

# Global Markets and International Trade Agreements

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Since the 1970s, U.S. exports of goods and services have grown rapidly. Agriculture and industry alike have turned to international markets as a place to sell their excess production, bolster employment, and enhance revenues. Yet the United States' fortunes in international food markets have fluctuated considerably. The booming markets for commodities (e.g., wheat, corn, and other grains) of the 1970s gave way to declining shipments in the early 1980s; the mild recovery of the late 1980s was succeeded by relative stagnation in the early 1990s. Over the past two and a half decades, the United States has lost its commanding share of world commodity trade.

Although exports of value-added food products (e.g., fruits, vegetables, and meats) continue to grow, the future for commodity exports is uncertain. Future shipments of bulk commodities depend on a number of factors not directly affected by U.S. policy: weather at home and abroad, foreign economic prospects, global population growth, and the introduction and application of new agricultural technologies in other countries. But future shipments also depend on factors directly related to U.S. policy: the shape of government programs to come, how those programs mesh with trends in growing global markets; and the impact of international trade pacts such as the Uruguay Round Agreements (URA) and the North American Free Trade Agreement (NAFTA).

This chapter examines the possible effects of these factors on U.S. prowess in world food markets. Generally, it appears that government policies appropriate in the 1960s and earlier are far less appropriate for the 1990s and the 21st century. Agricultural markets have changed, much as the structure of American agriculture has changed, and new growth opportunities differ from those of the past. The 1960s emphasis on bulk-commodity ex-



ports, for example, has persisted into the 1990s, at a time when high-value products, and particularly consumer-oriented food products (e.g., ready-to-eat foods), comprise a growing share of global trade and of U.S. exports.

Currently, neither domestic export programs nor international trade agreements have helped U.S. farmers to synchronize U.S. production and exports with trends in global markets. The URA provisions may nudge U.S. farmers toward exporting more high-value products, but domestic farm and export programs will discourage them from doing so. Clearly, one of the major challenges ahead is to reshape these programs, and the incentives they provide, so that U.S. farmers are growing the kinds of products demanded by international markets. An obvious example of the need for such reshaping can be found in the oilseed market. Even though global demand for soybeans has grown, U.S. farm programs led U.S. farmers to plant fewer acres with soybeans, and U.S. exports of the crop stagnated (although this situation was addressed in the 1990 farm bill). Similarly, even though fruits and vegetables are in high demand globally, the use of government flex acres for fruit and vegetable production is limited. Future legislation may need to address the use of flex acres and currently idled acres to encourage more output of fruits, vegetables, soybeans, and other items valuable in the global marketplace.

The United States' approach to international trade agreements also reflects a multiplicity of purpose. Even though it is a strong supporter of international trade negotiations and international trade agreements, the United States continues to implement policies for supporting commodity prices and subsidizing commodity exports that often conflict with the spirit of international trade agreements. For example, the U.S.-Canada Free Trade Agreement (FTA) lowered barriers to trade, including trade in food and agricultural items, between the two countries. U.S. farm programs, however, restrain wheat production and U.S. export subsidies encourage wheat exports. The result: wheat prices in the United States rise, and the price of wheat overseas falls. Because U.S. wheat prices are above world levels, Canada in 1994

shipped more wheat to the United States, which responded by pressuring Canada to restrict its wheat exports.

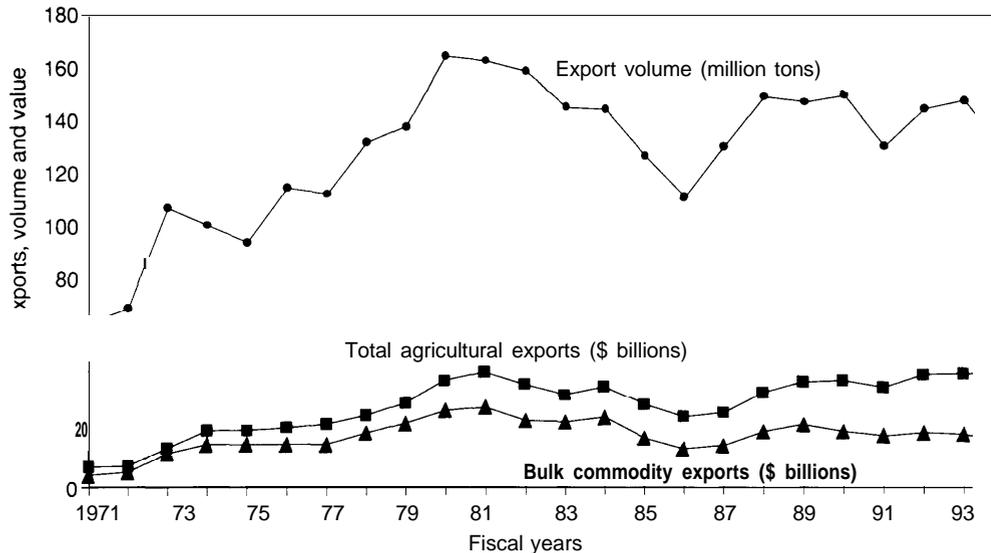
The URA, which went into effect on January 1, 1995, will further reduce trade restrictions. Fewer restrictions on trade may, as illustrated by the U.S.-Canada wheat imbroglio, increase the likelihood of agricultural trade conflicts in the future, given current policies. Thus, the United States finds itself at a crossroads where the dichotomy between its support for global free trade and its policy of insulating agricultural interests from the global marketplace may be too burdensome to sustain. The country is confronting a crucial choice: whether to move toward free agricultural markets and open world trade, or continue subsidized exports and restrictions on agricultural imports. The decision will, to a substantial degree, determine the economic standing of U.S. agriculture in the global economy of the 21st century.

## GLOBAL MARKETS AND U.S. PARTICIPATION

World population growth, rapid economic development, and several rounds of international trade negotiations have expanded global trade in food and agricultural items. World shipments of food and agricultural goods totaled \$41 billion in 1970, and increased to \$208 billion in 1993 (17). Twenty-one percent of the agricultural goods traded came from the United States in 1993, making it the world's largest agricultural exporter—although it was followed closely by the European Union (EU). The impact on the U.S. farm economy was substantial, as export markets absorbed sizable amounts of bulk commodities (e.g., such as wheat, corn, and other grains) and growing amounts of value-added foods (e.g., fruits, vegetables, meats, and processed foods). The shipments raised farm income, lowered farm program costs, and slowed the decline of rural communities.

The growth of U.S. agricultural exports has not followed a steady path. Between 1970 and 1981, the annual value of U.S. agricultural exports soared from \$7 billion to \$43.8 billion (figure 3-1). Then, a combination of a stronger dollar, a

FIGURE 3-1: U.S. Agricultural Exports 1971-94



SOURCE: U.S. Department of Agriculture, Foreign Agricultural Service, *Desk Reference Guide to U.S. Agricultural Trade*, Agriculture Handbook No 683, revised January 1993

changing global economy, and new farm legislation drove farm exports down to a low of \$26.3 billion in 1986 (17). Bulk commodities suffered the most, declining from \$30.4 billion in 1981 to \$14.2 billion in 1986. New farm legislation, a weaker dollar, and export subsidies reversed the trend after 1986, and farm exports reached \$43.1 billion in 1993. Bulk commodity shipments also recovered a portion of their loss, reaching \$19.0 billion in 1993.

