

A U.S. Perspective on the Current Round of Agricultural Trade Negotiations

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The title of this paper is carefully chosen. The paper does not attempt to identify “the” U.S. perspective on the current round of agricultural trade negotiations in the World Trade Organization (WTO), since there is no such thing. In the United States, there are a whole series of views on the negotiations – how desirable they are, what the United States should seek to achieve, and what would be a good or bad outcome – that are reflected in the negotiating process. The Administration has different views on the issues to the Congress, various interest groups – such as farmers, agribusiness, and environmentalists – have differing perspectives, as do subgroups within these. In the final analysis, it will be the domestic political climate during the negotiations that will determine the U.S. attitude. If this is conducive to freer trade, U.S. negotiators will seek significant changes in trade policies; if the mood is more protectionist, they will be far less aggressive.

Consequently, what I shall attempt to do is to identify what the U.S. might seek through the negotiations, and the factors that will help or hinder the pursuit of a trade liberalizing approach.

The Uruguay Round Agreement on Agriculture (AoA) – What did it give us?

The Uruguay Round negotiations under the General Agreement on Tariffs and Trade (GATT) were launched in Punta del Este, Uruguay in September 1986. They ended more than seven years later with the signing of the Final Act in Marrakesh, Morocco in April 1994. The Uruguay Round, the eight in a series of tariff-cutting negotiations stretching back to 1947, was particularly significant, since it was the first time that a serious attempt was made to address agricultural trade barriers. Limited progress was actually achieved in reducing barriers to agricultural trade under the AoA, but the Agreement provides a framework within which these barriers can be reduced in the future.

Major elements of the agreement

The Agreement is quite complicated, and there are a number of special provisions and exceptions (Josling et al.). However, the major elements are²:

1. Market access – non-tariff barriers were converted into tariffs and bound (set at fixed rates); the bound tariffs were reduced over the life of the Agreement (1995-2000) for a total reduction of 36 percent on average (and a minimum of 15 percent per tariff line); countries agreed to provide a minimum level of access for imports (i.e., volume of imports subject to tariffs below the bound rates) equivalent to 3 percent of domestic consumption, rising to 5 percent over the life of the agreement (there are

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² The reduction commitments listed are those that applied to developed countries. For developing countries, the rates are two thirds of those indicated and the implementation period extends to 2005.

safeguards – additional duties can be imposed if there are sudden surges of imports or drops in import prices).

2. Export subsidies – outlays on export subsidies were reduced by 36 percent and the volume of subsidized exports by 21 percent.
3. Domestic support – maximum expenditures estimated under the aggregate measure of support (AMS) were reduced by 20 percent, with the exception of “green box” measures, i.e. those judged to be minimally trade distorting (there were other exceptions relating to “blue box” measures that are discussed further below).

The base period used in calculating the minimum access level and other components was 1986-88, with the exception of the export subsidy commitments, for which it was 1986-90.

Tariffication and market access

One of the major achievements of the Agreement was “tariffication” – the conversion of non-tariff barriers into tariff barriers. The pervasive use of non-tariff barriers, and the lack of transparency that such barriers create, were major causes of distortions in international agricultural trade in the years leading up to the Uruguay Round. However, many of the bound tariffs agreed in the AoA are very high. Indeed there were allegations of “dirty tariffication” – i.e., that tariffs had been set at levels in excess of the tariff equivalent of the trade barriers they replaced. The years 1986-88, used as the base period for calculating the tariffs, were years in which world prices were relatively low; this contributed to the establishment of high tariffs. In many cases, bound tariffs were above rates actually applied, meaning that the agreed tariff reduction was a nominal rather than an effective reduction. The high bound tariffs also meant that countries could actually choose to increase applied tariffs, and stay within their AoA commitments. The fact that an *average* reduction of 36 percent was agreed, meant that countries could choose to keep high tariffs on more sensitive commodities. It was estimated that at the end of the implementation period, average bound tariffs on agricultural products would be 40 percent ad valorem, compared to an average for industrial tariffs of 4 percent (Wainio et al).

An examination of the tariff schedules in the AoA reveals that they are often very complicated. There is a mixture of specific and *ad valorem* tariffs, some combine ad valorem rates with minimum specific rates, some tariffs vary by season, some are so tightly defined with respect to product characteristics and packaging that they can only be designed to apply to certain suppliers. In some cases, tariffs vary for the same product on the basis of its end use in the importing country. Many of the tariff schedules are very lengthy - the U.S. tariff schedule for dairy products, for example, is fourteen pages long. One of the traditional arguments in favor of tariffs is that they provide transparency – an exporter knows in advance what duty will be applied. This is true, but many exporters would probably need the help of a lawyer in deciphering the AoA tariff schedules before attempting to enter overseas markets.

The introduction of a quantitative trade control element through the market access provision was a mixed blessing. On the one hand it provides the opportunity for exporters to gain entry to markets from which they would otherwise be excluded given high tariff bindings, particularly when applied tariffs are also high. On the other hand, the adoption of TRQs has created a system of regulated trade that has

stimulated rent-seeking behavior by exporters and importers. The AoA did not specify how TRQs were to be allocated nor administered. As with bound tariffs, countries were able to design TRQs to minimize the impact of market access commitments on sensitive commodities. In many cases, the volume of imports has been less than that allowed under TRQs. It is not clear whether this is due to a lack of consumer demand for the imported product, relatively high in-quota tariffs, inefficiencies created by the licensing system, or just plain discrimination (IATRC, 2001). My personal experience during the Uruguay Round negotiations suggests that some negotiators recognized that the TRQ system could create significant problems, whereas others did not foresee the likely implications of its broad application in the AoA.

Export Subsidies

The use of export subsidies, in particular by the European Union and the United States, was a major source of trade conflict in the years leading up to the Uruguay Round negotiations. The limitations placed on the use of subsidies were, therefore, a major achievement of the Round.

