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Executive Summary

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Why Free Trade Matters to the American Farmer

John Sweeney

The global financial crisis is hurting American farmers already. Record harvests in the United States and other countries, worldwide grain surpluses, and the slumping demand in Asia have combined to drive the prices of agriculture commodities to their lowest level in decades. Farmers appealed to the 105th Congress to help expand U.S. agriculture exports by promoting free trade through legislation renewing the President's fast-track negotiating authority. But, in late September, Congress rejected a fast-track bill (H.R. 2621) by a vote of 243–180. The bill failed primarily because President Bill Clinton had made no concerted effort to garner support for its approval.

In addition, instead of expanding agricultural trade, Congress voted to give farmers $8.5 billion in subsidies, a practice that only undermines the market-oriented goals of the 1996 Federal Agriculture Improvement and Reform Act (FAIR). Senate Majority Leader Trent Lott (R–MS) described the agriculture subsidies as atrocious and far beyond what was reasonable. Secretary of Agriculture Dan Glickman, however, said the increased subsidies would not end the farmer's market crisis and reaffirmed the Clinton Administration's determination to expand the federal crop insurance program and raise the cap on marketing loan rates.

But the answer to the farm crisis lies not in more government subsidies but in freer trade. The solution to the stagnant agricultural market lies outside U.S. borders, where 96 percent of the world's hungry people live.

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HOW CONGRESS CAN HELP FARMERS

American farmers are more reliant on foreign agriculture markets than the workers in any other sector of the U.S. economy. One out of every three acres of cultivated farmland in the United States is dedicated to exports, but trade in U.S. agricultural exports has grown at a considerably slower pace than has trade in U.S. merchandise goods exports overall.

The North American Free Trade Agreement and the Uruguay Round Agreement on Agriculture were important steps toward opening the world's agriculture markets to American farmers. But even today, foreign agriculture remains one of the most protected and subsidized sectors of the world economy. On the international level, the average non-farm tariff is 4 percent, but the average tariff on farm products is about 50 percent—and sometimes more than 100 percent.

The World Trade Organization (WTO) is scheduled to begin a new round of agriculture negotiations in December 1999. These talks are part of the so-called built-in agenda of the Uruguay Round Agreements that created the WTO. The agenda, adopted in 1994 mainly at the insistence of U.S. trade negotiators, includes agriculture, services, and other trade-related issues. The outcome of these negotiations will affect the strength and prosperity of American agriculture during the next decade. The United States must be prepared to lead the negotiations. To do so, however, the President will need fast-track negotiating authority.

Fast-track negotiating authority is not a trade agreement. It merely sets out the process by which Congress will consider certain trade agreements. Under fast-track authority, trade agreements negotiated by the President are submitted to Congress for a speedy up-or-down vote under rules barring committee or floor amendments. Fast-track authority does not give the President a blank check to negotiate trade agreements, and it does not deprive Congress of any of its constitutional authority to regulate commerce with other countries. Congress defines the objectives and limitations in fast track, and requires the Administration to give frequent consultation and to coordinate with the House Ways and Means Committee, the Senate Finance Committee, and special advisers designated by Congress. Fast track, then, facilitates free-trade agreements.

The United States has missed numerous opportunities to expand free trade since 1994 without fast-track negotiating authority, which hobbled U.S. trade policy and eroded the international leadership role of the United States. If Congress wants to help struggling farmers, it should assist them by working to open foreign markets to their products. Specifically, Congress should:

- **Leave FAIR alone.** It works and does not need to be fixed.
- **Renew fast-track negotiating authority.** Without it, no country will engage in serious talks with the United States to reduce high tariff and non-tariff barriers to U.S. farm exports.
- **Urge the President to launch a new round of global trade negotiations at the WTO** and accelerate the pace of regional talks in the Western Hemisphere and Asia-Pacific regions.
- **Make compliance with current trade agreements a condition for foreign aid** from such organizations as the International Monetary Fund (IMF) and the World Bank.
- **Withhold funds to the IMF and World Bank until they amend their bylaws** to require aid recipients to comply with WTO rules.

