



RESOLUTION 017 OF 2012 THE RAW MILK PRICE SUPPORT SYSTEM OF COLOMBIA

September 25, 2022 Athens, Greece

Submitted by

CHUNXIAN LYU

&

MUCHINA JOHN

TradeLab output is prepared on a pro bono basis by students as a pedagogical exercise. It is not professional legal advice and in no way establishes a client-attorney relationship





TradeLab

International rules on cross-border trade and investment are increasingly complex. There is the WTO, World Bank and UNCTAD, but also hundreds of bilateral investment treaties (BITs) and free trade arrangements ranging from GSP, EU EPAs and COMESA to ASEAN, CAFTA and TPP. Each has its own negotiation, implementation and dispute settlement system. Everyone is affected but few have the time and resources to fully engage.

TradeLab aims to empower countries and smaller stakeholders to reap the full development benefits of global trade and investment rules. Through pro bono legal clinics and practica, TradeLab connects students and experienced legal professionals to public officials especially in developing countries, small and medium-sized enterprises and civil society to build lasting legal capacity. Through 'learning by doing' we want to train and promote the next generation of trade and investment lawyers. By providing information and support on negotiations, compliance and litigation, we strive to make WTO, preferential trade and bilateral investment treaties work for everyone.

More at: <u>https://www.tradelab.org</u>

What are Legal Practica

Legal practica are composed of small groups of highly qualified and carefully selected students. Faculty and other professionals with longstanding experience in the field act as Academic Supervisors and Mentors for the Practica and closely supervise the work. Practica are win-win for all involved: beneficiaries get expert work done for free and build capacity; students learn by doing, obtain academic credits and expand their network; faculty and expert mentors share their knowledge on cutting-edge issues and are able to attract or hire top students with proven skills.

Practicum projects are selected on the basis of need, available resources and practical relevance. Two to four students are assigned to each project. Students are teamed up with expert mentors from law firms or other organizations and carefully prepped and supervised by Academic Supervisors and Teaching Assistants. Students benefit from skills and expert sessions, do detailed legal research and work on several drafts shared with supervisors, mentors and the beneficiary for comments and feedback. The Practicum culminates in a polished legal memorandum, brief, draft law or treaty text or other output tailored to the project's needs. Practica deliver in three to four months. Work and output can be public or fully confidential, for example, when preparing legislative or treaty proposals or briefs in actual disputes.

EPLO

EPLO is an international organization dedicated to the creation and dissemination of knowledge in the area of Public Law, *lato sensu*, and Governance, and the promotion of European values for a better generation of lawyers and democratic institutions worldwide. EPLO Academy of International Economic Law and Policy (AIELPO) aims at operating as an international thinktank on international economic law and policy, developing critical and out-of-the-box thinking while empowering its students to become leaders and powerful drivers of change and resilience in their local contexts and in the international arena.





TABLE OF CONTENTS

1. 4	
2. 5	
2.1 Operation of the Measure.	5
2.2 Enforcement of Res017	6
2.3 Impact of Res017	7
3. 8	
3.1 SCM AGREEMENT	9
3.1.1 Res017 as a Subsidy	10
3.1.2 Res017 as an actionable subsidy?	11
3.1.3 SOLUTION	12
3.2 10	
3.2.1 Violation of Article III:4 of the GATT 1994	13
3.2.2 The Violation Cannot Be Justified Under Article XX(a) or A	rticle XX(b) of
the GATT 1994	16

4. 13	т.	13
-------	----	----





1. EXECUTIVE SUMMARY

This memorandum investigates the application and impact of Colombia's Resolution 000017 of 2012, a measure introduced by the Government of Colombia to regulate the purchase price of locally produced raw milk. It highlights that this price support system has the capacity to reduce the competitiveness of the imports of powdered milk to Colombia, as they are not accorded the same support despite being in the same market.

This paper analyses the undue advantage under the SCM Agreement and GATT 1994. Ultimately, we argue that the price support system is inconsistent with the WTO because it is a subsidy under Article 1.1(a) (2) causing adverse effects on imports of powdered milk to Colombia.

