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# The U.S. Position in the Millennium Round of Multilateral Trade Negotiation

**Cathy S. McKinnell**

Soon after the implementation of the Uruguay Round, U.S. agricultural exports reached their highest level. Now many things, including exchange rates, factor into any rise in exports, but almost all economists agree that lowering trade barriers through trade agreements has been a critical factor. The vast majority—96 percent—of potential customers for U.S. products, including agricultural products, live outside the United States. We must work to increase our opportunities to sell into these global markets.

## **Current U.S. Farm Policy**

When the U.S. Congress passed the Federal Agriculture Improvement and Reform Act (FAIR Act) in 1996, the Administration indicated that it had serious reservations because it was not clear that the legislation would provide adequate counter-cyclical assistance to producers when markets weakened. These reservations have proven to be accurate, as the collapse in farm market income over the past two years has revealed serious problems with our farm income safety net. The U.S. Congress also recognized this deficiency by passing a second emergency aid package, providing nearly \$8.9 billion in assistance to farmers and ranchers. This aid package will be consistent with our WTO commitments and not provide any funds for export subsidies. The action corresponds to an acute series of difficulties

facing U.S. producers, and the cost is borne by the United States.

Even as we provide this emergency aid we continue to look at ways to strengthen our farm programs to provide a better safety net for our farmers consistent with our WTO obligations. A principal challenge will be to improve our safety net for family farmers in light of the volatility of commodity prices these past two years. A specific challenge is to improve our risk management and crop insurance programs to protect farmers from the risk of natural disasters. In addition, we will work to continue to improve our conservation efforts. We have made significant progress in recent decades, but new practices continue to offer great promise in reducing run-off and improving habitat.

## **The Well-Trodden Road: Trade-Distorting Policies**

In contrast to U.S. efforts to address trade-distorting policies, the EU and other WTO members continue to be unable to significantly reform their agricultural policies. For example, the EU has notified the WTO of about \$90 billion in support to European agriculture annually, about three-quarters of which was trade-distorting support. Under Agenda 2000 reforms, the EU plans to provide more support under blue box, or production-limiting, policies. And the EU spends several billion a year in export subsidies. This is the largest single distortion of agricultural trade in the world. Let me be clear: The United States does not object to the EU and other members supporting their farmers. What the United States ob-

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jects to is the trade-distorting policy choices the EU and others make.

The EU recently claimed that the United States provides payments to its farmers that are twice the level of support provided to EU farmers. In reality, OECD data show that the EU provides nearly 10 times more production support per acre than the United States does; the EU provides \$324 per acre while the United States provides only \$34 per acre; Japan and Korea provide over \$4,000 per acre in domestic production support. Most recently available data published by the OECD show that domestic production supports in Japan and Korea, on average for 1996–98, provide over 60 percent of farm income; in the EU production supports account for 39 percent of farm income, while U.S. production supports for the same period provide only 17 percent of U.S. farm income.

Developing countries are looking to the United States, the EU, and Japan for leadership in developing rational agricultural policy. The United States has shown leadership by greatly reducing its export subsidies, especially on grains, and shifting to de-linked domestic support. While many European governments recognize that reform is essential, internal reforms have brought only minor changes in the past two decades. The Agenda 2000 package adopted by the EU is no exception, and unfortunately represents a retreat from the original set of reforms advocated by the European Commission. We need continued global reform in the WTO to tighten rules on trade-distorting domestic supports and eliminate export subsidies so that countries increasingly deal with support for agriculture in a non-trade distorting way.

The promise of trade liberalization in today's global economy can be seen in the conclusion of the U.S.-China bilateral WTO agreement on November 15, 1999. Under this agreement, China agreed to the following, which also coincides for the most part with our objectives for the new round: 1) Eliminate export subsidies, 2) Improve market access by significantly cutting tariffs and establishing a tariff-rate quota system for imports of bulk commodities, 3) Provide the right to import

and distribute products without going through state-trading enterprises, and 4) Eliminate sanitary and phytosanitary barriers not based on sound science. While USDA estimates that this agreement could increase U.S. exports roughly \$2 billion annually, it is difficult to predict exactly how much the gains from trade will be. Several factors, including growth in China's economy, investment, and market development will influence these gains.

