

## Upcoming World Trade Organization Negotiations: Issues for the U.S. Oilseed Sector

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**Abstract:** Output of oilseeds and oilseed products in the United States has risen substantially in the past 20 years. U.S. exports of these oilseeds and products have fluctuated over this period, but the U.S. share of global exports has experienced a downward trend. Forthcoming World Trade Organization (WTO) negotiations in Seattle are likely to include issues important to the U.S. oilseed industry's trade prospects. Issues could include increased market access, continued reduction in domestic support programs and export subsidies, tighter disciplines on State Trading Enterprises, and uniform world trading rules and regulations for genetically engineered commodities. The possibility of WTO accession by China and Taiwan is also an important related issue. Enhanced market opportunities for the U.S. oilseed sector depend, in part, upon progress on these issues.

**Keywords:** Oilseeds and products, trade, policy, WTO, market access, tariffs, tariff-rate quota, export subsidy, domestic support.

### **Introduction**

The next round of multilateral trade negotiations under the World Trade Organization (WTO) begins in Seattle, Washington, on November 30, 1999. Officials from member countries of the WTO will initiate negotiations on agricultural trade and other trade-related topics. These discussions will continue the process of reforming agricultural trade rules begun in the Uruguay Round, which concluded in 1994. Although world trade in whole oilseeds is generally characterized by low to moderate applied tariffs, "bound" tariff rates—the maximum allowable under a country's WTO commitments—are in many cases still quite large among major consumers and importers of oilseeds. In addition, applied tariff rates on oilseed products, particularly on oils, are often greater than on whole oilseeds, a situation referred to as tariff escalation. Non-tariff policies, such as domestic price supports and differential export taxes, also have the potential to distort trade in these products. With more than one-fifth of U.S. agricultural export revenue coming from oilseeds and oilseed products, the U.S. oilseed sector naturally is interested in the outcome of the new round of negotiations. (Glossary of terms can be found in U.S. Department of Agriculture 1996 and Nelson 1997).

This article examines trade in the world oilseed market, identifies important producer, exporter, and importer countries, and assesses policy's role in affecting trade. Next,

accomplishments of the Uruguay Round are examined. Lastly, issues affecting oilseed sector trade that may be a part of the upcoming WTO Round will be discussed.

### **Trade in the U.S. and World Oilseed Market**

U.S. oilseed crops represent a significant share of total U.S. field and miscellaneous crop output, accounting for about one-third of this category's output (U.S. Department of Agriculture 1999c). In 1997 and 1998, U.S. oilseed and oilseed product sales averaged over \$34 billion, with \$20 billion coming from the sale of whole oilseeds, and the remainder about equally divided between oilseed meal and oils. In the United States, production of soybeans far outstrips that of all other oilseeds combined. Between 1995 and 1998, whole soybean output averaged 68 million metric tons, followed distantly by cottonseed (5.9 tons), sunflowerseed (1.8 tons), peanuts (1.6 tons), and other oilseeds (0.4 ton). The distribution of oilseed meal and oil production is naturally similar, with soymeal accounting for 93 percent and soy oil 86 percent of these oilseed products by volume (U.S. Department of Agriculture, 1999a).

Oilseed and oilseed product exports represent a significant source of demand for U.S. producers and make a large net contribution to the U.S. agricultural trade surplus. Between 1995 and 1998, exports accounted for an average 30 percent of domestic oilseed output, 20 percent of meal, and 17 percent of vegetable oil production by volume. In fiscal 1998, U.S. oilseed and product exports were nearly \$11 billion,

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representing more than one-fifth of all U.S. agricultural exports by value, and over half (\$8.85 billion) of the trade surplus recorded by the agriculture sector (U.S. Department of Agriculture, 1999b). Among all agricultural products, only grains and feeds outrank the oilseed sector in total export value and net exports.

Main export destinations for U.S. oilseeds, oilseed meal, and vegetable oil include the European Union (EU), Japan, Mexico, Canada, China and Taiwan. Together, these countries accounted for \$6.8 billion, or two-thirds, of U.S. oilseed and product exports in the last several years. Other important markets include South Korea, Indonesia, and Thailand. The Philippines, Saudi Arabia, and Venezuela also

import significant quantities of U.S. oilseed meals. Vegetable oil exports are more dispersed and were heavily influenced in the early 1990s by U.S. export programs such as the Export Enhancement Program (EEP) and concessional export programs such as P.L. 480 that target developing nations. Imports of oilseeds and products are a less important part of U.S. agricultural trade, amounting to \$2.2 billion in 1997-98. Imports are composed mainly of rapeseed and rapeseed products from Canada, olive oil from the EU, and tropical oils from the Philippines, Indonesia, and Malaysia. Major export markets for U.S. oilseeds and oilseed products, and important suppliers to the U.S. market are shown in table B-1.

Table B-1--U.S. oilseed and product trade by major destination or source countries, 1997-98 average

Item	U.S. exports		Source	U.S. imports	
	Value	Share of U.S. exports		Value	Share of U.S. imports
Destination	Million dollars	Percent		Million dollars	Percent
<b>Oilseeds 1/</b>					
EU15	2,241	32.4	Canada	226	62.0
Japan	1,047	15.1	Guatemala	19	5.2
Mexico	869	12.6	Mexico	14	3.8
Taiwan	480	6.9	Other	102	28.0
China	376	5.4	Total	365	
S. Korea	361	5.2			
Indonesia	200	2.9			
Other	1,340	19.4			
Total	6,914				
<b>Oilseed Cakes and Meals 2/</b>					
EU15	372	20.5	Canada	174	96.1
Taiwan	200	11.0	Other	7	3.9
Canada	180	9.9	Total	181	
Philippines	145	7.9			
China	122	6.7			
Saudi Arabia	101	5.6			
Venezuela	98	5.4			
Japan	74	4.1			
Other	523	28.8			
Total	1,815				
<b>Vegetable Oils 3/</b>					
Mexico	262	13.1	EU15	430	25.7
China	242	12.1	Canada	403	24.1
Canada	208	10.4	Philippines	304	18.1
EU15	156	7.8	Malaysia	226	13.5
Japan	76	3.8	Other	312	18.6
Saudi Arabia	72	3.6	Total	1,675	
Turkey	59	2.9			
S. Korea	56	2.8			
India	47	2.4			
Other	825	41.2			
Total	2,003				

1/ Imports are primarily rapeseed and linseed from Canada, Sesame seed from Mexico and Guatemala, and soybeans from Brazil and Canada. Soybeans account for 88 percent of U.S. oilseed exports by value. 2/ Imports consist primarily of rapeseed meal from Canada. Soybean meal accounts for 96 percent of U.S. exports by value. 3/ Main imports include coconut oil, canola and rape oil, and olive oil. Data on U.S. vegetable oil exports includes Corn Oil as well as Other Vegetable Oils and Waxes, in addition to oils derived from oilseeds.

