

# Issue Brief for Congress

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## **Agricultural Trade Issues in the 107<sup>th</sup> Congress**

**Updated June 24, 2002**

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## Agricultural Trade Issues in the 107<sup>th</sup> Congress

### SUMMARY

The 107<sup>th</sup> Congress is considering trade issues with implications for the U.S. agricultural sector. Trade in agricultural commodities and food products affects farm income and rural employment, and it also generates economic activity beyond the farm gate. With agricultural export sales the equivalent of one-quarter of farm income, some policymakers view U.S. efforts to develop market opportunities overseas as vital to the sector's financial health. Decisions taken by the Bush Administration, and actions taken by Congress, thus will affect the outlook for agricultural trade.

U.S. agricultural exports are forecast to improve only slightly in FY2002. Agricultural groups and their supporters in Congress believe that long-term prosperity depends partly on U.S. trade policies that: (1) aggressively reduce foreign-imposed barriers to U.S. farm products, (2) hold other countries accountable for commitments they have already made in existing trade agreements, (3) resolve festering disputes with major trading partners, and (4) fully use U.S. Department of Agriculture (USDA) export and food aid programs. Other groups have pressed for restrictions on agricultural imports.

The Senate passed legislation to grant the President fast track, or trade promotion authority (TPA), to negotiate future trade agreements in May 2002. The House in early De-

ember 2001 narrowly passed its version of TPA. Many, but not all, commodity and food industry groups favor such action, arguing it would give U.S. trade negotiators greater credibility and facilitate the passage of legislation to implement future trade agreements. These include negotiations, which Congress is closely monitoring, on liberalizing trade in agriculture and other economic sectors in the World Trade Organization (WTO), in the hemispheric Free Trade Area of the Americas (FTAA), and in the free trade agreements with Chile and Singapore.

Following agreement on terms of China's accession to the WTO, Congress has focused on ensuring that China adheres to its commitments to open its market to U.S. agricultural products. Members opposed to tight rules on food sales to Cuba (now permitted only under narrow conditions) have introduced bills to ease them. Farm bill conferees, however, rejected a Senate proposal to permit private financing of such sales. Other measures address concerns about the treatment of genetically engineered crops and food products in international trade.

On May 13, 2002, the President signed into law P.L. 107-171 an omnibus farm bill whose trade title amends and extends export and food aid programs through FY2007. The FY2003 appropriations process is now underway.

## **MOST RECENT DEVELOPMENTS**

*The President signed into law the Farm Security and Rural Investment Act of 2002 (P.L. 107-171) on May 13, 2002. Title III of the Act amends and extends most agricultural export and food aid programs through 2007.*

*The Senate, on May 23, 2002, passed omnibus trade legislation which provides for expedited procedures known as fast track or trade promotion authority for congressional consideration of trade agreements negotiated by the President. The House approved its fast-track bill granting the President trade negotiating authority (H.R. 3005) on December 6, 2001. The bills contain agricultural trade negotiating objectives and mandates extensive consultation with House and Senate Agriculture Committees during trade negotiations.*

*On February 4, 2002, the President delivered his FY2003 budget request to Congress. For USDA's international programs—export subsidies, market development programs, export credit guarantees, and food aid—of the U.S. Department of Agriculture, the budget proposes a program level of \$6.4 billion.*

## **BACKGROUND AND ANALYSIS**

### **U.S. Agricultural Exports**

Agricultural exports are important both to farmers and to the U.S. economy. For example, the U.S. Department of Agriculture (USDA) estimates that the share of U.S. production volume exported in FY2000 was 44% for wheat, 53% for rice, 20% for corn, 43% for soybeans and products, and 45% for cotton. Measured by value, 18% of total U.S. agricultural production was exported. Calculations indicate around 25% of gross farm income comes from exports. According to USDA, each dollar received from agricultural exports in 1998 stimulated another \$1.30 in supporting non-farm activities. Agricultural exports generated an estimated 808,000 full-time civilian jobs, including 488,000 jobs in the non-farm sector. U.S. agricultural trade has consistently registered a positive, though recently declining, balance.

Nearly every state exports agricultural commodities, thus sharing in export-generated employment, income, and rural development. In FY2000, the leading agricultural exporting states were (in order) California, Iowa, Texas, Nebraska, Kansas, Illinois, Minnesota, Washington, Indiana, and Arkansas. These 10 states accounted for 59% of the total value of U.S. agricultural exports. In addition, Wisconsin, Florida, North Carolina, Ohio, South Dakota, and Missouri each shipped over \$1 billion worth of commodities.

After growing rapidly in the 1970s, U.S. agricultural exports reached a high of \$43.8 billion in FY1981, but then declined by 40% to \$26.3 billion by FY1986. By FY1996, agricultural exports had recovered and reached a new peak of nearly \$60 billion, but then began a decline that dipped to \$49 billion by FY1999. Main reasons for the decline were continuing financial turmoil in East and Southeast Asian markets, and increased competition

for corn, wheat, and soybeans in global markets. Exports began to recover, rising to \$50.9 billion for FY2000, and an estimated \$53 billion in FY2001. USDA forecasts FY2002 export value at \$53.5 billion.

The commodity composition of U.S. agricultural exports has changed over time. Since FY1991, bulk commodities (grains, oilseeds, and cotton) have accounted for less than total non-bulk exports (intermediate products such as wheat flour, feedstuffs, and vegetable oils and consumer-ready products such as fruits, nuts, meats, and processed foods). In FY2001, high value agricultural exports accounted for 65% of the value of total agricultural exports.