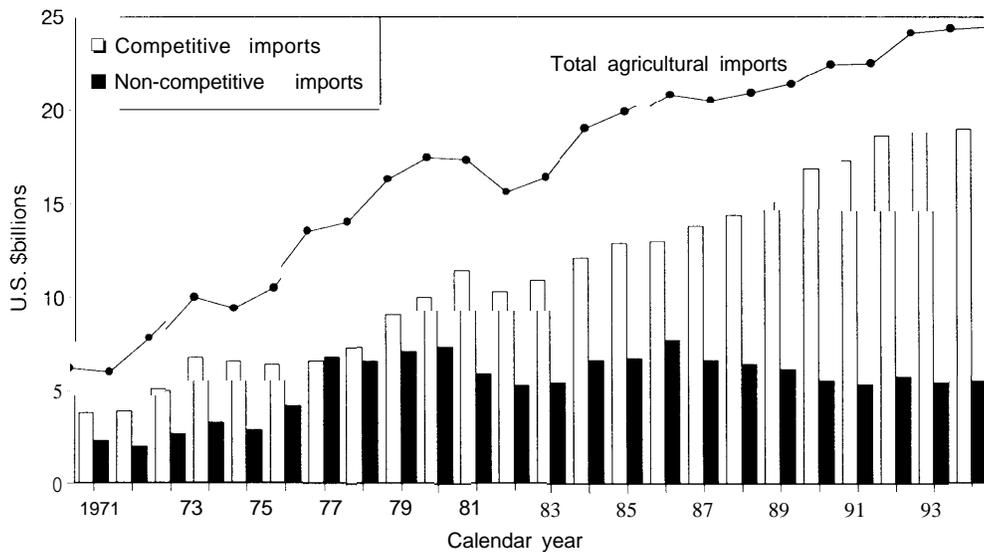
Three key changes in the global economy precipitated the export decline of the early 1980s. First, the EU made a concerted and highly subsidized push to gain world market share in agricultural products—a move that depressed world prices, limited U.S. agricultural exports, and earned the sobriquet “trade war.” Second, new technologies raised grain output in many develop-

ing countries. This “Green Revolution” obviated the developing countries’ need for substantial grain imports. Third, world food trade shifted toward value-added food products. Nonetheless, the United States remained the world’s largest exporter of agricultural goods—although a significant part of the growth was due to increased exports of processed and consumer-ready food products.

Imports of food and agricultural products into the United States have also grown, rising steadily over the past several decades. The types of imports change from time to time, more as the result of domestic political pressures than changes in foreign supplies. Meat imports, for instance, are occasionally restricted by “voluntary restraints” imposed on countries exporting meat to the United States; wheat imports decline in response to threats of Section 22 action;] and size, grade or

<sup>1</sup>Section 22 was part of the Agricultural Act of 1935. It authorized the President to impose restraints on import of farm commodities whenever imports threatened to interfere with the effectiveness of price support programs for commodities covered by the Agricultural Adjustment Act of 1933.

FIGURE 3-2: U.S. Ag



SOURCE U S Department of Agriculture, Foreign Agricultural Service, Desk Reference Guide, 1994

other specifications occasionally restrict fruit and vegetable imports. Such actions contrast sharply with an overall U.S. trade policy that favors lower trade barriers, lower export subsidies, and expanded channels of global commerce.

As a food importer, the United States is a significant world player, ranking as the world's fifth-largest behind Germany, Japan, Italy, and the United Kingdom (15). U.S. food imports accounted for about 12 percent of world food trade in 1993, down from the 14 percent of 1971 but up from the 9.5 percent of 1981. Some of the growth in imports comes from items not grown in the United States, but a much larger part consists of items that are also grown domestically. Competitive imports (imports of items also grown here) increased from \$1.6 billion in 1950 to \$18.9 billion in 1993 (figure 3-2) and now make up 75 percent of all food imports, compared with a 50-percent share in 1950. They include a wide range of items such as meats, vegetables, fruits and nuts, oilseed products, and sugar and sugar products. Noncompetitive or supplementary food imports (imports of items not grown in the United States) increased

more modestly, from \$1.6 billion in 1950 to \$5.5 billion in 1993. Included are items such as bananas, coffee, cocoa, tea, spices, silk, rubber, nursery stock, certain beverages, and processed food products. Together, competitive and supplementary imports helped raise U.S. food and agricultural imports from \$3.2 billion in 1950 to \$24.4 billion in 1993 (17).

Some of the growth in imports reflects changing U.S. food tastes, as well as immigration and internal population growth. Many immigrants brought deeply ingrained food preferences from their native countries. Most of the increase, however, has stemmed from price inflation, economic growth, and the broadening of food tastes that comes with higher incomes.

A final factor has been lower trade barriers. The rounds of international trade negotiations completed since the GATT was established in 1947 (box 3-1 ) have lowered U.S. tariffs and other border restrictions. Although agricultural trade barriers--especially nontariff barriers that protect internal support programs for farmers--were largely left out of the early rounds of trade negoti-

**BOX 3-1: International Trade Negotiations of the General Agreement on Tariffs and Trade**

Geneva, Switzerland	1947 . . . . .	First round	22 countries participated
Annecy, France	1949 . . . . .	Second round	32 countries participated
Torquay, England	1950-51 . . . . .	Third round	33 countries participated (Germany joined GATT)
Geneva, Switzerland	1956, . . . . .	Fourth round	34 countries participated (Japan joined GATT)
Geneva, Switzerland	1961-62, Dillon Round	37 countries participated	
Geneva, Switzerland	1963 -67.....	Kennedy Round	62 countries participated
Tokyo, Japan	1972 -79... Tokyo Round	102 countries participated	
Punta del Este, Uruguay	1986 -93.. Uruguay Round	117 countries participated	

SOURCE Office of Technology Assessment, 1995

ations, lower tariffs on food items from these rounds brought about a steady increase in world food trade and a steady rise in U.S. food imports. With increased food trade came a globalization of food tastes: Americans ate more European cheeses, and Europeans ate more American chicken, pork, and beef. Even though Europe and the United States carefully protected their farm sectors from import competition (which increased the overall difficulty of negotiating lower trade barriers), some trade barriers to food products were eased. Trade between the United States and Europe continued to increase.

Trade also expanded between the United States and Asian countries, although the composition of that trade was different. Exports from the Pacific Rim countries were largely industrial products; Pacific Rim imports were more heavily oriented toward raw materials and bulk commodities. Japan, for example, imported large quantities of raw materials from the United States and exported large amounts of finished goods (which helps explain the large trade differential between the two countries). In 1993, the trade U.S./Japanese differential amounted to \$60.5 billion, or 46 percent of the total U.S. trade deficit (2).

Exports to Japan from the United States totaled \$46.7 billion in 1993, while imports from Japan amounted to \$107.2 billion. Of the \$46.7 billion in goods that Japan imported from the United States in 1993, \$8.4 billion consisted of agricultural goods (figure 3-3). Although these figures made Japan the world's largest single market for U.S.

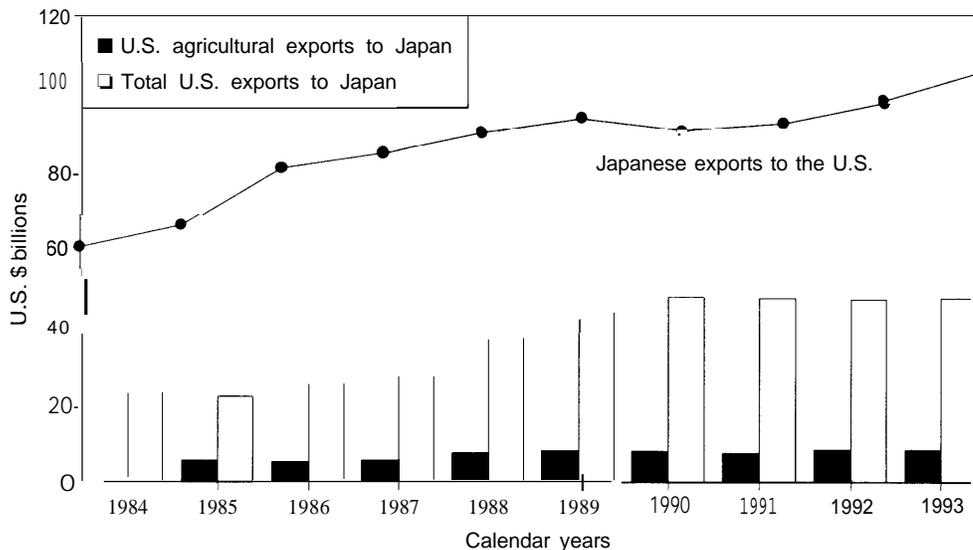
agricultural goods, such shipments offset only a small portion of the \$60.5 billion Japanese trade surplus. Figure 3-3 also illustrates that despite years of negotiations over market access for such products as beef and citrus fruits, U.S. agricultural exports to Japan have increased only modestly.

