

ACTION AFTER THE GATT
AGRI-FOOD OPPORTUNITIES
BUSINESS GUIDE



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1.0

GATT OPPORTUNITIES SUMMARY

In 1994 many countries (118) signed the General Agreement on Tariffs and Trade (GATT) which resulted from negotiations on many different commercial topics ranging from tariffs to disputes settlement. The GATT will be implemented in 1995, and will be managed by a new World Trade Organization (WTO).

The NAFTA (North American Free Trade Agreement) was also recently negotiated and passed in 1994. Benefits from it are expected to flow as businesses understand and recognize new opportunities in the regional market.

This GATT/ NAFTA brief on food processing in Alberta was prepared to indicate possible market and investment opportunities which result. It is derived from the results of a study of new trade agreement, and focused on selected countries and products. That larger study was based on a review of prior studies, trade statistics, tariff documents, industry input and the consultants' experience base.

The specific countries investigated were:

- USA;
- Mexico;
- Japan;
- EU (United Kingdom and Germany);
- Taiwan;
- Hong Kong; and
- Korea.

Products reviewed were: beef, pork, spirits and bottled water, flours, dehy alfalfa, and a number of others. The summarized results are presented as follows: overview of the GATT and NAFTA agreements and effects, country reviews, GATT tariff changes and current product export patterns. More detail is given in the main study.

1.1 GATT OUTCOMES AND EFFECTS

Canada has been a member of the GATT since its inception. The GATT currently has 118 members, up from 23 original members in 1947. This increase in membership is a tribute to the success of the GATT. China, Taiwan, Russia, and some other significant traders who are not members are currently seeking membership and may be accommodated now that the Uruguay Round negotiations are complete.

World Trade Organization

The new World/Multilateral Trade Organization (WTO) will replace the GATT Secretariat and have a much broader mandate. The WTO will manage:

- the agriculture agreement;
- the new trade in services agreement (GATT trade in services - GATS);
- the intellectual property agreement (trade related intellectual property measures - TRIPs);
- the textiles and clothing agreement (MFA- Multifibre Agreement); and
- the trade related investment measures agreement (TRIMS);
- the dispute settlement mechanism; and
- current GATT functions.

Implementation Date

The Uruguay Round agreement was implemented in January 1995 by most of the contracting parties. All tariff and other commitments will generally be implemented by 2000, except for developing countries which have up to ten years to implement. Some exceptions do exist (e.g., the European Union is implementing the agriculture agreement effective July 1, 1995).

The next round of negotiations is set to start in 2000, and will see further market access negotiations, extension of the agreements on agriculture, intellectual property and services, and an attempt to incorporate trade related environmental, consumer preference, and animal rights issues and regulations into the GATT. The next round will be no less difficult to undertake.

GATT Clauses Relevant to Processed Foods

The GATT is an very extensive document and very complicated. This section presents the main clauses relevant to the agri-food business community. The five areas in the Agriculture Text of most interest to agri-business are:

- tariff reductions and market access enhancement;
- export subsidies reduction;
- domestic market support reduction;
- sanitary and phytosanitary measures usage; and
- a peace clause.

a. Enhanced Market Access

Tariffs have declined significantly in most countries but non-tariff barriers have been used in their place to protect domestic industries by many countries. The new agreement commits countries to reduce all tariffs by 36% (average) over six years, and to replace all non-tariff barriers with new tariffs, which must also decline.

b. Export Subsidies Reduction

Each country is required to reduce its total value of export subsidies provided to products in each category by 36 percent and the total volume of product in each category shipped under subsidy by 21 percent. The base period for calculating the base volumes for reduction was negotiated by each country. However, generally, the base period for calculating the degree of reductions was either the average of 1986-90 or the average of 1991-92.

c. Domestic Support Reduction

Domestic subsidy programs which have an effect on production or investment, will decline by 20 percent in value over the six year period. The general intent is for equal annual reductions in support, however, once again the scheduling of reductions could be subject to variation. It will be done using a measure called an Aggregate Measure of Support (AMS) to monitor actual commitments. For the purposes of Uruguay Round commitments, governments may make the reductions to whichever agriculture industries they wish.

d. Sanitary and Phytosanitary Measures

The proliferation of measures which countries called sanitary (human and animal health) and phytosanitary (plant health) measures, have restricted trade in some instances. The agreement is called Sanitary and Phytosanitary (SPS) Measures. The text lays out some main principles. Three international agencies will assist in developing new international standards: Codex Alimentarius Commission (CODEX), the International Office of Epizootics (IEO), and the International Plant Protection Convention (IPPC).

e. Peace Clause

Countries have agreed to a peace clause for the agriculture sector to minimize trade harrasing actions among countries.

Summary of GATT Changes

A summary of the main GATT changes are:

- tariffs will be reduced among all 118 countries by at least 36% over six years, with each product's tariff to decline at least 15%;
- all non-tariff barriers are to be converted into tariffs and also decline by the same amounts;
- export subsidies are to decline by 36% on expenditures and by 21% on export volumes;
- domestic support programs must decline in total on a national level by 20% over six equal steps;
- sanitary and phytosanitary measures are to be studied, with a goal of harmonizing them over time;
- a peace clause causes countries to minimize their responses to possible trade disputes; and
- a stronger disputes mechanism is to be implemented.

Summary of GATT Global Effects

An overview of the regional effects in the world as a result of the GATT is available (Economist Intelligence Unit). These conclusions are drawn:

- North America will weaken in textiles, clothing and iron and steel manufactures;
- North America will expand in manufactures (skilled), automotive, chemicals, office and telecom equipment and in transport;
- agriculture and food industries should expand;
- Latin America will increase in iron and steel and clothing manufactures;
- Europe will see a re-allocation of up to 1% of its labour force;
- Asia Pacific will strengthen in office and telecom, textiles, clothing and certain consumer goods; and
- in Eastern Europe, declines are expected in primary goods, food, fuels, machinery and transport and certain consumer goods.

Effects on The Canadian Food Processing Sector

The two main GATT effects on agri-business which can be expected are:

- greater market access through reduced tariffs and non-tariff barriers; and
- input cost changes which will affect where food processing takes place.

Several studies indicate how various food products in Canada and other countries will fare after the GATT (CARD-FAPRI, OECD, Federal-Provincial Officials). Supply management products in Canada will convert existing quotas on imports to tariffs, and generally at rates of 182% to 299%, depending on the product. For other products such as red meats and grains, prices are expected to rise by up to 10-25% by the year 2000.

Some other conclusions are:

- butter production in Canada will likely decline by 10% by 2000;
- cheese imports will not increase but production will decline by 1% due to lower export expenditures;
- new access is provided to ice cream and other dairy products, which will cause

- some declines in production;
- no effect is expected on primary chicken production/processing although further processing may see more import competition;
- bakery product exports should increase somewhat, such as frozen pizza to Japan, which will use a tariff now;
- canola oil imports into Japan still will be limited by high tariffs;
- special crops should generally benefit from the agreement by tariff reductions;
- beef exports to Korea will be possible due to a doubling of the tariff rate quota (from 106,000 tonnes), with high quality beef gaining the most;
- pork will gain from tariff reductions in Japan and the EU; and
- frozen vegetable and potato processors should gain by reduced tariffs in to Japan and the EU.

A USDA study (1994) indicates the likely US effects expected by the year 2000. This study helps to confirm Canadian opportunities, as the USA is a key competitor. The results indicate that US exports are to increase by \$1.6 billion by 2000 and be mainly comprised of grains and animal products (75% of that growth). Some of the conclusions are:

- wheat- will see export subsidies decline from \$765 million to \$363 million by 2000. Other key markets to open include EU, Japan, Korea, Morocco and Tunisia;
- oilseeds- will see export subsidies decline from \$53 million to \$14 million by 2000. Key markets to open include Japan, Korea, Indonesia, Philippines, Morocco, Costa Rico and Malaysia;
- beef- export subsidies will decline to \$22 million by 2000, with key markets opened up in the EU (beef and beef livers), Japan, Korea, Philippines, Thailand, European countries and South Africa;
- pork- key markets to open include EU, Japan, Korea, Philippines, Thailand the European countries; and
- dairy- key markets include the EU for butter, skim milk powder, cheese, Japan for whey powder, frozen pizza cheese, ice cream mix, grated cheese and frozen yogurt, Korea for whey, cheese, ice cream mix, Malaysia for cheese, yoghurt, Thailand for cheese, Tunisia for nonfat dry milk, Sweden for pizza cheese, European countries for butter and Costa Rica for milk products.

General Conclusions of Studies

From the review of available studies, the following main conclusions are drawn about food processing effects to Canada:

- beef effects- immediately, Canada and the USA eliminate their import quota for tariff rate quotas, Korea and Japan provides some market access- overall a positive world price effect and more beef trade- this is positive for Alberta. For processors the opportunity is explored in more detail in the next section;
- pork- market access will be opened up somewhat through reduced tariffs, the USA is expected to be a large importer of pork and overall world prices rise- this is positive for Alberta;
- dairy- market access opens up for butter and cheese in the EU, price effects are positive and overall trade increases somewhat, although for Canada no large export gains are expected. Canadian dairy processing is not expected to be significantly affected;
- cereals- export subsidies decline marginally, price effects are positive and overall trade increase marginally- this benefits Alberta;
- oilseeds- export subsidies decline marginally, price effects are positive and overall a marginal increase in trade is expected- this benefits Alberta.

It is noted that specific country effects will differ from these conclusions and for niche products,

conclusions may be indeterminate at this time.

Table 1.1 **SUMMARY OF STUDIES**

Study	Cereals	Oilseeds	Meats	Dairy
1. CARD-FAPRI	Higher prices, wheat by 13%	Higher prices, soy by 3%	Higher prices, pork by 10%	Higher prices, cheese by 17%
Comments	Cdn to export 21 MMT wheat by 2000.	NA	Cdn to export 269,000 MT/yr by 2000.	Cdn to export 4,000 MT more/yr by 2000.
2. Federal-Provincial Officials	Higher prices by 10%-25%.	Higher prices by 5%.	Higher prices by 5%.	Higher prices by 5%-10%.
Comments	Stronger prices expected by 2000.	Market access to Japan still a concern.	US to be net importer of pork.	US butter exports to decline, EEC exports to rise.
3. OECD	Likely higher cereal prices.	-	Tariff levels to decline from 50% to 45% by 2004.	US market access opened up. Better global markets.
Comments	Trade forecast to increase.	-	Minimal domestic policy change expected.	Japan may open market some.
4. USDA	US wheat export budgets to decline by 60%.	US oilseed ex. budgets to decline by 75%.	Market access expanded in EC, Korea, Philippines and Japan.	Market access opened up for EC, Japan, Korea.

