



Negotiating trade agreements – What's at stake?

Crop Production Week – January 14, 2011

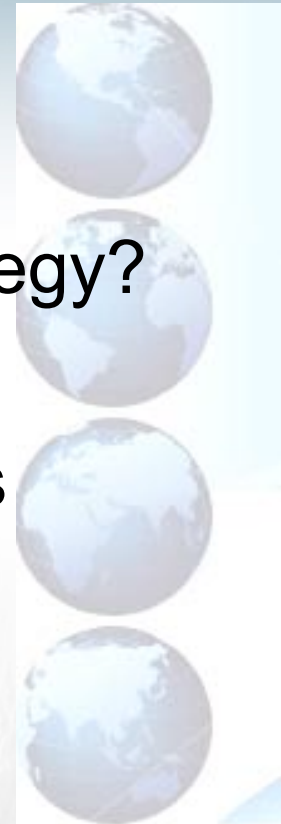
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Prairie strong, worldwide

Outline

- Why does the CWB need a trade strategy?
- Canada-U.S. wheat relationship
- World Trade Organization negotiations
- Bilateral trade agreements



Why do we need a trade strategy?

To ensure the needs and interests of western Canadian wheat and barley producers are fully represented within the international trade framework.

Convention on
Biological Diversity

U.S. Advocacy: 14 Challenges since 1989

June 1990	Section 332: Conditions of competition between the U.S. and Canadian durum industries, U.S. International Trade Commission (ITC)
June 1992	Review of CWB/AWB, General Accounting Office (GAO)
February 1993	Canada – U.S. Trade Agreement, Bi-national Panel
July 1994	Wheat/products: harm to U.S. farm programs?, ITC
October 1995	Canada-U.S. grain market and policy environment, Joint Commission on Grains
June 1996	Ability of STEs to distort trade, GAO
November 1998	U.S. agricultural trade: Canadian wheat issues, GAO
October 1999	Countervailing duty (CVD): live cattle from Canada, U.S. Department of Commerce (DOC)
November 2001	Section 332: Conditions of competition between the U.S. and Canadian wheat and durum industries, ITC
February 2002	Section 301: Conditions of competition, U.S. Trade Representative
August 2003 – 2005	Countervailing duty: Investigations of durum and hard red spring (HRS), DOC, ITC, NAFTA
August 2003 – 2004	Anti-dumping (AD) investigations of durum, DOC, ITC, U.S. Court of International Trade (CIT)
August 2003 – 2005	Anti-dumping (AD) investigations of HRS wheat, DOC, ITC, CIT, NAFTA
April 2004	Canada measures relating to exports of wheat and treatment of imported grain, WTO

The World Trade Organization (WTO)

- 9th Round – Launched in 2001 in Doha, Qatar
 - 153 countries trying to agree on trade rules
 - Agriculture only one focus area
 - Other areas: non-ag market access, rules, services
 - Emphasis on developing nations
- Vast implications for western Canadian wheat and barley farmers.



The latest

- Negotiations ongoing in Geneva
- Draft negotiating text 80% complete
- 2011 presents a window of opportunity, engagement has intensified.
- External Environment
 - G20 November meeting
 - Republican-majority in the U.S. House
 - Advanced developing countries



Step-by-step a deal is being assembled.



Agriculture negotiations

Three pillars:

1. ***Domestic support*** –
substantial reductions in trade distorting support
2. ***Market access*** –
substantial improvements in market access
3. ***Export competition*** –
elimination of export subsidies



What is a good WTO deal?

- Significant increases in market access for wheat and barley
- Substantial reductions in trade-distorting domestic support
- Elimination of export subsidies
- Reforms to export credit and food aid programs
- Preservation of farmers' right to determine how they market their grain.



Where are negotiations at in meeting these goals?

Singling out and targeting the CWB

Rules for exporting State Trade Enterprises (STE)

2001

- Importing STEs exempt from this round.
- Special and differential treatment for developing countries.

2004

Canada agreed that the guarantees will be forfeited whenever a final deal is reached.

2005

Hong Kong declaration calls for disciplines on “the future use of export monopoly powers”.

