

Issues Facing the U.S. Peanut Industry During the Seattle Round of the World Trade Organization

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Abstract: The U.S. peanut industry will likely face several challenges during the Seattle Round of negotiations of the World Trade Organization. Basic issues stemming from the current peanut farm program, the level of domestic support, market access, and tariff rates for peanuts and peanut products will come under scrutiny.

Keywords: Two-tier peanut price support program, WTO, tariff-rate quota, market access, domestic support.

The ninth round of international trade talks will begin at the World Trade Organization (WTO) Ministerial Conference in Seattle, Washington this November. While agriculture has been included in each of the previous rounds, it was not until the Uruguay Round of Multilateral Trade Negotiations (1986-94) that real progress was made in negotiating overall reductions in barriers to agricultural trade. The Uruguay Round created the WTO, which replaced the General Agreement on Tariffs and Trade (GATT) as an institutional framework for overseeing trade negotiations and adjudicating trade disputes.

Uruguay Round Commitments for Peanuts and Peanut Products

Uruguay Round agricultural agreement established disciplines in the areas of market access, export subsidies, internal support, and sanitary and phytosanitary measures. Several countries made commitments to reduce trade barriers, and these commitments have had a positive impact on the U.S. peanut industry. Switzerland agreed to eliminate the duty on peanuts for human consumption over a period of 6 years beginning in 1995. Poland also will eliminate the 15-percent duty on shelled peanuts over a period of 6 years. Korea reduced the in-quota tariff on shelled peanuts from 40 percent to 24 percent. On July 1, 1996, Korea also liberalized imports of roasted peanuts. Thailand agreed to halve the tariff on peanut butter to 30 percent or 2.5 baht per kilogram, and to cut the tariff for edible peanuts to 30 percent or 1.5 baht per kilogram. Norway agreed to cut its tariff on peanut butter from 30 percent to 6 percent. Finland agreed to bind its tariff for roasted peanuts at duty free and reduce its tariff for peanut butter from 4.3 percent to duty free.

Under the tariffication discipline the United States replaced Section 22 import quotas for peanuts with an *ad valorem* tariff equivalent of 155 percent for shelled peanuts and 192.7 percent for in-shell peanuts. These tariffs will be reduced by the required minimum of 15 percent in equal annual installments over 6 years starting in 1995, to 131.8 percent for shelled peanuts and 163.8 percent for in-shell peanuts.

The United States agreed to establish a tariff-rate quota for peanuts of 33,770 metric tons in 1995, growing to 56,821 metric tons at the end of 6 years. Argentina was allocated 78 percent of this quota and 3,377 metric tons were reserved for Mexico in accordance with the North American Free Trade Agreement (NAFTA).

The United States agreed to establish a tariff-rate quota for peanut butter that started at 19,150 metric tons in 1995, and will increase to 20,000 metric tons over 6 years. This quota is allocated among current exporting countries (Canada 14,500 metric tons and Argentina 3,650 metric tons) with an additional amount permitted for less developed countries (750 metric tons increasing to 1,600 metric tons) and 250 metric tons for other countries. The over-quota *ad valorem* rate of 155 percent for peanut butter will be reduced by the required minimum of 15 percent to 131.8 percent in equal annual installments by the year 2000. The in-quota rate was set at 2 cents per kilogram in 1995 and reduced to duty free in 1998 (Foreign Agricultural Service).

The remainder of this article identifies issues confronting the U.S. peanut industry during the Seattle Round negotiations. These issues include domestic support, market access, and tariff-rate quotas.

The Current Peanut Program

The U.S. peanut program is a two-tier price support program that has a high support rate for peanuts for food use

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(quota peanuts) and a much lower rate for peanuts grown for export or crushed (additional peanuts). The program is administered through nonrecourse loans available to all peanut producers. Production controls and quotas on imports are essential in making the peanut program effective. While any farmer may grow peanuts in any quantity, only those farmers with a peanut quota may market their production into food channels and only in an amount up to an individual quota.

Prior to the 1996 Farm Act, the quota peanut support rate was tied to the cost of production. The rate could increase up to 5 percent per year but could not decrease. The 1996 Act eliminated the cost-of-production escalator and reduced and fixed the quota support rate at \$610 per short ton (30.5 cents per pound) for the 1996-2002 crops. The 1996 Act established a "no net cost" Commodity Credit Corporation (CCC) loan program.

