Agricultural Competitiveness and World Trade Liberalization: Implications of the WTO and FTAA (Executive Summary)

Jeremy W. Mattson and Won W. Koo (eds.)

Table of Contents

Highlights

The Center for Agricultural Policy and Trade Studies, North Dakota State University, and Farm Foundation hosted a conference titled "Agricultural Competitiveness and World Trade Liberalization: Implications of the WTO and FTAA" on May 29th and 30th at the Ramada Plaza Suites in Fargo, North Dakota. Speakers included academics, government officials, and industry leaders. U.S. Senator Kent Conrad opened the conference with a keynote speech, and John Johnson, President and CEO of Cenex Harvest States Cooperative, was the featured speaker at the conference dinner.

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

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

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

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

Key Issues Influencing the WTO and FTAA Negotiations

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

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

Environmental issues in trade involve 1) determining the impact of trade on the environment and responding appropriately, and 2) determining how environmental measures affect trade and if such measures are legitimate or are just restrictions to trade. To determine if a measure is an unjustified trade burden, according to C. Ford Runge of the University of Minnesota, requires demonstrating that the environmental measure affects trade, providing evidence that feasible environmental alternatives exist, and showing that the environmental policy does not offer widespread benefits relative to the cost.

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

U.S. Agricultural Trade Under a Liberalized Trade Environment

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

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

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

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

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

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

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

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

WTO and FTAA Negotiations: Country Perspectives

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

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

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

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

Update on WTO Negotiations

Tim Josling discussed progress in WTO negotiations and, along with other speakers, mentioned the importance of success at the Cancun ministerial meeting. Since this conference in May, the Cancun meeting has taken place, and it did not result in success. Negotiations at the WTO ministerial conference held in Cancun, Mexico, from September 10-14, failed to reach a consensus.

The modalities phase of negotiations was originally scheduled to be completed by March 31, 2003. The purpose of this phase of negotiations is to set targets, including numerical targets, for achieving the objectives set out in the Doha Ministerial Declaration. The three major areas of negotiation are market access, export competition, and domestic support. The modalities would describe how the final trade agreement would be shaped. Negotiations in March failed because of large differences between the United States, the EU, Japan, the Cairns Group, and other countries. The chairman of the negotiations on agriculture, Stuart Harbinson, attempted to bridge the differences by preparing a draft agreement in February. However, a settlement on the modalities could not be reached by the March 31 deadline. The Harbinson draft was the subject of much discussion at the conference.

Many hoped that negotiations at the Cancun conference would result in meaningful progress, but an agreement once again proved elusive. Besides differences on agricultural issues, there were also disagreements between the WTO members on so-called "Singapore issues," which contributed to the collapse in negotiations. These issues include investment rules, competition policy, transparency in government procurement, and trade facilitation. The emergence of a group of 21 developing countries, including Brazil, China, and India, provided strong opposition to the positions of the United States and the EU. This round of WTO negotiations was scheduled to be completed by January 1, 2005, but an agreement by that deadline now looks highly unlikely.

The remainder of this paper provides summaries of speeches and abstracts of papers presented at the conference.

Keynote Address

Kent Conrad - U.S. Senator (ND)

We live in an increasingly global economy, and we need to prepare to deal with it. A harsher reality has taken hold. The U.S. share of the world wheat market is the lowest it has been in 40 years. Brazil has significantly increased production and exports of soybeans. China will export instead of import corn. Mexico has an exportable surplus of sugar. Europe has been a big agricultural export market for the United States, but last year the United States had an agricultural trade deficit with Europe. The U.S. agricultural trade surplus is shrinking, and it barely makes a dent in the large overall trade deficit. Exports are essential for U.S. agriculture, and what is happening in these markets is of critical concern.

There needs to be a level playing field. Export subsidies are 87 times greater in the EU than they are in the United States, and the EU outspends the United States by more than 5 to 1 on domestic subsidies. The high level of subsidies in Europe puts U.S. producers at a disadvantage. Farmers in Japan, Korea, Norway, Switzerland, Iceland, and the EU receive more support than U.S. farmers. There needs to be a focus on leveling the playing field. In order to do this, there needs to be negotiated reduction in support, and the United States needs leverage in negotiations. A long-term farm plan gives the United States that leverage. The EU proposes that each country reduces support by an equal percentage. This proposal is unfair because it would allow the EU to continue to have more subsidies than the United States. It would be a profound mistake if we let them succeed.

We also must look at currency valuations when making trade agreements. Changes in currency valuation changes trade in significant ways. Since FTAA negotiations began in 1994, the Brazilian and Argentine currencies have declined 80% and 65%, respectively, relative to the U.S. dollar.

The United States faces two major challenges: how to continue to support U.S. family farms while being compliant with WTO rules, and how to build a better green box. We need to level the playing field to make it more fair for U.S. producers, and providing green box support is an important mechanism in supporting U.S. agriculture.

Globalizing Agricultural Trade

Liberalized Agricultural Trade: Prosperity for All?

Andrew Schmitz - Professor of Food and Resource Economics, University of Florida

Agriculture worldwide has been highly protected through tariff and non-tariff barriers. In part rent-seeking activities on the part of producers and processors who are hurt by free trade stop free trade from happening. As a result, often the losers must be compensated in favor of free trade policies. The gains-from-trade theory supports free trade even though losers and gainers are present when freer trade takes place. The theory may not hold when there are various distortions such as taxes or imperfect competition, or when there are non-convexities due to scale economies. Under optimal welfare tariff arguments, not everyone gains. In fact there is a net welfare loss when all trading countries are taken as a whole.

Gains from trade are mutual. Each possible trade leads to a different distribution of the gains, with the result that there is some element of conflict as well as an element of cooperation in international trade. Under multifunctionality, nations are now promoting multi objectives for agricultural trade policy that may lead to increased protection. This approach resembles arguments made under the scientific tariff methodology. Often analysis on free trade impacts ignores marketing intermediaries, including multinationals. International capital flows and product trade can be both complements and substitutes in the presence of multinationals. The approach to take into account intermediaries fits nicely within the New Institutional Economics, where both direct and indirect transaction costs must be taken into account. In border disputes, resolution clearly leads to significant loses and benefits to various groups and at times the impacts are counter intuitive. Trade has a significant impact on land values but the analysis of the impact of trade policy is made difficult when land values are affected by urbanization.

Further progress toward trade liberalization will partly hinge on identifying who the losers are from freer trade and providing appropriate compensation. To compensate losers from a policy change is clearly a value judgment. However, in many cases, a policy change is not possible unless compensation is paid to those producers who lose. This is especially true where strong lobbying efforts by special producer interest groups support the status quo. Paying compensation and moving to a first best situation is preferred to not paying any compensation and remaining in a second best situation

Research is badly needed on trade impacts within a vertical and horizontal market structure framework. Within this framework processors and multinationals have to be identified along with producers and ultimate consumers. Only then will it be possible to identify the rent-seeking behavior of firms past the farm gate.

Progress in the WTO Negotiations

Tim Josling - Professor, Food Research Institute, Stanford University

Agriculture is once again at the center of the multilateral trade agenda. That such a relatively small and declining segment of world trade can threaten major delays in the broader project to advance the integration of developing countries into the trade system and restore growth to the global economy is a testament to the political sensitivity of the issue in many countries.

Trade negotiations always seem to take longer than planned. In part this is because the timetables are deliberately intended to lend an air of urgency to the proceedings: they are not an unbiased estimate of the time the negotiations will take. Nevertheless, missed deadlines are an inconvenience at best and can unravel the careful plans of those who attempt the task of stage-managing talks among nearly 150 WTO members. At the worst they can seriously disrupt economic activity by influencing expectations about government behavior and consequently affecting investment decisions.