CONCLUSION

The only way to guarantee the future health of U.S. agriculture trade is to expand the access of American farmers to overseas markets. Free-trade initiatives that increase agricultural exports would lead to an increase in farm income and export-related jobs. Moreover, as the U.S. government shifts its emphasis away from a reliance on commodity price supports, trade with other countries would expand and become the best hedge against the market uncertainties that farmers face.

Without fast-track trade negotiating authority, the United States is losing its competitive advantage. Its agricultural position in global grain trade is being threatened, and the economic stability of American farmers is eroding. By supporting free-trade initiatives and granting the President fast-track authority in 1999, Congress would ensure that the United States continues to shape the rules and dynamics of international trade, and that American farmers have access to global markets.

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WHY FREE TRADE MATTERS TO THE AMERICAN FARMER

JOHN SWEENEY

The American farmer has been battered this year on two fronts. Despite record harvests in the United States, the world's grain surpluses and slumping demand in Asia are driving prices of agriculture commodities to their lowest level in decades. Farmers in 1998 were also devastated by nature—drought in Texas, crop disease in North Dakota, and flooding in the upper Midwest, among other maladies.[1]

Farmers sought help from Congress. They supported the renewal of the President's fast-track authority to negotiate trade agreements with other countries because it would help to expand markets for their agricultural exports. On September 25, 1998, however, Congress rejected a bill to renew such authority (H.R. 2621) by a vote of 243–180. The bill failed primarily because both President Bill Clinton and the Office of the United States Trade Representative failed to encourage adequate support for the bill in 1998, arguing that the timing would be better in 1999.

Furthermore, instead of expanding trade with other countries, Congress voted to give American farmers $8.5 billion in subsidies, undermining the market-oriented goals of the 1996 Federal Agriculture Improvement and Reform Act (FAIR), the "Freedom to Farm Act."[2] Senate Majority Leader Trent Lott (R–MS) described the agriculture subsidies as "atrocious...way beyond anything that's

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1. Janelle Carter, "Farmers Watch Hill for Action on Trade," State and Local Wire Report, *Associated Press*, Washington, D.C., September 6, 1998.
2. Under the deal struck between the Clinton Administration and Congress, all farmers would receive a 50 percent bonus in their annual government payments, and producers who lost crops to drought and disease would split $2.6 billion in disaster relief. Farmers also would get $1 billion in tax breaks over the next five years. The $3 billion in new subsidies for market loss, coupled with more than $4 billion in price subsidies that farmers already are scheduled to receive under FAIR, gives U.S. farmers more than $8 billion in federal subsidy payments for 1998. This amount is higher than the $6 billion to $7 billion in annual subsidies that farmers received before farm laws were rewritten two years ago.

reasonable."[3] But Secretary of Agriculture Dan Glickman said the increased farm subsidies would not be enough to end the farm crisis, and he reaffirmed the Clinton Administration's determination to expand the federal crop insurance program and raise the cap on marketing loan rates.[4]

The answer to the farm crisis, however, lies not in providing more subsidies for agriculture but in promoting freer trade around the world. Instead of perpetuating subsidies that undermine competition and growth in productivity, Congress should renew fast-track negotiating authority in 1999, urge the President to launch a new round of global trade agreements, and make compliance with current trade agreements a condition for receiving foreign aid from the United States.

WHY FREE TRADE IS VITAL FOR THE FUTURE OF FARMING

American farmers lead the world in total output and in exports of agricultural commodities. Consequently, they are more reliant on foreign agriculture markets than on any other sector of the U.S. economy. Farm exports doubled between 1984 and 1996 and, in recent years, foreign demand for those products grew three times faster than domestic demand. Exports accounted for about 30 percent of the farm sector's gross cash receipts in 1997, and about one-third of the 334 million acres in production were aimed at supplying the export markets.[5]

But the rapidly increasing productivity of the agriculture sector, coupled with the global financial crisis, created a crisis of bounty that now is choking many American farmers. These factors in combination will continue to cause difficulties in the near future: Bumper harvests of wheat, corn, soybean, and other grains are being reported, but foreign markets for these products have slumped since the global financial crisis erupted in Thailand more than 15 months ago. Prices for many grains have dropped to their lowest level in decades. Farm exports fell nearly 5.8 percent during the first six months of 1998, and the surplus in agriculture trade declined by 30 percent during the same period.