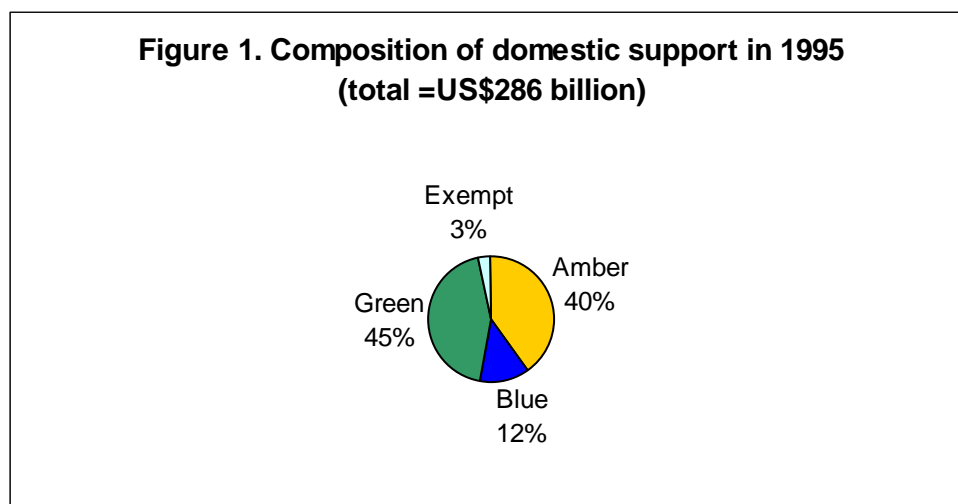
Relatively high world prices for many commodities in the late 1990s (and a depreciating currency in the case of the European Union) helped many countries to meet their commitments under the AoA without too much difficulty. Since world prices were close to domestic prices in subsidizing countries, the subsidy per unit for many products was relatively low. However, there was some activity on the subsidy front. One area of controversy was whether a country could “bank” its unused subsidies and carry them over from year to year. Hungary obtained a waiver from its export subsidy commitment on the grounds that it had made a mistake in calculating its base period subsidy outlays. Complaints were lodged with the WTO against Canada and the European Union on their use of subsidies on dairy products³. There have been discussions under the auspices of the Organization for Economic Cooperation and Development (OECD) on bringing export credits and credit guarantees under some sort of discipline, but only limited progress has been made in that area. Under the AoA, *bona fide* food aid transactions and export promotion activities were exempted from restrictions, but there have been rumblings of discontent in some countries about the use of such measures to gain an unfair competitive advantage. The European Union, for example, has proposed that all forms of export assistance be included in the current round of negotiations (WTO 2000a).

Domestic Support

The acceptance by policymakers that domestic policies were the underlying cause of many of the distortions in international agricultural trade was a major contribution to progress in the Uruguay Round negotiations. It was a considerable achievement that the AoA imposed disciplines on some types of domestic policy measures. Those that are judged to have the greatest impact on trade – the so-called “amber box” policy

³ In October 1999, the WTO appellate body upheld panel findings that Canada’s export subsidies and import restrictions on dairy products violated its WTO obligations. Canada changed the method by which it administered its export program. The complainants were still not satisfied that this eliminated the export subsidies. In July 2002, a WTO panel ruled that Canada is still applying export subsidies in a manner which results in, or which threatens to lead to, circumvention of export subsidy commitments, in the Agreement on Agriculture.

measures – are the ones primarily targeted in the AoA⁴. The amount of support provided by these policies is subject to an agreed reduction. Some trade distorting policies were given a temporary exemption – these are the so-called “blue-box” policies. Such policies include the direct payments linked to production restrictions used by the European Union and the United States (prior to new farm legislation in 1996). Policies that were judged to have a minimal impact on trade – the so-called “green box” policies – were exempted, as were those that involve minimal support. The amount and composition of support notified under each of these categories at the beginning of the implementation period is shown in Figure 1.



Note: figures are based on numbers reported to the WTO by individual countries.
Source: Based upon data from Nelson et al.

Since the AoA was signed, many countries have attempted to shift their support towards the green box category – at least in name, if not in substance. There has been an increasing tendency in Europe and Japan, for example, to argue that any payment that contributes to environmental objectives should be exempt. More recently, a number of countries have argued that payments that provide remuneration for a range of non-commodity or non-market outputs associated with agriculture should be exempted (the so-called “multifunctionality argument”)⁵. Amber box payments in the European Union and the United States during the early years of the implementation period were substantially lower than in the base period (Table 1), but green box payments increased substantially. Total payments (amber, blue and green box) were above the levels in the base period in both countries. The United States, after first reducing significantly the support that is directly coupled to production by eliminating deficiency payments in the 1996 Farm Act (blue box), has regressed under the pressure of low farm prices. There has been a return to the use of marketing loans and other subsidies that are included under the amber box category.

⁴ Although these colored categories are not actually mentioned in the Agreement, it has been customary to use them as shorthand labels in discussions on types of domestic support. Earlier in the negotiations, there was a red or prohibited category of support, but this was dropped.

⁵ For an analysis of multifunctionality and its implications for government policies and international trade, see Blandford, 2001 and Blandford and Boisvert, 2002.

Other contributions of the Round

The three legs of the AoA – market access, export subsidies, and domestic support – were not the only contributions of the Uruguay Round Agreement. A dispute settlement procedure based on adjudication replaced a weak system that was based on consensus. This has resulted in the filing of a substantial number of agriculturally related complaints. Two of these generated substantial publicity and public interest in the United States. The first is the banana case, in which the United States and several Latin American countries successfully challenged the European Union’s practice of providing preferential access to its markets for bananas grown in former colonies and its dependencies⁶. The second is the complaint brought by the United States against the European Union’s ban on imports of beef produced using growth-promoting hormones. In both cases, the European Union was judged to be in violation of its obligations. As a result of arbitration through the WTO in the beef hormone case, the United States imposed 100% tariffs on a range of imports from the Union with an annual trade value of \$116.4 million.

Table 1. Green Box, Blue Box, AMS and PSE Support Levels in the European Union and the United States

	Base period (1986-88)	1995	1996	1997	1998	1999
European Union (bill. ECU)						
AMS product specific ^a	73.6	49.8	50.8			
AMS non-product specific	-	0.8	0.7			
AMS	73.6	50.6	51.5			
Blue Box	-	20.8	21.5			
AMS plus Blue Box	-	71.4	73.0			
Green Box	9.2	18.8	22.1			
AMS, Blue and Green Boxes	82.9	90.2	95.1			
PSE	86.8 ^b	100.8	93.7	99.4	110.7	108.2p
United States (bill. \$)						
AMS product specific ^a	24.7	6.3	5.9	6.5		
AMS non-product specific	.9	1.4	1.1	0.6		
AMS	25.6	7.7	7.0	7.1		
Blue Box	-	7.0	-	-		
AMS plus Blue Box	-	14.7	7.0	7.1		
Green Box	24.1	46.0	51.8	51.2		
AMS, Blue and Green Boxes	49.7	60.8	58.8	58.3		
PSE	41.9	15.2	23.5	30.5	48.4	54.0p
a = including <i>de minimis</i> ; b = EC12, other figures are EU15; p = provisional						
<i>Source: World Trade Organization G/AG/NG/W14 and OECD PSE/CSE database</i>						

The beef hormone case relates to two further outcomes of the Uruguay Round – the Agreement on the Application of Sanitary and Phytosanitary Measures (the SPS Agreement), and the Agreement on Technical Barriers to Trade (the TBT Agreement). The SPS Agreement requires that the application of barriers to trade to

⁶ On April 11, 2001, the United States and the European Union announced that they had reached an Understanding on the resolution of the banana dispute.

protect human, animal or plant life or health should be based on an assessment of the risks posed and on scientific evidence. The TBT Agreement seeks to ensure that imported products are accorded the same treatment, in terms of technical requirements for packaging, marking and labeling, testing and certification procedures, and other requirements. Both of these agreements attempt to bring greater transparency to the rules and regulations that affect trade. The hormone case, which was brought under the SPS Agreement, the growing controversy over trade in genetically modified organisms, not to mention other concerns relating to the environment and to animal welfare, suggests that there is likely to be increasing activity in the WTO relating to these two agreements (Blandford and Fulponi).

What results would the United States like from the current negotiations?