Many variables interact to determine the level of U.S. agricultural exports: income, population growth, and tastes and preferences in foreign markets; U.S. and foreign production and prices; and exchange rates. U.S. agricultural export and food aid programs, domestic farm policies that affect output and price, and trade agreements with other countries also influence the level of U.S. agricultural exports.

## **U.S. Agricultural Imports**

The United States is also a major importer of agricultural commodities and food products. USDA classifies these as either non-competitive or competitive imports. Non-competitive products include primarily tropical products (coffee, cocoa, bananas, rubber, and spices) that are not produced domestically. Imports that compete against domestic output include red meats (primarily beef), fruits and juices, vegetables and preparations, wine and beer, certain grains and feeds, certain oilseeds, sugar and related products, and dairy products. USDA estimates the import share of all U.S. food consumption was 9.1% in 1999. Agricultural imports have risen 72% over the last decade, from \$22.7 billion in FY1991 to \$39 billion in FY2001. Factors contributing to this growth in import demand include the extended U.S. economic expansion during this period, low commodity prices, the strong U.S. dollar which made imports cheaper, and the effects of trade agreements. Non-competitive imports (about \$6.3 billion) accounted for 16% of all agricultural imports in FY2001. The value of competitive imports was nearly \$33 billion (84% of the total).

The U.S. average tariff on agricultural imports (12%) is much lower than the global average tariff (62%) imposed on similar imports. However, the United States along with other developed countries restricts the entry of "import-sensitive" products to protect certain domestic producers. U.S. tariff-rate quotas allow zero or low duty access for specified amounts of foreign beef, sugar, peanuts, and cotton, among other products. Imports above the applicable quota may enter, but face prohibitively high tariffs. This usually makes such imports uncompetitive in the U.S. market. Safeguards (involving the temporary use of higher tariffs and/or quotas) allow producers of an affected commodity or product sector additional time to adjust to increased import competition. In recent years, the United States has imposed safeguards on imports of lamb meat and wheat gluten, both of which were successfully challenged in WTO dispute settlement and were not renewed after 3 years.

Though a large share of agricultural imports compete against U.S. products, they do nevertheless generate economic activity in the U.S. economy. These imports provide additional income to, and increased employment at, businesses involved in food processing and in providing transportation, trade, and related services.

(For more information on both agricultural exports and imports, see *U.S. Agricultural Trade: Trends, Composition, Direction, and Policy*, CRS Report 98-253.)

## Overview of Policy Debate

Although farm groups and agribusiness recognize that many world economic, political, and weather factors influence the level of U.S. agricultural exports, many believe that the agricultural sector's future prosperity also depends upon U.S. trade policies that: (1) aggressively reduce foreign-imposed barriers to U.S. farm products, (2) hold other countries accountable for commitments they have already made in existing trade agreements, (3) resolve festering disputes with major trading partners, and (4) fully use U.S. Department of Agriculture (USDA) export and food aid programs.

A few U.S. farm groups point out that, by maintaining barriers to U.S. imports and their own high export subsidies and internal farm supports, not all countries have fully honored existing trade agreements. In fact, some of these groups (particularly representing import-sensitive commodities) have pressed for more restrictions on foreign farm and food imports.

## Fast Track or Trade Promotion Authority

Fast track or trade promotion authority (TPA) refers to the special procedures Congress has adopted in the past for considering legislation to implement trade agreements with foreign countries. Under the fast track/TPA concept, the President consults regularly with Congress both before and during negotiations. Once an implementing bill that reflects a trade agreement's provisions is submitted, the time for debate is limited, and only an up or down vote on the bill, with no amendments, is permitted. Fast track authority expired in 1994, and a series of efforts to revive it failed in the 105<sup>th</sup> Congress and were not vigorously pursued in the 106<sup>th</sup>, in part because of opposition from those advocating the inclusion of protections for labor and the environment in future trade agreements.

TPA proponents in Congress maintain that the authority is needed to strengthen the hand of the Administration in negotiations to establish the Free Trade Area of the Americas (FTAA) and in World Trade Organization (WTO) negotiations on agriculture and other sectors in the comprehensive negotiating round, the Doha Development Agenda (DDA), launched in Doha, Qatar in November 2001 (see below). TPA would also enhance U.S. participation in negotiating a free trade agreement with Chile and other bilateral trading partners, they say. Without TPA, they argue, U.S. negotiators will lack credibility with negotiating partners, who will be reluctant to make agreements they think could be revised by Congress. Other proponents maintain that the absence of presidential TPA gives trading partners who want to resist trade liberalization a convenient excuse to delay negotiations. Some opponents of fast track argue, however, that Congress should not give up its constitutional power to amend legislation. Other opponents maintain that previous (and proposed) trade agreements passed using TPA disadvantage U.S. agribusinesses and farmers.

Much of the agricultural community has supported giving the President TPA on the grounds that it facilitates negotiations to open foreign markets to U.S. agricultural products. However, some agricultural groups argue that fast track resulted in trade agreements with negative impacts for certain U.S. producers. For example, U.S. sugar, peanut, dairy, and some wheat, fruit, and vegetable producers argue that imports under terms of both the Uruguay Round Agreement on Agriculture (URAA) and North American Free Trade Agreement (NAFTA) undermine significantly the domestic market for their products.