### **INTERNATIONAL TRADE POLICY AND U.S. AGRICULTURE**

The gradual easing of import restrictions on food and agricultural products is a post-World War II phenomenon. Before the war—more explicitly, during the Great Depression—the United States had established an extensive framework of import restrictions designed to protect its farmers from import competition. That restrictive framework was part of an extended history of promoting agricultural exports abroad and protecting agricultural interests at home.

As early as 1789, the first Congress of the United States—in only its second legislative act—levied tariffs on imported goods. The move was not aimed solely at protecting domestic industries from foreign competition. Rather, it was chiefly designed to raise revenue. From 1789 until the introduction of an income tax in 1913, tariffs and land sales were the main sources of revenue for the federal government. However, as incomes taxes provided the government with operating funds, and as industrial development made U.S. industries less dependent on tariffs or other forms of economic protection, the focus of U.S. trade policy moved away from tariffs and toward eco-

FIGURE 3-3: U.S. and Japan Trade



SOURCES: Executive Office of the President, Council of Economic Advisors, *Economic Report of the President* (Washington, DC: U.S. Government Printing Office, 1995), U S Department of Agriculture, Foreign Agricultural Service, *Desk Reference Guide to U.S. Agricultural Trade*, Agriculture Handbook No 683, revised January 1990

economic development. In 1916, Congress passed the Underwood-Simmons Tariff Act, which specified that the President could lower many tariffs, and that some items could be made duty free. When the United States entered into World War I in 1917, tariffs became a moot issue, as the overseas war effort required large exports of U.S. products.

The evolution of an agricultural trade policy independent of the nation's generally open trade policy began after World War I. Farmers had been encouraged by the federal government to expand their production capacity to meet the war needs. When the war ended abruptly in 1918, they were confronted with shrinking markets and falling prices. Responding to demands for relief, Congress enacted the Emergency Tariff Act of 1921, which imposed heavy duties on imported agricultural goods. However, the action had little effect on farm prices, which continued to be depressed by the excessive supplies burdening commodity markets. To make matters worse for farmers, in 1922 Congress passed the Fordney-McCumber

Act. This legislation gave the President the power to raise tariffs on items farmers purchased—a power that the President exercised 32 times during the next decade, mostly to raise industrial tariffs.

As industrial tariffs rose, farmers charged they were being treated unfairly because they were forced to buy inputs on a highly protected domestic market, while selling products on open markets abroad. The debate went on for a decade. Twice Congress passed legislation to rectify the apparent inequity; twice Presidents vetoed it. As rural economic conditions continued to deteriorate, Congress produced legislation establishing a Farm Board to ensure orderly marketing of farm commodities (1929); voted in the Smoot-Hawley Tariff Act, which raised tariffs to record highs (1930); and approved an Agricultural Adjustment Act (1933) that established stable domestic prices for agricultural goods aimed at “parity” with other sectors of the economy. The Farm Board proved unworkable, the Smoot-Hawley Tariff Act a disaster, and the AAA in need of amendment.



*Throughout the history of the nation, Presidents have been responsible for initiating changes in trade policy.*

The AAA was amended to address trade problems in 1935. Section 22 authorized quantitative limits on imports of certain commodities, such as wheat, cotton, and some sugar, so that domestic price support programs for these commodities would not be hampered.<sup>2</sup> Section 32, in contrast, was an initial move toward establishing export subsidies. The new section provided funds (30 percent of all revenues earned from tariffs and duties) for financing programs to dispose of surplus agricultural commodities. In the initial years, the disposal efforts focused on giving surplus items to domestic groups, such as schools and churches, although some funds were spent to subsidize specific commodity exports. Neither was very successful in solving surplus production problems. Only the outbreak of World War II brought the



*... and the Congress has been responsible for determining the final direction and magnitude of change in the nation's trade policy.*

magnitude of demand needed to balance out excess agricultural supply.

### EVOLUTION OF EXPORT PROMOTION PROGRAMS

Farm exports boomed with the outbreak of World War II, and the farm economy remained strong for most of the next decade. With the end of the Korean War in 1953, however, U.S. farm exports fell precipitously and agricultural surpluses grew. In 1954, Congress passed the Agricultural Trade Development and Assistance Act (Public Law 480) to boost farm exports. The act, which came to be commonly known as the Food for Peace program, offered food assistance to needy nations and also provided the basis for U.S. overseas market development programs.

<sup>2</sup> Numerous amendments were made to Section 22. The first came on February 29, 1936 (c. 104, Sect. 5, 49 Stat. 1152); the rest on June 3, 1937 (c. 296, Sect. 1, 50 Stat. 246); January 25, 1940 (c. 13, 54 Stat. 17); July 3, 1948 (c. 827, Title I, Sect. 3, Stat. 1248); June 28, 1950 (c. 381, Sect. 3, Stat. 261); June 16, 1951 (c. 141, Sect. 8(b), 65 Stat. 75); August 7, 1953 (c. 348, Title I, Sect. 104, 67 Stat. 472); and January 3, 1975 (Pub. L. 93-618, Title I, Sect. 171, 88 Stat. 2009). In more recent years, Section 22 has become less important, as lower price supports have reduced the incentives for other countries to export price-supported items to the United States.

The Foreign Market Development Program (FMDP)—a term that covered all of the new promotion programs authorized by P.L. 83-480—drew together the U.S. Department of Agriculture (USDA) and private U.S. interest groups to promote overseas sales of U.S. agricultural products. The programs under FMDP used a variety of means to aid exports, which included developing livestock production in other countries to promote exports of U.S. feedstuffs, as well as food store displays in other countries to introduce foreign consumers to retail products made with U.S. food grains. These so-called cooperator programs slowly built markets abroad. The food aid programs similarly introduced a wide range of food commodities to foreign consumers. All of the programs focus on building long-term demand and consequently operated even during the export boom years of the 1970s.

Today, the cooperator programs operate with an annual budget of roughly \$37 million (4). Under P.L. 480, the United States annually exports about \$1.5 billion in food and agricultural items, or more than \$15 billion in agricultural goods since 1980 (17). Donations under Section 416 of the Agricultural Act of 1949 (as amended in 1985) continue to provide surplus commodities held in Commodity Credit Corp. (CCC) inventories.<sup>3</sup> Outlays for Section 416 totaled \$2.2 billion between 1983 and 1993. These programs were expanded during the 1980s, as commercial sales slumped.

Other programs to assist U.S. agriculture were established during the slump of the 1980s, including such CCC mechanisms as the Export Guarantee Program (GSM-102, which provides six-month to three-year credit for foreign purchasers of U.S. agricultural goods) and the Intermediate Export Credit Guarantee Program (GSM-103, which provides three-year to 10-year credit for

foreign purchasers). Both programs assure U.S. banks that loans to foreign buyers who default will be repaid by the U.S. government. GSM-102, the major credit guarantee program inaugurated in September 1980, has assisted in the export of \$35 billion in agricultural commodities, including \$7 billion that also received subsidies under the Export Enhancement Program (EEP). As reauthorized by the Food Security Act of 1985, the Export Enhancement Program “sweetens” trade deals by giving exporters bonus certificates that may be redeemed for commodities owned by the CCC. Since its inception in 1985, EEP has distributed more than \$6.2 billion in bonuses, leading to shipments of 143 million tons of wheat, 6.2 million tons of wheat flour, 13.2 million tons of barley, 917,000 tons of rice, and a variety of other agricultural exports (17).

The Food, Agriculture, Conservation, and Trade Act of 1990 produced the Market Promotion Program (MPP) as a replacement for the Targeted Export Assistance (TEA) program that operated from 1986 to 1990. Both programs were intended to boost exports of specialty crops, processed commodities, and consumer food items. The MPP was authorized to operate for fiscal years 1991 through 1995 to help U.S. producers and other groups to promote exports of U.S. agricultural products by assisting exporters with cash or CCC generic commodity certificates.<sup>4</sup> According to USDA, an MPP annual authorization of \$200 million was expected to lead to an annual increase of between \$400 million and \$1.4 billion of agricultural exports (16). From 1990 through 1993, when appropriations approximated \$200 million, exports of intermediate (semiprocessed) commodities rose an average of \$166 million annually. Exports of consumer-oriented food items rose an average of \$1.5 billion annually between 1990 and 1993.