A characteristically guarded assessment by the OECD Secretariat summed up the AoA as follows: “While the Agreement incorporates a number of highly significant and beneficial systemic changes to the trading system for agricultural products, actual impacts on trade and policy over the implementation period, particularly in the early years, may prove to be modest.” (OECD 1995, p. 58). That assessment seems to have been accurate. The Agreement has generated few changes in domestic agricultural policies. Such changes as have occurred – particularly in the European Union and the United States – have been driven by domestic or foreign policy concerns, rather than trade issues.

The United States took an aggressive stance towards agricultural trade liberalization in the Uruguay Round. The 1987 U.S. proposal called for the elimination of all agricultural subsidies affecting trade, and the phase out of export subsidies and import barriers – all within a ten-year period (Josling et al). This served to set the goals for the round at a higher level than many other countries were considering at the time, although it is probably fortunate that the political challenges of actually having to implement such an agreement in the United States, never had to be faced. Now that tariffs are in place, the implications of reducing those tariffs for the parts of U.S. agriculture that are likely to face the strongest competition from imports is abundantly clear to the interest groups involved. Furthermore, the attitude in the Congress has not been favorable towards freer trade in recent years.

The negotiating process

The process through which trade agreements are concluded in the United States is as follows:

1. The President communicates the administration’s objectives for the trade negotiations to Congress.
2. The President requests the Congress to grant the authority to enter into negotiations – the legislation includes a “fast-track procedure” by which the Congress must approve or disapprove the resulting agreement without amendment. This provision has existed since the Trade Act of 1974 under which the Tokyo Round of trade negotiations were conducted, because of the difficulty of concluding an agreement with other countries if this can subsequently be modified by the Congress.
3. The Administration enters into the negotiations – the U.S. Trade Representative’s Office (USTR) takes the lead role – and attempts to conclude an agreement within the time frame specified in the legislation. If this is not done, the President has to request an extension of the negotiating authority – the Omnibus Trade and

Competitiveness Act of 1988 under which the Uruguay Round negotiations were conducted – expired on June 1, 1993. As it transpired, the Administration had to obtain a one-year extension of the fast-track negotiating authority in order to conclude the negotiations. Seeking an extension of negotiating authority can be very hazardous, particularly if the outlines of a final agreement are known and those who would lose from it have the opportunity to mobilize opposition in the Congress.

4. The final agreement is delivered to the Congress, which votes on the legislation required to implement the agreement.

This procedure may sound as though Congress plays a minor role in the negotiations, but that is not the case. The President must notify and consult with Congress prior to entering into a trade agreement. Congress exercises oversight of the negotiating process and is closely involved in drafting the enabling legislation. The Administration has to take care to make sure that it has the votes to pass the necessary legislation; consequently, negotiations cannot proceed in isolation from the Congress.

It has proven difficult to obtain fast track authority since its expiration in 1994. In 1998, the Clinton Administration requested renewal in order to enter into trade negotiations with Latin American countries, most notably with Chile. Some members of Congress were very vocal in their opposition to the renewal of the authority. They believe that the negotiations cede too much power to international entities, like the WTO. Some are sensitive to resistance to further trade liberalization by various interest groups. The major labor unions have expressed opposition on the grounds that trade liberalization threatens the jobs and standard of living of Americans, because other countries have less strict employment rules and lower wage rates. Some environmental groups have expressed opposition on the grounds that freer trade threatens the environment. The effectiveness of the Clinton Administration in seeking congressional approval was undermined by the President's personal and political problems.

The Clinton administration did not press for the renewal of fast-track authority during the period prior to the November 2000 elections. In April 2001, the Bush Administration set out its trade agenda, calling for the enactment of trade promotion (i.e. fast-track) authority in order to, *inter alia*, enhance the market opportunities for U.S. agriculture (USTR, 2001). Since the demonstrations at the WTO ministerial meeting in Seattle in November 1999, there has been a lot of negative publicity about international trade and the process of globalization in the United States; it is notable that the President was quoted as saying at the 3rd summit of the Americas in Quebec in 2001 “our commitment to open trade must be matched by a strong commitment to protecting our environment and improving labor standards.”

The 2000 elections had resulted in a Republican president and control of both houses of congress by the Republican Party, albeit by a wafer-thin margin of one vote in the Senate. It seemed likely that the new administration would be in a fairly strong position to obtain passage of fast-track legislation. On May 24, 2001, a republican senator from Vermont, James M. Jeffords, announced that he was leaving the Republican Party to become an independent and would vote with the Democrats. This meant that control of the Senate passed to the Democratic Party. The change in

control delayed passage of fast-track legislation. In fact, trade policy has become increasingly protectionist under the current administration.

On June 5, 2001, President Bush announced the launch of an investigation into unfair trade practices in the global steel industry under Section 201 of the Trade Act of 1974. The Bush Administration may well have decided to take this step to preempt similar action by the Senate. Steel makers in the United States have long been lobbying for an investigation. In December 2001, the U.S. International Trade Commission ruled that increased steel imports were a substantial cause of injury or posed a threat of injury to the domestic steel industry. The investigation resulted in the imposition of “anti-dumping” duties of up to 30 percent on steel imports. This action provoked strong reactions in many steel producing and exporting countries, and threats of unilateral retaliation by the European Union and Japan. Several countries requested consultations through the WTO to address alleged violations of the Safeguards Agreement and the Uruguay Round Agreement; a panel has been established to consider the case. In the meantime, steel prices in the United States have risen, and there has been a gradual relaxation of the range of products covered by the emergency duties.

In May 2002, the U.S. International Trade Commission provided final approval for the imposition of tariffs averaging 27 percent on imports of softwood lumber from Canada. The Commerce Department had earlier determined that Canada subsidizes its industry by charging low fees for the logging of public forests. The dispute with Canada over this issue dates back to 1982. There have been several anti-dumping investigations. A high-level agreement existed from 1996-2001, under which Canada limited the amount of exports to the United States. The expiry of that agreement in March 2001 precipitated the latest investigation into unfair trade practices. As a result of the U.S. action, Canada requested consultations on the matter through the WTO.

There have been growing pressures for protection in other areas, for example textiles. The new farm act (May 2002) also reflects a more protectionist approach in agriculture. The new features of this act and its implications are discussed in more detail below.

Within this increasingly gloomy environment for those who support trade liberalization, the Bush administration was finally able to secure trade negotiating authority from the Congress in August 2002. The Trade Act of 2002 was narrowly approved by a vote of 215 to 212 in the House of Representatives and by a vote of 66 to 34 in the Senate. The Act permits the President to enter into trade agreements with countries until June 1, 2005. It also extends the authority to complete negotiations and to submit implementing bills to the Congress until July 1, 2007, if the President requests such an extension by March 1, 2005 and neither House of Congress adopts an extension disapproval resolution before June 1, 2005.

In addition to providing authority for the negotiation of new bilateral or multilateral trade agreements, the Act contains extensive trade adjustment assistance provisions for individual workers, firms and communities affected negatively by trade liberalization. Special adjustment assistance provisions are included for agricultural producers. The Administration is required to assess the potential impact of tariff

reductions for agricultural products and to consult with the Congress on such reductions.