While the Administration and leading trade-minded lawmakers have made fast track/TPA a top trade priority for the 107<sup>th</sup> Congress, the debate has been protracted and contentious. On December 6, 2001, the House passed a TPA bill (H.R. 3005, the "Bipartisan Trade Promotion Authority Act of 2001") largely along party lines by a vote of 215-214. The Senate passed its version of TPA on May 23, 2002. The bill, H.R. 3009 as passed by the Senate, incorporates not only most of the TPA provisions of H.R. 3005, but includes also legislation to renew trade preferences to Andean countries, an extension of the Generalized System of Preferences for products of developing countries, and Trade Adjustment Assistance (TAA) for workers displaced by trade.

Agricultural groups successfully pressed for language in the TPA bills that recognizes their industry's "special status" and/or makes special concessions to them. Both H.R. 3005 and H.R. 3009 as passed by the Senate, for example, enumerate explicit negotiating objectives for agriculture. They provide for extensive consultation between the Administration and House and Senate Agriculture Committees, including special consultation procedures that could affect tariff reduction commitments on some 200 "import sensitive" agricultural and food commodities. Both bills also include the preservation of U.S. export credit and food aid programs among negotiating objectives for agriculture. These provisions—special treatment for import sensitive products and preservation of export and food aid programs—could make negotiating new reduction commitments for export subsidies (a U.S. objective) more difficult, although the USTR maintains otherwise.

Of interest to agricultural interest groups is an amendment to H.R. 3009 as passed by the Senate, agreed by voice vote on May 14, 2002, which provides for the exclusion from fast-track consideration of provisions in a trade agreement which modify or amend U.S. trade remedy laws. USTR and the Secretary of Agriculture say they will recommend that the President veto a TPA bill which contained the amendment. As there is nothing comparable in the House version, the issue will be taken up in conference. Agricultural interests, who have made extensive use of U.S. trade remedy statutes, are divided over inclusion of the amendment in a final bill. Opponents argue that the provision is counterproductive to U.S. negotiations to bring other countries' trade remedy laws up to U.S. standards. Supporters of the amendment express fears that U.S. negotiators will make concessions that would weaken U.S. trade remedy laws. (For more detail, see *Trade Remedies and Agriculture*, CRS Report RL31296, February 22, 2002.)

Another contentious issue is the TAA legislation, incorporated into H.R. 3009 as passed by the Senate, which goes far beyond TAA legislation passed earlier by the House and includes, among other provisions, assistance for farmers adversely affected by imports. Agricultural groups may petition the Secretary of Agriculture to certify them as eligible for TAA. If the Secretary determines that imports "contributed importantly" to lower than average prices for the affected commodity, producers could receive prescribed cash payments of up

to \$10,000 per year each, with total national payments capped at \$90 million. This and other issues related to TAA will be taken up in conference. (For more information, see Fast-Track Trade Negotiating Authority in the CRS Electronic Trade Briefing Book, and *Agriculture and Fast Track Trade Legislation*, CRS Report 97-817.)

## Trade Agreements

Provisions affecting agricultural trade are found in bilateral trade agreements approved to date by the 107<sup>th</sup> Congress and in both bilateral and regional agreements being negotiated. Particular attention focuses on how U.S. negotiators will deal with agricultural trade issues in negotiations for a U.S.-Chile free trade agreement and for a hemispheric-wide FTAA. While some commodity groups welcome the market openings these agreements are expected to provide, producers of import-sensitive commodities will carefully monitor and seek to shape those provisions that affect them. These producers will be most concerned about what negotiators include as rules of origin, safeguards against import surges, the transition periods agreed upon for market access, and the terms under which sanitary and phytosanitary rules are applied. In the short term, observers note that the pace of negotiations on current and prospective trade agreements involves a balancing act between Administration efforts to secure trade promotion authority and at the same time not alienate Members of Congress that represent agricultural interests, particularly import-sensitive products.

### Bilateral Trade Agreements

The Clinton Administration in 2000 concluded trade agreements with Jordan and Vietnam. In 2001, the 107<sup>th</sup> Congress approved, and President Bush signed, measures to put them into effect (P.L.107-43 – H.R. 2603 – for Jordan; P.L. 107- 52 – H.J.Res. 51 – for Vietnam). Negotiations on free trade agreements (FTAs) continue with Singapore and Chile. President Bush on January 16, 2002, announced the United States also will explore an FTA with Central America in order to promote economic and social growth in the region. And on April 23, 2002, the President announced that the United States will seek an FTA with Morocco. Other countries mentioned by U.S. trade officials in recent months as FTA candidates include Australia, Egypt, and South Africa and neighboring African nations. An FTA proposed last year by Australia and New Zealand met with considerable opposition from U.S. agricultural interests.

**Chile.** The pace of liberalizing agricultural trade between the United States and Chile has proven to be a difficult issue in negotiating an FTA. The United States over the last decade has recorded a growing agricultural trade deficit with this major trading partner in Latin America. In 2001, U.S. agricultural exports to Chile totaled \$100 million; leading products sold were corn gluten meal, wine making ingredients, snack foods, planting seeds, and pet foods. Chile's exports of agricultural products to the U.S. market were much higher, valued just over \$1.0 billion. Sales of fresh fruit (primarily table grapes), wine, fruit juices, and planting seeds accounted for 90% of this total.

U.S. negotiators are pressing for increased market access for commodities (wheat, wheat flour, edible oils) now protected by Chile's price-band system. Price bands serve to insulate producers and processors when the world price for any commodity falls below a calculated



reference price. Protection is provided the domestic sector by levying a variable charge on the imported commodity, which when added to the lower world price, raises the importer's cost to the reference price target. The future of Chile's price band system and its effect on the negotiations is uncertain in view of a recent WTO dispute panel ruling that it violates WTO trade rules. Chile is appealing the ruling.

