
Agricultural Trade in the 21st Century

Barry K. Goodwin

North Carolina State University

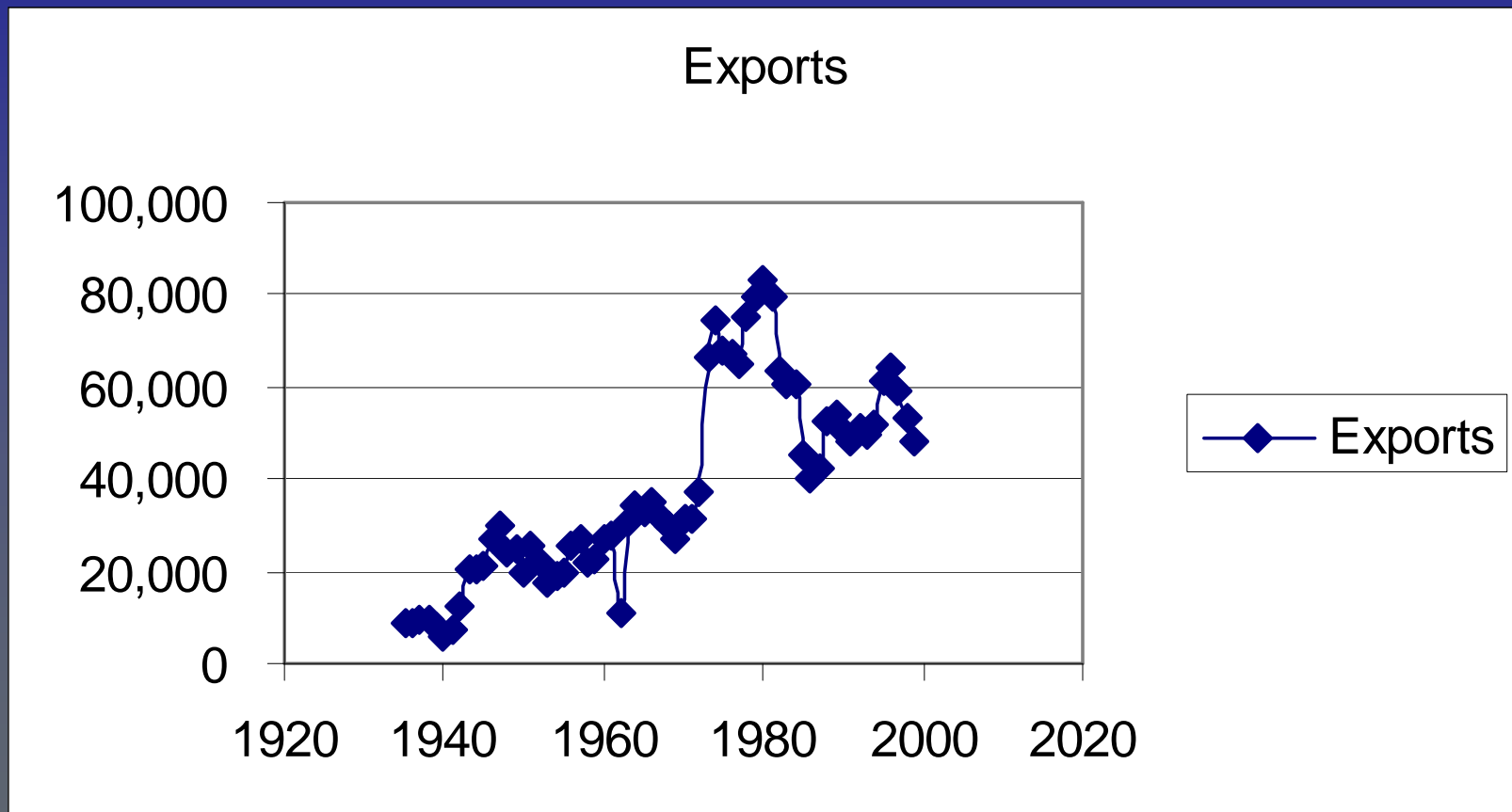
-
- *“No nation was ever ruined by trade”*

– Benjamin Franklin

U.S. Agriculture and Trade:

- U.S. agriculture is highly dependent on international trade.
- International trade has grown tremendously over last 50 years and agriculture is no exception
- What is different about agriculture is policy--
 - Developed countries (e.g., U.S. and E.U.) tend to protect and support farmers
 - Developing countries do the opposite-- tax farmers