U.S. objectives in the current round

The Clinton Administration announced U.S. objectives for the negotiations on agriculture in 1999 (see Annex 1). The proposals may be summarized as follows:

1. Substantial reductions in bound and applied tariffs, and the reduction or elimination of tariff escalation (tariffs that increase with the level of processing). Conversion of all tariffs to an *ad valorem* basis. Elimination of the transitional special agricultural safeguard under which tariffs can be increased if imports increase substantially.
2. Substantial modification to the TRQ system – by increasing the market access percentage, by cutting within quota tariffs, and by imposing disciplines to ensure quota fill. Some combination of cuts in over-quota tariffs and increases in quotas, if of a sufficient size, could render the TRQs essentially redundant.
3. The elimination of export subsidies and a prohibition on the use of export taxes. Any disciplines on the use of export credits agreed as a result of the OECD negotiations are to be applied equally to all countries.
4. The imposition of disciplines on the activities of state trading enterprises, such as marketing boards, since monopoly importers or monopsony exporters are viewed as restricting trade or presenting unfair competition. The proposal is to end import and export monopolies of state trading entities, and to create greater transparency in their operations through disclosure of traded prices and quantities etc.
5. No change in the SPS agreement, but a tightening of the TBT agreement, so that countries are not able to use these to establish barriers to imports on the basis of production practices, region of production or presence of altered genetic material.
6. Tightening of restrictions on domestic support by allowing only two categories, exempt (minimally trade distorting) and non-exempt, which would be reduced. This would eliminate the exemption for the “blue box” category of measures.
7. To continue special and differential treatment for developing countries, in particular, for the least developed countries. This would include preferential market access, a broader set of permissible domestic support measures, and the provision of food aid and technical assistance.

On July 25, 2002, the Bush Administration announced its negotiating proposal for agriculture (see Annex 2). These repeat most of the items contained in the Clinton administration proposal, but add some specific targets and refinements. The most important are:

1. Use of a harmonizing formula (“Swiss formula”) on applied tariffs to ensure a maximum tariff of 25% after a five-year period and a simplification of the current structure to a single *ad valorem* or specific tariff. Elimination of the special agricultural safeguard (emergency tariffs).
2. Expansion of TRQs by 20% and elimination of within-quota duties, reserving a share of TRQ increases for developing country suppliers.
3. Elimination of export subsidies over a five year period. Exemptions would be permitted on the use of export taxes for certain developing countries, introduction of rules to govern the use of export credits, and expanded reporting requirements for food aid.
4. Limit on the use of trade-distorting support to 5% of the value of agricultural production with reductions to this level over a 5-year period; inclusion of

support linked to production limitations in the total. Agreement on a specific date for the complete elimination of such support. Continued application of the *de minimis* rule.

It seems clear that the U.S. is prepared to allow some flexibility for countries to achieve domestic policy objectives, for example, with respect to the environment and other aspects of multifunctionality, if this can be accommodated through “minimally distorting” (green box) measures. However, it may be very difficult, in practice, to achieve such objectives through policy measures that have a minimal impact on production (Blandford 2001). Progress in the negotiations may depend on reaching agreement on how such domestic objectives and concerns can be satisfied. The challenge is to define domestic and border measures that are minimally trade distorting or otherwise permissible, so that the most trade-distorting measures can be targeted for reduction⁷.

What are the constraints in the United States to achieving its aims?

There are a number of specific agricultural constraints that the Administration will face in negotiating a new trade liberalization package in the WTO. As the Uruguay Round unfolded, it was clear that the U.S. aim was to provide a framework under which future negotiations could make progress on trade barriers, and to obtain benefits for U.S. agriculture through a modest increase in export opportunities and reduction in subsidized exports from other countries. The main commodities affected by this strategy were the bulk commodities, such as grain and oilseeds, in which the United States was viewed to have a competitive advantage. The more sensitive domestic commodities, such as dairy products and sugar, were largely unaffected by the results of the negotiations. Apart from a few exceptions during periods of high domestic prices, exporters of dairy products have not found it profitable to ship to the protected U.S. market given the over-quota tariffs that they face.

Support for trade liberalization

The degree of support by U.S. agricultural interests for a new trade agreement will be important for U.S. negotiators. Currently, the possibility of further agricultural trade liberalization is not a major item on the domestic political agenda. Farm groups have been far more concerned by other matters, such as low domestic prices for some commodities due to increased production and relatively weak market demand. There is far greater debate about structural changes, such as the development of some very large pig or milk producing farms, mergers and acquisitions in the processing and marketing sector, and environmental issues, such as those associated with intensive animal agriculture, than about the possibility for further trade liberalization.

Falls in the prices of many farm commodities in the late 1990s, due to a reduction in overseas demand and increases in production, generated a flurry of political activity. One analysis of the situation suggests that the fall in farm prices was primarily due to increased production, rather than to a fall in demand (Doering and Paarlberg). In other words, farmers own decisions and the weather are at the root of the problem.

⁷ In its negotiating proposal, the Clinton administration provided a list of new policy directions that could be exempt: farm income safety-net and risk management tools; environmental and natural resource protection; rural development; introduction of new technologies; and structural adjustment. See the Annex to this paper.

Whatever the cause, politicians have been eager to show that they are sensitive to farmers' problems and to offer them generous financial support.

With the conclusion of the Uruguay Round of negotiations, the United States was able to introduce a major reform of its farm legislation. The 1996 Federal Agriculture Improvement and Reform Act (FAIR), which has only recently been replaced by new legislation, eliminated the deficiency payments and planting restrictions that had been the centerpiece of earlier legislation for major crops, replacing these with payments that are decoupled from planting decisions (production flexibility payments). However, with declining farm prices, substantial additional steps were taken to support prices and farm incomes. These include government purchases of some commodities, the provision of additional cash payments, and an increase in funding for loans.

Table 2. Government Payments to U.S. Agriculture, 1997-2003^{1/}							
	1997	1998	1999	2000	2001	2002 ^e	2003 ^e
	\$ mill.						
Price Support Loans (net)	110	1,128	1,455	3,369	3,189	5,220	3,615
Production Flexibility	6,320	5,672	5,476	5,057	4,105	3,952	0
Loan deficiency	0	478	3,360	6,419	5,293	6,311	5,178
Direct Payments							3,844
Counter-cyclical payments							5,828
Conservation Reserve and other conservation programs	1,776	1,890	1,754	1,774	1,946	2,107	2,066
Emergency assistance ^{2/}	130	3	5,252	12,498	7,781	504	1,819
Total Payments	7,256	10,143	19,223	32,265	22,105	18,683	22,964
na = not applicable; e = estimate based on FY2003 mid session review of July 15, 2002. Estimates for 2003 reflect the Farm Security and Rural Investment Act of 2002. Data are for Federal fiscal years, October-September.							
1/ Net outlays by the Commodity Credit Corporation.							
2/ Includes: market loss assistance, crop disaster, and other emergency payments.							
Source: USDA, Economic Research Service.							

