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Understanding US Agricultural Trade Negotiations: A Brief Review of Political and Economic Forces that will Drive US Positions in the World Trade Organization and in the Free Trade of the Americas Agreement

W O R K I N G P A P E R

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The US and other countries in the Western Hemisphere are currently engaged in two trade negotiations, namely the agricultural negotiations in the WTO that were mandated at the end of the Uruguay Round and the Free Trade of The Americas negotiations (FTAA).

In the US as in all democracies, political and economic forces shape government negotiating positions. As a democracy the US system is unique in that it shares and attempts to limit political power through a system of legislative checks and balances. Under this system one party can be in control of the Executive Branch while a different political party – or even two can dominate the Houses of Congress. These political realities mean the importance of politics is heightened in all policy decisions, including international trade negotiations. Private sector interest groups lobby members of Congress intensively and Congress responds by playing a key role in the negotiations well beyond the role of legislative bodies in most other countries.

This paper will examine some political and economic forces and the possible interactions between them that will shape the current US negotiating positions in the WTO and FTAA. The discussion will focus on three topics, the politics of US domestic agricultural policy and agricultural trade policy, the US agricultural sector's concentrated focus on the Common Agricultural Policy (CAP) of the European Union, and the US agricultural producers major concerns about free trade agreements in agriculture.

The Politics of US Agricultural Policy and Trade Policy

At the outset the reader needs to remember the unique status of trade negotiations in the US political system. The US Constitution reserves the power to raise government revenue to the Congress of the United States. Tariffs and custom duties are revenue measures and are therefore the part of the congressional authority. However, as a practical matter the Congress recognizes that they cannot negotiate trade agreements, so they delegate their authority to the Executive Branch on a limited case-by-case basis, often adding certain restrictions to the negotiating authority. This delegation is referred to as *granting of negotiating authority*.

Beyond granting negotiating authority Congress exerts a major influence on the negotiating agenda and a continuing influence on the negotiations as they occur. Throughout and even after the negotiations there is an implicit congressional threat to block an agreement if it is strongly opposed by enough of the groups that take an interest in the negotiations. As a result the Executive Branch negotiators have to be constantly in touch with the members of Congress and their constituents regarding the negotiations.

Since 1974 in order to circumvent or minimize the congressional threat to block an agreement, every grant of negotiating authority has been accompanied by a special provision known as *Fast Track Authority*. (The Bush administration is referring to Fast Track as the *Trade Promotion Authority (TPA*). The Fast Track or TPA provision stipulates special rules that govern review of the final agreement when it is submitted to the Congress. These rules include a limit on the time the Congress has to consider the agreement before voting on it and a rule that the agreement cannot be amended and thus will be subject to a straight vote of approval or rejection.

The Current Political Landscape

During the last decade a deep political divide regarding trade liberalization has developed in the country and as a result in the Congress. It apparently was triggered by the NAFTA and the belief on the part of labor unions and environmentalists that free trade agreements with developing countries are bad for domestic workers and for the environment. These groups have rallied to defeat new congressional authority for trade negotiations and Fast Track. They have been joined by a number of agricultural groups that are opposed to further trade liberalization.

As it happens the support of the labor unions and environmental groups are crucial to the hopes of congressional democrats to gain control both houses of Congress in the 2002 congressional elections. This means that the democratic members of Congress will not support a new round and Fast Track unless there are provisions for labor rights and the environment in the negotiating proposal.

The Link between US Agricultural Support and Trade Policy

US agriculture support policy began as a series of commodity support policies in the 1930s and continues to be a bundle of commodity support policies until the present time. The original supported commodities were wheat, cotton, corn, rice, peanuts, and tobacco. The first five are still the favored support commodities and are now called program crops. A sugar support program that used import controls to raise and maintain domestic sugar prices was added in 1934, and soybeans and dairy products were added to the list of supported commodities immediately after World War II. The so-called program crops account for 27 percent of US farm cash receipts in 2000 and received 97 percent of the domestic subsidy payments last year.

From the beginning the US border protection policies were designed to maintain domestic prices of these favored commodities above world prices via the use of import quotas. When the original GATT was written in 1947 the US insisted on the provisions in Article XI and Article XVI of the GATT that allowed countries to use quantitative import controls and export subsidies to protect their domestic support programs.