<sup>3</sup> CCC is USDA’s financing institution for its price support and export operations. It can draw up to \$25 billion for the U.S. Treasury.

<sup>4</sup> Generic certificates are paper statements issued by USDA that authorize the holder to receive commodities owned by the CCC equal in value to the amount specified in the certificate. As its name suggests, the generic certificate may be redeemed for any commodities owned and available from the CCC.

TABLE 3-1: Export Enhancement Program Bonuses for Wheat, 1985-1994

Fiscal year	EEP total \$1,000s	Wheat EEP total \$1,000s	Percent wheat
1985	22,477	10,920	48.6
1986	256,250	126,922	49.5
1987	927,759	541,601	58.4
1988	1,013,655	819,534	80.8
1989	338,765	288,929	85.3
1990	311,751	241,882	77.6
1991	916,599	767,702	83.8
1992	968,199	813,205	84.0
1993	967,278	774,826	80.1
1994 (until 3-17-94)	597,678	452,888	75.8
Total	6,320,411	4,838,410	76.6

SOURCE: U.S. Congress, General Accounting Office, *Wheat Support The Impact of Target Prices Versus Export Subsidies*, GAO/RCED-94-79 (Washington, DC, June 1994), p 48-49

## IMPACT OF EXPORT PROMOTION PROGRAMS

Twenty-one percent of all agricultural exports in FY 1993 were assisted by one kind of government program or another (16). But has this panoply of promotion programs, which together account for more than 70 percent of all U.S. funds spent on export promotion (1), been a marked success? The answer is both yes and no. Examined from the perspective of the commodities supported, the programs have had a positive influence on export levels. Confirmation comes in various forms, including the strong support these programs receive from the commodity interest groups involved and the large amount of criticism leveled against them by competitors abroad. Much of that criticism focuses on the price-depressing effects of export subsidies, which lower the returns for their nonsubsidized commodity exports.

If the assessment is broadened beyond the specific commodities involved and takes into account world markets that are moving toward processed and consumer-ready food items, as discussed in chapter 2, the benefits of the current programs are less clear. The rapid growth of processed food trade globally and the weaker markets for bulk commodities have changed overseas marketing opportunities. With the notable exception of the MPP, which is geared toward promoting fruits, vegetables, poultry, wine, and wood products, the

U.S. government makes few efforts to promote consumer-oriented food items. The cooperator programs, for example, have traditionally spent far more on grain, feed, and oilseed exports than on such consumer-oriented products as fruits, vegetables, and meats (1). Likewise, most EEP funds have been directed toward subsidizing exports of wheat, in an effort to stave off EU dominance in the global wheat market (table 3- 1). EEP support can be and has been criticized because the subsidized sales may have taken place anyway, and instead of reducing overall EU sales, EEP's effect may simply have been to divert those sales to other countries. This in turn could have reduced U.S. market share in those countries. With the MPP, the major question is whether, if the program did not exist, private interest groups would have spent the same amount of money on market promotion. There appears to be little argument with MPP's focus on higher valued products.

By contrast, EEP's heavy focus on bulk commodities can be criticized for other reasons. Before the world food shortages of the 1970s, many importing nations had little appreciation for the benefits of grain stockpiles, but their outlook is different today. The effect is clear in stagnating global trade in bulk commodities, and in stable levels of bulk commodity exports from the United States. Although bulk commodity exports may increase in the future, such increases will likely be

due to ephemeral phenomena (bad weather, for example) or heavy export subsidies (which raises questions about the net benefit gained). From the nation's standpoint, a more effective policy would be to take advantage of markets that are growing rapidly, such as those for vegetables and meat, and reduce emphasis on markets that are stagnant, such as those for wheat and other bulk commodities.

A second problem with current export promotion programs is their lack of cogency. Even if the MMP is a step in the right direction, for example, it has been criticized as suffering from a vagueness of purpose and direction, which renders it less efficient and effective than it should be. Critics contend that other programs suffer from a similar malaise. Abel, Daft and Early conclude that:

USDA's allocations of market development funds [for the FMDP and MPP] have sometimes taken place without sufficient regard to maximizing the effectiveness of these expenditures with respect to either expanding exports or benefiting agricultural producers. Neither Congress nor USDA has provided a clear and defensible set of criteria that define the intended universe of market development activities to be covered by both the FMDP and MPP (1).

There have been many suggestions for improvement. Some contend that the FMDP and the MPP need more specific guidelines for which products to promote, that the programs' objectives should be more clearly defined, and that export performance and future prospects should be evaluated market by market (1).

A final problem associated with government programs is that they simply cost too much. To maintain export shipments of bulk commodities in the face of shrinking global markets, more and more programs have had to be added, with higher costs. Early on, programs such as Section 416 and Titles II and III of P.L. 480 provided food aid at

little or no cost to foreign recipients. As foreign competitors complained and U.S. costs for cargo preference rose,<sup>5</sup> the United States substituted export credit guarantees for food aid. Export loans were extended to any market in which there was a reasonable prospect of repayment, a step that has come under considerable criticism.<sup>6</sup> When loans and food aid were no longer effective, given changing global food trends, the United States added direct export subsidies through EEP. At each step, costs increased. Bulk shipments, however, flattened out after initially responding to EEP subsidies, in contrast to a continuing growth in shipments of value added food items. (See figure 3-1.)

Although experts disagree about the future of bulk commodity exports, there seems to be more of a consensus that growth in processed and consumer-ready food exports will continue, barring a major downturn in the world economy. This prognosis leaves the United States with hard choices regarding the ideal level of land retirement programs; the optimum amount of crop output; the appropriate level of export promotion outlays for bulk and processed commodities; and the amount of outlays for research on traditional and industrial crops, as well as for improved understanding of global markets. Because these choices each involve trying to anticipate future trends in global agricultural production and demand, none of them is clear cut. It is also important to keep in mind the state of domestic food balances, even though food surpluses have been a far larger problem than food scarcity in the United States over recent decades.

## INTERNATIONAL TRADE AGREEMENTS

The United States pursues its agricultural trade goals not only through domestically based export promotion programs and trade restrictions, but also through a variety of international trade agree-

<sup>5</sup> Federal law requires that a specified proportion of food aid be shipped on American cargo ships, which have substantially higher costs per ton of cargo shipped. The costs of shipping food aid rose as the so-called cargo preference law was implemented.

<sup>6</sup> GAO estimated that about \$6.5 billion of the \$13.55 billion in outstanding loan guarantees would not have been repaid if the programs had ended on June 30, 1992 (9). Substantial losses were incurred when Iraq defaulted, following the Gulf War in 1990. After the breakup of the Soviet Union, Russian defaults were prevented only through debt rescheduling by the so-called Paris Club.

ments. A decade of negotiation was required, but today the United States is party to the U.S.-Israel Free Trade Agreement, the U.S.-Canada Free Trade Agreement (FTA), and the North American Free Trade Agreement (NAFTA) with Canada and Mexico. It is also a founding member and major sponsor of the General Agreement on Tariffs and Trade (GATT), which dates back to 1947 and was succeeded this year by the World Trade Organization (WTO).