Chile in turn is seeking reductions in U.S. tariffs on the major farm products shipped to its market and in changes in how anti-dumping and countervailing rules are applied. Chile has repeatedly expressed concerns about the financial impact invoking these rules has had on Chilean producers of salmon, grapes, and raspberries. That is because agricultural exports – representing one-third of Chile's total exports to the U.S. market – are important to its economy.

Detailed talks on eliminating tariffs on agricultural products (e.g., determining which products fall in which tariff reduction category, and the timetables that apply to each) began in mid-September 2001. Subsequent negotiating sessions have included discussions on which products should be placed in which tariff reduction category, and explored the use of transitional tariff-rate quotas for the more import-sensitive agricultural commodities. Questions of coverage, product exclusions, and phase-out periods (particularly with sensitive products) in tariff negotiations are still open. The United States is reportedly seeking a "special agricultural safeguard" in order to "manage access" of Chilean fruit and vegetable products to the U.S. market during the transition to a free trade area. Chile reportedly would drop demands that the United States eliminate domestic agricultural support on the basis that the issue will be taken up in WTO agriculture negotiations. If Chile loses its appeal of the WTO price band decision and converts the price bands into tariffs or tariff rate quotas, the United States will press for phased reductions in protection for import-sensitive Chilean commodities such as wheat, wheat flour, sugar and vegetable oil.

Negotiations on Chile's Sanitary and Phytosanitary (SPS) barriers have been proceeding along a parallel track. With some U.S. exporters having faced sanitary and phytosanitary obstacles in recent years in selling pork, beef, dairy, and poultry products and certain fruit to the Chilean market, the United States is expected to press for language that ensures such matters in the future are addressed using WTO rules and procedures. Negotiators from both sides have stated that disagreements on the agreement's prospective agricultural provisions could be the most difficult to resolve, and acknowledge this likely will not occur until the last minute.

Negotiators met April 9-12 in Santiago and discussed market access for agricultural and industrial products, among other issues. Reportedly, progress was made in determining the phase-in periods for tariff reductions, including possible timetables for reducing tariffs on the most sensitive imports, including a number of agricultural products. Progress was also reported following an April 3-4 meeting on sanitary and phytosanitary issues. Reportedly, the United States and Chile would set up a framework within which safety certification of poultry, meat, and dairy products would be addressed as well as conditions for marketing U.S. beef in Chile. U.S. and Chilean trade officials met through May and early June on both FTA and SPS issues. At meetings the week of June 10<sup>th</sup> officials agreed to postpone negotiations until September. A Chilean spokesperson indicated the postponement would allow time for final passage of TPA negotiating authority, although U.S. officials said there was no link to TPA. Differing House and Senate versions of TPA (H.R. 3005 and H.R. 3009 as passed by the

Senate) under which Congress would consider a U.S.-Chile FTA, are yet to be taken up in conference. In the meantime, the United States and Chile will continue discussions on both agricultural trade and SPS issues.

(For background, see The U.S.- Chile Free Trade Agreement in the CRS Electronic Trade Briefing Book.)

**Singapore.** The United States runs an agricultural trade surplus with Singapore. U.S. agricultural and food exports in 2001 totaled \$228 million, compared to \$45 million in imports. Top agricultural exports were fruit and related products, vegetables and related products, cooking oils, snack foods, and poultry meat. Purchases of cocoa paste and butter, snack foods, rubber and related products, and spices from Singapore accounted for 57% of agricultural imports. Being primarily urban, Singapore produces little of its own food. Reflecting this, tariffs on imported foodstuffs are close to zero. Because this city state is a major shipping hub, some U.S. commodity groups seek the inclusion of rules of origin in the FTA to prohibit duty-free treatment of food products transhipped through Singapore from neighboring agricultural producing countries in Southeast Asia. Negotiators held their eighth round of talks the week of April 22 and reportedly have made progress on rules of origin, but still are working on their market access offers. Negotiations are scheduled to continue in London during June 20- July 3. A session involving U.S. Trade representative Zoellick and Singapore Minister for trade George Yeo may take place in late summer. USTR has indicated that negotiations should conclude before the end of the year. (For background, see *Singapore-U.S. Free Trade Agreement*, CRS Report RS20755, or a summary similarly titled in the CRS Electronic Trade Briefing Book.)

## Free Trade Area of the Americas (FTAA)

President Bush has stated that he places a high priority on negotiating an agreement to completely remove trade barriers within the Western Hemisphere. The FTAA is intended to go beyond NAFTA to encompass all trade among all of the region's countries, and eventually supersede the panoply of current regional FTAs and those that are being negotiated. Crafting the FTAA rules for liberalizing agricultural trade and then negotiating the fine details between the region's 34 countries by the target date of 2005 are expected to be difficult and contentious. Some Latin American countries, particularly Brazil, are seeking increased access to the U.S. market for competitive products such as beef, citrus, sugar, and vegetables. U.S. commodity groups and agribusiness seek additional openings for their products in the rapidly growing Latin American market as well as legal assurances that all countries will abide by sanitary and phytosanitary rules with respect to agricultural imports. The Office of the U.S. Trade Representative (USTR) on January 17, 2001, issued summaries of the U.S. positions on the objectives and rules to be followed to negotiate FTAA's agricultural provisions.