Additionally, it is a measure conferring less favorable treatment to these imports. However, any successful claim will need empirical data demonstrating how a loss and/or disadvantage has been occasioned under the SCM Agreement and/or GATT 1994.





RESOLUTION 017 OF 2012

AN ANALYSIS OF THE RAW MILK PRICE SUPPORT SYSTEM OF COLOMBIA

2. THE MEASURE

On 1st March 2012, the Government of Colombia, through its Ministry of Agriculture and Rural Development, introduced Resolution 000017 of 2012 (Res017). This resolution was aimed at restructuring the dairy sector, specifically the payment system for raw milk produced in Colombia

2.1 Operation of the Measure

Res017 allows the government of Colombia to determine the price of raw milk through a set of factors independent of the prevailing market conditions. Any purchaser wishing to acquire raw milk in Colombia applies the criteria laid out in Res017 to determine the payable price.

As a result, the price of Colombian raw milk can be fundamentally different from that of imported raw milk or any other form of milk that is not subject to the same pricing mechanism.

The factors determining the price of Colombian raw milk include:

- Composition of the raw milk
- Region it is acquired from
- Hygiene quality and
- Sanitary quality

Compositional Quality

Article 7 of Res017 requires that the price of raw milk takes into account the number of proteins, fats and total solids by grams contained in a liter of raw milk. As stated in the preamble, the purpose of this is to promote greater compositional quality.

Region

Res017 under Article 3 divides Colombia into two regions: Region 1 and Region 2. As per Article 1, the regions are categorized based on their characteristics from a productive point of view. Region 1 covers the departments of Cundinamarca, Boyacá, Antioquia, Quindío, Risaralda, Caldas, Nariño, Cauca and Valle del Cauca; and Region 2 covers the departments of Cesar, Guajira, Atlántico, Bolívar, Sucre, Córdoba, Chocó, Magdalena, Norte de Santander, Santander, Caquetá, Tolima, Huila, Meta, Orinoquia and Amazonia.

The price of raw milk will depend on the price allocated in each region per gram of proteins, fats and total solids. Moreover, this price is updated annually by the Milk Price Monitoring Unit through the Dairy Sector Composite index, which considers factors such as household consumption, inventories and external markets. As of 2012, the prices were as follows:

Item	Price per gram of protein, fat and total solids		
	Region 1	Region 2	
Protein	18.27	16.48	
Fat	6.09	5.49	
Total Solids	6.46	6.14	





Hygiene Quality

Article 5 imposes mandatory bonuses to be paid by the purchaser depending on the hygiene of milk and whether proper cold storage was used. As stated in the preamble of Res017, this requirement is put in place to encourage an improvement in the hygienic quality and safety of raw milk, taking into account its wide consumption in Colombia.¹

Sanitary Quality

Lastly, Article 7 requires the purchasers to pay a mandatory bonus to any producer that has vaccinated against foot-and-mouth Disease and Brucellosis. In addition, if a producer offers proof of good husbandry practices, they receive an extra mandatory bonus.

2.2 Enforcement of Res017

Enforcement of Res017 is governed by several provisions which make compliance mandatory for the purchasers of raw milk in Colombia. Article 13 obligates any person or entity purchasing milk in Colombia to evaluate the hygiene and compositional quality of raw milk through accredited laboratories to determine the price. Furthermore, Article 23 establishes a mechanism through which the purchasers of raw milk must report and pay for the raw milk.

Failure to comply is considered an infraction to be reported to the Superintendency of Industry and Commerce, who in turn has the power to impose sanctions under Article 26 of Res017. Anyone purchasing raw milk in Colombia has no option but to comply with the payment system. This, in turn, guarantees the domestic producers of raw milk a profitable return when their milk is up to standard.

2.3 Impact of Res017

Res017 distorts the competitive conditions within the Colombian market for milk by fixing prices for Colombian raw milk while denying the same advantage to imported products.

