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Agricultural Trade in the Free Trade Area of the Americas

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Agricultural Trade in the Free Trade Area of the Americas

Summary

Leaders of Western Hemisphere countries have agreed to negotiate a Free Trade Area of the Americas (FTAA) agreement by 2005. FTAA's objective is to promote economic growth and democracy by eliminating barriers to trade in all goods (including agricultural and food products) and services, and to facilitate investment. If diplomats reach agreement, free trade in the hemisphere could occur by 2020.

Negotiations on FTAA's agriculture component have become contentious. FTAA's negotiating objectives for agriculture call for removing tariffs and other barriers to agricultural imports in each country, developing disciplines on the use of export subsidies and other mechanisms that distort agricultural trade, and ensuring that rules on food safety and animal and plant health are not used as disguised trade barriers. Following an agreed-upon timetable, FTAA countries during 2003 exchanged detailed offers and counteroffers designed to reduce and eliminate tariffs and quotas on all traded goods. The agriculture chapter in the second draft consolidated text of an FTAA agreement issued in November 2002 continues to reflect differences in viewpoints among countries on substantive agricultural issues. Strong differences currently exist between the United States and Brazil over how to address in the FTAA the issue of domestic farm subsidies and agricultural export subsidies. This issue has become pivotal in efforts to reach an agreement on FTAA's scope (comprehensive or scaled back) in the period leading up to the FTAA Ministerial in Miami on November 17-21.

Much of U.S. agricultural trade with Canada and Mexico already occurs free of barriers under the North American Free Trade Agreement. Accordingly, an FTAA would primarily affect U.S. agricultural trade with the countries of South America, Central America, and the Caribbean. Sales to these three markets currently account for a small share (8%) of U.S. farm product exports. Agricultural imports from these three regions, by contrast, account for 17% of all such U.S. imports.

A 1998 U.S. Department of Agriculture analysis finds that U.S. agriculture would benefit to some degree with U.S. participation in an FTAA that eliminates all tariffs throughout the region. According to this analysis, U.S. farm income would be $180 million (1%) higher than without an agreement, U.S. agricultural exports would increase by $580 million (1%), and U.S. agricultural imports would rise by $830 million (3%).

Some agricultural product sectors expecting to gain from increased sales are supportive of the FTAA initiative. Others appear to be ambivalent, preferring instead that the Bush Administration place more emphasis on liberalizing agricultural trade on a multilateral basis under the WTO. Producers of import-sensitive food products (i.e., sugar and orange juice) are concerned about increased competition. They seek to be excluded from FTAA coverage or be covered by the longest transition periods possible. Under trade law, the Executive Branch must follow special consultation procedures with Congress on import-sensitive agricultural products covered by the FTAA agreement. This report will be updated periodically .

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Background

In 1994, at the first Summit of the Americas, the leaders of the 34 countries in the Western Hemisphere agreed to negotiate a Free Trade Area of the Americas (FTAA). FTAA's stated objective is to reduce and eliminate barriers to trade in goods (including agricultural commodities and food products) and services, and facilitate cross-border investment, allowing all countries to trade and invest with each other under the same rules.[1] At their second Summit in 1998, they formally initiated negotiations to create a hemispheric free trade area by the year 2005. At the third Summit in Quebec City in April 2001, leaders assessed progress to date by nine negotiating groups, agreed to conclude the negotiations by January 2005, and to bring the FTAA into effect no later than December 2005.

Following the timetable agreed upon in Quebec City, FTAA countries during 2003 have exchanged detailed offers and counteroffers designed to reduce and eliminate tariffs and quotas on traded goods. In November 2002, trade ministers released the second draft consolidated text of an FTAA agreement covering all issue areas. Substantial differences in viewpoints continue to be reflected in the FTAA's chapter on agriculture, particularly on the issue of domestic farm subsidies. Many note that negotiating free trade in agricultural products could prove to be one of several difficult issues in the FTAA talks, as was the case in the negotiations between the United States and Mexico on the agricultural provisions of the North American Free Trade Agreement (NAFTA).

