

US agricultural policy at the WTO: Pitfalls and Potential (from a presentation to the SEATINI Workshop, Harare, April 1998)

Introduction

The Institute for Agriculture and Trade Policy (IATP) is a non-profit research and advocacy organization, founded just over 10 years ago, when the Uruguay Round discussions under the General Agreement on Tariffs and Trade (GATT) were getting under way. Some US agricultural policy-makers and many US farmers were angered by the failure of their government to meet the needs of producers. This failure stood in sharp contrast to the government's strong support for US agribusiness. It was further exacerbated by the trade talks instigated by the Reagan administration of the early 1980s on liberalizing agriculture under the GATT. IATP's founders created the institute to address these concerns.

IATP now has about 25 staff members. All our work is concerned with ensuring sustainable food security. We work on projects that range from trade in agriculture, to biodiversity and its links to intellectual property rights legislation, to tools for farmers interested in reducing agricultural pollution and ecologically sustainable farms. Our primary constituency in the US is farmers, particularly from small and family-owned farms. Abroad, we work primarily with peasant-based organizations and NGOs concerned with the welfare of peasant and small farmers.

The Presentation

First, I will give you a brief overview of US compliance with its commitments under the Uruguay Round Agreement on Agriculture. This overview is taken from a study IATP commissioned to prepare our own advocacy position for the upcoming review of the agreement. IATP is working with a group of NGOs in different countries on these case-studies, which review the implementation and impacts of the Agreement on Agriculture at the national level of each country involved.

Second, I will sketch the structure of US agriculture, and highlight some of the important recent changes in domestic agricultural policy that have a significant bearing on the US position at the WTO. It is IATP's contention that to understand the likely approach and basis of the US in the coming multilateral negotiations on trade and agriculture at the WTO, it is essential to understand the recent changes made in domestic agriculture policy. These have been undertaken over and above the commitments made under the Agreement on Agriculture, although often in their name.

Third and last, I will comment on US Secretary for Agriculture Dan Glickman's public statements of US intentions for the upcoming review of the Agreement on Agriculture, which the US administration hopes will be well underway by the end of 1999 at the latest. I will do this in the light of US domestic policy and will suggest some directions that developing countries could consider in their own preparations for the review.

Fast-Track: How the US Reaches Decisions

Throughout this article, I want to emphasize one general point: the importance of domestic factors in shaping the international negotiating positions of the US. It is essential for any

country hoping to affect the US position in Geneva to understand how policy is shaped in the US, and what kinds of domestic pressures the Clinton Administration faces. It is perhaps almost too obvious to be worth saying, but because of the structure of political authority in the US, the trade diplomats you meet in Geneva cannot take decisions that will pass unquestioned, nor necessarily unaltered, back home in the US legislature.

This is why it was important for President Clinton to secure fast-track trading authority, and why his failure to do so in November is potentially a very important factor in the talks now beginning at the WTO. Fast-track authority in a sense allows the President to behave as if he were a Prime Minister with a majority in Parliament. Fast track allows the President to present Congress with the implementing legislation needed to turn the international agreement into federal law. Under fast-track, Congress has only a limited time to debate the proposals and can only accept or reject the legislation in toto. It is not possible for Congress to change items on a line-by-line basis.

Without this authority – and our best guess is that Clinton is unlikely to secure such authority before 1999, and may well not get it again before his term expires in 2000 – US trade diplomats are restricted in what they can hope to offer in the give-and-take of trade negotiations. Before you sign on to any new deal at the WTO, it might be worth making sure the United States will actually be able to make good their word, and secure the passage of the agreement back home. The US has more than once agreed internationally to do something, and subsequently failed to ratify the agreement. Your own political structures may not allow you this escape route.

US Compliance With the WTO Agreement on Agriculture

Let me start then with some of the conclusions we drew from an evaluation of US implementation of the Agreement on Agriculture. This is drawn from a paper prepared for IATP by Gigi DiGiacomo, a consultant and former staff member of IATP. The paper considers US compliance with its Agreement on Agriculture commitments, particularly looking at the wheat and dairy sectors. As I said, it is one of a series of such case studies, which NGOs are using to prepare for the review of the agreement.