U.S. Real Agricultural Exports

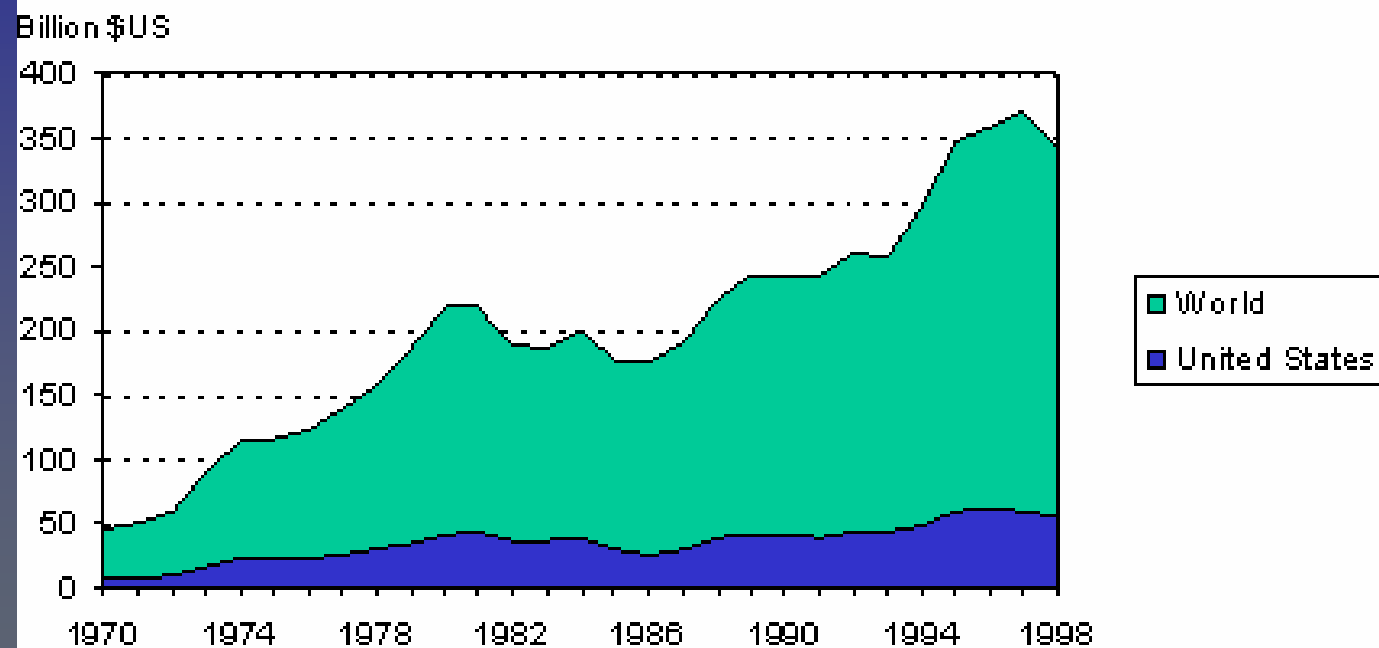


The Importance of Trade to Agriculture:



Exports Continue to Expand:

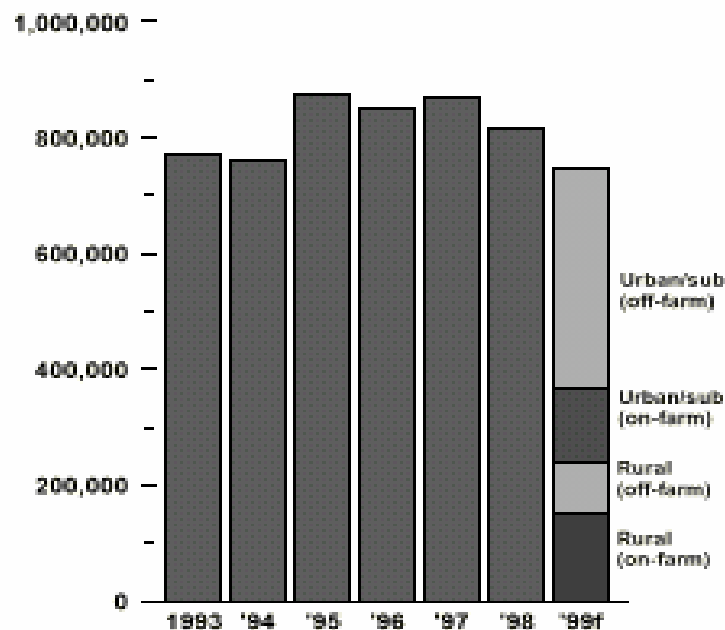
Agricultural exports continue to expand



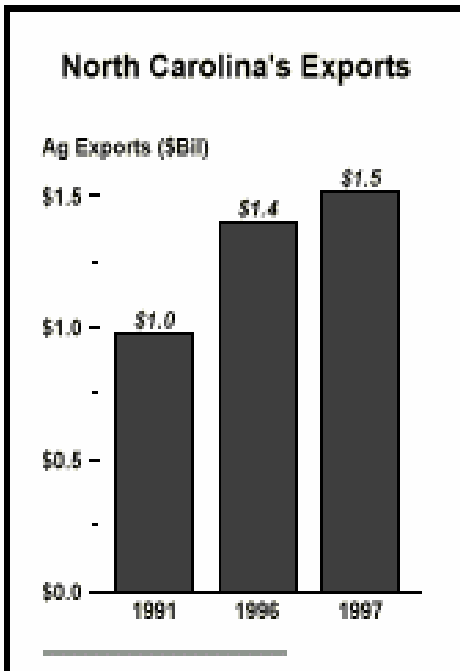
Source: United Nations data

Agricultural Exports Support Three-Quarters of a Million Jobs

**Agricultural Exports Support
Three-Quarters of a Million Jobs**
Both on and off the Farm, in Rural and Urban America



North Carolina and Agricultural Trade:



The top five agricultural exports in 1997 were:

- # tobacco leaf -- \$599 million
- # poultry and products -- \$327 million
- # soybeans and products -- \$135 million
- # cotton -- \$128 million
- # live animals and red meats -- \$117 million

History of U.S. Agricultural Trade Policy:

- Great Depression and World War II brought about many hardships to international economy
- June 1930 brought about the Smoot-Hawley tariff-- intended to insulate U.S. markets from international competition
- Average tariff rose from 39-53% (now under 5%)
- U.S. trade fell from \$2.9 billion to less than \$1 billion per month

History (continued):

- The GATT, a predecessor to the WTO, was born out of a new desire for multilateral policy and international cooperation that came out of World War II
- We call this the Bretton Woods period-- which also led to formation of other institutions for international economic cooperation (World Bank and IMF)

History (continued):

- The original 23 GATT countries were among over 50 which agreed a draft Charter for an International Trade Organization (ITO) - a new specialized agency of the United Nations
- Negotiations began among the 23 founding GATT "contracting parties" in 1946.
- Negotiations resulted in 45,000 tariff concessions affecting \$10 billion - or about one-fifth - of world trade

History (continued):

- Original ITO had binding authority. The 23 countries signed treaty in Havana in March 1948.
- However, many national legislatures, including the U.S., objected to loss of sovereignty implied by agreement
- ITO effectively dead due to lack of ratification
- GATT 1947 was, consequently, a treaty without its planned administering organization and which covered only part of its originally intended scope.