1.2 NAFTA OUTCOMES AND EFFECTS

The 1994 North American Free Trade Agreement (NAFTA) was signed in 1993 and implemented in January 1, 1994 and will be fully implemented within 10 years (with some product exceptions). Under the Free Trade Agreement, all tariffs between Canada and the United States will be removed by January 1, 1998. Under the NAFTA, all tariffs (except for some specific products such as supply management) will be eliminated by January 1, 2003.

The main effects of the NAFTA are:

- creation of a single market of over 360 million people with a total gross domestic product of over \$7 trillion of annual economic output. This is larger than the EU;
- reduction of all tariffs to zero within 10-15 years, depending on the product; and
- national treatment of the three countries' citizens in respect to investment, right of establishment of a business and mobility.

NAFTA Outcomes

One of the outcomes of the negotiation was that Canada and the US would continue to address agriculture under the prior Free Trade Agreement. Canada and Mexico negotiated a bi-lateral agriculture agreement, and the US and Mexico concluded a similar agreement. Thus for Canadian products into the US, the prior tariff schedules apply (under the FTA). In the final hours three agreements were signed- the main NAFTA agreement (and safeguards), a labour agreement and an environment agreement. The main NAFTA agreement is discussed here.

It was agreed that the three countries would retain their anti-dumping and countervail duty laws, subject to any GATT definitions and direction which could be reached subsequent to the issue. In addition, further NAFTA negotiations would take place in technical areas requiring resolution.

A critical feature of the agreement is the concept of national treatment and rules of origin. All businesses are to be treated equally in respect of right of establishment and right to access market opportunities as agreed under the NAFTA. The rules of origin is important to understand. Products qualify for the lower tariffs (ultimately zero tariffs) only if they have been substantially made in one of the three countries. There are specific input cost tests which are to be used if necessary. A certificate of origin is needed when shipping products into one of the markets.

Some other "umbrella" clauses are important- investment from "NAFTA investors" is allowed into either country for up to \$25 million per project and will rise to higher levels over the implementation period.

New market access is another feature. For example, government procurement has been broadened to include all federal government and agency contracts over \$25,000 US, unless otherwise excluded. This creates a potential \$70 billion market annually for goods and services within this market.

Specific product exemptions have been allowed, as Canada retains the name "Canadian Whiskey", the USA retains "Bourbon Whiskey" and Mexico retains "Tequila" for its exclusive use.

Some other achievements include:

- Services are included;
- Protection on intellectual property was agreed to;
- Transportation services were included;
- Temporary entry for business people was allowed- business visitor, trader, transferee, professionals (see NAFTA list)
- Disputes settlement mechanisms were agreed to;
- An accession clause was allowed which permits other countries to join as agreed to by the three parties;
- Withdrawal from the NAFTA can be done after six months notice;
- Environment Agreement allows for trade penalties if either country does not follow their own laws; and
- Labour Agreement allows for the three countries to continue to improve working conditions, collective bargaining and equal pay for workers.

The NAFTA gives Canada an advantage over all other countries on access to a market (Mexico) of over 90 million people. From a business perspective, the key questions will be focusing on profitable niche markets in Mexico which match up with key Alberta strengths such as certain technologies and product offerings. The main supplier to Mexico is the USA, which positions Canada as a key alternate supplier.

Within the NAFTA agriculture agreement, Canada has retained its right to supply management industries, the Western Grain Transportation Act, "snap-back" provisions for fruit and vegetables at certain times of the year and enhanced market access to the consumers of Mexico. Mexico also gains access to our markets. Subject to GATT tariffications, Canada and the US are discussing the implementation of tariffs, as the FTA does not allow for new tariffs to be implemented.

Table 1.2 GATT-NAFTA LINKAGES

NAFTA TRADE AGREEMENT- OUTCOMES	GATT- TRADE AGREEMENT- OUTCOMES
1. Management- By NAFTA Commission, Labour Commission, Environment Commission. Is a preferential agreement among 3 countries.	1. Management- By World Trade Organization- the GATT, GATS, TRIMS. Is a multi-lateral agreement.
2. Coverage- 3 countries, 360 million people. To implement 1994-2009.	2. Coverage- 118 countries, 4 billion people. To implement 1995-2000.

3. Market Access- Tariffs to 0% within 10-15 years; agreement on standards; mobility of people, investment.	3. Market Access- Tariffs down by 36% (average) within 6 years, standards to be developed, some minimum access commitments.
4. Export Subsidies- To adhere to GATT, inappropriate within NAFTA area.	4. Export Subsidies- To decline by 36% over 6 years, volumes by 21%.
5. Domestic Policy- to harmonize standards, no internal export policies, some exemptions.	5. Domestic Policy- To move to non-trade distorting programs, reduce AMS expenditures by 20% over 6 years.
6. Sanitary and Phytosanitary Measures- To become standard.	6. Sanitary and Phytosanitary Measures- To study.
7. Disputes Settlement- Under the NAFTA Commission.	7. Disputes Settlement- Under the WTO.
8. Potentials- Incremental over the prior FTA, some new market niches in Mexico.	8. Potentials- Enhanced access to Japan, Korea, higher world prices more likely for grains, oilseeds.

2.0

WORLD TRADE TRENDS

The section below outlines agri-food products traded in the world and how Canada is doing relative to the world. Canada's and Alberta's trade profile is discussed briefly to assist the reader with an understanding of trade patterns. Alberta exports (and imports) products and services as a normal course of trading with other markets as the circumstances reveal profitable opportunities. This is the role of business to fulfil as they are able to do.

2.1 General Alberta Trade Review

Alberta's agriculture and food industry is well developed and trades with other markets. In total Alberta exports about \$19 billion annually (Alberta Economic Development and Tourism). The top geographic markets are:

- the USA which accounts for 38% of exports (\$1.2 billion);
- Japan which accounts for 16% (.5 billion);
- China which buys about 12% (.4 billion);
- the USSR which buys 9% (.3 billion);
- Iran which buys 2% (70 million); and
- others purchasing about 23%.

The USA is the most important market for processed food products and clearly cannot be ignored, as it is the richest market in the world and most dynamic. Even with the new GATT Agreement, for many this will still be the first market to enter.

2.2 World Agri-food Trade

Some recent trade data is presented which outlines how world agricultural trade compares with Canada's agri-food trade in the last twelve years. This sets the background for the later section on target countries. A summary of the main conclusions are shown in the following tables.

From the review of trade data, some general conclusions can be drawn. First, while bulk exports are a strength, intermediate exports have grown from \$.9 billion US (1980) to about \$1.2 billion US in 1992. However the fastest growing market segment in the world is the consumer-oriented exports at about \$4 billion US in 1992, double the 1980 levels.

This is the market segment which Alberta's agri-food businesses must focus on in the immediate future. The intermediate and consumer-oriented markets are growing rapidly and Alberta companies needs to recognize that trend.

Some of the fastest growing market segments are:

- intermediate products, worth \$74 billion US in trade in 1992, and growing quickly, for such products as chemical materials and products, leather, crude animal and vegetable materials, cereals, animal feeds and animal fats.
- consumer-oriented products, worth \$253 billion US in trade in 1992, and growing even more quickly. Products such as cereal preparations, pharmaceutical, live animals, beverages, vegetables and fruits and meat preparations, dairy products and sugar and honey products are all show very rapid growth.

Table 2.1

SUMMARY OF WORLD AGRI-FOOD EXPORTS

Item	1980 (\$US Billion)	1992 (\$US Billion)	% Change
Bulk Exports	\$65.11	\$61.09	-6.2%
Share of Export Ag Mkt	27%	15.8%	-41.6%
Intermediate Products	\$49.17	\$73.38	49.2%
Share-Ag Exports	20.4%	18.9%	-7.1%
Consumer Products	\$127.19	\$253.32	99.2%
Share-Ag Exports	52.7%	65.3%	+24%

Table 2.2 shows the summarized estimates for these three Canadian market segments.

Table 2.2

SUMMARY OF CANADIAN AGRI-FOOD EXPORTS

Item	1980 (\$US Million)	1992 (\$US Million)	% Change
Bulk Exports	\$5,160	\$6,811	24%
Share of Cdn Export Ag Mkt	66.5%	57.4%	-15.9%
Intermediate Products	\$879	\$1,142	23%
Share-Ag Exports	11.3%	9.6%	-17.8%
Consumer Products	\$1,718	\$3,919	56%
Share-Ag Exports	22.1%	33%	+32.9%

Source: Main report.

The sections which follow for each country reviewed have a format of:

- country data and an economic profile;
- historical Canada trade for the products under study and GATT tariff changes; and
- general product opportunities.

3.0

TARGET COUNTRY PROFILES

Information for this section is based on Export Development Corporation (EDC) information, OECD and World Bank reports, Economist Country Reports and other information gathered from selected sources. Another key information source was tariff tables, and information was received from industry sources.

The organization of this section is as follows: a profile of the general market conditions, specific Canadian agri-food export trade patterns and tariff reductions expected under the GATT. Together this information allows one to assess the attractiveness of markets on a consistent basis. For more detailed information, the main study can be accessed.

3.1 United States of America

Although the USA is a partner in the NAFTA, benefits have also been achieved for Canada under the GATT. The USA has five regional markets which each offer the regions of Canada, definable target markets. Alberta's target regions should be the Pacific Northwest and West Coast through to southern California.

The USA has 255 million people, who have average incomes of \$23,200 US (1992) and is a very dynamic and rich economy. However, it is also a very demanding market but one which is open to Canada through the FTA and NAFTA. An economic profile of the US is shown in the table below.

