

## Why Trade Negotiations Still Matter to U.S. Agriculture

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It is no secret that U.S. agricultural institutions, from commodity groups to their political supporters in Congress, have lost much of their enthusiasm for trade agreements. The discussions in the World Trade Organization (WTO) Doha Round have staggered on for nearly eight years and the political deal that would open up access in emerging markets in exchange for restraints on developed country subsidies has yet to be struck. With new administrations in India and the United States still considering their priorities, trade experts are cautioning that it may be well into 2010 before an agreement can be reached. And the prospects of a major concession on access to markets for agricultural goods by countries such as India and Brazil remain remote. So, given that trade deals are typically sold to agriculture as tools to expand exports, the lack of enthusiasm for trade agreements is understandable.

The prospect is no more encouraging with respect to regional and bilateral trade agreements, which have grown dramatically (World Trade Organization, 2009a). These have included some improved market access for U.S. agricultural products, but have mainly involved small trade partners. Often the temporary advantage of better market access is lost as other exporting countries negotiate their own bilaterals in the same markets. And defensive interests, particularly in import sensitive products such as sugar and dairy products, have often dominated the U.S. negotiating strategy and have led to a less ambitious outcome. One may expect that only if agreements were negotiated with some big markets such as the European Union (EU), Japan, or China would the level of interest rise, but given recent experience there is little evidence that even major bilateral agreements would generate much excitement. The Korea-U.S. Free Trade Agreement, which does promise considerable export potential to a large and growing market, and no threat of new imports, has stimulated no real

pressure for implementation by Congress and has no real support in the administration. Movement toward other bilateral agreements is similarly sluggish.

Despite their current lack of fashion, there are three major reasons why U.S. agriculture should vigorously support trade talks to guide the shape and direction of the world trade system for agricultural and food products. First, trade and trade institutions are changing and these changes are important. Second, trade agreements are needed to ensure that foreign regulations that affect food and agricultural markets are not slanted against U.S. producers. Third, revised multilateral trade institutions are needed to monitor and possibly address links between agricultural trade and climate change regulations.

### A New World of Institutions

The existing institutions that govern world trade, as well as finance and monetary relationships, were constructed at the end of the 1940s by the United States and its European allies. Developing countries were incorporated into this system slowly over the years but not fully integrated into the agenda-setting function of these institutions until the current round. Developing countries were allowed to opt out of many trade obligations but given their small role in global trade had no place at the head of the table. The turnaround in this relationship has been dramatic. Now countries such as India, China and Brazil, along with the United States, the EU and Japan, have a major role in managing the trade system. As their influence grows along with their aggregate incomes, these emerging economies will increasingly drive the governance of agricultural markets. Will they favor a continuation of the liberalization envisaged (if not fully implemented) in the Uruguay Round? Or will they favor protected national markets with a more supplemental role for trade? Obviously the export sectors of U.S. agriculture would prefer the former option.

Broadly, negotiations in the Doha Round currently revolve around this issue (World Trade Organization, 2009b). What outcome would allow WTO members to meet their special trade concerns while avoiding any significant weakening of the objective of trade liberalization? A deal on the basis of the “modalities”—or negotiating framework—not-quite-agreed to last July would give emerging economies and others considerable scope for keeping the ability to protect their farm sectors against imports, both through lower tariff cuts and through a new safeguard mechanism. Is this a deal that should be embraced by U.S. agriculture? It is certainly a less ambitious outcome than had been sought in the U.S. negotiating position articulated by the prior administration. But would half a loaf be better than no bread? And, is this “half-loaf” even attainable? The answers from the view of exporters depends on whether one thinks that a whole loaf may be offered at a later date. This seems doubtful. More likely is a situation where other exporters negotiate bilateral trade deals with the emerging economies, leaving the United States to be one of the “least-favored” nations. And if the developing countries decide on a more protectionist model for their own agricultural development, the opportunity to negotiate sweeping tariff reductions in agricultural products may not reappear for decades.

So the appropriate long run strategy for U.S. agricultural exporters may be to accept that something close to the current “modalities” is the best deal available while focusing on getting a strong commitment to continue the liberalization process. To be effective, continuation should involve ongoing talks rather than the occasional big “round” of negotiations that is becoming unwieldy. As a part of a broadly palatable deal, exporters should agree to constrain their ability to ration exports in times of scarcity.

## The New World of Markets

While major new trade agreements have been stuck in neutral, markets for agricultural and food products have been moving away from trade in raw materials and commodities, to an interconnected network of suppliers providing products to consumers through a concentrated marketing sector. This trade is dominated by large firms that manage a portfolio of suppliers in order to be less vulnerable to weather-related supply disruption, though it is still subject to income, food safety and other shocks. Trade rules that affect these markets tend to be regulations of health and safety, quality and consumer information. The regulations in turn tend to fragment the market, as producers must decide which market or markets to target. Wide differences in consumer tastes and sensibilities offer on the one hand the chance of higher prices from careful differentiation of the product and on the other the higher costs of catering to separate markets. U.S. exporters face these opportunities and dilemmas daily.

The content of food regulations is a significant factor in determining competitive suppliers. Countries choose which regulations to demand of their suppliers. And markets of the size of the United States and the EU influence standards for much of the rest of the world. At present this regulatory web is evolving in two different ways. First, the EU and the United States are using provisions in bilateral agreements to encourage acceptance by their trading partners of their own health and safety standards and of their own labeling and other regulations on matters such as the treatment of biotech products. National markets tend to follow either the EU’s regulations that emphasize “caution” in matters of safety, or standards such as those in the United States that take a more conventionally “science-based” approach to defining goods on the basis of their safety and allowing

the private sector to handle the provision of information to consumers.

