World Agriculture & Trade

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Free Trade Area of the Americas: What Are the Benefits For U.S. Agriculture?

Progressive elimination of trade and investment barriers within the Western Hemisphere is the goal of the Free Trade Area of the Americas (FTAA), a regional agreement now under negotiation among 34 countries, including the U.S. In the interest of free trade, participants have agreed that "all tariffs are on the negotiating table," including tariffs on agricultural imports. With comprehensive global negotiations under the World Trade Organization having faltered at the Seattle meeting, regional trade pacts such as FTAA become more important for expanding trade and investment opportunities.

The FTAA is one of several regional trade agreements (RTA's) in which the U.S. participates. Others include the North American Free Trade Agreement (NAFTA) and the Asia Pacific Economic Cooperation (APEC) forum. The FTAA process began in December 1994, when President Clinton and 33 other heads of state made a commitment at the Miami Summit of the Americas to liberalize trade and financial markets in the region.

Two developments helped lay the groundwork for the FTAA. First was the solidification of democracies. By 1994, almost all states in the Americas had adopted a democratic form of government. Among the goals of the FTAA is to advance and strengthen democratic values and institutions in the hemisphere by enhancing prosperity through freer trade. Second, during the previous decade many Western Hemisphere countries, including the U.S., had shifted toward policies that emphasized free markets, less government intervention, and more open and competitive trade relations. The FTAA principles of open markets, hemispheric integration, and sustainable development should reinforce the greater market orientation of economic policy in the region.

Formal negotiations, which began in April 1998, are expected to conclude by 2005. Negotiations are proceeding in nine separate groups: agriculture; market access; investment; services; government procurement; dispute settlement; intellectual property rights; subsidies, antidumping and countervailing duties; and competition policies. Specific objectives have been identified for each negotiating group, including agriculture. While agriculture is being addressed in a separate negotiating group, it will also be affected by negotiations in other groups, such as market access and subsidies, anti-dumping, and countervailing duties. There are procedures to ensure that the work of separate groups is coordinated. Each group is developing a chapter for the final agreement, which is expected to be a balanced, comprehensive, single undertaking, with consensus on all chapters.

What will the pact mean for U.S. agriculture? Implications for U.S. producers are likely to have several dimensions. Foremost, the FTAA will expand market opportunities for U.S. agricultural products in the hemisphere by progressively eliminating tariffs and nontariff barriers, facilitating investment, and helping to lock in members' unilateral policy reforms. The agreement will also consolidate the many subregional free trade agreements in the Western Hemisphere, such as the MERCOSUR free trade area among Brazil, Argentina, Uruguay, and Paraguay, which can otherwise put nonparticipating countries, including the U.S., at a competitive disadvantage. Provisions of these many subregional trade pacts are certain to influence the outcome of the FTAA. Finally, because the FTAA will be negotiated concurrently with the opening of multilateral negotiations on agriculture under the WTO, scheduled for later in 2000, it could help define and advance the global talks, providing benefits for U.S.

The FTAA Chronology

Summit of the Americas

1994	Miami, Florida
1998	Santiago, Chile

Trade Ministerials

1995	Denver, Colorado
1996	Cartagena, Colombia
1997	Belo Horizonte, Brazil
1998	San Jose, Costa Rica
1999	Toronto, Canada

Negotiating Group on Agriculture
(four to five meetings annually)

May 1998–February 2001
Miami, Florida
March 2001–February 2003
Panama City, Panama
March 2003–December 2004
Mexico City, Mexico

agriculture that extend beyond the Western Hemisphere.

FTAA Will Expand U.S. Ag Trade

Because Western Hemisphere countries' tariffs on agriculture tend to be higher than on other products, the FTAA is expected to lead to more substantial increases in U.S. agricultural trade than in other U.S. sectors. A recent analysis by USDA's Economic Research Service concluded that when tariffs are eliminated in the FTAA, U.S. agricultural exports to and imports from other Western Hemisphere countries will increase annually in the short run (first 5 years after the agreement) by 8 and 6 percent respectively, and by 8 and 7 percent in the medium run (5 to 15 years). Total U.S. agricultural exports and imports will increase by 2 and 3 percent respectively in the short run, and by 1 and 3 percent in the medium run. In the long run (beyond 15 years), U.S. agricultural exports could continue to grow, but at a slightly lower rate than in the early period following trade liberalization. U.S. agricultural export growth and the more efficient resource reallocation that follows reduction of trade barriers will strengthen U.S. farm income.

The FTAA will benefit both the U.S. and other participants. Productivity gains in Latin American countries, as they open their markets to international competition, are expected to increase their incomes and demand for U.S. products. Trade liberalization is generally presumed to advance productivity through two channels: it allows greater imports of goods that embody technological advances, and it creates greater incentives to save and invest. These dynamic gains from trade liberalization are likely to do more than tariff reduction to increase U.S. agricultural trade under the FTAA. Productivity gains in Latin American countries will increase their demand for U.S. products as well as their competition with the U.S. in third-world markets.

The impacts on U.S. trade vary among commodities. An FTAA should increase the wheat market share of the U.S. and Canada in Brazil. Gains in U.S. exports of corn, soybeans, and cotton in the hemisphere are expected, while there may be little impact on U.S. rice, meats, and dairy trade. The agreement could have major implications for U.S. sugar, peanuts, and orange juice. U.S. sugar prices, production, and exports could decline significantly, and imports could increase, giving U.S. consumers more access to inexpensive imported sugar. U.S. peanut producers in the traditional quota production areas of the Southeast might have difficulty competing at world prices. Removal of tariffs may create incentives to import less-expensive Brazilian orange juice, which may displace some Florida juice.

In addition to the elimination or reduction of tariffs and other measures, a prominent agricultural topic in the FTAA negotiations is sanitary and phytosanitary (SPS) measures. Over the next 5 years, one task of FTAA negotiators will be to define a method and a process to ensure that SPS measures applied in the hemisphere are consistent with the WTO Agreement on the Application of SPS Measures, which became effective in June 1995.

The WTO's SPS agreement imposed disciplines on members' use of measures to protect human, animal, and plant life from foreign pests, diseases, and contaminants. These disciplines were intended to protect the right of member countries to adopt trade measures designed to protect human health and the environment, while minimizing the potential for disguising trade barriers as SPS measures.

Objectives of the Negotiating Group on Agriculture of the Free Trade Area of the Americas

- Progressively eliminate tariffs and nontariff barriers, as well as other measures with equivalent effects, which restrict trade between participating countries. All tariffs will be subject to negotiation. Various trade liberalization timetables may be negotiated to facilitate the integration of smaller economies and their full participation in the FTAA negotiations.

- Ensure consistency of the FTAA with the WTO Sanitary and Phytosanitary Agreement, so that SPS measures will be applied only to achieve the appropriate level of protection for human, animal, or plant life or health; will be based on scientific principles; and will be maintained only with sufficient scientific evidence.

- Eliminate agricultural export subsidies affecting trade in the hemisphere.

- Identify other trade-distorting practices for agricultural products, including those that have an effect equivalent to agricultural export subsidies, and bring them under greater discipline.

- Incorporate progress made in the multilateral negotiations on agriculture to be held according to Article 20 of the Uruguay Round Agreement on Agriculture, as well as the results of review of the SPS Agreement.

U.S. Trade Partners in the Western Hemisphere

North America: Canada, Mexico (NAFTA)
South America: Argentina, Brazil, Paraguay, Uruguay (MERCOSUR); Bolivia, Colombia, Ecuador, Peru, Venezuela (Andean Community); Chile
Central American region: Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama
Caribbean region: Anguilla, Antigua and Barbuda, Aruba, Bahamas, Barbados, Bermuda, Cayman Islands, Dominica, Dominican Republic, Grenada, Guadeloupe, Haiti, Jamaica, Leeward and Windward Islands, Martinique, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and Grenadines, Trinidad and Tobago, Turks and Caicos Islands

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U.S. Trade with the Americas

The U.S. is by far the world's largest agricultural exporter. As the richest and most populous country in the Americas, it is also the region's largest market for agricultural products. Total agricultural trade between the U.S. and other countries of the Americas is growing rapidly, doubling since 1989. In terms of *total value*, U.S. agricultural imports from the Americas—$19.9 billion in 1998—are only slightly higher than U.S. exports to the region—$18.5 billion. In terms of *shares of U.S. trade*, however, the region is substantially more important as a source of imports for the U.S. than as a destination for U.S. exports. About 54 percent of all U.S. agricultural imports come from Western Hemisphere countries, while about 36 percent of U.S. agricultural exports go to the region.

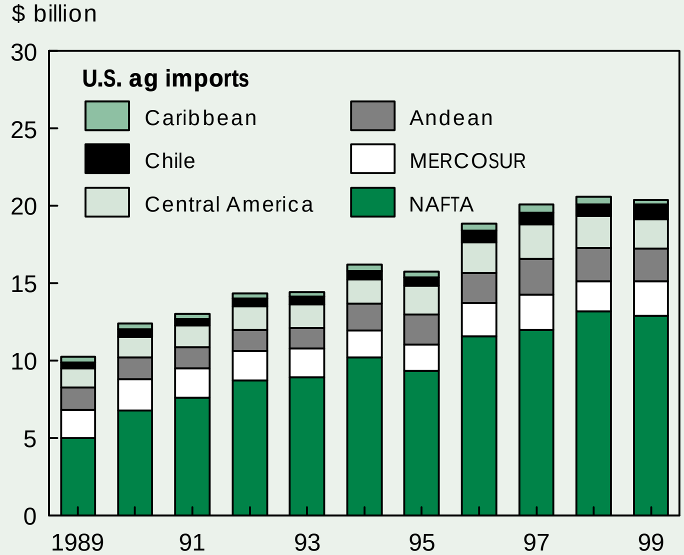
NAFTA trading partners (Canada and Mexico) dominate U.S. agricultural trade, together supplying about 34 percent of total U.S. imports and taking 25 percent of total U.S. agricultural exports. This asymmetry in U.S. import and export market shares is even more pronounced for other Western Hemisphere countries, which together supply almost 20 percent of total U.S. agricultural imports but purchase only 10 percent of U.S. agricultural exports.

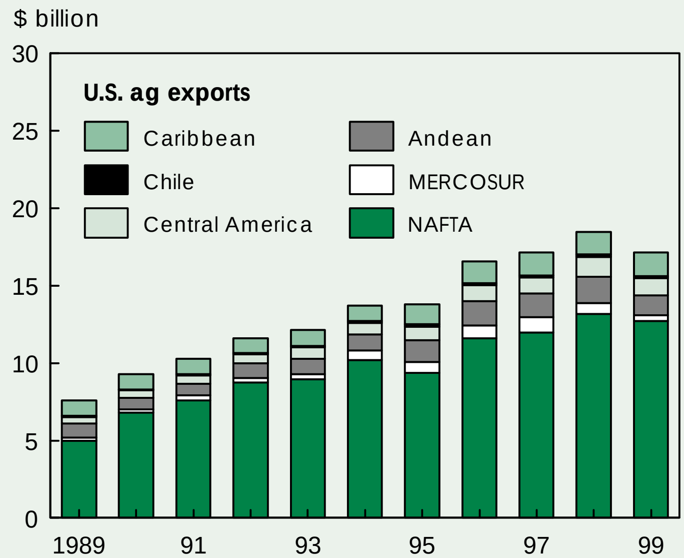
The U.S. is a vital source of agricultural imports for the region. About 36 percent of all U.S. agricultural exports go to the Americas, which accounts for almost 45 percent of the agricultural goods imported by the region. The dichotomy is most striking for the Central American and Caribbean countries, which together take about 5 percent of all U.S. agricultural exports, but where the U.S. shipments account for almost 20 percent of their agricultural imports. Similarly, about 3 percent of U.S. agricultural exports go to the Andean countries, while the U.S. supplies more than 28 percent of their agricultural imports.

U.S. dominance is strongest within NAFTA, where the U.S. supplies about two-thirds of agricultural products imported by Canada and Mexico (25 percent of U.S. ag exports), and weakest in MERCOSUR, with only 8 percent of that market (1 percent of all U.S. ag exports). Within NAFTA, the U.S. maintains a strong market share not only for total agriculture but also for each of the major product groups (grains, oilseeds, livestock products, and horticulture). In MERCOSUR, where the U.S. share of total agricultural imports is relatively low, the U.S. share of each of the major product groups is also low. This pattern suggests that proximity of markets, factor endowments, and perhaps broad-based trade agreements play a strong role in determining where U.S. exports dominate.

