Items	Developed countries	Developing countries
	Percent	
Tariffs		
Average cut for all agricultural products	36	24
Minimum cut per tariff	15	10
Base period (1986 for existing tariffs) (1986-88 for non-tariff barriers)		
Export subsidies		
Reduction in volume	21	14
Reduction in budget expenditures	36	24
Base period (1986-90)		
Domestic support		
Reduction in total AMS	20	13
Base period (1986-88)		
Implementation period	6 years (1995-2000)	10 years (1995-2004)

Source: WTO (http://www.wto.org/wto/about/agmnts3.htm)

quota tariff rate) applies to product imports below a certain quantitative limit and higher tariffs (the over-quota tariff rate) to imports beyond that limit (USDA, 1998a).

With the lower tariff rates for within-quota imports, TRQs were designed to ensure minimum trade access levels equal to or above a country's recent import levels.[7] TRQs also increase the transparency of protection in agriculture by converting quotas to more easily measurable and comparable units of protection, such as ad valorem (percentage rate) or specific (units of currency per unit of weight) tariffs. As of September, 1997, about 40 percent of the nearly 1,400 TRQs on all commodities were scheduled to have their quota level (the quantity of imports subject to the lower tariffs) increased over the course of the implementation period, implying some increase in market access for agricultural products in general.

Lowering tariff barriers and expanding access levels in countries with TRQs will continue to be an important priority for the United States in any future negotiations. By establishing maximum bound tariff rates and "tariffying" quantitative import limits (through the creation of TRQs), the URAA placed limits on potential tariff increases and established minimum trade access levels, but it appears to have had only a limited impact on U.S. wheat export prospects. This is because the base period (1986 or 1986-88) from which tariff reductions were made was one of very high protection, and tariffs on goods subject to tariffication were frequently exaggerated, a practice known as "dirty tariffication." (USDA, 1998a) In many cases, developing countries were also permitted to designate base period tariffs at levels well above tariff levels that actually existed. One study estimated that tariffs affecting less than 15 percent of world agricultural trade will have become more liberal than base period levels by the end of the implementation period (Finger, et al., 1996; cited in USDA, 1998a).

Tariffs on Wheat—Although the bound levels set a maximum tariff that each country can impose on a product, a look at table C-4 confirms that even with tariff reductions fully implemented, the final bound rates on wheat are still generally much higher than the "applied" tariff levels countries actually choose to impose. Among the countries listed in table C-4, for example, the maximum bound tariff rates on wheat equal or exceed 100 percent in six countries (several of which are major wheat consumers), whereas none charged a duty higher than 50 percent. So despite the effort to increase discipline on the use of tariffs, most countries still have a great deal of room to raise them.

Several examples highlight the ability of wheat importing nations to impose large tariff increases to support certain policy goals. A notable one is India's decision in December 1999 to raise tariffs on wheat imports from duty-free up to 50 percent. India, which recently averaged about 1.7 million tons of wheat imports yearly, raised its tariffs because the price of imported wheat was substantially below the government's selling price to millers, and domestic stocks of government-purchased wheat had grown beyond desired levels.[8] In April 1999, South Africa, which imported an average of 800,000 metric tons of wheat during 1996/97-1997/98 (30 percent from the U.S.), raised its tariff on wheat from zero to about $30 per ton, presumably to support local producers suffering from increased imports.[9] Chile announced this year (2000) that it would impose additional import tariffs on

[7] The URAA required that the quota level be equal or greater than actual imports (or some percentage of domestic consumption) during a recent period, and mandated a reduction in over-quota tariff rates. The URAA also required that imports meet a minimum of 5 percent of domestic consumption by the end of the implementation period. Countries importing over that amount are not required to raise their quota.

[8] FAS GAIN report #IN9087; 12/2/99.

[9] FAS GAIN #SF9014, 4/99.

