

Agricultural Competitiveness and World Trade Liberalization: Implications of the WTO and FTAA

May 29 & 30, 2003, Fargo, N.D.

*Organized by the
Center for Agricultural Policy and Trade Studies,
North Dakota State University,
and Farm Foundation*

Conference Highlights

International trade negotiations need to focus on leveling the playing field among all trading partners, Sen. Kent Conrad told the conference participants in his keynote address. Exports are essential for U.S. agriculture, and the high level of subsidies in the European Union (EU) puts U.S. producers at a disadvantage. The EU proposes that each country reduces support by an equal percentage; Conrad calls this unfair because it would allow the EU to continue to have more subsidies than the United States. Two major challenges facing the U.S., Conrad said, are how to continue to support family farms within WTO rules, and how to build a better green box. Currency valuation must also be addressed in trade talks, he added.

Free trade has winners and losers. Those who are hurt try to stop free trade from happening. As a result, the losers often must be compensated to favor free trade policies. Andrew Schmitz, professor of food and resource economics at the University of Florida, stated his belief that we would be better off to make the move to free trade and figure out how to compensate the losers, because countries are generally better off with free trade.

Tim Josling, professor in the Food Research Institute at Stanford University, remarked that it is important to move forward with the delayed WTO negotiations at the ministerial meeting at Cancun in September. Josling argued that from a long-run perspective, an agreement to adopt the Harbinson text would be a major step in continuing the path of reform in agricultural trade. An objective look at what is being discussed suggests that the agricultural talks could contribute significantly to the trade reforms started in the Uruguay Round.

With more than 800 million people throughout the Western Hemisphere, the Free Trade Agreement of the Americas (FTAA) will be the largest free-trade area in the world. FTAA negotiations are moving into the phase where real trade-offs will start to be made, according to Robert Spitzer, senior advisor at USDA's Foreign Agricultural Service. This will intensify after revised market access offers are tabled this fall. In the agriculture area, progress in the WTO negotiations will play an important role, but market access deals will increasingly become the main business of the negotiation. FTAA could conclude on schedule if there is political will to do so, Spitzer said. Challenges include uncertainty about the attitude of the new Brazilian administration; weakness in the economies of many of the region's countries and the threat it poses to political stability; and the lack of public support for the FTAA in many countries.

Key Issues Influencing the WTO and FTAA Negotiations

U.S. producers are concerned about preserving domestic support and, to balance the playing field, want substantial reduction in support in the EU and Japan. Alan Tracy, president of U.S. Wheat Associates, said support should be calculated as a percent of production. The Harbinson draft is a success on the issue of eliminating export subsidies, he said, adding that **the** U.S. must defend export credit programs and food aid. Export monopolies must end and Brazil needs to straighten out its SPS procedures. FTAA presents an opportunity for the United States to export wheat to Brazil, Tracey noted. He also suggested that FTAA should include Cuba, contending the U.S. embargo of Cuba has only hurt U.S. farmers.

Trade liberalization under a fairly general set of conditions tends to lead to more efficient use of resources. In general, new technology makes for more efficient production, and thus to expanded international trade. Cooperation with scientists and technologists in developing countries could build a more solid base for U.S. economic expansion while strengthening economic development, G. Edward Schuh of the University of Minnesota told conference participants.

Environmental issues in trade involve 1) determining the impact of trade on the environment and responding appropriately, and 2) determining how environmental measures affect trade and if such measures are legitimate or are just restrictions to trade. To determine the latter, according to C. Ford Runge of the University of Minnesota, requires demonstrating that the environmental measure affects trade, providing evidence that feasible environmental alternatives exist, and showing that the cost of the environmental policy provides benefits beyond those addressing the environmental issue.

The current WTO negotiations include accommodation of non-trade concerns, further reductions in the aggregate measure of support (AMS), the role of the blue box, limits on green box subsidies, the role of the peace clause, and special and differential treatment for developing countries. According to Louisiana State University professor Lynn Kennedy, a self-enforcing framework can be established that encourages countries to adopt less trade distorting domestic support policies. Specific definitions must be developed that clearly detail the support policies to be categorized in each domestic support box.

U.S. Agricultural Trade Under a Liberalized Trade Environment

Issues in Developing Countries: Gains many less developed countries might obtain from globalization of world markets is constrained by agricultural policies in developed countries, especially the EU, said Terry Roe of the University of Minnesota. Countries must export to import; this is also an indirect way to induce institutional change that has the potential to spillover to the rest of the economy and stimulate long-term growth in per capita income. According to Roe, the economic question is not whether farmers should receive more or less government support, but how to transfer support in a way that is minimally distorting of domestic and foreign markets. Removing market-distorting instruments—especially in developed countries—is in the interest of virtually all countries.

Wheat: The future of U.S. agriculture, wheat especially, is tied to creating new opportunities in trade and maintaining existing export markets, according to Neal Fisher, director of the North Dakota Wheat Commission. The U.S. wheat industry, he said, advocates that other countries must reduce their high tariffs; direct export subsidies and state trading enterprises should be eliminated; GSM export credits should not be jeopardized; food aid should be spared; and the gap between domestic support in the EU and other countries should not be institutionalized or further legitimized.