U.S. Agricultural Trade in the Western Hemisphere

Hemispheric trade liberalization would directly affect U.S. agricultural trade with the countries located in South America, Central America, and the Caribbean (except Cuba). Trade in most agricultural products with Canada and Mexico already is, or will within a few years become, free under NAFTA's terms.[2] Also, a large

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[1] See CRS Issue Brief IB95017, *Trade and the Americas*, updated regularly; CRS Report RS20864, *A Free Trade Area of the Americas: Status of Negotiations and Major Policy Issues*; and CRS Report 98-840, *U.S.-Latin American Trade: Recent Trends*, for broader context.

[2] Tariffs and quotas on most agricultural products traded between the United States and (continued...)

portion of the agricultural products imported from outside the NAFTA trade bloc already enter the United States duty free under various trade preference programs. Imports from the Caribbean and Central American countries arrive under the Caribbean Basin Initiative. Those from Bolivia, Colombia, Ecuador, and Peru enter under the Andean Trade Preference Act. Imports of certain agricultural products from other countries in the hemisphere are eligible to enter free under the Generalized System of Preferences (GSP). Countries that take advantage of these programs, though, are not required to offer tariff concessions on agricultural or other products imported from the United States.

The United States in 2002 recorded a $2.8 billion deficit in agricultural trade with the non-NAFTA countries of the Western Hemisphere. Deficits occurred in two-way trade with the South American and Central American countries. Agricultural trade with the Caribbean nations generated a noticeable surplus (Table 1).

Table 1. U.S. Agricultural Trade Balance with FTAA Countries, by Region, 2002

Region	Exports	Imports	Balance
	million $		
South America	1,788	4,704	- 2,915
Central America	1,251	1,960	- 709
Caribbean	1,202	353	849
FTAA (excluding NAFTA)	4,242	7,017	- 2,775
NAFTA (Canada & Mexico)	15,905	15,866	39
Total, FTAA	20,147	22,883	- 2,736

Source: Derived from Tables 2 and 3

U.S. agricultural exports to the FTAA countries in the hemisphere (excluding Canada and Mexico) totaled $4.2 billion last year (Table 2). These sales represented 8% of worldwide U.S. agricultural exports, or 21% of farm exports to the region. Farm and food exports to both NAFTA partners totaled $15.9 billion (accounting for 30% of worldwide sales, or 79% of exports to the other 33 FTAA countries).

U.S. agricultural imports from FTAA countries (excluding NAFTA partners) totaled $7.0 billion in 2002 (Table 3). Entries accounted for 17% of all U.S. agricultural imports, or 31% of imports from the region. Food imports from Canada

[2] (...continued)
Mexico disappeared on January 1, 2003. Protection on the few remaining products will end in 2008. With a few important exceptions (sugar, dairy products, poultry), there already is free trade in agricultural products between the United States and Canada.

and Mexico totaled $15.9 billion (representing 38% of worldwide purchases, or 69% of such imports from the other 33 FTAA countries).

Table 2. U.S. Agricultural Exports to FTAA Countries, 2002

REGION	VALUE	SHARE OF WORLD	SHARE OF FTAA
	million $	%	%
South America	1,788	3.4	8.9
Central America	1,251	2.4	6.2
Caribbean	1,202	2.3	6.0
FTAA (excluding NAFTA)	4,242	8.0	21.1
NAFTA (Canada & Mexico)	15,905	29.9	78.9
Total, FTAA	20,147	37.9	100.0

Source: USDA

Imports of agricultural products from the hemisphere that compete with the output of U.S. domestic producers accounted for 80% of the total. Non-competitive products not produced domestically (such as bananas and coffee) represented 20% of these imports.