Table C-4--Base, bound, and applied tariff levels on wheat, selected countries 1/

	Base tariff rate	Bound tariff rate	Applied tariff 2/
		Percent	
WTO member country			
Egypt	n/a	5	1
S. Korea 3/	10	1.8	3
Bangladesh	n/a	200	30
Pakistan	n/a	150	0
India 4/	n/a	100	50
Turkey	200	180	30
Indonesia	30	27	0-5
Philippines 5/	50	30	3
Nigeria	n/a	150	7.5
Chile 6/	35	31.5	50
Australia	0	0	0
U.S. 7/	6.3% or 0.77 cents/kg (whichever is higher)	2.8% or 0.35 cents/kg (whichever is higher)	4% or 0.49 cents/kg (whichever is higher)
Non-WTO members			
Russia	n/a	n/a	5
China	150	114	1
Taiwan	n/a	n/a	6.5
Algeria	n/a	n/a	5

1/ Excludes durum. Applied tariff rates on durum are generally the same, or lower, than other categories of wheat.

2/ Most Favored Nation (MFN) tariff for most recent year available (TRAINS database). If a range is given, it refers to the range of tariffs on the different wheat categories listed on a nation's tariff schedule.

3/ Korea's applied tariff is above the bound rate because it has not reached the end of the implementation period.

4/ FAS GAIN Report #IN9089, 12/21/99.

5/ The 3-percent tariff is on food wheat. The Philippines has a 15-percent tariff on feed wheat (FAS GAIN Report # RP9004; 2/6/99).

6/ Chile recently raised its tariff above the WTO bound level to protect domestic producers from price fluctuations.

7/ The ad valorem (percentage) tariff refers to "wheat and meslin seed." The specific tariff refers to "other wheat and meslin."

Sources: For Base and Bound Tariffs - WTO, "The Results of the Uruguay Round" (CD-ROM), 1996. For Applied Tariffs - UNCTAD, Trade Analysis and Information System (TRAINS, CD-ROM), Winter 98/99; Organ of the International Union for the Publication of Customs Tariffs, Bulletin International des Douanes, "The International Customs Journal," various years and countries; and FAS GAIN Reports where noted.

wheat as part of a "safeguard" action, bringing its overall tariff above the 31.5 percent it had committed to in the Uruguay Round.

Wheat TRQs—Seventeen countries, including some of the world's largest wheat consumers (e.g. EU, Poland, Brazil, and Japan) have TRQs on wheat, and a look at table C-5 shows that high over-quota tariff rates and generally small (lower tariff) access (quota) levels remain a barrier to wheat trade. In some cases, countries with wheat TRQs import far more than the quota level, either because of relatively low applied over-quota tariffs or due to preferential trade arrangements allowing additional low tariff imports from selected trading partners. In most cases, though, the final bound over-quota tariff rate (OQTR), if applied, would be prohibitive to imports beyond the quota level, and quota levels were scheduled to increase only slightly, if at all. In the new negotiations, opportunities for improved market access can come from reduced OQTRs or by increasing the quota level.

In addition to prohibiting or severely curbing imports above the quota level, the administration of tariff-rate quotas will most likely be a topic of negotiation. Some countries allocate the quota to suppliers based on the historical distribution of trade, which limits the opportunity of others to increase market share, and some countries have assigned import rights to state trading enterprises or producer associations. These organizations may limit market access in order to protect domestic producers, resulting in quota "underfill," or may bias the quota distribution to favored suppliers for political reasons (Skully).

Export subsidies—Twenty-five WTO member countries agreed to reduce the volume and value of their subsidized agricultural exports from base period levels (table C-3). Ten countries made specific commitments to reduce subsidized wheat and wheat flour exports. These include five of the eight largest wheat exporters listed in table C-2: the United States, the European Union, Canada, Turkey, and Hungary. Of the total volume of subsidized agricultural exports permitted each year by the URAA, the quantity allowed for wheat and wheat flour is the highest of any commodity, reflecting its position as one of the most heavily subsidized agricultural commodities in global commerce.[10] Although

[10] If all countries shipped the maximum permitted volumes of subsidized exports for each product, wheat and wheat flour would account for over one-half of the total volume (USDA, 1998a).