From the beginning the support policies were largely congressional policies. This became even truer after WWII. During most of the post-war period there has been a continuing struggle between the Executive Branch in its effort to control and reform subsidy programs and the commodity groups and their Congressional supporters who resist reform and reductions in subsidies.

Initially, the most influential representatives of agricultural producers were general farm organizations, namely the American Farm Bureau Federation, the National Grange, and the National Farmers Union. Increasingly the power has shifted from the general farm organizations to individual commodity group organizations. Over the past 20 years the commodity groups have come to dominate the policy process and have become the major determinants of the policies for their commodities. The power of the sugar lobby is legend, but matched by that of the dairy producers, the wheat growers, the corn growers, the peanut growers, the cotton growers and shippers, and in the past the tobacco growers.

Each of these commodity groups has supporters in Congress who they attempt to influence by paying lavish attention and providing financial and other forms of campaign support. The members of Congress targeted by the commodity groups are from states or districts where the commodity is economically or politically important. The agricultural committees of the Congress are mostly comprised of these same members.

US support policy is largely bipartisan. The role of the agricultural committees of Congress is to develop and maintain a rough parity between the subsidies for the various commodity groups and to place an overall limit (or maximize) the aggregate spending for domestic support programs. The specific commodity groups have a strong if not overriding influence on the features of their individual commodity program. The commodity groups work as a coalition to push up the limits on subsidy expenditures, and rarely does one commodity group object to the program proposals for another group. Thus, the US does not have a farm support policy, it has a bundle of support programs for a relatively few politically connected commodities.

US Agricultural Trade Policy

US commodity groups are fiercely mercantilistic. In their view the purpose of trade negotiations and trade policy is to open foreign markets to US exports. They have no interest in trade liberalization to increase the efficiency of world resource use. Almost without exception they oppose imports of competing agricultural products. Those commodities that have been protected by high tariffs and quantitative import restrictions generally oppose trade negotiations and fight vigorously to maintain their protection. Thus, even in the best of times there are a significant number of politically powerful commodity groups that oppose the inauguration of new trade negotiations, and oppose the adoption of a Fast Track procedure that would limit their ability to head off unfavorable agreements affecting their commodity.

Their efforts generally start with attempts to write restrictions into the negotiating authority that will prevent the negotiators from reducing their protection. Thus, while it is generally asserted that the agricultural sector is supportive of trade negotiations, the fact is that at any given time there is significant opposition to trade liberalization in agriculture by a number of commodity groups. In fact, it was the opposition of key farm and commodity groups that prevented the passage of a Fast Track Authority in the Clinton administration in the late 1990s.

One example involves the sugar and sweetener industry and the NAFTA. The sugar and sweetener industry blocked the approval of the NAFTA with Mexico until the US negotiated a side agreement with Mexico that substantially scaled back Mexico's access to the US sugar market. Thus, even with Fast Track Authority some commodity groups are powerful enough to stall agreements that they believe injure their interests. A more recent case concerned the commodity groups protected by tariff rate quotas (TRQs). Theses groups (such as, peanuts, dairy, tobacco, etc.) forced the Clinton administration to alter its WTO proposal on TRQ reform after the Executive Branch and the private sector advisory committee had approved it.

These commodity groups thus have a significant influence in the development of agricultural trade policy both through their links with Congress and their ability to get Congress to protect their interests. They also have substantial influence directly with the Executive Branch in effecting the way negotiating proposals are developed and later during the negotiations through the private sector advisory groups mandated by Congress. In agriculture this group is called the APAC (Agricultural Policy Advisory Group). The APAC members are representatives of the key commodity groups such as dairy, grains, wine and meat animals, as well as representatives of the Farm Bureau, the Farmers Union and a few agribusiness representatives.

In addition there is a series of technical advisory groups called ATACs that are organized by commodity interest. Thus, there is the sugar and sweetener ATAC, the dairy ATAC, the meat ATAC, etc. These groups have direct access to the negotiating position of the government and are in a position to call on their congressional supporters to head off any actions they do not like. US trade negotiators are acutely aware of the power of these commodity groups and as a result go to great lengths to keep their support or avoid their opposition.