Sources: USDA, Economic Research Service, Foreign Agricultural Trade of the United States (FATUS), 1997 and 1998 calendar years average.

Composition of U.S. imports is from the Food and Agriculture Organization (FAO) of the United Nations website

(<http://apps.fao.org/cgi-bin/nph-db.pl?subset=agriculture>)

## World Oilseed Market

The United States, China, Brazil, India, Argentina, the EU, and Canada produce about 70 percent of the nearly 300 million metric tons of global oilseed output, and the United States, Brazil, Argentina, and the EU account for over 80 percent of world oilseed exports. With world oilseed output dominated by a small group of nations, trade in whole oilseeds has been less restricted by tariffs and other border measures than many other agricultural products, but the same is less true with oilseed products—meal, but vegetable oils in particular. Applied tariffs on soybean oil, for example, average about 20 percent for the world's top consumers and importers of the commodity, compared to rates typically at or below 10 percent for soybeans (table B-8). Both exporters and importers have also used other trade distorting policies—such as differential export taxes in Argentina and in Brazil (prior to 1996) or production subsidies in the EU—that have been the source of trade complaints by WTO member countries. These policies, which create incentives to boost domestic oilseed production and encourage exports of processed products, tend to displace U.S. oilseed exports and shift the composition of U.S. exports towards whole oilseeds and away from higher value-added oilseed meals and vegetable oils.

One issue for U.S. producers is that despite substantial growth in oilseed and product output in the past 25 years and recent gains in export volume, the U.S. share of global exports has steadily diminished (figures B-1 and B-2). In the

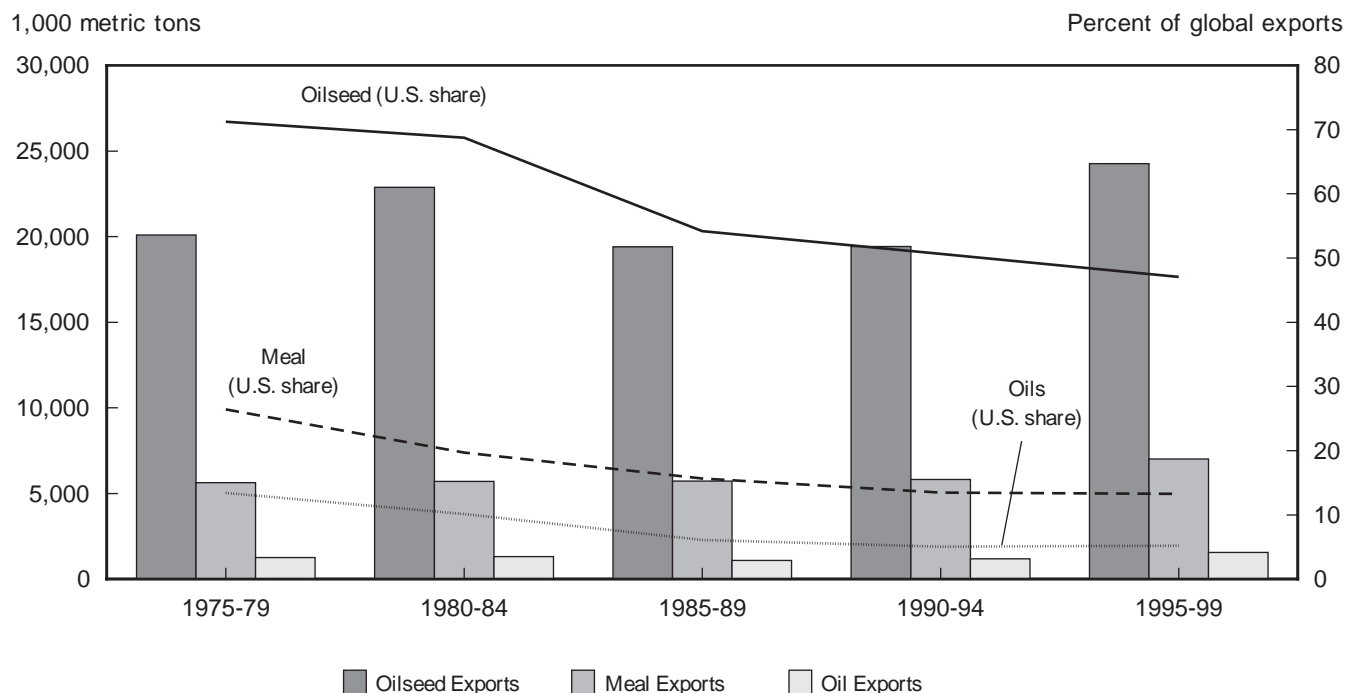
mid- to late 1970's, the United States dominated world (whole) oilseed trade, with a market share of more than 70 percent. Recently, this figure has fallen below one-half. From a smaller base, the United States has seen its share of oilseed meal and vegetable oil exports fall even more sharply, particularly before 1990.

There are a number of reasons for the declining share of global exports. Domestic price support policies in the EU and differential export taxes by Argentina and, until recently, Brazil have altered the volume and composition of U.S. exports. Another reason is the recent expansion of U.S. meat exports, thereby increasing domestic meal use rather than contributing to exports of soybeans or soybean meal. Perhaps the most important cause of the relative decline in U.S. exports is simply the increased foreign output of competing oilseeds and products. U.S. oilseed and product output and share of global production are illustrated in figure B-2.

**Soybeans and Products**—A particularly important development has been the phenomenal growth of foreign soybean output and exports, particularly by Brazil and Argentina. Since soybeans represent nearly 90 percent of total U.S. whole oilseed output and just below three-quarters of world whole oilseed trade, production and trade developments for this commodity and its derivatives are particularly important to the U.S. oilseed sector. Foreign soybean output now exceeds that of the United States, and Brazil and Argentina currently share approximately 30 percent of the soybean

