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AGRICULTURAL ECONOMICS

Trans-Pacific Partnership, Transatlantic Trade and Investment Partnership, and World Trade Organization: What do we know or not about these proposed trade agreements?



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Trade Agreements

- **Trans Pacific Partnership (TPP)**
 - Negotiations concluded in October
 - Ratification process underway (expect 2 years +)
- **Transatlantic Trade and Investment Partnership (T-TIP)**
 - Negotiations underway with EU
- **WTO Doha Round**
 - Ministerial in Nairobi, Kenya
 - December, 2015



TPP



- Trans Pacific Partnership – 12 Countries
 - Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, and the United States
 - China, Korea, Philippines, Indonesia are NOT part of this agreement
- Negotiations concluded in October, 2015
 - Treaty must be ratified by U.S. Congress as well as legislatures all TPP countries
 - Entry in force in 2 years, or until 6 countries ratify
 - Politics of ratification are controversial here and elsewhere

TPP Chapters

- 30 Chapters
 - National Treatment and Market Access, Rules of Origin, Sanitary and Phytosanitary Measures, Technical Barriers to Trade, possibly State Owned Enterprises and Environment pertinent to agriculture
 - Most chapters deal with regulation (NTBs, environment, labor) and legal issues (e.g “corporate rights”)
- Side deals
 - Letter exchanges between countries
- Details secret until November, 2015
- <https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-full-text>

Elements of TPP Agreement

- Conventional free trade agreement – **tariff and quota reforms**
- **Regulatory standards** for traded products and services (NTBs) (SPS & TBT)
- Judicial agreement protecting “**rights**” of **companies** from other TPP jurisdictions
- Minimum standards on **labor and the environment**

TPP Tradeoffs

- Improved market access leads to traditional gains from trade

But

- Excessive corporate legal rights
- Protections to companies may increase market power of multinationals
 - Prior “services trade analysis emphasized pro- competitive benefits of trade agreements: liberalization brought weakening of domestic monopolies

US Agriculture excited about, supportive of TPP

- Tom Vilsac (USDA, Secretary of Ag)
 - "Increased demand for American agricultural products and expanded agricultural exports as a result of this agreement will support stronger commodity prices and increase farm income.
- US Grains Council
 - "Trade agreements are fundamental to both expanding exports and global economic development and are critical to the long-term profitability of U.S. agriculture
- Some U.S. Coalition for TPP members:
 - American Farm Bureau Federation
 - American Feed Industry
 - American Meat Institute
 - American Soybean Association
 - Corn Refiners Association
 - Cotton Council International
 - Dow Chemical
 - Food Marketing Institute
 - Grocery Manufacturers Association
 - International Dairy Foods Association
 - John Deere
 - Kraft Foods
 - Monsanto
 - National Corn Growers Association
 - National Council of Wheat Growers
 - National Milk Producers Federation
 - National Oilseed Processors Association
 - National Milk Producers Federation
 - US Grains Council

Agriculture Highlights from USTR

- “TPP **cuts import taxes** on Made-in-America agricultural exports to TPP countries. Key tax cuts in the agreement will help American **farmers** and ranchers by **expanding their exports**, which provide roughly 20 percent of all **farm income** in the United States. For example, TPP will **eliminate import taxes** as high as 40 percent on U.S. **poultry** products, 35 percent on **soybeans**, and 40 percent on **fruit** exports. Most U.S. farm product exports will receive duty-free treatment immediately; over 50 percent of U.S. farm products (by value) will enter **Japan** duty free once the agreement is implemented.”
- Sectors highlighted: Poultry, Beef, Pork, Dairy, Wine/Bourbon, Soybeans
 - **Japan** seen as key to reforms
- Mentions Foreign regulations, Inspections, Export subsidies, Export bans
- <https://ustr.gov/sites/default/files/TPP-Overall-US-Benefits-Fact-Sheet.pdf>

Prior Analysis of TPP Impacts

- ERS, USDA evaluated ag **market access reforms (only)** using GTAP
- Assumed TPP would **bring free trade** (all zero tariffs, NTBs eliminated) among all TPP member countries
 - Prior PTAs had not reduced tariffs to zero
 - TPP countries account for 40% of global GDP and 42% of agricultural exports
 - **US agricultural exports 5% (\$2.8 billion) higher**
 - US agricultural imports 2% (\$1 billion) higher
 - Winners identified were rice, sugar, dairy, meats, feeds
 - Negligible impact on GDP
- Actual agreement, just released, utilizes tariff rate quotas (**TRQs**) to **limit liberalization** in some politically sensitive sectors
 - Details not released until a couple of weeks after negotiations concluded, secret negotiations before conclusion

Japanese TRQs



- **Two tiered tariffs** – act like quotas
- Dairy, Rice, Sugar, Wheat
 - 79 pages of TRQs in one Japanese **appendix**
- **Country specific** TRQs for U.S., Australia, Canada
- **Rice** as an example
 - Tariff were (and remain) zero for imports by Japanese Food Agency (SOE), 341 yen specific tariff otherwise
 - US quota 70,000 tons
 - US rice exports to Japan in 2014 -- 287,308 mt
 - Japanese overall rice imports in 2014 -- 650,000 mt
 - Australian quota 10,000 tons
 - Vietnam gets NO increased access to Japanese Rice market