Under the FAIR act, direct payments to farmers were supposed to decline. The production flexibility (AMTA) payments provided under the Act did, in fact, decline (Table 2) from over \$6 billion in fiscal year 1997 to roughly \$4 billion in 2001, but there was a substantial increase in other types of payments. Loan deficiency payments, which are a form of price support, rose from zero in 1997 to over \$6 billion

in 2000. On top of this, “emergency assistance” of more than \$12 billion was provided to farmers in 2000. Government support to agriculture reached more than \$32 billion in 2000, compared to less than \$5 billion in 1996⁸.

The FAIR act was replaced by new legislation – the Farm Security and Rural Investment Act in May 2002. The new act provides for a permanent increase in government subsidies for agriculture over the life of the legislation (six years), rather than the ad hoc annual increases that have characterized recent years. It also reintroduces a target-price system, abolished by the FAIR act. Subsidies for grain and cotton farmers are increased. It also reintroduces subsidies for wool and honey producers and new payments for milk, peanuts, lentils and dry peas. It is estimated that the Act will increase spending by \$8 billion per year over the FAIR act, although the costs could be less than that under the ad hoc “emergency” measures adopted in recent years by the Congress. The exact costs of the legislation will depend on commodity prices. Supporters of the legislation argue that expenditure on the amber box components of the legislation will not exceed the annual maximum of \$19.1 billion. The Act contains a provision for the Secretary of Agriculture to adjust expenditures if the ceiling is likely to be violated. However she must submit a report to the Congress, describing what adjustments are to be made, before doing so.

During the Uruguay round, U.S. agricultural interests were generally supportive of the aim of liberalizing agricultural trade. Commodity sectors that were seen as having the most to gain, such as grains and oilseeds, were naturally in favor of changes that could increase access to overseas markets. Commodity sectors that were fearful of the impact of trade liberalization, such as dairy and sugar, were reassured by the fact that they the outcome of the Uruguay Round would not be likely to subject them to greater competition from abroad.

There was a natural tendency by politicians and some of those in agriculture to emphasize the positive aspects of freer trade, such as easier access to markets and less competition from subsidized exports by other countries. There has been a natural reluctance to acknowledge that freer trade might mean greater competition in domestic markets, and that international trade can be risky. The reduction in demand for U.S. agricultural exports in the wake of financial crises in Asia in the late 1990s came as a shock to some who had been led to believe that international demand and prices could only head in one direction – upwards. Support for freer trade among agricultural interest groups has weakened considerably with lower prices, and this has been reflected in the new farm act, which signals a return to greater reliance on government subsidies.

Among U.S. agriculture as a whole there is far less enthusiastic support for the current round of negotiations than there was for the Uruguay Round, and a far greater focus on making sure the government will continue spending in order to protect revenue and incomes⁹. Among those segments who would likely gain from an expansion of market

⁸ The FY2002 Federal budget provides \$79 billion for additional spending on agriculture over 10 years, including \$5.5 billion in FY2001 and \$7.35 billion in FY2002.

⁹ A statement by the other main farmers’ organization, the National Farmers Union, on trade issues includes the following: “We will oppose attempts by U.S. negotiators to bargain away existing American farm policies or authorities that could limit net farm income in the U.S., or even in other countries.” <http://www.nfu.org/index.cfm?category=legislative&title=issues&id=53>

access and further reduction in subsidized competition, such as the grain and oilseeds complex, there is greater skepticism about the negotiations and the benefits that might flow from them than previously. Among those segments of agriculture that could face a significant increase in competitive pressure as a result of trade liberalization, there is already outright opposition to the negotiations. This is the case for sugar.

Sugar

The domestic sugar industry has traditionally opposed trade liberalization. Prior to the Uruguay Round it operated under a protective system of import quotas. The volume of imports was tightly regulated in order to keep domestic sugar prices above world prices. Since the Uruguay Round a TRQ system has achieved the same result, although domestic sugar prices have been deteriorating due to reduced inability to manage prices through changing the volume of sugar imports. Nevertheless, domestic sugar prices are typically more than double those on international markets. As a result, lower-cost sweeteners, such as high fructose corn sweetener, have made substantial inroads into the market, particularly in processed foods and beverages. There is opposition to trade liberalization by the sugar industry and by the sweetener industry as a whole as a result of this situation, since both anticipate that cheaper imports would displace them from domestic markets. On the other hand, large users of sweeteners, such as the soft drinks industry, support trade liberalization since this would allow them access to cheaper sources of supply. The U.S. sugar lobby is a powerful political force that is very active in its opposition to further liberalization of sugar imports.

A foreign policy dimension complicates the sugar situation. The exporters of sugar and related products to the United States are primarily developing countries – Latin American and Caribbean countries provide roughly 50 percent of total imports by value and roughly 70 percent of the volume of cane and beet sugar imports. Access to the high-priced U.S. sugar market has been used to further U.S. foreign policy objectives, including economic development in the Western Hemisphere. Given the current political situation, exports from one of the largest sugar producers in the region – Cuba – are excluded from the U.S. market. An interesting situation could emerge if political and economic reform occurred in Cuba. Any substantive movement to democracy and a market economy in Cuba would place enormous pressure on the U.S. government to help the country economically. One of the options that would inevitably arise would be to open the U.S. market to sugar imports from Cuba. This would be a tangible and immediate step that could be taken to increase the flow of dollars into the struggling Cuban economy and to help avoid a mass exodus of Cubans to the United States.

With the possibility of future political change in Cuba, its continued economic difficulties, and the strong emotional linkage which exists between Americans of Cuban descent and those on the island, pressures to liberalize U.S. sugar imports might come from a source unrelated to international trade negotiations, but might conceivably have an impact on them, particularly if they take some time to conclude.

Dairy

If substantial progress is to be made in the negotiations, it will be necessary to liberalize trade in dairy products. The attitude of the U.S. dairy industry to the negotiations will be important.

Traditionally, the U.S. dairy industry has taken a protectionist stance on trade. U.S. dairy policy played a significant role in undermining the application of the GATT to agriculture in the 1950s. The United States was forced to obtain a waiver for the introduction of import quotas for dairy products under Section 22 of the Agricultural Adjustment Act in 1955. As Josling et al observe this “was to have a chilling effect on international agricultural trade policy.... and demonstrated that agricultural products were indeed subject to different trade rules” (page 29).

Until the 1990s, the main trade concerns of the dairy industry were to ensure that any loopholes in the quota system that would allow greater imports of dairy products were closed, and that government funds were available to export “surplus” dairy products.

A phase-out of dairy price supports was initiated under the FAIR Act. The Commodity Credit Corporation (CCC) buys butter, Cheddar cheese, or nonfat dry milk at support prices that are intended to ensure that manufacturing milk prices average at least \$9.90 per cwt (100 pounds or 26 cents per liter). These purchases were supposed to have ended on December 31, 1999, but Congress extended the program on two occasions (to the end of 2000 and then 2001). The new farm Act continues the former price support policy, and introduces direct payments.