Since its inception, GATT and more recently, the WTO has been the chief mechanism through which the United States has pursued international trade negotiations and the goal of trade liberalization. Eight rounds of multilateral negotiations to lower tariffs have taken place. Each of these rounds significantly reduced tariffs on industrial products, but had much less of an impact on agricultural trade—partly because agriculture trade is affected less by tariffs than by nontariff barriers (NTBs) such as import quotas, border fees, variable levies, and import licenses. Although these barriers have generally been inconsistent with GATT rules, GATT members, over the decades, have become quite adept at acquiring exceptions or waivers that suit their needs.<sup>7</sup>

The United States, for example, secured a GATT waiver for its dairy price support programs in 1951.<sup>8</sup> In 1955, it received another waiver for Section 22 quotas on sugar.<sup>9</sup> The United States also encouraged special GATT treatment for agri-

culture when it set up programs to aid exports of agricultural products, including direct export subsidy programs and food aid programs. Both were prohibited for industrial products under GATT rules. As other countries began to implement export subsidies, the United States pushed for and won agreement in the Tokyo Round for limits on export subsidies for agriculture. The provision—that subsidies are acceptable only as long as a country does not take more than an equitable share of the world market—limited but did not prohibit countries from operating agricultural export subsidy programs.<sup>10</sup>

The exceptions granted the United States have not been unique. The EU, for example, used similar exemptions to operate the Common Agricultural Policy (CAP) it established in 1961. Such moves to protect domestic agriculture under GATT have been considerably at odds with decades of GATT efforts to liberalize trade, most of which had little effect on agriculture. The Kennedy Round negotiations (1965-1967), for instance, were not markedly successful in reducing barriers to agricultural trade. After extended efforts to break an impasse between the United States and the EU (then the European Community, or EC), the agricultural discussions ended up focusing on a further reduction of tariffs and a World Grains Arrangement that, concluded under the auspices of the International Wheat Council, ultimately did not work. The Tokyo Round (1974-1979) also

<sup>7</sup> Article XI of the General Agreement prohibits the use of quantitative import and export restrictions. There are three exceptions that relate to agriculture: (a) temporary export restrictions may be applied to prevent or relieve shortages of food or other essential products; (b) import restrictions may be used for any agricultural or fisheries product where such restrictions are necessary to enforce domestic marketing or production restriction programs or for the removal of temporary surpluses; and (c) both import and export restrictions may be used if necessary for establishing standards for classification, grading, or marketing of commodities (11).

<sup>8</sup> When imports of dairy products threatened to interfere with the price support program in 1951, Congress amended Section 22 of the Agricultural Act of 1935, making mandatory the imposition of import quotas or fees whenever imports threatened to render ineffective any domestic price support program—even if the quotas or fees were inconsistent with the obligations of the United States under previous trade agreements. The 1951 amendment to Section 22 stated that “[n]o trade agreement or other international agreement heretofore or hereafter entered into by the United States shall be applied in a manner inconsistent with the requirement of this section.” 7 U.S.C. 624(f).

<sup>9</sup> In addition to Section 22 import restrictions, import quotas on sugar are imposed using authority under Headnote 2 of Part 10A of Schedule 1 of the U.S. Tariff Schedule (TSUS). The United States also has a GATT waiver for this headnote authority. For a discussion of other import restrictions used by the United States, see (11).

<sup>10</sup> An “equitable share” was defined in the Subsidies Code negotiated in the Tokyo Round as “the average share in three recent, representative years” (11).

brought little progress, even though agriculture was identified as a separate agenda item in the Tokyo Declaration.<sup>11</sup> In the end, the United States provided additional access for cheese and other livestock products, Japan expanded its quotas for beef and citrus imports, and the EU reduced its tariffs on tobacco, beef, and poultry.

Unsurprisingly, agriculture proved a major stumbling block in the recent Uruguay Round (1986-1993). Throughout the early years of the Uruguay Round negotiations, the United States pushed for the complete elimination of all subsidies and restrictions on agricultural trade, while the EU argued for a slow phase-out of agricultural subsidies. Early in 1989, after the inauguration of a new U.S. President, and the appointment of a new cabinet and a new U.S. trade negotiator, the United States eased its hardline position on agriculture, while the EU, responding to budget pressures from higher agricultural spending, eased its opposition to reduced support levels. Eventually, after negotiations had broken down several times over the extent to which support levels should be reduced, an “historic” agreement was reached in December 1993. After extensive review, legislation was introduced into both houses of Congress to approve the Uruguay Round Agreements (URA). On December 1, 1994, the Senate followed the House of Representatives in passing the legislation by a wide margin of votes. After seven years of negotiations and six months of consideration by the Congress, the URA went into effect on January 1, 1995. Its agricultural provisions are summarized in box 3-2.

### TERMS OF THE NEW TRADE AGREEMENTS

The new bilateral and multilateral agreements for managing international trade are more inclusive than past agreements. Among the new issues that have been recognized and addressed for the first time is the impact of trade on the environment. In a multilateral context, trade and environmental is-

suces will be addressed by a new WTO Committee on Trade and the Environment, which has been commissioned “to immediately prepare for the WTO’s work in this area by examining:

- the transparency of the present international system;
- exports of domestically prohibited goods;
- the relationship between the GATT dispute settlement system and that of international environmental agreements;
- environmental measures with an effect on trade, such as packaging, labeling, and marking requirements, product standards, and environmental taxes or charges; the relationship between market access and the environment (including tariff escalation)” (4).

Trade and environment issues are addressed further in chapter 5 of this report.

### ■ GATT (WTO)

The URA’s provisions on agriculture have been touted as significant steps toward liberalizing global agricultural commerce. They cover a range of issues, including domestic subsidies, tariffs, import quotas, intellectual property rights, and certain health and safety standards. The new provisions require WTO members to eliminate all quotas, variable levies, voluntary export restraints (VERs), and similar nontariff barriers to agricultural trade, and replace them with tariffs. Accordingly, for the United States, all Section 22 quotas and Meat Import Act VERs must be converted to tariffs, which must be lowered by an average of 36 percent over six years (24 percent for developing countries) beginning in 1995. Tariffs on each category of imports must be cut a minimum of 15 percent (10 percent for developing countries). With regard to agricultural products that are currently subject to import quotas or bans, members must ensure that imports account for at least 3 percent of the base-period domestic consumption in 1995 and 5 percent by the year 2000. (An exception to

<sup>11</sup> The Tokyo Declaration can be found in (3).

**BOX 3-2: Agriculture Provisions of the Uruguay Round Agreement**

**IMPLEMENTATION PERIOD:**

Six years, beginning in 1995 (10 years for developing countries).

**MARKET ACCESS:**

Convert nontariff barriers (NTBs) to tariff equivalents, reduce tariffs by 36 percent on average, with minimum tariff cuts of 15 percent; require minimum access of 3 percent, expanding to 5 percent of base period domestic consumption levels for products covered by NTBs; maintain current access for products covered by NTBs with greater than 5 percent access; and establish special quantity-triggered and price-triggered import safeguards for agricultural products subject to tariffication. Base period for increased market access actions is 1986-1988.

**EXPORT SUBSIDIES:**

Reduce quantity of subsidized exports from 1986-1990 base by 21 percent; reduce budgetary outlays for export subsidies from 1986-1990 base by 36 percent, begin reductions from the higher of 1986-1990 average or, under certain conditions, the 1991-1992 average; make reduction commitments on a product-specific basis; impose budgetary disciplines on export subsidies for processed products; ban use of export subsidies for products not subsidized during the base period. Base period for export subsidies is 1986-1990.

**INTERNAL SUPPORT:**

Reduce total aggregate measurement of support by 20 percent, with credit for reductions made since 1986; establish criteria for non-trade-distorting policies; and provide criteria for production-limiting policies. Base period for internal support is 1986-1988.

**SANITARY AND PHYTOSANITARY MEASURES:**

Base SPS measures on science, using risk assessment methodologies; encourage use of international standards but recognize the right to use stricter standards; require transparency in development and implementation of SPS measures.

**SPECIAL AND DIFFERENTIAL TREATMENT FOR DEVELOPING COUNTRIES:**

Require lower reduction commitments for developing countries, equal to two-thirds of corresponding commitment for developed countries, to be implemented over 10 years; exempt least-developed countries from reduction commitments. Base period for internal support actions is 1986-1988.

**DUE RESTRAINT PROVISION:**

Provides that policies that conform to the new disciplines and commitments on domestic and export subsidies are sheltered from international challenge under WTO/GATT during the implementation period.

SOURCE: U. S. Department of Agriculture, Foreign Agricultural Service, *Agricultural Provisions of the Uruguay Round*, Washington, DC, January 1994, p. 9.

this rule is Japan, which, instead of converting its ban on foreign rice to a tariff immediately, agreed to import 4 percent of domestic consumption in 1995, and 8 percent within eight years.)

