

**FREE TRADE OF THE AMERICAS, THE WTO, AND NEW FARM LEGISLATION:
IMPLICATIONS AND CHALLENGES**

Walter J. Armbruster

Farm Foundation

I will highlight some of the implications and challenges identified in our plenary session presentations and discussions. I surmise that the concurrent sessions elaborated on these topics – or maybe contradicted some of them.

The timing of this conference is perfect, coming on the heels of the recent farm bill which has refocused attention on the implications for trade of our domestic agricultural policy. Indeed, we led off our dialogue with a session focused on the direct linkages involved. The U.S. official position is that the new legislation hasn't significantly increased levels of support for farmers "compared to recent years' emergency payments plus the Freedom to Farm legislated support." Further, we should still be able to assert leadership in trade negotiations. Our Canadian and Mexican colleagues, as well as some other countries, don't seem convinced on those points. The feeling is that despite our rhetoric, the U.S. developed our new farm bill with little, if any, consideration of its impact on our North American Free Trade Agreement (NAFTA) partners or any other country.

If we want to expand trade under NAFTA, the U.S. must develop the political will to establish a policy or goal of facilitating trade rather than having narrower commodity interests seek to block

trade. For example, trade remedy laws, especially antidumping laws focused on selling below costs of production, aren't well suited to the reality of agricultural commodity markets. In fact, we should give serious attention to the possibility of creating a new NAFTA institution to pursue integration through cooperation rather than continuing to rely on litigious approaches to challenging trade. Such a body could push for narrowing differences in levels of support across borders for specific commodities, and for harmonization of regulations and standards. It could also facilitate development of a NAFTA voice to participate in World Trade Organization (WTO) negotiations, similar to the European Union (EU) approach. More interaction among producers across borders can help develop common understanding and goals.

We need to take seriously the spirit of NAFTA and WTO, rather than focusing on finding ways to remain in technical compliance. This requires serious evaluation of the benefits to U.S. producers from additional trade opening proposals. As we pursue implementation of the Free Trade of the Americas Agreement by 2005, we must remember that agriculture is but one of a number of sectors involved; and we should look beyond a commodity focus to the growing market for higher value products. With or without further trade agreements, Brazil is an efficient soybean producer, currently hampered by poor infrastructure and low priority in government policy. Central American markets are growing, and Andean community trade with the U.S. is expanding – mostly in noncompetitive commodities/products. But a number of issues limiting market access to the U.S. and other countries' markets remain to be resolved.

Turning to WTO issues and prospects, the U.S. wants greater market access, decreases in export

subsidies and reductions in trade-distorting support payments. Developing countries are concerned about market access, SPS measures, export competition resulting from U.S. domestic support, and continued special and differential treatment.

China's entry into WTO has mixed implications— lower domestic prices for major commodities produced will lower Chinese farm incomes. This will shift labor to the industrial sector and lead to larger, more efficient farm sizes. There will be changes driven by external competition and by changing consumption patterns within a developing Chinese economy.

Some issues that will complicate WTO negotiations include non-trade concerns – “landscape issues,” and agriculture versus rural policy linkages – as well as developing country interests in market access, along with concerns about availability and access to food among low income countries.

Cuba has some economic potential as an agricultural exporter and importer. The citrus and sugar cane industries are very concerned about potential impacts. But political rather than economic-driven issues that will determine when the trade embargo may change.

Southern U.S. agriculture will face adjustments under FTAA, WTO and the U.S. farm bill:

C Sugar markets are distorted by government policy everywhere. The only hope for change may be through negotiations in the multilateral WTO.

- C Cotton and textiles face real challenges – starting with interest in limiting the size of farm bill payments to producers. The textile industry in the U.S. is becoming less economically viable, which implies less use of cotton in the U.S. and, therefore, we must export more raw cotton. Cotton industry prospects are not good, given the 2005 elimination of import quotas and China’s entry to WTO.
- C Peanuts have benefitted from price supports through government loan and production controls for the past 60 years – 40 years of acreage allotments followed by the past 20 years under a production quota system. Trade agreements have made the current program untenable. The new farm bill will challenge producers to remain profitable.
- C Rice will get 25 percent less under the new farm bill than received during the past four years – there were a lot of emergencies in the rice belt. Market access, domestic subsidies, and export subsidies are important issues for rice in trade negotiations. The challenges to develop more market opportunities to replace domestic subsidies are significant.
- C In general, the high value of the U.S. dollar in recent years has generated significant imports and reduced exports. More open markets will likely result in more variation in world prices. The innovative and entrepreneurial producers will survive and thrive, as changes challenge all commodity producers and their current business models.

We have heard about a number of issues which require further analysis of economic implications; beg for innovative searches for common ground across borders; and will be fiercely debated in trade negotiations! Each of you can contribute, and I am sure you will!

May 30, 2002