Table 3. U.S. Agricultural Imports from FTAA Countries, 2002

REGION	VALUE	SHARE OF WORLD	SHARE OF FTAA
	million $	%	%
South America	4,704	11.2	20.6
Central America	1,960	4.7	8.6
Caribbean	353	0.8	1.5
FTAA (excluding NAFTA)	7,017	16.7	30.7
NAFTA (Canada & Mexico)	15,866	37.8	69.3
Total, FTAA	22,883	54.6	100.0

Source: USDA

Negotiating Process and Timetable

Discussions on how to proceed to eliminate border protection and other barriers to agricultural trade have occurred primarily in two of the nine formal negotiating groups created for FTAA negotiations. These are the Negotiating Group on Agriculture (NGAG), and the Negotiating Group on Market Access (NGMA). Their focus has been on identifying the key issues and formulating the rules to be followed in negotiating hemispheric free trade in agricultural and food products. Their work resulted in the consolidation by the end of 2000 of the first "bracketed" FTAA draft agreement.[3] Two chapters laid out text on agricultural provisions and guidelines on how market access for agricultural products should be negotiated, respectively. Trade ministers released a second consolidated draft text in November 2002.[4] Its agriculture chapter reportedly differs little from the text in the first draft, continuing to reflect the wide range of positions between individual countries, or groups of countries.

Seeking to keep to the timetable adopted at the April 2001, Quebec City summit, trade ministers in August 2002 reached agreement on the "methods and modalities" (the procedures, formulas, targets, rules, and timetables used to put negotiating objectives into practical terms) to be followed to make tariff reductions (see **Market Access** below for background). This provided the basis for each country to prepare for the process of exchanging tariff and other market access concessions on a product- or sector-specific basis. Trade ministers agreed that all countries (except CARICOM members — comprising most Caribbean islands, Belize in Central America, and Guyana and Suriname in South America) could start tariff cuts from current applied rates rather than from the higher bound rates that all WTO members adopted in the last multilateral negotiating round.[5] CARICOM countries will be allowed to identify those agricultural and other products where the maximum bound rate could be used as the reference point for reducing tariffs. The November 1, 2002, meeting of trade ministers in Ecuador finalized the negotiating pace and process to be followed over the 2003-2004 period. These final stages of the FTAA negotiations are being co-chaired by Brazil and the United States. All FTAA countries met the February 15, 2003 deadline for presenting their initial tariff reduction offers (see **U.S. Market Access Offer** for information on what U.S. negotiators tabled). Each country was expected to respond to these in the form of market access requests, due by June 15, 2003. The schedule then called for revised offers to follow this "request-offer" process by July 15, 2003.

For the United States, the Office of the U.S. Trade Representative (USTR) is the lead agency involved in negotiating the FTAA. Other departments, particularly the agencies of the U.S. Department of Agriculture (USDA), provide input to USTR and

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[3] This refers to the text that each country proposes be included in the FTAA agreement. Because the language from the 34 participating countries includes both areas of agreement and disagreement, the convention is to lay out each country's text within brackets. Because of the wide range of views, the chapters on agriculture and market access are heavily "bracketed."

[4] The second draft of the Chapter on Agriculture can be accessed at [http://www.ustr.gov/regions/whemisphere/ftaa2002/tnc-w-133-04of12-eng.pdf]. The Chapter on Market Access can be viewed at [http://www.ustr.gov/regions/whemisphere/ftaa2002/tnc-w-133-07of12-eng.pdf]

[5] A "bound" tariff rate represents the maximum that a country agrees to impose on imports of a particular product, and is based on the outcome of negotiations under the last multilateral negotiations (the Uruguay Round). These bound rates are incorporated as an integral component of a country's schedule of concessions or commitments to other World Trade Organization members. However, for various reasons, a country may decide to impose a lower, or "applied," tariff rate.

have assigned staff to serve as experts to lead negotiators. USDA representatives have also been actively involved in developing the U.S. positions in relevant areas.

Key Negotiating Issues

FTAA trade ministers in 1998 agreed on several objectives to be followed in negotiating hemispheric free trade in agricultural products. These have guided the work of the NGAG and the NGMA. The pertinent objectives call for:

- eliminating those measures that countries use to restrict the entry of agricultural products into their markets,
- developing disciplines on the use of export subsidies and other mechanisms that can distort trade in agricultural products, and
- ensuring that rules to protect food safety and plant and animal health will be based on science, and not applied on a discriminatory basis or as a disguised trade restriction.