The URA text on export subsidies follows similar lines. The major agricultural exporters (the United States and the EU) must cut their export subsidies by 36 percent in budget outlays, and by

21 percent in volume, within six years, using 1986-1990 as a baseline. With regard to domestic farm subsidies, the new agreement requires all members to reduce current domestic support to farmers by 20 percent over a six-year period (10 years for developing countries), using 1986 through 1988 levels as a base. Certain support programs deemed to have few or no adverse effects on



*Recent congressional action on trade matters includes the North American Trade Agreement (NAFTA) and the Uruguay Round Agreements (URA). NAFTA will lower trade barriers between Mexico, Canada, and the United States while the URA will ease trade barriers and reduce export subsidies between a hundred or more nations.*

trade—such as conservation measures, crop insurance, and extension programs—are exempted from this requirement, as are deficiency payments and food aid programs. Although deficiency payments are not considered to affect international trade patterns adversely, their impact on production patterns in the United States suggests that U.S. exports may be skewed in favor of the crops covered by target prices. Thus, while the United States is free to continue target price programs under the URA, their effects on domestic production patterns and export composition raise questions about the wisdom of using them.

Health and safety issues associated with agricultural trade generally fall under the rubric of “sanitary and phytosanitary” (SPS) measures, which include regulations to protect human, animal, or plant life and health from disease, nonindigenous species, dangerous levels of pesticide use, and so forth. Traditionally, GATT’s article XX exempted from GATT rules domestic measures “necessary to protect human, animal, or plant life

or health”—a description that includes most SPS measures. However, the URA emphasizes that members may employ SPS measures “only to the extent necessary to protect human, animal, or plant life or health” and must use SPS measures that are “least restrictive” to trade. The text also stipulates that SPS measures cannot generally be maintained “without sufficient scientific evidence.” An exception permits countries—under certain circumstances in which scientific evidence is not available—to set SPS standards that are not based on scientific evidence. Technical regulations and standards, such as packaging and labeling requirements, must conform to similar rules.

Finally, the URA establishes the WTO, which, as noted above, has now taken on the GATT agenda and other responsibilities. Perhaps most germane for agricultural trade, the WTO has much stronger powers with regard to trade disputes than GATT did. Under the WTO, panel decisions hold unless there is a unanimous member vote against them. Under the old provisions, panels of experts were convened to resolve disputes between members, but authority to enforce decisions was extremely limited. Any GAIT member could, in fact, block a panel decision, and GATT could not actually enforce the decisions of its panels. Its only prerogative was to grant permission for the complaining nation to use trade sanctions against an offending nation if the latter did not comply with the GATT panel ruling. Under the new provisions, a defending party:

... cannot block the formation of a panel and strict time limits are imposed for each step of the process. Once the panel has issued a report it will no longer be possible for either party to block adoption of the report . . . Perhaps the most significant improvement in the process is that the complaining party will be given the right to retaliate if the offending party does not implement the recommendations of the panel within the agreed or arbitrated time limits (14).

One result of the URA is much stronger provisions for enforcement of panel decisions.



*Negotiations under the Uruguay Round went on for 7 years, covering Presidents Reagan, Bush, and Clinton. The negotiations ended in December 1993 and Congress gave final approval for the massive agreement in December 1994. Most of the URA provisions will be implemented by 2000.*

## ■ NAFTA

Agricultural trade was not the defining issue in the NAFTA negotiations that it was in the Uruguay Round talks. Nonetheless, the United States, Canada, and Mexico remained deadlocked for months over many of the same issues: domestic agricultural practices and other NTBs. At the behest of Canada, which sought to preserve its supply management system in dairy and poultry products, as well as its subsidies for transporting grain, two separate agricultural market access agreements were negotiated: between the United States and Mexico, and between Mexico and Canada.<sup>12</sup> The United States and Canada agreed that they would

continue to abide by the U.S.-Canada FTA's agricultural trade provisions.

Unlike the URA, which simply reduces tariffs on many of the agricultural goods traded among its members, NAFTA completely phases out North America's regime of agricultural tariffs. The time period for the tariff phase-out depends on the crop or product. For example, tariffs on about one-half of the agricultural products traded between the United States and Mexico were eliminated on January 1, 1994, when NAFTA came into effect. However, tariffs on extremely "import-sensitive" agricultural exports-products that have traditionally required substantial legislative

<sup>12</sup> As noted previously, Canada eventually agreed to dismantle its supply management system and its NTBs for dairy and poultry under the URA.

protection from imports—are phased out over 15 years. Import-sensitive products include corn and beans for Mexico, and orange juice, peanuts, and sugar for the United States.

NTBs, such as import quotas, are handled in a slightly different manner. Under NAFTA, the United States and Mexico must convert them either to ordinary tariffs, which are phased out according to the agreed-upon tariff schedules, or tariff-rate quotas (TRQs). In opting for a TRQ, either Mexico or the United States may allow a specified amount of duty-free imports of a certain good, and impose a predetermined tariff (equal to the estimated value of the preexisting NTB) on all imports above that amount. The specified amount expands, and the tariff is lowered, until all imports are duty free. NAFTA also provides “safeguards” against trade surges for selected products, which means that if imports exceed a specified level for a specified product, the importing NAFTA country may levy short-term tariffs on that product. The specified “trigger” levels increase over a 10-year transition period. Such products include live hogs (Mexico) and fresh tomatoes imported between certain dates (United States).

Although such provisions generally apply to industrial products, NAFTA requires that certain agricultural products meet a rules-of-origin test—that is, to qualify for NAFTA’s preferential rates, these products must be entirely grown or substantially processed in a NAFTA country. As an example, the peanuts used in making peanut butter that is traded between Mexico and the United States must all be grown in a NAFTA country; and traded sugar must be grown and refined in a NAFTA country.

NAFTA’s position toward domestic agricultural subsidies, as well as export subsidies, is considerably less stringent than that of the URA. With regard to domestic supports, NAFTA simply exhorts members to “endeavor to work toward support measures that (a) have minimal or no trade-distorting or production effects; or (b) are exempt from any applicable domestic support reduction commitments that may be negotiated under the GATT.” The agreement also recognizes that export subsidies are “inappropriate,” except

as a means of countering subsidized exports from countries outside the NAFTA group. Consequently, the NAFTA text includes several measures that address the issue: for instance, a NAFTA exporter must give another NAFTA country at least three days’ notice before introducing an export subsidy.

Quality and SPS standards were an important part of the NAFTA negotiations. The final NAFTA text, for example, allows the United States to continue using marketing orders—specifications regulating quality, cosmetic appearance, and as a result, quantity and price—for fruits and vegetables. However, the agreement also states that when they institute such measures, the United States and Mexico must offer no-less-favorable treatment to “like” products that are imported for processing. With regard to SPS standards, NAFTA upholds each party’s right to choose and maintain the SPS measures it deems appropriate for its needs. The measures must, however, be grounded in scientific principles and risk assessment, must not constitute a disguised barrier to trade, and should be used only to the extent required to attain a country’s chosen protection level. NAFTA’s treatment of labeling and packaging requirements follows similar lines. These areas are discussed further in chapter 5.

Given that agricultural trade has been a particularly contentious issue in North America of late, the NAFTA dispute resolution provisions are key to the ultimate success of the agreement. Like the WTO, NAFTA relies on panels of trade and economic experts to settle potential disputes among members, and allows for consultation with experts in other disciplines. The agreement also creates a trilateral commission on agricultural trade that will monitor how the NAFTA agricultural provisions are implemented and administered.

## IMPLICATIONS OF GATT AND NAFTA

A major difference between the URA and NAFTA is that limits on export subsidies are included in the URA. Export subsidies assumed a much greater importance under the URA because of its broader coverage. During the URA negotiations, export subsidies escalated as the United States and the EU vied for a nearly stagnant world market.