Figure B-1

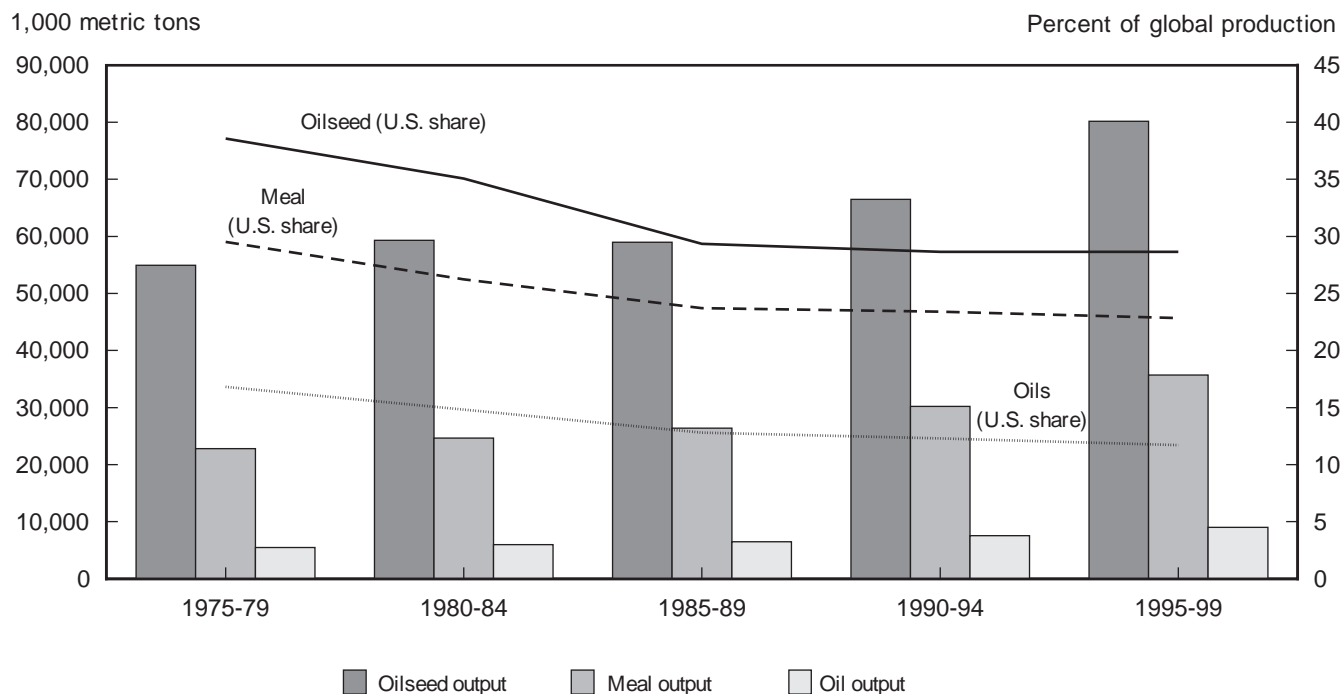
### U.S. oilseed and product exports: Volume and share of global trade



Source: Economic Research Service, PS&D View.

Figure B-2

**U.S. oilseed and product output: Volume and share of global output**



Source: Economic Research Service, PS&D View.

export market, up from less than 15 percent before 1980. With increased foreign production, and more rapid expansion of trade in soy products than whole beans, Brazil and Argentina have each overtaken the United States in soy meal exports, and the United States now ranks fourth in soy oil exports behind these two countries and the EU.<sup>2</sup>

Other notable developments in the export markets include the growth of Paraguay as an exporter of whole beans, and China's shift from an important exporter of soybeans and meal in the late 1980's, to a top importer of soy products, particularly oil. India has also expanded soybean production since the mid-1970's, but its presence in export markets is limited to soy meal, as domestic demand for oil far exceeds that of meal.

Changes in soybean import markets in recent decades have been characterized by slow stable growth among the major developed economy importers (EU, Japan) and more rapid growth among the East Asian developing economies (China, Taiwan, Korea, Indonesia). The growth of soy meal imports in the last several decades has been widely dispersed, with the EU, Southeast Asia, and the Middle East and North Africa accounting for most of the gains. China, and to a certain extent the Middle East and North Africa, have provided much of the new demand for soy oil exports.

<sup>2</sup> In this article, trade data referring to the EU include intra-EU shipments.

**Other Oilseeds and Products**—In addition to new competition from foreign soybean growers, U.S. producers also compete for customers with other oilseed crops and products that are primarily grown abroad, such as rapeseed and products from the EU and Canada, and palm oil from Malaysia and Indonesia. Soybeans have maintained their share of global oilseed production at around 50 percent over the past 20 years, but soybean exports have diminished somewhat as a share of global oilseed exports, as has soybean oil (U. S. Department of Agriculture 1999c).

Cottonseed (12 percent), rapeseed (12), peanuts (10), and sunflowerseed (9) each account for a significant portion of global oilseed production (table B-2). Of these, only rapeseed (13 percent) and sunflowerseed (8), however, capture more than 5 percent of global oilseed trade. Among oilseed meal, soybean meal is again first with 64 percent of world meal production, followed by rapeseed meal (12 percent), cottonseed meal (8), sunflowerseed meal (6), and peanut meal (4), with copra and palm kernel each accounting for less than 2 percent (table B-3). Again, other than soybean meal, only rapeseed meal (8 percent)—mostly from the EU, Canada, and India—and sunflowerseed meal (6)—mostly from Argentina and the EU—capture more than 5 percent of global oilseed meal trade.

The composition of major vegetable oils and the distribution of world production and exports are quite different from the oilseed and protein meal markets. Vegetable oils is the only

Table B-2--Major world oilseed producers, exporters, and importers 1/

Commodity	Commodity's share of world oilseed trade	Leading exporters		Leading importers		Commodity's share of world oilseed production	Leading producers	
		(Share of world exports)		(Share of world imports)			(Share of world production)	
Percent								
Soybeans	74.0	United States	59	EU15	41	53.3	United States	48
		Brazil	23	Japan	13		Brazil	20
		Paraguay	6	Mexico	8		Argentina	11
		Argentina	6	China	8		China	9
				Taiwan	6			
				S. Korea	4			
Rapeseed	12.9	Canada	44	EU-15	36	12.1	China	27
		EU-15	39	Japan	30		EU-15	25
				China	12		Canada	19
				Mexico	9		India	17
Sunflower	7.8	Russia	25	EU-15	74	8.7	Argentina	24
		EU-15	24	Turkey	13		EU-15	16
		Ukraine	22	Mexico	4		Russia	12
		Argentina	11				E. Europe	11
							Ukraine	9
						US	8	
Peanut	2.9	China	21	EU-15	38	10.0	China	38
		US	20	Indonesia	16		India	29
		Argentina	14	Canada	8		US	6
		Vietnam	11	Japan	8		Indonesia	4
		India	8					
Cottonseed	1.8	Australia	29	EU-15	25	12.1	China	23
		EU-15	12	Japan	20		US	17
		US	10	US	10		India	16
		Tajikistan	4				Pakistan	9
		Turkmenistan	4				Uzbekistan	6
Other	0.6					3.8		

1/ All numerical references are to 1996/97-1998/99 averages. 1998/99 data are preliminary. Totals may not equal 100 percent due to rounding. Data for the European Union (EU) include intra-EU trade.

Source: Economic Research Service, PS&D View.