## U.S. Goals

I'd like to take a minute and briefly review U.S. agricultural objectives as we headed into Seattle before discussing what went on at the Ministerial and where we go from here.

### *Eliminate Export Subsidies*

According to the World Trade Organization (WTO) as of 1996, the European Union (EU) accounted for an astonishing 83.5 percent of total agriculture export subsidies worldwide; the United States accounted for only 1.4 percent. Our goal, and the goal of many other members of the WTO, is to eliminate all export subsidies in the new round.

In addition to eliminating all remaining export subsidies for agricultural products, we want to clarify and strengthen rules on measures that may allow circumvention of export subsidy disciplines, such as the use of state trading enterprises, and disguised export subsidies (e.g., pricing policies).

### *Reform State Trading Enterprises (STE's)*

Related to the elimination of export subsidies is the whole issue of State Trading Enterprises (STE's). These monopoly importers and exporters can distort trade and provide an unfair advantage to the governments authorizing them. Both the Canadian Wheat Board and the Australian Wheat Board are examples of exporting STE's that benefit from exclusive rights and privileges including monopoly control over procurement, handling, and distribution. Price discrimination and pooling arrangements employed by these STE's may

circumvent export subsidy disciplines already agreed to in the Uruguay Round. Our objective is to impose further disciplines on STE's to avoid trade distortions and make them much more transparent. One suggestion is to require them to report grain sales as we in the United States do under our Export Grain Reporting System.

*Reduce Tariffs, Expand Access, and Improve Implementation of Tariff-rate Quotas (TRQs)*

Under the Uruguay Round Agreement, developed countries cut their tariffs by an average of 36 percent, but the tariffs most U.S. products face remain too high—about 50 percent on average—compared to much lower average rates (below 10 percent) for products entering the United States. Our objective is to reduce tariffs substantially and expand market access under tariff-rate quotas by increasing the quota amount and decreasing the tariff outside the quota.

*Tighten Rules on Trade-distorting Domestic Support*

Protective tariffs and unfair export subsidies frequently are used because domestic subsidy regimes distort the production incentives facing farmers. At the Ministerial, we proposed further reductions in existing trade-distorting support and encouraged non-trade distorting approaches for supporting farmers and rural communities everywhere.

*Preserve the Sanitary and Phytosanitary Agreement*

The Agreement on Sanitary and Phytosanitary Measures (SPS) is one of the landmark provisions from the Uruguay Round. It requires that import measures imposed for the protection of human, animal, or plant health be based on sound science. We went to Seattle with the goal of preserving the SPS Agreement.

*Facilitate Trade in New Technologies, such as Biotechnology*

In Seattle, we wanted to help clear the way for the products of biotechnology. Biotechnology is already transforming medicine as we know it. Pharmaceuticals such as human insulin for diabetes, interferon and other cancer medications, antibiotics and vaccines are all products of genetic engineering.

Agricultural biotechnology has enormous potential to help combat hunger. Genetically modified plants have the potential to resist killer weeds that are, literally, starving people in Africa and other parts of the developing world. Biotechnology can help us solve some of the most vexing environmental problems. It can reduce pesticide use, increase yields, improve nutritional content, and use less water.

These products have experienced problems in gaining market access, especially in the EU, which has failed to approve agricultural biotechnology corn varieties approved and planted in the United States, resulting in \$200 million in lost sales annually for U.S. farmers. Nevertheless, we will continue to work with WTO members to urge that government policies that determine which varieties will be allowed on the marketplace are scientifically, not politically, based and that new regulations minimize the impact on trade.

**The Seattle Ministerial**

The Seattle Ministerial was intended to lay the framework for a new round. The only thing we were trying to do in Seattle was to develop such a framework that would establish our goals for the next round and enable us to go into detailed negotiations starting this year and extending over the next three years. Like others at Seattle, we were disappointed that the 135 World Trade Organization (WTO) members did not reach final agreement to open a new round of trade talks, but we are not disheartened.

There were a number of reasons why the talks were suspended, including the fact that we faced many complicated issues, some of which are new to the world trading system.