GATT Rounds:

- Periodic multinational negotiations
- A package approach to negotiations-- makes agreements easier to achieve than if each point negotiated separately
- Agreements are multilateral-- rather than bilateral

Early GATT Rounds:

Name and Date	Accomplishments	Agricultural Effects
Geneva (1955-56)	Bilateral negotiations based on request and offer lists	Allowed export subsidies
Dillon Round (1960-62)	Request and offer lists. Tariffs on manufactured items reduced 8-10%	EC agreed to duty free imports on soybeans, corn feed, and cotton
Kennedy Round (1963-67)	First across the board tariff reductions. Industrial countries reduced manufactured item tariffs 35%	Centered on EC policy-- no agreements
Tokyo Round (1973-79)	Cut industrial global tariffs 30-35%	Small tariff and quota reductions-- agriculture identified as separate agenda

The Uruguay Round:

- Ministerial meeting of GATT members in Geneva in 1982-- intent was to focus negotiations on agriculture-- but meeting broke down.
- Ministers met again in Punta del Este, Uruguay and agreed to launch new round.
- Agenda covered virtually every outstanding trade policy issue and extended into several new areas, notably trade in services and intellectual property.
- Biggest negotiating mandate on trade ever

The Uruguay Round (continued):

- Agreement took 9 years (1986-95)
- Disagreements over the role of agriculture (especially between U.S. and E.U.) brought about delays
- Countries unwilling to lower protection of agriculture
 - U.S. unwilling to ease domestic support
 - E.U. unwilling to open markets and lower export restitutions

The Uruguay Round (continued):

- The UR also established the World Trade Organization on January 1, 1995.
- WTO seeks to liberalize world trade and place it on a secure basis, contributing to economic growth and development.
- The Uruguay Round also established a special agreement on agriculture (URAA)

GATT vs. WTO-- What is the Difference?

- GATT was a set of rules, a multilateral agreement, with no institutional foundation. The WTO is a permanent institution with its own secretariat.
- GATT rules applied on a "provisional basis." The WTO commitments are full and permanent.
- GATT applied to trade in goods-- WTO also considers services and intellectual property rights

GATT vs. WTO-- What is the Difference?

- Along with GATT, many plurilateral and selective agreements had developed (free-trade agreements). WTO entirely multilateral and involve commitments for all members.
- The WTO dispute settlement system is faster, more automatic, and thus less susceptible to blockages.

The Agreement on Agriculture:

- The URAA represents a fundamental change in the way agriculture is treated. Prior to URAA rules applying to agriculture largely ineffective--many loopholes, etc.
- Under the URAA, countries agreed to reduce agricultural support in three areas:
 - market access
 - domestic support
 - export subsidies

Important Points:

- Countries agreed to reduce support relative to levels in a “base period” (1986-88)
- Prices were low then, meaning support quite high
- By time of agreement, only modest changes (if any) were required to meet obligations
- Agreements molded to fit some countries’ policies (U.S.)
- Support remains strong in most cases

Market Access Provisions:

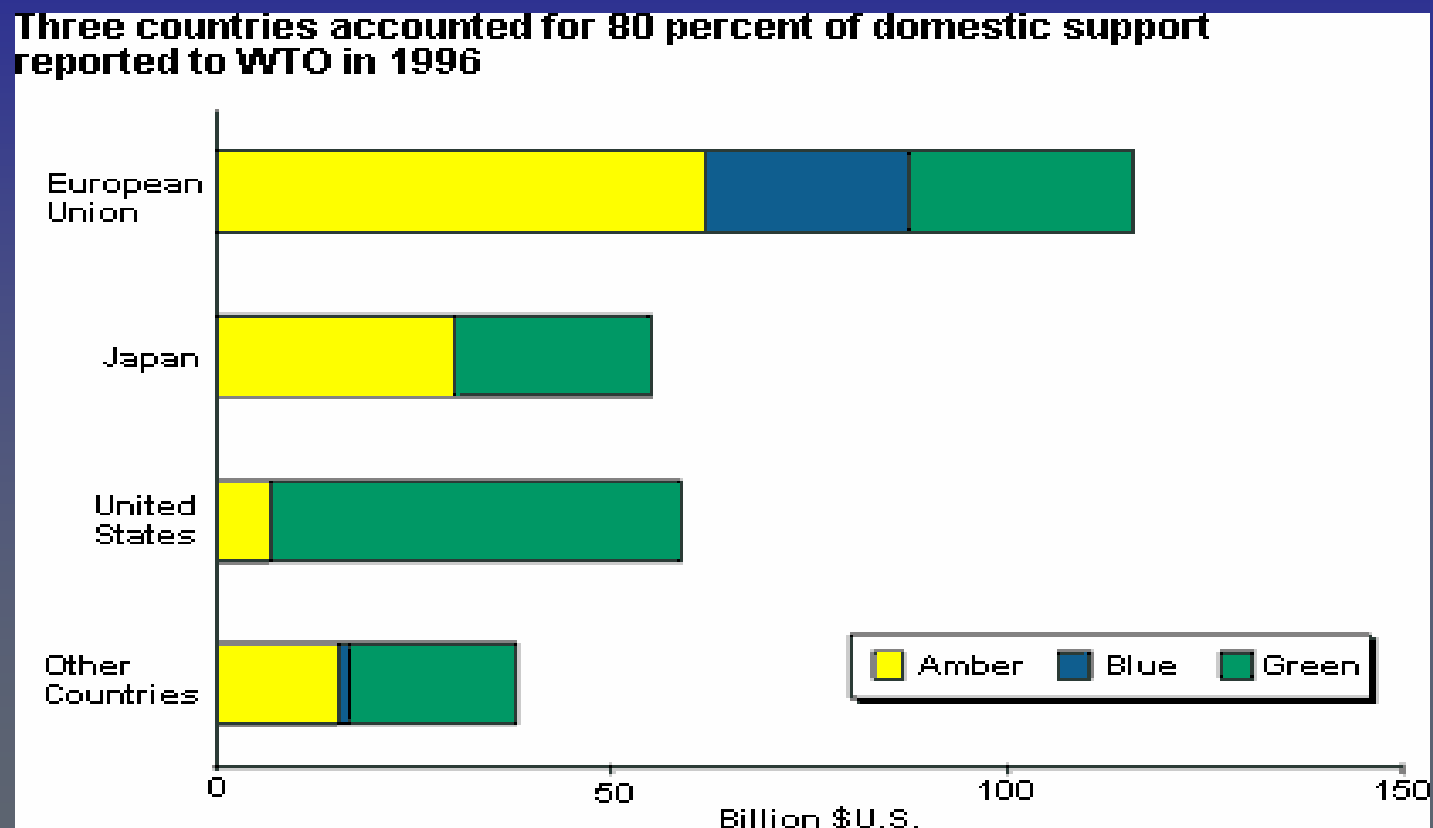
- Developed countries will cut tariffs an average of 36% and minimum of 15% by 2000
- Developing countries will cut tariffs an average of 24% and minimum of 10% by 2005