**TABLE 3-2: Export Subsidy Commitments of the United States, European Union, and Canada Under the Uruguay Round Agreement**

Outlay commitment	U.S.\$1,000	EU1,000 ECU	Canada C\$1,000
Wheat & products			
1995	765,490	2,069,400	311,000
2000	363,815	1,141,100	199,000
Rice			
1995	15,706	58,100	NA
2000	2,369	39,600	NA
Coarse grains			
1995	67,735	1,296,700	116,000
2000	46,118	882,900	75,000
Meat (beef, pork, poultry)			
1995	21,377	2,300,800	NA
2000	37,874	1,468,400	NA
Dairy products			
1995	185,626	3,046,600	126,500
2000	116,618	2,011,400	80,800

SOURCE: International Agricultural Trade Research Consortium (Tim Josling, et al.), "The Uruguay Round Agreement on Agriculture An Evaluation," Commissioned Paper No 9, University of Minnesota, St Paul, Minnesota, July 1994

Both governments tried to position themselves for maximum negotiating advantage. Under the final agreement, all countries that use export subsidies will gradually lower their use. The levels negotiated by the United States, the EU, and Canada, the three largest subsidizers, are summarized in table 3-2 for major commodities for 1995 and 2000.

The amount of subsidies negotiated and the amount specified in the individual country schedules submitted to GATT were measured in each country's currency, which makes comparisons among countries more complicated. To overcome this difficulty, subsidies for 1995 and 2000 were converted into U.S. dollars using exchange rates from November 1994<sup>13</sup> and are shown in table 3-3. Wheat export subsidies are the largest for the United States and Canada, while dairy subsidies are the largest for the EU, followed by meat, wheat, and coarse grains. Levels of export subsidies for wheat and wheat products will be cut nearly in half between 1995 and 2000 for all countries. For coarse grains, the reduction is not as large (about one-third). For meat, the EU will remain a

large subsidizer even in 2000, as it will for dairy products.

The amount of agricultural export subsidies allowed for 2000 are lower for all countries and all commodities. An overall reduction of 36 percent was agreed to by Canada and the EU, while the United States agreed to a reduction of 49 percent. Some variations among commodities and within commodity groups were evident in the final U.S. subsidy numbers, although the differences are not extreme. With regard to dairy products, for example, there were large reductions for some items and smaller reductions for others. U.S. wheat subsidies were lowered more in percentage terms than coarse grains, but the total amount of subsidy for wheat was much larger. Export subsidies for rice were cut significantly, but some offset was provided by the marketing loan program, which allows growers to repay their price support loans at world market prices, then sell their rice for either domestic consumption or export at lower prices and still cover costs of production. Examined from this perspective, the marketing loan program is another form of export subsidy. It is available

<sup>13</sup>On November 9, 1994, the ECU traded at 1.2599 U.S. dollars and the Canadian dollar traded at 0.7375 U.S. dollars, according to the *Wall Street Journal*, p. C 16.

for crops other than rice, although USDA has chosen not to implement it for them.

Export subsidies are only a part of total outlays for agricultural commodities. In addition, producers in the United States and the EU receive production payments that offset lower market prices. These payments act as indirect export subsidies although, because they are available to internal buyers as well as export buyers, they are not technically export subsidies. Neither U.S. deficiency payments nor the new compensation payments under the reformed CAP had to be lowered under the terms of the URA.<sup>14</sup> Each country must establish a ceiling for the amount of support afforded producers through internal support mechanisms. Average support provided to producers for all commodities must be less than levels extended for the 1986-88 period. Since payments have declined in the interim years, this leaves open the opportunity for both countries to provide larger income support payments in the future. However, since income support payments cover a large portion of total production, costs are considerable and may act as a constraint on their use, given budget limitations in both the United States and Europe.

The URA allows other types of indirect export subsidies to continue. Schott (4) outlines the details:

The agreement expressly excludes several types of export subsidy programs from the new disciplines. Export credits, credit guarantees, and insurance programs are not covered, but governments commit themselves to develop and adhere to internationally agreed disciplines in these areas. In addition, privately financed export aid is not covered as long as it is not mandated or arranged by the government or extended to products receiving other governmental support. This provision ensures that those producer-financed export subsidy schemes that provide benefits comparable to those under similar government programs are subject to GATT disciplines.

Food aid programs were also excluded from coverage. This exemption could become important if countries redefine export shipments to countries in economic or environmental distress.

Besides the URA, the United States is also implementing the terms of NAFTA. Will the two agreements help the United States to compete more effectively in the world market for food and agricultural products? They are projected to do so, albeit modestly. According to USDA, the URA is expected to boost U.S. agricultural exports by \$1.6 billion to \$4.7 billion in nominal terms by 2000 (3.8 to 11.0 percent increases over 1993 exports of \$42.6 billion), and between \$4.5 billion to \$8.7 billion by 2005 (13). Farm income is expected to be \$1.1 billion to \$1.3 billion higher than would otherwise be the case in 2000 (2.4 to 2.8 percent increases over 1993 net farm income of \$45.5 billion), while government outlays are projected to decline by \$0.7 billion to \$1.3 billion (4.4 to 8.1 percent decreases over 1993 government outlays of \$16.0 billion). In 2005, farm income is projected to increase by \$1.9 billion to \$2.5 billion, and government outlays could decline by \$2 billion to \$2.6 billion (13).

Estimates from other organizations, although they project expanded trade, are less optimistic. The U.S. International Trade Commission (ITC), for instance, concludes that “because the Uruguay Round agreement will increase both export opportunities and the level of imports for most agricultural sectors, the overall net trade effects are likely to show negligible to modest gains at the sector level.” As a result of the URA, the ITC projects small (1 to 5 percent) increases in exports of livestock, meat, poultry, and eggs; modest increases (5 to 15 percent) in exports of such bulk commodities as grains, as well as in fruits and vegetables; and “sizable” increases (more than 15 percent) in dairy products and beverages (18). Also according to the ITC, U.S. agricultural exports of grains and

<sup>14</sup> In 1992, the EU reformed the CAP, instituting mandatory set asides to lower output and compensating European farmers with government payments that are based on the hectares of crops planted, not on the level of output. U.S. target price payments are based on acreage and yields although the yields are frozen at 1985 levels. Flex acre provisions provide additional limitations with payments limited to 85 percent of the base acres on a farm.

**TABLE 3-3: Export Subsidy Commitments Converted into Dollars for the United States, European Union, and Canada Under the Uruguay Round Agreement.**

Outlay commitment	U.S.\$1,000	EU\$1,000	Canada\$1,000
Wheat & products			
1995	765,490	2,607,237	229,363
2000	363,815	1,437,672	146,763
Rice			
1995	15,706	73,200	NA
2000	2,369	49,892	NA
Coarse grains			
1995	67,735	1,633,712	85,550
2000	46,118	1,112,366	55,313
Meat (beef, pork, poultry)			
1995	21,377	2,898,778	NA
2000	37,874	1,850,037	NA
Dairy products			
1995	185,626	3,383,841	93,293
2000	116,618	2,534,163	59,5900

SOURCE: International Agricultural Trade Research Consortium (Tim Josling, et al.), "The Uruguay Round Agreement on Agriculture: An Evaluation," Commissioned Paper No 9, University of Minnesota, St Paul, Minnesota, July 1994

oilseeds, certain fruits, poultry, and dairy products to Mexico are likely to increase modestly to considerably in the long term under NAFTA, while imports from Mexico will rise somewhat for frozen vegetables, citrus juice, and some fruits, such as strawberries, grapes, and melons. In an assessment somewhat similar to that of the URA, the ITC concludes that NAFTA "will likely have a minimal impact on overall U.S. agricultural competitiveness" (19).

Could the gains have been greater? A key factor would be whether internal subsidies, such as those that the EU and United States provides its farmers, are actually affected by the URA. In the final analysis, this appears not to be the case. The base years from which reductions in domestic farm subsidies are calculated (1986- 1988) represent a period in which the governments of both the United States and the EU lavished considerable sums on their respective agricultural sectors (through both production and export subsidies). Since that time, however, domestic budget woes, plus the easing of financial problems in U.S. agriculture, have led to reform of U.S. policies and forced the EU to launch reforms of the CAP. These reforms and reductions have lowered total outlays on agricultural programs considerably. Consequently, even

though total outlays must be lowered by 20 percent under the URA, actual reductions will not be required.