The global financial crisis has dampened demand especially in Asia, which absorbed 40 percent of U.S. agricultural exports in 1997.[6] But demand is down, too, in Latin America, Africa, and other regions. In September 1998, the U.S. Department of Agriculture estimated that the net farm income of American farmers could fall from about $50 billion in 1997 to $42 billion in 1998.

Even so, U.S. agricultural exports grew at a considerably slower pace than did U.S. merchandise goods exports overall. For example, from 1992 to 1997, total U.S. merchandise goods exports increased by 38 percent (in terms of constant 1997 prices) while exports of crops and livestock grew only 11 percent and 15 percent, respectively.[7] The reason can be blamed largely on overseas protectionist policies.

Although the North American Free Trade Agreement (NAFTA) and the Uruguay Round Agreement on Agriculture were important steps toward opening the world's agriculture markets to American farmers, agriculture remains one of the most protected and most heavily subsidized

3. Nancy E. Roman, "Farmers Reap New Subsidies in Budget; Lott Calls Approved Billions 'Atrocious,'" *The Washington Times,* October 17, 1998, p. A1.

4. Jake Thompson, "Ag Chief Sees Hard Times Despite Aid," *Omaha World-Herald,* October 14, 1998, p. 20.

5. In 1997, nearly half of the wheat grown in the United States was exported, as were 47 percent of the soybean crop and 30 percent of feed grain and cotton crops.

6. Collectively, the countries of the Asia-Pacific Economic Cooperation forum account for over 60 percent of the total value of U.S. agricultural exports.

7. "U.S. Exports of Merchandise Goods to America's 228 Global Trading Partners from 1992–1997, by Two-Digit Standard Industrial Classification," unpublished trade data series supplied by the Jefferson Institute for Trade and Jobs, Washington, D.C., June 30, 1998.

sectors of the world economy. The average non-farm tariff is 4 percent, but the average tariff on farm products averages about 50 percent—running even from 100 percent to 150 percent at times. If all tariff and non-tariff barriers in global agricultural trade were eliminated, American farmers immediately would be able to earn an additional $50 billion a year abroad.

Clearly, future economic stability and prosperity for American farmers lies outside the United States. The world population has grown to more than 5.5 billion, of which only 4 percent live in the United States. The rest live mainly in developing countries, in which the demand for food is rising rapidly due to population pressures and economic growth. By 2020, the world population may exceed 7.5 billion. Global demand for food is expected to triple in the next 50 years.

Exports of U.S. agricultural products can increase only if the President has the authority to negotiate new trade deals with other countries without the threat that the deal will be held up in Congress. Fast-track negotiating authority is not a trade agreement; under fast track, the President would submit trade agreements he had negotiated to Congress for a speedy up-or-down vote under rules barring committee or floor amendments. Fast-track authority would ensure that Congress voted quickly on an agreement without making changes.

Fast-track authority does not give the President a blank check to negotiate trade agreements, and it does not deprive Congress of any of its constitutional authority to regulate commerce with other countries. Congress defines the objectives and limitations in fast track, and requires of the Administration frequent consultation and coordination with the House Ways and Means Committee, the Senate Finance Committee, and special advisers designated by Congress.

HOW TRADE AGREEMENTS BENEFIT AMERICAN FARMERS

Uruguay Round Agreements

The 1994 Uruguay Round Agreements brought agriculture trade (and textiles) for the first time under the global trading rules and disciplines of the World Trade Organization (WTO), which had been created by the General Agreement on Tariffs and Trade (GATT) and went into effect on January 1, 1995. The WTO not only incorporated the terms of the GATT, which dealt with trade in goods, but also produced new agreements on market access, services, investment, intellectual property rights, technical barriers to trade, sanitary rules, and plant health. In 1994, the United States also implemented NAFTA with agreement partners Mexico and Canada.

The Uruguay Round Agreement on Agriculture:

1. Converted all non-tariff barriers into bound tariffs. Between 1995 and 2000, these tariffs must be reduced by a non-weighted average of 36 percent;
2. Reduced existing subsidies and prohibited new subsidies; and
3. Began to address protectionist domestic subsidies that prevent competition in much the same way as tariffs do.