The national quota poundage equal to the amount estimated for food, seed, and related uses was retained in the 1996 Act. However, a separate quota for seed was established and made available to all peanut producers (quota and additional). The 1996 Act eliminated the minimum national quota poundage (1.35 million short tons). The annual quota is set to equal estimated domestic food and related uses. In 1996, the USDA set the national quota at 1.1 million short tons, 18.5 percent below the quota poundage in 1995. Since the 1996 crop year, the national quota has increased each season with the 1999 quota set at 1.18 million short tons. In addition, the 1996 Act eliminated the quota peanut undermarketing carryover allowance. That is, if a producer fails to produce sufficient peanuts to market the farm's quota for a particular marketing year, the producer may no longer carry the undermarketings forward and thereby overmarket the farm's basic quota for the following year.

Issues Related to WTO Trade Negotiations

During the next round of WTO negotiations, further reductions in the level of trade-distorting domestic support likely will be one of the issues addressed. The Aggregate Measurement of Support (AMS), designed during the Uruguay Round is a tool to help member countries implement commitments to reduce and limit the amount of assistance provided to agriculture from production-distorting domestic programs that affect trade. The AMS measures the monetary value of trade distorting support provided to agriculture. The AMS includes both budgetary outlays and revenue foregone from consumers to producers resulting from policies that distort market prices. Member countries are required to reduce their support during the implementation period.

For peanuts the value of support is based on a price-gap method where the price gap is the difference between administered prices (announced program support price) and a fixed world price (the average price of U.S. peanuts cif Rotterdam during 1986-88). This price gap is multiplied by eligible production (quota poundage) to determine the market price support. In addition, estimated interest subsidies on CCC peanut loans are included in the measure.

The calculated AMS for peanuts is presented in table C-1 for the base period (1986-88) and for the past 3 marketing years. The AMS was over \$400 million during the 1995/96 season and represented 41 percent of the total value of U.S. peanut production. During the past two seasons, the AMS totaled about \$300 million or 30 percent of the value of production. The calculated AMS for peanuts during the 1997/98 season accounted for almost 5 percent of the AMS for all commodities. While essentially all of the cost of the peanut program is paid by consumers through higher prices, government costs were substantial during the 1995/96 and 1996/97 marketing years with net CCC outlays of \$100 million or more in both years.

Table C-1--Estimated domestic support for the U.S. peanut program

Item	1986-88	1995/96	1996/97	1997/98
	Million dollars			
Value of production	1,079.1	1,013.3	1,029.8	1,001.6
Calculated measure of U.S. assistance				
Price support/quota 1/	347.22	412.35	308.14	315.27
Plus loan interest subsidy 2/	00.06	10.54	00.17	00.16
Less feed and levies 3/	00.00	08.26	09.26	09.67
Aggregate measurement of support (AMS)	347.28	414.63	299.05	305.76
Program Costs 4/	12.6	120.0	100.0	06.0
	Percent			
AMS/Value of production	32	41	29	31

1/ The value of support is estimated as the administered price (loan rate) minus the fixed world price (1986-88 peanut prices based on U.S. c.i.f. in Rotterdam). Eligible production includes marketing quota plus additional peanuts supported through the buyback system, plus the seed quota after 1995. 2/ Interest subsidy is based on loans outstanding as reported in the CCC General Ledger. 3/ Assessment equal to 1.1 percent of the of the national average price support level for the 1995 crop, 1.15 percent for the 1996 crop, and 1.2 percent for the 1997 through 2002 crop--on each pound of domestically produced quota and additional peanuts. 4/ Net CCC outlays.

Source: National Agricultural Statistics Service and Farm Service Agency, USDA.

The Federal peanut program's two-tier pricing system that differentiates between quota producers and additional producers may be an issue when negotiators are seeking to expand trade for other agricultural commodities. Quota peanuts are supported by a guaranteed loan rate of \$610 per short ton for domestic edible peanuts. Additional peanuts are currently supported at \$132 per short ton and must be crushed into meal and oil or sold in the export market (table C-2).

