**U.S. Agriculture and the Free Trade Area of the Americas.** Market and Trade Division, Economic Research Service, U.S. Department of Agriculture. Agricultural Economic Report No. 827.

## Abstract

The Free Trade Area of the Americas (FTAA), a free trade area under negotiation among the United States and 33 countries in the Western Hemisphere, will progressively liberalize trade and investment in the region. It is scheduled to become effective by the end of 2005. The FTAA will lead to a 6-percent increase in annual U.S. agricultural exports to the Hemisphere and a 3-percent increase in annual U.S. agricultural imports from the Hemisphere. The FTAA will increase annual U.S. agricultural exports and imports worldwide by about $1 billion each. The expansion of U.S. agricultural trade due to the FTAA will result from both the direct effect of trade liberalization and the indirect effect of accelerated economic growth in increasing agricultural demand in the Western Hemisphere. The FTAA complements the multilateral negotiations in the Doha Development Agenda, which have a broader agenda for agricultural reform.

**Keywords:** Free Trade Area of the Americas, regional integration, preferential trade arrangements, WTO, sanitary and phytosanitary, tariffs, foreign direct investment, environment.

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## Executive Summary

The Free Trade Area of the Americas (FTAA) is a free trade area currently under negotiation among the United States and 33 countries in the Western Hemisphere. Its objective is to progressively liberalize trade and investment in the region. Negotiations on the FTAA began in 1998 and are to conclude in 2005, with the agreement scheduled to come into force by the end of that year. These are the implications of the FTAA for U.S. agriculture:

***The FTAA will increase annual U.S. global agricultural exports and imports by about $1 billion each.*** Elimination of tariffs on intra-regional trade in agriculture and manufacturing will increase annual U.S. agricultural exports to other countries in the Western Hemisphere by $1.4 billion (6 percent) and annual imports from the 33 countries by about $900 million (3 percent). The increased U.S. trade with Western Hemisphere countries will lead to small adjustments in U.S. trade with the rest of the world.

***Agricultural trade in the Western Hemisphere will increase by $4 billion (6 percent).*** Agriculture will account for about 20 percent of trade expansion in the Hemisphere due to the FTAA, proportionally larger than its current 9-percent share of merchandise trade and a reflection that current agricultural tariffs are higher than manufacturing tariffs in many Western Hemisphere countries, including the United States.

***Trade liberalization of both agricultural and manufacturing goods in the FTAA will increase the welfare (consumer purchasing power) of the Western Hemisphere by $63 billion annually.*** Free trade will allow a more efficient allocation of productive resources in the region, and can stimulate productivity gains and economic growth in developing countries. The expansion of U.S. agricultural trade due to the FTAA will result from both the direct effect of trade liberalization and the indirect effect of accelerated economic growth on increasing agricultural demand in the Western Hemisphere.

***The FTAA will have small effects on U.S. agricultural production because trade with the Western Hemisphere accounts for only a small share of aggregate output, and U.S. tariffs are already low.*** Production changes in most of the commodity categories analyzed in this report will be less than 1 percent. U.S. export growth will lead to small increases in production of rice, oilseeds, oils and fats, and dairy products. U.S. sugar production could decline significantly, depending on how the domestic support program may be modified in response to increased sugar imports from other Western Hemisphere countries. The decline in U.S. orange juice production will be reduced if U.S. demand for domestic, not-from-concentrate orange juice continues to grow.

***The FTAA will add to the benefits that trade liberalization already completed in the Western Hemisphere has had for U.S. agriculture.*** The impacts of trade reform have been greatest for U.S. agricultural exports to Mexico, which instituted a far-reaching set of unilateral trade reforms before it joined the North American Free Trade Agreement (NAFTA). In 1999, U.S. agricultural exports to Mexico were 2.5 times ($3 billion) higher than they would have been in the absence of these trade reforms. NAFTA alone accounted for 20 percent of U.S. agricultural exports to Mexico during 1994-99. Many U.S. exports have benefited from Mexican trade liberalization, including wheat, rice, beef, and pork. The effects of reform have not been as important to U.S. agricultural trade with Canada, perhaps because trade barriers between the two countries were already low, and some agricultural products were excluded from trade liberalization. MERCOSUR's influence on U.S. agricultural exports has been mixed: it has increased U.S. exports of beef, rice, and other commodities to the common market but has diverted some U.S. trade, most notably wheat exports to Brazil.

***Regional agreements, multilateral reforms, and preferences have already lowered trade barriers in the Western Hemisphere, but high tariffs remain on some products.*** The average, post-Uruguay Round Most-Favored-Nation (MFN) bound tariff of FTAA members in 2001 was about 40 percent, well below the global average bound rate of over 60 percent. Applied MFN tariff rates in the Western Hemisphere average 13 percent. The FTAA is expected to take reductions from the MFN applied rates rather than bound rates. Applied rates are generally highest on meats, dairy products, sugar and sugar-containing products, and vegetable oils, and relatively low for wheat, most oilseeds, fibers, and live plants and animals. The average tariff applied to U.S. agricultural exports to the Western Hemisphere is 13 percent. Most U.S. tariffs on agricultural imports from the Hemisphere are already very low or zero, with over 80 percent of U.S. imports from the region already qualifying for duty-free treatment in 2001.

***The FTAA will expand the potential market for U.S. FDI in processed foods.*** If the agreement includes investment provisions, these could extend protections for U.S. investments to more countries in the region. However, foreign direct investment (FDI) is influenced by other factors as well, particularly prospects for economic growth, a favorable business climate, and economic and political stability.

***Effects of the FTAA on U.S. agri-environment will be small.*** The agreement will have a small impact on U.S. agricultural production and thus will yield small benefits in terms of soil erosion and water pollution from nitrogen and small environmental costs in terms of air pollution from nitrogen and soil depreciation.

***Sanitary and phytosanitary issues in the FTAA mirror those in the WTO.*** Debate on sanitary and phytosanitary (SPS) matters in the FTAA has focused on facilitating the implementation of current World Trade Organization (WTO) SPS obligations in the Western Hemisphere. A concern of developing country exporters is their ability to meet increasing demands for food safety in developed countries. These exporters may need technical assistance to effectively implement the WTO SPS agreement.

***Doha Development Agenda and FTAA are reinforcing strategies for trade liberalization.*** The United States and other FTAA members are simultaneously pursuing agricultural policy reform in the Doha Development Agenda, the multilateral negotiations underway at the WTO. Despite the reforms achieved in the Uruguay Round, global agricultural markets are still highly distorted. The Western Hemisphere's role as a net global agricultural exporter gives FTAA members an important stake in further multilateral reform, and the region's relatively low dependence on policies that distort trade suggests that it will benefit from global reform. Furthermore, successful multilateral negotiations on a broader agenda for agricultural reform will complement reform in the FTAA, which is focused on market access.