December 2008

- Elimination of export monopoly powers
- Exemptions for New Zealand’s kiwi STE - Zespri

The pressure is from two of your largest competitors - The U.S and the EU



Government guarantees

- Government guarantees of initial payments
 - Risk management tool
 - Used 13 times in CWB history
- Government guarantees on borrowings
 - Farmers share government's top credit rating
 - Big savings in financing costs
 - Allows CWB to operate without a capital base

Comparison of Credit Ratings

Investment Grade	Long-term	Short-term	S&P Long-Term Rating Level
		Aaa/AAA	
	Aa1/AA+		
	Aa2/AA		
	Aa3/AA-	A-1/P-1	RBC/TD/Scotia
	A1/A+		BMO/CIBC
	A2/A		ADM/Cargill Inc.
	A3/A-	A-2/P-2	
	Baa1/BBB+		
	Baa2/BBB	A-3/P-3	ConAgra Foods
	Baa3/BBB-		AWB Limited/Bunge Ltd
	Ba1/BB+	Not	Viterra
	Ba2/BB	Prime	Median Agribusiness
	Ba3/BB-		



Government guarantees

Cost of borrowing would rise and access to capital may change

Would need a capital base

- Can not retain capital under current CWB Act
- Source of capital?
- Need time to plan and build (AWB took 10 years)
- Amount depends heavily on business structure and whether single desk / other guarantees remain

What about benefits?

Domestic support

- **No significant reductions in subsidies to producers in other countries.**
 - In 2008, the U.S. implemented a \$289 billion Farm Bill, of which a portion increased domestic support for wheat and barley.
 - In 2009, the loan deficiency payment paid up to \$1.56 per bushel of durum.

Market access

- **No significant market access benefits for western Canadian wheat, durum or barley producers**
 - Proposed reductions are to “bound” (maximum allowable) tariffs, not to tariffs that are actually being applied.
 - In the majority of CWB markets, the new “bound tariffs” remain higher than applied tariffs.

Maximum allowable rate under the current Agreement on Agriculture

SS benefits

Applied day-to-day rate.

	Bound Rate	<u>New</u> Bound Rate	Applied Rate	Lower?
Wheat				
Bangladesh	15 %	10 %	6 %	No
Mexico	67 %	42 %	0 %	No
Sri Lanka	50 %	31 %	4.2 %	No
Durum				
Italy	82 %	25 %	0 %	No
Morocco	170 %	91 %	0 %	No
United States	4.3 %	2.15 %	0 %	No
Designated Barley				
United States	0.7 %	0.35 %	0 %	No
China	3 %	2 %	0 %	No
Colombia	144 %	76.8 %	15 %	No



What does a signed deal mean to you?