Table B-3--Major world oilseed meal producers, exporters, and importers 1/

Commodity	Commodity's share of world meal trade	Leading exporters		Leading importers		Commodity's share of world meal production	Leading producers	
		(Share of world exports)		(Share of world imports)			(Share of world production)	
Percent								
Soymeal	70.7	Argentina	30	EU-15	46	63.5	US	34
		Brazil	28	M.E. & N.A 2/	9		Brazil	16
		US	19	China	8		Argentina	12
		EU-15	13	E. Europe	5		EU-15	12
				Philippines	3		China	8
Rapemeal	7.9	EU-15	35	EU-15	53	11.9	China	30
		Canada	31	US	26		EU-15	24
		India	17	Korea	11		India	19
		E. Europe	10				Canada	9
Sunflower meal	6.0	Argentina	65	EU-15	83	6.3	EU-15	29
		EU-15	24	M. East	6		Argentina	22
		E. Europe	6	Thailand	4		E. Europe	12
							Russia	6
							Ukraine	5
				US	5			
Peanut meal	1.0	India	46	EU-15	46	3.7	India	46
		Sudan	13	Thailand	24		China	38
		Argentina	12	Indonesia	14		Burma	2
		Senegal	10				US	2
		EU-15	7					
Cottonseed meal	1.5	Argentina	28	EU-15	38	7.6	China	25
		China	27	S. Korea	34		India	17
		US	13	Mexico	9		US	12
		Zimbabwe	6				Pakistan	10
							Uzbekistan	7
Other	12.9					7.0		

1/ All numerical references are to 1996/97-1998/99 averages. 1998/99 data are preliminary. Totals may not equal 100 percent due to rounding.

Data for the European Union (EU) include intra-EU trade.

2/ Middle East and North Africa.

Source: Economic Research Service, PS&D View.

Table B-4--Major world vegetable oil producers, exporters, and importers 1/

Commodity	Commodity's share of world oils trade	Leading exporters		Leading importers		Commodity's share of world oils production	Leading producers	
		(Share of world exports)		(Share of world imports)			(Share of world production)	
Percent								
Palm oil	40.2	Malaysia	62	EU-15	21	23.2	Malaysia	50
		Indonesia	21	India	13		Indonesia	30
		Singapore	7	China	11		Nigeria	4
				Pakistan	8			
Soy oil	22.4	Argentina	35	China	23	29.0	US	35
		EU-15	21	Iran	9		Brazil	17
		Brazil	19	EU-15	7		EU-15	12
		US	16	India	6		Argentina	11
				Brazil	3		China	7
Rape oil	9.0	EU-15	58	EU-15	36	15.6	EU-15	27
		Canada	29	US	19		China	26
		US	5	China	11		India	15
				Russia	5		Canada	11
Sunflower oil	11.9	Argentina	44	EU-15	20	11.2	EU-15	26
		EU-15	29	India	10		Argentina	25
		US	9	Iran	8		E. Europe	11
				Egypt	8		Russia	8
				Mexico	7		Ukraine	6
Peanut oil	0.9	EU-15	21	EU-15	67	5.6	India	42
		Senegal	20	Hong Kong	11		China	39
		Argentina	19	US	6		Burma	2
		Sudan	12	China	5		US	2
Cottonseed oil	0.9	Uzbekistan	29	India	14	4.8	China	25
		US	29	Egypt	10		India	16
		Argentina	20	El Salvador	10		US	13
				S. Korea	8		Uzbekistan	7
Other (Coconuts, Palm kernel, linseed, olive oils)	14.7					10.6		

1/ All numerical references are to 1996/97-1998/99 averages. 1998/99 data are preliminary. Totals may not equal 100 percent due to rounding. Data for the European Union (EU) include intra-EU trade.

Source: Economic Research Service, PS&D View.

market in which soybeans do not make up more than half of product output, and the only market where soybeans do not rank first in world trade. Soybean oil accounts for 29 percent of world vegetable oil output, followed by palm oil (23 percent), rapeseed oil (16), sunflower oil (11), peanut oil (6), cottonseed oil (5), coconut oil (5), and olive oil (3) (table B-4). Palm oil, produced mostly by Malaysia and Indonesia, is the number one traded oil, with about 40 percent of the global export market. Soybean oil exports, with 22 percent of the market, are also concentrated among a small group. Argentina, the EU, the United States, and Brazil share over 90 percent of the soybean export market. Sunflower oil (12 percent), rapeseed oil (9), and coconut oil (7), are the other com-

modities important in world oil trade. Tables B-2 through B-4 summarize information on the leading producers, exporters, and importers of the major oilseeds and their products.

### **Major Trade Agreements Affecting the World Oilseed Market**

With so many countries producing closely substitutable oilseed products, many attempts have been made to favor domestic oilseed production at the expense of imports or to encourage domestic processing of imported oilseeds versus imports of oilseed products. In the past decade, the United States has been involved in several major bilateral or multi-lateral initiatives to reduce trade barriers and other trade-dis-

torting practices affecting U.S. oilseed and product exports. Most notable among these agreements is the Uruguay Round Agreement on Agriculture (URAA). The U.S.-European Community Blair House Agreement on oilseeds and the North American Free Trade Agreement (NAFTA) with Mexico and Canada have also had an impact on oilseed trade (see accompanying boxes for more details).

### **Accomplishments of Uruguay Round**

The Uruguay Round continued the process of reducing trade barriers achieved in seven previous rounds of GATT negotiations. Among its most significant accomplishments was the Uruguay Round Agreement on Agriculture (URAA), under which signatories committed to cut average tariff levels on all agricultural products, lower the volume of and expenditures on subsidized exports, and reduce aggregate spending

on domestic support programs for agriculture (Normile 1998). In addition, the Uruguay Round 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. The following sections summarize each of these key accomplishments.

### **Market Access**

The URAA required participating countries to reduce existing tariffs on agricultural products by an average of 36 percent for developed countries and 24 percent for developing nations (table B-5). It also required signatories to convert all non-tariff agricultural trade barriers to tariffs, a process referred to as tariffication. Countries doing so established a two-tiered tariff system (tariff-rate quota, or TRQ) in which

### **U.S.—European Community (EC) Blair House Agreement on Oilseeds**

The negotiations preceding the final URAA also produced an important bilateral agreement on oilseeds that resolved a long-standing dispute between the United States and European Community (now EU) on oilseed production subsidies. As part of the (November 1992) “Blair House Agreement,” the United States and EC signed a separate “Memorandum of Understanding on Oilseeds” under which the EC agreed to limit the area planted to oilseeds (rapeseed, sunflower seed, and soybeans). Prior to the agreement, the EU nearly tripled oilseed production between 1980 and 1990, which contributed to a 53-percent drop in the volume of U.S. soybean and soybean meal exports for the period (U.S. Department of Agriculture 1999b).

Although the EC granted oilseed and oilseed meal duty-free status under the Dillon Round of GATT negotiations in 1961, the dispute with the United States emanated from the introduction of EC oilseed production subsidies under the Common Agricultural Policy (CAP) just several years later. U.S. producers argued that the high EC support prices and rising production had displaced U.S. exports to the EC and filed a complaint under Section 301 of U.S. trade law against the EC in 1987. After a GATT panel twice found that EC oilseeds policy had “nullified and impaired” concessions made under the Dillon Round, the United States threatened the EC with \$1 billion in retaliatory tariffs early in 1992 if the EC position did not change. The Blair House accord on oilseeds later that year ended the dispute when the EC agreed to internal policy reforms that would limit the area planted to oilseeds.

