



**DIRECTIONS FOR FARM POLICY:
THE ROLE OF GOVERNMENT IN SUPPORT OF
PRODUCTION AGRICULTURE**

Excerpt from the report prepared by the Commission on
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IV. Agricultural Trade Policy

The United States is the world's largest single-country exporter of agricultural products. The production of approximately 30 percent of U.S. crop acreage goes into export markets. Down from their peak value of \$59.8 billion in 1996, fiscal year 2000 agricultural exports are expected to be valued at \$50.5 billion. In addition to declining exports, U.S. farmers and ranchers face increasing competition from imported agricultural products. The U.S. is projected to have imported \$38 billion in agricultural products in fiscal year 2000. Agricultural imports in 1999 included about \$7.9 billion in noncompetitive products such as coffee, cocoa, and bananas. In contrast to the export market opportunities for U.S. agricultural products, U.S. producers compete with about \$29.8 billion worth of imported products such as red meats, dairy products, fruits, vegetables, wine, and malt beverages. As a result, the health of the agricultural sector is highly dependent on developments in international markets and in the policies that govern the trade of agricultural commodities.

The Uruguay Round of multilateral trade negotiations provided new and strengthened rules for the conduct of agricultural trade. The success of U.S. negotiators in the next round of agricultural trade talks and in resolving trade disputes will depend in large part on the support or opposition they receive from domestic producers and their representatives and organizations. Many other trade issues currently confront agricultural interests, as well.

The United States submitted a comprehensive agricultural reform proposal for correcting and preventing restrictions and distortions in world agricultural markets before the World Trade Organization (WTO) in Geneva, Switzerland, in June 2000. The emphasis of the U.S. proposal is to build on the foundation established in the Uruguay Round by accelerating the process of reducing trade distortions while preserving the ability of governments to address agricultural concerns in a nontrade-distorting fashion. The specific elements of the United States' approach entail reforms

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of all measures that distort agricultural trade including tariffs, tariff-rate quotas, import state trading enterprises, products of new technology, export subsidies, export state trading enterprises, export taxes, export credit programs, domestic supports, and special and differential treatment for developing countries.

Trade Proposals

The Commission focused its discussion on agricultural trade policy on two broad options. The first option was to provide support for the U.S. comprehensive agricultural reform proposal submitted before the WTO. The second option was to support a policy that allowed individual commodity interests to pursue trade policies that further their self-interest in the world markets. Other issues, such as the inclusion of labor and environmental issues in trade negotiations, also were debated.

Recommendations of the Commission

The Commission on 21st Century Production Agriculture endorses the comprehensive U.S. position on trade as tabled in the WTO in June 2000. (22) In addition, the Commission stresses the need for agriculture negotiations to be part of a comprehensive negotiation conducted in a single-undertaking approach. The Commission also recommends that Congress grant the President negotiating authority for the new round of trade talks. Last, it is the view of the Commission that negotiations on trade reform within the WTO are not the appropriate forum for negotiation of environmental and labor issues.

Discussion

By providing a unified front in support of the United States trade reform proposal, U.S. agriculture sends a message to our competitors of a strong resolve to move toward programs and policies that are less trade distorting. If we stand together behind one set of trade policy options it will be more difficult for our competitors to pursue a divide-and-conquer strategy that places individual commodity interests against each other to the detriment of the common good.

The support for comprehensive negotiations is based on the belief that this framework provides maximum flexibility for negotiators to secure a favorable outcome for U.S. agriculture. Traditionally, trade negotiations conclude only when there is agreement on all subjects under discussion. The final agreement at a trade round normally has been a single undertaking covering all areas. This "nothing-is-agreed-until-everything-is-agreed" approach requires that negotiations must be completed in even the most sensitive areas or no agreement will be reached. Opportunities exist under this format for U.S. negotiators to obtain concessions in agriculture in exchange for movement on other issues that would not otherwise be possible in a single-sector negotiation. Obviously, there are concerns that the opposite could occur but the potential for gains is believed to outweigh the risk, especially if U.S. agriculture interests are united in their overall goals for the negotiations.

The granting of trade negotiating authority dates back to 1934 when Congress initially gave the President authority to negotiate mutual tariff reductions with our trading partners. This authority

was renewed repeatedly over the years and has only recently been allowed to lapse. To negotiate effectively with our trading partners, they must know that the deal they agree to will be the one that is voted on in Congress and not transformed by amendment at some later date. This certainty can only come about if our trading partners know that when the President negotiates a trade agreement it is with the confidence that the Congress will stand behind it. As such, the granting of trade negotiating authority should be accompanied by the understanding that negotiations are conducted with extensive consultation and oversight by Congress to ensure that the views of their constituents will be reflected in any final agreement.