This impact will be considered through a comparison between the effects on internally produced raw milk and imported powdered milk. This comparison can be made for several reasons: first, Colombia imports powdered milk, not raw milk; second, the conclusion of a free trade agreement between Colombia and the US in 2012 saw the imports of powdered milk from the US increase exponentially to the extent that the government of Colombia was considering imposing safeguard measures and,² lastly; the government of Colombia considers raw milk and powdered milk as like products or products competing in the same market.³

Beginning with the internally produced raw milk, the structure of Res017 ensures that the producers of raw milk in Colombia are always guaranteed a specific price for their milk. This is an advantage for them as they enjoy price support shielded from adverse market conditions.

However, Res017 only applies to raw milk produced within Colombia. This means that for imported powdered milk, there is no price support and prices are wholly determined by market conditions.

¹ Durán-Rojas, Elvira, Paula Judith Pérez-Espitia, and Omar Andrés Pérez-Sierra. "Milk producer's articulation: a multicast study in Córdoba, Colombia." *Revista Logos Ciencia & Tecnología* 12.1 (2020): Pg 114-115

² Bill Tomson, Colombia Dairy Investigations has US Dairy Exporters concerned, <<u>https://www.agri-pulse.com/articles/16420-colombia-trade-investigation-has-us-dairy-exporters-concerned</u>> (Accessed 19/9/2022)

³Final Determination, Colombia Safeguards investigations Concerning Powdered Milk Originating from the US-SB-249-0129, Pg. 27





This negative impact is apparent when the domestic supply of milk is low. Normal market conditions dictate that when supply is low, prices should increase. This is the case for both raw and powdered milk. However, the price of Colombian produced raw milk remains stable on account of Res017 because under the price support system, the current pricing structure calculates the price of a litter of milk purely on composition and hygienic qualities and not market conditions.

In that case, the price of Colombian domestic raw milk would be independent of the international market, whereas imported powdered milk would become too expensive to compete in the domestic market.

Moreover, even when supply is steady, Res017 **would** allow for prices to be revised by the Price Monitoring unit established by the Ministry of Agriculture and Rural Development. Therefore, this creates an unpredictable market where prices can be adjusted to the advantage of locally produced raw milk.

Taking this into account, there is a possibility that Res017 is a subsidy prohibited under the Agreement on Subsidies on Countervailing Measures. Moreover, even if it were not a subsidy, the measure would be inconsistent under GATT 1994 for conferring less favourable treatment to imported powdered milk.





3. CHALLENGING Res017 IN THE WTO

Res017, as discussed above, has the capacity to distort market conditions to the advantage of Colombian producers. While Colombian producers enjoy constant and secure returns for their milk, foreign producers importing competing products, such as powdered milk, into Colombia are left struggling to find a footing in the Colombian market.

This kind of impact is inconsistent with the objectives of the WTO system. The WTO system was designed to promote economic development.⁴ However, economic development cannot be pursued in a manner that undermines the rights of other Members. Therefore, any measure should not affect the rights of other Members. When it does, Article 3.3 of the DSU allows the affected Members to challenge such measures before a WTO panel.⁵

In the present case, Res017 is a measure that was introduced by the government of Colombia to support the producers of raw milk. However, its design and structure threatens to undermine the rights of other Members of the WTO. To prevent this, Res017 can be challenged as a subsidy causing adverse effects on the exports of powdered milk under the Agreement on Subsidies and Countervailing Measures (SCM Agreement). Even if it is not considered a subsidy, it could be challenged as a measure conferring less favorable treatment to the exports of powdered milk under the General Agreement on Tariffs and Trade 1994 (GATT 1994)

3.1 SCM AGREEMENT

Res017 is likely a subsidy that adversely affects imports of powdered milk, contrary to the provisions of the SCM Agreement.