The U.S. dairy industry is undergoing major structural changes. Dairy farms are getting larger; some very large dairy farms have been established in certain areas of the country, most notably the west and southwest. In addition, there has been substantial merger and consolidation activity among cooperatives and private dairy processors. These changes are generating stresses and strains in the industry. Some producers would like to preserve a protected market and look to price enhancement by controlling the allocation of milk to various uses as a means of maintaining profitability. Others are focusing on controlling costs and increasing technical and economic efficiency in order to become more competitive and increase profitability.

It is likely that with continued advances in technical and economic efficiency, a substantial part of the U.S. dairy industry would be competitive in international markets if world trade in dairy products were liberalized (Blandford, 1999). Some in the industry view international trade liberalization as an opportunity, but this is not a widely held view. If the U.S. dairy industry were to add its support to trade liberalization efforts, this would provide a powerful impetus to the negotiations. In any event, the evolving attitude of the dairy industry to international trade could have an important impact on the U.S. negotiating position in the upcoming round.

Concluding Comments

A review of the history of U.S. trade policy shows a mixture of both liberalizing and protectionist tendencies (Blandford 1990). The same mixture is in evidence today. For example, at the same time as the United States was pressing for the opening of European markets to its beef exports, restrictions were imposed on imports of lamb from Australia and New Zealand. Because of the nature of the U.S. political system and the alternating cooperation and competition that takes place between the President and the Congress, U.S. trade policy often appears to be inconsistent to the outside world. To the extent that a “U.S. position” during the current round of trade negotiations can be identified, this is broadly one that leans to greater liberalization.

Despite the election of a Republican President, which usually signals a pro-trade stance, U.S. trade policies have tended to become more protectionist over the last two years. However, the Administration has been able to secure the necessary authority to conclude an agreement from the Congress.

U.S. negotiators will be acutely aware of the constraints within which they operate, particularly in terms of domestic politics, during the negotiations. Their ability to pursue trade liberalization will be affected by the state of the U.S. economy and agriculture as the negotiations proceed, and the constraints imposed by the new farm legislation. The main focus of farm lobbies in the United States seems to be on securing as much money as possible from the Federal government, rather than trade liberalization. As in other countries, freer trade and reduced government support for agriculture are easier to accept when markets are buoyant and prices are favorable. They are less palatable when the opposite conditions apply.

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Annex 1: Clinton Administration Proposal for the WTO Agricultural Trade Negotiations

In accordance with the long term objective of establishing a fairer, more market-oriented agricultural trading system and procedures agreed at the March meeting of the Committee on Agriculture, the United States hereby submits a comprehensive agricultural reform proposal for correcting and preventing restrictions and distortions in world agricultural markets.

By defining, quantifying, and reducing trade-distorting market access, export competition, and domestic support measures, the Agreement on Agriculture established the necessary conditions for long term reform. The major challenge facing members in this negotiation is to build upon that foundation by accelerating the process of reducing trade distortions while preserving the appropriate role for governments to address agricultural concerns in a non-trade-distorting fashion.

Several factors add urgency to this challenge, including internal pressures on members to conduct serious reform, efforts to reduce budgetary expenditures on agriculture, the development of new technologies, the challenge of promoting sustainable development, and the increasing challenge to the world's farmers and ranchers to feed an expanding population on a shrinking resource base. Coupled with the built-in time schedule in the Agreement on Agriculture, the United States proposes that members reach an overall agreement by the end of 2002 and reach agreement on basic modalities at the midterm of the negotiations in 2001.

The specific elements of the United States' approach entail reforms across all measures that distort agricultural trade and that once adopted will reduce levels of protection, close loopholes that allow for trade-distorting practices, clarify and strengthen rules governing implementation of commitments, foster growth and promote global food security and sustainable development.

The United States believes there are compelling arguments for further reform. Too often and in too many countries, the production and marketing decisions farmers make are still driven by government programs and protections from market access barriers, rather than market conditions. As a result, competitive farmers, ranchers, and processors are denied sufficient access to markets and face subsidized products and the trade-distorting policies of foreign governments, leaving the world with an agricultural market still far from the WTO objective of a fair and market oriented system.

There are many costs associated with trade distortions. Distorting subsidy schemes are a wasteful drain on budgets; along with import restrictions, they misallocate limited resources. Rigid government programs and unscientific regulatory restrictions discourage innovation in production and marketing, threaten the future viability of agriculture, and undermine producers' ability to meet growing food and fiber needs. Barriers to trade foreclose consumer choices and can reduce consumer access to adequate food. Distorting subsidies frequently lead to environmentally destructive practices, threatening as well farmers' and ranchers' ability to develop efficiently and in a sustainable manner. All of these distortions are especially burdensome for developing countries, and particularly least developed countries, many of whom depend on agriculture for income and employment and who look to trade opportunities to generate economic growth and who depend on the free flow of agricultural products for food security.

While the United States is committed to working through the WTO to eliminate trade-distorting measures, the United States is likewise committed to and supports policies that address non-trade concerns, including food security, resource conservation, rural development, and environmental protection. The United States maintains that these objectives are best met through non-trade-distorting means, with programs targeted to the particular concern without creating new economic distortions, thus avoiding passing the cost of achieving these objectives to other countries by closing markets, or introducing unfair competition, or both. The United States recognizes that trade measures may be used to address legitimate health and safety concerns and does not support opening the Agreement on Sanitary and Phytosanitary Measures to negotiation. The United States also recognizes the special circumstances in and challenges developing countries face and thus will supply proposals to help better integrate them into the world trading system.

The U.S. proposal will increase the market-orientation of world agriculture, providing producers in all countries more opportunities to compete in world markets, on fairer terms, with more access to expanding markets. Not only will domestic policies structured in conformity with the U.S. proposal

remove a major source of trade distortion, they will release producers from restrictive government policies that prescribe what and how much to produce, freeing farmers to follow their judgement and the natural carrying capacity of their land. Such an environment will result in expanding economic opportunities for farmers and ranchers and putting farm economies on a more sound basis. At the same time, members adherence to the reforms will alleviate food security concerns by providing greater access to food and enhanced purchasing power. Consumers will benefit from wider choice, access to new products with new benefits, and more competitive prices.

U.S. Proposal: Market Access

The U.S. objective for these WTO negotiations on agricultural market access is to maximize market access opportunities for all countries and to make more uniform the level and structure of tariff bindings for all countries in all products.

The United States proposes:

Tariffs

- to reduce substantially or eliminate disparities in tariff levels among countries, to reduce substantially or eliminate tariff escalation, and ensure effective market access opportunities for all products in all markets;
- to reduce substantially, or eliminate, all tariffs, including in-quota duties, by reducing them from applied rates through progressive implementation of annual reduction commitments over a fixed period;
- to denominate bindings and applied rates on a specific or *ad valorem* basis, without the use of complex tariffs or combinations of tariffs;
- to eliminate the transitional special agricultural safeguard as defined in Article 5 of the Agreement on Agriculture;

Tariff-Rate Quotas

- to subject all tariff-rate quotas to substantial increases through progressive implementation of annual commitments over a fixed period;
- to establish disciplines to improve functioning of tariff-rate quotas, including specific mechanisms that trigger when tariff rate quota fill remains below a fixed level;

Import State Trading Enterprises

- to end exclusive import rights to ensure private sector competition in markets controlled by single desk importers;
- to establish WTO requirements that increase transparency in the operation of single desk importers, including their decisions on quality and source of imports; and

Products of New Technologies

- to focus disciplines to ensure that processes covering trade in products developed through new technologies are transparent, predictable, and timely.