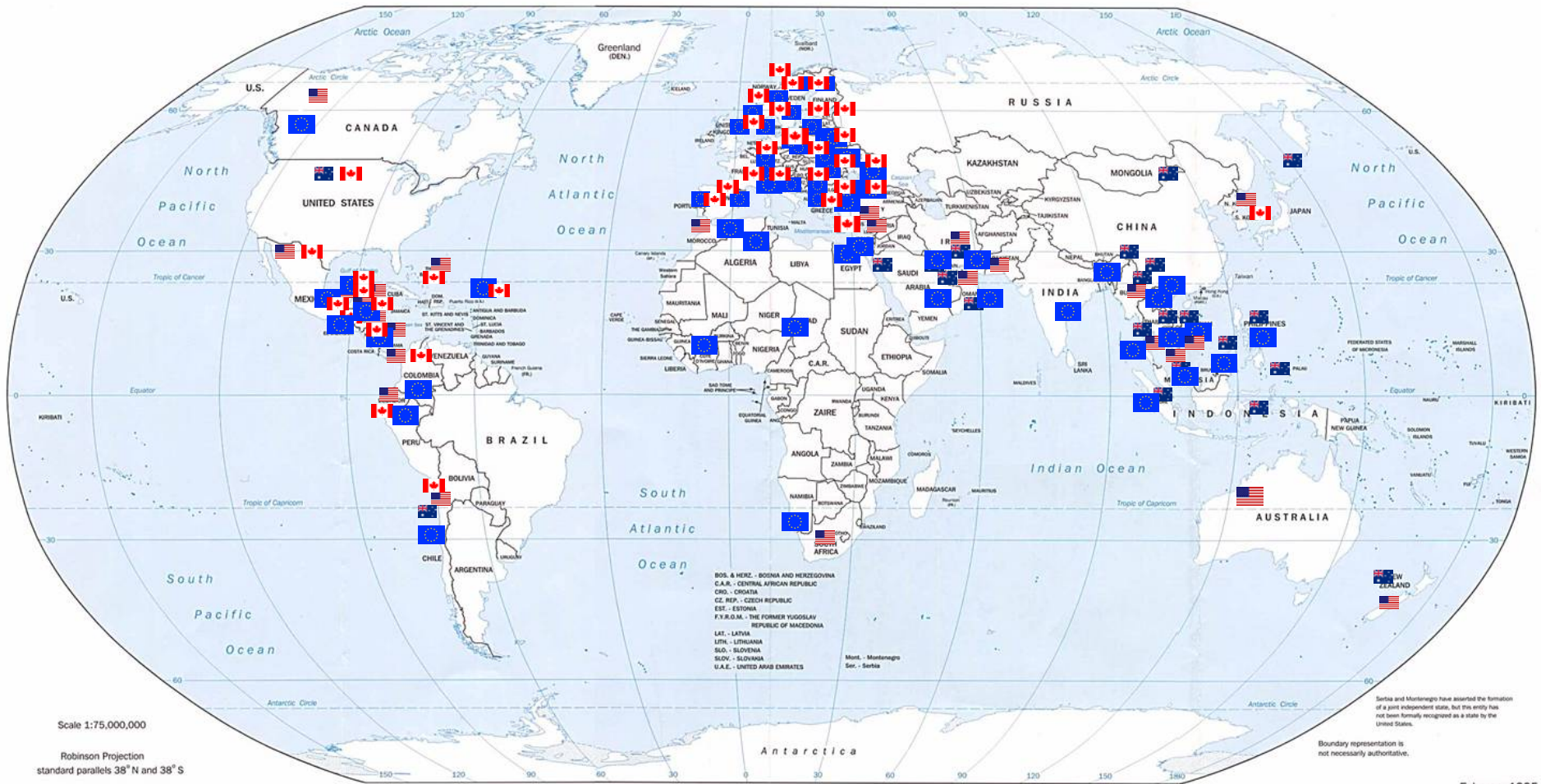
Too high of a price:

- No change to market access for wheat and barley.
- Surface reforms to U.S. and EU domestic support programs.
- **Loss of the government guarantees.**
- **Loss of the CWB single desk.**



Bilateral Trade Agreements

Competitors bilateral/regional FTAs



Implemented

Under negotiation



Why focus on bilateral trade agreements?

- Competitors have aggressively pursued bilateral trade deals with key customers for Canadian grain
 - Tariff disadvantage
 - Loss of market share
 - Cements competitor's market position
- Creates favourable trading conditions for Canadian grain farmers vis-à-vis our competitors
 - Tariff advantage
 - Ensures continued access to key markets
- Potential to achieve greater and quicker market access than the ongoing WTO agriculture talks
 - Focused on applied tariffs
 - Does not address export subsidies or domestic support issues

CWB bilateral trade priorities



- Morocco
- European Union
- South Korea
- Asia-Pacific

Morocco

- One of the CWB's top five markets for durum
- Canada provided 471,000 MT in the 2009-2010 crop year
- U.S.-Morocco FTA – 6th Year
 - Grants preferential access to U.S. durum over a ten year implementation period
- Canadian farmers will lose market share and, at times, be priced out of the market.



Morocco

Example of the tariff differential:

Year	Tariff Rate Quota (MT)	Price advantage (Cnd)
2009	280,000	\$ 27.52
2010	290,000	\$ 39.32
2011	300,000	\$ 51.11
2012	310,000	\$ 62.91
2013	320,000	\$ 74.70
2014	330,000	\$ 86.50
2015	340,000	\$ 98.29
2016	350,000 +	\$ 110.08

Source: CWB internal calculations, May 2010 data



Questions ?

For more information:

<http://www.cwb.ca/public/en/hot/trade>