In general, the SCM Agreement allows Members to provide subsidies, but the subsidies must be per the provisions of the Agreement. For instance, the Agreement prohibits subsidies that are conditional on the recipient's export performance or use of locally produced content.⁶ Moreover, where the Agreement allows for the provision of subsidies, also known as actionable subsidies, it reiterates that these subsidies should be applied in a manner that does not adversely affect the interests of other Members.⁷

In light of this, this paper shall demonstrate that Res017 is an actionable subsidy, which negatively impacts imported milk product in favor of domestic raw milk, which is subject to a pre-determined price.

3.1.1 Res017 as a Subsidy

At the outset, it must be noted that the government of Colombia does not provide any form of financial contribution to the producers of raw milk in Colombia.⁸ Instead, Res017 creates a system where the purchasers have to pay the producers of raw milk fixed amounts. This government price support likely constitutes a subsidy under Article 1.1(a)(2) of the SCM Agreement.

However, the difficulty here is that the SCM Agreement does not define what "price support" is. As a result, recourse must be made to the rules of treaty interpretation under Article 31 of the

⁴ Marrakesh Agreement Establishing the World Trade Organization, Apr. 15, 1994, 1867 U.N.T.S. 154, 33 I.L.M. 1144 (1994), Preamble.

⁵ Dispute Settlement Rules: Understanding on Rules and Procedures Governing the Settlement of Disputes, Marrakesh Agreement Establishing the World Trade Organization, Annex 2, 1869 U.N.T.S. 401, 33 I.L.M. 1226 (1994), Article 3.3.

⁶ Agreement on Subsidies and Countervailing Measures, Apr.15 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1A1869U.N.T.S.14 (1994). [SCM Agreement], Article 3.

⁷ SCM Agreement, Part III.

⁸ SCM Agreement, Article 1.1 (a) (1)





Vienna Convention on the Law of Treaties, which instructs parties to consider the object and purpose of the SCM Agreement, the ordinary meaning of the word, and its context.

The ordinary meaning of the term "price support" according to Blacks Oxford Dictionary of Economics includes "government policies to keep the producer prices...above some minimum level".⁹ This is further supported by the context of Annex 3 of the Agreement on Agriculture, which reflects that a price support exists when there is a difference between a government's applied administered price and a fixed external price with a base period of 1986-1988.¹⁰

Price Support= Applied Administered Price- Fixed External Price (1986-88).

From this, it can be concluded that Res017 is a price support system because it administers a price in favor of the producers, which would be higher than the price of raw milk in 1986-88.¹¹ This position is supported by the panel in *China- GOES*, which recognized that a price support system could qualify as a subsidy under the SCM Agreement where there is evidence that the government is fixing an administered price lower than the global market price for the benefit of producers.¹²

Nonetheless, the existence of a price support system is not sufficient to prove a subsidy. We would also have to show that this mechanism benefits the recipient.¹³

According to Article 1.1 (b) of the SCM Agreement and the panel in *Canada-Aircraft*, a benefit exists where the subsidy recipient has been put in a more advantageous position than they would have been under normal market conditions.¹⁴ This analysis requires that the relevant marketplace be identified, and a comparison of circumstances with other competing products be made.¹⁵

The relevant market in the case of Res017 is the Dairy processing industry in Colombia, where the producers sell their milk to the purchasers as a raw material. In addition, our market benchmark for comparison purposes would be imported powdered milk from the US, as this product is in a competitive relationship with Colombian raw milk.¹⁶

Powdered milk does not enjoy the same price support as Colombian raw milk, as Article 1 of Res017 states that the price support system only applies to Colombian raw milk producers. Therefore, imported powdered milk does not receive assured prices or mandatory bonuses.

3.1.2 Res017 as an actionable subsidy?

An actionable subsidy is one that is specific in nature and causes adverse effects on the trade interest of other Members.¹⁷According to Article 2 of the SCM Agreement, a subsidy is deemed specific if it is limited to a specific enterprise or industry and that industry or enterprise is within the jurisdiction of the granting Authority. Res017 meets both of these requirements because it is limited to raw milk producers within the Colombian territory.