Table 3.1 USA PROFILE

GENERAL DATA	1990	1991	1992	1993	1994 (E)	1995(F)
GDP (% growth)	1.2	-0.7	2.6	3.0	3.6	2.8
Industrial production (% growth)	-0.0	-1.8	2.4	4.1	5.4	4.2
Unemployment rate (%)	5.5	6.8	7.4	6.8	6.4	6.2
Consumer price index (% growth)	5.4	4.2	3.0	3.0	2.5	2.8
Unit labour cost (% growth)	5.1	3.9	2.6	2.2	2.0	3.5
Foreign exchange rate (US\$/Cdn\$)	0.857	0.873	0.827	0.775	0.733	0.709

Source: EDC

The USA is projected to grow by over 3% in 1995 and will see significant consumer spending in the next few years. Canada has a 20% plus market share of the imports into the USA. For Canada and Alberta, the USA is the single most important market for nearly all goods and many services, taking about 80% of Canadian exports. A summary of the economy is presented in the table below.

The USA is in a solid state of economic growth and investment spending is estimated at 12% for 1995 (EDC). The big factor helping Canadian exports into the market is the low valued Canadian dollar, which helps exporters to be more competitive against similar USA products.

Table 3.2

USA ECONOMY

MARKET INDICATORS	1990	1991	1992	1993	1994(E)
Consumer spending (% growth)	1.5	-0.4	2.6	3.3	3.6
Res. construction (% growth)	-9.2	-12.8	16.3	8.7	11.8
Investment (% growth)	1.2	-5.9	2.9	11.8	11.9
Merchandise imports (& growth)	4.9	-1.6	8.8	8.7	9.3
Merchandise imports (Cdn\$bn)	656.7	646.0	702.5	763.9	835.0
Imports from Canada (Cdn\$bn)	105.45	103.46	118.67	142.43	163.20
Canada's market share (%)	16.06	16.02	16.86	18.74	19.55

Source: EDC

From a business view, the US is a known market and offers typical credit terms to those found in Canada. For exporters, this market is one that could offer many agri-food exporters a new opportunity close to home, with minimal risks. It is a market with much competition but is the easiest one to enter for first time exporters.

Currency risks are a lesser problem for exporters as the Canadian dollar has been less than par value for at least 15 years and in the past two years has been trading in the \$1US=.70 to .75 range. If the Canadian dollar appreciates, this lessens the competitiveness somewhat, and if the Canadian dollar depreciates against the US dollar, export businesses gain. Recent exchange rates have been 1.402 (.71 Cdn=1\$US March 22), indicating an appreciation of the US dollar from 1994 levels, and helping Canadian exporters.

3.1.1 Alberta Product Export Patterns

The figures below indicate actual export patterns to the USA. Key exports are:

- Beef product exports of \$500 million (1993);
- Pork exports at \$400 million;
- Processed meats such as bacon and hams at levels of about \$40 million;
- Bottled water and whiskey exports of about \$100 million in 1993;
- Refined oil exports at \$200 million or more;
- Niche market products realizing new growth are pasta and bakery doughs and mixes at total exports of \$50 million or more;
- Honey exports at \$10 million in exports;
- Dehydrated alfalfa exports show growth from 1990-1993; and
- Pet foods are making new in roads as are complete feeds.

3.1.2 GATT Tariff Review

The summarized changes as a result of the GATT round are noted in the following table.

Table 3.3

UNITED STATES TARIFFS

Sector	TARIFF RANGE	MOST COMMON TARIFF	MFN BOUND 1995
Live animals	Free - 15.0%	Free	Free - 6.8%
Beef	4.4 cents/kg - 10%	4.4 cents/kg	in-quota tariffs are remaining the same
Pork	Free - 2.2 cents/kg	Free	Free - 1.4 cents/kg
Lamb	1.1 cents/kg	1.1 cents/kg	0.7 cents/kg
Mutton	3.3 cents/kg	3.3 cents/kg	2.8 cents/kg
Offal (excluding poultry)	Free	Free	Free
Poultry meat & offal	11 cents/kg - 12.5%	11 cents/kg	8.8 cents/kg - 10.0%
Dairy	2.2 cents/kg - 17.5%	wide variation	No change to within quota tariffs
Vegetables* & fruits fresh & prepared	Free - 35.0%	wide variation	Free - 29.8%
Spices	Free - 16.5 cents/kg	Free	Free - 7.4 cents/kg
Grains	Free - 20.0%	wide variation	Free - 12.8%
Oilseeds (excluding peanuts)	Free - 4.1 cents/kg	wide variation	Free - 0.58 cents/kg
Forage seeds	Free - 3.5 cents/kg	wide variation	Free - 1.6 cents/kg
Oils	Free - 22.5%	wide variation	Free - 19.1%
Processed meats	1.3 cents/lg - 10.0%	wide variation	Free - 6.4%
Prepared foods	Free - 17.5%	wide variation	Free - 17.5% (in-quota dairy) Free - 14.9% (non-dairy)
Jams & purees	Free - 35.0%	wide variation	Free - 14.0%
Condiments	7.5% - 35.9 cents/kg + 7.5%	35.9 cents/kg + 7.5%	6.4% - 30.5 cents/kg + 6.4%
Alcohol	1.6 cents/1 - \$1.52/pf 1	wide variation	Free to \$0.89/pf 1

* Tariffs on vegetables are very product specific. Some products with extremely high tariffs include leeks, garlic, onion powder, pumpkins, spinach, mushrooms, sweet corn, brussel sprouts (fresh or frozen), kohlrabi, broccoli, okra and asparagus. These are in-quota tariffs. Current exchange \$1 US= 1.402 Cdn.

From the table, one can see other countries will have some access to the USA market. For Canada, the USA is already an open market due to the prior FTA and NAFTA agreements. The USA is to implement the new GATT tariffs by 1999.

3.1.3 Product Trends and Opportunities

Within the US marketplace, the emergence of several niches has been reported (External Affairs):

- frozen foods, as 70% of households have microwaves and US companies are rapidly moving to have up to 80% of their food microwaveable;
- ethnic foods are more popular, with more pasta and related products rapidly increasing;
- more "healthy foods" are being purchased, and less canned foods;

- rise of Kosher food products;
- rise of snack food products; and
- increasing market for specialty foods (dressings, condiments, etc.).

SUMMARY OF THE US MARKET

From the information reviewed above, the US is Canada's and Alberta's key market. Historical trends show the main processed agri-food exports are: beef, pork, processed meats, whiskey, water, pasta, dough, dry alfalfa, pet food and many other products. The detailed tables are in the appendix. From the tariff review, many opportunities will emerge but have been accessible to Canadian business under the prior FTA and NAFTA agreement. Some trade irritants still need to be removed but access to the US market is still easier than any other country.

Some other product trend information and country information reviewed indicates possible niche markets for breakfast cereals, snack foods, pet foods, dairy products and others where the US successfully competes. These are all products Alberta can manufacture, given the feasibility to do so.

3.2 Mexico

Mexico is a partner through the NAFTA agreement and is a signatory to the GATT. NAFTA benefits are generally larger than GATT benefits for Canadian businesses because of the far greater extent of this agreement in achieving greater market access for both goods and services.

Mexico is an interesting country which has been forgotten by Canada for various reasons until the NAFTA. Over 90 million people occupy the country, the GDP/capita is about 25% that of Canada's and growth is expected to be flat for the next few years as the country recovers from a recent devaluation of the Peso. Canada has about 1% of the import market of Mexico. However, many niche markets exist and the import marketplace is very busy as medium and high income consumers are buying import products.

Table 3.4 MEXICO PROFILE

GENERAL DATA	1990	1991	1992	1993	1994(PROJ)
GDP (% growth)	4.4	3.6	2.6	0.6	2.5
Inflation rate (%)	30.0	19.0	12.0	8.0	6.0
Exch Peso/Cdn \$	.0004	.00038	.00039	.414*	.4070

*Peso revalued at 1=1000 Pesos.
Source: EDC, Bank of Canada

With the recent Peso crisis and related events of political management, Mexico will have a re-building of the image of an open economy which can offer investors good sustainable market opportunities. The country has a liquidity problem currently, but exporters with key relationships and buyers can continue to do business. For new exporters, the country will prove to be a challenging one to enter in the near term because of currency problems. The Peso has been depreciating since 1981.

Recent experience with the Peso has seen the currency rapidly depreciate against the US and Canadian dollar. Prior to December 1994, rates were \$1 Cdn= 3.2 Pesos, recently the Peso has fallen to half that value (6-7 Peso= \$1 Cdn).

This has more to do with feasibility of exporting to Mexico currently than does any other market factor. Exchange rates at March 22 were .1962, which effectively means prices doubled since mid-December. Currently the country is very unstable and repayment ability is difficult. The table below illustrates the economic profile of the country and riskiness.

Table 3.5 MEXICO ECONOMIC PROFILE

BALANCE OF PAYMENTS (US\$bn)	1990	1991	1992	1993	1994(PROJ)
Exports	30.5	30.9	32.3	35.1	39.5
Imports	31.1	38.2	48.2	48.4	54.2
Trade balance	-0.8	-7.3	-15.9	-13.3	-14.7
Current account balance	-7.8	-13.7	-22.6	-21.1	-22.4
Reserves (months of imports)	(3.7)	(5.5)	(4.8)	(5.3)	(5.2)
External debt (over 1 year)	104.2	113.2	110.6	117.7	126.5
Short-term debt (under 1 year)	1.2	1.7	3.5	4.2	4.2
Debt service ratio	37%	35%	46%	33%	32%

Source: EDC

3.2.1 Alberta Product Export Patterns

Alberta and Canada have had limited trade with Mexico in agri-food products. Pork products have increased from \$5 million in 1988 to nearly \$20 million in 1993. Other products exported include:
 beef products- \$1.7 million;
 dairy products- \$6.9 million; and
 milled cereals- \$1 million.

3.2.2 GATT Tariff Review

GATT tariff changes for Mexico are noted in the table below. They will be implemented by 2004.