Processed Food Trade: Protection of domestic processing industries to capture value-added gains has long been a trade policy goal of importing countries, according to John Waino of USDA's Economic Research Service. Contingency protection measures and a number of non-tariff measures also complicate and restrict trade of processed food and beverage products. Allowing countries considerable latitude in determining the depth of cut applied to individual products, which occurred in the Uruguay Round, can result in tariff escalation, Waino noted.

Sugar Trade: Sugar market integration faces severe challenges but is consistent with the overall objective of broad trade liberalization under FTAA or WTO, said David Orden of Virginia Tech. If sugar market reform can be accomplished, it is likely to require some form of compensation payments to producers in a number of countries. David Berg of American Crystal Sugar Company, said the U.S. sugar industry is competitive in production cost with sugar producers around the world and endorses free trade in sugar.

Livestock Trade: Tariffs hinder market access for beef, according to Richard Fritz of the U.S. Meat Export Federation. Japan, the largest market for U.S. beef, has a tariff of 38.5%, with a safeguard that will raise the tariff to 50%. Korea, the third largest market, has tariffs exceeding 40%. As traditional protection methods fall, countries find other ways to protect domestic industries—using unscientific sanitary standards, technical barriers, anti-dumping measures or by capitalizing on food safety fears, Fritz added.

Trade Liberalization: Won Koo of North Dakota State University (NDSU), analyzed the implications of liberalized trade on the wheat industry. Under free trade, wheat production is expected to increase in the U.S. and Canada and decrease in the EU; only slightly changes are anticipated in Argentina and Australia. China and Japan are expected to increase imports substantially under free trade due to major reductions in domestic production. Trade reform is good for U.S. feed grains, according to Robert Young of the Food and Agricultural Policy Research Institute (FAPRI). Oilseed production would be pulled down due to increased corn production and corn and soybean prices would increase.

Exchange Rate Uncertainty: Agricultural trade has been adversely affected by medium to long-run uncertainty in real exchange rates, reported Ian Sheldon of Ohio State University. The negative effect of exchange rate uncertainty reported for total trade hides the possibility that some sectors may be more affected than others. The negative impacts of the exchange rate are much greater for agricultural trade than for total trade or any other specific sector studied, Sheldon said.

State Trading Enterprises (STEs): STEs can be used to implicitly subsidize agricultural exports through a variety of mechanisms, explained Linda Young of Montana State University. A key concern is transparency of STE operations. The WTO proposal under consideration requires STEs to allow competition, forbids the use of explicit export subsidization, proposes more stringent rules on government subsidization of STEs, and sets the stage for increased reporting by STEs.

WTO and FTAA Negotiations: Country Perspectives

Canada: Rory McAlpine, director general of the International Trade Policy Directorate of Agriculture and Agri-Food Canada, said the U.S. has an ambitious position on market access, but is less ambitious in such areas as domestic support. Export subsidies will likely end. Greater discipline is needed on export credits, and only food aid should be granted. There is no mandate for negotiations on state trading enterprises in the WTO, and there is no justification for discipline. A major goal of Canada is to end the high level of support in the EU and U.S.

China: China could become a major market or a major competitor. According to Colin Carter of the University of California, Davis, China's agricultural trade liberalization may have small impacts on trade flows unless it is combined with domestic policy reform. The share of the Chinese population in agriculture is high compared to the world standard. To close the large rural/urban wage gap would require a 25% decline in the agricultural labor force, Carter said. Integration between rural and urban economies in China is discouraged, and rural product and factor markets are distorted. The level of regional specialization in China is less than in other countries, and it has been declining since 1994, indicating a movement away from regional specialization and comparative advantage, toward self-sufficiency in each province.

European Union: Internal political factors are strongly influencing the EU's position on agriculture in the current WTO negotiations, according to David Blandford of Pennsylvania State University. Key agricultural sectors face significant structural problems, and budgetary constraints are adding to pressures for reform. Public sentiment is turning against a "cheap food" policy towards one stressing the environmental role of agriculture, animal welfare and food safety. For the EU, a politically acceptable outcome in the WTO negotiations will need to balance a reduction in protection with measures that address broader public concerns about food, agriculture and trade.

United States: The U.S. priorities are to expand market access, increase export competition, and harmonize and reduce trade-distorting domestic support, according to Demcey Johnson of USDA's Economic Research Service. Productivity gains are a major benefit of trade liberalization; the expected productivity gains in developing countries would increase their purchasing power, which would benefit the United States. Important areas of the Harbinson draft are progress on export subsidies and export monopolies; progress on market access, but less aggressive than the U.S. proposal; and cuts in domestic support, but with insufficient harmonization. Provisions on special and differential treatment undercut developing countries' potential benefits as exporters and importers, and non-trade concerns cannot be used to justify disguised barriers to trade.

###