⁹ Oxford Dictionary of Economics, 3rd ed., J. Black (ed.) (Oxford University Press, 2009), p. 355.

¹⁰ Agreement on Agriculture, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1A, 1867 U.N.T.S. 410., Annex 3 (Para 8).

¹¹Note that Res017 does not create a specific administered price, it only creates a system which ensures producers get returns based on the contents of their milk. However, the ministry using Res017 has a price monitoring system which sets an average price that one cannot go below.

¹² Panel Report, *China – Countervailing and Anti-Dumping Duties on Grain Oriented Flat-Rolled Electrical Steel from the United States*, WT/DS414/R and Add.1, upheld by Appellate Body Report WT/DS414/AB/R, paras 7.83-7.88.

¹³ Appellate Body Report, United States – Subsidies on Upland Cotton, WT/DS267/AB/R, para 462.

¹⁴ Panel Report, Canada – Export Credits and Loan Guarantees for Regional Aircraft, WT/DS222/R and Corr.1, paras 9.112-3.

¹⁵ Appellate Body Report, Canada – Measures Affecting the Export of Civilian Aircraft, WT/DS70/AB/R, para 154.

¹⁶Final Determination, Colombia Safeguards investigations Concerning Powdered Milk Originating from the US-SB-249-0129, Pg. 27

¹⁷ SCM Agreement. Article 2 & 5.





The SCM Agreement also requires that when Members provide actionable subsidies, they should ensure that such subsidies do not cause adverse effects on the trade interest of other Members. The forms of adverse effects referred to under Article 5 of the SCM Agreement include:

- Injury to the domestic industry of another Member
- Nullification or impairment of benefits accruing directly or indirectly to other Members under GATT 1994, in particular the benefits of concessions bound under Article II of GATT 1994 and,
- Serious prejudice to the interests of another Member.

Considering that Res017 provides a minimum price for local producers of raw milk, as opposed to imported milk products, it may cause serious prejudice to the trade interest of other Members. Serious prejudice can occur in various forms, as seen in Article 6.3 of the SCM Agreement. One such way is where the effect of a subsidy is to displace the imports of another Member in the local market or to undercut their price. This is likely to happen in Colombia, where Res017 imposes a low price for raw milk, which ultimately undercuts imported powdered milk. Powdered milk would find it difficult to compete in the Colombian Market due to its higher price.

3.1.3 SOLUTION

A Member adversely affected by the price support system can institute a claim against Colombia for their "price support" measure under Article 1.1(a)(2) of the SCM Agreement. They would have to prove that Res017 has actual adverse effects on their products, in this case, imported powdered milk. If the subsidy is inconsistent with the SCM Agreement, Colombia will be directed to take appropriate steps to remove the adverse effects or withdraw the subsidy altogether.¹⁸

3.2 GATT 1994

3.2.1 Violation of Article III:4 of the GATT 1994

If Res017 is not a subsidy, an affected Member can still argue that the measure is actionable under the GATT. Non-discriminatory treatment of domestic and imported like products within the borders of Members is widely held to be one of the fundamental principles of the GATT 1994. Article III:4 of the GATT 1994 obliges Members not to distort the equality of competitive conditions for domestic products and imported products which are like by way of using internal regulations. Under Res017, only domestic raw milk products can enjoy the price support system while the imported powdered milk lacks the same payment and bonuses. Therefore, there exist possibilities that Res017 is in violation of Article III:4 of the GATT 1994.

To resolve the potential discrimination issue, we have to consider three questions: a) whether the imported powdered milk and domestic raw milk are "like products"; b) whether Res017 is a regulation affecting Colombia's internal sale; and c) whether the imported powdered milk is accorded less favorable treatment than that accorded to like domestic raw milk.

a. The imported powdered milk and domestic raw milk which benefits from price support system are "like products"

In the present case, the imported powdered milk and domestic raw milk are "like products" because they are in a competitive relationship in the dairy processing market.