The key elements of the agreement include:

- ❑ The EC (EU) agrees to limit the planting of subsidized oilseeds to a base area of 3.966 million hectares in 1994/95, with additional limits for Spain and Portugal totaling 1.533 million hectares.
- ❑ Beginning in 1995/96, the total base area devoted to subsidized oilseeds (inclusive of Spain and Portugal) shall not exceed the 1989-91 average of 5.126 million hectares.
- ❑ The EU agrees to set aside a minimum of 10 percent of oilseed base in all subsequent years.
- ❑ If the guaranteed area is exceeded, the EU will reduce oilseed payments by 1 percent for each 1 percent that the planted area exceeds the agreed upon limit.
- ❑ Oilseeds grown for nonfood (industrial) purposes are exempt from the maximum area limits, but the output is not to exceed 1 million tons annually (soymeal equivalent).

The impact of the accord on U.S. oilseed and product exports is difficult to gauge given the many other factors affecting trade, but it appears to have had a beneficial effect for U.S. exports. Soybean exports to the EU returned to near historical highs between 1996 and 1998, and the United States has captured much of the increase of EU soybean imports from all sources. Soybean meal exports to the EU are still well below the levels reached in the 1980's, but have more than doubled between 1990-93 and 1995-98 (Bickerton and Glauber; Normile, 1993; and Herlihy, Glauber, and Vertrees).



## Impact of NAFTA on U.S. Oilseed and Product Trade

Under GATT and WTO rules, member countries are required to extend trade concessions granted to one country to all other WTO members. Exceptions are permitted so long as two or more countries agree to substantially lower all trade barriers and refrain from violating other WTO commitments. The North American Free Trade Agreement (NAFTA) is an example of such an agreement. Under NAFTA, which became effective January 1, 1994, the United States and Mexico agreed to eliminate over a 15-year period all tariffs, quotas, and import licenses that act as barriers to agricultural trade between the two nations. NAFTA also incorporated the agricultural trade liberalizing provisions agreed to by the United States and Canada in the 1989 Canada-U.S. Free Trade Agreement (CFTA). Provisions of the NAFTA agreement affecting trade in oilseeds and oilseeds products can be found in Plunkett and Valdez (1995).

The import policy changes under NAFTA appear to have contributed to the overall growth of oilseed and oilseed product trade between the United States and its regional trade partners. During 1995-98, U.S. exports of these goods to Mexico and Canada averaged about \$1.5 billion, or about 16 percent of all such U.S. exports—up from \$900 million (13.5 percent) between 1991 and 1993. Much of the growth is due to increased soybean imports by Mexico, which absorbs about 70 percent of total U.S. oilseed and product exports to the region.

Exports by Canada and Mexico to the United States have also grown, from \$375 million during 1991-93 to an average of \$790 million between 1995 and 1998. Canada and Mexico now supply about 40 percent of all U.S. oilseed and product imports, with the bulk of these imports being rapeseed oil and rapeseed from Canada. U.S. imports of Mexican oilseeds and products (consisting mainly of sesame seeds, and sunflower or safflower oil) remain small, fluctuating between \$45 and \$65 million since 1991 (Link 1997 and 1999).

Table B-5--URAA targets for tariff and subsidy reduction

Items	Developed countries	Developing countries 1/
	Percent	
<b>Tariffs</b>		
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)		
<b>Export subsidies</b>		
Reduction in volume	21	14
Reduction in budget expenditures	36	24
Base period (1986-90)		
<b>Domestic support</b>		
Reduction in total AMS	20	13
Base period (1986-88)		
Implementation period	6 years 1995-2000	10 years 1995-2004

1/ Least developed countries are not required to make commitments to reduce tariffs or subsidies.

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

a lower tariff applies to imports below a certain quantitative limit and higher tariffs to imports beyond that limit (Wainio, Hasha, and Skully). Tariff levels are to be reduced from the base period levels to a final bound level by the end of the implementation period. For the case of tariff-rate quotas, only the higher out-of-quota rates would be reduced. The bound levels set a maximum tariff that can be imposed by each country, but in practice applied tariff levels (those that are actually charged) are often lower for many countries.

Among major consumers and importers of soybean meal, for example, the bound tariff generally exceeds the applied rates by a large margin (table B-7).

It is also interesting to note that applied tariff rates on oilseed products generally exceed those of whole oilseeds, an example of tariff escalation. For example, Japan, a country with very limited domestic oilseed production, has a tariff amounting to about \$122 per metric ton (12.9 yen/kg.) on soybean meal in order to protect domestic crushers, but no tariff on whole oilseeds. The highest tariffs also appear to be imposed by developing countries, which had committed to smaller average tariff cuts and were granted a longer transition period than developed nations (table B-5). Tables B-6 through B-8 illustrate selected countries tariff structures with a listing of base, bound, and applied tariff rates on soybeans, soybean meal, and soybean oil.

Because base tariff rates were in many cases quite high to begin with, and bound rates often exceed applied tariffs, a main accomplishment of the URAA was to provide disciplines on the tariff rate increases member nations were permitted. In some cases though, tariff reductions—whether or not required by the URAA—have shown the impact that trade liberalization can have on trade flows. The Philippines, for example, reduced applied tariffs on soybean meal from 10 to 3 percent. With increased market access and lower prices, total soybean meal imports increased by nearly 50 percent from the 1991-93 average to 1996-98 and U.S. exports more than doubled to over \$130 million over the same interval. In 1998, India reduced its applied tariff rate

on vegetable oils to 15 percent, down from 65 percent in 1994. Vegetable oil imports surged from well under 1 million metric tons per year between 1990 and 1994 to over 4 million metric tons in 1998 (U.S. Department of Agriculture 1999d). While much of the increase was in palm oil, soybean oil imports also grew, and U.S. soybean oil exports to India reached \$50 million in 1998 compared to \$25 million in 1994 (U.S. Department of Agriculture 1999a).

The idea behind the establishment of TRQs was to increase the transparency of protection in agriculture, and to ensure that historical trade levels were maintained. New trade opportunities were also created in some cases. The URAA required that the size of the quota be equal or greater than actual import levels (or some percentage of domestic consumption) during a recent period, and mandated that out-of-quota bound tariff rates be reduced from base rates. As of September 1997, about 40 percent of the 1,366 TRQs noti-

fied by WTO members were scheduled to have the quotas increased over the course of the implementation period, implying some increased market access.<sup>3</sup>

Of these TRQs, 124 of them applied to oilseeds and products, fourth largest among the eleven agricultural sectors identified by the WTO. Twenty-one of the 36 member nations notifying TRQs had at least one TRQ on oilseeds or products, led by Iceland with 22, Colombia with 20, and followed by Venezuela (19), South Africa (8), Guatemala (7), and Thailand and Morocco with 6 each (WTO Secretariat, 1997a). The U.S. notified the WTO of two oilseed TRQs, on peanuts and peanut butter and paste.