At the third Summit of the Americas in April 2001, hemispheric leaders, including President Bush, assessed progress to date and ratified the dates for completing FTAA negotiations and making the agreement effective. Leaders accepted May 15, 2002 as the deadline for initiating product and sector-specific negotiations, and agreed to conclude all FTAA negotiations by January 2005. Their goal is to have the final agreement take effect no later than December 2005. Leaders committed also to make the trade negotiation process more transparent and accessible. Toward this end, a draft "bracketed" FTAA text (a document reflecting all countries' positions in all negotiating areas) was released on July 3.

The draft agriculture chapter contains proposals for accelerated tariff elimination on agricultural products, special treatment of the agricultural sectors of the smaller economies, disciplines on state trading enterprises to begin at the start of the tariff elimination process, and disciplines for monitoring food aid. The draft includes areas of disagreement on defining and eliminating agricultural export subsidies, and on the nature and scope of agricultural safeguards to be permitted to protect against import surges. Provisions in both House and Senate versions of trade promotion measure (H.R. 3005 and H.R. 3009 as passed by the Senate) that address the concerns of import-sensitive U.S. agricultural producers (e.g., citrus and sugar, among others) in future trade negotiations prompted Brazil's President and the country's lawmakers in mid-December 2001 to object to these stipulations and urge they be dropped. The U.S. farm bill (P.L. 107-171), which potentially will increase U.S. spending on trade-distorting subsidies, has been identified by Brazil as an obstacle to negotiating an FTAA. U.S. trade negotiators, however, argue that the farm bill provides that spending on subsidies be kept within agreed multilateral limits. These officials also maintain that the United States is committed to further reducing domestic support in WTO negotiations. The pace and substance of how key agricultural trade issues (e.g., export subsidies and domestic support) are handled in WTO agriculture negotiations will influence the way they are addressed by FTAA negotiators.

Trade officials for countries in the hemisphere met in Panama during the week of May 13 in an effort to keep to the schedule adopted in Buenos Aires last year. While agreement was reached on a schedule for the market access phase of FTAA negotiations, no agreement was reached on the modalities (formulas or targets) for tariff reductions. According to the schedule agreed upon, countries would make initial offers for tariff reductions between December 15, 2002 and February 15, 2003, followed by market access requests between February 16 and June 15, 2003. Revised offers would follow this initial "request-offer" process.

Officials were unable to agree, however, on the basis for tariff reductions in agriculture and other sectors. At issue is whether to base tariff reductions on the applied tariff rate used by countries or on the most-favored-nation (MFN) rate which is bound in the WTO. The choice is important because MFN rates are generally higher than applied rates. Thus cuts based on MFN rates could result in little or no increase in market access. The United States, Canada, Mexico, and Central American countries agreed to allow Andean and MERCOSUR countries some flexibility in adjusting tariffs even after notifying base rates. Andean countries are engaged in phasing in a common external tariff while MERCOSUR countries are adjusting their common external tariff in response to financial problems in Argentina, among other factors. The United States is insisting on reductions based on applied rates. Opposed to that position are the CARICOM countries which held out for basing reductions on MFN rates.<sup>1</sup> The issue will be on the agenda of the August meeting of trade officials in the Dominican Republic and a decision on base tariff rates could come at the meeting of FTAA trade ministers in October in Quito, Ecuador. Final stages of the FTAA negotiations, which will be co-chaired by Brazil and the United States, will take place from November 2002 through December 2004. (For more information, see *Agricultural Trade in the Free Trade*

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<sup>1</sup> The Caribbean Community (CARICOM, is composed of Antigua, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Monserrat, St. Kitts-Nevis-Anguilla, St. Lucia, ST. Vincent, and Trinidad and Tobago.

*Area of the Americas*, CRS Report RL30935; and A Free Trade Area of the Americas in the CRS Electronic Trade Briefing Book).

## **Agricultural Negotiations in the World Trade Organization (WTO)**

At the World Trade Organization (WTO) Fourth Ministerial Conference in Doha, Qatar, November 9-14, 2001, trade ministers agreed on a declaration to begin a new round of multilateral trade negotiations (MTNs), including negotiations on agriculture. This new round, because of its emphasis on integrating developing countries into the world trading system, will be called the Doha Development Agenda (DDA). The Doha Ministerial Declaration gives new impetus to sectoral negotiations on agriculture that have been underway in the WTO for some time. These negotiations are part of the so-called WTO's "built-in agenda" and are intended to continue the process of "substantial progressive reductions in support and protection" of agriculture (Article 20 of the 1994 WTO Uruguay Round Agreement on Agriculture (URAA)) begun in 1986. While the URAA established new and strengthened rules for the conduct of agricultural trade, the new round will focus on measures to expand market access for agricultural products and further reduce agricultural export subsidies and trade-distorting domestic support.

For agriculture, the Doha Ministerial Declaration states that "*building on the work carried out to date (in the sectoral negotiations)*" and "*without prejudging the outcome of the negotiations, we commit ourselves to comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support.*" The Declaration also provides that "*special and differential treatment for developing countries shall be an integral part of all elements of the negotiations.*" The Declaration takes note of "*non-trade concerns reflected in negotiating proposals of Members*" and confirms that "*non-trade concerns (discussed below) will be taken into account*" in the negotiations.