¹⁸ SCM Agreement, Art 7.8





As pointed out by the Appellate Body in EC - Asbestos,¹⁹ the determination of "likeness" under Article III:4 is the determination of the competitive relationship between products.

We agree that the two products are not alike at first glance, since their physical characteristics are quite different—one is liquid while the other is powder. However, considering they are both used for dairy processing, and the dairy processors use both products, they are mutually substitutable. The main difference between the imported powdered milk and domestic raw milk lies in the dehydration process carried out on the liquid milk once it is obtained from cows, and therefore the powdered milk can return to its liquid state with the addition of water.²⁰ Once the powdered milk is in Colombian territory, there is no substantial difficulty for the dairy processors to add water and it is easy for them to obtain the same liquid milk with the same properties and characteristics of the liquid milk produced in Colombia. The tastes and habits of the dairy processors towards the two kinds of milk are similar.

In this regard, we conclude that the domestic raw milk and imported powdered milk are "like products" for the purposes of Article III:4 of the GATT 1994.

b. Res 017 is a regulation affecting internal sale

The second step for national treatment analysis is to determine whether the measure at issue is a regulation affecting internal sale. In the present case, Res017 is a regulation affecting the internal sale of milk products in the dairy processing market because it creates disincentives for the sale of imported powdered milk.

Considering Res017 has legally binding force, it would be considered a regulation. The Panel in *India – Solar Cells* concluded that laws or regulations are the legally enforceable rules of conduct under the domestic legal system of WTO Members.²¹ Here, Res017 is a set of rules regulating the elements to consider, the procedures to settle the price of Colombian domestic raw milk and sanctions of inconsistency. It was issued by the Ministry of Agriculture and Rural Development which governs and enforces the payment to the suppliers of raw milk that meet the price bonus criteria. And it's enforceable by the Superintendency of Industry and Commerce, that is authorized to sanction anyone not in compliance.

Because it is a regulation applied to the price paid to local milk producers, Res017 affects the internal sale of milk products in the dairy processing market. In *Canada – Autos*, the Panel found that the term "affecting" has a broad scope of application and refers to measures having an effect on imported goods.²² The Panel in *China – Publications and Audiovisual Products* specified that the scope of such a regulation would cover not only the measure directly regulating the sale of domestic and imported like products, but also the measure creating incentives or disincentives with respect to the sale.²³ Res017 affects the latter. It disincentives the sale of other dairy products, including imports like powdered milk, in Colombia. The price support system provides domestic raw milk with a predictable and more stable price. The system guarantees the domestic suppliers of raw milk can get payment regardless of the influence of normal market conditions. However, foreign competitors lack similar payment bonuses and the price of their products are totally dependent on market conditions, which are unpredictable and volatile. As normal market participants, foreign producers of powdered milk may be reluctant to export their powdered

¹⁹ Appellate Body Report, European Communities — Measures Affecting Asbestos and Products Containing Asbestos, WT/DS135/12, paras 97-103.

²⁰ Final Determination, Colombia Safeguards investigations Concerning Powdered Milk Originating from the US-SB-249-0129, Pg. 27

²¹ Panel Report, *India* — Certain Measures Relating to Solar Cells and Solar Modules, WT/DS456/20, paras 7.307-7.310.

²² Panel Report, *Canada — Certain Measures Affecting the Automotive Industry*, WT/DS139/12 WT/DS142/12, para 211.

²³ Panel Report, China — Measures Affecting Trading Rights and Distribution Services for Certain Publications and Audiovisual Entertainment Products, WT/DS108/36, para 7.1450.





milk to the Colombian market, where they will be competing with the pre-determined prices of domestic raw milk.