The WTO agricultural negotiations should first and foremost be to address concerns related to fair competition and public safety in the trade of products between countries. The WTO provides the arena for the discussion of rules of conduct for agricultural trade, the expansion of markets for agricultural products, the easement of trade barriers, reductions in export subsidies and trade-distorting domestic support, disciplines on the operations of state trading enterprises, and science-based rules governing the trade in genetically engineered products.

Disagreements between sovereign nations over the appropriateness of a given process or method of production based on environmental or labor concerns should be dealt with in forums other than the WTO. For example, the United Nations Environment Program (UNEP) was founded to deal with, and be an advocate of, environmental concerns within the international system. The UNEP makes a particular effort to implement an environmental agenda that is integrated strategically with the goals of economic development and social well being. The International Labor Organization has worked for the past 75 years to deal with issues of international labor standards and the establishment of universally accepted benchmarks by which the rights and conditions of human beings at work are measured. It would appear that these two institutions should be in the lead in their respective areas, not the WTO.

Conclusion

U.S. producers face challenges and opportunities in agricultural trade. A unified approach during international trade negotiations provides U.S. agriculture with the strongest position to achieve increased market opportunities for producers and favorable resolution of trade conflicts. This approach should include a partnership between the Congress and the executive branch in those negotiations. The focus of U.S. negotiators should be to address those issues that impede the open and fair trade of agricultural products between nations. Issues related to disputes over environment and labor issues should be addressed within international institutions having authority for those unique mission areas.

(22.) Proposal for Comprehensive Long Term Agricultural Trade Reform: A Submission from the United States to the WTO. A summary of this proposal is in the Appendix of this report.

Minority View

Commission on 21st Century Production Agriculture
Agricultural Trade Policy
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Background

Agricultural trade is important to U.S. agriculture, as the world's largest single-country exporter. The advocates of free trade in agriculture often overstate the benefits of trade to producers by myopically discussing only one aspect of the market -- exports. To ignore the size and stable growth of the domestic market as well as the rapid increase in imports of competitive agricultural products is a distortion of reality and encourages a false sense of future opportunity that never seems to occur for farmers and ranchers. Greater in-depth analysis needs to be undertaken to determine how and in what proportion each agricultural sector shares in the gains from trade, both export and import, as well as the level of consumer surplus achieved through agricultural trade activities.

As noted, the U.S. is a large agricultural exporter. Although the volume and value of U.S. farm exports has exhibited great variability from year to year, the trend has been about an average 2.5 percent increase in nominal export value per year since 1989. Over the same period, however, the level of competitive imports has increased at an average rate of nearly 10 percent per year. In 1979, competitive agricultural imports amounted to about 28 percent of U.S. exports. By 1999, the percentage had increased to nearly 60 percent. Interestingly, the large increase in competitive imports occurred during a period when food transportation and handling technology had reduced the seasonal variation in the supply of most U.S. products to the retail consumer market.

By comparing nominal export sales to the value of U.S. crop and livestock output, trade advocates lead the agricultural community to believe that one acre out of every four, or 25 percent of U.S. agricultural production, currently is shipped overseas. This analysis obviously ignores the value added by other sectors engaged in processing, merchandising, and handling. In addition, it further overstates the importance of exports to farmers by failing to net out the impact of competitive imports that substitute for about 17 percent of total farm and ranch output, reducing the demand and price for domestically produced commodities.

Many suggest that improved export opportunities for U.S. agriculture will occur if and when further agricultural policy reform is approved within the context of multilateral (that is, the WTO) and/ or regional trade (that is, NAFTA [North American Free Trade Agreement], FTAA [Free Trade Area of the Americas]) negotiations that are limited to specific commercial trade interests and issues.

These negotiations are important to producers in establishing more equitable rules to govern international trade in agricultural products. However, the resulting U.S. farm-gate benefits of trade talks are likely to be mixed or inconsequential relative to other issues that affect agricultural trade but are not resolved through the negotiation process.

The Commission focused its discussion on providing recommendations for a comprehensive U.S. negotiating framework that seeks to address the current rules governing agricultural trade.

The alternative framework for trade discussions presented below recognizes that some of the proposals ultimately may be deemed to be outside the scope of multilateral trade negotiations.

However, the Commissioners signing the alternative report believe the issues are of such great importance to improving the trade environment that nations must consider these issues within the established negotiating process.

Trade Negotiations

The U.S. position in international agricultural trade negotiations must reflect more than the needs of commercial, multinational processors and merchandisers whose trade objectives may be different or counter to the needs of domestic agricultural producers and consumers. The objective of the U.S. should be to achieve comprehensive trade rule reforms and enhanced international cooperation to accommodate the unique economic, social, and political characteristics of production agriculture.

In contrast to seeking free trade in a world where the conditions necessary to achieve a fair and equitable distribution of the gains from trade are unlikely to exist, the U.S. should pursue a set of enforceable trade rules that will reduce the most blatant trade-distorting practices.