Although the Uruguay Round Agreement on Agriculture was an important procedural step toward opening world agricultural trade, many countries set bound tariffs at levels so high that they clearly are intended to block trade.[8]

Net Gains from NAFTA

When NAFTA went into effect, Mexico immediately eliminated tariffs on nearly half of the agricultural products it imports from the United States; it will remove most remaining barriers by January 1, 2004. Under NAFTA, all non-tariff barriers were converted to tariffs or tariff-rate

8. For example, Canada set a 300 percent tariff on butter, Japan a 550 percent tariff on rice, the European Union a 215 percent tariff on frozen beef, and the United States a 179 percent tariff on sweet powdered milk.

quotas, with quota levels increasing on most products by 3 percent a year before quotas could be eliminated. This simplification of import procedures and requirements made it easier for the United States to export agricultural products to Mexico. In addition, Mexico made substantial trade concessions for agricultural products.

As a result, U.S. agriculture trade with Mexico and Canada has increased, and the United States generally has enjoyed a positive agriculture trade balance with both countries. For example, from 1992 to 1997, U.S. exports to Canada of agricultural commodities increased 22.5 percent, from $2.2 billion in 1992 to $2.69 billion in 1997. Livestock exports to Canada during the same period grew 29.8 percent, from $188.2 million in 1992 to $244.4 million in 1997.[9]

NAFTA opened significant new markets in Mexico for American farmers. From 1992 to 1997, U.S. exports of agricultural commodities to Mexico grew 38 percent—nearly four times as fast as the growth in total U.S. farm exports to the world during the same period, from $1.83 billion in 1992 to $2.53 billion in 1997.[10] Combining trade with Canada and Mexico, total U.S. agricultural exports to its NAFTA partners increased 30 percent from 1992 to 1997, rising from $4.03 billion in 1992 to $5.23 billion in 1997. During the same period, livestock exports climbed 14 percent, from $420 million in 1992 to $480 million in 1997.[11]

Although NAFTA has been positive for American farmers, some trade frictions still persist with both Canada and Mexico. For example, Canada keeps very tight controls over its dairy and poultry production. Barriers to U.S. grain still exist, and tough health inspection and testing rules restrict U.S. cattle movement to Canadian feedlots.[12] NAFTA-related disputes with Mexico involve Mexican winter tomatoes, corn brooms, and the circulation of Mexican-owned trucks in the southwest United States: Since 1995, the Clinton Administration has refused to allow Mexican-owned trucks to circulate in U.S. territory, arguing that they do not comply with U.S. transportation safety rules.

WTO Agriculture Negotiations

The WTO is scheduled to begin a new round of agriculture negotiations in December 1999. These talks are part of the so-called built-in agenda of the Uruguay Round Agreements that created the WTO. This agenda, adopted in 1994 mainly at the insistence of U.S. trade negotiators, includes agriculture, services, and other trade-related issues.

The agricultural negotiations starting in December 1999 will cover a broad range of subjects, including market access, subsidies, quotas, state trading enterprises, sanitary/phytosanitary rules, inspection standards, improved rules for genetically modified organisms, and measures to block the growing use of protectionism using questionable science, such as the European Union's (EU) ban on imports of U.S.-grown hormone-treated beef. The WTO ruled against that ban, but the ban has not been lifted. A number of competing interests will be working against one another in the agriculture negotiations, including the EU (which subsidizes agriculture heavily), the Group of Cairns (which consists of exporters that do not subsidize agricultural production), the least developed countries, and developing countries that are net importers of food.[13]

The outcome of these negotiations will affect the strength and prosperity of U.S. agriculture during the next decade or longer. The United States must

9. Phillip Potter, "U.S. Merchandise Goods Exports to Canada and Mexico, 1992–1997," The NAFTA Institute, Washington, D.C., September 30, 1998.

10. *Ibid.*

11. *Ibid.*

12. South Dakota Governor William Janklow recently threatened to stop trucks carrying Canadian grain and livestock at the South Dakota/Canada border. Janklow accuses Canada of using unfair inspections and other non-tariff barriers to prevent U.S. agricultural products from entering Canada.

be prepared to lead this process from the outset of the negotiations. To lead, however, it is vital that Congress renew the President's fast-track negotiating authority well before the negotiations are scheduled to start. Renewing fast track in early 1999 would allow the Clinton Administration and the United States Trade Representative to concentrate on preparing the U.S. proposal for greater trade liberalization.