“A review of US commitments and compliance with the World Trade Organization Agreement on Agriculture in the dairy and wheat sectors indicates the following:

1. On domestic support programs, the US found it easy to comply with its commitments because most of the required changes had been made even before the implementation period began. In other words, the commitments were not constraining, not least because of the special dispensations agreed in the bilateral US-EU Blair House Agreement of 1992, which were written into the final agreement.¹
2. Technical market access commitments under the agreement were more constraining, especially in the dairy sector where previously existing quotas were converted into tariff equivalents. The dairy sector had been one of the commodities most heavily protected under US farm policy. The study shows competitive foreign exporters are able to ship dairy products to the United States even at the higher tariff

¹ Reflected in Article 6, paragraph 5 of the World Trade Organization Agreement on Agriculture.

levels imposed at “over-quota” levels, tariff rates which reflect the value of the non-tariff protection measures previously in place. There is still a significant gap between US and world market prices for dairy products.

3. United States compliance with good-faith market access agreements has been mixed. Good-faith compliance refers to the undertaking of WTO members to avoid policies that go against the objective of freeing agricultural trade, even where the agreement itself is not binding. Our review shows the US has used voluntary, bilateral deals to manipulate how market access guarantees are allocated between dairy products. The US also aggregated its commitments for fat and non-fat dairy products (excluding cheese) to meet the 3-5 percent minimum import requirement, which has protected the butter and non-fat dry milk sectors. However, the United States has implemented an import license scheme in such a way as to provide equal market access opportunities to all new importers.

4. While technical compliance with export subsidy commitments has been correct, this is in part a result of how the US has chosen to assess the actual volume and value of its subsidized exports. Good-faith compliance with export subsidy commitments has not been good. Because export subsidies were not binding during the first year of implementation, the US was able to increase the volume of subsidized dairy and wheat exports in 1995 over 1994 levels. The US took full advantage of this provision and increased the volume and value of subsidized dairy products in 1995. However, historically low wheat stocks and commensurately high grain prices in 1995 and 1996 enabled the United States to reduce wheat export subsidies to levels well below the WTO ceiling for this period. The 1998 Budget Summary appropriates \$500 million for EEP wheat subsidies, which is very close to the WTO subsidized wheat export ceiling of \$524 million. This suggests the US plans to make full use of its allowed subsidized export quota in the face of lower world prices and pressure from US farmers and commodity groups.

I have quoted at some length from this study to point to important areas of concern for developing countries as the review of the Agreement on Agriculture gets underway. By its own admission, the US did not have to work hard to meet its technical obligations under the Agreement on Agriculture. Nor is it trying very hard to meet the spirit of those same agreements, according to our research. The US is, however, liberalizing its agricultural economy, in changes much more far-reaching than those required under the WTO.

The Domestic US Farm Context

This leads into a consideration of the recent legislation called the Federal Agriculture Implementation and Reform Act (or FAIR), which passed into law in 1996. FAIR is an essential piece to anticipate US agricultural strategy in the upcoming talks at the WTO. Here I would like to bring your attention to one of the most important changes it introduced: the elimination of deficiency payments to farmers.

Deficiency payments were the method used to subsidize domestic agricultural production in the US. Not coincidentally, these payments were allowed under the so-called “blue box” of the WTO Agreement on Agriculture, which encapsulated the Blair House Agreement between the

US and the European Union (EU), and is found in article 6, paragraph 5 of the agreement.² The blue-box measures were acknowledged at the time of the Uruguay Round to distort trade, but attempts to limit these measures failed and a compromise was reached to enable the US and EU to come to an agreement on other aspects of liberalizing the agricultural sector.

Then, under FAIR, the US introduced something called Production Flexibility Contracts, which make fixed payments to farmers, based at their inception on their past production levels. But these payments not linked to the current or projected production level. These payments are set to be reduced to zero over a period of 7 years, starting in 1997. These “decoupled” payments (so called because they are not linked to current production levels) are allowed under annex 2 of the Agreement on Agriculture (also known as the “green box”), which are measures which are said not to distort trade. In addition to these direct payments, green-box measures include such items as money for disaster relief, money for environmental conservation, and programmes aimed at reducing overall production levels. As it approaches the review of the WTO agreement, the US no longer needs the protection of the blue box.

One of the significant effects of FAIR has been to reduce the number of strategies open to producers in the US. While seeming to help producers in other countries by removing production-enhancing subsidies for US farmers, the result has been an increase in USDA reliance on export-intensive agriculture. By removing price controls and the deficiency payments that ensured farmers they would at least recover their production costs, farmers are entirely dependent on world market prices. For many US farmers, the system offers only increased production levels as a way to make a living.