Therefore, Res017 is a regulation affecting the internal sale of milk products in the dairy processing market. Satisfying this element of national treatment, we can conclude Res017 falls within the application scope of Article III:4 of the GATT 1994 rather than other paragraphs of Article III.

c. The imported powdered milk is accorded less favorable treatment than that accorded to like domestic raw milk

The last step for the national treatment analysis is to determine whether the imported products are accorded less favorable treatment than those accorded to like domestic products. In the present case, we argue that the imported powdered milk is accorded less favorable treatment than that accorded to like domestic raw milk because it cannot enjoy the predictable and foreseeable price support system. Res017 produces unequal competition between these two products.

The Panel in Japan -Film stated that the effective equality of competitive conditions is a benchmark for establishing "no less favorable treatment".²⁴ And according to the Appellate Body in Thailand - Cigarettes (Philippines), there should be a genuine relationship between the contested measure and its adverse effects on competitive opportunities.²⁵ Res017 established a price support system based on factors of composition, dairy region, hygiene and sanitary quality. According to Res017, only the Colombian domestic raw milk suppliers from region 1 and region 2 can receive the payment. As analyzed above, by implementing such a price support system, the price of Colombia raw milk can remain predictable and foreseeable regardless of the international market change, while imported powdered milk might suffer from market volatility. On one hand, when the normal market price is high, the price of imported powdered milk is also high and hard to get into the Colombian domestic market. On the other hand, when the normal market price is low, the Colombian government can manipulate the price support system and adjust the national average price to the extent beneficial to the domestic raw milk. This will make it more difficult for the imported powdered milk to compete with domestically produced raw milk, although their products are cheap. The price support system distorts the competitive condition of the domestic raw milk and imported powdered milk which are "like products." The competitive opportunities for imported and domestic raw milk are not equal.

Hence, the imported powdered milk that would be sold in the same market as domestic raw milk is accorded less favorable treatment than that accorded to domestic raw milk.

In conclusion, Res017 is a regulation affecting the international sale of like imported powdered milk which is accorded less favorable treatment. It is in violation of Article III:4 of the GATT 1994.

3.2.2 The Violation Cannot Be Justified Under Article XX(b) of the GATT 1994

After analyzing the potential national treatment violation, we cannot forget the general exceptions provided under Article XX of the GATT 1994 which give Members the right to regulate to protect legitimate domestic interests.

Colombia might argue that Res017 can be justified under Article XX(b), considering the requirements for domestic producers to get payments are to offer milk of good compositions, hygiene and sanitary quality, which is helpful to public health. However, the potential exception

²⁴ Panel Report, Japan — Measures Affecting Consumer Photographic Film and Paper, WT/DS44/5, para 10.379.

²⁵ Appellate Body Report, *Thailand — Customs and Fiscal Measures on Cigarettes from the Philippines*, WT/DS371/46, para 134.





may not be satisfied because it is hard to conclude that Res017 is designed to protect public health.

Article XX(b) of the GATT 1994

As an Article XX(b) justification, Colombia might argue that the requirements of giving payment are based on compositions, hygiene and sanitary quality which are beneficial to protect human and animal health. However, this exception would not be justified for several reasons.

First, the sanitary quality of final dairy products is not decided solely based on the quality of primary raw milk. Other factors like the processing environment are also related to the final products and related health. The raw milk is primarily purchased by dairy processors, who manufacture consumer dairy products rather than normal consumers who directly drink the raw milk. The public health focus should be on the final dairy product, rather than the raw milk itself. If the raw milk is of good quality but the processing is unsanitary, it does not contribute to the overall improvement of public health.

Second, the price support system is voluntary which leaves room for raw milk producers to supply milk of lower quality which is not good for public health. If the Colombian government really aims to protect human health by improving the quality of raw milk, it would have designed this regulation to be mandatory and required the producers to produce high quality milk. However, the current price support system under Res017 is voluntary. It leaves room for raw milk producers to decide whether to get such bonuses by producing high quality raw milk.

Third, human health is not mentioned in any of the annexes to Res017. If Colombia makes this argument, the public health component would merely be inferred and difficult to prove. Therefore, Res017 cannot be justified under Articles XX(a) or Article XX(b) of the GATT 1994, considering it is not designed to pursue the aims of protecting public morals or human health.

