

# WTO Negotiations Offer the Best Chance For Agricultural Trade Reform

by Debra Henke

A potential new trade negotiating round approaches, and with it a critical opportunity for the 142 member countries of the World Trade Organization (WTO) to work for freer, fairer trade. All nations, including the United States, will benefit economically from a new round that moves the world toward a more open, transparent and rules-based trading system.

While negotiations on further reform in agriculture and services were initiated in March 2001 as part of the built-in agenda mandated under the 1994 Uruguay Round Agreement on Agriculture (URAA), agriculture will be an integral part of a broad, global trade round. The URAA was a good start to agricultural trade reform. However, we still have a long way to go and much unfinished business to complete.

A successful conclusion to a new trade round is important for U.S. agriculture. Our country's agricultural sector is more than twice as dependent on exports as the U.S. general economy. About 25 percent of gross cash receipts from agricultural sales are for export, compared with 10 percent on average for manufactured goods. One out of every four dollars of U.S. agricultural production goes to the export market.

Without a growing export market for agricultural products, the United States would lose one of its greatest economic engines. The business of agriculture—from producer to processor to retailer—generates about 16 percent of U.S. gross national product, and provides or supports roughly 17 percent of all American jobs.



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Last June, the United States laid out its WTO negotiating proposal for agriculture. This proposal builds on the accomplishments of the Uruguay Round and identifies a framework for further reform in the areas of market access, export competition and domestic support.

## The World Has Changed

The U.S. proposal recognizes the dynamics of a world economy characterized by instant flows of capital, communication and information. American farmers are on the front lines of this evolving knowledge-based economy.

They operate in a global, high-tech, consumer-driven environment. Many rely on computers, satellites and infrared photographs to provide row-by-row detail of their crops' growth. They rely on improved transportation, storage and food technology systems to move more fresh food farther and faster at lower cost. They rely on information technology to generate new efficiencies throughout the food chain. They rely on agricultural research for tech-

nical innovation and productivity growth.

The various links in the food chain—from farm to table—are more intertwined than they have ever been, and they grow more connected every day. A global food system has emerged that encompasses everything from production to processing to consumption. Companies are increasingly finding that the best way to plug into the global food system is to form strategic partnerships that increase the ability to source, distribute and transport agricultural products.

The globalization of eating habits also continues apace. The ever-demanding consumer drives today's market, seeking simplified, tailored solutions that bring convenience and variety to people's lives. Companies and retailers require specific and consistent product characteristics, assured supplies and timely delivery.

## Demand Grows for Consumer-Oriented Products

The composition of U.S. agricultural exports has changed dramatically since

## U.S. AGRICULTURE'S GROWTH AND PROSPERITY DEPEND ON THE LAUNCH OF A BROAD, GLOBAL TRADE ROUND.

1986, when General Agreement on Tariffs and Trade member countries began writing new rules for international agricultural trade in the Uruguay Round negotiations. At that time, U.S. agricultural exports were mostly bulk commodities, such as wheat, corn and cotton. Over the past 15 years, however, consumer-oriented, high-value products have become the fastest growing sector in global agricultural trade.

This category includes meats, fruits, vegetables, processed foods and beverages. Since 1999, these products have overtaken bulk commodities to become the largest sector of U.S. agricultural exports. They account for 42 percent of total exports and continue to reach new record highs each year.

U.S. Department of Agriculture (USDA) research shows that the growth in high-value product sales is due in part to diet diversification and increasing demand for better quality, time-saving foods by consumers in developed countries. In developing countries, higher income results in

increased demand for meat products, often leading to expanded local livestock production. This, in turn, may result in increased imports of intermediate products such as animal feed.

Another factor that explains this shift in international trade from bulk commodities to high-value goods is the advances made in transportation technology, particularly in the trade of perishable products. These products now account for 20 percent of total U.S. food and agricultural exports.

The United States is the world's largest agricultural exporter and a leading importer of agricultural products, second only to the European Union (EU). In 2000, the United States exported \$51.5 billion in food and fiber products and imported nearly \$39 billion from the rest of the world.

By 2010, USDA projections show that U.S. agricultural exports could rise to \$76 billion, up a substantial 42 percent from the expected 2001 level of \$53.5 billion. Both

bulk and consumer-oriented product sales are expected to rise. Much of this gain will be due to improving food demand over the next 10 years as 600 million new middle-class consumers emerge in key developing countries, particularly in Asia.

### Trade Barriers Hurt Consumers, Producers and Exporters

To achieve this projected growth, however, agricultural trade barriers and production-distorting subsidies must come down. These policies inflict heavy costs on consumers, producers and exporters around the world. Consumers worldwide pay higher taxes to help finance farm subsidies, pay tariffs on imported products and pay higher prices for domestic products that are protected by their respective governments and also compete with imports.

These distorting agricultural policies misallocate resources and create inefficiencies in domestic production, lowering national income. Over the long term (about 15 years), the cost to world consumers of global agricultural tariffs, domestic subsidies and export subsidies will be \$56 billion annually. The WTO provides the best forum for reducing the high costs of global protectionism.

Barriers to trade in agricultural products and producer subsidies inflict real costs, both on the countries that use them and on their trade partners. Tariffs are the most distorting, compared to domestic support and export subsidies, accounting for more than half of the current distortions in world agricultural prices. The tariff policies of the EU, Japan and Korea account for about half of all tariff distortions. U.S. tariffs make up only 12 percent with developing countries making up the rest (38 percent).

If all WTO members reduced tariffs and reformed trade-distorting domestic sup-



ports and export subsidies by cutting and eliminating them, world prices and the welfare of the world's farmers would improve substantially.