Trade talks do not exist in a vacuum: the connection with domestic policy timetables is among the most important consideration. In this connection, all eyes are on the European Union (EU), where the progress of the Mid Term Review of the Common Agricultural Policy (CAP) is crucial to the ability of the EU to respond to the challenges of the Doha Development Agenda (DDA). The United States can take a more relaxed view of the link between trade and domestic farm policy, as the 2002 Farm Bill, along with somewhat firmer world prices (and a weak dollar), has given U.S. politicians some breathing room. There is, however, one aspect of the political timetable that is worrying. The U.S. political process will be engulfed in a presidential election during 2004. September 2003 may be the last opportunity for a debate on trade that is not heavily weighted by short-term domestic electoral considerations.

Current transatlantic tensions have been heightened by differences over the question of Iraq, and continue in a somewhat muted form as countries discuss the post-war policy and the role of the UN. Some observers have pointed to a deeper schism in the transatlantic relationship. How much this will impact the DDA is not clear. It is difficult to avoid the conclusion that there is a connection between foreign policy disagreements and trade talks.

Missed deadlines are not an insuperable problem in trade negotiations. What is significant is the reason for the delay. In the case of agriculture in the WTO talks, the delay is a mixture of disagreement on the nature, extent and scope of further trade reforms in the sector and of a lack of political direction from the capitals for compromise and constructive negotiation. The missing of the end-March deadline is not in itself important, but a failure of the Ministerial at Cancun would be more serious, though even that could be rescued by some active trade diplomacy in the final months of the year.

The Harbinson draft on agricultural modalities is a good basis for discussion. It would be a pity if the best were to be the enemy of the good. Those who claim that "no agreement is better than a bad agreement" usually want no agreement. On any rational, long-run perspective, an agreement to the Harbinson text would be a major step in continuing the path of reform in agricultural trade. It would be a pity if the United States and the Cairns Group were to push the EU, Japan and the developing countries so hard as to force a stalemate.

The alternative to an agreement on agriculture is a new wave of litigation as the Peace Clause expires and the possible de-legitimization of WTO as a result of adverse rulings on domestic policy issues. Negotiations would also move to the regional and bilateral level, with the FTAA receiving a boost, along with Asian regional aspirations and the continued spread of EU bilateral and regional pacts.

An objective look at what is being discussed suggests that the agricultural talks could contribute significantly to the trade reforms started in the Uruguay Round. They are not just modest tinkerings designed to postpone action. They provide a real framework for continued reform in domestic farm policies and for the trade liberalization in regional trade blocs. They help to integrate developing countries into the agricultural trade system without imposing politically impossible demands on their ability to open up their own markets. And they would demonstrate that the WTO can operate through diplomatic and legislative channels and not just act as a court to curb scofflaws and cheaters.

Editor's note: The Cancun ministerial meeting has since taken place, and it did not result in success. Negotiations at the meeting failed to reach a consensus.

Progress in the FTAA Negotiations

Robert Spitzer - Foreign Agricultural Service, USDA

With more than 800 million people throughout the Western Hemisphere, the Free Trade Area of the Americas (FTAA) will be the largest free-trade area in the world. It is an ambitious undertaking in many ways. It will be a single trade agreement for 34 different countries, each with their own interests and patterns of external relationships. They include some of the richest countries in the world and some of the poorest; some of the most efficient agricultural producers and some of the most heavily protected. But many of the region's leaders have identified trade as a means to address the need for economic growth, and despite the challenges, there seems to be the political will to press ahead.

In Miami at the December, 1994 Summit of the Americas, the Heads of State and Government of the 34 democracies in the hemisphere agreed to construct the FTAA, in which barriers to trade and investment will be progressively eliminated, and to complete negotiations for the agreement by 2005. The structure established for the negotiations in the San Jose Declaration in 1998 involved the creation of nine negotiating groups and three non-negotiating committees and groups, all overseen by the Trade Negotiations Committee which is made up of Vice Ministers responsible for Trade.

For the negotiations on agriculture, four major negotiating objectives were established: 1) To progressively eliminate tariffs, and non-tariff barriers which restrict trade between participating countries, consistent with the WTO rules on the establishment of free trade areas; 2) To eliminate agricultural export subsidies affecting trade in the Hemisphere, 3) To identify other trade-distorting practices for agricultural products and bring them under greater discipline, and 4) To develop measures to ensure that sanitary and phytosanitary measures are not applied in a manner which would constitute a disguised restriction to trade.

The FTAA is moving into the phase where real trade-offs will start to be made. This will intensify after revised market access offers are tabled this Fall. In the agriculture area, progress in the WTO negotiations will play an important role, but market access deals will increasingly become the main business of the negotiations as we approach the end of 2004. It is possible to conclude the FTAA on time if there is political will, but there are a lot of challenges. These include uncertainty about the attitude of the new Brazilian administration, weakness in the economies of many of the countries in the region and the threat to political stability that accompanies that weakness, as well as the lack of public support for the FTAA in many countries. Only time will tell if these challenges can be overcome.

Key Issues Influencing the WTO and FTAA Negotiations

Give Trade a Chance

Alan Tracy - President, U.S. Wheat Associates

Agriculture, and the wheat industry in particular, needs success in the WTO and agreement in the FTAA. With nearly half of the wheat crop destined for overseas markets, removing obstacles to trade and expanding opportunities is absolutely essential. The challenges are enormous. Beyond the three pillars that are on everyone's issue agenda - market access, domestic support and export subsidies - each commodity has its own special issues.

Close to the top of wheat's list, after the three big issues, is export credit. Wheat is an important food in developing countries, and our competitors would love to destroy the U.S. ability to issue credit so they can come in with their informal, under the table arrangements.

Another issue for wheat is food aid. The Cairns Group and the EU are going after U.S. food aid, demanding "grant only" contributions. To give way on their demands would be bad for the wheat industry - the U.S. food aid program is a multi-million ton market for wheat - and it would be disastrous for the world's hungry people. Any recent increase in the amount of food aid contributed by the United States is due largely to the political power of American agriculture. If developing countries are opposing the use of commodities in food aid - and some are - then they do not understand Congressional appropriations processes.

The issue of state trading export enterprises is at the top of our list. The monopoly wheat desks of Canada and Australia must be ended, pure and simple.

The Harbinson draft is a great success on the issue of eliminating export subsidies. Regarding domestic support, U.S. producers are concerned about preserving domestic support, and they want substantial reduction in support in the EU and Japan. To balance the playing field, support should be calculated as a percent of production.

We also have FTAA issues. Brazil should straighten out its sanitary/phytosanitary procedures, Chile's price bands have to go, and we need to expand the tremendous success of NAFTA to the entire hemisphere - the United States has a superb opportunity to export wheat to Brazil under the FTAA. And when I say "entire hemisphere" I mean it. The United States must end its Cuban embargo and bring our island neighbor into the community of nations. We've learned that force and subterfuge does not work. So let's give trade a chance.

Developed/Developing Country Issues

G. Edward Schuh - Professor, University of Minnesota

We are on the cusp of a major realignment of economic and political power unlike any we have seen in a long time. This realignment will probably set the agenda for trade negotiations over the next decade or so. If we were smart enough to know just how those realignments were to come, we could say a lot about the key factors influencing the WTO negotiations in the future.

My goal is to motivate us to expand the perspective we take when we think about trade relations between the developing and the developed countries. This requires that I move away from the microeconomic issues that traditionally tend to dominate discussions of international trade, and shift to the broader, macroeconomic issues. The reason we need to keep this broader set of perspectives is that what we refer to as globalization is likely to continue to grow and expand. The technological revolutions that are driving the process will spread to the developing countries, where some 80 percent of the world's population resides. That means that the process of economic integration will tend to grow and become more complex, which underlines the need for more empirical research.