Different groups prefer different negotiating formats. Export oriented groups favor the rules-based approach used in the Uruguay Round where tariff cuts and access rules apply to all commodities in all countries. On the other hand the protected industries want request-offer negotiation where their commodity can use its political clout to escape serious liberalization. If as it appears the FTAA is a request-offer negotiation it can be safely predicted that some of the politically powerful, import-sensitive commodities will be either be exempt or demand such long phase-in periods that the concessions are meaningless.

US Focus on the Common Agricultural Policy

From its inception more than 40 years ago the US agricultural groups and the USDA have had a near obsession with the EU's CAP. The US negotiating position in every agricultural trade negotiation since the Kennedy Round has been aimed at destroying or substantially curbing the CAP. During the Kennedy Round an effort was made to prevent key elements of the CAP from being initiated. The EU actually offered to freeze the margin of support provided by the CAP. The US foolishly rejected the proposal because US negotiators felt it would validate the CAP.

The Tokyo Round agricultural negotiations were an unsuccessful attempt to get the EU to agree to amendments to Article XVI that would curb the unlimited use of export subsidies. The Uruguay Round was basically a US-EU negotiation that was designed to eliminate or curb the EU's use of export subsidies and an attempt to get rid of the variable levy. The negotiations were partially successful in curbing the use of export subsidies, and the idea of tariffication was to convert all forms of border protection to ordinary tariffs. However, the EU bound their converted tariffs at very high levels and then installed a series of complex tariff structures, minimum import prices and other devices that essentially provide the EU market with the same isolation from world markets and the same internal price stability that the variable levy provided. Thus, the EU again thwarted the idea of ordinary tariffs that allow external prices to be transmitted to internal markets.

An examination of the US negotiating proposal submitted to the WTO in May 2000 shows it is clearly aimed largely at the EU. It calls for a complete elimination of export subsidies, the use of a tariff formula that will remove high tariffs and produce relatively uniform levels of protection between commodities within a country and between countries, and the elimination of complex tariffs with a move to *ad valorum* tariffs only.

The US also proposed a new approach to the measurement of and limitations on domestic subsidies. They proposed that the subsidy caps be calculated as a percentage of a country's total agricultural product, and that a limit as to the maximum allowable percentage be set. This clearly is designed to force the EU and Japan to reduce subsidies without affecting the US. In addition the US wants the so-called Blue Box eliminated. The Blue Box is a device that the US and the EU agreed to in the Uruguay Round to exempt their major support programs from reduction if the support programs were accompanied by production controls. At this point only the EU uses this escape hatch and it allows the EU to provide huge payments to their producers that are outside the WTO limits for trade distorting subsidies and not subject to reduction.

It is sometimes difficult to explain the near-obsession of the US commodity groups and the USDA with the CAP. Part of it goes back to the early days of the CAP when it clearly prevented US exporters access to internal production by maintaining high across the board protection. When the EU reached self-sufficiency they began to use export subsidies to capture markets that US exporters had viewed as theirs. Prior to the late 1970s the EU was the most lucrative export market for US farm products. One by one our producers saw that market close, often with the use of illegal subsidies to spur domestic production and drive out imports. In addition the US commodity groups are obsessed with the likelihood that the EU will use its export subsidies to take over markets where the US would be expected to have a competitive edge. This fear is especially strong regarding Latin American markets. This fear also was the reason the US refused to agree to forego the use of export subsidies in Mexico in the NAFTA.

The fear the EU will capture markets in the Americas also has implications for the FTAA. It is unlikely the US will restrict its use of export subsidies under the FTAA until and unless the issue of export subsidies is settled in the WTO. This is equally true of reductions in domestic subsidies. The US would view the reduction of domestic subsidies in the FTAA as unilateral disarmament *vis a vis* the EU. The US agricultural interests will insist that global policy issues be settled in the global forum, the WTO; and will be unwilling to reduce the US bargaining position in the WTO by actions taken in the FTAA.

These concerns imply that the US is unlikely to make final commitments in the FTAA on global issues such as domestic subsidies and export subsidies until the outcome of the WTO negotiations on those issues become clearer. This reluctance to undercut the WTO negotiations also extends to the issue of free trade in products now protected by tariff rate quotas. I will discuss this issue later.

