

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

RESTRICTED

MTN.SB/SN/13

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Surveillance Body

Original: English

STANDSTILL

Notification

1. Participant notifying: United States

2. Participant maintaining the measure: Canada

3. Description of the measure (including the date of entry into force and reference to any relevant legislation or other document):

In April 1987, Canada introduced a new production subsidy program for white pea beans which became effective with the 1987 crop (September 1987/August 1988). A tripartite price stabilization program was agreed to by the Ontario Bean Producers' Marketing Board, the Federal Government, and the Provincial Government of Ontario. All white pea bean production in Ontario is marketed through the Board. Under the tripartite agreement, annual support prices will equal the total of: (1) the current cash cost of production, and (2) 90 percent of the average margin between the market price and cash cost of production for the preceeding seven years. For the 1987 crop, the conservatively estimated support price is approximately C\$ 500/ton. This is based on an estimated cash cost of production of C\$ 240/ton, plus C\$ 265/ton (90 percent of the seven year cost-price margin).

Stabilization payments will be made on all white pea beans marketed by participating producers. Stabilization payments will be equal to the difference between the support price and the average crop year market price. All producers will receive the same support level per unit of production. An initial payment of one-third to one-half of the expected total payment is made upon the delivery to elevators. Interim payments made during the crop year will not be allowed to exceed 75 percent of the expected total payment. Final payments will be made after the close of the crop year if profits permit.

The cost of the program will be shared equally by the Canadian Government, the Provincial Government, and participating producers through premium payments. The recommended producer premium for 1987 is C\$ 13.25/ton. Premiums may be adjusted to keep the fund financially sound, but the maximum combined premiums contributed by the Federal and Provincial governments cannot exceed 6 percent of the three year average market price. However, any deficits incurred by the fund will be carried by the Canadian Government until the fund recovers.

A stabilization committee will be responsible for the overall operation of the agreement including calculation of support levels and premium levels to maintain the program. The stabilization fund is expected to be self-sustaining in 10 to 15 years with premiums covering support payments.

4. Products covered, including tariff headings (CCCN where applicable, otherwise national tariff lines):

White pea beans (Navy beans). Harmonized System Tariff:
0708.20.99

The program has been recently extended to cover colored beans (same HS number) in certain Western Provinces.

5. Country or countries to which the measure applies:

The trade effects of the Canadian program impinge on the United States and other producers of white pea beans and colored beans.

6. Relevance of the measure to the standstill commitment:

The United States believes that, as currently operated, the domestic subsidy program will provide new price incentives that will artificially maintain high level of production during periods of domestic market price declines and artificially stimulate entry into the sector. The specific formulation of the support price uses a seven year average that includes unusually high prices from anomalous years. The use of a seven year average sustains the effects of such anomalies over an unusually long period. The result of this is that, in some years, the program payments go far beyond the level appropriate for the stated goal of bona fide income stabilization and act to stimulate production at levels unjustified by market condition. As such, the white pea bean program, as currently operated, cannot be legitimately grandfathered into programs that pre-existed the standstill commitment of Canada.

The program currently is expected to prolong the period of depressed prices and transfer almost all output adjustments from Canadian to U.S. bean producers, to increase Canadian exports to the United States and to adversely affect the volume and value of U.S. exports to the third country markets.

Given the current oversupply situation and depressed prices, significant area cutbacks would have been expected in 1988 in both the U.S. and Canada. The last time the prices were this low, 1983/1984, Canadian navy pea beans acreage fell by 38 percent. During 1988, however, total Canadian pea bean production area is expected to decline only 10-15 percent. On the other hand, early indications show that in the United States, about half the area under pea beans in Michigan, a main production area, will be diverted.

Since Canadian producers receive no benefits unless they deliver their beans to the Bean Board, they have no incentive to store any of the crop. Once in possession of the crop the board can sell the entire harvest at the world market prices. Thus because of this program, Canada has been able to sell all of its huge 1987 crop. In the United States, on the other hand, producers have no guaranteed high-price buyer and so may have an incentive to store their harvest during a weak market in anticipation of higher prices later. The result of this is a substantial loss of market share by the United States. While U.S. producers have had to maintain an enormous carry-over stock, total Canadian navy pea bean exports are expected to reach about 95,000 tons in Sept-Aug 1987/1988, more that double any level in recent years and a four-fold increase over last year.

Canada has introduced a new trade-restrictive and distorting measure which is inconsistent with its commitment, inter alia, not to take any trade measure in such a manner as to improve its negotiating position.

7. Comments by the participant maintaining the measure: