Virginia Port Authority

Fast-Track Authority: Issues for U.S. Agriculture

A global proliferation of trade agreements is having an increasing impact on U.S. and world trade patterns. In the past decade, the U.S. negotiated 20 multilateral, 2 plurilateral, and over 180 bilateral trade agreements. Of these, one-fourth directly affect U.S. agricultural interests. The effects range from multilateral reductions in trade distortions such as export subsidies, import tariffs, and domestic support, to increased U.S. access to a specific foreign market for a specific product—e.g., beef in Japan.

U.S. agriculture is increasingly linked to the rest of the world. Production is growing more rapidly than domestic consumption, and the value of U.S. products sold to foreign markets has risen three times as fast as domestic sales. Increasing access to foreign markets, through reductions in foreign trade barriers and trade-distorting policies, will be essential for a profitable and growing agricultural sector. Comprehensively addressing remaining agricultural trade issues will require multilateral and regional negotiations addressing non-tariff trade barriers and related regulatory matters (e.g., sanitary and phytosanitary restrictions, agricultural subsidies, antidumping and countervailing duties, and government procurement or supply management). U.S. ability to credibly and effectively negotiate such treaties will require some form of "fast track authority."

Fast-track authority explicitly enables the President to submit a trade agreement with implementing legislation for congressional approval under special, expedited procedures. Congress retains the right of final approval of the agreement and of the implementing legislation that makes necessary changes in Federal law.

Under past fast-track procedures, the President could submit to Congress the text of a trade agreement with one or more foreign nations, along with draft implementing legislation to make any "necessary and appropriate" changes in U.S. laws. Congress then had a maximum of 60 legislative days (90 for legislation involving revenue) to approve or disapprove the complete package, with no amendments permitted. The most recent fast-track authority expired 3 years ago after approval of implementing legislation for the Uruguay Round agreements.

Fast track is intended to strengthen the President's negotiating authority and credibility by reassuring foreign trading partners that implementation of agreements will be considered expeditiously by Congress and not be subjected to changes that would force a return to the bargaining table. The negotiators of most other nations have the authority to make binding commitments for their countries.

In the past, fast-track authority has stipulated general and specific negotiating objectives for the U.S. and included such requirements as advance notification of Congress and advance consultations with relevant House and Senate committees before an agreement could be concluded. Lawmakers, in effect, used these consultative requirements as informal legislative markups to address, in advance, the various policy issues that otherwise might be debated during enactment of the implementing legislation.

Not all U.S. initiatives to reduce trade distortions and gain increased access to foreign markets require fast-track authority. The President can negotiate, without prior congressional approval, executive agreements with foreign nations, although Congress must be notified of the intent. Congress has also granted authority,

Several Major Importers Still Impose High Tariffs

Country/product	Tariff rate, year 2000	Country/product	Tariff rate, year 2000
	Percent		*Percent*
European Union		Japan	
Beef	151.9	Beef	38.5
Milled rice	185.2	Cheese	29.8
Wheat	102.5	Orange juice	25.5
Butter	218.3	Wheat	359.5
White sugar	165.7	White sugar	277.2
Poland		Canada	
Butter	102.4	Wheat[1]	76.5
Beef	103.7	Butter	298.7
Wheat	91.6	Chicken	238.3
Switzerland		Korea	
Wheat	406.0	Beef[2]	41.2
Butter	732.9		
Beef	118.7		

1. Tariff level for nondurum wheat. 2. Tariff rate for 2001.
Sources: Foreign Agricultural Service and Economic Research Service, USDA; Josling,Tim, Stefan Tangermann, and T.K. Warley, *Agriculture in the GATT: Past, Present and Future* (London: MacMillan, 1996).

Economic Research Service, USDA

through legislation, to the Secretary of Agriculture to ensure U.S. food safety, including negotiating with foreign governments the rules governing inspections of agricultural products and processing procedures.

The Office of the U.S. Trade Representative (USTR) also has authority to pursue unfair trade practices and remedies and to enter into trade agreements that will benefit U.S. trade, although any agreements requiring changes in Federal law require congressional approval. The Secretary of Agriculture and USTR have effectively used their authorities to negotiate trade agreements involving food safety and the removal of unfair barriers in specific foreign markets.

Farm trade initiatives negotiated bilaterally by the U.S. that did not require changes in Federal law have achieved significant trade gains by enhancing market access through reductions in both tariff and nontariff barriers. Estimated U.S. net farm export gains from eight such agreements implemented in the early 1990's amounted to about $3.3 billion by 1996. The U.S. can continue without fast-track authority to negotiate directly with trading partners to lower specific high tariff and/or technical barriers remaining after the Uruguay Round, but is limited in the range of concessions it can make.

However, extensive trade agreements requiring changes in Federal law have to be submitted to Congress for approval. Without fast-track authority, such legislation would be subject to the normal uncertainties of the legislative process. The agreement or implementing bill might not come to a vote at all, or would be subject to committee and floor amendments that might be inconsistent with the agreement's provisions and significantly delay action.

Agricultural Trade Issues for Future Negotiations

High tariffs. High tariffs in importing countries impede trade by reducing the ability of lower cost producers in exporting nations to compete. In some cases, tariffs are high enough to completely shut exporters out of markets. The Uruguay Round Agreement on Agriculture generally required governments to convert nontariff barriers to tariffs, but lacked strong guidelines for establishing the tariff rates. Many countries set tariffs at very high or prohibitive levels. Further reductions in tariff rates will increase market access for U.S. goods.

Tariff-rate quotas (TRQ's). To administer market access commitments made during the UR's Agreement on Agriculture, many countries have established TRQ's, which allow specific quantities of products to be imported at zero or low tariff rates. But there are a variety of ways to allocate quotas, some more trade distorting than others, and the WTO guidelines are not precise. Small quota quantities and high duties for out-of-quota amounts—quantities above the quota limits—effectively cap U.S. exports, and restrictive methods of administering TRQ's also impede trade. Renewed multilateral trade negotiations could increase TRQ's to allow greater imports and could establish rules that ensure TRQ's will be administered in a more transparent, predictable manner.

Export subsidies. Efficient producers do not require export subsidies to compete as long as other countries are not driving them out of markets with subsidized products. Further reductions in export subsidies will likely be a focus of the next round of negotiations.

Domestic support. Domestic policies that encourage production of specific commodities distort trade. Policies that indirectly support agricultural producers, such as disaster relief, selected environmental programs, and regional and rural development programs, can also distort production and trade. The trade agreement disciplines on output-enhancing producer subsidies are likely to be controversial in future negotiations.

State trading. State trading enterprises (STE's) in some of the world's major trading countries monopolize purchases or sales. The activities of importing or exporting STE's lack transparency and can be used to disguise protection or support. More rigorous disciplines could be imposed on the activities of STE's in future negotiations.

Sanitary and phytosanitary (SPS) barriers. SPS impediments to imports that are not based on sound science and risk assessments can result in protectionism disguised as concerns for public health. SPS measures are increasingly being used as barriers to trade. Further trade negotiations could increase the transparency of SPS rules and clarify the standard for scientific justifications underlying those rules.

Regional trade agreements. Preferential trade agreements among other countries that exclude the U.S. represent a growing threat to U.S. export prospects. MERCOSUR is increasing its presence in Western Hemisphere trade, ASEAN in Asian trade, and an expanded European Union in European trade. Chile has signed trade agreements with a number of countries. Regional trade agreements generally provide preferential access for members' exports, making it more difficult for U.S. products to compete in these markets.

Potential Uses for New Fast-Track Authority

The fast-track process was first adopted in the Trade Act of 1974 and has been used to enact bills to implement a number of trade agreements, beginning with the Tokyo Round in 1979. Implementing legislation for the U.S.-Israel Free-Trade Area Agreement (1985), the U.S.-Canada Free-Trade Agreement (1988), and the North American Free Trade Agreement (1993) were all enacted under fast-track procedures. The most recent use of fast-track authority was the Uruguay Round Agreements Act (1994) which provided implementing legislation for a package of 54 multilateral and plurilateral agreements, understandings, and ministerial decisions and declarations.

World Agriculture & Trade

A new fast-track authority with more limited negotiating objectives would focus on broad World Trade Organization (WTO) issues remaining after the Uruguay Round: tariff reductions, market access, export subsidies, and domestic support. A new fast-track authority would also extend to regional trade agreements and issues such as state trading, sanitary and phytosanitary barriers, and technical barriers to trade. In addition, some groups advocate incorporating environmental and labor concerns that may affect competitiveness in trade.

The Uruguay Round's (UR) Agreement on Agriculture requires that negotiations for continuing the reform process be initiated 1 year before the end of the implementation period (1995-2000). A new round of WTO *agriculture negotiations* is scheduled to begin in late 1999. The agenda will most likely cover issues defined in the Agreement on Agriculture, particularly those relating to market access, domestic support, and export competition. In addition, new issues have surfaced with implementation of the Agreement on Agriculture, such as tariff-rate quotas used by importing countries to administer their market access commitments. Other issues not directly addressed by the Agreement on Agriculture, including the use of state trading enterprises and technical barriers to trade, may be added to the negotiating agenda.

Chile and the U.S. began negotiations for Chile's accession to the North America Free Trade Agreement (NAFTA) in 1995, but talks were suspended, in part because Chile wanted the U.S. to renew fast-track authority before discussing what it views as sensitive issues. Meanwhile, Chile has negotiated its own trade agreements with several other individual countries, including Canada and Mexico, and with the Common Market of the South (MERCOSUR). As a result, U.S. food and agricultural products headed for Chile face tariffs 11 percent higher than those encountered by MERCOSUR countries (Argentina, Brazil, Paraguay, Uruguay). Although Chile is not a major U.S. trading partner, its accession to NAFTA is considered a significant step toward broader economic integration in the Western Hemisphere.

An Example of Remaining Agricultural Trade Barriers: Selected South Korean Market Access Barriers

High tariffs	Tariff rate quotas	State trading with mark-up	State trading without mark-up
Pork	Chilled & frozen beef	Potatoes	Onions
Poultry meat	Many dairy products	Dried beans	Garlic
Yogurt	Corn	Barley & products	Peppers
Cheese	Barley	Rice & products	Citrus fruit
Ice cream	Soybeans	Soybeans (food)	Sesame seeds
Nuts	Peanuts	Peanuts	
Candy	Dried beans		
Pasta	Potatoes		
Baby food	Onions	**Minimum access quota**	
Jams, jellies, etc.	Garlic	Rice & products	
Fruit juice	Peppers		
Fruit, excl. prunes	Citrus fruit	**SPS barriers on perishables**	
Vegetables	Citrus juice	Onerous inspection procedures	
Alcoholic beverages		Arbitrary rulemaking process	
Protein concentrate			

Economic Research Service, USDA

Formal negotiations among 34 Western Hemisphere nations for a *Free Trade Area of the Americas* (FTAA) are to begin in 1998. Already more than 30 bilateral and regional trade agreements are operating in the Western Hemisphere, and the U.S. is party to only one—NAFTA. At the same time, the European Union is discussing a trade agreement with MERCOSUR, and Japan and China are sending trade delegations to MERCOSUR countries. With the spread of preferential agreements that exclude the U.S., competition in these markets will become more difficult for U.S. exporters.

Many of the *Asia and Pacific Rim* countries that are experiencing the most rapid growth in incomes and consumer demand for U.S. food and farm products belong, with the U.S., to the Asia-Pacific Economic Cooperation forum (APEC). APEC is seeking to establish free trade and investment arrangements by 2010 among members with industrialized economies and by 2020 among those with developing economies.

Such an agreement could have a significant influence on U.S. trade, since it could reduce trade barriers for many U.S. products sold to the fastest growing markets in the world. A general commitment to a comprehensive agreement means that agriculture would be included as a key element. Other alliances in the region, notably the Association of Southeast Asian Nations (ASEAN), also have agendas for trade liberalization in which the U.S. and its agricultural community will have a major stake.