Although at Doha trade ministers reached agreement on a mandate for agriculture negotiations, there remain the difficult tasks of deciding on "modalities" (e.g., formulas for reducing tariffs or timetables for reducing export subsidies) for achieving the mandated objectives and of developing individual country schedules, or lists, of commitments. Member countries will differ in their choice of modalities. For example, some will want to reduce high tariffs more rapidly than lower tariffs, while others will want to protect "sensitive" products by slowing the pace of tariff reduction. Similarly, some will want rapid reductions in export or domestic subsidies while others will want longer timetables for reductions. The WTO Agriculture Committee has set out a work program which calls for establishing negotiating modalities for achieving new reduction commitments over the period March 26, 2002 through March 31, 2003. Modalities for reducing or eliminating export subsidies were discussed in WTO negotiating sessions in June. Final agreement on export subsidies is not expected until the March 2003 deadline. Agreement on export subsidies will likely come as part of a package approach also consisting of reduction formulas for market access and domestic support reduction. The deadline for concluding the negotiations in the DDA, including those on agriculture, is January 1, 2005.

The United States, the Cairns Group of agricultural exporting countries,<sup>2</sup> the European Union (EU), Japan, and several developing countries submitted negotiating proposals during the first phase. The U.S. proposal calls for the elimination of agricultural export subsidies by a fixed date; substantial reductions in tariffs and increases in tariff-rate quotas on agricultural imports; disciplines on state trading enterprises; and reductions in amber box spending (trade distorting domestic support) based on the same fixed percentage of each country's total agricultural production value – with the objective of eventually making all countries' domestic support levels comparable in relative terms. The Cairns Group also calls for deep cuts in domestic support and the elimination of export subsidies. The EU, Japan, and Korea place greater emphasis on so-called non-trade concerns like protecting the environment and rural development. The EU has conditioned its support for further export subsidy reduction on including export credits and large U.S. food aid programs on the negotiating agenda. Developing countries that are not members of the Cairns Group call for rapid dismantling of trade barriers of developed countries coupled with exemptions for domestic support deemed essential for economic development.

Most U.S. agricultural interest groups are pleased that agriculture has been folded into a more comprehensive multilateral round of trade negotiations. These groups believe that trade-offs possible in a more comprehensive negotiation would result in improved market prospects for U.S. agricultural exports. Others, such as winter vegetable producers or wheat farmers in states that border Canada, who feel disadvantaged by previous trade agreements (i.e., NAFTA) are not enthusiastic about U.S. participation in a new round.

While the Administration claimed substantial success in terms of the negotiating mandate for agriculture in the new round, the President on May 13, 2002, signed into law a farm bill (P.L. 107-171) to replace the 1996 Federal Agricultural Improvement and Reform, or FAIR, Act) that, many critics say, could raise trade-distorting domestic support above U.S. commitments to reduce such spending and also undermine the U.S. position in the new round of multilateral trade negotiations. However, the conference report on the farm bill stipulates that the Secretary shall, to the maximum extent possible, make adjustments in domestic support to ensure that it does not exceed levels allowable under the Uruguay Round Agreement on Agriculture. Moreover, U.S. trade officials insist that the United States has not wavered from its negotiating objective of securing substantial reductions in domestic subsidies that distort trade. (For more information, see *Agriculture in WTO Negotiations*, CRS Report RS21085, or a summary so titled in the CRS Electronic Trade Briefing Book; *Farm Support Programs and World Trade Commitments*, CRS Report RL30612 and *Agricultural Export Subsidies, Export Credits, and the World Trade Organization*, CRS Report RS20858.)

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<sup>2</sup> The 18 members of the Cairns group are: Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Fiji, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand and Uruguay. Negotiating proposals submitted by individual countries, and background papers on negotiating issues prepared by the WTO Secretariat, can be found at [[http://www.wto.org/english/tratop\\_e/agric\\_e/negoti\\_e.htm](http://www.wto.org/english/tratop_e/agric_e/negoti_e.htm)].

## Biotechnology and Agricultural Trade

Conflict between the United States and its trading partners over regulations for genetically engineered (GE) crops and food products that contain them pose a potential threat to, and in some instances have already disrupted, U.S. agricultural trade. Underlying the conflicts are pronounced differences between the United States and several important trading partners in consumer attitudes about GE products and their potential health and environmental effects.

Consumer acceptance of GE crops and foods at home and abroad is critical to U.S. producers, processors, and exporters. U.S. farmers have adopted GE crops because they offer prospects of reducing input costs or making planting more flexible. Aside from their agronomic benefits, supporters of GE crops maintain also that the technology holds promise for enhancing agricultural productivity and improved nutrition in developing countries. For the most part, U.S. consumers have not questioned the health or safety of GE foods. Concerns about the environmental consequences of planting GE varieties are more widely held. In contrast, in the EU, Japan, South Korea, and elsewhere, consumers, environmentalists, and some scientists maintain that the long-term effects of GE foods on health and the environment are unknown and not scientifically established. The EU, in particular, insists that precaution should be used in approving and regulating GE foods.

The U.S. regulatory framework for GE foods facilitates their introduction into U.S. agriculture and food processing. The guiding principal is that GE foods are “substantially equivalent” to conventional foods; therefore, existing regulations for approving foods are appropriate and adequate. Labeling with respect to GE content is not required in the United States, except where there is a significant difference between the conventional and the GE food product (for example, the presence of an allergen). The EU, Japan, South Korea, and China—all major U.S. export markets—either have or are establishing mandatory labeling requirements for products containing GE ingredients. The EU has developed a new approval process for GE crops, as well as EU-wide legislation for tracing GE crops through the marketing chain and for labeling products that contain GE ingredients (including products where no trace of modified DNA is present). U.S. trade policy officials have criticized the new rules as unnecessarily onerous, while producers and marketers of GE products have expressed concern about the additional regulatory burden and cost that the new biotech rules would impose. The new legislation still must be approved by the European Parliament as well as individual EU member governments before it can take effect in 2003. The possibility of a U.S. challenge to EU regulations in WTO dispute settlement has been raised by both industry and government spokespersons.