Domestic Support Provisions:

- Developed countries will cut by 20% by 2000
- Developing countries will cut by 13% by 2005
- Many policies exempt (policies categorized by degree of perceived distortions --- called green, amber, and red box policies)

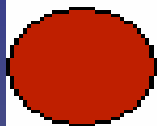
Domestic Support:

Three countries accounted for 80 percent of domestic support reported to WTO in 1996

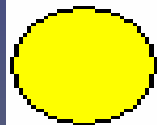


Domestic Support Loopholes:

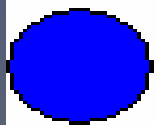
The WTO's Traffic Light



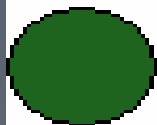
Prohibited policies that must be stopped
(not applicable to domestic policies)



Policies subject to care review and
reduction over time (such as market price
support, direct payments, input subsidies)

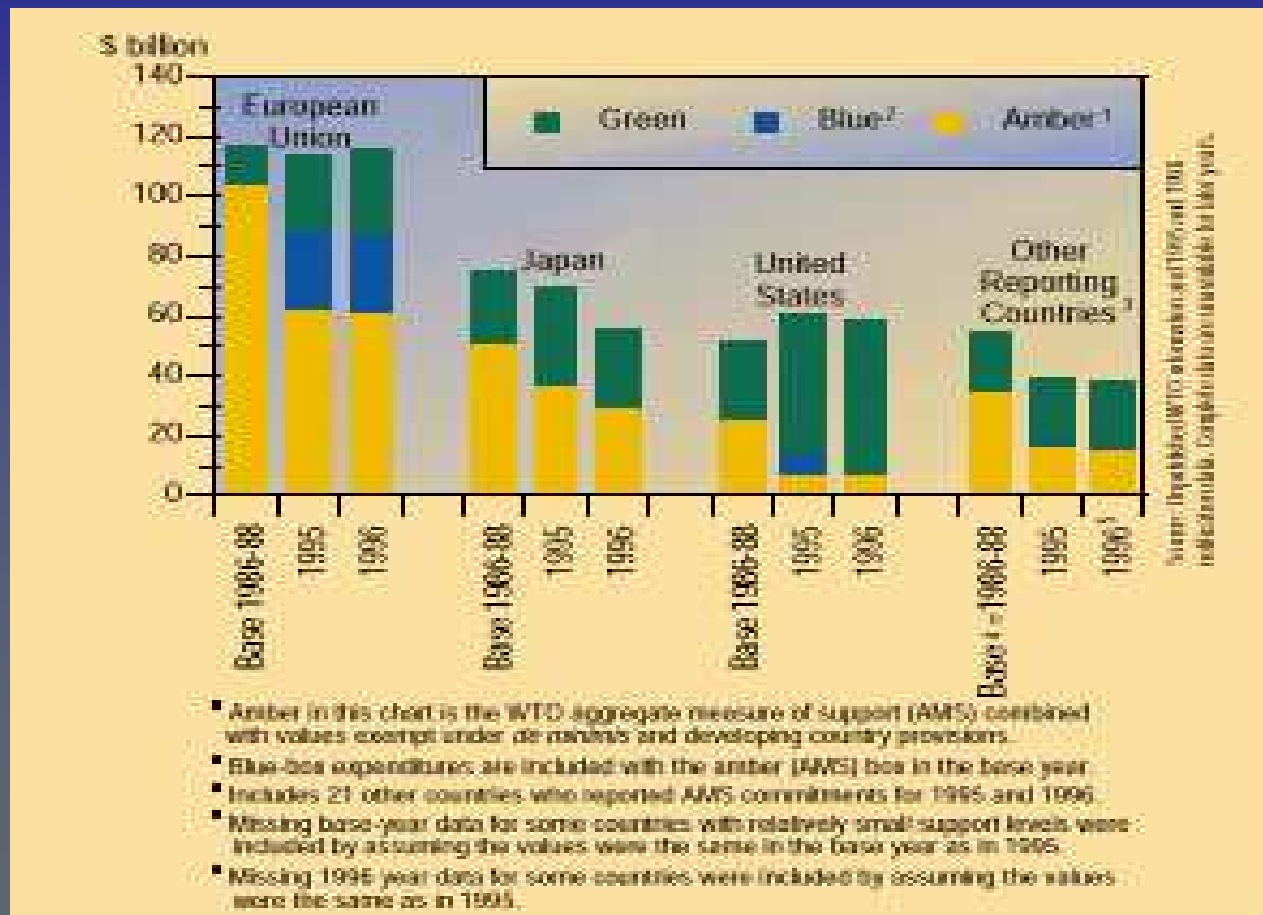


Payments made in conjunction with
production limiting programs (such as
deficiency payments)