The U.S. agenda for these agriculture negotiations includes:

- **Market access.** Agriculture tariffs still range from 50 percent to more than 100 percent in most countries. For example, the United States protects peanut butter, sugar, and citrus products; the EU uses high tariffs to restrict bananas from Latin America and fruit juices; Japan keeps high tariffs on rice imports. American farmers therefore have a stake in cutting these foreign taxes on their agricultural exports. For their sake—and for that of the U.S. economy—U.S. trade negotiators must obtain significant market-opening concessions from other countries.

- **Tariff rate quotas.** The Uruguay Round Agreement on Agriculture required countries to convert their tariff and non-tariff barriers into bound tariffs or tariff rate quotas. Countries have from 1995 to 2000 to reduce their tariff rate quotas by 36 percent. In practice, many countries arbitrarily set very high tariffs with the clear intention of blocking the entry of agricultural products from the United States and other countries. U.S. trade negotiators must be firm about the need to reduce tariff rate quotas and other bound tariffs significantly.

- **Biotechnology.** The United States leads the world in agricultural biotechnology. To maintain that lead, the United States needs to expand its global market share of the agricultural commodities it produces with biotechnology. But even though consumers and governments in many foreign countries accept biotechnology, some consumers in other countries—especially in Europe—stridently resist it because they fear for the safety of their food; similarly, some other governments have turned away from sound scientific principles for evaluating foods produced with biotechnology. In Europe, these fears may foreshadow a retreat from an emphasis on science that is contained in the 1994 Uruguay Round Agreement on Agriculture. The United States must block a European retreat from the Uruguay Round Agreement and press the U.S. case for improved biotechnology rules and scientific principles of evaluation.

- **State trading enterprises.** Agriculture trading companies owned by foreign governments distort the global food trading system. They tend to be corrupt and noncompetitive, obtaining advantages from their privileged status as state-owned enterprises. Both China and Russia, which use these types of trading enterprises, are in line for WTO membership. U.S. policy makers must make sure that WTO rules require members that own agricultural trading companies to replace them as quickly as possible with private-sector, market-oriented agricultural trading firms.

WHY FAST TRACK MATTERS

Many protectionists who oppose the renewal of fast-track negotiating authority argue that it is not needed right now because no major trade negotiations currently are under way. Talks on agriculture and services are not scheduled to start until the end of 1999, they say, and these talks could drag on for years before anyone agrees on anything. Moreover, they add that the WTO has been successful in negotiating agreements on telecommunications and financial services since 1994, even though President Clinton has been deprived of fast-track authority.

13. Gustavo Capdevila, "Trade: WTO Talks Likened to Match Between Heavy- and Fly-weights," Inter Press Service, Geneva, September 23, 1998.

These observations are true, but they overlook a larger truth: The President's lack of fast-track negotiating authority has crippled U.S. trade policy and eroded the international leadership role of the United States. The United States has missed numerous opportunities to expand free trade in Latin America alone: More than 20 bilateral and multilateral trade agreements have been concluded there since 1994 without the participation of the United States.

The result of this failure to lead is that U.S. agricultural exports are at a competitive disadvantage in many Latin American countries. In Mercosur—the South American customs union that includes Brazil, Argentina, Uruguay, and Paraguay—U.S. agricultural exports face tariffs of 8 percent to 20 percent, while Mercosur's members trade tariff-free with one another. When Chile's bilateral trade agreements with Mexico and Canada are implemented fully, U.S. agricultural exports to Chile will face an 11 percent tariff disadvantage. Colombia, Venezuela, Peru, and Ecuador are important potential markets for U.S. apples and pears, but they impose import tariffs ranging from 15 percent to 25 percent, while similar fresh fruit imports from Chile pay little or no duty.

There is simply no way to guarantee the future prosperity of U.S. agriculture trade except to expand the access of American farmers to overseas markets. Increased agricultural exports would mean greater farm income, more jobs, and reduced risks for farmers. Moreover, as the U.S. federal government shifts away from commodity price supports, the expanding agricultural trade with other countries would provide the best hedge against the market uncertainties that American farmers can face. Fast track would facilitate the expansion of trade with other countries.