In the past, fast-track authority has been limited to international agreements focused on trade and trade policies. Some interest groups would like fast-track authority to allow inclusion of labor and environmental standards in trade agreements. These groups argue that unfair labor practices or lax environmental standards in other countries would give them a competitive advantage over the U.S. Potential economic gains from trade agreements could then be outweighed by the prospect of U.S. capital and jobs being exported to countries where labor standards and environmental requirements are weaker. Conversely, opponents of including such issues under fast-track authority argue that fast track might be used to force new labor and environmental regulations for the U.S. through Congress, or to erect unfair barriers to imports from developing countries.

Trade agreements may not be the most effective way to remedy most environmental problems, since they are designed to reform trade policies, not to provide disincentives to pollute. International agreements focused on the environment are the preferred, although often more difficult, method of achieving gains in international or transboundary environmental goals.

The Unfinished Business Of Trade Liberalization

Export markets are critical to U.S. farm prices and farmers' prosperity. Domestic production is increasing more rapidly than consumption, with U.S. agricultural exports growing three times as fast as domestic demand for food. Agricultural exports have risen from 18 percent of gross farm cash receipts in 1986 to 30 percent in 1996, and the share is expected to increase in the future.

With an efficient agricultural sector, abundant natural resources, and an excellent physical and institutional marketing infrastructure, most of U.S. agriculture can effectively compete in a liberalized world trade environment. But trade liberalization for agriculture is far from complete. U.S. producers, processors, and exporters continue to face tariff and nontariff barriers, unfair trading practices, and preferential trading arrangements in key markets around the world.

Preferential trade agreements like MERCOSUR in South America, ASEAN in Asia, and the Canada-Chile trade agreement provide members preferential access to each other's markets for a broad range of agricultural products. Without similar access, U.S. producers and suppliers face constrained sales opportunities in some of the world's most dynamic regional markets.

State trading enterprises in some of the world's major trading nations monopolize sales or purchases, creating unfair competition or restricting U.S. access to their large markets. In a number of countries, agricultural products face high import tariffs, low tariff-rate quotas, and/or state trading agencies that resell at high markups. Agricultural products also face sanitary and phytosanitary barriers based on questionable scientific standards.

Successful efforts to open international markets will contribute to sustaining export growth. Such efforts include negotiation of trade agreements that reduce tariffs, address technical barriers to trade such as sanitary and phytosanitary issues, curtail the use of trade-distorting domestic and export subsidies, and generally provide a more transparent world market. Export growth advanced by further liberalization of agricultural trade will also benefit off-farm income earners, taxpayers, and consumers. U.S. agricultural exports generate close to a million jobs, many of them off the farm. Reduced U.S. subsidies for exports would lower tax burdens. Finally, consumers will benefit from a wider variety of available products and the stimulation of general economic growth.

Despite significant progress in opening markets over the past several years, agriculture remains one of the most protected and subsidized sectors of the world economy. Because U.S. agricultural producers are among the most competitive in the world, trade distortions in agriculture that limit access to markets are a particularly pressing issue for the U.S. Although bilateral trade agreements and trade disputes pursued under a WTO framework by the U.S. government will remain important means of opening foreign markets, multilateral negotiations through the WTO process are necessary to comprehensively address issues such as high tariffs, export subsidies, and other trade-distorting practices.

If the U.S. leaves it to other nations to form new trade pacts and write future rules for trade, U.S. producers, processors, and exporters could be at a major disadvantage in the competitive marketplace of the 21st century. For the U.S. to continue to play a major role in writing the rules of international agricultural trade, it will need to participate in these negotiations. Fast-track authority would increase the effectiveness, efficiency, and speed of such negotiations.

Ronald G. Trostle (202) 694-5280
rtrostle@econ.ag.gov AO

Upcoming Reports—USDA's Economic Research Service

The following reports will be issued electronically on dates and at times (ET) indicated.

November

12 *Feed Outlook (4 pm)***
*Oil Crops Outlook (4 pm)***
*Rice Outlook (4 pm)***
*Wheat Outlook (4 pm)***
18 *Vegetables & Specialties**
19 *Agricultural Outlook**
Livestock, Dairy, & Poultry (12 noon)
20 *Cotton & Wool Yearbook**
24 *U.S. Agricultural Trade Update*
*Food Security Assessment**
26 *Potato Facts*

*Release of summary, 3 pm.
**Available electronically only.