On March 17, 1999, in a WTO case, the United States and New Zealand successfully challenged the Canadian dairy policy of using dual pricing as an export subsidy. In this case, both the United States and New Zealand claimed that the volume of Canadian exports of certain dairy products, under a scheme known as Special Milk Classes, exceeded Canada's export subsidy commitments. Canadian milk is classified according to its end use and market destination. Classes 5(d) and (e) of Canadian industrial milk are exclusively for use in export markets and are priced significantly lower than dairy products available domestically in Canada. Milk pricing in Canada involves a system of classification according to intended use, as well as the pooling of sales proceeds. A final ruling after a Canadian appeal was announced October 13 which upheld the original decision.

The WTO determined that Canada's dairy pricing system of different prices for its domestic market versus its export market constituted an export subsidy. This finding may raise issues about the two-tier pricing system for U.S.-grown peanuts. Although the 2 systems are by no means identical, the United States system that provides a higher price for quota peanuts in the domestic edible market compared to a lower price for additional peanuts for the export market has led some to suggest the U.S. peanut program could be challenged as providing an export subsidy (Pasco).

Issues on Tariff-Rate Quota Placed on Peanut Imports

The absolute quota on imports of peanuts was converted to a tariff-rate quota (TRQ) in the Uruguay Round negotiations. The within-quota rates are 9.35 cents per kilogram for peanuts in the shell and 6.6 cents per kilogram for shelled

peanuts. The over-quota tariff rate for shelled peanuts began at 151.1 percent *ad valorem* in 1995, with reductions of 15 percent over 6 years (table C-3). A tariff rate of 131.8 percent *ad valorem* will apply in 2000 and thereafter. The over-quota tariff for peanuts in the shell started at 187.9 percent *ad valorem*, declining to 163.8 percent by year 2000. These tariff rates have been effective at limiting over-quota shipments. The volume of peanuts that could be imported under quota was 42,981 metric tons in 1997 and 47,591 metric tons in 1998. Total peanut imports were near the quota level in both years. Argentina, with the largest quota, slightly exceeded its quota in 1997 and 1998. Mexico nearly filled its quota in 1997 and exceeded its quota by 552 metric tons (14.5 percent) in 1998. (For a more complete discussion on tariff-rate quotas see the article by David Skully on U.S. tariff-rate quotas for peanuts.)

Peanut butter imports are significant in that they are equivalent to over one-third of the total quantity of peanuts imported into the United States. During the Uruguay Round negotiations for peanuts, the United States granted "minimum access opportunities" of at least 3 percent of domestic consumption and increasing to 5 percent of consumption by the year 2000 (table C-4) by establishing a new tariff-rate quota for imports of peanut butter and paste. Peanut butter and peanut paste imports were limited to the base level of calendar year 1993. An over-quota tariff is imposed on imports above 20,000 metric tons in the year 2000 and thereafter (tables C-5 and C-6).

Since 1996, peanut butter and paste imports have been at or slightly above the quota level. Canada, the largest supplier (with a quota of 14,500 metric tons) has usually filled its quota each year. Similarly, trade data indicate Argentina exceeded its quota in 1996 and 1997 and reached it in 1998. In addition, Mexico began shipping peanut butter and paste to the United States in 1998. Mexico exported 658 metric tons of peanut butter and paste in calendar year 1998 and 352 metric tons during the first 7 months of 1999. Mexico is not subject to quota restrictions if peanut butter and paste are produced from Mexican-grown peanuts.

Table C-2--U.S. peanut prices, farmers stock basis, August-July

Item	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99 (f)
Support price						
Quota	38.8	33.9	33.9	30.5	30.5	30.5
Additional	6.6	6.6	6.6	6.6	6.6	6.6
Farm price	30.4	28.9	29.3	28.1	28.3	28.0
CCC export price	20.0	20.0	20.0	20.0	20.0	20.0
Export unit value 1/	33.0	28.6	29.2	32.2	32.7	32.8
Rotterdam, c.i.f. 2/	37.1	29.2	33.6	31.6	36.0	29.0

f = Forecast.

1/ Exports include edible and oilstock peanuts, shelled basis, converted to farmers stock basis. 2/ U.S. runners 40/50 percent c.i.f.

Source: Oilseeds: World Markets and Trade, Foreign Agricultural Service, Interagency Commodity Estimates Committee for Oilseeds, Oils and Meals, USDA.