Table C-5--Wheat TRQs: Provisions of selected countries

	Final bound rates		Applied tariff rates 1/		Quota		1998 imports
	IQTR	OQTR	IQTR	OQTR	Initial	Final	
	Percent				1,000 metric tons		
Member country							
Brazil	0	55	13	13	750	750	7,000
Morocco 2/	n/a	144	34	33.5 +	1,555	1,555	2,560
Mexico	50	$90/mt (but no less than 67%)	67	67	605	605	2,485
EU15 3/	0	95 ecu/mt	0	113 ecu/mt	300	300	3,800
Japan 4/	0-20%	55 yen/kg	0-20% (or 10.5 yen/kg)	58.3 yen/kg	5,565	5,740	5,880
Venezuela	30	118	15	15	1,271	1,271	1,265
Canada 5/	C$1.90 per ton	76.5%	C$3.16/t	83%	136	227	147
Israel	85	128	0	0	450	450	1,490
Colombia	n/a	124	5-15	5-15	692	692	1,100
South Africa 6/	n/a	72	n/a	$30/t	97	108	560
Switzerland 7/	35	n/a	n/a	200+	70	70	135
Poland 8/	25	64% but no less than 96 ecu/mt	70	70	280	280	460

1/ Most Favored Nation average. When the applied tariff exceeds the final bound tariff rate, it indicates the country has not reached the end of its URAA implementation period. Applied rates are most recent year available from TRAINS data base or FAS GAIN reports.

2/ For "bread wheat." There is a base duty of 18.5 percent and an import tax of 15 percent. There is an additional tariff applied on the difference between a threshold price the C&F price. In 1998, with a threshold price of $215/ton, the additional duty would exceed 100% (FAS GAIN Report #MO9019, 10/23/98.

3/ The EU quota is for "quality wheat." The import figure excludes intra-EU trade.

4/ Comprehensive quota for "wheat, meslin, triticale, and their processed products." The bound IQTR is 0 percent for wheat and up to 25 percent for some processed goods.

5/ Quota is for all wheat.

6/ Quota is for "wheat or wheat equivalent." The applied OQTR as of 4/99 is 181 Rand/ton (appx. $30/ton).

7/ The applied OQTR was about $230/ton in 1998 (over 200 percent). FAS GAIN #SZ8015, 9/98.

8/ Poland has a lower tariff for durum from EU origin and other preferential arrangements. Applied tariffs are normal trade relation (NTR) tariffs as of 4/99 (FAS GAIN Report #PL9016, 4/28/99).

Sources: For Base and Bound Tariffs – WTO, "The Results of the Uruguay Round" (CD-ROM), 1996; and FAS, USDA (http://www.fas.usda.gov/wto/ve/ve15.pdf); For Applied Tariffs – UNCTAD, Trade Analysis and Information System (TRAINS, CD-ROM), Winter 1998/99; Imports – PS&D view.

countries have generally remained well below their subsidized export limits, URAA export subsidy commitments have lowered the potential volume of subsidized wheat exports from about 40 percent of world trade in 1994 to about 25 percent in 2000 (USDA, 1998b).[11]

Limitations on export subsidies for wheat and wheat flour are an important discipline on trade-distorting policies, since these subsidies were heavily used, particularly by the EU and the United States, in the decade or so preceding the URAA. Between 1986 and 1995, the United States assisted an average of about half of its wheat exports, amounting to nearly 170 million tons, through the Export Enhancement Program (EEP), and expenditures ("bonuses") on wheat totaled about $5.5 billion (Ackerman, 1999). In recent years, however, the United States has sharply cut back on the use of export subsidies. After awarding "bonuses" of about $240 million on nearly 14 million metric tons of wheat in fiscal 1995, the U.S. has not used EEP to subsidize wheat or wheat flour exports.

As for the EU, expenditures on export subsidies for wheat and wheat flour generally exceeded those of the United States prior to the URAA. In addition, the EU has continued to rely on subsidies to promote wheat and flour exports since 1995, although it has not exceeded its Uruguay Round commitments. In 1995 and 1996, EU expenditures on export subsidies accounted for over four-fifths of all such spending on agricultural products (notified) by WTO members, and as indicated in table C-6, the EU accounted for 75 percent of

[11] The exception is the EU, which has used about 58 percent of its permitted export subsidy volume between 1995 and 1997. Details are discussed in a later section.