Policy Recommendations

Currency valuation and fluctuations: Exchange rates and currency values have a significant impact on agricultural trade. If the U.S. and others who tie their currency to the dollar are to continue providing leadership ensuring global economic security and stability, the negative results from that responsibility as manifested in policies consciously designed to maintain a relatively high-valued currency must be addressed, as must the results of actions by others to create a competitive trade advantage through exchange rate adjustments. Excessive adjustments of foreign currency values relative to the U.S. dollar, through transparent or less obvious means, result in an implicit export tax on U.S. producers and a nontariff import barrier and effective export subsidy by the nation whose exchange rate is adjusted downward. Nations and international institutions such as the International Monetary Fund should seek to minimize the level and impact of exchange rate fluctuations. Beyond specified adjustment parameters, a nation whose agricultural producers suffer injury due to changes in relative currency values should retain the ability to implement measures to offset the effects of exchange rates through border and export measures and domestic programs.

Export subsidies: Eliminate the use of direct and indirect export subsidies with the exception of bona fide humanitarian and/or economic development assistance. The use of export subsidies tends to reduce the producer price level of the subsidized commodities and the alternative or substitute products. Export subsidies may also reduce aggregate trade volumes as purchasers take a wait-and-see attitude toward purchase decisions. A reduction in demand, even in the short term, will further reduce producer prices. The primary beneficiaries of export subsidies are merchandisers and processors who receive the subsidies and can then use discounted commodities in conjunction with their market power to drive down prices for other producers, creating a downward price spiral that ultimately affects all producers.

Regulatory considerations: Various regulations applied by sovereign nations have a significant competitive impact on production agriculture. An acknowledged goal of enhanced international trade should be to achieve improved living standards and resource sustainability on a global basis.

Trade negotiations should address differing national regulatory regimes and provide an appropriate means by which such regulations can be accounted for within the context of trade agreements or by other mechanisms that are internationally enforceable to all WTO signatories. To the maximum extent possible, environmental, labor, intellectual property, and competition policies and regulations should be harmonized and internationally enforced. Nations should be allowed to provide higher levels of protection, commensurate with the additional costs associated with the regulatory framework, to those who are challenged by the inherent competitive advantage of others with lower production, marketing, and product standards.

Market access and trade barriers: Eliminate nontariff trade barriers such as sanitary and phytosanitary standards not based on scientific principles and risk assessment or to accommodate reasonable consumer nutrition, health, and safety interests, or to address unique situations. To accomplish this, an agreed-on set of scientific principles and risk-assessment procedures must be developed, along with the establishment of an appropriate body to implement, test, and deliver findings based on those principles and procedures. Further, we must maintain national treatment obligations, seek tariff and tariff-rate quota equalization before agreeing to further reductions in U.S. tariffs and access commitments, and allow flexibility to unilaterally address unique situations that potentially cause long-term harm to individual producers or to the industry such as weather conditions or import surges.

Transparency: Nearly all nations engage in some form of direct or indirect support for their agricultural systems. Current international procedures to identify and quantify those measures, such as various subsidy equivalency calculations, in many instances fail to fully account for and attribute agricultural support levels that are used to determine compliance with trade agreement commitments. In addition, the level of concentration within other sectors of agriculture continues to reduce the domestic and international level of competition and price discovery and the ability of producers, consumers, and public policymakers to make sound production, market, and public issue decisions. New efforts, therefore, should be initiated to identify and account for all direct and indirect forms of agricultural support on a global basis. To the maximum achievable, all support programs should be converted to the most transparent form possible, and the WTO and member nations should be notified of all such forms of support. Finally, nations should implement complementary regulatory approaches that increase commodity market price transparency within both the private and public sectors for agricultural commodities and production inputs.

International cooperation: Many current issues resulting in trade disputes or charges of unfair trade practices can be reconciled through greater international cooperation directed to addressing the supply, demand, and price problems experienced by all producers. Global economic development and improved living standards can be achieved, along with increased short- and long-term demand for agricultural products, if the U.S. and other industrialized nations engaged in a cooperative effort to increase the resources available for such activities rather than criticize and condemn current actions undertaken unilaterally. Further, inventory management programs could effectively help ensure global food security and resource sustainability and improve the returns to all producers while providing long-term consumer benefits if the responsibility for these activities was shared among nations in a spirit of cooperation.

Dispute resolution: The process should be streamlined and expedited and should ensure that any relief would provide benefits to the producers and/or agricultural sectors that were harmed by an unfair trade practice. Procedures should be established to provide immediate relief or compensation after a preliminary ruling pending final action. Nations should be allowed to take unilateral action commensurate with the full costs associated with a violation through both trade-related actions as well as domestic adjustment/assistance programs.

The undersigned members of the Commission on 21st Century Production Agriculture concur with the findings and recommendations contained in the alternative report on agricultural trade policy.

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