Policies considered to be acceptable and not
subject to any limitations (such as domestic
food aid and humanitarian food aid)

How These Affect Individual Countries:

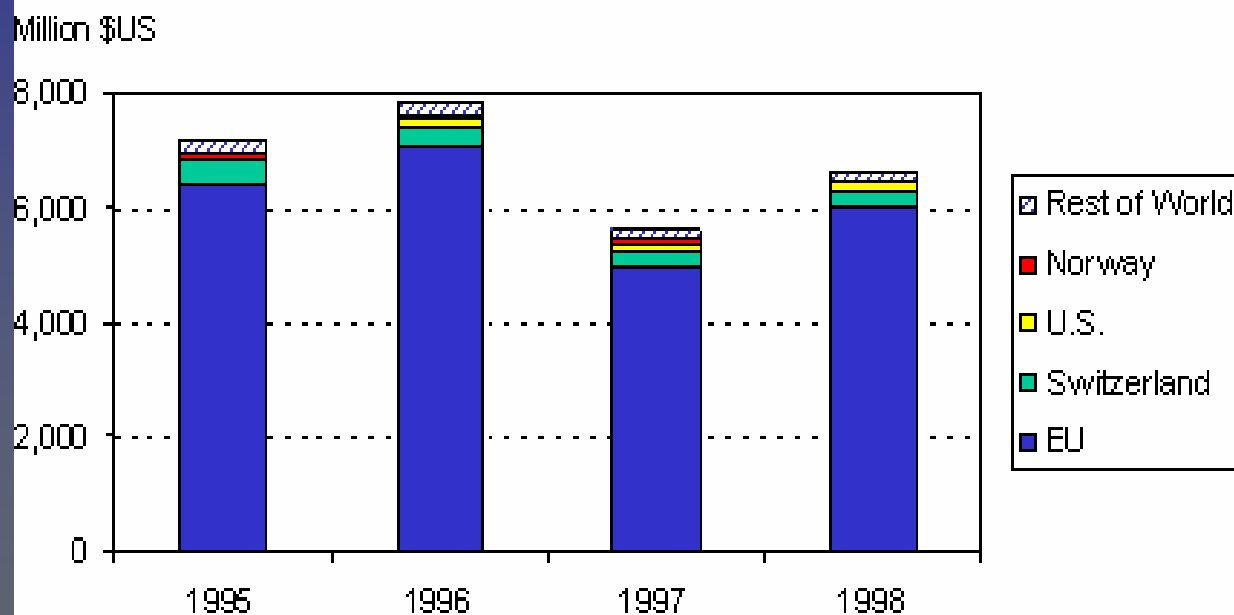


Export Subsidy Provisions:

- Developed countries will cut value of subsidized exports by 36% and quantity by 21% by 2000
- Developing countries will cut value of subsidized exports by 24% and quantity by 14% by 2005

Use of Export Subsidies:

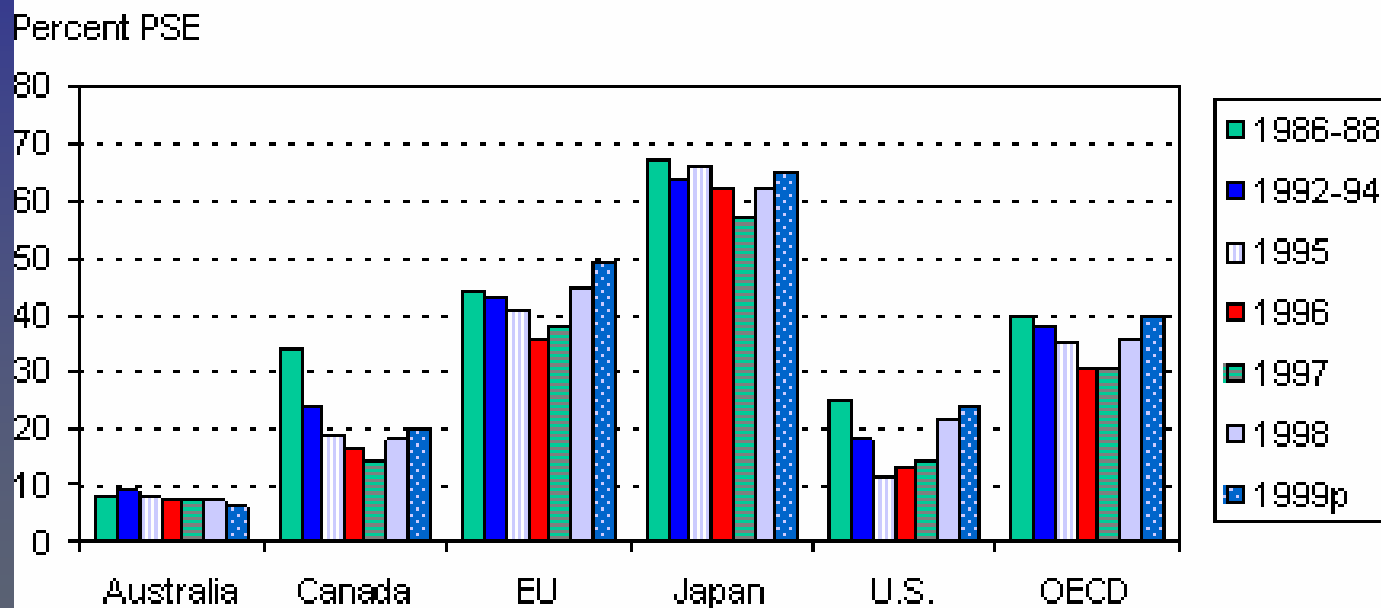
Four countries account for 97 percent of all export subsidy expenditures