Table C-3--Over-quota tariff rates for peanuts 1/

Year	In-shell peanuts MFN 2/	Shelled peanuts MFN	In-shell peanuts, valued 28.4 c/kg or less Mexico	In-shell peanuts, valued more than 28.4 c/kg Mexico	Shelled peanuts, valued 28.4 c/kg or less Mexico	Shelled peanuts, valued more than 28.3 c/kg Mexico
	-----Percent-----		Cents/kg	Percent	Cents/kg	Percent
1994			51.7	191.4	78.3	120.0
1995	187.9	151.1	50.4	176.8	76.3	116.9
1996	183.1	147.3	49.0	172.1	74.3	113.9
1997	178.3	143.4	47.7	167.5	72.3	110.8
1998	173.4	139.5	46.4	162.8	70.3	107.7
1999	168.6	135.7	45.1	158.2	68.3	104.6
2000	163.8	131.8	40.0	140.6	60.7	93.0
2001	163.8	131.8	35.0	123.0	53.1	81.4
2002	163.8	131.8	30.0	105.5	45.5	69.8
2003	163.8	131.8	25.0	87.9	37.9	51.8
2004	163.8	131.8	20.0	70.3	30.3	46.5
2005	163.8	131.8	15.0	52.7	22.8	34.9
2006	163.8	131.8	10.0	35.2	15.2	23.3
2007	163.8	131.8	5.0	17.6	7.6	11.6
2008	163.8	131.8	Free	Free	Free	Free

1/ The within-quota rates are 9.35 cents/kg for peanuts in the shell and 6.6 cents /kg for shelled peanuts. 2/ The U.S. Canada Free Trade Agreement provided for the total elimination of import duties on trade between the two countries. However, WTO tariff-rate quotas on agricultural goods are being applied pursuant to the decision of a NAFTA panel.

Source: U.S. Department of Commerce.

The high over-quota tariff rates, of well over 100 percent, on peanut and peanut products are in stark contrast to the *ad valorem* tariffs on other “import sensitive” products such as sugar, tobacco, and dairy. Most agricultural products, items ranging from soybeans to fresh unprocessed hams to apples, enter the United States duty free. A comparison of over-

quota tariff rates are presented in table C-7. The U.S. trade objectives of reducing tariffs and increasing tariff-rate quotas to gain increased market access for U.S. exports could result in changes in tariff-rates and tariff-rate quotas of U.S. peanuts and peanut products.

Issues on Imported Confectionery Products

Market access, particularly concerning confectionery imports, will be a major issue in the upcoming negotiations. Currently, confectionery items containing peanuts or peanut products enter the United States outside of any quota. In January 1999, six new harmonized tariff schedules were established covering several types of confectionery products: (1) confections or sweetmeats ready for consumption and containing peanuts, peanut butter or peanut paste, for retail sale, (2) confections or sweetmeats ready for consumption and containing peanuts, peanut butter or peanut paste, not for retail sale, (3) chocolate and other food preparations containing cocoa, confectionery in blocks, slabs, or bars, weighing 2 kilograms or less and containing peanuts, peanut butter, or peanut paste, (4) cocoa preparations, not put up for retail sale, and containing peanuts, peanut butter, or peanut paste, (5) sweet biscuits, waffles, and wafers, frozen, and containing peanuts or peanut products, and (6) sweet biscuits, waffles, and wafers, other than frozen, and containing peanuts or peanut products.

The category “confections or sweetmeats ready for consumption not put up for retail sale” is the most important. In 1998, the United States imported over 117 million pounds,

Table C-4--WTO and NAFTA tariff-rate quota quantities for peanuts

Year 1/	Mexico 2/	Argentina	Other	Total
Metric tons				
1995	3,377	26,341	4,052	33,770
1996	3,478	29,853	5,043	38,374
1997	3,583	33,365	6,033	42,981
1998	3,690	36,877	7,024	47,591
1999	3,801	40,388	8,015	52,204
2000	3,915	43,901	9,005	56,821
2001	4,032	43,901	9,005	56,938
2002	4,153	43,901	9,005	57,059
2003	4,278	43,901	9,005	57,184
2004	4,406	43,901	9,005	57,312
2005	4,538	43,901	9,005	57,444
2006	4,675	43,901	9,005	57,581
2007	4,815	43,901	9,005	57,721
2008	Unrestricted	43,901	9,005	52,906

1/ For Mexico, the quota year is a calendar year; for other countries, it is an April 1 to March 31 year. 2/ The NAFTA provides for expanding tariff-rate quotas on “peanuts (ground nuts), shelled or not shelled, blanched or otherwise prepared or preserved (except peanut butter), that are qualifying goods entered under subheadings 9906.12.04 9906.12.04 and 9906.20.03 in any calendar year.” Peanuts in the shell are charged against the quota on the basis of 75 kilograms for each 100 kilograms of peanuts in the shell. Beginning in calendar year 2008, quantitative limitations will cease to apply.