We also found that the WTO has outgrown the processes that were appropriate 50 years ago when there were 30 or so WTO members, not the 135 members we have today. Because of this, member countries agreed that a more inclusive and transparent process needs to be established to accommodate a larger and more diverse membership.

### *Developing Countries*

For example, developing countries claim the WTO needs to provide better opportunities for wider participation by all members in the WTO decision-making process. Developing countries have also complained that they are not accruing the benefits from trade that more developed countries are achieving. These concerns need to be addressed. Reasons for this complaint include trade-distorting agricultural policies in some countries that place an immense and unfair burden on developing country farmers and the need for capacity building in the developing countries themselves. We are encouraging the World Bank and its sister agencies to not only help in capacity building, but to continue to support agricultural modernization and development in these countries.

While many will claim that the talks in Seattle were a failure, in fact for agriculture we made significant progress in all the objectives I just laid out—market access, domestic support, and export subsidies.

### *Export Subsidies*

On the issue of the elimination of export subsidies, Europe is clearly isolated. The rest of the world disagrees with Europe on this issue, and that includes the United States, the Cairns Group of exporting nations, and developing nations. And by Europe I don't mean just the EU, but Europe broadly, including Switzerland and Norway who, although they are not formal members of the EU, aligned themselves with the EU in opposition to this effort.

### *Biotech*

Going into Seattle the United States advocated that a working group be set up to address some

of the current problems we are experiencing in biotechnology. What was proposed was that a working group be established to study how we can improve the approval procedures that govern biotechnology in various countries. Then there would be the possibility of developing new WTO disciplines in this area.

### *Export Credits*

We discussed a proposal to reduce export subsidies while simultaneously taking similar action on the subsidy component of other forms of export assistance, including export credit and credit guarantee programs. In this regard, the United States is committed to working in the Organization for Economic Cooperation and Development (OECD) to reach a meaningful agreement on export credit and credit guarantee programs that will fulfill our WTO obligations while preserving our ability to use credit in the future. These negotiations are not simply about U.S. export credit guarantee programs, but about everybody's export credit and credit guarantee programs; France, Canada, Australia and others have these programs as well.

### **Where Do We Go From Here?**

The question on all our minds is where do we go from here? I believe that for the credibility of the WTO, we must start negotiations promptly. Article 20 of the Uruguay Round Agreement on Agriculture states, "Members agree that negotiations for continuing the process will be initiated one year before the end of the implementation period." That is why countries are committed under the "built-in-agenda" to renew negotiations on agriculture and services promptly, this year. If we do not get started now, we risk damaging the credibility of the entire international trading system—a trading system built carefully, step-by-step for more than five decades.

In the General Council meeting of February 7, 2000, WTO members agreed to begin agricultural negotiations in March and we intend to use this process to push ahead on our

agenda to liberalize international trade in food and agricultural goods.

It is not just the United States, EU, and Japan that will gain the most from the start of negotiations to liberalize agricultural trade. Developing countries have much to gain as well. Without an open international trading system, some developing countries are more likely to face the menace of food insecurity. Without an open trading system, they will not gain better market access for their agricultural products. So agricultural negotiations are not just an effort for developed countries—developing countries also have a very real interest in making sure they are successful.

### Conclusion

In conclusion, let's consider Robert Frost's well known poem, *The Road Not Taken*. "... Two roads diverged in a wood, and I—I took

the one less traveled by, And that has made all the difference." Our situation now is not so different from what Robert Frost describes. One can remain on the well-trodden road of protectionism in agriculture, with which we are most familiar. That road would lead us to years of negotiations as we saw in the Uruguay Round, resulting in the continuation of trade-distorting protectionist policies, which have adversely affected world prices, efficient agricultural producers, especially those in developing countries, and the environment.

Or we can take the road less traveled, the road not as worn or well trodden, and move forward, *promptly*. This would take courage, courage on the part of the United States, the EU, Japan, and other nations. But we can do it. If we recommit ourselves, we can conduct meaningful negotiations that result in significant reform for agricultural trade. We have seen how much we can accomplish when we work together.