FAIR has reinforced some of the fundamental problems underlying the current US agricultural situation. Here are a few statistics to highlight the current shape of the US agricultural sector that also suggest what these problems might be:

- agriculture accounts for less than 3% of total employment in the US.
- agricultural products account for less than 1.3% of annual GDP yet make up nearly 9% of the total value of US exports. Agriculture's share of the total value of US exports is disproportionately large.
- agricultural products account for less than 4% of US imports
- the majority of US farmers depend on off-farm income for over half their annual income. This suggests that more than half of US farmers cannot earn a living from farming alone, despite the domestic subsidies and the size of the US export market.³

Thus agriculture is a relatively small part of the US economy, but it figures heavily in US export revenues. The numbers also suggest that while US agriculture may dominate world markets, at least in some commodities, the majority of US producers are not benefiting much from this trade. In fact, smaller farmers are actually disadvantaged by the structure of the

² I cannot tell you why this is known as the blue-box, except that the negotiators were perhaps running short of colours. They had labeled the allowable subsidies green – meaning you could “go” with them, the problem areas yellow - meaning they needed further negotiation but were okay for now, and the now controlled areas red - which put together the programs included in the aggregate measure of support. Perhaps blue was how the other negotiators felt at the neat fix-it job the US and EU pulled to bring the negotiations to an end.

³ Statistics from OECD, *Agricultural Policies in OECD Countries*, p. 78, 1997.

remaining domestic support available and the export subsidy programmes, which give larger producers and agribusiness a dominant place in the market. This observation is strongly reinforced by the recent report of the National Commission on Small Farms, appointed by the US Department of Agriculture to examine the state of small farms in the US. The report from the commission, the first such commission since 1979, makes sobering reading. I quote briefly from the introduction:

“When Secretary Bergland’s report, *A Time to Choose*, was published (in 1979), it warned that ‘...unless present policies and programs are changed so that they counter, instead of reinforce or accelerate (sic) the trends towards ever-larger farming operations, the result will be a few large farms controlling food production in only a few years.’”

“Looking back now nearly 2 decades later, it is evident that this warning was not heeded, but instead, policy choices made since then perpetuated the structural bias toward greater concentration of assets and wealth in fewer and larger farms and fewer and larger agribusiness firms. Federal farm programs have historically benefited large farms the most. Tax policies give large farmers greater incentives for capital purchases to expand their operations. Large farms that depend on hired farm workers receive exemptions from Federal labor laws allowing them the advantage of low-wage labor costs.”⁴

Who, then, benefits from export-driven agriculture? Let me present a few more statistics:

- Four companies control the slaughter, processing and sale of 80% of beef in the US. One company alone, Iowa Beef Packers, controls 45% of the sector.
- Tyson Foods, a US company based in President Clinton’s home state of Arkansas, processes and sells 21% of all poultry consumed in the US. Only two other entities produce more poultry – and they are not private companies, but China and Brazil.
- 1% of US farms produce 30% of all the crops and livestock in the country; some 12% produce about 75% of the total.
- Archer Daniels Midland, a grain company recently in the headlines for a record fine of one hundred million dollars for price-fixing and market allocation, is expected to sell US\$15 billion worth of goods in 1998.

In other words, US agriculture policy, especially as it plays out internationally, is really about US agribusiness. IATP contends, along with the National Commission on Small Farms, that current domestic agriculture policy creates serious problems for small producers, undermining efforts at home to make our agricultural production less polluting and safer for consumers, as well as our efforts internationally to avoid undercutting producers from other countries.

The US and the 1999 Review of the Agreement on Agriculture

What is the connection with the WTO? First, current domestic agricultural policy in the US drives farmers to high output levels because they consistently are paid less than their costs of

⁴ USDA National Commission on Small Farms, *A Time to Act*, January 1998, US Department of Agriculture (USDA).

production. IATP's *US Food Export Dumping Monitor* for 1995, for example, using USDA Economic Research Service numbers, and excluding from the cost of production such factors as health care and environmental impacts, shows that corn cost US\$3.38/bushel (January to September 1995 average) to produce, and was exported over the same time period at US\$2.96. For wheat the equivalent figures are a cost of production of US\$5.43/bushel as compared to an export price of US\$4.56.

Second, a handful of US agribusinesses overwhelmingly dominate the purchase of commodities from farmers. They are the agents that sell US commodities in the world market. These companies are the primary beneficiaries of the considerable subsidies, some of them hidden, in US agriculture. IATP argues these subsidies include exemptions from minimum wage labor laws, price support structures that use taxes to pay the difference between the farm-gate price and the actual costs of production, and export subsidies, which reduce the risks and costs for exporters in their international operations. In short, the US administration tolerates private oligopolies at home, and, strongly related to that, does not address the anti-competitive practices of its companies abroad.