<sup>3</sup> The URAA required that imports meet a minimum of 5 percent of domestic consumption by the end of the implementation period. Countries already importing over that amount are not required to raise their quota level.

Table B-6--Base, bound, and applied WTO tariff levels on soybeans, selected countries

	Base tariff rate	Bound tariff rate Percent	Applied tariff 1/
Country:			
Mexico 2/	10 or 50 (seasonal rate)	9 or 45	5
Thailand	89	80	20.5
S. Korea	541% or 1,062 won/kg, whichever is greater	487% or 956 won/kg, whichever is greater	530.2
Malaysia	15	10	0
Colombia	139	125	10
Venezuela	135	117	10
Indonesia	30	27	2.5
Bolivia	n/a	40	10
Paraguay	n/a	35	4
Israel	30	25	0
Brazil	n/a	n/a	5.5
Argentina	n/a	n/a	5.5
U.S., EU15, Japan, Canada	0	0	0
Simple average:			
Selected top consumers/importers 3/	77.4 41.8 4/	69.5 37.4 4/	37.5 4.8 4/

1/ Most Favored Nation (MFN) average. 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 98/99. Percentages refer to over quota tariff rates when a TRQ exists.

2/ Mexico has a lower WTO Most Favored Nation tariff for soybean seeds and the higher seasonal tariff for all other soybean imports.

3/ The average base and bound tariffs were calculated as follows: a simple unweighted average of the tariff levels for the selected countries was used. When both base and bound tariff rates were not available (n/a), that country was excluded from the calculations. If only the bound rate was available, the base tariff rate was assumed to be the same as the bound rate when calculating the average. If only a specific tariff is given, the data is not used in calculating the average. If a specific tariff or ad valorem tariff are given, the ad valorem tariff is used. For countries with more than one tariff line for the product, a simple average of those tariff rates was used for that country. Calculations do not include any other import fees. The selected nations include the top 15 consumers and importers (based on 1998/99 PS&D View database information) of the product for which information was available. Information for non-WTO members was not used.

4/ Excludes S. Korea.

Table B-7--Base, bound, and applied WTO tariff levels on soybean meal, selected countries

Country	Base tariff rate		Bound tariff rate		Applied tariff 1/	
			Percent			
United States	0.7 cents/kg		0.45 cents/kg		0.53 cents/kg	
Mexico	25		22.5		15	
S. Korea	20		1.8		3	
Thailand	148		133		6	
Columbia	108		97		15	
Philippines	10		5		3	
India	100		100		40	
Poland	10		5		8	
Malaysia	13		10		0	
Venezuela	108		97		15	
Brazil	n/a		n/a		9	
Indonesia	50		30		0	
Egypt	15		10		5	
EU-15, Japan, Hungary, Canada	0		0		0	
Simple average: Selected top consumers/importers 2/	40.5		34.1		7.2	

1/ Most Favored Nation (MFN) average. 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 98/99. Percentages refer to over quota tariff rates when a TRQ exists.

2/ The average base and bound tariffs were calculated as in table B-6. Calculations do not include any other import fees. The selected nations include the top 15 consumers and importers (based on 1998/99 PS&D View database information) of the product for which information was available. Information for non-WTO members was not used.

Table B-8--Base, bound, and applied WTO tariff levels on soybean oil, selected countries

Country	Base tariff rate		Bound tariff rate		Applied tariff 1/	
	Crude	Refined	Crude	Refined	Crude	Refined
			Percent			
United States	22.5	22.5	19.1	19.1	20.8	10.4
Mexico	50.0	50.0	45.0	45.0	10.0	20.0
S. Korea 2/	30.0	30-35.5	5.4	5.4-27	8.0	8.0
Brazil	55.0	70.0	35.0	35.0	13.0	14.0
India	45.0	45.0	45.0	45.0	30.0	30.0
EU-15 2/	5-8	10-15	3.2-5.1	6.4-9.6	5.7	7.9
Japan 2/ (specific tariff)	17-20.7 (yen/kg)	20.7	10.9-13.2 (yen/kg)	13.2	n/a	n/a
Canada 2/	0-7.5	15.0	0-4.8	9.6	5.5	5.5
Morocco 2/	45-283.5	45-311	34-215	34-236	45.5	62.3
Malaysia	6.0	6.0	5.0	5.0	5.0	5.0
Turkey 2/	25-40	25-40	19.5-31.2	19.5-31.2	12.0	23.0
Egypt	20.0	20.0	15.0	15.0	10.5	8.7
Bangladesh	n/a	n/a	n/a	n/a	60.0	86.7
Algeria	n/a	n/a	n/a	n/a	10.0	45.0
Peru	n/a	n/a	n/a	n/a	12.0	12.0
Venezuela	83.0	75.0	83.0	75.0	20.0	20.0
Chile	35.0	35.0	31.5	31.5	11.0	11.0
Simple average: Selected top consumers/importers 3/	42.6	45.7	32.7	35.8	17.4	23.1

1/ Most Favored Nation (MFN) average. 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 98/99. Percentages refer to over quota tariff rates when a TRQ exists.

2/ When a range of tariffs is given, the country has more than one category on the tariff schedule for that product. Soybean oil, for example, is often categorized into industrial and non-industrial (food) uses. Typically, the industrial use imports have the lower bound tariff.

3/ The average base and bound tariffs were calculated as in table B-6. Calculations do not include any other import fees. The selected nations include the top 15 consumers and importers (based on 1998/99 PS&D View database information) of the product for which information was available. Information for non-WTO members was not used.

## **Domestic Support**

Domestic policies that support prices or subsidize production may encourage excess production and distort trade flows. This could reduce world imports, increase export subsidies, or encourage low-price selling (dumping) on world markets. The URAA required countries to reduce outlays, termed aggregate measure of support (AMS), on many domestic policies that provide producers with direct economic incentives to increase production (table B-5). Based on information from 1997, all WTO member countries are meeting their commitments to reduce these outlays and most countries have reduced this type of support by more than the required amount (Nelson, Young, Liapis, and Schnepf).

The EU, a net oilseeds and products importer, and the United States, a major exporter, have the most substantial domestic support programs of all oilseeds producing countries. Recently, though, the EU enacted major legislation that changed the support regime for oilseeds. Under the EU's Agenda 2000 reforms, compensatory payments of 92.24 ECU/MT on oilseeds are to be reduced over 3 years to 66 ECU/MT, which would be equivalent to aid for cereals. Expectations are that Agenda 2000 will cause a decline in EU's oilseed production, as wheat becomes more profitable, but a lower set-aside percentage on oilseed area may offset this decline (Kelch).