Table 3.6 MEXICO'S TARIFFS

PRODUCT	TARIFF RANGE 1994	MOST COMMON 1994 TARIFF	NEW MFN TARIFF RANGE*
Live animals	10.0% - 50.0%	Wide variation	9.0% - 37.5%
Meats & meat offal	25.0% 1,680 dol/t but not less than 260.0%	Wide variation	22.5% - 1,512 dol/t but not less than 234.0%
Dairy	50.0% - 1,160 dol/t but not less than 139.0%	Wide variation	37.5% - 1,044 dol/t but not less than 121.5%
Veg, fruits, fresh or preserved	10.0% - 50.0%	50.0%	9.0% - 36.0%
Spices	50.0%	50.0%	25.0% - 36.0%
Grains	10.0% - 212 dol/t but not less than 175.0%	50.0%	9.0% - 190 dol/t but not less than 158.0%
Oilseeds	Free - 50.0%	50.0%	Free - 45.0%

Oils	50.0%	50.0%	45.0%
Prepared meats	50.0%	50.0%	45.0%
Confectionary	50.0% - 0.40 dol/kg but not less than 173.0%	50.0%	37.0% - 0.36 dol/kg but not less than 156.0%
Prepared foods	40.0% - 50.0%	40.0% or 50.0%	36.0%
Condiments	40.0% 0.36 dol/kg but not less than 156.0%	40.0% or 50.0%	36.0% - -0.27 dol/kg but not less than 117.0%
Alcohol	40.0% - 50.0%	40.0% or 50.0%	36.0% - 45.0%

* 1995 to 2004 tariff implementation period.

NOTE 1. That these are the bound rates. Mexican applied tariff rates have been in the 20.0% range and there is no indication whether they will be lowered.

2. The Mexican specific tariffs are in U.S. dollars not pesos. Current rate Cdn \$0.1962 = 1 Peso.

Some Mexican imported products of interest are (which can be sourced in Alberta):

- Bovine fats \$70.5 million US imports to Mexico;
- Bovine hides and skins \$122.8 million US;
- Swine offals \$44 million US;
- Fresh or chilled pork \$29.9 million US;
- Animal feeds \$29.6 million US (and pet foods);
- Animal guts \$27.9 million US;
- Sausages \$17.6 million US;
- Lard \$15.4 million US;
- Cookies \$5.9 million US;
- Cereal products \$5.0 million US.

3.3 United Kingdom

The United Kingdom (UK) is not a large market for agri-food exports but is within the EU and therefore was reviewed to examine the new opportunities created by the GATT. The population totals about 57 million people, with per capita levels of about \$18,000 US. GDP growth is expected to reach levels of about 3% in 1995.

Canada has an import market share of about 1% into the UK and has historically been a supplier to the markets there. However in the last twenty years, trade patterns have changed to south and western destinations. The tables below illustrates the economic profile of the UK.

Table 3.7 UK PROFILE

GENERAL DATA	1990	1991	1992	1993	1994(E)	1995(F)
GDP (% growth)	0.4	-2.2	-0.6	1.9	2.9	2.7
Industrial production (% growth)	-0.3	-3.9	-0.4	2.4	3.6	3.1
Unemployment rate (%)	5.8	8.1	9.8	10.3	9.4	9.0
Consumer price index (% growth)	9.5	5.8	3.7	1.6	2.7	3.5
Unit labour cost (% growth)	9.8	7.5	4.4	0.7	2.0	3.3
Foreign exchange rate (Pounds/Cdn\$)	0.480	0.493	0.469	0.516	0.488	0.482

Source: EDC

From an exporter's view, the market is established and has good repayment ability, with open trade credit being a normal business practice. It also is an English speaking market with established business ties. The exchange rate has been appreciating, and as of March 22 was at .4494.

Table 3.8 UK ECONOMY

MARKET INDICATORS	1990	1991	1992	1993	1994(E)
Consumer spending (% growth)	0.6	-2.2	0.0	1.9	2.8
Res. construction (% growth)	-16.0	-15.7	5.2	-1.0	4.3
Investment (% growth)	-4.7	-10.6	-4.8	1.7	6.9
Merchandise imports (% growth)	3.2	-5.7	5.9	11.7	5.1
Merchandise imports (Cdn\$bn)	233.5	220.3	233.5	260.6	274.0
Imports from Canada (Cdn\$bn)	3.41	2.93	3.04	2.80	3.29
Canada's market share (%)	1.46	1.33	1.30	1.07	1.20

Source: EDC

3.3.1 Alberta Product Export Patterns

Few products are exported from Canada to the UK, including:

- dough mixes of about \$3 million;
- water exports of about \$3 million;
- whiskey exports of about \$8 million
- pet food exports at \$3.5 million

Some other key Alberta exports (1993) include:

- wheat (\$6 million);
- peas (\$338,000);
- seeds (\$1.2 million); and
- canola seed (\$1 million).

3.3.2 GATT Tariff Changes

From the review of EU commitments, the following tariff changes are noted in the table below. They will be implemented by 2000.

Table 3.9 EUROPEAN UNION TARIFFS

PRODUCT	1994 TARIFF RANGE	COMMON 1994 TARIFF	NEW MFN TARIFFS
Live Animals	Free - 16.0% + 1454 ECU/6	Wide variation	Free - 10.2% + 931 ECU/t
Meat	3.0% - 24.0% + 4740 ECU/t	Wide variation	Free - 15.4% + 3034 ECU/t

Dairy	201 ECU/t - 3360 ECU/t	Wide variation	129 ECU/t -2150 ECU/t
Veg, Fresh, Preserved	3.0% - 23.0% + 278 ECU/100 kg	Wide variation	Free - 18.4% + 222 ECU/100 kg
Fruit, Fresh, Preserved	4.0% - 32.0% + 52 ECU/t	Wide variation	Free - 25.6% + 42 ECU/t
Spice	Free - 25.0%	Wide variation	Free - 12.5%
Grains	4.0% - 417 ECU/t	Wide variation	Free - 26% ECU/t
Oilseeds	Free - 7.0%	Free	Free - 4.5%
Forage Seeds	4.0% - 5.0%	4.0%	Free - 2.5%
Oils	5.0% - 2004 ECU/t	Wide variation	3.2% - 1603 ECU/t
Confectionary	5 ECU/t - 27.0% + 236 ECU/t	Wide variation	4 ECU/t - 18.9% + 165 ECU/t
Prepared Meats	16.0% - 26.0%	Wide variation	10.2% - 16.6%
Prepared Food	6.0% + 313 ECU/t -13.0% + 719 ECU/t	Wide variation	3.8% + 200 ECU/t - 8.3% + 460 ECU/t
Condiments	Free - 16.0%	Wide variation	Free - 10.2%

Note: These are over quota tariffs. Current exchange \$1 = .4494 Pound.

Some selective opportunities are available for Alberta products. In particular, an agreement between the European Union and Canada on "high quality" wheat should open up additional access (300,000 tonnes annually) into the market at 0% tariff rates in July 1995.

Of the products reviewed for this study, dill seed, crude and refined rapeseed oil, mixes and doughs for the preparation of bakers' wares, prepared mustard, salad dressings, soups, animal feeds, gelatin, blood fraction products, and alcoholic drinks appear to have taken fairly large tariff cuts, and do not have safeguard protection attached.

3.4 Germany

Germany is not a major market for agri-food exports but is part of the EU and was reviewed to assess any new opportunities under the GATT. The tables below indicate the economic profile of the country. Germany has a population of about 81 million people, with a high per capita income of \$23,000 US. The economy is undergoing a major restructuring, with unemployment at 10% levels, and growth is expected at 2.5% in 1995.

Table 3.10 GERMANY'S PROFILE

GENERAL DATA	1990	1991	1992	1993	1994(E)	1995(F)
GDP (% growth)	5.1	1.5	2.1	-1.3	1.8	2.5
Industrial production (% growth)	5.1	0.6	-0.2	-5.8	2.6	3.0
Unemployment rate (%)	6.4	6.7	7.7	8.9	9.6	9.8
Consumer price index (% growth)	2.7	4.5	4.9	4.8	2.9	2.3
Unit labour cost (% growth)	2.6	6.7	5.4	3.5	0.3	1.6

Foreign exchange rate (DM/Cdn\$)	1.385	1.448	1.292	1.282	1.228	1.206
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Source: EDC

An assessment of the Germany market was made and indicates the economy is being re-structured, with many businesses focusing on cost reduction and related management issues. Much of this type of activity has already occurred in Canada and the US in 1991-1994. The German currency has been appreciating slightly over time and rates as of March 22 were 1.0025/Cdn\$.

Table 3.11 **GERMAN ECONOMY**

MARKET INDICATORS	1990	1991	1992	1993	1994(E)
Consumer spending (% growth)	5.4	4.2	2.3	0.1	-0.3
Res. construction (% growth)	7.8	2.0	9.9	6.9	8.4
Investment (% growth)	10.3	13.0	1.0	-8.2	2.6
Merchandise imports (% growth)	9.6	11.0	-0.8	-13.3	5.0
Merchandise imports (Cdn\$bn)	406.4	463.3	459.7	398.4	418.1
Imports from Canada (Cdn\$bn)	2.22	2.13	2.20	2.36	2.04
Canada's market share (%)	0.55	0.46	0.48	0.59	0.49

Source: EDC

3.4.1 Alberta Product Export Patterns

Some key Alberta exports (1993) to Germany include:

- honey (\$1 million);
- canola seed (\$1.9 million);
- mustard seed (\$500,000); and
- lentils (\$311,000).

Germany is the biggest market in Western Europe with almost 80 million consumers, and also one of the most strict for food quality. Germany has the strictest food import regulations among the 12 member states of the EU. It is the largest importer of food and beverages in the world, with over one-third of its food being imported (AgExporter).

3.5 Japan

Japan is nearly every countries' target for exports which makes it a very competitive one in which to do business. Japan is Canada's and Alberta's third largest customer for agri-food products, with historically high tariff and non-tariff barriers.

Japan is a small country with a population of over 125 million people. It is one of the most productive world economies and has per capita incomes of over \$28,000 US. The tables below indicate the economic profile for Japan, which shows a very stable and growing economy.

Table 3.12 JAPAN PROFILE

GENERAL DATA	1990	1991	1992	1993	1994(E)	1995(F)
GDP (% growth)	4.9	4.3	1.2	0.1	1.2	2.2
Industrial production (% growth)	4.1	1.8	-6.1	-4.5	0.3	1.5
Unemployment rate (%)	2.1	2.1	2.2	2.5	2.9	3.1
Consumer price index (% growth)	2.8	3.3	1.7	1.3	0.8	0.8
Unit labour cost (% growth)	3.5	3.5	3.1	2.2	1.6	1.0
Foreign exchange rate (Yen/Cdn\$)	124.1	117.6	104.8	86.2	78.0	83.5

Source: EDC

Japan has significant income potential and is also touted as a potential equal to Germany in influencing the world's economy in the next century. The currency is fairly stable and has been appreciating recently. Rates as of March 22 were 63.41/ Cdn\$. The Japanese Yen has been appreciating against the Canadian dollar since 1985, which is a benefit to exporters.