Both the food industry and government regulators are likely to be involved in trying to influence as well as meet the diverse labeling regulations in overseas markets. U.S. industry is assessing the costs and benefits of separating GE from non-GE crops and of preserving crop identity in the marketing chain. U.S. officials are considering changes in the regulatory framework to permit and facilitate voluntary labeling and/or enhance systems for certifying the statements about the GE content of foods.

Biotechnology issues are receiving attention in the 107<sup>th</sup> Congress. Biotechnology provisions in the 2002 farm bill (P.L. 107-171) include: a biotechnology and agricultural trade program, aimed at barriers to the export of U.S. products produced through biotechnology

(Section 3204); competitive grants for biotechnology risk assessment research (Section 7210); agricultural biotechnology research and development for developing countries (Section 7505); and a program of public education on the use of biotechnology in producing food for human consumption. (Section 10802). A bill introduced in the 107<sup>th</sup> Congress calls for mandatory labeling of GE foods (H.R. 4814). Other bills (H.R. 4812, H.R. 4813, and H.R. 4816) deal respectively with legal issues raised by cross-pollination with GE plants, a study of the safety of GE foods, and liability for injury caused by GE organisms. (For more information, see *Food Biotechnology in the United States: Science, Regulation, and Issues*, CRS Report RL30198; and *StarLink Corn Controversy: Background*, CRS Report RS20732; *U.S. European Agricultural Trade: Food Safety and Biotechnology Issues*, CRS Report 98-861; and *Biotechnology and Agricultural Trade in the CRS Electronic Trade Briefing Book*. Also see: General Accounting Office, *Concerns Over Biotechnology Challenge U.S. Agricultural Exports*, GAO-01-727, June 2001.)

## China and U.S. Agriculture

Since China's formal admission to the WTO in December 2001, Congress has been monitoring its compliance with the terms of its WTO agreement. By early December 2001, the Administration already was expressing concern that China was not adhering to its commitments on tariff-rate quotas (TRQs) for agricultural imports. China repeatedly delayed announcement of regulations for the TRQs, and when announced the TRQs did not appear to provide the market access that the United States and other exporting countries expected under China's WTO agreement. There is concern also about new Chinese rules for the approval and labeling of genetically modified farm products that were set to take effect in March, but have now been delayed until December. In the interim, however, U.S. producers contend that conflicting rules and management difficulties may impede U.S. soybean exports while China works out the details of its regulations. GMO regulations could impact on the nearly \$1 billion of U.S. soybean exports to China. In addition, U.S. trade officials in Beijing, have said they think China may be subsidizing corn exports in violation of its commitment to end such subsidies.

The stakes are high due to the size of China's market for U.S. agricultural products generally and future prospects for growth in demand. U.S. agricultural exports to China were valued at \$1.884 billion in FY2001, making it the United States' seventh largest market for farm products. An additional \$1.253 billion of U.S. farm products were shipped to Hong Kong in 2001, many of which are destined for mainland China. U.S. agricultural exports to China are forecast to be \$2.3 billion in FY2002, approaching the \$2.4 billion reached in 1995. If long-run growth is strong, as many economists expect, China's 1.3 billion population, and its growing middle class, suggest an even greater potential as a market for U.S. agricultural products. (For more information, see *Agriculture and China's Accession to the World Trade Organization*, CRS Report RS20169; and *China's Accession to the WTO in the CRS Electronic Trade Briefing Book*.)

## Agricultural Export and Food Aid Programs

Major agricultural export and food aid programs, which now operate under the authority of the Farm Security and Rural Investment Act of 2002 (P.L. 107-171), are: (1) the Export Enhancement Program (EEP) and Dairy Export Incentive Program (DEIP), the only current direct price export subsidy programs; (2) food aid programs (Section 416 food donations, Food for Progress and P.L. 480 – Food for Peace); (3) export credit and credit guarantee programs (GSM-102 and GSM-103); and (4) market promotion programs (Market Access Program (MAP), and the Foreign Market Development Cooperator Program (FMD)). These programs are shaped and funded both by authorizing legislation (primarily omnibus farm bills) and by annual appropriations.

**Omnibus Farm Bill.** The new farm bill amends and extends most agricultural export and food aid programs through 2007. The bill reauthorizes both EEP and DEIP through 2007. Funding for MAP, currently at \$90 million, will be increased to \$100 million in FY2002, \$110 million in FY2003, \$125 million in 2004, \$140 million in FY 2005, and \$200 million for FYs 2006-2007. For USDA's other export market development program, FMDP, funding will be increased from \$27.5 million per year currently to \$34.5 million per year. The export credit guarantee programs are reauthorized at current levels (\$5.5 billion per year).

P.L. 107-171 reauthorizes the Food for Peace or P.L. 480 food aid program through FY2007. It eliminates the annual \$1 billion cap on Title II spending, increases the minimum level of commodities to be donated under Title II to 2.5 million metric tons per year, and funds transportation, storage and handling charges in the distribution of Title II commodities at between 5% and 10% of annual Title II funding. The farm bill conference report makes a number of changes intended to streamline program administration of P.L. 480. Reauthorized also are the Bill Emerson Humanitarian Trust, a reserve of commodities and funds, that can be used under certain circumstances in P.L. 480 programs, and the Farmer-to-Farmer Program of technical assistance financed by P.L. 480 appropriations.