For trade negotiators, it is important to understand just how far US policy departs from the theory of free trade and fair competition. While in some areas the US government can honestly claim to have liberal agricultural markets, for instance, in their relatively minimal use of tariffs, there are many other areas of its agricultural policy which directly undermine the Agreement on Agriculture's objectives. For instance, the government's reluctance to enforce anti-trust laws perpetuates unfair market advantages for its largest corporations. Developing countries can use these gaps between rhetoric and practice to their advantage in the negotiations at the WTO, deflecting attacks on their own already limited means to build market share by demanding real changes in the US policies that clearly distort trade. This approach will be much more successful if countries are able to present a collective position on this, for instance on the basis of regional groupings.

The final part of my talk considers the Clinton administration's objectives in the review of the Agreement on Agriculture, again highlighting some of the contradictions that negotiators from other countries might wish to explore further. At a recent presentation to the US House of Representatives Committee on Agriculture, US Secretary for Agriculture Dan Glickman said the following issues would be key for the 1999 global agricultural trade talks at the WTO:

- further reductions in tariffs
- a substantial increase or effective elimination of tariff-rate quotas by reducing the tariff rate on products traded above quota levels
- a further cut or elimination of export subsidies
- tighter disciplines on the use of technical measures, such as unnecessarily rigid labeling requirements
- more clearly defined and tightened rules on sanitary and phytosanitary (SPS) measures

Let's take a look at these points in turn.

Tariffs

The US has rarely resorted to high tariffs, except in a few key sectors, and so it is in general on fairly strong ground here. Nonetheless, there are several products the US does continue to

protect. Under the Agreement on Agriculture, it “tariffed” beef and veal, cotton, peanuts and peanut products, and dairy products. Other protected commodities include sugar and tobacco. But tariffs are a less of a problem for exporters to the US than they are in the European Union, and if tariff reduction is one of your objectives, the US might seem a useful ally. I would caution, however, that reducing tariffs, in the US case, will not reduce the US role in depressed world market prices, since the US uses other means to protect its market share. By the same token, reducing or eliminating tariff-rate quotas would not be difficult for the US since so few commodities have been tariffed under the WTO Agreement on Agriculture.

Export Subsidies

We think it is more difficult for the US to take a strong line on export subsidies, despite the Secretary’s hard-line stance. As I mentioned before, the US has increased the budget allocation for certain agricultural export subsidies since the conclusion of the Uruguay Round Agreements, although for the most part within the limits allowed. There are further dimensions to this discussion, moreover, that the current debate on subsidies does not capture, but which are clearly linked by the impact they have on US market share. Consider the following statement from Dan Glickman on why the US Congress should support the current request from the IMF for further financial backing:

“What happens halfway around the world has consequences here at home. We have a huge stake in global economic stability. That’s why support for the International Monetary Fund is so important. Their job is to stamp out serious national and regional fiscal crises to prevent a global contagion. And, by and large, they do a good job. **The main reason we haven’t lost more exports to Asia is because the USDA extended US\$2.1 billion in export credit guarantees.** These guarantees, which depend on credit-worthiness, would not have been possible if the IMF had not stepped forward to help stabilize these economies and pushed countries towards serious financial reforms, greater market transparency, freer markets, and an end to cronyism. **Without these IMF actions, another \$2 billion in agricultural exports would have been at great risk in the short-term and far larger amounts in the long-term.**”⁵ (emphasis added)

In a speech aimed at convincing a sceptical US public about the need for the IMF to stabilize the economies in crisis in South-East Asia, the US Secretary for Agriculture pointed to one of the ways the US boosts its world market share: by relying on taxes rather than private capital markets to shore up the capacity of these economies to import food commodities from the US.

While the US would probably be willing to forgo its formal export subsidy programmes in return for an EU commitment to do the same, the US has shown little leadership in this area. Its current strategy seems to be to even increase spending in this area, perhaps simply to have something more to give away when the next negotiations get going. Poorer countries can never hope to engage in market promotion on a US scale, and there has been no commitment at the WTO to properly end the use of all subsidy and export credit schemes. IATP argues that countries should consider the question of subsidies as a dumping problem and move towards a focus that encompasses all the policy tools that impede developing country producers’ ability to compete in world markets. Not only should export subsidies be removed

⁵ Inside US Trade, Release number 0089.98, *Remarks of Secretary Dan Glickman. 1998 Agricultural Outlook, Washington D.C., February 23, 1998.*

for causing trade distortions, but so should other factors that reduce fair competition, from the legally sanctioned exemptions from labour laws for US farmers to the environmental damage caused by industrial scale agriculture.

State Trading Enterprises and Competition

On state trading enterprises, there are again important inconsistencies in the US position. While the US government has targeted the state marketing boards of different countries (more so those of Japan, Indonesia and South Korea, than of African countries) for causing trade distortions, the government is seemingly comfortable with privately-held monopolies. In April a front page story in the Herald newspaper of Zimbabwe announced the Zimbabwe State Grain Board is in negotiation with Glencore, a UK-based grain company, for a deal that would give Glencore exclusive rights to import maize into the country⁶. Would such a move further competition and create more perfect markets? We think not.