Table C-6--Export subsidy commitments and export subsidies, (wheat and wheat flour)

	1995		1997		Final binding	
	Volume	Value	Volume	Value	Volume	Value
	1,000 mt	Millions	1,000 mt	Millions	1,000 mt	Millions
European Union 1/						
Commitment	19,118	2,069 ecu	16,845	1,698 ecu	13,436	1,141 ecu
Actual	2,768	119	13,038	177		
($U.S. equivalent)		($155)		($201.6)		
United States						
Commitment	20,239	765.5	17,951	604.8	14,522	364
Actual	14,000	240.0	0	0		
($U.S.)						
Canada						
Commitment	13,590	326.8	11,695	275.7	8,851	199.1
Actual	0	0	0	0		
(Canadian dollars)						
Hungary						
Commitment	1,393	1,931 Forints	1,292	1,685 Forints	1,141	1,315 Forints
Actual	640	760	0	0		
($U.S. equivalent)		($6.1)				
Turkey						
Wheat			1,762	504	493	274
Commitment	2,125	640	0	0		
Actual	0	0				
Wheat flour						
Commitment	475	9.5	382	7.7	1.4	56
Actual	367	5.5	0	0		
($U.S.)						
Other countries 1/						
Commitment	2,512	n/a	1,279	n/a	n/a	n/a
Actual	14	n/a	0	n/a	n/a	n/a

1/ Other countries notifying export subsidy commitments for wheat include Bulgaria, the Czech Republic, Mexico, Slovakia, and South Africa. South Africa eliminated its export subsidy program in 1997.

Sources: WTO, "The Results of the Uruguay Round" (CD-ROM), 1996; WTO, "Export Subsidies: Background Paper by the Secretariat" AIE/S3, November 3, 1997; WTO, "Export Subsidies: Background Paper by the Secretariat, Revision" AIE/S3/Rev.1, August 11, 1999.

all subsidized wheat and wheat flour exports, by value, between 1995 and 1997 (the most recent year for which consistent data are available).[12]

Prompted in part by concerns over meeting its URAA export subsidy commitments, the EU (as part of its Agenda 2000 reforms of its Common Agricultural Policy) will cut its domestic support prices for cereals (including wheat) by 15 percent and reduce the base rate of land set-aside from production from 17.5 percent to 10 percent. In combination with more land available for wheat production, a shift in production from oilseeds (which face a 30-percent reduction in compensatory payments) and other grains could increase EU wheat production (Leetmaa, 1999). ERS analysis indicates that EU wheat could be competitive in world markets without export subsidies by 2004 if world prices rise and exceed the internal EU wheat support price (USDA, 2000b).

Direct export subsidies by other major wheat exporters were uncommon before the URAA, and have been generally insignificant among countries making export subsidy commitments since the agreement. Many countries, including the United States, have called for the complete elimination of export subsidies. Immediate elimination of these subsidies would probably have a positive impact on U.S. exports in the near future, as the United States and other countries could gain market share at the expense of the EU. Such an agreement would also restrain other countries (those that made no export subsidy commitments) from using export subsidies.

Domestic support—Policies such as price supports and other types of subsidized production have the potential to distort trade flows by reducing imports below levels that would normally occur, or by encouraging the use of export subsidies to dispose of excess domestic production. The URAA required countries to reduce and cap total outlays, as measured by the Aggregate Measurement of Support (AMS), on certain domestic policies that provide producers with direct incentives to increase production. For developed countries, the AMS is to be reduced from base period (1986-88) amounts by 20 percent over a 6-year (implementation) period (table C-3).

[12] Values for 1996 not shown in table B-6.