Proximity to Canadian and Mexican markets and participation in NAFTA provide U.S. farmers a strong competitive edge. Conversely, distance from the Southern Cone and exclusion from MERCOSUR create substantial impediments to U.S. agricultural exports. The same pattern does not hold for the Andean Group or for Central America and the Caribbean, where U.S. market shares vary considerably by commodity category, with relatively weak U.S. exports of horticultural and consumer goods and relatively strong U.S. exports of bulk and intermediate goods.

NAFTA Countries Dominate U.S. Agricultural Trade In the Western Hemisphere





In 1998 and 1999, the Western Hemisphere was the source of 54 percent of total U.S. ag imports and the destination for 36 percent of U.S. ag exports.

Economic Research Service, USDA

Major Trade Agreements in the Western Hemisphere

Regional scope agreements (cover a large number of countries in the region)

LAIA/ALADI—-Latin American Integration Association (officially ALADI)
Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela

Customs unions (members remove trade barriers among participants, and set a common level of trade barriers for outsiders)

Andean Community
Bolivia, Colombia, Ecuador, Peru, Venezuela

CACM
Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua

CARICOM
Bahamas, Jamaica, Belize, Montserrat, St. Kitts and Nevis, Antigua and Barbuda, Dominica, Saint Lucia, Barbados, St. Vincent and Grenadines, Trinidad and Tobago, Grenada, Guyana, Suriname

MERCOSUR
Argentina, Brazil, Paraguay, Uruguay

Free trade agreements (members remove trade barriers among participants)

NAFTA
Canada, Mexico, U.S.

Group of Three
Colombia, Mexico, Venezuela

Bolivia – Mexico
Canada – Chile
Central America – Dominican Republic
Costa Rica – Mexico
Chile – Mexico
Mexico – Nicaragua

Nonreciprocal agreements (concessions are one way, usually granted by an industrialized country to less developed countries)

Colombia – CARICOM

Venezuela – CARICOM

U.S. – Caribbean Basin Initiative
CBI countries: Antigua and Barbuda, Bahamas, Barbados, Belize, British Virgin Islands, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Monserrat, Dutch Antilles, Nicaragua, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and Grenadines, Trinidad and Tobago

U.S. – Andean Trade Preference Act
ATPA countries: Bolivia, Colombia, Ecuador, Peru

Bilateral agreements: economic complementation free and preferential trade partial scope (not as comprehensive as customs unions and free trade agreements)

Argentina – El Salvador
Bolivia – Guatemala
Brazil – Honduras
Chile – Mexico
Colombia – Nicaragua
Costa Rica – Panama
Dominican Republic – Peru
Ecuador – Venezuela

Source: Foreign Trade Information System, Organization of American States.
Economic Research Service, USDA

FTAA & Regional Trade Pacts

Regional trade agreements in the Western Hemisphere have been referred to as a spaghetti bowl, a description of the region's crisscrossing web of preferential trade pacts. Some of the 30 RTA's in force in the Western Hemisphere date back to the 1950's and 1960's. These preferential agreements are of several types. Free trade agreements, such as NAFTA, provide for duty-free treatment on most goods traded among the partners, while each member country maintains its own tariffs on nonmembers' products. In a customs union, such as MERCOSUR, members erect common external tariffs as well as liberalize internal trade. In nonreciprocal agreements, such as CARICOM's agreements with Venezuela and Colombia, access to a larger market, generally in a more developed country, is offered without demands for reciprocity.

Whether RTA's are beneficial or detrimental to the world trading system has been debated for decades. Some argue that these agreements are inherently discriminatory because they extend preferences to pact members and are thus inconsistent with the global community's commitment to multilateral principles under the General Agreement on Tariffs and Trade (GATT), the WTO's precursor. Regional trade pacts have been allowed as an exception to global trade rules, provided they meet the criteria outlined in GATT Article 24, which are intended to minimize RTA's trade diverting impacts.

An added criticism of the Western Hemisphere's spaghetti bowl of trade pacts is that the multiple rates create an inefficient system of preferences. But, others argue that whenever a regional trade agreement achieves trade liberalization, the world is better off, in part because of the expectation that any trade liberalization will have a dynamic effect that may eventually lead to greater global trade liberalization.

The history of trade pacts in Latin America lends support to both viewpoints on regionalism. Early agreements were often protectionist. They tended to exclude sensitive sectors from trade liberalization, particularly agriculture, and attempted to create protected export markets by adopting or maintaining high tariffs against nonmembers.