Table 3.13 JAPANESE ECONOMY

MARKET INDICATORS	1990	1991	1992	1993	1994(E)
Consumer spending (% growth)	4.0	2.2	1.7	1.1	3.2
Res.construction (% growth)	4.5	-8.0	-7.0	3.5	4.8
Investment (% growth)	11.5	5.6	-3.3	-8.2	-4.5
Merchandise imports (% growth)	16.8	-6.2	-7.3	-9.3	-2.8
Merchandise imports (Cdn\$bn)	360.8	339.9	313.2	283.1	303.9
Imports from Canada (Cdn\$bn)	8.19	7.12	7.45	8.39	8.42
Canada's market share (%)	2.27	2.09	2.38	2.96	2.77

Source: EDC

3.5.1 Alberta Product Export Patterns

From the review of trade data, Japan is Alberta's second most important market after the US. Key exports include:

- beef exports at \$20 million;
- pork products at \$150 million;
- processed meat exports of \$1.5 million;
- whiskey exports of about \$25 million; and
- dehydrated alfalfa exports of \$40 million.

Some other exports to Japan (1993) include:

- horse meat (\$10 million);
- milled cereals (\$42 million);
- other fodder and feeds (\$24 million); and
- tallow (\$10 million).

3.5.2 GATT Tariff Changes

A summary of tariff changes under the GATT are shown in the table below and will be implemented by 2000.

Table 3.14 JAPAN TARIFFS

PRODUCT	TARIFF RANGE 1994	MOST COMMON 1994 TARIFF	NEW MFN TARIFF RANGE
Live animals	Free - 75,000 Y each	Free	Free - 63,750 Y each
Beef	50%	50%	38.5%
Pork	5.0% - 1,218 Y/kg	Wide variation	Free - 1,035 Y/kg
Lamb & mutton	Free	Free	Free
Offal (except poultry)	5.0% - 93.0%	Wide variation	Free - 50.0%
Poultry meat & offal	5.0% - 16.0%	Wide variation	3.0% - 11.9%
Dairy	25.0% - 30.0% + 1,204 Y/kg	Wide variation	21.3% - 29.8% + 1,023 Y/kg
Veg, fresh	5.0% - 10.0%	5.0%	3.0% - 4.3%
Veg, prepared	Free - 417 Y/kg	Wide variation	6.0% - 354 Y/kg
Fruit, fresh & preserved	Free - 53.1%	Wide variation	Free - 32.0%
Spice	Free - 10.0%	Varies (lower if bulk or whole seed)	Free - 6.0%
Grains	Free - 130 Y/kg	Wide variation	Free - 111 Y/kg
Oilseeds	Free - 726 Y/kg	Free	Free - 617 Y/kg
Oils	Free - 20.7 Y/kg	20.7 Y/kg	Free - 13.2 Y/kg
Prepared meats	Free - 1,218 Y/kg	Wide variation	Free - 1,035 Y/kg
Confectionary	Free - 35.0%	Wide variation	Free - 29.8%
Prepared foods	98 Y/kg - 35.0% + 1,363 Y/kg	Wide variation	83 Y/kg - 29.8% + 1,159 Y/kg

Note: These are over quota tariffs. Current exchange \$1 = 63.41 Yen.

Growth in demand for wheat flour is expected to be restricted by the high over-quota tariff rate. Minimum access volumes may provide some export opportunities. For most wheat flour preparations the high over quota rates apply. Several bakers' wares products such as gingerbread, crispbread, and cookies and pasta products have undergone significant tariff reductions which may create opportunities, although the remaining tariffs are relatively high.

Other products which may have increased opportunities as a result of the GATT agreement include rye whisky, mineral waters, soups, condiments, prepared mustard, sausages, jams, and dog and cat food.

Other items of interest include:

- frozen french fries - tariffs to decline by 40%;
- canned corn - tariffs to decline by 20%;
- frozen pizza - tariffs to decline by 20%;
- sweet biscuits and waffles - tariffs to decline by 40%;

- mixes and doughs - will change to a tariff from a quota;
- beer and rye - beer tariffs to decline to 0% over 8 years and rye tariffs to decline to 0% over 10 years.

3.5.3 Product Trends and Opportunities

A report by Agriculture and Agri-Food Canada indicates a number of growth areas in Japan. The ten fastest growing imports were:

- soya bean oil, Canada's share 0%;
- wheat meal and flour, Canada's share 3%;
- potatoes, Canada's share 0%;
- butter, Canada's share 0%;
- linseed oil, Canada's share 0%;
- fresh milk, cream, Canada's share 0%;
- sheep & goats, Canada's share 0%;
- malt extract, Canada's share 2%;
- tomatoes, Canada's share 1%; and
- non alcoholic beverages, Canada's share 1%.

These imports and Canada's fastest growing exports are noted in the following two tables. Some other product opportunities indicated in the report are:

- pork, beef and sausages;
- poultry meats, edible offals, prepared meats, bacon, ham and processed pork;
- wine;
- fruit, nuts and processed fruit products; and
- spirits and beer.

One of the product opportunities identified in Japan is pet food for dogs and cats (Agriculture Canada). Japan has a total of 41 million households, compared to the US with 93 million households. It is estimated that about 9 million dogs and 6 million cats live in Japan. Japan's pet food industry has been growing at 8% annually in production to current domestic levels of 273,887 tons. Imports rose to 211,074 tons in the same year (1992). The table below indicates the level of the Japanese market.

Table 3.15 JAPAN PET FOOD MARKET

Item	1991 (US \$ M)	1992 (US \$ M)	1993 (US \$ M)
Imports	287	326	382
Local Prod'n	1453	1888	2508
Exports	1.9	2.3	1.8
Total Market	1737	2211	2888
US Imports CIF Japan	106	128	111

Source: Agriculture Canada, Japan Pet Food Report, 1994.

Japan also imports large amounts of frozen foods which are a growth area. The USA is undoubtedly the leader, particularly for processed potatoes. This also includes frozen french fries. Single-serving processed frozen stir-fry meals are becoming popular. Frozen mini-pizzas are also becoming a common convenience store and supermarket offering.

Confectionary products such as chocolates are another import item selling well in Japan. The Japanese prefer hard candies, followed by soft, jelly candies and chocolate, cake-like, gourmet

candies. The most successful chocolate products in Japan are high-quality milk chocolate bars. The growing trend in Japan is toward "healthy, fashionable" candies that have an upscale image to consumers. Healthy candies, are products that claim specific benefits for the consumer (eg. low-calorie products for dieters).

3.6 Taiwan

Taiwan is a very dynamic country and offers tremendous opportunities for food exports and investment targeting. Taiwan has about 21 million people, an annual GDP/capita of \$10,700 US and expected economic growth of 6.5% in 1994. Taiwan's economic profile is noted in the table below, and indicates a strong economy. Taiwan has a very low debt service ratio of 2% and foreign reserves of over \$90 billion US. Canada has 1% of the imports.

Table 3.16 TAIWAN PROFILE

GENERAL DATA	1990	1991	1992	1993	1994(PROJ)
GDP (% growth)	4.9	7.2	6.5	6.1	6.5
Inflation rate (%)	4.1	3.6	4.4	2.9	3.7
Exchg NT\$/Cdn \$	.0437	.0424	.0479	.0492	.0516

Source: EDC, Bank of Canada.

The country is very wealthy and has a stable currency. In the last two years it has been appreciating and recent rates are .0543/ Cdn\$ (March 22).

Table 3.17 TAIWAN ECONOMIC INDICATORS

BALANCE OF PAYMENTS	1990	1991	1992	1993	1994(PROJ)
Exports	66.8	75.5	80.7	84.2	89.4
Imports	51.9	59.8	67.9	72.8	78.1
Trade balance	14.9	15.7	12.8	11.4	11.3
Current account balance	10.8	12.0	8.2	6.2	3.8
Reserves (months of imports)	(12.5)	(12.4)	(10.9)	(10.3)	(12.0)
External debt (over 1 year)	2.2	2.9	4.3	5.0	13.0
Short-term debt (under 1 year)	20.0	22.0	21.8	25.9	28.9
Debt service ratio	2.7%	2.3%	2.3%	2.0%	2.4%

Source: EDC

3.6.1 Alberta Product Export Patterns

Alberta exports to Taiwan are not significant. Dehy alfalfa exports have been growing and are at levels of about \$10 million in 1993. Whisky products have been imported for many years and are now at higher levels of about \$3 million, up from very minimal sales in 1988.

Other exports to Taiwan (1993) from Alberta include:

- oilseed cake and meal (\$2.2 million);
- other fodder and feeds (\$2.3 million); and
- raw hides and skins (\$30 million).

3.6.2 GATT Tariff Changes

Tariff schedules were not available at the time of study. Taiwan is not a GATT signatory but has applied for membership. China (has also applied for membership) and Taiwan will likely join at the same time, or shortly thereafter in 1995 or 1996. At that time the GATT commitments on tariffs and other clauses will be achieved. China wants developing country status but Taiwan will apply as a developed country (different market access commitments).

Product Opportunities

Key opportunities include:

- frozen corn, mixed vegetables, baby vegetables and frozen fruits, such as berries, cherries and other stone fruits;
- ice cream, frozen yogurt and processed cheese;
- juices of all kinds, sports drinks and mineral water;
- the Japanese are now introducing hamburger patties, shrimp pilaff, beef steaks, pork cutlets, macaroni and cheese and mini pizzas;
- the snack food market is also growing. The most popular foods in this category are preserved fruits and seeds, dried beef, seafood, tofu and flavoured nuts and vegetables.

Other products which are becoming very popularity are confectionery products, baked goods, biscuits, cookies and crackers. Some other opportunities are emerging for Western-style chips (potato and corn) and microwaveable popcorn.

The Taiwan beef market is large and holds potential for Alberta exports as Canada currently has a small market share. Imports of beef are over 44 million kg (44,000 tonnes), which is mainly supplied by Australia (77%), New Zealand (8%) and the US (5%).