In general, we fail to recognize the significance of international trade as an engine of economic growth. Trade liberalization under a fairly general set of conditions tends to lead to a more efficient use of resources.

I am struck by the dominance of the complaints against the subsidies of commodity programs in the United States and the European Union. Subsidies are a two-way street. It is not just the developed countries that subsidize their agricultural sector. There is an implicit subsidy to manufactured products in many developed countries. The United States imports much larger amounts than they export, meaning that the United States serves as a huge market for other countries.

One of the most prevalent arguments against globalization is that it causes the distribution of income to become more unequal or more skewed. Evidence suggests that the per capita income of the more well to-do rises at a faster pace than the per capita incomes of the poor or disadvantaged, but that in absolute terms the per capita incomes of the poor does rise. The idea that the absolute income of the poor rises as per capita income rises is an important point. The lags lower income groups experience in their per capita incomes as economic integration proceeds may be because of a lag in the educational and training system, which fails to provide the displaced members of the labor force with the new skills they need to take on the jobs in the re-configured economy.

In general, new technology makes for more efficient production, and thus to expanded international trade. There are a number of issues here, however. There was a time when U.S. agricultural interests fought hard against the transfer of new production technology to developing countries. The farmers knew that the new production technology could make these countries more competitive in international markets, and in fact, with them here at home. Eventually, however, our agricultural interests began to learn that the modernization of agriculture in those other countries increased their per capita income and made them a stronger market for our own exports. If we cooperate with scientists and technologists in the developing countries, we can build a more solid base for our own economic expansion, and that cooperation will strengthen our own economic development.

Trade and the Environment: The State of Play

C. Ford Runge - Professor of Applied Economics and Law, University of Minnesota

Since the early 1990s, trade and the environment have been linked in multilateral and regional trade negotiations, including the WTO, NAFTA, and the FTAA. Much of this discussion has revolved around the "sustainability" of trade agreements. This approach is reminiscent of the Environmental Impact Assessments prepared under the National Environmental Policy Act (NEPA). Such assessments have been advanced especially since the EU's decision to launch a Sustainability Impact Assessment (SIA) of the WTO's Doha Round in 1999. They are also represented in similar exercises developed as part of the North American Commission for Environmental Cooperation (CEC)'s NAFTA Effects Project in 1999. These efforts tend to construct elaborate frameworks to consider various issues, sectors, and indicators. It is the view of this author that such efforts could be better focused and more targeted than they have been, streamlining and narrowing attention to questions of greatest importance.

Determining the impact trade may have on the environment and responding to the impact is one side of the environmental issue. The other side of the issue is the point of view of the trade community, which is in determining how environmental measures affect trade. Is it a legitimate environmental issue or is it a restriction to trade, or both, and is the burden caused by the environmental restriction justified? To determine if a trade burden caused by an environmental restriction is unjustified, one needs to first show that the environmental measure affects trade, then provide evidence that feasible environmental alternatives exist, and finally show that the environmental policy does not offer widespread benefits relative to the cost. The United States has filed a complaint against the EU moratorium on GM crops. It appears the United States has a case because 1) the moratorium has affected trade, 2) the EU has acknowledged that there are feasible alternatives, since the moratorium is just a holding action until they implement new policies, and 3) there is little evidence that the benefits of the moratorium are substantial relative to the costs. The United States could win, but the timing of the action could cause more problems. It is likely to reduce the probability of a successful Doha Round.

Market Access, Internal Support, and Export Competition

P. Lynn Kennedy - Professor of Agricultural Economics and Agribusiness, Louisiana State University

The Uruguay Round Agriculture Agreement (URAA) was successful in encouraging countries to limit and reduce the use of tariffs and export subsidies while shifting domestic support away from the trade-distorting amber box toward the less distorting blue and green boxes. While this shift can be viewed as a successful accomplishment, several concerns have been raised regarding the criteria used to classify domestic policies as having minimal trade-distorting effects or effects on production. The evaluation of the successes of the agreement versus its inadequacies provides several useful insights for the development of the next agreement.

One insight that can be gleaned from the previous agreement is that a self-enforcing framework can be established that encourages countries to adopt less trade-distorting policies. The URAA accomplished this by making less trade-distorting support exempt from countervailing duties and other retaliatory measures. This existence of exempt and non-exempt boxes combined with a peace clause of limited duration created incentive for domestic support reform in many countries. Negotiators and policy-analysts should consider this as they structure the next agreement.

An additional insight to be gained from the previous agreement involves the need for well-defined criteria. Specific definitions must be developed that clearly detail which domestic support policies should be categorized in which domestic support box. This will be necessary regardless of the classification structure, be it green, blue, amber, or development boxes or simply exempt and non-exempt.

Clarification is a theme that pervades the various country proposals. For example, a number of countries wish to revisit and clarify the green box criteria. As additional concerns are addressed or exemptions provided, specific criteria must be developed regarding allowable policies or eligible countries. In the current round of negotiations a number of potential situations exist where this will be important. For example, in the creation of a development box, what types of policies are eligible? What criteria must a country meet to be eligible? Questions of this type must be answered and appropriate criteria developed to avoid the uncertainty and finger-pointing that are associated with inadequate rules.

The current round will deal with several critical questions that go beyond the simple "how much should protection be reduced." Among these are concerns as to the structure to be adopted for the discipline categories; the type of development box to be established and whether a transition box should be established; whether AMS commitments should be on an aggregated or disaggregated level; how the issue of multifunctional policies should be dealt with; whether allowable protection should be adjusted for inflation or exchange rates; and whether the use of de minimis should continue and if so, at what level. If the ultimate objective is to achieve free trade, the next agreement must deal with these concerns in a manner that encourages countries to discontinue the use of trade-distorting policies.

U.S. Agricultural Trade Under a Liberalized Trade Environment

Agricultural Trade Liberalization, World Trade, and Economic Growth

Terry Roe - Professor of Applied Economics, University of Minnesota

The gains many less developed countries (LDCs) might obtain from the globalization of world markets is constrained by agricultural policy in advanced countries, including Japan, Korea, the United States, Canada, and most importantly, the EU. Countries must export to import, and to do so is an indirect way of inducing institutional change that can spillover to the rest of the economy and serve to stimulate long-term growth in per capita income.

A review of the effects of globalization show that many of the world's lower income countries have benefited greatly from a greater integration with the rest of the world's economies, with the result that their incomes have increased relative to the increased incomes in the world's wealthy nations. Most of the low-income countries' markets for their agricultural exports are in the advanced nations. Agricultural policy in the advanced nations is important because these nations tend to protect their farmers from imports from many of the world's low-income countries.

The gains that LDCs can realize from increased trade go beyond the typical static gains accruing from the more efficient allocation of resources. As these economies open to world markets, the opportunity cost of not engaging in institutional reform should become more apparent, thus inducing reform.

Economic analysis shows that totally liberalizing tariffs, trade distorting forms of domestic support, and export subsidies will likely cause the index of world agricultural prices to rise by almost 12 percent. In terms of relative importance of the three policy instrument categories, tariffs account for over 50 percent of the 12 percent rise in the index, domestic support for almost 30 percent, and export subsidies for about 13 percent. The EU, followed by the United States, Japan, and Korea, contribute the most to distortion in world prices. However, due to the agricultural trade pattern of African countries trading mostly with the EU and Latin American and some Asian countries trading with the United States, the effects of liberalization have differential effects on the world's developing countries. Agricultural trade reform is shown to change developing country exports to the advanced nations in major ways.