Policy reform in developing countries would also lead to increased agricultural exports and imports and improved citizens' welfare. Global policy reform should result in a 20-percent increase in the value of agricultural imports by developing countries and a 27-percent increase in agricultural exports, including some export growth in value-added products.

### Developing Countries Need Assistance

Industrial trading nations recognized many years ago that a coordinated effort was needed to bring developing countries more fully into the international trading system. That is why they implemented the Generalized System of Preferences (GSP).

The GSP permits tariff reductions or possibly duty-free entry of certain imports

## U.S. WTO Negotiating Proposal

Last year, the United States presented its negotiating proposal for agriculture at a special session of the World Trade Organization's (WTO) Committee on Agriculture in Geneva, Switzerland. The proposal provides the framework for reform in the key areas of market access, export competition and domestic support. Each of these areas is integral to effective and meaningful trade reform. U.S. objectives include:

- reducing tariffs and increasing tariff-rate quota quantities;

- eliminating export subsidies;
- capping and simplifying trade-distorting domestic support;
- ending the monopoly privileges of import and export state trading enterprises;
- increasing the reliability of the global food supply;
- providing special and differential treatment to developing countries; and
- allowing WTO members to engage in specific sectoral negotiations with one another.

from designated developing countries. This can stimulate economic growth in developing countries and strengthen international relations. Since 1976, the United States has provided nonreciprocal tariff preferences for more than 4,650 products from approximately 140 designated beneficiary countries and territories under the GSP.

On a smaller scale, last year the United

States designated 34 sub-Saharan African countries as Africa Growth and Opportunity Act beneficiaries. This designation makes those countries eligible for duty-free access of specific goods into the United States and provides solid, meaningful and significant opportunities for increased trade and economic cooperation between the United States and those nations.

In the short run, these and similar policies by developed countries along with food aid targeted at food-insecure nations and technical assistance will facilitate the development of their agricultural and rural economies. However, developing countries must fully participate in reform to achieve the potential dynamic gains from trade liberalization.

Experience tells us that countries—whether developed or developing, whether in Africa or the Americas—that are open to trade and investment with the world as a whole have generally been able to create growth, competition and prosperity. Open trade in agriculture can relieve farmers in developing countries of the burdens imposed by protectionism and export subsidies, while offering consumers reliable supplies of food at reasonable prices.

Analytical evidence indicates that coun-





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tries that join the WTO and make substantial commitments to reform have more access to markets and modern technologies. They also grow faster. Increased productivity and investment have been shown to be linked with more open trade policies, suggesting that the long-term benefits to developing countries from economic policy reforms can be significant.

### Food Security Is Imperative to Growth, But Depends on Many Factors

While open markets will help lift living standards and create opportunities in the developing world, poor countries cannot hope to achieve sustainable development and economic and social stability without food security.

Food security is more than food production, nutrition or food aid. It simply means that all people have access at all times to sufficient food to meet the dietary needs for a healthy and productive life. Food security depends on availability and access to food, and proper food use. It also depends on a serious commitment to a productive, sustainable agricultural sector that will fuel broad-based economic growth and income generation.

Responsible conservation and sustainable agricultural practices are two of the many keys to creating food security. In the United States, environmental concerns have

driven and continue to drive historic reforms in U.S. conservation policies.

Agricultural research is another key to a more food-secure world. Through research, we can develop and adopt new crop varieties and increase crop and livestock yields so essential to helping reduce malnutrition and hunger. Moreover, dwindling options for land and water resources and increased population and environmental stresses make it imperative that we emphasize biotechnology, one of the very few new tools we have to address these constraints.

Biotechnology has the potential to dramatically increase the quantity, quality and reliability of the food supply, making farmers more productive and consumers healthier. Biotechnology can revolutionize agriculture by using less pesticides and herbicides, less water and less ecologically sensitive lands.

Safe food is yet another aspect of food security. Consumers around the world must feel reasonably assured that their food is safe. With the huge increase in international trade in foodstuffs, foodborne illnesses and pathogens can easily and quickly be carried from country to country by road, rail or air. This makes it imperative that all countries work cooperatively on animal and plant health and food safety.

The United States provides technical assistance to developing countries to help them maintain a safe food supply. In our own efforts to keep food safe, we have learned that controlling food pathogens and managing pests and diseases requires science-based measures and rigorous standards.

That is why we must work through the WTO to ensure that all food safety policies are based on sound scientific principles. Countries must not prohibit imports of new products unless they have legitimate scientific concerns. Too often such restric-

tions are merely a guise to protect domestic agriculture from import competition and fail to adhere to the WTO principle that such measures be grounded in sound science.

We will work through the WTO to give full protection to consumers' health and safety while encouraging the adoption of international standards that facilitate trade. We must take a cooperative approach that integrates research, public health regulation and education to formulate effective policies that meet everyone's needs.

Issues of food security, resource conservation, food safety and animal, plant and human health are inextricably linked to trade issues. The United States is committed to working through the WTO to address these issues in a non-trade-distorting way.

### Rules for Trade Must Be Updated

Food production and consumption in the United States and around the world have changed over the past 15 years, since negotiators last sat down to write the rules for international agricultural trade. Now the rules must be updated to accommodate these global changes.

A new round offers WTO member countries the best chance to bring the rules for agricultural trade up to speed with the 21<sup>st</sup> century. Anything less could stunt U.S. agricultural sales and the U.S. economy, hurt developing countries' progress toward trade reform, and ultimately slow the growth and prosperity of the global economy. ■

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