The support for EU oilseeds is not counted towards its AMS limit, however, because the program falls into the exempted "blue box" category of domestic support. This classification occurs because the EU's oilseed support program is tied to production limitations based on fixed area and yields. The oilseed component of the EU's AMS is therefore counted as zero, although actual oilseed support levels for the EU's soybeans and flaxseed totaled about ECU 2.5 billion in both 1995 and 1996.<sup>4</sup>

The major domestic support policy affecting the U.S. oilseed industry (excluding peanuts) has remained unchanged since the 1990 FACT Act. All oilseeds have a price support program with marketing loan provisions. In contrast to wheat, feed grains, upland cotton, and rice, oilseeds do not receive production flexibility contract payments. Since prices in the 1990's have generally been above the price support loan rate, expenditures for this program have been quite low. Expenditure levels for the price support program have recently increased, however, due to declining prices, which have caused marketing loan deficiency payments and marketing loan gains to be paid to U.S. producers. In contrast to the EU, the U.S. oilseed price support program with marketing loan provisions is subject to spending disciplines as an "amber box" policy. Despite this situation, the oilseed component of the U.S.'s AMS has been zero because it did not exceed any given year's *de minimis*

<sup>4</sup> The exchange rate was 1.308 \$/ECU in 1995 and 1.268 \$/ECU in 1996.

level (5 percent of commodity's value of production) (Nelson, 1999). Actual outlays were \$ 16.5 million for 1995, \$ 14.2 million for 1996, and \$ 45.7 million for 1997.

## **Export Subsidies**

Countries using export subsidies agreed to reduce the volume of their subsidized exports and outlays on subsidized exports over the implementation period (table B-5) (Leetmaa and Ackerman). Some of the major oilseed exporters, such as the EU (rapeseed, olive oil), Canada (oilseeds, vegetable oils, and oilcakes), United States (vegetable oils), and Brazil (vegetable oils and oilcakes) have reported WTO export subsidy commitments on oilseeds and/or products. Subsidies on these commodities have not been very large due to high world prices, however. For example, only Hungary and South Africa in 1995, and Hungary in 1996, notified the WTO of oilseed export subsidies, but outlays amounted to less than \$315,000 in each year (World Trade Organization 1997b and 1999). Subsidies on vegetable oils by the EU, South Africa, and Turkey totaled about \$83 million in 1995, and about \$50 million for EU olive oil exports in 1996. The United States has significantly reduced its use of the Export Enhancement Program (EEP), since the early 1990's, notifying no vegetable oil export subsidies between 1995 and 1997, although it was permitted nearly \$53 million in 1995 and \$45 million in 1996. Canada's transport export subsidy for rapeseed has been eliminated. Thailand is currently subsidizing its palm oil exports, but has smaller obligations as a developing country.

## **Sanitary and Phytosanitary Agreement (SPS)**

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. Such regulations can be used as a pretext for protection. Some have argued that India's ban on the importation of whole soybeans due to phytosanitary concerns acts as a trade barrier. Although it does permit 1 million metric tons of split soybeans to be imported, it is impractical for exporters to provide the beans in this form. The SPS 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 (Roberts).

## **Dispute Resolution**

Compared to GATT procedures, the Uruguay Round improved the multilateral dispute resolution process by limiting the ability of a single country to block the formation of a dispute resolution panel or veto an adverse ruling. This procedural change occurred nearly 50 years after the founding of the GATT.

## Issues for the Upcoming World Trade Negotiations

Although the URAA helped to identify and discipline barriers to trade, Article 20 of the Agreement on Agriculture states that long-term fundamental reform requires continual reduction of agricultural support and protection, and that new negotiations should be initiated one year before the conclusion of the URAA's implementation period (in 2000).

These negotiations will take into account:

- a) "the experience to that date from implementing the reduction commitments;
- b) the effects of the reduction commitments on world trade in agriculture;
- c) non-trade concerns, special and differential treatment to developing country members, and the objective to establish a fair and market-oriented agricultural trading system, and the other objectives and concerns mentioned in the preamble to this Agreement; and
- d) what further commitments are necessary to achieve the above mentioned long-term objectives." (World Trade Organization 1995, page 55).

Important issues pertaining to the U.S. oilseed industry include those remaining from the last round such as increased market access, continued reduction in domestic support and export subsidies. Developments in new areas—such as creating tighter disciplines on State Trading Enterprises, disciplining use of export credit guarantees, and uniform world trading rules and regulations for products of biotechnology could also be important for the U.S. oilseed sector.

### Continuing Issues

**Market Access**—Many tariffs remain higher on agricultural goods than manufactured items and some observers have noted that the reduction of agricultural trade barriers by the URAA was actually quite modest (Josling). Although the agreement fixed an upper bound on tariff levels for agricultural commodities, these limits are often quite high, and vary by country and commodity. The establishment of TRQs served to increase the transparency of non-tariff barriers to trade, and was a major achievement, but the level of trade creation resulting from these TRQs appears to be modest.

Some countries have discussed a "zero for zero" approach for oilseed products in the upcoming WTO round. This strategy, which involves a reciprocal elimination of duties among major trading countries, was successfully used in the URAA to bring about complete elimination of tariffs on selected industrial goods. During the Uruguay Round some members explored using this approach for the oilseed market but an

agreement was not reached. Several exporting countries, including the United States, are calling for a gradual reduction and eventual elimination of tariffs.

**Tariffs**—Bound tariff levels for soybeans are duty-free for most developed countries (United States, Canada, EU-15, and Japan) but are much higher for developing countries. In each case, though, the tariffs for seed are less than for meal and oils (table B-6 through B-8). Higher tariffs on processed goods are intended to protect the domestic crushing industry within a particular country. An equalization of tariffs along the processing chain may create an incentive for more processing of oilseeds in those major producing countries possessing a comparative advantage in the production of oilseeds, and less processing in major importing countries. Consequently, the United States and its competitors may gain additional processing demand at the expense of the major importers.

**Tariff-Rate Quotas**—High over-quota tariff rates remain a barrier to trade in oilseeds and products. If TRQs are not eliminated, trade could still be liberalized by reducing tariffs assessed on imports above the quota, and/or by increasing the quota level. In addition, the administration of tariff rate quotas has been both challenging and controversial, and will most likely be a topic of negotiation. For example, allocating the quota to suppliers based on the historical distribution of trade perpetuates past patterns of trade into the future, even though market conditions have changed. Some countries have assigned import rights to State Trading Enterprises or producer associations. These organizations may lack the incentive to increase market access, resulting in quota "underfill," or may bias the quota distribution to favored suppliers (Skully).

**Export subsidies**—Many countries, including the United States, have called for the complete elimination of export subsidies. Export subsidies were an important policy tool in agricultural trade, particularly in grains and dairy products, but less so for the oilseeds and products, especially in recent years. Consequently, elimination of these subsidies would probably have minimal effects on most world oilseed and product trade and specifically U.S. soybean oil exports, but would serve to restrain the use of export subsidies in the future.