The EU and the United States, net wheat exporters, and Japan, a major wheat importer, have the most substantial domestic support programs of the 29 WTO members that agreed to these limits. Of the $285 billion spent on agricultural support programs by the 29 countries in 1995, the EU ($113 billion), Japan ($70 billion), and the United States ($61 billion) accounted for about 85 percent. For the EU and Japan, the majority of that spending (50-55 percent) was on "amber box" policies that counted towards their AMS limits, in contrast to only 10 percent for the United States.

The URAA divided support on domestic programs into three categories indicating the relative trade-distorting effects of the policies: 1) "amber box" policies, such as price supports, marketing loans and loan deficiency payments, which are subject to reduction and final spending limits; 2) "blue box" policies, which are exempt from limits because payments are tied to production limitations by basing payments on fixed area or yield, or on a maximum of 85 percent of base production; and 3) "green box" policies, such as domestic food aid (e.g. food stamps) and de-coupled income support (e.g. U.S. production flexibility contract payments) which are also exempt from limits.

Only amber box policies count towards the AMS limits each country can provide. In addition, support from policies that would otherwise be considered "amber box" are not counted towards the AMS if support for a specific commodity is equal to or less than 5 percent of the value of that commodity's production in any given year. This is known as the *de minimis* exemption. The *de minimis* exemption also applies to non-commodity specific programs, such as crop insurance, as long as support for all such programs remains below 5 percent of the value of all agricultural production.

To the extent that AMS limits lower spending on programs that boost production in wheat exporting or importing countries, the result may be a reduction in subsidized exports by exporting countries, increased imports by importing countries, and higher prices for wheat traded in global markets. It is difficult to predict what impact these spending limits will have on U.S. wheat production and exports, though, because the AMS limits are non-commodity specific. That is, the URAA disciplined aggregate spending on trade distorting domestic support programs, rather than spending on particular commodities, although commodity specific spending contributes to the AMS if it exceeds the *de minimis* level. This feature gives countries some discretion on how to establish individual commodity policies.

Countries with the largest domestic support programs had little difficulty remaining below their AMS limits between 1995 and 1997 (the most recent year for which data are available). In 1997, the U.S. AMS amounted to $6.24 billion, less than 30 percent of its AMS ceiling for that year. The EU, with an AMS ceiling of $89 billion, and Japan, with a ceiling of $39.7 billion, spent far more than the United States on amber box policies but each remained at about 70 percent of their AMS ceilings.[13] One of the reasons countries have had little difficulty staying within AMS limits is that the 20-percent reduction in AMS required by the URAA was from a base period (1986-88) that was characterized by very high spending on domestic support programs. Another is that the EU and United States, as well as countries such as Japan, Korea, and Switzerland, have "re-instrumented" (changed) policies to avoid exceeding AMS limits.

In the United States, for example, the 1996 Farm Act replaced deficiency payments with market transition payments (production flexibility contracts - PFC's), but neither of these counted towards the United States' AMS commitments. Deficiency payments were considered an exempt blue box policy because payments were contingent upon participation in production limiting programs. PFC's were categorized as green box because the payments were completely de-coupled from current production and prices.

As an amber box policy, though, marketing loan benefits for wheat are counted towards the U.S. AMS if the value of these payments exceeds the 5 percent *de minimis* level, which was not the case between 1995 and 1997. In 1998/99, about 55 percent of the U.S. wheat crop received a loan deficiency payment (LDP) averaging about 29 cents per bushel. This amounted to about $400 million, which is below 5 percent of the value of that year's crop. Because of falling farm incomes and weather-related disasters, the U.S. Congress provided supplemental emergency assistance (AMTA) payments to recipients of PFC payments in both 1998 and 1999, but no decision has been made on how the supplemental payments will be notified to the WTO (Childs and Hoffman, 1999).