Also the new farm bill reauthorizes the Food for Progress program through FY2007, lifts funding caps on administrative costs and costs related to commodity transportation, and sets a minimum tonnage of 400,000 metric tons per year. The farm bill authorizes the President to establish a "McGovern-Dole International Food for Education and Child Nutrition Program" with funding mandated at \$100 million in FY2003. Thereafter, the funding level for this program would be subject to annual appropriations.

**FY2003 Appropriation.** Congress is now considering the Bush Administration's FY2003 budget request for USDA. For USDA's international activities, the Administration estimates FY2003 budget outlays of \$2.31 billion to support a program level of \$6.45 billion. Foreign food aid programs would decline under the FY2003 proposal, to \$1.35 billion compared with an estimated \$1.61 billion in FY2002, which food aid advocates argue would sharply reduce tonnage. The Administration has recommended curtailing the use of Section 416 as a vehicle for food aid, which it rationalized through its recent review of food aid -- a review that also recommended (and is in the budget proposal) that all programs now run through private voluntary organizations, cooperatives, and the World Food Program be placed at AID, with USDA food aid activities confined to government-to-government programs.



(For more information on both farm bill authorization and budget issues, see *Agricultural Export and Food Aid Programs*, CRS Issue Brief IB98006; *Agricultural Export Programs: The Dairy Export Incentive Program*, CRS Report RS20402; *Agricultural Export Programs: The Export Enhancement Program*, CRS Report RS20399; *Agricultural Export Programs: The Market Access Program and Foreign Market Development Cooperator Program*, CRS Report RS20415; and *Foreign Food Aid Programs: Background and Selected Issues*, CRS Report RS20520; and *The Bill Emerson Humanitarian Trust: Background and Current Issues*, CRS Report RS21234.)

## Sanctions and Agriculture

The 106<sup>th</sup> Congress codified the lifting of U.S. sanctions on commercial sales of food, agricultural commodities, and medical products to Iran, Libya, North Korea, and Sudan, and extended this policy to apply to Cuba (Title IX of H.R. 5426, as enacted by P.L. 106-387; the Trade Sanctions Reform and Export Enhancement Act of 2000, or TSRA). Enacted provisions place financing and export licensing conditions on sales to these countries; those applicable to Cuba are *permanent* and *more restrictive* than for the other countries. The inclusion of Cuba in this exemption to U.S. unilateral sanctions policy generated the most controversy. Proponents argued that the embargo on sales to Cuba (a sizeable nearby market) harmed the U.S. agricultural sector, and that opening up limited trade would be one way to pursue a “constructive engagement” policy. Opponents countered that such an exemption would undercut current U.S. policy designed to keep maximum pressure on the Castro government until political and economic reforms are attained. In conference action on the TSRA, opponents succeeded in inserting the restrictive provisions that apply to Cuba.

Under the new policy, Cuba since late 2001 has made cash purchases of about \$90 million of U.S. wheat, corn, rice, poultry and other commodities from U.S. agribusinesses in order to quickly rebuild food reserves. This decision reflected a reversal in Cuban policy, prompted by losses of stocks caused by Hurricane Michelle that struck the island a few weeks earlier. Following TSRA's enactment in October 2000, Cuba's leaders had signaled there would be no purchases of permitted U.S. products because of the statutory provisions that prohibited the use of private financing to make agricultural and medical product sales and restricted tourist travel to Cuba. They strongly criticized these prohibitions as “unworkable” and “insulting,” viewing them as a tightening rather than an easing of the embargo. Some observers, though, viewed such talk as political rhetoric and speculated that pragmatists in the Cuban government seeking to save scarce resources might in time influence a softening in its leadership's stance.

Members of Congress opposed to TSRA's prohibitions, particularly with respect to Cuba, have introduced measures to repeal these provisions (H.R. 173; H.R. 174; H.R. 797/S. 402; H.R. 798/S. 400; H.R. 2138/S. 1017; S. 171; and S. 239). Some of these bills include provisions to amend TSRA as part of broader proposals to modify or end the U.S. embargo on Cuba. Reflecting in part these views, the Senate farm bill would have repealed TSRA's prohibition on the private U.S. financing of agricultural sales to Cuba (Section 335 of S. 1731). The Bush Administration strongly opposed this provision. During debate on this bill in December 2001, the Senate tabled (effectively rejected) on a 61-33 vote an amendment that would have conditioned U.S. sales of agricultural products to Cuba upon a Presidential certification that Cuba was not involved in supporting international terrorism. The farm bill

conference report, however, dropped the Senate provision striking TSRA's prohibition of private financing of agricultural sales to Cuba. However, some in Congress have indicated they will offer this amendment to permit private financing of U.S. farm sales to Cuba in FY2003 appropriations legislation.

Senator Dorgan on May 17, 2002, offered an amendment (identical to the farm bill provision) to the package of trade legislation being debated by the Senate (S.Amdt. 3439 to the Baucus/Grassley substitute (S.Amdt. 3401) to H.R. 3009). On May 21, he withdrew it from further consideration, stating he intends to offer it again, possibly to an appropriations bill this summer. President Bush on May 20 in a major Cuba policy speech reiterated his opposition, stating such a change "would just be a foreign aid program in disguise, which would benefit the current regime."

Separately, in reauthorizing export control authority (S. 149), the Senate on September 6, 2001, passed an amendment that effectively prohibits their use to limit food sales for national security and foreign policy reasons. Related provisions require that the exercise of any export control authority on food conform to TSRA provisions. (For more information, see *Exempting Food and Agriculture Products from U.S. Economic Sanctions: Status and Implementation*, CRS Issue Brief IB10061; and Cuba Sanctions in the CRS Electronic Trade Briefing Book.)