The dynamic gains from trade are shown to dominate the static gains and grow over time as capital accumulates. If the opening of agricultural markets in the advanced countries stimulates growth in factor productivity in the developing countries, then the short-run dynamic gains exceed the static gains by a factor of 5 in the short run and a factor of 3 in the intermediate and longer run. Interestingly, the advanced economies were also found to experience gains due largely to the growth in capital demand in the developing countries.

The economic question is not whether farmers should receive more or less federal support. Instead, the question is how to employ those policy instruments that transfer support to farmers in a way that is minimally distorting of domestic and foreign markets. Previous work suggests that the payments under the FAIR act seem to accomplish this purpose, albeit at the effect of increasing land values. The removal of market distorting instruments in the advanced countries in particular is in the interest of virtually all countries. Whatever the reform process is, whether induced by domestic budget pressures or international negotiations, it is not likely to result in substantial reductions in support for farmers in advanced countries anytime soon.

Liberalizing Trade in Feedgrains and Oilseeds

Robert Young - Co-Director of the Food and Agricultural Policy Research Institute, University of Missouri

It is important to ask specific questions about the trade negotiations. For example, what do we mean by tariff reduction? Is it for bound or applied tariffs? On what exactly are we charging tariffs, and how do we average tariffs? How do we let trade policy affect domestic policy? For example, does the EU lower intervention prices or spend more on export restitutions? And does Canada always maintain a milk quota program? Finally, are we asking the question in isolation? Interaction between commodities is important.

For the United States, trade reform is certainly good for feed grains. Oilseed production would be pulled down due to increased corn production. Corn and soybean prices are expected to increase. Price increases are likely to trade some market for government payments, but probably not in total. The livestock sector must be taken into account to get the whole picture. Corn exports are expected increase early after trade reform and less so later, but increases in domestic livestock demand offset any decline in corn exports.

Wheat: Industry Perspective

Neal Fisher - Director, North Dakota Wheat Commission

The future of U.S. agriculture is tied to creating new opportunities in trade and maintaining existing export markets. The wheat industry is more dependent on exports than other commodities, as 50% of all U.S. wheat is exported. Trade agreements provide the opportunity to gain market access.

There is a history of strong producer support for trade due to tremendous gains in market volumes and market shares. Support is compromised, though, by embargos, weak trade policy, lack of enforcement, and new players. Some fear that the losses from free trade may outweigh the gains. We must look at the costs of not being involved. For example, there has been a growth of regional trade pacts in Latin America, such as MERCOSUR. These trade pacts provide lower tariffs for members and put U.S. agricultural trade interests at a serious disadvantage. Joining the FTAA would remove these disadvantages and give U.S. producers better access to viable existing markets, providing tremendous potential.

Requirements for successful new trade agreements are that they have realistic expectations, are well negotiated and implemented, demonstrate positive results, are capable of being enforced, have compliance and implementation schedules, and build the confidence of stakeholders.

In the WTO negotiations, the U.S. wheat industry believes that other countries must reduce their high tariffs, direct export subsidies should be eliminated, state trading enterprises should be eliminated, GSM export credits should not be jeopardized, food aid should be spared, and the monstrous gap between domestic support in the EU and other countries should not become institutionalized or further legitimized.

Regional and bilateral agreements provide opportunities to improve the ability of U.S. producers to compete in key markets. U.S. wheat producers serve more than 120 markets annually. The developed country markets are more mature and have slower growth rates. The developing country markets, on the other hand, have more potential because of rapid growth in population and potential income growth. There is also greater potential for uncertainty in these markets. The primary growth opportunities for U.S. wheat are the developing countries in Asia and Latin America and the market in Europe for high performance wheat.

The recently completed bilateral agreements with Singapore and Chile provide opportunities for wheat, including spring wheat and durum. Discussions for a trade agreement with Morocco are underway, which would offset the preferential treatment of goods from the EU and provide potential for U.S. durum and other U.S. wheat. Discussions have also begun with Australia. Australia, though, provides limited market opportunities, and concerns with Australia are similar to the concerns with Canada. Reform of state trading enterprises would be a necessary prerequisite, and there are other contentious issues, such as SPS, beef, and dairy. Regional trade agreements such as the FTAA, the Central American Free Trade Agreement (CAFTA), and the Southern African Customs Union (SACU) provide export opportunities for U.S. wheat.

Wheat: Policies and Implications

Won W. Koo - Professor, Director of the Center for Agricultural Policy and Trade Studies, North Dakota State University

The objective of this study is to analyze the impacts of eliminating trade barriers and subsidies in major wheat producing, consuming, and exporting/importing countries on production, consumption, and exports/imports of wheat. Government support per bushel of wheat, as estimated by the OECD, is $6.00 in the EU, $2.20 in the United States, $0.34 in Canada, and $0.10 in Australia and New Zealand. The Global Wheat Policy Simulation Model is used in our analysis. This model is an econometric partial equilibrium model with 6 exporting countries, 10 importing countries, and 3 countries that either export or import, including a rest of the world region. Wheat is divided into two classes in the model: common and durum. Common wheat includes hard red winter, hard red spring, soft, and white wheat.

Two scenarios are examined: the base scenario and the free trade scenario. In the base scenario, current trade policies and subsidies are continued, and in the free trade scenario, trade barriers and subsidies are eliminated. Under the base scenario, total world wheat trade volume increases 18.9% from 89.8 million metric tons in 2002 to 106.2 million metric tons in 2012. The export price of common wheat is projected to be $4.09 per bushel in 2012, which is 1.7% lower than that in 2002, but 29.1% higher than the 1999-2001 average, and the export price of durum wheat is projected to increase 2.5% from $4.39 per bushel in 2002 to $4.50 per bushel in 2012.

Under the free trade scenario, total wheat trade is projected to increase to 107.9 million metric tons in 2012. Compared to the baseline, common and durum wheat exports are 1.1% and 9.7% higher under free trade. Common and durum wheat world prices in 2012 are projected to be $4.45 and $4.68 per bushel, respectively, under free trade, which is 8.8% and 4.0% higher than the projected baseline prices in 2012. Compared to the base scenario, U.S. exports of common and durum wheat are 7.1% and 1.0% higher under free trade, respectively; Canadian exports of western amber durum and western red spring are 38.7% and 19.4% higher under free trade, respectively; Argentine exports increase 10% under free trade; Australian exports increase only 1.0%; EU exports of common wheat decline 22.5% under free trade; and the EU becomes a net importer of durum. China increases imports by 225% under free trade. Japan and Taiwan increase imports by 10.0% and 4.4%, respectively, and most other importers decrease imports slightly under free trade.

The total supply of wheat in 2012 would be lower under the free trade scenario, while import demand would remain almost the same. Under free trade, wheat production is expected to increase in the

United States and Canada and decrease in the EU, while changing slightly in Argentina and Australia. China and Japan are expected to increase imports substantially under free trade due to major reductions in domestic production, while other importing countries reduce their imports slightly due to increased prices of wheat.

Market Access Issues in the Processed Food and Beverage Trade

John Wainio - Senior Agricultural Economist, Economic Research Service, USDA

The protection of domestic processing industries in order to capture value-added has long been a goal of trade policy in importing countries. Evidence shows that countries utilize a number of measures to encourage the import of unprocessed agricultural commodities at the expense of processed products. This bias against processed trade works against exporters' efforts to reduce their dependence on raw material exports. Developing countries have long claimed that developed country tariff structures discourage their efforts to move to a higher level in the value-added chain. In practice, however, biases against processed trade can be found in developing countries as well.