Producer Concerns Regarding Free Trade Agreements

US agricultural interests have a fear of free trade agreements in agriculture, especially with countries that are low cost competitors. There are several reasons for these fears, some of which are rooted in the experiences under the Canada-US free trade agreement and the NAFTA.

One concern is that free trade with low cost competitors does not provide any real opportunities for expanding US agricultural exports, a basic objective of US agricultural trade policy. An even greater concern is that the low cost competitors will under cut domestic production in internal markets with low cost imports. This in fact happened to the US fresh fruit and vegetable industry in the case of NAFTA. In the case of Canada the US industry had hoped to gain access to the Canadian dairy, poultry, and egg market, but access was blocked by Canada’s insistence that they would only alter those import restriction in the WTO negotiations.

A second reason for opposition to free trade agreements with low-cost competitions is that such agreements would essentially destroy a number of US support programs. The sugar program could not survive a free trade agreement; indeed it is struggling to survive increased imports from Mexico under NAFTA. The dairy price support program cannot survive in its present form if imports of processed dairy products now prevented by tariff rate quotas are allowed to rise as they would under a free trade agreement.

If there were a free trade agreement the tariff rate quotas that reserve our domestic textile market for US cotton by preventing the entry of cheaper imported cotton would be jeopardized. The same would be true for the peanut TRQs that reserve our domestic market for peanuts for domestic producers, and our TRQs on tobacco that protect our domestic market for US producers. A FTAA would destroy our TRQs on fresh and chilled beef. In other words the move to a free trade agreement with low cost competitors would essentially make a significant portion of the US support programs inoperative, a prospect that would be viewed highly unfavorably by the US agricultural sector. In addition there are several commodities that are not supported which feel that if they lose their tariff protection they cannot survive the competition from Latin America. These include the California wine industry, which has opposed a free trade agreement with Chile; and the Florida orange juice industry, which strongly opposes the FTAA. Not only are these groups politically powerful in their own right, but also they are centered in two states that are key states in presidential elections.

A third concern that grows out of the experience with the US-Canada agreement and the NAFTA is the operation of free trade agreements with countries whose exchange rates are subject to substantial changes. Over the period that the US-Canada agreement has been in effect the Canadian dollar has slowly declined against the US dollar making Canadian agricultural products more competitive in US markets.

More problematic was the sharp devaluation of the Mexican Peso against the US dollar following the Mexican economic crisis of 1994. This major devaluation of the peso brought an immediate flood of Mexican farm products into the US at sharply lower prices, and made it virtually impossible for US exporters to sell to Mexico for some time. Our agricultural leaders are acutely of this experience and a number of them say they will not enter into a free trade agreement with countries lacking a stable exchange rate with the US. Some groups are even demanding an automatic compensatory tariff to offset sudden and significant changes in exchange rates.

Put in the starkest terms I do not believe that a significant portion of the US agricultural sector supports the FTAA. It is openly opposed by the Florida Fresh Fruit and Vegetable Association and the National Farmers Union, as well as by a number of other commodities such as the sugar and sweetener interests. On the other side it is difficult to find a major agricultural group that enthusiastically supports moving ahead on the FTAA. My judgment is that US agricultural groups will not support Fast Track for FTAA and many may actively oppose it.

The US Response under Different Scenarios

There are several scenarios that can be explored.

Scenario 1: A New WTO Round Is Launched In November 2001

If a new round is launched the focus of the US administration will be to get negotiating authority and Fast Track Authority for the WTO negotiations. It is clear that the Congress will not approve new negotiating authority and Fast Track during the present session. Given the fact that next year is a congressional election year; it will be difficult to win congressional approval for negotiating authority in 2002.

If a new WTO round is launched agriculture will be a key part insofar as the US is concerned. Both the administration and Congress have an interest in achieving improved access for US exports and curbing of EU export subsidies. Both also have a defensive concern to prevent the weakening of the Sanitary and Phytosanitary (SPS) agreement by the introduction of the precautionary principle pushed by the EU that would allow factors other than scientific evidence to be used to prevent imports of foodstuffs.

If full-fledged agricultural negotiations are launched the US will resist moving ahead with the FTAA negotiation in agriculture until the likely outcome of the WTO agricultural negotiations is clear.