3.7 Hong Kong

Hong Kong is a small country located next to China and is the export port for Asia. It has only 6 million people and a per capita income of about \$16,000 US. Hong Kong is growing rapidly and the economy is expected to grow by 5% or more in 1995.

Canada has a very low market share of only 0.3% of imports. It is a very prosperous country with over \$135 US billion in reserves. Hong Kong is to be turned back to the China government in 1997, but no major flight of capital and people has occurred yet.

Table 3.18 HONG KONG PROFILE

GENERAL DATA	1990	1991	1992	1993	1994(PROJ)
GDP (% growth)	3.2	4.2	5.2	5.4	5.7
Inflation rate (%)	10.0	12.0	11.0	8.5	8.4
Exchg HK\$/ Cdn\$	.1498	.1474	.1561	.1667	.1767

Source: EDC, Bank of Canada.

The country is a small one but has very open markets and thrives on competition. One of the key concerns for this market is what will happen after 1997 when China is to reclaim the country from Britain as mutually agreed. This has caused many local investors to move some assets out of the country into other safer countries. However, it is a key port for China and is a major Asian financial and business centre. The currency is stable and in the last two years has been appreciating, with recent rates (March 22) at .1814/ Cdn\$.

Table 3.19

HONG KONG ECONOMY

BALANCE OF PAYMENTS (US\$bn)	1990	1991	1992	1993	1994(PROJ)
Exports	82.2	98.6	119.5	135.2	150.0
Imports	82.8	100.6	123.8	138.7	153.6
Trade balance	-0.6	-2.0	-4.3	-3.5	-3.6
Current account balance	3.9	2.9	2.5	4.2	4.2
Reserves (months of imports)	(13.0)	(14.0)	(13.0)	(13.0)	(13.0)

Source: EDC

3.7.1 Alberta Product Export Patterns

Some of the key agri-food exports from Alberta (1993) are:

- raw hides and skins (\$3.1 million);
- beef (\$700,000);
- pork (\$540,000); and
- fodder and feeds (\$400,000).

As can be seen Alberta does not do much processed agri-food business with this country.

3.7.2 Product Trends and Opportunities

Hong Kong already imports a large majority (80%) of its food, and the demand for imported food will continue to grow. There are no tariffs. The market is a very competitive one and prices are expected to be very low and product quality very high. As Hong Kong is next to China, as China becomes more of an exporter of quality products, it will become a difficult market to maintain for exporters.

One recent report indicates a number of potential opportunities for exports to Hong Kong (Agriculture and Agri-Food Canada).

Some of these market opportunities may be feasible for Alberta exporters given the appropriate pricing and product quality. However, the market is a very price conscious market, difficult to serve and be "unique" in as a product. Developing it as a long-term market will be difficult.

Table 3.20

MARKET OPPORTUNITIES IN HONG KONG

Product	Growth Rate (1986-91)	Market Size (\$ M US)	Competition	Canada's Share
Perfume/ Pharmacy	3%	\$258	China- 31%, US- 28%, Korea- 22%	5%
Stripped Tobacco	33%	\$84	US- 67%, China- 10%, Brazil- 6%	7%
Bovine and Hides	38%	\$41	China- 52%, US- 13%, Italy- 9%	6%
Fresh Apples	11%	\$38	US- 70%, S Africa- 11%, Chile- 8%	4%

Sausage	8%	\$17	China- 62%, US- 24%, Denmark- 6%	.4%
Soya Beans	7%	\$10	China- 35%, US- 7%, Viet Nam- 2%	52%

Source: Market Opportunities in Hong Kong, 1994.

3.8 South Korea

South Korea is rapidly becoming a manufacturing force in the Asian region and has adopted many of the best practices learned from the US and Japan. It has been changing many of its industries with new technologies and global product offerings in many consumer product areas.

South Korea is a small country with about 44 million people, with an average per capita income of \$6,700 US. The profile of the country is shown in the table below.

Table 3.21 SOUTH KOREA PROFILE

GENERAL DATA	1990	1991	1992	1993	1994(PROJ)
GDP (% growth)	9.6	9.1	5.0	5.6	8.0
Inflation rate (%)	8.6	9.3	6.2	4.8	5.5
Exchg Won/Cdn\$	.0016	.0015	.0015	.0016	.0017

Source: EDC, Bank of Canada.

Canada has a small share (1.6%) of the market but has been attempting to create a stronger presence in the market. Korea is realizing a rising standard of living and is developing along the lines of an outward looking economy. It is a very competitive market and not easy to enter. The currency is stable and has been appreciating in the last two years. As of March 22, the rate has risen to .0018/Cdn\$.

Table 3.22 SOUTH KOREA ECONOMY

BALANCE OF PAYMENTS (US\$bn)	1990	1991	1992	1993	1994(PROJ)
Exports	63.1	69.6	75.2	81.0	87.7
Imports	65.1	76.6	77.3	78.9	88.2
Trade balance	-2.0	-7.0	-2.1	2.1	-0.5
Current account balance	-2.2	-8.7	-4.5	0.5	-2.8
Reserves (months of imports)	(2.2)	(1.8)	(2.1)	(2.5)	(2.3)
External debt (over 1 year)	24.2	29.0	33.0	34.2	40.5
Short-term debt (under 1 year)	14.3	17.2	18.5	19.2	20.3
Debt service ratio (before resch.)	10%	6%	6%	5%	5%

Source: EDC

3.8.1 Alberta Product Export Patterns

The only product of note was dehydrated alfalfa, with exports being stable at \$6 million. Other products being exported include:

- milled cereal (\$1.2 million);
- oilseed cake (\$4.8 million);
- fodder and feeds (\$2.5 million);
- feeds (\$1.2 million);
- raw hides and skins (\$5.2 million);
- tallow (\$1.8 million); and
- canola oil (\$1.4 million).

3.8.2 GATT Tariff Changes

The new GATT tariff table below indicates some opportunities. These will be implemented by 2004.

In reviewing the degree of tariff reduction for various agricultural sectors oils, select prepared foods (pasta, bakers' wares, and similar goods) and prepared meats, confectionery products, and especially liquor stand out as areas of opportunities. Considering the specific products looked at in this study, most mixed feeds, bovine raw hides, wheat flour, bakers' wares, breakfast cereals, corn chips, frozen french fries, soups and liquor products underwent the most significant tariff reductions and therefore are likely areas of opportunity for Alberta products. Tariffs on all alcoholic beverages have been reduced from 100.0% to 30.0%.

Table 3.23 REPUBLIC OF SOUTH KOREA TARIFFS

PRODUCT	TARIFF RANGE 1994	MOST COMMON 1994 TARIFF	NEW MFN TARIFF
Live animals	10.0 - 99.0%	Wide variation	9.0% - 89.1%
Meat & meat offal	20.0% - 44.5%	Wide variation	18.0% - 40.0%
Dairy	47.4% - 220.0%	Wide variation	36.0% - 17.6%
Veg, fruits, fresh & prepared	30.0% - 675.0%	Wide variation	19.7% - 675.0%
Spices	20.0% - 419.1% or 1,035 won/kg whichever is greater	30.0%	13.1% - 377.3% or 931 w/kg whichever is greater
Grains	10.0% - 889.2%	Wide variation	1.8% - 800.3%
Oilseeds	10.0% - 256.1%	Wide variation	6.6% - 230.5%
Oils	25.0% - 47.4%	30.0%	10.0% - 36.0%
Prepared meats	35.0% - 80.0%	80.0% or 60.0%	18.0% - 72.0%
Confectionary	30.0% - 40.0%	30.0%	19.7% - 27.0%
Prepared foods	30.0% - 71.0%	Wide variation	5.4% - 54.0%
Condiments	60.0%	60.0%	54.0%
Alcohol	100.0%	100.0%	30.0%

Note: These are over quota tariffs. Current exchange \$0.0018 = 1 Won.

3.8.3 Product Trends and Opportunities

Some market opportunities of Korea are identified in a recent analysis by Agriculture and Agri-Food Canada.

Table 3.24 MARKET OPPORTUNITIES IN KOREA

Product	Growth Rate (1989-1991)	Market Size (\$M US)	Competition	Canadian Share
Beef	45%	\$430	Australia- 48%, US- 45%	.04%
Prepared Fruit	117%	\$51	US- 32%, Thailand- 21%, Philippines- 17%	.01%
Poultry	17%	\$36	US- 40%, France- 18%	2.3%
Frozen Vegetables	26%	\$31	US- 59%, Hong Kong- 11%	.03%
Bakery	34%	\$14	US- 63%, Japan- 13%	.15%

Source: Market Share Analysis of Pacific Rim Markets, 1994.

4.0 SUMMARY OF COUNTRY AND PRODUCT OPPORTUNITIES

This section summarizes the business case for each country reviewed. However, it is noted that every Alberta product has a niche market in the world. It is not appropriate to say that all products can succeed in any market, nor is it wise to say that no opportunities exist. Some products and businesses will have less market entry problems than others.

4.1 Country Opportunities Summarized

USA

This is the largest export market for Alberta (and Canada) and one of the highest income countries. The USA was already open to Canada through the NAFTA and FTA agreements signed prior to the GATT agreement. The USA is still the most important market and offers much growth potential for many niche food processors. One of the implications of the agreement is that as tariffs are reduced for third countries (non-NAFTA members), the advantages of tariff reduction under NAFTA will lessen somewhat, although the goal of NAFTA is to achieve 0% tariffs (except supply management, some other products) within 15 years. This reduction is a benefit to Canada.

New competition will emerge for most products (except for supply management products) and maintaining markets may be the more important objective for some Alberta exporters. The best prospects are:

- targeting the west coast of the USA, specifically California, the Pacific Northwest and Rocky Mountain corridor regions; and
- focusing on niche markets in which Alberta manufacturers have a unique product offering.

The USA has priority export targets of: Japan, Canada, Mexico, Hong Kong, Taiwan, South Korea, the European Union, ASEAN 4 countries (Thailand, Indonesia, Philippines, Malaysia), Saudi Arabia and Australia. Many of these countries can also be Alberta targets for further expansion of exports.

Japan

Japan is the second most important market for Canada after the USA. This market is very wealthy and imports a very large amount of food due to its low self-sufficiency ratios and limited domestic production.