Numerous barriers and concerns of exporters of processed foods and beverages exist. High tariff barriers and tariff-rate quotas have an impact on processed trade, as does the prevalence of tariff escalation. The practice of levying low or zero tariffs on imports of primary products, with tariffs escalating as products undergo increased processing, continues to be an enduring feature of many countries' tariff regimes. This observed tariff pattern, and the amplifying rates of protection, provide an incentive to import commodities in relatively unprocessed form. In addition to tariffs, a number of non-tariff measures complicate, and in some cases restrict, trade of processed food and beverage products, including sanitary and phytosanitary restrictions and technical barriers such as certification and labeling requirements, differential food standards, and shelf-life requirements. Contingency protection measures in the form of safeguards and antidumping and countervailing duties also afflict trade in processed foods and beverages.

A few summary observations can be made from this analysis. The choice of tariff-cutting formula can have a significant impact on the level of tariff escalation found in a country's tariff schedule. Allowing countries considerable latitude in determining the depth of cut applied to individual products, such as that which occurred in the Uruguay Round, can result in increases in tariff escalation. The Uruguay Round also demonstrated that as tariffs are reduced, the pressure to adjust to increased competition could result in efforts to pursue alternative forms of protection. Stricter disciplines in the field of non-tariff measures are essential to prevent liberalization achieved through tariff reductions being offset by alternative measures.

Sugar Policies and Implications: Integration into an FTAA

David Orden - Professor of Agricultural and Applied Economics, Virginia Tech

Every country in the hemisphere engages in sugar production and trade. Imports are dominated by Canada and the United States, while exports are dominated by Brazil and Guatemala. Achieving enhanced trade opportunities for sugar faces several conundrums. In the United States, which is the largest consuming market in the region, domestic producers have vigorously opposed any change to the support policies and import restrictions that sustain sugar prices well above levels in world markets. Yet there will continue to be pressure for change for sugar because the price support and quantitative import restrictions that have been the hallmarks of U.S. policy are becoming anomalous among its agricultural programs. Pressure for more market access is growing under NAFTA, possibly in the Doha Round WTO negotiations, and potentially under an FTAA, which could put further strain on the domestic support program.

It is not just in the United States that sugar is highly protected within the Western Hemisphere. Among other countries, there are wide divergences of production costs and the extent to which benefits are derived, or trade opportunities thwarted, by domestic policies or preferential access to foreign markets under the current sugar regimes. Any changes in sugar policy from the status quo toward more open trade will have significant distributional effects among FTAA countries.

While there is no certainty that sugar trade liberalization will be included in an FTAA, such reform is a desirable policy outcome because it raises efficiency and is welfare-enhancing in a manner consistent with the overall objective of broad FTAA trade liberalization. Sugar is an essentially homogeneous commodity for which several FTAA low-and middle-income countries are low-cost producers. The region has a net surplus of low-cost sugar output. Thus, sugar is a prime candidate for policy reform to increase trade opportunities of developing countries.

To accommodate trade liberalization, it is likely that some form of compensation payments will be required. Within the United States, where much of the adjustment to lower prices would occur, the fundamental reform of the peanut program in 2002 provides a possible template for sugar reform, although the costs could be higher for sugar with trade liberalization in the long run. The highly concentrated structure of sugar production in the southern United States also presents a political obstacle to devising a direct payments compensation scheme. Thus, achieving sugar market trade liberalization will take a significant commitment on the part of negotiating governments. Governments of other FTAA countries with protected sugar sectors will also face obstacles to implementing direct payments, but compensation mechanisms for high-cost producers in these countries may also need to be devised in order for sugar market liberalization to proceed. These compensation mechanisms should not lock in continued high-cost production, but compensation to offset distributional effects and allow net gains is consistent with the prescriptions of international trade theory.

Sugar: Industry Perspective

David Berg - Vice President, American Crystal Sugar Company

The U.S. sugar industry is competitive in terms of production cost with sugar producers around the world. Sugar production is capital intensive on the farm and especially in processing raw material beets or cane. Ownership of these production assets has gone through a dramatic restructuring in recent years, reflecting poor or absent margins.

The U.S. sugar program has been in place in essentially the same form for almost 25 years. The program retains a significant share of the U.S. market for exporting countries. After inflation, consumers have paid less and less for sugar for almost 20 years. Sugar is a true bargain for Americans.

Only a relatively small proportion of the world's sugar production leaves the country where it is produced. Sugar is one of the most heavily subsidized commodity markets in the world. Most countries intervene, either transparently or non-transparently, in their domestic sugar markets. And most telling, the long-term price of sugar in the world market is well below the average cost of production.

Going after reform in sugar in the WTO framework is a worthwhile goal that the U.S. sugar industry has endorsed. We do have a very real concern about a strategy of playing the bilateral approach against the WTO. If the United States liberalized sugar trade with one or more of the partners with whom we are currently in discussion, we could lose the opportunity for real reform which is available in the Doha Round. The United States may accept unlimited imports under the FTAA or from a similar agreement with Australia. If this were to take place before the hard negotiations occur under the WTO talks, the United States will have essentially given up powerful cards in the broader negotiation. A premature opening of the U.S. sugar market through bilateral agreements will also expose U.S. producers, as well as any partner in the agreement, to subsidized sugar from other countries.

The U.S. sugar industry endorses the goal of genuine free trade in sugar. The WTO talks, involving all countries and all practices, is the place to make real progress in eliminating distortions in the world sugar market. The appropriate approach is comprehensive, sector-specific negotiations to approach the complex set of practices that currently hamper trade in sugar.

Livestock

Richard Fritz - Vice President for Trade Development, U.S. Meat Export Federation

World pork and poultry production has increased at rates faster than beef. Poultry has exploded on the world market.

Tariffs hinder market access for beef. Japan, the largest market for U.S. beef, has a tariff of 38.5%, with a safeguard that will raise the tariff to 50%. The U.S. Meat Export Federation (USMEF) estimated that from 1995 to 2000, U.S. beef exports to Japan increased 3% for every 1% drop in the tariff. Korea, the third largest market, has tariffs exceeding 40%.

According to the Magellan Project, annual producer gains from free trade in beef would be $4 billion. Producer gains would be $3 billion under the Cairns Group proposal, $2.3 billion under the U.S. proposal, and $1 billion under the EU proposal.

As traditional methods of protection fall, countries find other ways to protect their domestic industries, such as by using unscientific sanitary standards (e.g., hormone bans, disease restrictions, zero tolerance, residue testing), technical barriers (e.g., burdensome paperwork, slow approvals, plant inspections, county-of-origin labeling), and anti-dumping measures, and by capitalizing on food safety fears.

Consumers tend to believe the worst about imported food. Korean consumers believe domestic beef is safer than U.S. or Australian beef, and according to a fall 2002 survey of Japanese consumers, the primary consideration for purchasing beef is that it be domestic. U.S. beef ranked 6th in Japan in terms of safety.

Future challenges for U.S. meat are market access and meeting the competition on quality, traceability, and price. Beef is no longer just a commodity. Brands are becoming more prevalent. Research in Japan has found that "brand" is one of the most important considerations when purchasing meat. USMEF offices around the world have reported similar trends.

The WTO and FTAA Negotiations: Country Perspectives

A Canadian Perspective on Ag Trade Negotiations

Rory McAlpine - Director General of the International Trade Policy Directorate of Agriculture and Agri-Food Canada

The framework of the agricultural trade policy in Canada is to focus on food safety, the environment, innovation, renewal, improvement, and business risk management. The issue is how to compete globally. We think we have a sharp policy framework in Canada, and we need a good WTO to level the playing field. Trade and trade rules are very important to Canada.