In the EU, changes since the base period have put its compensatory payment support program for wheat into the exempt "blue box" category of domestic support. This is because support for EU wheat producers is tied to production limitations based on fixed area and yields. Although not counted towards the EU's AMS, compensatory payments to EU cereal (including wheat) producers totaled about $11 billion in 1995/96 and $12 billion in 1996/97.[14] The intervention market price support provided by the EU to wheat producers does count against the AMS limit, however. The product specific AMS from price support for "common" wheat in the EU totaled about $3.3 billion in 1995/96 and $3.6 billion in 1996/97 (about 3.5 percent of the EU's AMS ceiling for those years).[15]

It is uncertain whether there will be further discussions on "amber" and "blue" box policies in the upcoming negotia-

[13] Source: WTO notifications, compiled by Fred Nelson, ERS.
[14] The exchange rate was $1.288 per ECU in 1995 and $1.2 per ECU in 1996.
[15] Source: WTO (september 21, 1999)

tions. The U.S. position is that criteria contained in the "green" box have allowed member countries to provide appropriate and legitimate support to farmers in a manner that minimizes distortions to trade, and that the "green" box exemption should continue to support the objectives of minimizing the link between support and production (USTR).

Other Issues

State Trading Enterprises (STEs)—According to a recent ERS publication (Ackerman and Dixit, 1999), state trading enterprises (STEs) can affect trade by influencing domestic and international prices in ways similar to the use of import tariffs and export subsidies. Negotiations in this area could be important for the U.S. wheat industry since STEs account for more than one-third of global imports, and trade in six of the top twelve wheat importing countries between 1995 and 1998 were controlled by STEs with exclusive importing rights (Ackerman and Dixit, 1999). STEs can limit imports either directly, by acting as a monopoly importer, or indirectly by controlling the distribution or availability of import licenses and foreign exchange to private firms. Examples of countries that use STEs to regulate or control part or all of wheat imports include Japan , India, Egypt, and a number of countries outside of the WTO, such as China, Taiwan, Russia, Algeria, and Iran.[16]

Among wheat exporting countries, STEs accounted for about 40 percent of wheat exports between 1994 and 1998. The Canadian Wheat Board (CWB) and Australian Wheat Boards are the major STEs involved in wheat exports. Although the United States (when using EEP) and the EU (through the export of EU intervention stocks) regulate wheat exports, neither the United States nor the EU act as "single desk" sellers of wheat as do the CWB and AWB.

The WTO does have some guidelines governing STEs, but many countries are calling for stricter controls since the lack of transparency in STE pricing and operational activities has caused concern that these activities are used to circumvent URAA export subsidy and market access commitments. There is also the concern that STEs may become more active in managing trade in the future if market access and export subsidy rules become more disciplined. Recently though, some countries have begun to reform import rules to allow private companies to import wheat. In 1998, for example, Indonesia's BULOG made an agreement with the International Monetary Fund to allow private firms to import wheat and flour, and Morocco opened wheat imports to private traders in 1996. Pakistan briefly allowed private imports in 1998/99.

Country Accession to WTO—The WTO counts most of the world's major trading partners among its members, but several nations, including China, Taiwan, Russia, and Vietnam, are not yet members and are therefore not bound to its rules. China, which as recently as 1995/96 imported 12.5 million tons of wheat, reached an agreement at the end of 1999 with the United States on the terms of its accession to the WTO. Chinese wheat imports are now only about 1 million tons (1998/99), with the United States accounting for less than 30 percent of those imports (FATUS). Nevertheless, accession on the terms agreed to by the United States and China could have a favorable impact on U.S. wheat exports.

China currently maintains low applied tariffs on wheat, but two aspects of the agreement in particular could improve access to China's market. First, as part of the *Agreement on U.S.-China Agricultural Cooperation*, China has removed the long-standing ban on U.S. wheat (and other grains) from the Pacific Northwest due to TCK (*Tilletia controversa* Kuhn), a mold that can, under certain conditions, damage wheat. In signing the agreement, China recognized that imported wheat does not pose a threat to its domestic wheat crop, and may now be imported.[17]

Second, China has agreed to establish, upon its accession to the WTO, a TRQ for wheat with an initial quota of 7.3 million tons, rising to 9.636 million by 2004.[18] A 10-percent share of the quota has been reserved for importation through entities other than state trading entities. Previously, the Chinese STE for cereals had exclusive authority to import grains. In addition, quota allocations unused by state or private traders by October 1 of any given year can be reallocated and used by any authorized importer (USDA, FAS,12/99). The in-quota tariff rate will be fixed at below 10 percent (1 percent for grain, including durum), and the over-quota tariff rate will be capped at 65 percent.