FTAA negotiators were also instructed to incorporate progress made in the current multilateral negotiations on agriculture sponsored by the World Trade Organization (WTO),[6] and the results of the review of WTO's multilateral agreement on the application of food safety and agricultural health rules in international trade.

These FTAA objectives are elaborated on below, with relevant background. For each issue, the U.S. position, and the positions or views of other countries when known, are summarized.[7] The USTR noted in 2001 that "U.S. agricultural negotiators [participating in the NGAG] will continue to work with the agricultural community to address appropriately import sensitivities and export interests." These positions are reflected in USTR's October 2002 notification to congressional leaders of the U.S. negotiating objectives in the FTAA negotiations.[8]

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[6] For background and discussion of key issues, see CRS Report RS21085, *Agriculture in WTO Negotiations*.

[7] This report's description of the U.S. position is based on the "Public Summary of U.S. Position" relative to the FTAA Negotiating Group on Agriculture and the FTAA Negotiating Group on Market Access, issued by USTR, January 17, 2001, and referred to in press release 01-06. These two U.S. position summaries are available at [http://www.ustr.gov/regions/whemisphere/agri.html] and [http://www.ustr.gov/regions/whemisphere/mkt.html].
Additional information at USTR on the FTAA negotiations is found at [http://www.ustr.gov/regions/whemisphere/ftaa.shtml].

[8] USTR Ambassador Robert Zoellick letter to House Speaker J. Dennis Hastert and Senate President pro Tempore Robert C. Byrd, October 3, 2002, available at [http://www.ustr.gov/releases/2002/10/2002-10-03-ftaa-house.PDF].

Market Access

Countries use tariffs and tariff-rate quotas (TRQs) to protect certain economic sectors or specific products against import competition. [TRQs allow zero or low-duty access for specified amounts of a commodity or product. Imports above the quota amount may still enter, but face a very high tariff rate.] To address this type of border protection, one major FTAA objective is "to progressively eliminate, tariffs, and non tariff barriers, as well as other measures with equivalent effects, which restrict [agricultural] trade between participating countries." Trade ministers agreed that "all tariffs will be subject to negotiation," but allow for flexibility in negotiating "different trade liberalization timetables." Further, negotiations on market access for agricultural products are to be conducted "to facilitate the integration of smaller economies [i.e., the Caribbean and Central American nations] and their full participation in the FTAA negotiations."

The U.S. proposal called for formulating market access rules that apply similarly to both agricultural and non-agricultural products. In other words, trade in agriculture is not to be treated any differently than trade in manufactured goods. The U.S. position is reported to advocate procedures that "ensure that the benefits of free trade are broadly distributed," and proposed that most tariffs be rapidly reduced. USTR stated, with likely implications for agricultural trade, that the details of the U.S. position take into account "product sensitivities in a framework that is fully consistent" with WTO disciplines.

Average Agricultural Tariffs in FTAA Area. Average tariffs on agricultural imports are lower in the Western Hemisphere compared to many other regions around the world. The global average tariff on such imports is 62%, compared to the U.S. average (12%). For regions covered by the FTAA, the average bound tariff is 25% for North America, 39% for South America, 54% for Central America, and 86% for the Caribbean Islands.[9] However, applied tariffs can be considerably lower than bound rates. For example, applied tariffs for agricultural products averaged between 11% and 17% for Central and South America during the 1995-99 period. These regional averages mask the range of protection between commodities in any country, and do not fully reflect the use of TRQs by many countries in the Western Hemisphere (including the United States), many of which apply prohibitive tariffs on above-quota imports. Reflecting FTAA's objective, the target would be to reduce tariff levels to zero and to eliminate TRQs by the end of the agreed-upon transition period, likely to be about 2020. This part of the negotiating process will be a difficult process, as some countries seek exceptions for specific commodities or products that currently receive protection under restrictive TRQs.