There are very big differences between the member countries in the WTO agricultural negotiations. A number of counties, especially the EU, are lacking in flexibility. The EU is caught up in its internal reform process, they are preoccupied with the addition of ten new members, and they have interests that go beyond agriculture. Progress is these others areas may be necessary before there will be progress in agriculture. The EU is also preoccupied with a number of non-trade concerns such as the environment. The EU will likely be slow to move on agriculture, and they are the de facto leader of a number of other countries. Their leadership is important.

The United States is the other big player in the WTO negotiations. The United States has an ambitious position on market access, but their position is less ambitious in other areas such as domestic support.

Developing countries such as China, India, Brazil, and Argentina are major players and major competitors in agriculture. The intent of the Doha Round is to provide special and differential treatment to developing countries. However, we need to be concerned about providing special deals to these major competitors. While the economies of these countries are still developing, their agriculture is well developed.

Market access is the most difficult issue in the negotiations. The United States and the Cairns Group support the highest cuts in tariffs, and they support the Swiss formula that would cut high tariffs more than low tariffs. Meanwhile, the EU and others support lower cuts and the use of the Uruguay Round formula. Harbinson tried to find the middle ground. Canada has some market access sensitivities, but agricultural exports are also very important to Canada. We do not like the Harbinson approach. The TRQ system should be reformed, in-quota tariffs should be eliminated, and TRQs should be allowed for sensitive products.

Export subsidies will likely end. There is some concern, though, about the definition of an export subsidy. There should be greater discipline on export credits, and food aid should be in grant form only. As for state trading enterprises (STEs), there is no mandate for negotiations in the WTO on STEs, and there is no justification for discipline.

After market access, the most difficult issue in the WTO negotiations is domestic support. A major goal of Canada is to end the high level of support in the EU and United States to level the playing field. The cuts proposed by Harbinson are not enough. Canada wants tight criteria on green-box support, complete elimination of amber- and blue-box support down to the de minimus support level, an overall cap on all support, and no open-ended exemption for developing countries that would give Brazil and Argentina an advantage. We are concerned about failure at the next ministerial meeting in Cancun and a possible deal between the United States and the EU that would not be advantageous to Canada.

Opening of China's Trade and Impact on Factor Returns

Colin Carter - Professor of Agricultural and Resource Economics, University of California, Davis

There is a lack of consensus on what will happen with China. China could become a major market or a major competitor. China's agricultural trade liberalization may have small impacts on trade flows unless it is combined with domestic policy reform.

China is a small player in agricultural trade, accounting for 3% of global agricultural trade, but the country has the potential to play a much greater role. Agricultural tariffs in China have been cut from 45% to 18%, which is below those of many WTO members and most developing countries. China maintains non-tariff import barriers, including tariff rate quotas, quotas, import licenses, and state trading. The WTO will bring a larger cut in tariffs on manufactured products. It will have a small impact on agricultural import protection.

China's 320 million farmers make up 50% of the national labor force but produce less than 20% of the GDP. Labor productivity in agriculture is low compared to other industries. Government policy supports urban wages at the expense of returns to farm labor, and labor does not move freely between rural and urban employment opportunities. The share of the Chinese population in agriculture is high compared to the world standard. To close the large rural/urban wage gap, a 25% decline in the agricultural labor force is required. Integration between rural and urban economies in China is discouraged, and rural product and factor markets are distorted. The level of regional specialization in China is less than in other countries, and it has been declining since 1994, indicating there has been a movement away from regional specialization and comparative advantage and toward self-sufficiency in each province.

WTO and FTAA Negotiations: A European Union Perspective

David Blandford - Professor and head of the Department of Agricultural Economics and Rural Sociology, Pennsylvania State University

The European Union's willingness (and ability) to sign the Agreement on Agriculture, which resulted from the Uruguay Round of trade negotiations, was closely linked to internal political developments - particularly the struggle over the reform of the Common Agricultural Policy. The EU's position on agriculture in the current WTO negotiations is again influenced strongly by internal political factors. Key agricultural sectors, in particular dairy and sugar - largely untouched by previous changes in domestic and international trade policies, face significant structural problems. Budgetary constraints, which are likely to become more severe with the expansion of the Union from 15 to 25 countries, are adding to pressures for reform. In contrast, several recent well-publicized animal disease and food safety incidents, such as foot-and-mouth disease and BSE, have heightened public concern about the direction of change in the EU's food and agricultural system and the future role of international trade. Public sentiment is turning against a "cheap food" policy towards one which lays greater stress on the environmental role of agriculture, animal welfare, and food safety. This is reflected in the Union's negotiating position in the WTO. That position continues to be constrained by the fierce opposition of some EU member states to further reform the Common Agricultural Policy. For the European Union, therefore, a politically acceptable outcome in the WTO negotiations will need to balance a reduction in protection with measures that permit broader public concerns about food, agriculture, and trade to be addressed. Key areas of emphasis will be the use of so-called green-box measures and product standards, in addition to market access and export subsidy issues.

The European Union has been increasingly active in concluding regional and preferential trade agreements. In the early days, these were designed primarily to accommodate the obligations of existing and new members to other countries, such as overseas territories and former colonies. Agreements were also used to provide preferential access for developing countries and to build commercial relationships with countries who were expected to become members of the Union. In more recent agreements, the emphasis has been on more balanced reductions in tariffs by all parties by means of free trade areas or customs unions. The geographical scope of EU bilateral agreements has broadened to include Africa and Latin America. Trade agreements are increasingly viewed by the Union as complementary to its activities in the WTO and as a means of expanding its access to selected markets. Agricultural trade has been subject to far less liberalization than other sectors in EU trade agreements, thus mirroring developments in the WTO.

United States Perspective

Demcey Johnson - Economic Research Service, USDA

The Uruguay Round Agriculture Agreement (URAA) left work to accomplish. Continuing U.S. priorities are to expand market access, increase export competition, and harmonize and reduce trade-distorting domestic support. Mega-tariffs (exceeding 100%) are still numerous. The URAA led to large reductions in export subsidies--from about $7 billion worldwide in 1995 to under $3 billion in 2000. The EU still accounts for most export subsidies. Large disparities remain in domestic support. The U.S. Aggregate Measure of Support (AMS) ceiling is equivalent to about 11% of the value of production. AMS ceilings are 29% for the EU and 44% for Japan, while Australia's ceiling is less than 2%.

Agricultural trade has grown much more slowly than general merchandise trade. Trade barriers are a big part of the story. As a result of successive GATT rounds, average tariffs on manufactures have fallen to about 4%. U.S. markets are relatively open to agricultural imports (12% average tariff). However, tariffs on agricultural goods average about 62% world wide. Average tariffs are about 30% in the EU and 50% in Japan. Exports account for a large part of demand for several U.S.-produced commodities. Exports as a share of total use: 7% pork, 20% corn, 36% soybeans, 47% wheat, 60% sunflower oil.

Markets for food and agricultural products in developed countries are mature. Increased income does not lead consumers in the United States, Europe, or Japan to buy more food. They purchase more services and convenience with their food, more prepared products, and more food away from home. The situation is different in the developing world. Population growth, combined with faster economic growth, will lead to much greater food demand. Rising incomes also lead to changes in the foods that developing country consumers choose to eat.

Trade policy reform holds several advantages for developing countries: improved access to developed country markets, higher export revenue, and new growth opportunities. Open markets can increase access to new technologies and techniques and help to mobilize capital needed for development. The result is increased productivity. Given the responsiveness of food consumption to higher income, growth induced by trade liberalization would provide an added boost to global demand for food and agricultural products.