The second market evolution is the rapid spread of private standards. This is a natural outcome of the spread of global supply chains, where retailers need to know that all suppliers follow particular practices, and also a reaction to the market value of being able to present the consumer with particular attributes (organic, fair-trade, hormone-free, etc.). So on the one hand the private standards relieve the authorities from the need to design public standards on such attributes, but on the other they can come close to usurping the role of the public authorities to monitor trade to protect plant, animal and human health. The issue of the sale of biotech foods in Europe was complicated when the supermarkets, with the help of the media, chose to make GM-free food a marketing tool. At that stage it became unclear whether the trade flows were restricted by lack of commercial demand or impediments to market access.

U.S. agriculture has a major stake in how these issues are resolved. The push should be for an agreement between the United States and the EU on a set of standards for other countries to meet for sales to these two markets. The recent compromise on the beef-hormone issue shows that such bilateral solutions can resolve long-standing disputes. A resolution to the controversy over biotech labeling regulations would help U.S. farmers to sell products in markets currently adhering to more restrictive EU rules. A resolution to long-standing disagreements on the labeling of foods by region of origin is also overdue: the discussions on this question in Geneva have gone nowhere on this issue in five years. A full-scale EU-U.S. free trade agreement may not be possible, or desirable, but a comprehensive agreement on standards in food and other areas could be constructive.

## The New World of Climate Change Policy

Governments around the world are implementing schemes to cap and reverse emissions of greenhouse gases (GHG) and hence make use of energy sources and other activities that are major emitters more expensive. Correspondingly, energy sources that can be shown to emit less GHG will become more attractive. Agriculture is a major user of energy, a major source of GHG emissions, a provider of biomass for alternative energy and a major “sink” for the sequestration of carbon to the benefit of curbing global warming. The rapid expansion of bio-fuel facilities at a time when oil prices soared raised the visibility of such a use for corn and the impact that this had in food markets. This link between oil prices and agricultural prices is a new phenomenon that could have significant implications for the stability of agricultural markets in the future. So how agriculture fits into national programs of energy use and greenhouse gas emissions will influence whether the sector as a whole is taxed or subsidized by climate change regulations. Trade issues arise because producers will be aware of the side-benefits of these regulations to competing producers.

U.S. agricultural and forestry groups have two primary interests in this matter. One is whether they will be required to participate fully in the effort to reduce GHG emissions. At present the answer in the case of the United States appears to be that the sector will be given a limited role as a provider of “offsets” that can be purchased by other industries to cover their own emissions (U.S. Department of Agriculture, 2009). But whether this is a stable long-run solution is questionable: some may ask whether such favorable treatment is not in itself a subsidy. At the least it may influence the political viability of traditional farm subsidies. So U.S. agriculture may be better served to

negotiate a role in reducing fossil fuel use that is less like a political favor and more like a constructive contribution to the solution to an ongoing problem.

The second aspect to this problem is more directly related to trade. The climate bill that passed the U.S. House of Representatives has provisions for import tariffs on countries that do not have equivalent GHG reduction systems. Climate policies in other countries are also likely to include such provisions. U.S. exports of farm products will become vulnerable to new barriers and tariffs if the United States has excluded agriculture from emissions limits. One can imagine a situation where trade in farm goods is divided between those countries that have strict GHG emission rules for agriculture and those that don't. And since reduction targets may only be met by addressing farm emissions, other countries will not be happy to see the United States giving agriculture a free pass.

Both of these aspects of climate change policy argue for the full participation of agricultural interests in the development of sensible rules at an international level for dealing both with agriculture as a potential source of emission reduction and with agricultural trade tensions when practices differ by country. U.S. agriculture should be taking the lead in formulating trade rules that prevent an outbreak of climate-change protectionism.

### Conclusion

It has become clear over the past two decades that domestic policy issues must be seen in an international context. Trade talks are often frustrating and sometimes seem to impose unexpected restraints on domestic action, as illustrated by the U.S.-cotton case in the WTO. But such talks are necessary to build, bit-by-bit, a trade system that benefits efficient exporters and removes the scope for pro-

tectionist policies in other countries. The Doha Round offers the chance to once-and-for-all remove the possibility of dumping farm products on world markets with export subsidies. It potentially can level the scope for giving trade-distorting domestic support. And it would reduce tariffs in developed countries by one half. It is likely to be less successful in reducing developing-country tariffs for farm goods. But calling a halt to the Round would not help in this regard. Indeed it could set back such efforts by years.

As important for U.S. agriculture are other aspects of trade, particularly that of health and safety regulations along with private standards. Fragmentation of the global market is not desirable, either for the United States or for other countries. Here, U.S. agriculture could take the lead in supporting the development of global approaches to issues that are currently problems to exporters. These include the increased use of agreed international standards for health and safety, the resolution of differences over biotech labeling and certification, and the rules on the use of regional identification for particular foodstuffs.

And the specter of a swarm of complex legislation from trading partners on the role of agriculture in GHG emission reduction suggests that early discussions on how to avoid trade wars will be needed. Obviously it would be better to be able to shape the agenda for such talks. An agricultural establishment in the United States that is too inward looking could be caught unawares by issues that will determine their ability to sell into global markets. This would seem to be an issue on which some preemptive action may pay dividends later. But it requires an imaginative approach to the link between agriculture and climate change to be able to address these questions, and a willingness to engage trade partners in constructive conversation on the possible solutions.

## For More Information

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