In addition, and as noted earlier, the URA exempts a number of subsidies from its disciplines, such as conservation measures, crop insurance, and disaster programs. These programs are not considered to have adverse effects on trade because the payments do not ultimately support commodity prices. Included among them are general service programs such as research, extension, and pest and disease control, as well as inspection, market promotion, and infrastructure support. The result is an agreement on internal supports that is, according to Josling et al., "elaborate window dressing, but transparently nothing of substance" (6). The United States will not have to make additional cuts to comply with the URA, and the EU's concessions will be "relatively limited" (6). Reductions in export subsidies will also be modest, given ongoing CAP reform, although, notably, the United States will match the EU's ton-for-ton reductions in subsidized exports in wheat. By extension, it seems likely that, as Josling et al., point out, "the United States will . . . concentrate its export subsidy bonuses in those markets that continue to face subsidized competition

from the EU” (6). Developments such as these may in fact serve to draw U.S. attention and dollars to promoting high-value products, although the process may be slow and incremental. In its report on the URA, the ITC noted that U.S. exports of such high-value products as fruits and vegetables, poultry, livestock and meat, beverages, and certain specialty items may benefit from new provisions in the URA’s SPS agreement.<sup>15</sup>

Because both the URA and NAFTA lower and/or eliminate tariffs and traditional NTBs such as quotas, some have speculated that member countries may compensate by using their SPS regulations as barriers to agricultural imports. Kuo and Yanagisawa contend, for example, that both Japan and South Korea may seek to protect their newly opened rice markets by imposing discriminatory safety standards on post-harvest chemical treatments of rice (8). Such uses of health and safety standards are not new: the EU’s Third Country Meat Directive and its ban on meat products from animals given certain hormones are cases in point.

In a related matter, packaging and labeling requirements that fall under the aegis of “environmental” measures have increasingly been the subject of disputes involving such products as traded beverages. Whether high-value U.S. agricultural exports would be significantly impeded by a global increase in SPS and “environmental” measures used as trade barriers is not yet clear, but remains a possibility—and the ability of the WTO or NAFTA to effectively and consistently prevent the use of SPS and environmental measures in this manner has yet to be determined. These subjects are discussed further in chapter 5.

## TRADE AGREEMENTS AND DOMESTIC PROGRAMS

Although the URA will have little direct influence on the level of domestic subsidies that the United States and the EU give their farmers, it seems likely that the new trade agreements, along with ongoing budgetary pressures, will exert pressure to dis-

engage from the elaborate system of farm support mechanisms that both countries currently have in place. Lower tariffs and the process of converting certain NTBs to tariffs will bring more competition from outside suppliers. Price supports may again act as incentives for other countries to ship more products to the United States. Target price programs may become more costly as foreign supplies lower global and internal market prices, expanding the differential between target and market prices and increasing the level of budgetary payments.

The United States has already taken steps to correct some problems that have grown out of the increased globalization and greater trade orientation of the past two decades. An example is the creation of flex acres in the 1990 farm bill, a step that was designed to lower budgetary cost and reverse the decline in U.S. soybean acreage. The decline was the outgrowth of complex interactions between the economics of domestic farm programs and the expansionary tendencies of foreign suppliers. (See box 3-3.) But the result was more soybean acreage in Brazil and Argentina and less acreage and fewer exports of soybeans and soybean products from the United States.

Beyond the internal problems, current farm programs also have led to external problems. One very visible problem has been the matter of wheat imports from Canada. The problem revolved around a U.S. target price for wheat that encouraged more wheat production than markets would absorb without large export loans and export subsidies. These programs expanded exports and raised the domestic price of wheat, drawing in wheat from Canada. Before the U.S.-Canada FTA was implemented, such shipments were discouraged by threats of Section 22 actions. Under the FTA, however, Canada had the opportunity to ship wheat into the United States. Although technically permissible, the shipments led to tensions between the two countries, as U.S. wheat farmers saw the benefits of export expansion programs si-

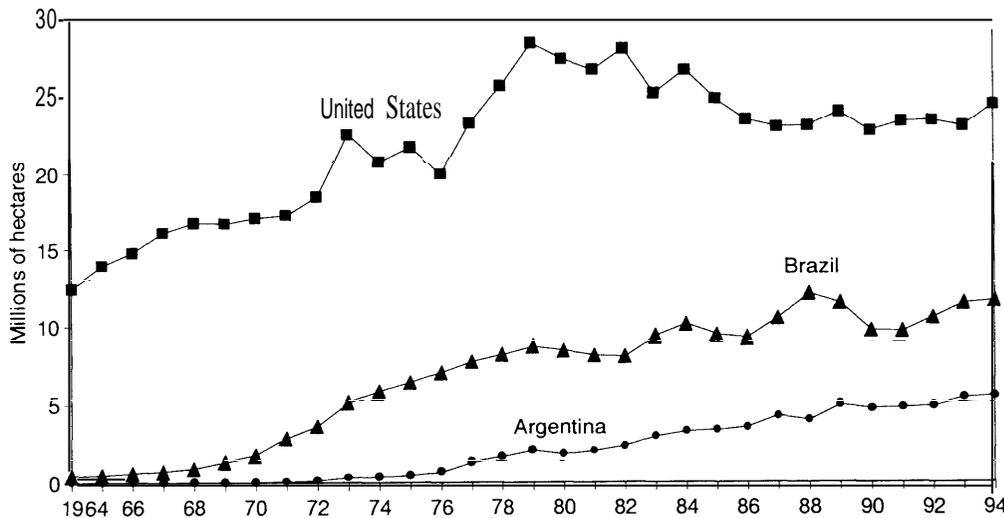
<sup>15</sup> The agreement provides for “mutual acceptance of national inspection systems and adoption of a “regionality” provision that permits exports from certified disease-free areas within a country” (18).

## BOX 3-3: The Soybean Situation

Soybeans, like all crops, must compete for available cropland. As part of this competition, farmers compare expected returns per acre from other crops with expected returns from soybeans. In making these comparisons, farmers take into account that wheat, corn, other feed grains, rice, and cotton are covered by both price support programs and deficiency payments under target price programs. Soybeans are covered only by price supports

The availability of price supports and, since 1973, target price payments for other crops, favors the production of other crops over soybeans. This is especially true across the Corn Belt, where yields of corn have increased relative to soybean yields. As corn yields rose and production exceeded market requirements, acreage reduction programs were instituted to hold down total output of corn and other program crops. As a portion of the nation's cropland was idled, less acreage was left for soybeans, which contributed to a downward trend in soybean acreage. From a high of 72 million acres of soybeans planted in 1979, U.S. soybean acreage declined and totaled 61 million acres in 1994, while acreage in other countries continued to rise (figure 3-4).

FIGURE 3-4: Area of Soybean Harvest, 1964-1993



SOURCES U S Department of Agriculture, Economic Research Service, Production, Supply and Demand Database, 1994

In an effort to reverse the downward trend in soybean acreage, the 1990 farm bill provided that soybeans could be planted on a portion of acreage previously devoted to corn and other major program crops without loss of future eligibility for target price payments. This flexibility provision, along with unusual weather conditions, ended the downward trend in soybean acreage. Modest increases occurred in 1991 and 1992, with more than 59 million acres planted. Acreage increased to 60 and 61 million acres for 1993 and 1994, respectively—although some analysts argue the increase may have been due to the extremely wet spring and fall of 1993, which prevented plantings of other program crops. The added flexibility is not given much credit for the increased acreage. Soybean acreage is not expected to increase very much unless further changes are made in current farm legislation.

SOURCE Office of Technology Assessment, 1995

phoned off to a competitor country. After several years of dispute, the United States requested in 1992 that a dispute settlement panel be setup to resolve the issue. Some aspects of the case were

clarified—but the fundamental conflict remains, even though the URA will further limit the use of restraints on wheat imports.<sup>16</sup>

<sup>16</sup> For an extended review of the U.S.-Canada trade dispute over wheat, see (12).

As the URA is implemented over the next several years, other conflicts between the new agreements and old farm program regulations are likely to arise. Similarly, there may be more conflicts between the old programs and new global market trends. Two examples where current program regulations are in conflict with global market trends are the prohibition on planting of fruits and vegetables on flex acres and the prevention of grazing on Conservation Reserve acres. Both tend to hold down production of items that are in growing demand in world markets. While they may have been well intentioned when initially established, the new trends in global markets have made both of questionable value to the nation.

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