Leaflet 4. Peanut Trade and the World Trade Organization

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Trade Situation and Outlook

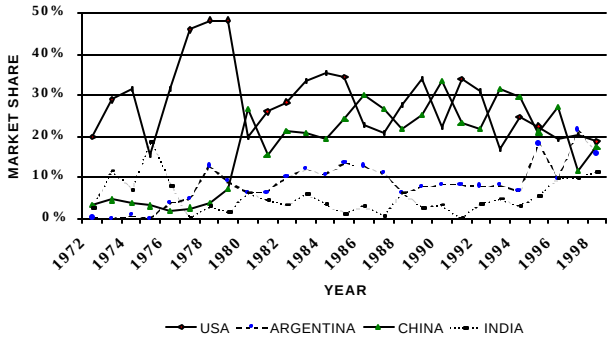
Peanut trade accounts for only about 4 percent of the world production. However, for some countries like Nicaragua, Argentina and the U.S., a significant proportion of their crop is exported.

World edible peanut exports are concentrated among a few exporters. The U. S., China, India and Argentina shared about 67 percent of the world trade in the 1990s. While these four countries dominate the peanut trade, their individual market shares have changed significantly over the last three decades (Figure 1). Argentina has seen an increase in market share from about 4 percent in the 1970s to about 20 percent in the late 1990s. China has seen an even larger increase over the same time period. In contrast, the U. S. has seen a reversal in their trade share from about 32 percent in the 1970s to almost 20 percent in the 1990s.

While the U. S. market share has been declining over time, the export volume has also been declining. Many times during the 1980s and parts of 1990s, the United States exported more than 400,000 metric tons of edible peanuts. The last few years of the 1990s has seen the United States volume hover around 300,000 metric tons. Some of the extremely low export volumes were due to drought conditions.

The U.S. domestic peanut program has its roots back to the 1930s. This program influenced where production would exist and price trends. To maintain program integrity, Section 22 (Agriculture Adjustment Act of 1933) was utilized with the import quota set at 775 metric tons. However, the Uruguay Round of GATT and NAFTA have forced the

Figure 1. Trend in the World Edible Peanut Export Market Share, Major Exporters, 1972-98



U.S. peanut producers into an increasingly competitive arena. This was accomplished by the elimination of Section 22, which was converted into a TRQ. Thus, the minimum access for edible peanuts was increased from 775 metric tons to 33,871 metric tons in 1995, expanding to 56,938 metric tons in 2000. The U.S. was able to place a TRQ on peanut butter/paste during the Uruguay Round of 19,150 metric tons in 1995, increasing to 20,000 metric tons in 2000. Prior to 1995, peanut butter could be imported into the U.S. from Canada with a very low tariff due to CUSTA and it was not covered under Section 22.

Under NAFTA, Mexico received a TRQ from the U.S. of 3,377 metric tons in 1994, increasing by 3 percent per year until 2008. After 2008, Mexican-origin peanuts will be allowed to enter the U.S. freely and with no tariff. There was no TRQ established for peanut butter/paste made from Mexican-origin peanuts. This product can move freely into the U.S. and in 1998 the first shipments arrived, though at a small level.

The tariff rates for peanuts under GATT (now WTO) and NAFTA were set

sufficiently high that imports above the TRQ would not occur. The 2000 ad valorem tariff for shelled and prepared peanuts under WTO is 131.8 percent and under NAFTA is 93 percent. If Mexican producers could produce peanuts at a cost comparable to China and Argentina, the NAFTA tariff schedule would become ineffective in controlling imports. The WTO tariff schedule is still effective in controlling imports. However, depending on the percentage reduction agreed to in the Millennium Round of WTO, the new tariff schedule may also become a moot point in controlling imports.

Major Peanut Trade Issues

Mexician Production. If the U.S. peanut program is not modified in 2002, there will be a strong economic incentive to increase peanut production in Mexico. The economic rents to be captured by Mexican producers will be too large to ignore. While country of origin of raw edible peanuts can be determined, processed peanuts can not be identified. There seems to be some movement of peanut manufacturers to Mexico to capture economic rents.

Free Trade Area of the Americas (FTAA). FTAA, if concluded, would alter the landscape for U.S. peanut producers. Argentina and Nicaragua would be part of this agreement. Potentially, the tariff schedule could be ineffective in controlling peanut imports into the U.S. under the current U.S. peanut program.

China and the WTO. The Millennium Round of WTO provides a potentially different picture for U.S. peanut producers. Part of the outcome depends on whether China is granted WTO status. Since China has historically been given MFN status, China had access to all the WTO tariffs. The real results come in the negotiations where trade-offs are made. China would be at the table in this WTO round while they were not in the previous rounds. Another area of potential negotiations concerns the imports of confectionery peanut products and including them in the TRQ. These items were not covered in previous trade agreements. In January 1998, six new harmonized tariff schedules were established covering several types of confectionery peanut products. The U.S. peanut industry estimates that in 1998 an equivalent 40,000 tons of farmer stock peanuts were contained in these imported products. This represents a little over 3 percent of the domestic quota supply.

Sanitary and Photosanitary Regulations. The area of sanitary/phytosanitary rules and regulations does have a significant trade impact. Aflatoxin is a key factor in the trading of edible peanuts. Aflatoxin is composed of four toxins- B1, B2, G1 and G2. The total level of aflatoxin is the sum of these four components. After a long and arduous process, CODEX approved on an interim basis that 15 parts per billion (ppb) for raw, shelled peanuts would be the level used for trade. The EU wanted a significantly lower level while the developing countries wanted a higher level. The agreed level is the one used in the U.S. for domestic edible use. However, the EU added that they would also require that the B1 level not exceed 8 ppb for raw, shelled peanuts. In addition, the EU is requiring that processed/finished peanut products do not exceed 4 ppb for total aflatoxin and 2 ppb for B1. In contrast, the U.S.'s FDA only requires that the total aflatoxin level for finished peanut products not exceed 20 ppb. Currently, there is no scientific basis to support the EU position. However, CODEX and the trade agreements have no jurisdiction over finished products if they are not traded. This is a major nontariff trade barrier issue that may or may not be addressed in the Millennium Round.