WHAT CONGRESS CAN DO TO HELP FARMERS

The prosperity of American farmers will depend on their ability to increase their exports. The best way for Congress to help them, then, is not to provide more subsidies, but to assist them in finding new foreign markets by working to open foreign markets. Specifically, Congress should:

- **Leave FAIR alone.** When FAIR, also known as the Freedom to Farm Act, was passed, it marked a fundamental shift in government's role in agriculture. It ended government subsidies that rewarded farmers for growing particular crops and kept prices stable by limiting how many acres were devoted to a certain grain. Moreover, the market now provides pricing opportunities, and market transition payments and loan rates provide farmers with a safety net. It would be a mistake for Congress, only two years after it approved FAIR, to seek to undo it now.[14]

- **Renew fast-track negotiating authority.** The current global economic crisis can be ended only through freer trade and greater economic freedom. The United States is the only country capable of leading a new round of trade liberalization talks. If, however, the President lacks fast-track negotiating authority during those negotiations, no country will engage the United States in serious talks to reduce high tariff and non-tariff barriers to U.S. farm exports; few countries will negotiate trade agreements with the President if they do not have a guarantee from the outset that the agreements will not be amended subsequently by Congress.

- **Authorize the President to launch a new round of global trade talks** at the WTO and accelerate the pace of regional trade negotiations in the Western Hemisphere and the Asia-Pacific regions. The upcoming WTO negotiations on agriculture are the U.S. trade negotiators' top priority; however, the Clinton Administration should press forward with negotiations to create the Free Trade Area of the Americas and to liberalize trade among the

14. FAIR hardly serves to cut loose America's farmers. When it approved FAIR in 1996, Congress promised farmers $36 billion in price supports over six years and did not touch support programs for peanuts, sugar, and tobacco.

Asia-Pacific Economic Cooperation forum countries.

- **Make compliance with existing trade agreements a condition** for receiving additional foreign aid from organizations like the IMF and World Bank. Most of the economies that were harmed severely by the global financial crisis do not comply fully with the treaties and agreements they signed in recent years. Although WTO rules require many of these countries to liberalize their economies, their governments are delaying the necessary reforms. Frequently, the official commitment to open their markets is undermined by IMF and World Bank bailouts that benefit imprudent foreign investors and impoverish millions of people. These bailouts also tend to encourage irresponsible governments to put off essential economic and institutional reforms.
- **Withhold any transfers of funds to the IMF and World Bank** until they reform their bylaws to require all recipients of any type of multilateral aid to comply with WTO rules and trade-related disciplines. Even bureaucratically heavy entities like the World Bank belatedly recognized that compliance with WTO trading rules and institutional reforms—especially of financial and judicial systems, public administration, and education—are key to the growth and stability of the global economy.

CONCLUSION

Agriculture represents one of the premier growth opportunities in the U.S. economy. The future of U.S. agriculture is tied to the country's competitiveness in world trade. Today, the United States is the world's largest grower and exporter of agricultural commodities and the global leader in agricultural biotechnology. The United States has the climate, cropland, technology, infrastructure, and know-how to remain the global leader in agriculture. To maintain that leadership position, however, American farmers rely on the executive and legislative branches to expand free trade and to help farmers to obtain access to foreign agriculture markets.

Tampering with FAIR, however, would amount to a return to agricultural protectionism and hurt the global trading system. Strong leadership—not protectionist policies—is required to ride out the current global financial crisis and defeat the growing backlash against global trade. The causes of the problems facing American farmers today lie outside the United States in the form of high tariffs, questionable science, and the preferential treatment that the agricultural sectors of other countries enjoy from their governments. Instead of creating trade barriers, the United States should stay focused on launching a new round of global agriculture negotiations to open the world's agricultural markets.

It is essential that Congress renew the President's fast-track negotiating authority because the United States is losing its competitive advantage over other farm-export countries quickly. The lack of fast-track authority for the President threatens the U.S. stake in the global grain market and is eroding the prosperity of America's farmers. Approving fast-track authority in 1999 would say a great deal about whether Congress will continue to support free trade, shape the rules, and determine the dynamics of international trade—or whether it will allow the rules and trade alliances to be formed by other countries and place American farmers at greater peril.

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