Source: ERS, from WTO Notifications

Support Remains High:

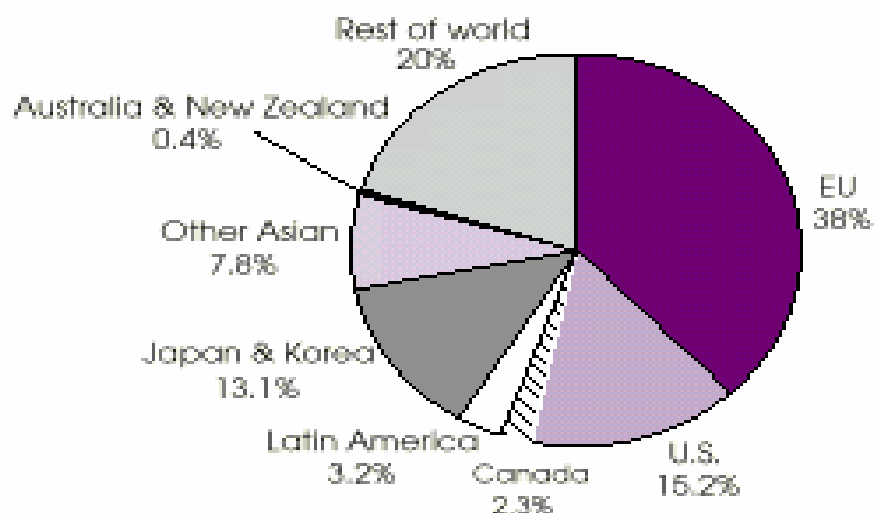
Agricultural support levels vary since Uruguay Round



Source: OECD

Current Price Distortions:

Economies Around the World Contribute to Ag Price Distortions from Tariffs and Subsidies



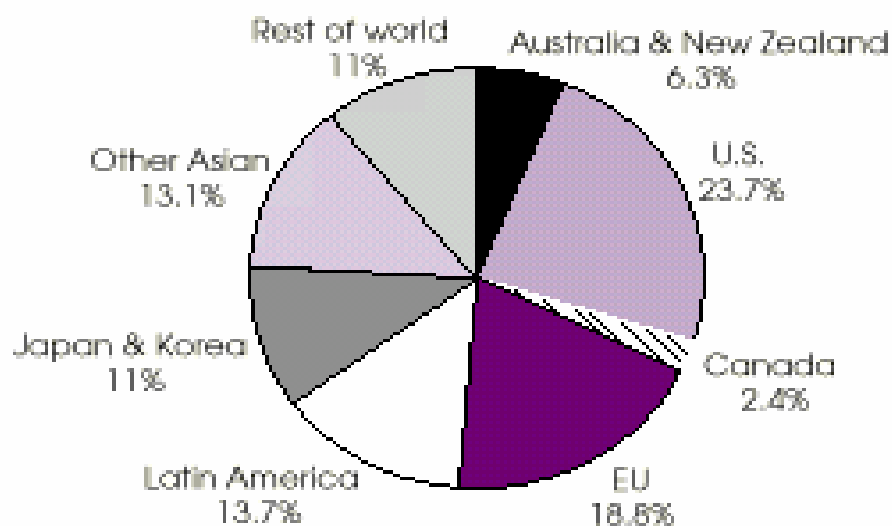
Percent of total ag price distortions from tariffs and subsidies

Note: Distortions from agricultural tariffs, domestic support, and export subsidies cause world agricultural prices to be 12 percent below the level they would otherwise be.

Economic Research Service, USD A.

Gains from Further Liberalization:

Many Countries Would Share Consumer Purchasing Power Gains From Elimination of Ag Tariffs and Subsidies



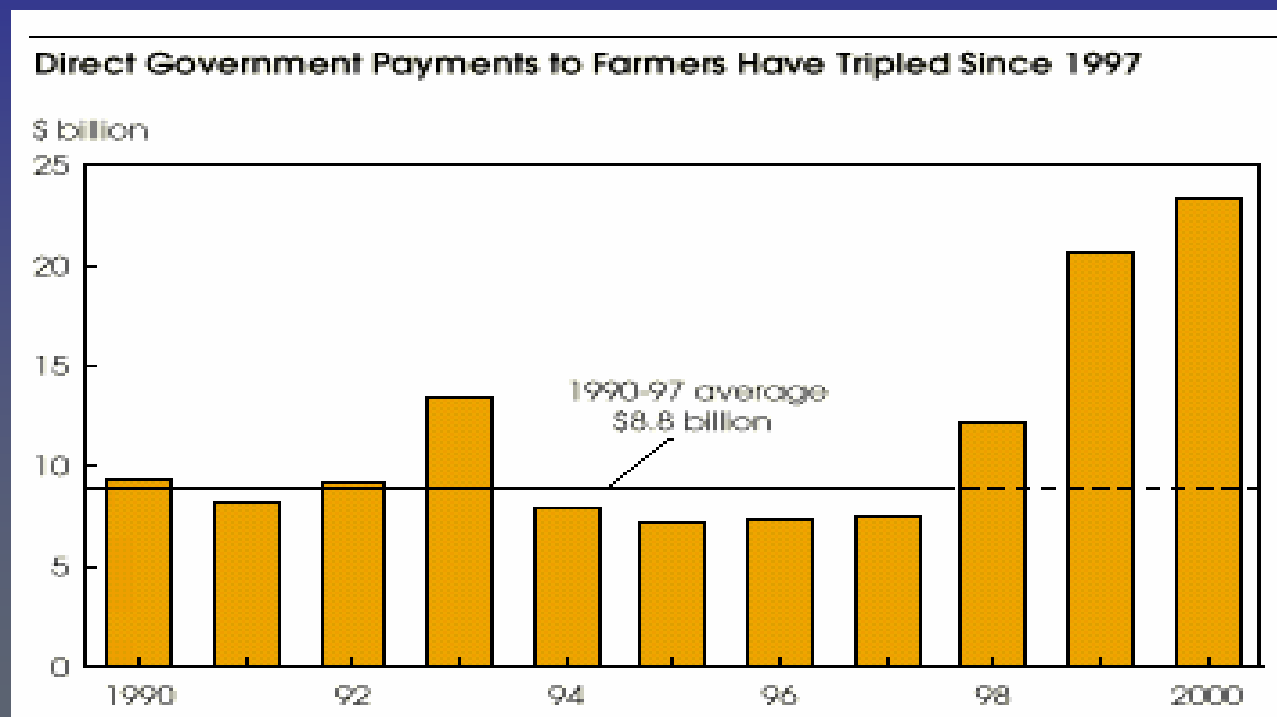
Estimated annual gain in consumer purchasing power = \$56 billion

