
Dairy Policy Brief #8c: WTO Export Subsidy Issues

Export Subsidy Provisions of the Uruguay Round

The Uruguay Round Agricultural Agreement (URAA) prohibits export subsidies on agricultural products unless they are specified in a country's commitment list. Products included on a country's commitment list were required to be cut from base period (1986-1990) levels in both volume and value terms. Developed countries were required to cut the value by 36 percent and the volume by 24 percent in equal increments over the 1995 to 2000 period. Developing countries were required to cut the value by 24 percent and the volume by 14 percent in equal increments over the 1995 to 2004 period. Least developed countries were not required to make any cuts. There are 25 WTO members who are able to use export subsidies, but even these countries can only use subsidies for products listed in their URAA commitments.

Export Subsidy Elimination in the Doha Round

The Hong Kong agreement calls for the elimination of all export subsidies, including export credit programs, by 2013. Some proposals have sought a large cut in export subsidies early in the agreement period, followed by an adjustment period before elimination of all subsidies. Other proposals allow greater flexibility in the use of export subsidies for developing countries. Smaller developing countries who import much of their food are seeking less aggressive cuts to subsidies, fearing that large reductions could affect food costs for their consumers. Although there is general agreement to continue to promote food aid for humanitarian purposes, there are concerns about how to properly discipline food aid so that it is not used by countries to primarily rid themselves of burdensome surpluses. The role of state trading enterprises and differences that exist relative to private companies is also a point of contention under the export subsidy debate.

What are important export subsidy issues for the U.S. dairy industry?

- ***The Dairy Export Incentive Program (DEIP) will be less important to the U.S. dairy industry under a Doha round agreement.*** The URAA required cuts in the levels of dairy products that could be exported under the DEIP. Current levels of dairy products that can be exported under the DEIP are: butter and butteroil, 21,097 metric tons; skim milk powder, 68,201 metric tons; and cheese, 3,030 metric tons. Annual DEIP commitments begin on a July 1 year. With further cuts in allowable DEIP exports, the Commodity Credit Corporation (CCC) will see a larger increase in stocks during periods of surplus production.
- ***The Doha round reduction of dairy export subsidies by the European Union is critical.*** The larger issue under the export subsidy pillar for the U.S. dairy industry is not the reduction in the DEIP, but the likely effect on dairy product prices of fewer subsidized exports from other countries. World dairy prices should rise as a result of cutting export subsidies. Analysis conducted by FAPRI examining the U.S. proposal of October 2005 suggested that the cut in EU subsidized exports would be large enough to increase world dairy prices to U.S. levels. This would limit the downside negative effects of changes in U.S. domestic support and market access for dairy products. Without export subsidy reductions, the U.S. proposal would be negative for the U.S. dairy industry.