Opportunities in the market include: frozen foods, pork, beef, whiskey and other consumer products. A very significant market potential was identified for pet foods in a number of markets, including Japan. Other product opportunities are frozen vegetables and potatoes and french fries. As a result of the GATT round, market access is to be opened up to minimum levels of 3% of domestic consumption. This will allow some Alberta products to compete in the market.

South Korea

This market is rapidly growing and will have the ability and desire to consume higher quality products in the near future. It is a market Alberta needs to pursue and product opportunities will emerge in bakery mixes, cereals, frozen foods, soups, spirits and other niche products. The market is accessible for dehy alfalfa and is to open up somewhat for canola oil products. However, market access is still somewhat limited with high tariffs being a problem.

Taiwan

Taiwan has a large volume of food imports and is moving into imports of more consumer ready

foods and other western style foods. Product opportunities include: snack foods, dairy products, meats, pastas, frozen foods and other niche products. Due to the strength of the economy and the growing incomes of the people, it is a market to pursue.

Mexico

Mexico is a North American partner and will offer some opportunities for Alberta in the future as business opportunities become feasible. In this vein of thought, the current Peso crisis is causing imports to become more expensive and out of reach. In addition local interest rates are rising rapidly, which limits business and consumer credit. However, it will take a very patient approach to enter and manage the market. The Mexican market shows promise for Alberta and Canada in the mid to longer term. From the product reviews, the opportunities are: pet foods, pork products, beef hides and products, sausages and lard, cereal and cookies, frozen vegetables, beverages and malt.

This market offers Canada many opportunities, but one needs to seek out profitable business partners who can strengthen current business capabilities.

UK

The United Kingdom is a declining market for Canada, but has strong ties. Few products are exported to the UK, but some opportunities are seen for dill seed, canola oil, wheat, bakery mixes, soups, pet foods and spirits.

Hong Kong

This is a very tough market because of the dominant role of price as a key factor in decisions on all product offerings in the market. As such, it is difficult to position Alberta products as better than others in the market. Product opportunities include: sausages, seeds for perfumes and selected other niche products.

Germany

Germany is in a similar grouping as the UK, but buys more exports from Alberta. Continued opportunities are seen for honey, frozen foods, snack foods and other niche products.

4.2 Business Priorities

A summary of country indicators is presented below to show business priorities. The first table indicates factual data about each market and relative size. It must be noted that this analysis does not mean other countries are not important for market development efforts, but relative to this scope of this study, the order below is considered appropriate.

Table 4.1 SUMMARY OF KEY ALBERTA AGRI-FOOD EXPORT MARKETS

Country	Population (M)	Income/ Capita \$ US	Exist Alta Trade \$M 1993	Export Growth 1993/92
USA	255	23,200	1,435	24%
Japan	120	28,000	503.5	1%
S Korea	44	6,700	103.0	116%
Taiwan	21	10,700	42.1	21%
UK	57	18,000	10.0	-39%

Germany	81	23,000	4.4	66%
Hong Kong	6	16,000	6.0	49%
Mexico	90	3,500	63.6	13%

A more subjective business potential ranking of countries is given in the table below, based on the information prepared in the study. This has been done to help focus the reader on how to prioritize the opportunity for action.

Table 4.2 RANK OF COUNTRIES POTENTIAL

Country	Natl Exchge Rate Chg 95/94*	Comments	AB Market Importance	Overall Near Term Potential
USA	+10%	Major market	1	1
Japan	+19%	Strategic Market	2	2
S Korea	+6%	Strategic Market	3	3
Taiwan	+5%	Strategic Market	5	4
Mexico	-48%	Selective Market	4	5
UK	+9%	Declining Market	6	6
Hong Kong	+3%	Spot Market	7	7
Germany	+19%	Minor Market	8	8

*Relative to Cdn\$.

In the analysis, the US is clearly the most important country to focus on for many exporters. This is due to both its large trading share but also due to the lower Canadian dollar, English language usage and proximity. The Asian region must be considered the next most important target for agri-food products as much food is imported into these land scarce countries.

Using the criteria above, the near-term (1-5 years) business potential is ordered as noted in the last column. As can be seen, most importing countries have shown a currency appreciation against the Canadian dollar, except for Mexico. As many Canadian and Alberta companies are competing against US products, the exchange rate will have a strong bearing for all markets.

A business ranking of the product potential for selected markets is shown in the two tables below. The best markets are 1 rankings and the lessor ones are 4 rankings. This conclusion does not imply product opportunities do not exist in certain niches in other countries.

Table 4.3 FOOD PRODUCT OPPORTUNITIES BY COUNTRY (1993/1988 % Chg)

PROD AREA	USA	MEXICO	JAPAN	EU	S KOREA	OCEANIA
Beef	1,e 208%	3, -35%	1,e 39%	4,e -87%	2, 110%	4
Pork	1,e -9%	2, 373%	1,e 20%	4, -90%	3	4
P Meat	1,e	3	1, 2%	4	3	3
Offal	4	3	2	4	2	4

Dairy	4	3	4	4, -70%	4	4
Refined Oils	1,e 247%	2	3, 178%	2	3	3
Prep Food	2,e	3	2	2	3	2
Flour & Products	2,e 80%	3	2,e	3,e -85%	3	3
Alcohol & Products	2,e 107%	3, -13%	2,e -47%	2,e 73%	2	2
Pet Food	1,e 453%	2	1, 345%	1,e 459%	3	4
Frozen Food	2	3	2, 5%	2	3	3
Dehy Al	1,e 25%	3	1,e 2%	4, -96%	2,e 707%	4

Note: Based on current trade patterns and tariff analysis. 1=excellent potential, 2=good, 3=fair, 4=minimal; e=established market pattern, %=change from 1988-1993 actuals for Canada based on trade data reviewed for study. Oceania included as some data was available and is in the main report appendix.

From this analysis, one can see that for example, the USA is the most established market for beef, is an excellent opportunity as a further market and has seen exports rise by 208% from 1988 levels. Each product needs to be assessed on an individual basis as to the feasibility and investment needed to succeed under the new GATT agreement.

Table 4.4
FOOD PRODUCT OPPORTUNITIES BY COUNTRY (1993/1988 % Chg)

PROD AREA	HONG KONG	TAIWAN	CHINA
Beef	3, 39%	2,e -18%	4
Pork	3,e 41%	3	4
P Meat	3	3	4
Offal	4	3	4
Dairy	4	4	4
Refined Oils	4, -45%	4	4
Prep Food	2	2	4
Flour & Products	3	3	4
Alcohol & Products	3,e 130%	2,e 1230%	4
Pet Food	4	3	4
Frozen Food	3	2	4
Dehy Al	4, -71%	2,e 277%	4

Note: Based on current trade patterns and tariff analysis. 1=excellent potential, 2=good, 3=fair, 4=minimal; e=established market pattern, %=change from 1988-1993 actuals for Canada based on trade data reviewed for study.

It must be remembered that in the arena of processed products, many thousands of consumer products are produced each year by many businesses in Alberta and Canada. For each product,

a niche market can exist in each country. Whether the niche is viable for any specific agri-food business will vary at any point in time. Thus the use of this report can only be made at a general level and must be tempered with a "business case analysis" for any exporter prior to entering a market. Hopefully the information in this report can help "guide" a business forwards on the first step.

4.3 Possible Agri-food Investments

The new GATT and NAFTA agreements will have investment related effects on Alberta and other jurisdictions. This section briefly reviews the main findings from the main study investment section.

Some key conclusions are noted. As a result of the GATT agreement, more certainty of economic conditions is expected which will help in many ways. It is also expected that higher livestock production and processing activity, specialty crop production, non-food uses and other related business activity will occur over 1-5 years in Alberta.

A review of announced agri-food projects in Alberta indicates the investments are clustering around the Edmonton to Lethbridge corridor:

Pork and beef	\$49.95 million (7 projects)
Canola	\$20.5 million (3 projects)
Bakery	\$15.3 million (4 projects)
Brewery	\$12 million (1 project)
Specialty crops	\$6.8 million (3 projects)
Cosmetic/pharmaceutical	\$5.4 million (3 projects)
Other	<u>\$.75 million</u>
Total	\$110.7 million

Clearly the meat, canola, bakery and brewery investments are indicators of where the opportunities seem to be currently.

A brief listing of potential investments in the Alberta agri-food sector indicates the following plant possibilities (AAFRD 1993):

- starch/gluten- \$60 million;
- cookies/crackers- \$10 million;
- pasta- \$1.5 million- \$10 million;
- malt extract- \$5 million- \$10 million;
- snack foods- \$.5 million- \$1 million;
- processed meats;
- breaded products- \$.5 million;
- hides/tanning- \$12 million- \$15 million;
- pet foods- \$5 million;
- animal by-products- \$10 million;
- gelatin- \$2 million +;
- entrées- \$10 million- \$15 million;
- homestyle pies- \$.5 million;
- frozen bake-off- \$.5 million;
- breakfast cereals- \$4 million- \$6 million;
- prepared salads- \$.3 million;
- soups- \$.5 million;
- mustard- \$.3 million;
- vinegar- \$1.6 million;
- condiments and spices- \$1.5 million;
- potato processing- \$2.5 million +;

- french fries- \$4 million +;
- prepared fruits;
- greenhouse;
- candies- \$1 million;
- pharmaceutical;
- biotechnology; and
- food gift packs- \$.2 million.

Many of these product opportunity areas have been discussed in the earlier sections of the study and confirm where a business potential may exist. The next step is to define the feasibility of each and then create a business plan for taking action. This review indicates the many types of investments which are likely to occur or have been decided as projects.

A summary of the key conclusions in the investment review are:

- More investment will occur in red meats, grain, oilseed, specialty crops and consumer products in the next 1-5 years;
- More investment will occur in pharmaceutical, industrial uses and feed manufacturing in the same time period;
- Most of it will occur within the Edmonton to Lethbridge corridor area;
- Targeting ethnic partners and investments is a more effective way to enter the market;
- Use of flexible business networks can be an effective tool for entering markets or creating investment; and
- Some domestic constraints (port facility problems, labour laws, taxation, interest rates, general cost conditions) still have to be overcome to help stimulate Alberta and Canadian investment.