Economic Research Service, USDA

Issues for the Upcoming Round:

- Can modest moves toward liberalization be expanded?
- U.S. has greatly expanded domestic support over last 3 years-- a violation? What is the future?
- Accession of China into WTO-- current political situation may complicate this.
- Other countries also moving to join-- Taiwan, NIS, Central and Eastern European countries.

U.S. Government Payments Very High:



State Trading Enterprises:

- Government agencies that manage all exports or imports
- Capable of acting in ways that noncompetitively subsidize exports or tax imports
- This is permitted by GATT/WTO rules
- This is an issue that has generated much recent debate and complaints by U.S. farm groups

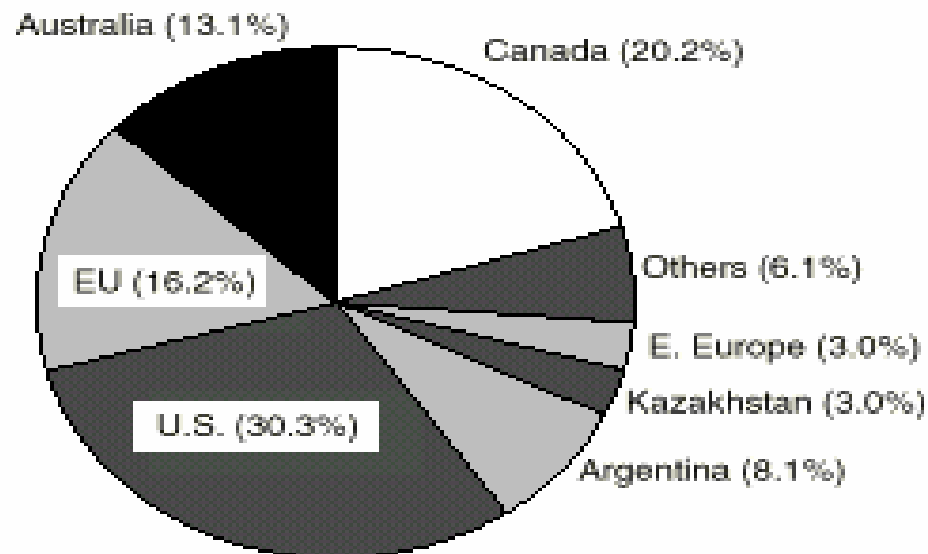
Examples:

- Canadian and Australian Wheat Boards
- New Zealand Dairy Board
- Japanese Food Agency
- Indonesian BULOG
- Korean LPMO
- Mexican CONASUPO

Example-- Wheat Boards:

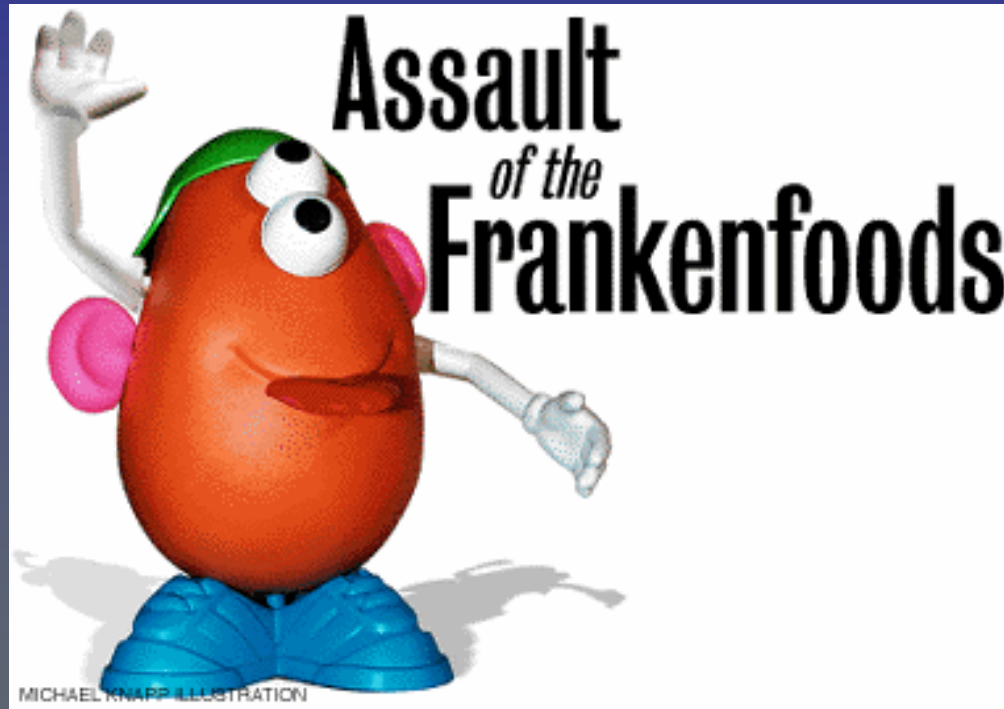
The Australian and Canadian Wheat Boards account for a third of world wheat exports

Average for 1994-97 marketing years



Source: USDA, Economic Research Service.