China has also agreed to forego the use of export subsidies, to cap and reduce domestic support for agriculture, and to abide by the WTO agreement on SPS measures. A recent USDA analysis of the anticipated trade effects of China's WTO accession concluded that, by the year 2005, China's net wheat imports could increase more than $500 million over original USDA projections (USDA, 2000b), which had assumed no accession by China (Colby, Price, and Tuan, 2000).

Sanitary and Phytosanitary Agreement (SPS)—Many countries have phytosanitary regulations governing wheat trade. Several have been controversial and have emerged as important issues in previous trade negotiations. The most

[16] Private traders in Iran have recently imported significant quantities of corn from the United States., but perhaps due to greater government involvement in wheat trade, no purchases of U.S. wheat have been made.

[17] Foreign Agricultural Service, USDA, "Grains: World Markets and Trade," 12/99.

[18] The TRQ is not a minimum purchase requirement, but the agreement does require China to establish access opportunities for the full quota amount. The agreement also introduces private trade and increased transparency of the import process to maximize the likelihood that quotas will fill.

notable were China and Brazil's stringent limits on TCK smut and Brazil's controls on Karnal bunt, other fungi, and weed seeds between 1995 and 1998. In some countries, such as India and Turkey, phytosanitary regulations have been used as justification for rejecting some incoming shipments of wheat. Uncertainty about phytosanitary standards and their implementation increases exporters' risks in selling wheat to such markets.

The Uruguay Round Sanitary and Phytosanitary (SPS) Agreement imposed new rules and procedures on measures countries may take to protect human, animal or plant life or health. The agreement required that regulations be based on science and should not be arbitrary or discriminate between countries where there are similar conditions. This Agreement could increase the transparency of countries' SPS regulations and provides an improved means for settling SPS-related trade disputes (USDA, 1998a).

Export Credit Guarantees and Export Taxes—A potential issue related to the upcoming negotiations is the discussion on export credits and credit guarantees currently taking place in the Organization for Economic Cooperation and Development (OECD). Export credit guarantees are not considered export subsidies under the WTO, but some U.S. competitors may argue that export credits and credit guarantees should be treated as a subsidy. The United States continues to engage in negotiations on credit disciplines in the OECD, and has submitted proposals in an attempt to move discussions forward in that forum.

Additional discussions in the WTO could include limitations on export taxes, such as the tax on wheat exports imposed by the EU in 1995 and 1996. Export taxes restrict the quantity of a commodity available on world markets and tend to raise world prices above what they would be otherwise. Under current WTO rules, restrictions on exports, such as export embargoes, are supposed to be used only in emergencies, and a country imposing such restrictions is required to notify the WTO of its actions.

Trade in Genetically Engineered Commodities—Presently, there is no transgenic wheat being grown in the United States. Therefore, foreign regulations have not had a direct impact on U.S. wheat producers or exports. However, with the introduction of transgenic wheat varieties possible in the next several years, the outcome of any potential discussions on trade rules governing genetically engineered crops could have a big impact on U.S. wheat producers.

Conclusions

As the world's leading exporter, the U.S. wheat sector has much to gain from reforms of agricultural trade rules. The Uruguay Round Agreement on Agriculture (URAA) was a major first step in this process, but further gains are possible. Most major net wheat importing countries increased wheat imports after the agreement, but greatly reduced imports by Russia and China have meant that the volume of global wheat trade has declined since the agreement. The U.S. share of global wheat trade has also remained fairly constant despite rising production between 1995/96 and 1998/99. In the new multilateral agriculture trade negotiations, important issues could include increased market access, continued reductions in trade-distorting domestic support programs and export subsidies, and tighter disciplines on state trading enterprises. Progress on these issues could enhance market opportunities for the U.S. wheat sector.

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