3.0

TAKING ACTION- WHAT TO DO FROM HERE

Understanding the market and investment potentials is a first step for the business manager. From the analysis conducted in the study, the reader should note:

- applied rates are key for assessing the feasibility of export success;
- the GATT was negotiated on "bound" rates, which have been reported here, but which are usually higher than applied rates;
- NAFTA was negotiated on "applied" rates;
- non-tariff barriers were converted to tariff rates, and for the EU, Japan and South Korea tariff rates will generally appear higher than US and Mexico rates; and
- each specific product must be assessed individually for the feasibility.

Some specific steps to take are:

- decide on a country and specific city (or location) you expect to do business in as this is your reference point for assessing your competitiveness.
- research all easily available material about the market you have targeted. This information can be accessed from: government offices, Statistics Canada, International Trade Centres, industry associations, trade magazines, brief surveys, private consultants and other information centres.
- obtain cost information which allows you to price your product to the final destination. An applied tariff rate needs to be obtained for your specific product and different rates may be applicable depending on the size/concentration/ingredients employed. You need to include: transportation, insurance, broker fees, product costs and packaging changes needed over your product costs. These need to be converted to a local currency basis.
- At this point you may find the product is not competitive, and if so examine how to reduce your costs to be competitive.

The two main steps for your assessment are:

- 1.the market feasibility and
- 2.second, the financial feasibility.

This process will give you the decision-making information you need. Some of the next actions are shown in the figures below as a business planning process. Good luck in your business planning. Remember- more competitors will be entering Canadian markets also, so don't wait!

We appreciate the opportunity to conduct this research for the agri-food industry. Taking advantage of these potentials will be the next step.

Yours truly,

Darrell Toma, Pag, CMC
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APPENDIX 1 - HISTORY OF GATT ROUND

URUGUAY ROUND TIME LINE: BEGINNING TO AFTERMATH

1986

GATT nations launch 8th round of GATT talks in Punta del Este, Uruguay, with a number of ambitious goals, including bringing agriculture more fully under GATT rules to reduce barriers and promote expansion in agricultural trade.

1987

U.S. submits agricultural proposal calling for elimination of all trade-distorting subsidies, tariffs and nontariff barriers.

1988

In December, trade ministers of GATT countries meet for "Midterm Review" of Round, agreeing soon thereafter to negotiate substantial, progressive reductions in agricultural support and protection.

1989

U.S. is first country to submit detailed agricultural proposal; proposal is structure around specific commitments on market access, export subsidies, internal support and SPS measures, calling for gradual elimination of access barriers and subsidies.

1990

New proposals fail to bridge continuing differences: U.S., Cairns Group, and others push for large reductions and specific, binding commitments on access barriers, export subsidies and internal support; Eu argues for smaller reductions and is joined by Japan and South Korea in opposing specific commitments.

Rather than concluding as scheduled in December, negotiations collapse and the Round is suspended.

1991

GATT Director-General Arthur Dunkel takes charge of agricultural talks, declaring end to deadlock and announcing that all participants agree to negotiate specific binding commitments on market access,

export subsidies and internal support.

U.S. Congress grants extension of fast track negotiating authority through June 1993.

In December, Director-General Dunkel submits his Draft Final Act covering all negotiating areas, including agriculture, where he strikes a compromise on disputed issues.

1992

Despite continuing disagreements on specific areas, GATT members agree to accept Draft Final Act as basis for concluding the Round.

After negotiations are halted by the EU's demand to weaken the agricultural provisions, the U.S. and EU reach Blair House, compromise on export subsidies and internal supports, allowing multilateral negotiations to resume; no agreement yet on market access.

1993

Congress votes to once again renew President's fast-track negotiating authority, setting a December 15 deadline for completion of Uruguay Round.

117 countries participating in negotiations finally reach comprehensive Uruguay Round agreement on December 15, last possible day before expiration of U.S. fast-track authority.

1994

Country delegations meet in Marrakeuh, Morocco, on April 15 for the official signing of Uruguay Round agreement; U.S. and other countries proceed with legislative or other governmental processes required for domestic approval of trade agreements.

1995

Assuming ratification by GATT member governments, Uruguay Round agreement implementation begins; World Trade

Organization replaces GATT Secretariat to integrate new Uruguay Round disciplines into GATT.

2000

GATT members reconvene under Uruguay Round "continuation clause" to consider how to maintain momentum and continue moving toward market liberalization and trade expansion after year 2000.

Sixth and final year for developed countries to complete reduction commitments under market access, export subsidy and internal support provisions of Uruguay Round agriculture agreement.

Source: USDA.

APPENDIX 2- TERMINOLOGY OF GATT AND THE URUGUAY ROUND

AGGREGATE MEASUREMENT OF SUPPORT (AMS). Internal support for agriculture will be measured by the gap between domestic and world prices multiplied by the quantity supported, plus other commodity-specific transfers.

AMS-EXEMPT DIRECT PAYMENTS. Direct payments under production-limiting programs which are not subject to reduction commitments. Payments for crops must be based on fixed area and yields or be made on less than 85% of the base level of production. Payments for livestock must be made on a fixed number of head.

APPROPRIATE LEVEL OF HEALTH PROTECTION. The level of risk a country determines can be accepted when setting standards to protect health.

BASE PERIOD. The Uruguay Round provisions call for a 1986-88 base period for internal support and market access, and a 1986-90 base period for export subsidies.

BINDING. A maximum tariff level established by a country for a particular product. The "bound" tariff cannot be increased above this level without compensating other countries.

BLAIR HOUSE AGREEMENT. November 1992 agreement between the United States and the EU on export subsidy and internal support commitments as well as bilateral agricultural trade issues.

CEILING BINDING. Developing countries can establish a tariff ceiling, which must be bound (see "binding" above), if the existing tariff was not bound. This ceiling binding can be higher than the existing applied rate.

COUNTRY SCHEDULE. Each participant in the agricultural negotiations is required to submit a country schedule detailing reduction commitments as required by the Uruguay Round provisions.

CURRENT ACCESS. Countries maintain

import access opportunities equivalent to access in the base period for products subject to tariffication.

DISPUTE SETTLEMENT BODY. General council of the WTO, composed of representatives of all members, administering the adjudication of any disputes arising under the various WTO agreements.

DUNKEL TEXT. An informal name given to the negotiating framework (Draft Final Act) submitted December 20, 1991, by then GATT Director-General Arthur Dunkel.

EQUIVALENCY. The recognition that different measure or methods can be used to attain the same level of health protection.

FAST TRACK AUTHORITY. A special legislative procedure in Congress that limits the time of debate and confines the Congress to a yes/no vote on the results of trade negotiations.

FINAL ACT. The text of the Uruguay Round's final agreement covering all areas of the negotiations and agreed to by the 117 countries participating in the negotiations.

FOOD SECURITY. Argument used by certain countries (e.g. Japan, South Korea, Switzerland) to defend self-sufficiency as a means to a secured food supply, and keep out imports.

HARMONIZATION. The establishment, recognition, and application of internationally recognized sanitary and phytosanitary measures by different GATT members.

MID-TERM AGREEMENT. The agreement that came out of the Uruguay Round Mid-term Review in April 1989. For agriculture, it mandated "substantial, progressive reductions in support and protection ... (to) correct and prevent restrictions and distortions (to trade)."

MINIMUM ACCESS. Countries provide minimum level of import access opportunities for products subject to tariffication (low or 0%). Access will be ensured by tariff-rate quotas.

MOST-FAVOURLED NATION TREATMENT (MFN). One of the basic principles of the GATT (Article II). GATT members agree that they will grant equal treatment on trade to all members, i.e. they will treat all members as well as they treat their most-favoured trading partner. Customs unions, such as the EU, and free trade agreements, such as NAFTA, are negotiated under a special exemption to the MFN principle (GATT Article XXIV).

NON-TARIFF BARRIER (NTB). A border measure other than a tariff that impedes trade.

NON-TRADE CONCERNS. Term used by countries to argue for maintaining support and protection in order to meet social, environmental, aesthetic, and other non-economic goals of agricultural policy (often used by countries to defend self-sufficiency for food security, rural settlement, etc.).

NON-VIOLATION. GATT terminology for dispute where it is alleged that the actions or measures of one member are nullifying or impairing the benefits of the agreement accruing to another member, even though there is no violation of the rules.

PEACE CLAUSE. Informal name for Article 13 in the Final Act on agriculture which exempts certain policies from some GATT challenges as long as certain conditions, such as reduction commitments, are being met.

PERMITTED POLICIES (GREEN BOX). Internal support policies that are minimally trade-distorting and therefore excluded from reduction commitments. Some examples are: inspection and grading, environmental and conservation programs, bona fide disaster relief, crop insurance, domestic food aid, and direct payments not linked to production. In the Final Act the

"Green Box" is found in Annex 2 of the agriculture agreement.

PRICE GAP. The difference between external and internal prices of a given commodity in the base year. Price gaps are used to calculate tariff equivalents and the AMS.

RISK ASSESSMENT DETERMINATION. Measure that quantifies the specific level of risk posed by pests, disease, food additives, or contaminants in food.

SAFEGUARD. A mechanism available during the implementation period for temporarily applying higher tariff rates. Safeguards will be triggered by sudden import surges or sharp declines in world prices.

SANITARY AND PHYTOSANITARY (SPS) MEASURES. Any laws, requirements, or procedures applied to protect human, animal, or plant life or health from risks arising from the spread of pests or disease or from additives or contaminants in foods, beverages, or feedstuffs.

SERIOUS PREJUDICE. When export or domestic subsidies of one country significantly impair another country's market opportunities (a violation of Article XVI.1 of the GATT rules for subsidies or Articles 5 or 6 of the GATT Tokyo Round Subsidies Code).

SPECIAL AND DIFFERENTIAL TREATMENT (S&D). Allowance for developing countries to have lesser reduction commitments than developed countries.

TARIFFICATION. The conversion of non-tariff import barriers (e.g. quotas, restrictive licensing, variable levies) into tariff equivalents.

TARIFF EQUIVALENT. A tariff rate that provides on average, the same level of protection as a given non-tariff barrier. Tariff equivalents are derived by calculating

a price gap.

TARIFF-RATE QUOTA. A two-tiered tariff. Imports up to a certain quantitative limit (quota) face one duty, and imports in excess of that level face a second, higher duty.

WORLD TRADE ORGANIZATION (WTO). The international organization developed as part of the Uruguay Round to integrate the existing GATT agreement with the provisions agreed to in the Uruguay Round.