Important areas of the Harbinson draft are progress on export subsidies and export monopolies; progress on market access, but less aggressive than the U.S. proposal; and cuts in domestic support, but with insufficient harmonization. Provisions on special and differential treatment undercut developing countries' potential benefits as exporters and importers, and non-trade concerns cannot be used to justify disguised barriers to trade.

The United States is also negotiating a number of bilateral agreements, as well as the FTAA. In FTAA negotiations, the United States has offered immediate duty-free access for most agricultural imports, with other tariffs to be reduced in stages.

From the U.S. perspective, gains from agricultural trade liberalization will depend on expanded market access and faster growth in developing countries.

Exchange Rates and U.S. Exports

Exchange Rate Uncertainty and Agricultural Trade

Ian Sheldon - Professor, Department of Agricultural, Environmental, and Developmental Economics, the Ohio State University

There has been controversy among economists on whether exchange rate volatility since the breakdown of the fixed exchange rate system has had a negative effect on trade. The most common assertion has been that risk associated with such exchange rate volatility has reduced the level of exports. This is countered by the argument that use of forward markets could ameliorate risk in the short- to medium-run. There have been several recent empirical studies on this issue based on the gravity model of trade and making use of panel data. Despite this renewed interest, however, these studies use aggregate data, ignoring that the impact of exchange rates may vary by sector. The focus of this paper, therefore, is to examine the effects of exchange rate uncertainty on agricultural trade compared to other sectors.

In studying the effects of exchange rate uncertainty on trade, it is important to distinguish between short- and medium/long-term changes in exchange rates. A common argument against using short-run variability is that exchange rate risk can be readily and cheaply hedged with appropriate short-term risk management instruments. The floating rate system, however, has also been characterized by 'long swings' in real exchange rates with deviations from what is thought to be their equilibrium levels for long periods of time, i.e., 'sustained misalignment'. Consequently, while short-term exchange rate risk can be hedged in financial markets, uncertainty beyond a one-year time horizon cannot be hedged at low cost.

In this study, the effect of medium to long-run exchange rate uncertainty on agricultural trade is examined and compared to the impact in other sectors. A gravity model is applied to bilateral trade flows for 10 developed countries for the period 1974-1995, allowing for cross-country determinants of trade including income, distance, membership of customs unions, common borders, and exchange rate uncertainty.

The conclusion is clear: compared to other sectors, agricultural trade has been more adversely affected by medium to long-run uncertainty in real exchange rates, particularly when the sample excludes bilateral trade between countries in the European Monetary System. The negative effect of exchange rate uncertainty that has been reported for total trade in recent research hides the possibility that trade in some sectors is more affected than others. Agricultural trade stands out in this regard as the negative impact here is much greater than for total trade or for any other specific sector studied.

Overall, the results presented make a contribution to our understanding of the connection between exchange rate movements and international trade flows. Typically, the literature has focused on the impact of increased short-run exchange rate volatility since the breakdown of the Bretton Woods system. As pointed out in previous research, short-run volatility can be hedged, and, therefore, it is long-run variability in exchange rates that matters. This implies that if long-run variability is a function of the deviation of nominal exchange rates from underlying fundamentals, then macroeconomic policy may have a key role in influencing trade flows. The evidence reported here suggests that agricultural trade is more susceptible to exchange rate uncertainty than the aggregate trade data would suggest and that the negative effects on the growth of trade have a stronger effect on trade in agricultural goods compared with other sectors.

Does Exchange Rate Matter to Agricultural Bilateral Trade between the U.S. and Canada?

MinKyoung Kim - Research Assistant Professor, Center for Agricultural Policy and Trade Studies, North Dakota State University

This study examines the effects of the U.S. - Canada exchange rate on bilateral trade of agricultural goods between the two countries and on U.S. farm income. Special attention is given to agricultural trade between the two countries under the U.S. - Canada Free Trade Agreement (CUSTA). This study utilizes two time series models: the vector error correction model (VECM) and the vector moving average model (VMA) with quarterly time series data from 1983 to 2000. It is found that exchange rates have a significant impact on U.S. agricultural trade with Canada and that the exchange rate between the two currencies is weakly exogenous in the U.S. agricultural sector, indicating that it is not influenced by U.S. agricultural trade with Canada and U.S. farm income. Also, the impact of CUSTA on bilateral trade between the two countries is found, but the size is minimal.

State Trading Enterprises

WTO Negotiations on Exporting State Trading Enterprises

Linda Young - Senior Research Scientist, Department of Agricultural Economics and Economics, Montana State University-Bozeman

State trading enterprises (STEs) are used as an instrument by many countries to implement their agricultural policy, including goals of producer support, consumer subsidization, marketing system efficiency and the exercise of market power in both domestic and international markets.

Exporting STEs are an issue for current WTO negotiations on agriculture because they can be used to implicitly subsidize agricultural exports through a variety of mechanisms. They can engage in price pooling, price discrimination, market segmentation, and protection of the domestic market, which results in an outcome similar to export subsidies. There is widespread support in the Doha Round for eliminating export subsidies of all forms. Increased notification is widely supported by WTO members. The United States and Japan support the elimination of special financing privileges for STEs. The United States also supports the elimination of the monopoly right to export.

The Harbinson proposal states that export of a product cannot take place at a price less than the price paid by the enterprise to the domestic producers of the product. The intent of this rule is uncertain. Does this mean "no export subsidies" or "no dumping"? STEs cannot engage in any export transactions in which the price paid is less than the initial price paid to consumers. So, if the world market price declines unexpectedly, to lower than the initial price, then the STE cannot sell remaining supplies. Commercial operators could not operate under such a rule. Most countries have domestic anti-dumping rules. Uncertainty over the interpretation of this rule could lead to disputes.

The WTO has revised notification requirements for state trading, and member notifications will be used to assess the further decline of state trading in today's agricultural markets. A key concern about state trading is transparency of their operations. WTO notification requirements will be evaluated. The WTO proposal under consideration requires state traders to allow competition; forbids the use of explicit export subsidization; proposes more stringent rules on government subsidization of the state trading enterprise; and sets the stage for increased reporting by state traders.

Agricultural negotiators need to strike a balance between allowing diversity in policy choice and limiting trade distortions. In our view, STEs are a legitimate tool for the implementation of agricultural policy goals of various countries. They may result in some limited distortions to world markets. Negotiators need to weigh the cost of eliminating the policy instrument of choice with elimination of likely small distortions.

GM Issues

Potential Impacts of GM Wheat on U.S. Trade

Richard D. Taylor - Research Associate, Center for Agricultural Policy and Trade Studies, North Dakota State University

The potential introduction of genetically modified (GM) wheat has been in the news for several years. Because of consumer concern over the safety of the product, acceptance in overseas markets is questionable. The objective of this study is to estimate the impact of the introduction of GM wheat on the North Dakota wheat industry, other spring wheat regions both in the United States and Canada, and the hard red winter wheat growing regions. A spatial equilibrium model is developed to evaluate the trade impacts associated with GM wheat introduction and several plausible post-GM adoption scenarios.

A baseline scenario is developed with which to compare all other scenarios. The baseline scenario assumes no GM wheat is produced, while GM wheat is produced under the other scenarios. Scenario 1 assumes that the U.S. marketing/transportation system will not be able to develop an affordable and reliable method of segregation. Therefore, under Scenario 1, the EU, Japan, and South Korea will not purchase any wheat from the United States. The other scenarios all assume successful segregation. Scenario 2 allows GM wheat production in North Dakota and other U.S. spring wheat regions but only at the 30% adoption level. Many producers within the production regions, especially in the western areas, may not produce GM wheat because their herbicide cost is less than the cost for GM wheat. Also, rotational concerns will affect the production of a second GM crop. Scenario 3 introduces GM wheat in both the United States and Canada at the 30% adoption level. At this time, it is unknown whether GM wheat will be segregated from non-GM wheat or if non-GM will be segregated from GM wheat. The first three scenarios place the segregation fee on non-GM wheat. Scenario 4 is similar to Scenario 2, except the segregation fee is placed on GM wheat.