U.S. Proposal: Export Competition

The U.S. objective for these WTO negotiations on agricultural export competition is to eliminate export subsidies and variable export taxes and to discipline export state trading enterprises.

The United States proposes:

Export Subsidies

- to reduce to zero the levels of scheduled budgetary outlays and quantity commitments through progressive implementation of annual reduction commitments over a fixed period;

Export State Trading Enterprises

- to end exclusive export rights to ensure private sector competition in markets controlled by single desk exporters;
- to establish WTO requirements for notifying acquisition costs, export pricing, and other sales information for single desk exporters;
- to eliminate the use of government funds or guarantees to support or ensure the financial viability of single desk exporters;

Export Taxes

- to prohibit the use of export taxes, including differential export taxes, for competitive advantage or supply management purposes; and

Export Credit Programs

- to conduct negotiations for export credit programs in the Organization for Economic Cooperation and Development in fulfillment of Article 10.2 of the Agreement on Agriculture, and apply disciplines to all users.

U.S. Proposal: Domestic Support

The U.S. objective for these WTO negotiations on agricultural domestic support is to reduce substantially trade-distorting domestic support in a manner that corrects the disproportionate levels of support members use, while simplifying the way in which domestic support is disciplined.

The United States proposes building on the key elements of the Agreement on Agriculture, including the *de minimis* principle, and making progress through a fairer and simpler approach to capping, binding, and reducing trade-distorting support. This approach recognizes the legitimate role of government in agriculture. In particular, the U.S. proposal allows for support that is delivered in a manner that is, at most, minimally trade distorting. This could include, among others, income safety-net and risk management tools, domestic food aid, environmental and natural resource protection, rural development, new technologies, and structural adjustment which promote economically sustainable agricultural and rural communities.

The United States proposes:

- to simplify the domestic support disciplines into two categories:
- exempt support, as defined by criteria-based measures that have no, or at most, minimal trade distorting effects or effects on production; and
- nonexempt support, which would be subject to a reduction commitment;
- all members with a final bound Aggregate Measurement of Support in their schedules commit to reduce the level of nonexempt support as follows:
- reductions start from the final bound Aggregate Measurement of Support,
- the Aggregate Measurement of Support is to be reduced to a final bound level equal to a fixed percentage of the members' value of total agricultural production in a fixed base period,
- the fixed percentage will be the same for all members, and reductions would be implemented through progressive annual reduction commitments over a fixed period;
- to enhance further, by building on experience, the criteria for exempt support measures while ensuring all exempt measures are targeted, transparent, and, at most, minimally trade-distorting;
- to give special consideration for exempt support measures essential to the development objectives of developing countries as noted under the section on Special and Differential Treatment.

U.S. Proposal: Special and Differential Treatment

The U.S. objective for these negotiations is that developing countries be better integrated into the WTO system through technical assistance, by improving market access opportunities, in particular for least developed countries, and by affording flexibility for exempt support measures essential to development objectives.

The United States recognizes the need for capacity building in developing countries to enhance their integration into and their ability to benefit from the international trading system. In this regard, the United States will work with developing countries to take advantage of the broad range of programs offered by international organizations, bilateral aid agencies, and other entities including programs under the Integrated Framework for least-developed countries. In addition, the United States encourages all members to build upon and expand current activities and improve technical assistance coordination.

The United States proposes:

Market Access

- all WTO members consider products of interest to developing countries, in particular least-developed countries, when making tariff reductions;
- to give special consideration to least developed countries when they implement tariff reduction commitments;

Domestic Support

- to create additional criteria for exempt support measures deemed essential to the development and food security objectives of developing countries to facilitate the development of targeted programs to increase investment and improve infrastructure, enhance domestic marketing systems, help farmers manage risk, provide access to new technologies promoting sustainability and resource conservation and increase productivity of subsistence producers; and

Technical Assistance

- that WTO members intensify ongoing technical assistance through governmental and non-governmental entities in parallel with these negotiations.

U.S. Proposal: Food Security

The U.S. proposal is a food security proposal. The United States believes, in addition to the non-trade distorting domestic support measures countries take to enhance their food security, further liberalization of trade in agricultural products and promoting legitimate assistance programs are important elements in strengthening food security. Trade liberalization will enhance important efforts on food security underway in several venues, including the Food Aid Convention, the United Nations Food and Agriculture Organization, and the World Food Program. In addition to specific disciplines which expand sources of supply and encourage efficiencies in agricultural production, trade reform will result in economic growth and spur innovation, expanding global food security. It is important to recognize that liberalization alone will not address food security needs in all developed and least developing countries. As a consequence, the negotiations need to take into account the continuing role of international food aid and credit programs in providing for food import needs.

The United States proposes:

- to renew the commitment to food aid as expressed in the Uruguay Round's "Decision on Measures Concerning the Possible Negative Effects of the Reform Program on Least Developed and Net Food-Importing Developing Countries";
- to continue the WTO disciplines on food aid contained in Article 10.4 of the Uruguay Round Agreement on Agriculture, which have proven to be appropriate;

- the disciplines to be developed at the Organization of Economic Cooperation and Development for agricultural export credits and credit guarantees should not prevent WTO members from using such programs to improve the food security status of other members;
- to establish export reporting systems in all members to increase information on the level and direction of international grain and oilseed transactions; and
- to strengthen substantially WTO disciplines on export restrictions to increase the reliability of global food supply.

Proposal: Sectoral Initiatives

The United States proposes that WTO members engage in sector specific negotiations to agree on reform commitments beyond those generally applicable in the areas of market access, export competition, and domestic support, including, but not limited to, zero-for-zero and harmonization initiatives.

Annex 2: Bush Administration Proposal for the WTO Negotiations

The United States is proposing ambitious reforms for agricultural trade in the World Trade Organization (WTO) negotiations. Taken as a package, the U.S. proposal on export competition, market access, and domestic support would result in reductions in trade barriers for agricultural products, greater equity in world agriculture, and expanding growth opportunities for the sale of agricultural products.

The United States is proposing a two-phase process:

- The first phase eliminates export subsidies and reduces worldwide tariffs and trade-distorting domestic support over a five-year period. This would be accomplished by harmonizing tariffs and trade-distorting domestic support at substantially lower levels than what is currently allowed.
- The second phase is the eventual elimination of all tariffs and trade-distorting domestic support.

EXPORT COMPETITION

Export Subsidies. The United States proposes the elimination of export subsidies, with reductions phased in over a five-year period in equal annual increments.

Current WTO rules cap annual budgetary outlays on export subsidies and the quantity of subsidized exports, on a product-specific basis. Specific caps on the use of export subsidies were derived from export subsidy activity in the 1986-1990 period. Consequently, the European Union (EU) has recourse to extensive use of export subsidies, and spent over \$2 billion in 2000. The United States also has the ability to use substantial amounts of export subsidies for certain products. However, the United States only spent \$20 million in 2000.