Source: U.S. Department of Commerce.

Table C-5--Over-quota tariff rates for peanut butter and paste, blanched peanuts, and other peanuts prepared or preserved

Year	Peanut butter and paste Mexico	Peanut butter and paste MFN	Blanched peanuts- valued 65.2 cents/kg or less Mexico	Blanched peanuts-valued more than 65.2 65.2 cents/kg Mexico	Blanched peanuts- MFN	Other peanuts- prepared or preserved valued 65.2 cents/kg or less-Mexico
	Cents/kg	Percent	Cents/kg	-----Percent-----		Cents/kg
1994	5.9		78.3	120.0		78.3
1995	5.3	151.1	76.3	116.9	151.1	76.3
1996	4.6	147.3	74.3	113.9	147.3	74.3
1997	3.9	143.4	72.3	110.8	143.4	72.3
1998	3.3	139.5	70.3	107.7	139.5	70.3
1999	2.6	135.7	68.3	104.6	135.7	68.3
2000	2.0	131.8	60.7	93.0	131.8	60.7
2001	1.3	131.8	53.1	81.4	131.8	53.1
2002	0.7	131.8	45.5	69.8	131.8	45.5
2003	Free	131.8	37.9	58.1	131.8	37.9
2004	Free	131.8	30.3	46.5	131.8	30.3
2005	Free	131.8	22.8	34.9	131.8	22.8
2006	Free	131.8	15.2	23.3	131.8	15.2
2007	Free	131.8	7.6	11.6	131.8	7.6
2008	Free	131.8	Free	Free	131.8	Free

1/ The within quota rates are 9.35 cents/kg for peanuts in the shell and 6.6 cents/kg for shelled peanuts.

Source: U.S. Department of Commerce.

Table C-6--Peanut butter and past tariff-rate quota quantities 1/

Year 2/	Canada	Argentina	GSP 3/	Other	Total
	Metric tons				
1995	14,500	3,650	750	250	19,150
1996	14,500	3,650	920	250	19,320
1997	14,500	3,650	1,090	250	19,490
1998	14,500	3,650	1,260	250	19,660
1999	14,500	3,650	1,430	250	19,830
2000 and thereafter	14,500	3,650	1,600	250	20,000

1/ This TRQ does not apply to imports from Mexico. 2/ Calendar year.

3/ Countries that were designated beneficiary countries under the Generalized System of Preference.

Source: U.S. Department of Commerce.

with Mexico and Canada accounting for nearly 70 percent of the total (table C-8). Shipments during 1999 have totaled 65 million pounds with Mexico and Canada remaining the dominant suppliers. Imports of "confections and sweetmeats for retail sale" were also substantial in 1998 and 1999, with Mexico and Canada accounting for 60 percent of total shipments.

Imports of the six categories containing peanuts or peanut products totaled nearly 241 million pounds in 1998 and have reached 119 million pounds during the first 7 months of 1999 (table C-9). U.S. peanut industry sources estimate the peanut content of these products has been estimated at 25 percent. Thus, in 1998, the equivalent of 40,000 tons of

Table C-7--Comparison of bound tariff rates on U.S. imports of various agricultural products

Product	Bound tariff rate	Uruguay round reduction
		Percent
Peanuts, in shell, over-quota	153.8 ad val.	15
Sugar, refined, over-quota	\$0.3574/kg (141.3% ad val.)	15
Peanuts, shelled, over-quota	131.8 ad val.	15
Peanut butter and paste	131.8 ad val.	15
Butter, over-quota	\$1.541/kg (90.6 ad val.)	15
Cheddar cheese, over-quota	\$1.227/kg (61.35% ad val.)	15
Boneless beef, over-quota	26.4 ad val.	15
Rice, in the husk	\$0.018/kg (10.9% ad val.)	36
Wheat	\$0.0035/kg (3.78% ad val.)	55
Corn, yellow dent	\$0.0005/kg (0.6% ad val.)	75
Beer	Duty free	100
Soybeans	Duty free	N/A
Pasta, uncooked, not prepared	Duty free	N/A
Ham, fresh, unprocessed	Duty free	N/A
Apples	Duty free	N/A
Cherries	Duty free	N/A

Source: U.S. Department of Commerce.