If segregation is successful, there is little change in export volume. The results change if the U.S. marketing/transportation system is unable to segregate GM wheat from non-GM wheat. Under Scenario 1, North Dakota's exports decrease 2.1%, other spring wheat region exports decline 2.0%, and the winter wheat region exports decrease 2.2%. Canadian exports increase 4.4%. Producer welfare drops for the spring wheat growing region under Scenario 1. When no trade is allowed with the EU, Japan, or South Korea because of unsuccessful segregation, producer welfare for North Dakota drops $27.3 million (10.1%). In the other spring wheat region, the producer welfare under this scenario drops $32.3 million (10.1%). The winter wheat region also loses producer welfare because hard red winter wheat is viewed as having been mixed with GM spring wheat. The producer welfare for the winter wheat region drops $150.7 million (12.0%). Producer welfare for the Canadian growers increases $171.2 million (16.7%). Under Scenario 1, producer welfare drops $10.56 per metric ton, or about $0.29 per bushel for spring wheat and $0.30 per bushel for winter wheat, while producer welfare for Canadian producers increases about $0.45 per bushel.

When GM wheat is produced in the United States under successful segregation, North Dakota's producer welfare increases by $6.55 million, and the producer welfare for the other spring wheat region increases by $7.74 million. Producer welfare for U.S. spring wheat producers increases $0.87 per metric ton under this scenario. The other regions lose producer welfare. When the segregation fee is charged to GM wheat, there is little change from the baseline in producer welfare.

The study indicates that the main determining factor for the profitability of GM wheat production is the ability of the marketing/transportation system to develop a segregation system which is affordable, dependable, and acceptable to foreign consumers. If that acceptance cannot be developed, then the introduction of GM wheat, while benefiting a few producers, will lower total producer welfare in the United States.

Today, more than ever, the consumer drives the market. Consumers tastes and preferences provide markets for products and return signals indicating future wants. Currently, consumers, especially in foreign markets, are rejecting GM foods, which should provide a signal to the agricultural industry. Consumer resistance is not an unknown occurrence when new technology is introduced, thereby causing either a failure of a new product or a postponement in its introduction. However, yesterday's revolutionary developments are today's accepted commonplace. The newness of the idea is largely forgotten and the great expectations formerly held out for it is transferred to something still newer.

How to Enhance Agricultural Exports

Matthew Shane - Senior Economist, Economic Research Service, USDA

World income growth has changed the composition of demand from primary bulk commodities towards higher-valued processed products and horticulture. This has hurt the United States as the focus of U.S. agricultural exports has been on bulk commodities. Increased demand in high-value products requires increased sensitivity to demand characteristics of markets around the world.

Appreciation of the U.S. dollar since 1995 has increased competition in international agricultural markets. Recent depreciation of the dollar is becoming broad based and substantial and will help the United States compete more effectively. Maintaining productivity growth is important in improving U.S. competitiveness. Most of the U.S. agricultural growth has been due to productivity growth, and U.S. producers have been able to survive due to this growth in productivity. Public investment in research and development has been the driving force for productivity growth. U.S. commitment to research and development in agriculture must be maintained.

Areas of derived comparative advantages for the United States are meat and processed grain products. Constraints to the growth of high-valued exports include U.S. agricultural policies that raise costs of bulk commodities used as inputs in high-valued products and barriers to trade that put U.S. products at a competitive disadvantage. Solutions include better formulated U.S. policies which maintain price flexibility of U.S. export products and negotiations at the multilateral, regional, and bilateral levels to remove barriers to U.S. agricultural exports.

Ryan Kanne - International Trade Specialist, U.S. Commercial Service

The mission of the U.S. Commercial Service is to promote the export of goods and services to markets abroad. They utilize 106 domestic offices and 166 offices in 90 countries to help companies navigate through the international business process.

The U.S. Commercial Service assists U.S. firms in realizing their export potential by providing value-added counseling and information on overseas markets, finding international contacts, and helping companies promote products through trade promotion services.

This service provides export counseling in the following areas: international marketing, finding contacts, market research reports, production promotion in foreign markets, export finance resources, incoterms 2000/getting paid, foreign investment, international shipping, export documentation, foreign standards, foreign tariffs/taxes, foreign import requirement, and trade agreements. Services that help you find and asses your markets include Flexible Market Research (FMR), International Company Profile (ICP), video conferencing, and single company promotion. Contacts can be made using the International Partner Search (IPS), the Gold Key Service, and the Platinum Key Service. You can promote your products and services abroad using Commercial News USA, the International Buyer Program, catalog shows, trade shows, and matchmaker trade delegations.

The Foreign Agricultural Service (FAS) of the U.S. Department of Agriculture also offers export counseling, market research, assistance in finding in overseas customers, and export programs.

Teresa Miller - Communications and Outreach Manager, Mid-America International Agri-Trade Council

The Mid-America International Agri-Trade Council (MIATCO) is a non-profit organization composed of 12 Midwestern state agricultural promotion agencies that use federal, state, and industry resources to promote the export of Midwestern food and agricultural products.

The general services MIATCO provides are exporter education and training, assistance with market access, and market promotion. Exporter education and training includes a newsletter, e-mail updates, educational seminars, information on the website, and a food export helpline. The food export helpline offers customized export assistance on a wide variety of export-related topics.

Market access programs and services include the Distributor Development Service, Food Show PLUS!, Buyers' Missions, trade leads, and the website www.agexportlinks.org. The Distributor Development Service provides customized in-market research to help you decide if a market is appropriate for your product and how your product compares to the competition. Food Show PLUS! provides exhibitors at international trade shows with the information and in-market support you need to be more prepared to do business at the show. Buyers' Missions brings foreign buyers to the United States to meet directly with you.

Market promotion programs include retail and foodservice promotions and the Branded Program. The Branded Program is the most popular program. This program provides 50% cost-reimbursement for a wide variety of international marketing and promotional activities including advertising, in-store promotions and product demonstrations, fees for exhibiting at overseas trade shows, public relations, promotional publications, and freight costs for samples.

Kurt Markham - Director of the Agricultural Marketing Services Division, Minnesota Department of Agriculture

The Minnesota Department of Agriculture follows a two-pronged approach: promote Minnesota products and find ways to add value to agriculture. The governor trade missions have been important in opening doors for Minnesota agriculture.

One of the biggest goals as director of the Agricultural Marketing Services (AMS) is to set up worldwide communications networks. By teaching producers how to take advantage of today's technology to develop new marketing relationships, we can help them be successful farmers and marketers at the same time. The AMS director helps coordinate efforts between farmers, commodity groups, grain companies, and trade teams to increase value-added processing. He also helps producers adjust to future trends by identifying marketing opportunities through consultation with the Minnesota Trade Office, federal trade officials, market research organizations, producers, processors, and exporters.

Chuck Fleming - Marketing Coordinator, North Dakota Department of Agriculture

The North Dakota Department of Agriculture looks at two key areas: international markets and the long-term ability of being low-cost producers.

Programs available to help sellers include the Marketing Assistance Program (MAP) and the Pride of Dakota Program. The department is trying to build a solid database of North Dakota exporters on its website. The department also recruits companies for international trade shows and participated heavily in the trade show in Cuba, which is a great opportunity for exporters. Target markets include Japan, for buckwheat, and Southeast Asia.