Western Hemisphere trade pacts over the past decade have had a different character. Some have been used to consolidate the greater market orientation of members' trade policies. The North American Free Trade Agreement (NAFTA), for example, helped to lock in Mexico's policy reforms of the late 1980's, including its unilateral trade liberalization and the reform of its foreign investment code. MERCOSUR eliminated most tariffs among its members, as well as lowering tariffs against the rest of the world.

The FTAA process is certain to be affected by the presence of established RTA's within the region. Countries in some regional trade pacts are negotiating as a bloc, at least on some issues, to advance their common interests within the FTAA. Members negotiating as blocs are MERCOSUR, the Andean Pact, and the CARICOM union of Caribbean countries. This development has helped solidify some issues, such as the high priority the FTAA has placed on facilitating the full participation of smaller and developing economies in the free trade pact.

By including all sectors in trade liberalization, the FTAA promises to achieve more in agriculture than has so far been achieved in some of the region's other trade pacts. Agriculture is a sensitive sector, particularly in smaller economies where a large share of the population depends on it for a livelihood. Agricultural goods are not included in free trade agreements of the Central American Common Market (CACM), the Latin American Free Trade Association (ALADI), or the Group of Three, which includes Colombia, Mexico, and Venezuela. Remaining trade barriers have become irritants among Latin American trade partners, particularly practices like price bands. Most agricultural goods are included in NAFTA, MERCOSUR, and CARICOM, with some notable exceptions, including sugar, dairy, poultry, and eggs.

Agreements that include agriculture can put the U.S. at a competitive disadvantage when the U.S. is not a member. In MERCOSUR, for example, U.S. exporters have benefited from lower MERCOSUR tariffs on goods shipped by outside countries, but U.S. exporters now face tariff differentials in the MERCOSUR market that favor member suppliers. Likewise, Chilean bilateral free trade agreements with Canada and Mexico provide duty-free treatment on most of their agricultural products, but Chile maintains an 11-percent most-favored-nation tariff on goods from other countries, including the U.S. Discriminatory subregional trade preferences against nonmembers in the Western Hemisphere will disappear when the pacts are subsumed into the FTAA.

FTAA & the WTO

Although the full round of global negotiations under the WTO has been postponed, negotiations on agriculture will begin as scheduled, later in 2000. FTAA talks on agriculture will parallel those in the WTO over the next several years. The two negotiations will likely influence each other.

One objective of the FTAA has been to maintain consistency between the regional trade pact and the WTO. This is being done by building upon the foundations laid by the WTO in areas such as SPS regulations, and by defining methods for incorporating into the FTAA any progress made in the WTO venue. In the area of SPS, the FTAA will work to achieve full implementation of the SPS agreement within the hemisphere. Progress within the FTAA on complex topics such as equivalence and harmonization of standards could help to advance the multilateral process if a regional consensus can be achieved.

The global scope of some issues may limit the ability of a regional pact to effectively address them. For example, agricultural export subsidies, which are used mainly by the European Union (EU), cannot be fully disciplined within the FTAA. On issues such as these, the most effective role for the FTAA will be to try to advance progress in the WTO by solidifying a common position. In the case of export subsidies, FTAA members have agreed to work within the WTO toward eliminating export subsidies and prohibiting their reintroduction in any form. Domestic support is also addressed more effectively in multilateral, rather than regional, negotiations.

Delay in the Seattle round of multilateral trade negotiations has sparked greater interest in regional trade pacts as an alternative route toward trade and investment liberalization. In agriculture, the planned opening of agricultural trade negotiations at the WTO means that both regional and multilateral paths can be pursued. Some have argued that regional trade pacts can derail multilateral negotiations by creating protectionist fortresses with an interest in preventing further WTO disciplines on agricultural trade. In the case of the FTAA, the commitment of the pact to implement and advance WTO disciplines suggests that the FTAA can complement U.S. efforts to liberalize agriculture in a multilateral setting. AO

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Related Reading

Free Trade in the Americas: International Agriculture and Trade Report
http://usda.mannlib.cornell.edu/reports/erssor/international/wrs-bb/1998/trade/

International Financial Crises and Agriculture: *International Agriculture and Trade Report*
Available soon on the Economic Research Service website www.ers.usda.gov