Scenario 2: No new WTO Round is Launched in November 2001

If there is a failure to launch the new WTO round in November, the WTO negotiations on agriculture are likely to languish. A number of countries have indicated that they can only carry on significant agricultural negotiations in the context of a broader round. Thus while there might not be a formal decision to postpone the negotiations the reality would be that the negotiations on further reforms in agriculture would go nowhere.

This does not mean that the US would turn to the FTAA if the WTO negotiations fail to commence. Indeed the US agricultural community would oppose the FTAA negotiation for the reasons mentioned earlier.

Even if the WTO negotiation are launched there is a question as to how far other countries will go in either forum until the US Executive Branch has negotiating authority and Fast Track. This is especially crucial given the fact that the democrats in the US Congress insist they will not support negotiating authority and Fast Track unless the negotiations address labor rights and environment issues. Most developing countries strongly oppose including labor rights as part of the negotiating agenda for the WTO

The Bush administration has indicated they intend to seek negotiating authority for the WTO negotiations, the FTAA, and bilateral free trade agreements. It is unlikely that the Congress will grant such broad negotiating authority; and therefore, it is probable the administration will have to seek separate negotiating authority and Fast Track for the FTAA. In order to obtain a separate delegation of authority for FTAA the administration will face a tough political battle since it is not clear which industries will generate enough support to offset some of the agricultural opposition mentioned earlier.

Other Issues

There are several issues that will appear on the agenda of both the WTO and the FTAA. One is Special and Differential Treatment (S&D) for developing countries. The US has taken a fairly consistent position on S&D in various forums. The US is willing to scale back the level of commitment for tariff reductions, etc., and to allow developing countries longer periods to implement their commitments. The US has opposed allowing developing countries to pick and choose as to the commitments they will undertake, and the US will never allow developing countries to ignore SPS rules.

The US will fight to maintain the current SPS agreement in both the WTO and FTAA negotiations. The US will strongly oppose the adoption of the precautionary principle in either negotiation. In addition the US will mount strong opposition to the kind of labeling requirements now being proposed by the EU.

Summary and Conclusions

Trade policy in the US is at a stalemate. The national bipartisan consensus that supported US leadership in trade liberalization has collapsed. Organized labor and environmental groups actively oppose trade liberalization and insist that any negotiations include labor and environmental issues. Since the support of these groups is crucial to the democrats winning control of the House of Representatives and Senate in the 2002 congressional elections the Democrats insist that these issues be included in any negotiating authority. On the other hand the Republicans and the Bush Administration insist that these elements should not be in the trade negotiations.

In the summer of 1999 in the preparations for the Seattle WTO ministerial the US agricultural community was strongly supportive of launching a new round of agricultural negotiations in the WTO that would continue the reforms begun in the Uruguay Round and move toward trade liberalization in agriculture.

After the failure of the Seattle ministerial the mood in the agricultural community began to shift. First, the large government payments the Congress lavished on the favored commodities came under fire from other countries and there was a serious quarrel over whether the payments should be considered as trade distorting. US agricultural groups that believed the WTO rules on limiting domestic trade-distorting subsidies would only limit EU expenditures suddenly found that their own subsidies might be curbed. In addition, when US agricultural groups finally saw the US proposal in the WTO they unexpectedly realized that their programs might be affected by some of the proposed changes in tariffs.

In the spring of 2001 the Bush administration declared the large US domestic agricultural subsidies as trade distorting. This so upset the chairman of the House Agriculture Committee that he immediately withdrew his support for Fast Track. In fact, at the time the House committee was working on a new farm bill that would have sharply increased the levels of domestic subsidies.

In the past a number of the so-called program crops –wheat, corn, rice and soybeans have been strong supporters of trade liberalization along with the meat and poultry sectors. Now the program crops have to balance their desire for continued high level of trade distorting domestic subsidies with their interest in increased access to foreign markets.

It is difficult to know what can be done to reestablish the support of agricultural groups for further trade liberalization in agriculture. It clearly will require strong presidential leadership and the cooperation of congressional leaders on a bipartisan basis. As long as the closely divided Congress continues with its serious emphasis on gaining partisan advantage it will be difficult to achieve a new consensus on trade policy.