Historical background

• Trade is natural, nations were invented.
• International agricultural trade is not new. It began as soon as there were nations several millennia ago.
• Agricultural trade has often led to conflict.
• Globalization is now thoroughly imbedded.
• Global connections always create opportunities and concerns.
Basic economics of more access in global markets

- Trade does not benefit everyone individually
- Positive for producers and workers in industries that export, for consumers of imported products, for each economy and for the world economy as a whole
- This is common sense is backed up by lots of complex models and data

Implications of Opening Agricultural Markets

- With fewer government restrictions, relative costs and qualities will drive sourcing of raw materials and consumer products

- Economics more than politics will explain investment choices for plant location and even agricultural research investments
Agricultural trade is important in California and the U.S.

- We import and export agricultural goods.
- We also trade in non-agricultural goods and services that are vital to the economy and to agriculture.
- For the U.S. and California, comparative advantage in agriculture remains strong for the foreseeable future.

Tree crops win from more global access and reduced subsidy

- California agriculture as a whole and tree crops specifically are a major net exporters
- California tree crops gain the more access it gets to global markets
- Naturally, narrow interests would open customer markets and keep our market closed to competitors
- But, that is not a real option
World Exports

Almonds Shelled and Inshell World Exports, 2002

USA 90%
Spain 4%
Portugal 2%
Italy 1%
ROW 1%

Data in short ton

Walnuts Shelled and Inshell World Exports, 2002

USA 66%
France 16%
Ukraine 6%
India 4%
China 4%
ROW 4%

Data in short ton

World Exports

Canned Peaches, World Exports, 2002

Spain 11%
USA 7%
China 7%
South Africa 10%
Greece 47%
ROW 18%

Data in short ton

Dried Plum, World Exports, 2002

USA 56%
Chile 19%
Argentina 15%
ROW 10%

Data in short ton
Negotiations

Nations use the WTO and trade negotiations to move towards the goal of a more open global market for goods and services.

• The US is in the midst of many current negotiations that will set the rules for trade for the decades to come.
• What do these negotiations mean for tree crops?
Tariff Reductions

- Central to the next round of multilateral negotiations.
  - Many tariffs remain high or prohibitive.

- Tariff elimination would reduce other problems in agricultural trade.

- Zero tariffs would expose other barriers to added pressure.

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### Tree crop tariffs in the US

<table>
<thead>
<tr>
<th>Tariff Rates</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Almonds</td>
<td></td>
</tr>
<tr>
<td>In shell</td>
<td>$0.077/kg</td>
</tr>
<tr>
<td>Shelled</td>
<td>$0.24/kg</td>
</tr>
<tr>
<td>Walnuts</td>
<td></td>
</tr>
<tr>
<td>In shell</td>
<td>$0.07/kg</td>
</tr>
<tr>
<td>Shelled</td>
<td>$0.265/kg</td>
</tr>
<tr>
<td>Dried Plums</td>
<td>14%</td>
</tr>
<tr>
<td>Cling Peaches</td>
<td>17%</td>
</tr>
</tbody>
</table>

Converted to % using 2002 Prices, ERS/USDA
Tree crops tariffs facing the US

<table>
<thead>
<tr>
<th>Tree Crops</th>
<th>China</th>
<th>Korea</th>
<th>Japan</th>
<th>EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Almonds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In shell</td>
<td>24%</td>
<td>45%</td>
<td>2.4%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Shelled</td>
<td>10%</td>
<td>21%</td>
<td>2.4%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Walnuts</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In shell</td>
<td>25%</td>
<td>45%</td>
<td>10%</td>
<td>4%</td>
</tr>
<tr>
<td>Shelled</td>
<td>20%</td>
<td>30%</td>
<td>10%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Prunes</td>
<td>25%</td>
<td>18%</td>
<td>2.4%</td>
<td>9.6%</td>
</tr>
<tr>
<td>C. Peaches</td>
<td>10%</td>
<td>54%</td>
<td>6.7% - 29.8%</td>
<td>15.2% - 46.5%</td>
</tr>
</tbody>
</table>

Source: WTO

Domestic subsidies for tree crops

- Of course domestic subsidy also can affect trade
- Most distorting forms are easing anyway
- The WTO rules seem to limit these more tightly, but compliance remains hard to monitor and enforce
- Little legal scope for large new subsidies that stimulate production
Subsidy programs in Europe and elsewhere

- E.U. Subsidies remain significant especially for Greek Peaches and French Prunes
- Greek growth in peaches was driven by subsidies
- French Prune subsidies keep an old, inefficient system in place
- French Prune production would fall substantially without subsidies.

Subsidy programs, Cont.

- For both subsidy programs, the economics and politics are now moving against them
- E.U. expansion eastward means more budget pressure
- E.U. has substantially cut grain, beef and other subsidy programs
- The WTO negotiations and dispute settlement adds to the pressure
Sanitary and Phytosanitary rules

- The sanitary and phytosanitary (SPS) agreement covers food safety as well as exotic pests
- Sanitary or phytosanitary barriers must be based on sound science.
- Disputes adjudicated through reviews and panel judgements.

Sanitary and Phytosanitary Measures

- The goal is more access, with legitimate protection
- Phony trade barriers can hide behind legitimate concerns so progress is case by case
- The US is challenged on some rules and we challenge others too
- Every trading industry must keep the pressure importers to play by rules
“Unfair” trade practices

- Anti-dumping duties make little sense in a competitive cyclical industry like agriculture
- Countervail involves government programs and may be a useful tool
- The WTO agreement has scope to enforce anti-subsidy provisions and these are likely to get stronger
- Current WTO cases suggest reforms of subsidy programs in Europe and elsewhere

Conclusion: Strategy for more tree crop market opening

- Renewed assurances on human and environment health--keep science mandate
- Use WTO and bilateral free trade deals to keep tariffs declining as rapidly as possible
- This is consistent with the US government efforts
- Do not let market opening be stymied by effort to protect US subsidies or domestic markets