Transition Periods. The U.S. proposal on FTAA's timetable and pace of tariff elimination is based in part on WTO rules, which require countries in a free trade area to eliminate tariffs and other forms of protection on most of their trade within 10 years. Some FTAA participants, though, acknowledge that some politically-sensitive agricultural products may need to be allowed a transition of up

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[9] USDA, Economic Research Service, *Profiles of Tariffs in Global Agricultural Markets*, January 2001, pp. iv, 11.

to 20 years to adjust to competition before tariffs or quotas disappear. They refer to the precedent set in NAFTA, which provided for a 15 year transition to free trade on the most sensitive agricultural products scheduled to enter Mexico and the United States (i.e., frozen concentrated orange juice, peanuts, and sugar imported into the United States from Mexico; and corn, dry beans, milk powder, and sugar imported by Mexico from the United States).

U.S. Market Access Offer. USTR's Ambassador Robert Zoellick, on February 11, 2003, laid out the scope of the U.S. tariff reduction offer on agricultural and other products. In unveiling this offer, he said that the United States is prepared to grant immediate duty-free access on 56% of the agricultural products that enter from non-NAFTA countries once the agreement takes effect. On politically-sensitive farm products, Ambassador Zoellick stated that the United States proposes to eliminate tariffs with specific timetables that would differ between countries or regional groups. Transition periods could be 5 or 10 years, or even longer, depending upon a country's size and its level of economic development, and on the type of agricultural product. He indicated all agricultural products are on the table and subject to negotiation (i.e., no exclusions), and that the United States will move forward with other countries willing to take the same position.

Export Subsidies and Other Trade-Distorting Policies

Governments use various mechanisms to support their farm sectors and to facilitate agricultural exports. The Uruguay Round's Agreement on Agriculture (URAA) lists those determined to distort agricultural trade, and requires that countries now follow some disciplines on their use. The Agreement, among other things, spelled out commitments and a timetable for governments to reduce export subsidies and domestic support. Other mechanisms (i.e., export credits, activities of state trading enterprises) claimed to distort trade were identified for future trade talks, are on the agenda of the WTO multilateral negotiations now underway, and have surfaced in the FTAA debate.

Export Subsidies. Though the WTO Agreement introduced some discipline on the use of export subsidies, WTO rules still allow countries to subsidize exports of commodity surpluses. As a result, export subsidies continue to distort international trade in agricultural and food products by giving a price advantage to the exporter. Though subsidized sales reduce the price an importing country pays, the price that other exporting countries receive for the same product sold into other markets frequently is less than would be otherwise.

Two FTAA negotiating objectives agreed to by hemispheric trade ministers in their 1998 San Jose Declaration address this issue. One calls for the elimination of "agricultural export subsidies affecting trade in the Hemisphere." The other requires agricultural negotiators "to identify other trade-distorting practices for agricultural products, including those that have an effect equivalent to agriculture export subsidies, and bring them under greater discipline."

The U.S. position reaffirms the FTAA's goal of eliminating the use of export subsidies within the hemisphere, and proposes that the FTAA countries at the same time "establish mechanisms to prevent agricultural products from being exported to the FTAA by non-FTAA countries with the aid of export subsidies." This is likely aimed at the European Union, which heavily subsidizes its agricultural exports and actively promotes such sales to Latin American markets. The initial U.S. proposal states that the United States does not consider export credits, credit guarantees, insurance programs, and international food aid "to constitute an export subsidy." The U.S. position reflects the use of the same definition of agricultural export subsidies (i.e., direct subsidies) as is used in the URAA.

Domestic Support. Some South American countries have placed the issue of domestic farm support on the FTAA negotiating agenda. This refers to government program spending to support commodity prices and raise incomes of agricultural producers. These countries argue, with the United States and enactment of the 2002 farm bill in mind, that such spending encourages farmers to produce commodity surpluses, that when exported into world markets, depress the price that their producers receive for the same products. They view some forms of domestic support as more distorting of agricultural trade than tariffs or other border measures, and want to include this issue in the negotiations. The impetus behind their call appears to be concern that the access they gain to the U.S. market under FTAA liberalization will not result in much benefit to them, since the level of U.S. protection on agricultural imports is already quite low. Therefore, these countries' strategy appears to be to offer to lower their higher level of border protection on agricultural products only if the United States agrees to reduce its level of domestic farm support.