State Trading Enterprises. The United States proposes elimination of export monopolies, thus allowing any producer, distributor, or processor to export agricultural products. The United States proposes ending special financial privileges granted state traders and expanding their WTO transparency obligations.

WTO rules allow for state trading enterprises such as the Canadian Wheat Board to benefit from special rights or privileges in export sales, including special financing privileges. These privileges can create perverse incentives for exporters and producers that result in market distortions, and can hide export subsidy activity.

Export Taxes. The United States proposes prohibiting export taxes on agricultural products. An exception would be made for developing countries for revenue-generating purposes under certain conditions.

Current WTO rules allow countries to impose export taxes on agricultural products with few restrictions. These taxes can contribute to market distortions, particularly when applied during periods of global short supply or when they are used to discourage exports of basic products and encourage exports of semi-processed and processed products. The United States is constitutionally prohibited from levying export taxes.

Export Credits, Credit Guarantees, and Insurance. The United States proposes the establishment of specific rules to govern export credit activity by identifying permissible practices across the range of tools currently employed by WTO members. Practices that are inconsistent with these disciplines would be considered export subsidies and subject to the strict rules prohibiting export subsidies. Current WTO rules allow for the use of export credit programs, including those with a subsidy element, as long as they are consistent with multilateral disciplines. A number of countries use export credit programs in agriculture, including the United States, employing a broad range of specific practices. In order to guard against circumvention of export subsidy disciplines, WTO members will develop specific disciplines on export credit programs.

Food Aid. The United States proposes to expand reporting requirements in the WTO to increase transparency of food aid activities and to strengthen the market displacement analysis in international organizations charged with reviewing food aid activity.

WTO rules allow for the use of food aid, as long as food aid practices are consistent with guidelines established under the Food Aid Convention and the Food and Agriculture Organization. In order to guard against circumvention of export subsidy disciplines, some WTO members have proposed reviewing food aid disciplines in the negotiations.

MARKET ACCESS

Tariffs: The United States proposes the use of a harmonizing formula (the "Swiss formula") for reducing all agricultural tariffs (out-of-quota duties and tariff-only items) that will cut high tariffs more than low tariffs, ensuring no individual tariff exceeds 25% after a five-year phase-in period. The United States proposes that tariff cuts be implemented from applied rates and that tariff application be simplified to either single ad valorem or specific tariffs. The United States proposes that WTO members agree in the negotiations to a specific date for the eventual elimination of all agricultural tariffs.

Current WTO rules require all countries to cap the maximum tariff that can be applied on any product.

While tariffs have come down in recent years, the level of allowed tariff is often substantial. The world average on agricultural products is 62%, while the U.S. average agricultural tariff is 12%.

Tariff-Rate Quotas (TRQs). The United States proposes expanding all TRQs by 20% and eliminating in-quota duties, phased in over a five-year period. The United States proposes tightening rules on TRQ administration to encourage quota-fill and greater transparency, including by prohibiting certain restrictions on imports and requiring the establishment of TRQ reallocation mechanisms. The United States proposes reserving a share of TRQ increases for non-traditional developing country suppliers. A number of WTO Members allow a specific quantity of imports access at a low tariff rate, with all other imports subject to a higher tariff -- a TRQ. The United States maintains TRQs for beef, dairy, peanuts, sugar, tobacco, and cotton.

State Trading Enterprises. The United States proposes expanding trading rights to allow any interested entity to import products. The United States proposes, where TRQs exist, that a growing share of import activity under the TRQs be directed to entities other than those affiliated with the government.

Current WTO rules allow countries to channel imports through a single entity, creating opportunities for import restrictions and resulting in unmet demand for import products.

Special Agricultural Safeguard. The United States proposes elimination of this special safeguard.

Current WTO rules allow for the application of additional tariffs when triggered by a surge of imports or a decline in price, for a specific list of products. In the United States this safeguard can be used for beef, dairy, peanuts, sugar, and cotton products but has not been used in any meaningful way. The United States has identified the need for WTO members to improve import relief mechanisms for seasonal and perishable products in the context of the WTO negotiations.

DOMESTIC SUPPORT

Trade-Distorting Domestic Support: The United States proposes using a formula to limit all countries' use of trade-distorting support to 5% of the total value of agricultural production, with reductions made from current caps over a five-year period. The United States proposes simplifying the current system of calculating trade-distorting domestic support by including trade-distorting support linked to production limitations against the WTO cap. The United States proposes that WTO members agree in the negotiations to a specific date for the elimination of all trade-distorting support.

Current WTO rules distinguish between trade-distorting support, and non-trade distorting support. Trade-distorting support that is subject to the cap generally consists of measures that distort producers' incentives, such as price supports and input subsidies, leading to over-production and distorting international markets. Trade-distorting support linked to production limitations is currently not included against the annual cap. The allowed levels of trade-distorting support were derived from subsidy activity in the 1986-1988 period. The EU can provide over \$60 billion annually in trade-distorting domestic support, and provides substantial support through so-called production-limiting programs. Japan can provide over \$30 billion. The U.S. limit is \$19 billion. Most other countries have very minimal allowances for trade-distorting support, although some small European countries provide

a substantial level of support relative to the size of their agricultural economy. Current rules for excluding low levels of support would be maintained under the U.S. proposal.

Non-Trade Distorting Support ("Green Box"). The United States proposes maintaining the basic criteria for non-trade distorting support.

Non-trade distorting support generally consists of measures delinked from production incentives, such as food stamps, research, extension, pest and disease control, and delinked direct payments. There are no caps on non-trade distorting support, as long as policies are consistent with specific criteria designed to minimize production distortions.

SECTORAL INITIATIVES

The United States proposes that WTO Members engage in negotiations on a sector-specific basis on further reform commitments that go beyond the basic reductions that will apply to all products. These would include deeper tariff reductions, product-specific limits on trade-distorting domestic support, and other commitments to more effectively address the trade-distorting practices in the affected commodity sectors.

SPECIAL AND DIFFERENTIAL TREATMENT

GATT and WTO negotiations have traditionally recognized that developing countries, and in particular least developed countries, may require special and differential treatment under trade rules to give them more time to adjust to competition and to allow mechanisms to address economic development needs. A number of countries have proposed specific approaches for including special and differential treatment in these WTO negotiations.

The United States and developing countries share many interests in these negotiations, and U.S. proposals will yield many benefits for farmers in developed and developing countries alike. These include: elimination of export subsidies, continuation of export credit and food aid programs, tariff reductions, and reducing trade-distorting domestic support.

Regarding market access, the United States proposes providing to nontraditional developing country suppliers a share of the expansion in the TRQ quantities. Under export competition, the United States proposes that only developing countries would be able to use export taxes. Concerning domestic support, the United States proposes identifying specific support programs oriented toward subsistence, resource-poor, and low-income farmers that would be exempt from subsidy limits. The United States will continue to engage with developing countries to address their transitional and development objectives consistent with the overall objectives of liberalizing world agricultural trade and reducing disparities that exist in protection and trade-distorting support.