**Domestic support**—Domestic support policies were recognized as a source of distortion to markets and trade under the URAA. Policies that were deemed most distorting were limited and those appearing to have a smaller impact on trade were permitted. The URAA had little direct effect in reducing domestic support for oilseeds in the EU and United States because policy changes since the 1986-88 base period put the EU oilseed support program into the exempt "blue box" category, and the U.S. oilseed support payments have remained below the *de minimis* levels. Although many countries have remained below their domestic support levels, some countries, such as South

Korea, Japan, and Switzerland have recently had to change policies to avoid exceeding AMS commitment ceilings. There will likely be further interest in disciplining domestic support activity presently categorized under the “blue box” or “amber box”.

The URAA disciplined aggregate spending on trade-distorting domestic support programs, rather than spending on a commodity-by-commodity basis. It is difficult to say what impact further reductions on aggregate spending would have on a given commodity, but this feature does give countries some discretion on how to establish individual commodity policies.<sup>5</sup> If the particular commodity persistently exceeds its *de minimis* level (5 percent of its annual value of production), then further reductions in the AMS could affect policies oriented towards the commodity in question.

If further reduction of domestic support requires policy changes affecting U.S. oilseed producers, other risk management policies that are considered minimally trade distorting or exempt from reduction are available. For example, revenue insurance is classified as a permitted “green box” policy. Crop insurance, on the other hand, is considered a non-commodity specific “amber box” program, but has been exempt from reductions because its outlays are less than its *de minimis* level, 5 percent of total U.S. agricultural production.

**Differential Export Taxes**—Another issue not currently covered by WTO rules is the differential export taxation on oilseeds and products practiced by Argentina, Malaysia, and Indonesia. Argentina and, until 1996, Brazil have used differential export taxes to stimulate the export of soybean oil and meal over whole soybeans, and Malaysia and Indonesia have encouraged exportation of refined palm oil at the expense of crude palm oil. Although export taxation has the effect of reducing the volume of exports and acts as a negative export subsidy on the taxed product, the policy does distort trade by favoring the export of processed products. One example of how these policies can, in part, alter the composition of exports is the shift in Brazil’s export mix following the elimination of the state sales tax (ICMS) on primary and semi-manufactured exports in 1996. Exports of whole soybeans more than doubled the following year from 3.6 to 8.3 million tons and soybean oil and meal exports were both reduced. The next round of negotiations may include discussions on how to limit such trade-distorting practices. In addition, discussions could also include limitations on non-differential 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 would otherwise be seen.

<sup>5</sup> A country’s total AMS is the sum of approved support for each supported commodity and non-product specific support that can’t be attributed to individual commodities.

## Other Issues

**Export Credits**—A potential issue for discussion in the upcoming negotiations is the definition of export subsidies. Export credit guarantees are not considered export subsidies under the URAA, but some U.S. competitors may argue that export credits and credit guarantees be treated as a subsidy.

**State Trading Enterprises (STEs)**—Many countries would like to define certain trading activities of State Trading Enterprises (STE) as a factor affecting export competition. The lack of transparency in the pricing and operational activities of STEs has caused concern that some WTO member countries use STEs to circumvent URAA export subsidy commitments or will use them in the future as traditional protection policies become more disciplined. While STEs are not as significant for the world oilseed market as they are for grains, sugar, or dairy, there are several that influence world oilseed trade. India’s State Trading Commission (STC) has the greatest potential effect on trade because it controls imports of oilseeds and exports of vegetable oil. India recently ended import licensing requirements on vegetable oils and permits imports by entities other than the STC. In Korea, a number of STEs control imports of soybeans and soybean products. China issues import licenses to only a few companies, most of them state-owned. In 1998, Indonesia’s BULOG made an agreement with the International Monetary Fund (IMF) that ended BULOG’s monopoly on soybean imports. It is important to note that several countries seeking membership to the WTO, including China, Taiwan, Russia, and Vietnam, use STEs extensively.

**Trade in Genetically Engineered Commodities**—Foreign regulations and labeling initiatives governing products from genetically engineered organisms concern the U.S. oilseed industry because about 55 percent of domestic soybean acreage went to genetically engineered varieties in 1999 (U.S. Department of Agriculture 1999g). Science-based risk assessment and a uniform set of rules and standards for all countries could facilitate world trade of genetically engineered organisms.

Major oilseed importers that are drafting or planning to establish regulations include Japan, the EU, South Korea, and Thailand.

- About 80 percent of Japan’s soybean imports come from the United States. Recently, Japan proposed a law requiring that foods made from genetically engineered crops be labeled beginning in April 2001. Animal feeds, and food products for which genetically engineered content is difficult to verify, such as vegetable oils and alcoholic beverages, are exempt from this requirement.
- Although the EU has approved glyphosate-tolerant soybeans, the EU has temporarily halted the approval of new licenses for genetically engineered foods and has proposed but not implemented labeling requirements for all

food and animal feed products containing genetically engineered organisms.

- South Korea and Thailand are developing their positions regarding genetically engineered products of biotechnology.

**Country Accession to WTO**—Although the WTO counts most of the world's major trading partners among its members, several nations, including China, Taiwan, Russia, and Vietnam are not yet members and are therefore not bound to its rules. Recently, though, China has been engaged in discussions on the terms of entry to the WTO. As the world's leading soybean oil importer and a substantial importer of whole soybeans and meal, China's entry could have a large impact on world oilseed trade and may provide export opportunities to the United States. China currently maintains low tariffs on whole soybeans (3 percent) and soybean meal (5 percent). Most of the impact on U.S. oilseed sector exports is therefore likely to be on soyoil exports, as China currently carries a 13-percent tariff on soybean oil. If China joins the WTO, it would also be subject to export subsidy disciplines.

A recent U.S. International Trade Commission (USITC) report evaluated the anticipated U.S. trade effects of China's accession, based on China's negotiating offer in April 1999 (U.S. International Trade Commission). The report concluded that trade opportunities for the U.S. oilseeds sector would be largely unaffected except for soybean oil exports, which could increase by nearly \$300 million if China's current tariff is replaced with a tariff-rate quota (TRQ) with a lower in-quota tariff.

## Conclusions

Issues important to the U.S. oilseed industry in the upcoming round of WTO negotiations include, in part, increased market access, continued reductions in domestic support and export subsidies, tighter disciplines on State Trading Enterprises, and uniform world trading rules and regulations for genetically engineered oilseeds and products. Progress on these issues could enhance market opportunities for the U.S. oilseed sector, which has experienced a decline in global export market shares in recent decades.

Further examination of all domestic support policies and their WTO classification schemes appears likely. Additional disciplines on trade-distorting domestic support policies may encourage member countries to use minimally trade distorting "green box" support policies rather than the "amber" or "blue" box policies. Finally, global export subsidies of oilseeds and oilseed products have largely been curtailed in recent years, but additional reductions would restrain their future use.

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