U.S. negotiators continue to reject this linkage. The U.S. position is to seek a recognition by other FTAA countries that commitments to reduce domestic support levels can only be achieved in the WTO multilateral negotiations. The U.S. proposal calls for a hemispheric agreement to work together in the WTO arena to substantially reduce and more tightly discipline trade-distorting domestic support.

In recent months, the United States and Brazil (now serving as FTAA co-chairs) have differed on how to address the issue of domestic farm subsidies in seeking a common position on the FTAA's end-game negotiating agenda. In responding to the U.S. market access offer, which Brazil views as discriminatory in the scope of duty-free access it would receive compared to other country groups in the hemisphere, Brazil formulated a counter-proposal that has called into question what FTAA's scope should be. It calls for: (1) the United States to negotiate market access with Mercosur (Brazil, Argentina, Uruguay, and Paraguay) as a trading bloc rather than with them as individual countries, and (2) shifting investment, government procurement, and intellectual property rights (IPR) issues, along with agricultural subsidies and antidumping rules (advocated by the U.S.) to the Doha WTO round. The United States, though, wants to include investment, procurement and IPR in a comprehensive FTAA agreement, while Brazil (seeing its priorities not being addressed) proposes to scale back the agenda to instead negotiate a "FTAA lite."

State Trading Enterprises (STEs). The United States "calls for the staged elimination of exclusive export rights granted to state trading enterprises engaged" in agricultural exports. The aim is to "permit private traders to participate in, compete for, and transact for" exports in countries where they exist. This position appears to be aimed at changing the character of, for example, the Canadian Wheat

Board, which is that country's sole exporter of wheat to several Latin American countries. If the United States persuades other countries to include its position in the FTAA, U.S. agribusiness and commodity exporting firms would have the opportunity to expand operations in countries where STEs exist to compete with them in selling agricultural commodities for export.

Sanitary and Phytosanitary (SPS) Rules

One FTAA agricultural negotiating objective adopts the WTO's SPS Agreement's principle that SPS measures not be applied "in order to prevent protectionist trade practices and facilitate trade in the hemisphere." It declares that the use of such measures (consistent with this Agreement) to protect "human, animal or plant life or health, will be based on scientific principles, and will not be maintained without sufficient scientific evidence." The objective further calls for negotiations to follow this Agreement to identify and develop measures "needed to facilitate trade."

As background, most countries have policies to ensure food safety for humans and to protect animals and plants from diseases, pests, or contaminants. The WTO agreement referred to in the FTAA objective is the WTO "Agreement on the Application of Sanitary and Phytosanitary Measures." It includes understandings or disciplines on how countries will establish and use these measures, taking into account their direct or indirect impact on trade in agricultural products. The Agreement requires countries to base their SPS standards on science, and encourages countries to use standards set by international organizations to guide their actions. It seeks to ensure that countries will not use SPS measures to arbitrarily or unjustifiably discriminate against the trade of other WTO members or to adopt them to disguise trade restrictions.

The U.S. position calls for FTAA countries to agree to strengthen hemispheric collaboration on matters covered by WTO's SPS Committee and to work together to develop international standards, guidelines or recommendations in relevant international bodies. The U.S. objective is to accept and apply the work and findings of this WTO Committee, rather than create a separate hemispheric organization, in how FTAA countries formulate and apply SPS measures.

Other Issues Affecting Agricultural Trade

FTAA trade ministers agreed to assign to the NGMA responsibility for addressing the rules of origin, customs procedures, and technical trade barriers that apply to agricultural products. This Group is also charged to develop rules for safeguards, an issue that will be monitored carefully by those countries with import-sensitive agricultural products.[10]

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[10] *Rules of origin* specify what is required for a product to be considered to have been produced or processed in a certain country. They are used in implementing free trade agreements to determine whether a product may benefit from the duty preferences and other benefits under the FTA. *Safeguards* (involving the one-time temporary use of higher tariffs

(continued...)

The United States views the rules and disciplines that FTAA negotiators develop in these areas "critical in determining conditions for market access in agricultural products." The objective of the detailed U.S. proposals on these issues is to ensure that sensitive products receive differential consideration during the transition to free trade, and that the benefits of free trade accrue to producers in the hemisphere and not to exporters outside the FTAA bloc who might seek to take advantage of the openings created by the new hemispheric free trade environment.