Differential Tariffs – Japan & Soybeans

- Protecting domestic processing
- Soybeans to Japan
 - Tariff on soybeans is zero (from anywhere)
 - Tariff on soybean oil is 21%
 - Tariff on soybean meal is 4.2%
 - TPP allows soybean oil in duty free
 - Will domestic processing shut down, and oil be imported?
 - Imports of soybean oil 1.7% of domestic use in 2014 (half of soymeal use is imported)

Canadian Dairy



- Supply management makes prices much higher than elsewhere (especially New Zealand, US)
 - Producer prices in 2013: Canada \$736, US \$444, New Zealand \$425
- Imports now controlled, low
 - Hailed as TPP breakthrough.
 - Market opening controversial in Canada,
 - limited by TRQs:

	Production	Net Imports	TRQ	all in '000 mt		
	2015	2015	Year 1 EIF	Year 5	Years 19+	
Milk	8535	44	8	41	57	
Butter	90	13	0.8	4	5	
Cheese	390	14	2.4	12	16	

Obstacles to Ratification

- US -- **Fast Track** (agreement will NOT be renegotiated)
 - Fast track granted to Obama administration to allow TPP & T-Tip negotiations to conclude in June, 2015
 - Obama administration pushing for TPP ratification before presidential election
 - Many Democrats likely to oppose, including Clinton, Sanders, O'Malley; labor unions against agreement
 - Republicans historically pro-trade, but conservatives oppose, and no one wants to give Obama a victory
- Canada – new prime minister who did not negotiate TPP defeated prior minister, resistance from dairy in particular
- Japan – Abe trying unconventional economic reforms
- Australia – needs rival labor party support

Ratification easier, though may take time, in other TPP countries

T-TIP



- Trans Atlantic Trade and Investment Partnership
- Negotiating with EU
 - Obama administration aggressively trying to conclude deal (none in sight)
- Even more so than TPP, it is about regulation and corporate rights, not traditional market access concessions
 - But negotiations, like TPP, are not public information
- Agriculture has existing barriers, and 31% of global food production in these two regions,
 - but industry, services and regulation driving negotiations, not agriculture

T-TIP and Agriculture

- ERS did a more recent, very similar study of T-TIP
 - High tariffs now for some EU ag imports
 - NTBs and TRQs now important
- Annual increase in US-EU ag trade between \$6.3 and \$11.6 billion)
 - Potentially bigger impacts than TPP -- if free trade
 - Analysis also assumed relaxation of NTBs
 - Tariff removal → \$5.5 billion more US ag exports (\$0.8 billion more imports)
 - NTBs add an additional \$4.1 billion to US ag exports
 - Big winners are beef, dairy, pork, poultry; and fruits and vegetables with NTBs
 - Agreement, like TPP, likely to be limited for some politically sensitive commodities

WTO



- Doha Round, that began in 2001, still being negotiated
 - URAA the framework for negotiations
 - Limited progress since 2008 mid term review; modalities from that ministerial the basis for continuing negotiations
 - Lamy's triangle for ag still matters
 - US domestic support
 - EU market access and export subsidies
 - Developing and emerging economies - NAMA

Bali Ministerial in December 2013

Low hanging fruit limited in agriculture:

- Public food security stocks
- Export subsidies
- TRQ administration
- General services – green box for rural development activities



New issues

- Honoring commitment to end export subsidies by end of 2013 (from Hong Kong 2005)
 - Food aid – local purchases
 - Special Safeguard mechanism (SSM) – import surges
 - Sensitive and special products
 - Export restrictions
- India objected to completion of Trade Facilitation Agreement (7/31/14) due to lack of progress after Bali on stockpiling issue

Nairobi Ministerial December 15-18, 2015



- July, 29 2015 -- Chair urges negotiators to “get to the starting blocks” in addressing rules negotiations
 - “proposals had been recalibrated to reflect the lowered ambition across all negotiating pillars of the Doha Round, and represented “doable” outcomes.”
- Starting point remains 2008 “Modalities”
 - Agriculture remains controversial
- Agricultural Agenda still not clear!
 - Lots of proposals on table, no new agreement

WTO Ag issues

- Export Competition
 - Delivering on promise to eliminate export subsidies
 - “Equivalence” – credit and food aid
- Market Access
 - Special safeguard mechanism (SSM)
- Domestic support
 - Public stockpiling
- Cotton – West Africa not US-Brazil

Recent Ag issues paper topics setting the ag agenda for Nairobi

- Import safeguards
 - Special safeguard mechanism (SSM proposed by G33), opposed by U.S., EU, Australia, Brazil
- Public stockholding
 - India and domestic support limits, G33 proposal
- Export competition – implementing Hong Kong commitment from 2005 (US counter proposal)
 - Food aid -- safe box
 - Monetisation, non-emergency aid
 - Exporting state traders
 - Export credit

Conclusions

- **Agricultural distortions remain a problem** for trade agreements; progress is due to potential for reforms in industry, services, regulation ...
- WTO negotiations not progressing, **so more emphasis now on bilateral agreements** like TPP & T-TIP
- **TPP**, like other bilateral agreements, has achieved only **limited liberalization** as political sensitivities persist
 - Expect the same from T-Tip and WTO
- Gains from trade due to these agreements, including in ag, but the emphasis on **“corporate rights” is new, and not necessarily defended by trade theory** – tradeoff have even prominent trade economists concerned with outcomes
 - Tradeoffs between market access versus “corporate rights”