Table C-8--U.S. imports of confection products containing peanuts, peanut butter, or peanut paste

Country	1998	1999 (Jan-Jul)
	1,000 pounds	
	Confections or sweetmeats containing peanuts or peanut products for retail 1/	
Mexico	39,500	13,479
Canada	8,538	4,722
Spain	6,702	3,287
Sweden	3,721	1,402
Taiwan	3,415	71
Switzerland	3,298	1,850
Germany	3,898	1,413
Argentina	2,881	322
Other	12,004	4,877
Total	83,958	31,422
	Confections or sweetmeats containing peanuts or peanut products not for retail 2/	
Mexico	62,051	32,319
Canada	17,820	11,069
Colombia	9,273	4,383
Argentina	4,661	1,874
Netherlands	3,937	2,434
Brazil	3,351	1,413
UK	3,120	3,166
Spain	2,884	743
China	2,491	1,953
Italy	1,559	1,687
Other	6,182	4,153
Total	117,327	65,194
	Chocolate & other food preparations containing peanuts or peanut products 3/	
Canada	16,135	16,049
Germany	763	187
Mexico	370	183
UK	62	60
Belgium	75	13
Switzerland	88	1
Spain	33	0
Other	42	4
Total	17,568	16,497
	Cocoa preparations not for retail sale containing peanuts or peanut products 4/	
Canada	5,831	3,558
Italy	6,616	2
Argentina	1,102	29
UK	278	66
Chile	163	57
Hungary	121	0
Sweden	110	0
Ireland	66	35
Mexico	53	4
Other	289	88
Total	14,630	3,840
	Sweet biscuits, waffles & wafers, frozen containing peanuts or peanut products 5/	
Canada	298	0
Dominican Republic	1	0
Hong Kong	4	0
Japan	2	0
Total	305	0
	Sweet biscuits, waffles & wafers, containing peanuts or peanut products 6/	
Canada	3,388	1,336
Mexico	2,758	615
Austria	57	141
Hong Kong	196	0
Indonesia	75	13
Poland	90	31
Saudi Arabia	37	31
Denmark	77	0
Other	201	97
Total	6,881	2,264

1/ HTSUS 1704903520.

2/ HTSUS 1714903590.

3/ HTSUS 1806310041.

4/ HTSUS 1806909011.

5/ HTSUS 1905300021.

6/ HTSUS 1905300041.

Source: U.S. Bureau of the Census.

Table C-9--U.S. imports of all confectionary products containing peanuts, peanut butter or peanut paste

Country	1998	1999 (Jan-Jul)
	1,000 pounds	
Mexico	104,732	46,601
Canada	52,011	36,735
Spain	9,586	4,030
Colombia	9,273	4,383
Argentina	8,644	2,224
Italy	8,175	1,689
Brazil	7,249	2,826
Germany	4,061	2,037
Netherlands	3,937	2,434
Sweden	3,832	1,402
Taiwan	3,415	71
UK	3,459	3,291
Switzerland	3,386	1,850
Other	60,248	25,238
Total	240,668	119,218

Source: U.S. Department of Commerce.

peanuts on a farmers' stock basis were contained in these products (20,000 tons during January-July 1999).

None of the peanuts contained in these products count toward fulfilling a country's peanut quota. In addition, most products enter duty free because of trade agreements such as NAFTA, the Caribbean Basin Initiative, and the Andean Trade Pact. However, tariff rates range from duty free to 6.2 percent ad valorem and probably do not inhibit imports of these products. While it is not possible to estimate imports of these products prior to 1998, current shipments represent about 50 percent of the total access negotiated by the WTO for peanuts. U.S. negotiations will likely seek to include discussions about subjecting these products to quotas.

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