Other Issues of Interest to U.S. Farm Sector

Environmental and labor issues continue to be of concern in the wider context of the FTAA negotiations generally, as well as to U.S. agricultural interests. Environment and labor provisions have been included in some trade agreements, notably NAFTA and the U.S.-Jordan Free Trade Agreement, and in side agreements and decisions made relative to these agreements. However, these issues remain contentious, with some in Congress expressing the need to include such provisions in the FTAA. Others, though, argue that these issues do not belong in trade agreements and should be addressed in environmental or other agreements.

With regard to agriculture, some U.S. farm groups have expressed concern about the level of environmental, health, and labor standards found in the agricultural sectors of Latin American countries. U.S. farmers that produce import-sensitive commodities refer to these countries' lower production costs, and their minimal safety and health requirements. For this reason, their representatives are concerned that complete trade liberalization would place them in a difficult competitive position, due to increased imports from countries where farm workers are paid much lower wages and environmental regulations are lax.[11] Other farm groups, though, are opposed to including labor and environmental provisions (such as trade sanctions to enforce such rules) in trade agreements. They support liberalizing trade in a way that promotes sustainable agricultural development and improves working conditions.

FTAA's Possible Impact on U.S. Agriculture

U.S. agriculture would benefit to some degree from U.S. participation in an FTAA that eliminates tariffs throughout the Western Hemisphere, according to a USDA analysis.[12] It found that on an annual basis U.S. farm income (in 1992 dollars) would be $180 million higher (0.08%), total agricultural exports would

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[10] (...continued)
and/or quotas) allow producers of a covered commodity or product additional time to adjust to increased import competition.

[11] The Florida Sugar Industry Labor Management Committee in September 2003 issued a study that details the differences in labor and environmental costs and standards between the cane sugar sectors of Brazil, Guatemala, and Florida. It can be accessed at [http://www.floridasugarlmc.com/pdf/Report.pdf].

[12] USDA, Economic Research Service, *Free Trade in the Americas*, WRS-98-1, November 1998.

increase by $580 million (1%), and total agricultural imports would rise by $830 million (3%).

This study found that the impact would vary among commodities. Assuming that the United States and Canada resolve the dispute surrounding Brazil's application of restrictive phytosanitary rules to their wheat, both countries would see their wheat market share increase in Brazil — the U.S. share would likely increase more than Canada's given lower U.S. shipping costs to Northeast Brazil. Gains are also expected in U.S. exports of corn, soybeans, and cotton to the hemisphere. Little impact is seen on sales of U.S. rice, meat, and dairy products. According to this analysis, complete trade liberalization under an FTAA would mean increased competition for U.S. sugar and orange juice. It shows that U.S. sugar prices, production, and exports "could decline significantly, and imports could increase" from lower-cost producers like Brazil and Guatemala. The study also notes that the removal of U.S. tariffs "may create incentives to import less-expensive Brazilian orange juice," a development that "may displace some Florida juice."

Role of Congress in FTAA Negotiations

Congress will take up any agreement that results from the FTAA negotiations under fast track procedures found in Bipartisan Trade Promotion Authority Act of 2002 (Section 2105 of P.L. 107-210). This details the process that Congress must follow to consider legislation sent to the Hill by the Executive Branch to implement signed trade agreements. Other provisions state broad objectives for U.S. negotiators to follow in negotiating agricultural provisions in trade agreements, including those included in the FTAA.[13] In the meantime, the Administration is required to consult with Congress on specific agricultural issues as negotiations on the FTAA and other trade agreements proceed. Interaction during the period of consultation on negotiating positions and strategies is intended to lay the groundwork for later congressional consideration of an FTAA agreement.