Biotech Issues:



Biotech Concerns:

- A significant proportion of U.S. farm products are comprised of GMOs
- Advantages:
 - production cost savings
 - environmentally friendly-- less need for chemicals
 - higher quality products and better storage
- Disadvantages include mistrust on part of consumers-- especially in foreign markets

Biotech Concerns:

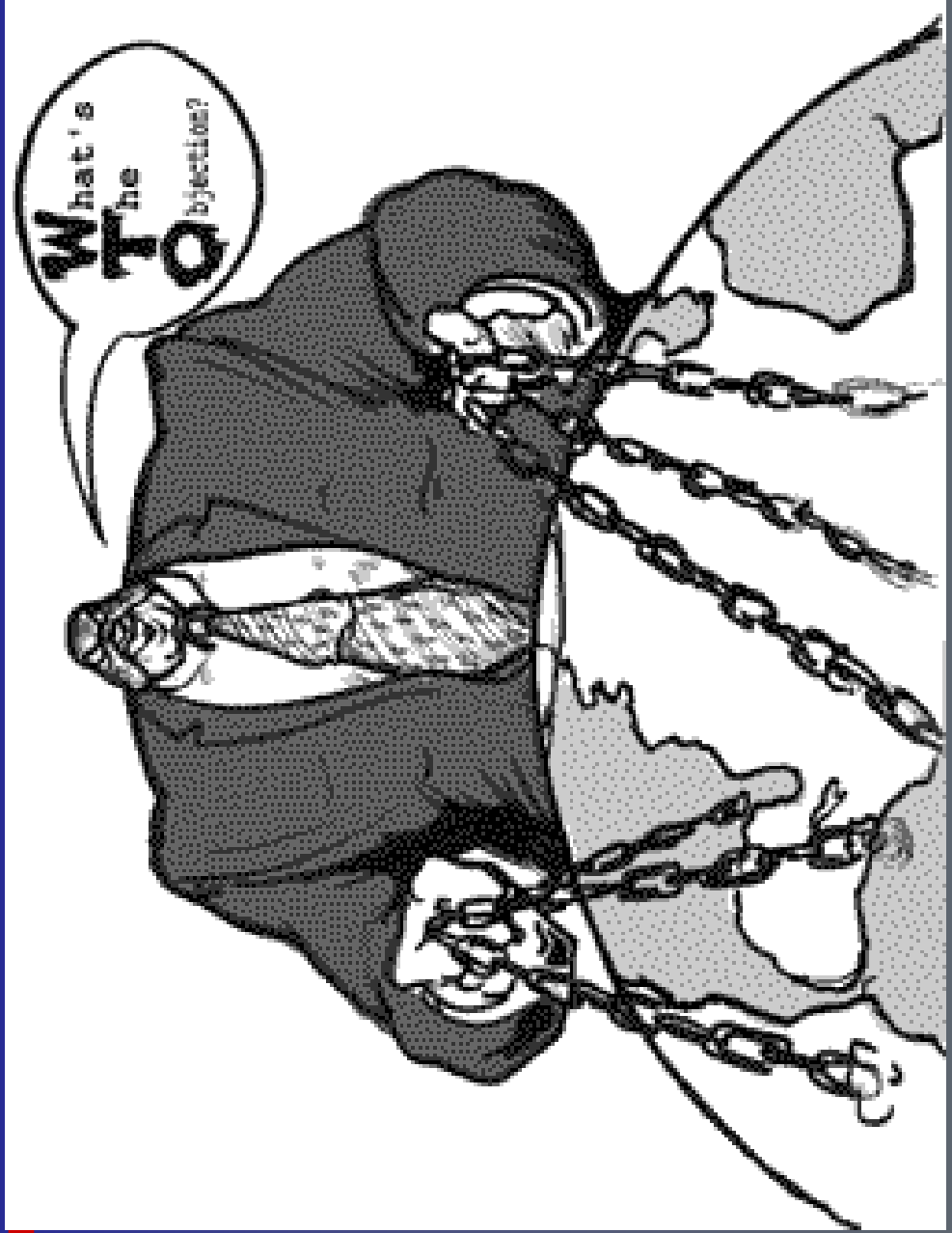
- Labeling required in many markets-- this may:
 - inform consumers
 - discriminate against imported foods
- Scientific evidence often at odds with popular opinion and emotion
- EU concerns especially strong-- past events make this a concern and strong “green” movement
- Starlink affair a major problem

Opposition to the WTO?



Opposition to Globalization:

- We have seen startling opposition to the idea of free trade and global market integration:
 - from “green” movement
 - from labor
 - from some in government
- *“The World Trade Organization [is] a popular icon for the unregulated globalization that tramples human values on every continent, among rich and poor alike.”*



November 30, 1999 - Seattle



April 20, 2001- Quebec



Opposition to WTO and Free Trade:

- Concerns often reflect self-interests-- e.g., opposition of organized labor
- Evidence suggests that growth may improve environmental quality rather than hurt it
- Concerns about unfair treatment of foreign workers often confused-- are they better off with no jobs?

The Future:

- President Bush signed “Free Trade Area of the Americas” effective in 2005
- Will expand NAFTA to Latin and South America
- WTO Round still trying to get started-- countries are making positions known
- U.S. Farm Bill issues, as we have seen (Brazil and cotton) will play a very important role in WTO negotiations