Fourth, scientific research shows the effect of Res017 on the quality of raw milk can even be negative. One report found the implementation of Res017 had a negatively significant effect on the percentage of protein in milk in Region 2.²⁶ This could show the contribution of Res017 to public health is questionable.

In conclusion, Res017 is in violation of Article III:4 and cannot be justified under Article XX(a) or Article XX(b) of the GATT 1994.

4. CONCLUSION

Res017 was introduced by Colombia in 2012 as a mechanism to support the producers of raw milk through the establishment of a price support system. The system ensures that the producers are guaranteed constant and predictable returns for their produce. However, the system does not correspond to market conditions and therefore distorts the market to the disadvantage of importers who do not enjoy the same support.

The solution for the Members affected is to take a novel approach and challenge Res017 as a subsidy under the SCM Agreement. Alternatively, the Members affected can bring a dispute against Colombia under Article III:4 of the GATT 1994 and request Colombia to withdraw its price support resolution.

²⁶ Usuga, A.F., Barrios, D., Botero, M., Lopera, M., & Olivera-Angel, M. (2021). *Analysis of milk quality variation in Colombia 2008–2019*, which is available at https://doi.org/10.21897/rmvz.2005 (last visited September 25, 2022).





BIBLIOGRAPHY

WTO Agreements

- Agreement on Agriculture, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1A, 1867 U.N.T.S. 410.
- Agreement on Subsidies and Countervailing Measures, Apr.15 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1A1869U.N.T.S.14 (1994).
- Dispute Settlement Rules: Understanding on Rules and Procedures Governing the Settlement of Disputes, Marrakesh Agreement Establishing the World Trade Organization, Annex 2, 1869 U.N.T.S. 401, 33 I.L.M. 1226 (1994)
- Marrakesh Agreement Establishing the World Trade Organization, Apr. 15, 1994, 1867 U.N.T.S. 154, 33 I.L.M. 1144 (1994)

Caselaw

- Appellate Body Report, *Colombia Measures Relating to the Importation of Textiles, Apparel and Footwear*, WT/DS461/29
- Appellate Body Report, European Communities Measures Affecting Asbestos and Products Containing Asbestos, WT/DS135/12
- Appellate Body Report, *Thailand Customs and Fiscal Measures on Cigarettes from the Philippines*, WT/DS371/46
- Appellate Body Report, United States Subsidies on Upland Cotton, WT/DS267/AB/R,
- Panel Report, Canada Certain Measures Affecting the Automotive Industry, WT/DS139/12 WT/DS142/12
- Panel Report, Canada Export Credits and Loan Guarantees for Regional Aircraft, WT/DS222/R and Corr.1
- Appellate Body Report, Canada Measures Affecting the Export of Civilian Aircraft, WT/DS70/AB/R
- Panel Report, *China Countervailing and Anti-Dumping Duties on Grain Oriented Flat-Rolled Electrical Steel from the United States*, WT/DS414/R and Add.1, upheld by Appellate Body Report WT/DS414/AB/R
- Panel Report, China Measures Affecting Trading Rights and Distribution Services for Certain Publications and Audiovisual Entertainment Products, WT/DS108/36
- Panel Report, India Certain Measures Relating to Solar Cells and Solar Modules, WT/DS456/20
- Panel Report, Japan Measures Affecting Consumer Photographic Film and Paper, WT/DS44/5

Articles

- Bill Tomson, Colombia Dairy Investigations has US Dairy Exporters concerned, https://www.agri-pulse.com/articles/16420-colombia-trade-investigation-has-us-dairyexporters-concerned
- Durán-Rojas, Elvira, Paula Judith Pérez-Espitia, and Omar Andrés Pérez-Sierra. "Milk producer's articulation: a multicast study in Córdoba, Colombia." *Revista Logos Ciencia & Tecnología* 12.1 (2020): 110-120.
- Final Determination, Colombia Safeguards investigations Concerning Powdered Milk Originating from the US-SB-249-0129