Detailed provisions require the Executive Branch to follow special consultation procedures with Congress before engaging in, and during, trade negotiations that affect certain agricultural products. Section 2104 provides for extensive consultations on agricultural trade negotiations between the Executive Branch and the House and Senate Agriculture Committees (among other congressional committees and the Congressional Oversight Group). Section 2104 (b)(2) further prescribes special consultation procedures and a process for USTR to follow <u>before</u> undertaking agricultural tariff reduction negotiations in the FTAA and in negotiations on other trade agreements, on over 200 "import-sensitive" agricultural commodities and food products.[14] It requires USTR to:

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[13] For more information, see CRS Report 97-817, *Agriculture and Fast Track or Trade Promotion Authority*, pp. 5-6.

[14] The statutory criterion requires USTR to develop a list of U.S. agricultural products that are: (1) subject to TRQs, and (2) that the United States made subject to the minimum 15% tariff-reduction-over-six-years commitment under the URAA.

- consult with the House Agriculture and Ways and Means Committees, and the Senate Agriculture and Finance Committees, on whether any further tariff reductions on any identified product "should be appropriate, taking into account the impact of any such tariff reduction on the United States industry producing the product," on whether any covered product faces "unjustified sanitary or phytosanitary restrictions, including those not based on scientific principles in contravention of the Uruguay Round Agreements," and on whether countries in the negotiations use export subsidies or other trade-distorting measures on products that affect U.S. producers of such products,

- request the International Trade Commission to "prepare an assessment of the probable economic effects of any such tariff reduction on the U.S. industry producing the product concerned and on the U.S. economy as a whole," and

- upon completing these steps, notify the four above-identified congressional committees of those products identified in the first step "for which the Trade Representative intends to seek tariff liberalization in the negotiations and the reasons for seeking such tariff reductions."

After negotiations have begun, this provision requires that if USTR identifies any other "import-sensitive" agricultural products for tariff reduction, or if a country involved in the negotiations requests a reduction in the tariff on any other "import-sensitive" agricultural product, the Trade Representative shall notify the four committees of those products and the reasons for seeking tariff reductions.

Perspectives

Reflecting the structure of other free trade agreements, hemispheric free trade in agricultural products could occur by about 2020, assuming negotiators reach agreement on an FTAA by January 2005. The agricultural component of the FTAA negotiating process, however, could become problematic once negotiators begin to apply negotiating parameters and timetables to specific commodities and food products that each country historically has protected. Some Latin American countries, particularly Brazil, seek increased access to the U.S. market for products that would compete directly with U.S. producers of citrus, sugar, and beef. U.S. commodity groups and agribusiness seek additional openings for their products in the growing Latin American market. They also seek legal assurances that all countries will abide by sanitary and phytosanitary rules with respect to agricultural imports.

Though the United States will emphasize eliminating tariffs and other barriers to agricultural trade, Brazil and other countries have signaled they want the negotiating agenda to also address the issue of domestic agricultural support (i.e., farm price and income support). They have suggested linking their reduction in their higher tariffs to a concession by the United States on the domestic support issue. The

United States has countered that this issue is not one of the agreed-upon FTAA objectives, and should instead be addressed jointly by all FTAA countries in the ongoing WTO agriculture negotiations. These differing views over how this issue should be addressed in the negotiations, and/or whether a compromise emerges in the next three weeks, will be a significant part of the mix influencing the outcome of the Miami FTAA Ministerial held November 17-21.

U.S. agricultural interests have had the opportunity through public comment to present their views and concerns on the FTAA negotiations to USTR officials. Some have participated in the private sector meetings scheduled alongside those for FTAA trade ministers. The U.S. agricultural sector, though, appears either lukewarm about FTAA prospects or opposed to this initiative. There is a widely held view that U.S. agriculture expects to benefit more, or would have less to lose, from a comprehensive multilateral WTO agreement compared to an FTAA agreement,

If an FTAA agreement is reached that reflects the objectives agreed to by trade ministers in 1998, U.S. farm policymakers may have to contend with the repercussions of opening the U.S. market to import-sensitive farm products. Though final agreement and implementation of an FTAA agreement would be many years off, this outcome could prompt interest in developing alternatives to the current sugar program. Some may also explore whether there might be a need to develop mechanisms to help other commodities and products that have traditionally not received government support, such as vegetables, fruit, and orange juice, to offset the effects of increased import competition.