An alarmingly small number of companies dominate world trade in staple food crops. Developing countries could consider taking the initiative on talks about competition policy, to challenge the economic efficiency of private monopolies and oligopolies in various international markets. A recent paper by M. Keyzer and M. Merbis, working at the Centre for World Food Studies in the Netherlands cites evidence that:

“...while it has become more difficult for countries to keep producer’s prices high through protectionist measures on trade, it has become more attractive to seek and maintain monopoly power on international markets (as a result of the Uruguay Round agreements).”⁷

There is perhaps scope for developing countries to take the initiative on competition issues and to at least initiate discussions on these questions.

Labeling

Labeling is the use of product labels that inform consumers about where a product comes from, how it was produced, what chemicals it contains, and so forth. Labeling has been a very contentious area of trade policy at the WTO, not least because many exporters from developing countries have suffered from developed countries’ arbitrary use of health and environmental standards to protect developed countries’ markets. For the US Department of Agriculture, the concern to avoid “unnecessarily rigid labeling standards” is driven by objections to the EU’s use of consumer and health concerns to keep out imports of genetically altered foods (GMOs or genetically modified organisms) and beef treated with recombinant bovine growth hormone (rBGH). In this question of labeling GMOs, many citizen groups are concerned that GMOs have not been adequately tested for human and environmental safety. The US Department of Agriculture has accepted too easily the private sector’s contention that labeling would create a false sense of danger in the mind of the consumer. Scientists and others have pointed to the potentially extremely disruptive implications of releasing new

⁶ *The Herald*, (Harare, Zimbabwe), Friday April 3, 1998.

⁷ M. Keyzer and M. Merbis, *Food Security and Strategic Trade*, p.4, paper prepared for Markets and Institutions for Food Security seminar, European Commission and Solagral, Brussels, 10-12 December 1997.

genetic creations but have not so far been able to influence the US government. Labels would enable consumers at least to make an informed choice.

For developing countries, this part of the debate over labeling is also important, even aside from health and environmental concerns. Genetically modified organisms threaten to displace primary commodities with synthetic substitutes and undermine the competitive advantage of African producers, not least in the growing market for food that is free from pesticides and artificial fertilizers. GMOs are protected by the current intellectual property rights framework (encapsulated at the WTO as the Trade-Related Intellectual Property Rights Agreement), and the widespread replacement of natural organisms with GMOs could restrict still further the South's ownership of its agricultural wealth. While the misuse of labels to unfairly protect markets is still an important concern, labels per se may not be the problem; what may be needed is both a stronger and more flexible and democratic framework for setting international standards.

I should add that while the US administration seems to support of what is often seen as a developing-country position against the use of product labeling, the proposals that circulated at the time of the congressional debate on fast-track last year give cause for alarm. Playing to popular concern with food safety, and perhaps as well to the producers who fear for their markets, the Clinton administration proposed creating a team of food inspectors. These inspectors were to be sent to the country of origin of a given export to test whether the product and its production process met US health and safety standards before the product even left the exporting country's shores. This extreme interpretation of a country's right to impose health standards on imports is in marked contrast with the US administration's fury at the EU's exercise of a similar right in the dispute over beef treated with hormones. Again, developing countries might ask themselves how committed the US administration truly is to opening market access to their export products.

Summary of the main recommendations

1. Developing countries should include an analysis of trade-remedy laws, such as Section 301, in preparing for future multilateral negotiations on trade.
2. As a result of some very major changes to its domestic agriculture policy since the WTO Agreement on Agriculture was signed, the US has little to lose in a further round of agriculture negotiations that only takes the existing measures further. The US does not rely much on import tariffs, has cut its domestic support programmes dramatically and, while making full and even growing use of export subsidies, it has much less to lose there than other developed countries.
3. There are other areas for developing countries to consider broaching in a new round of talks. Perhaps the most important is competition. Not in the sense of the discussions already taken up by the working party at the WTO, reflecting US interests. But rather to look at the question of how concentrated the food and food processing sector is, particularly in the US. Are state trading enterprises to be replaced with privately held monopolies and oligopolies, almost all based in the developed world?
4. A second issue to consider is the current definition of dumping at the WTO. US producers do not get paid for their costs of production because of the pricing policies of the grain

corporations. US exporters (those same corporations) do not incur the normal market risks of dealing in the world market because of export credit and subsidy programs. These provisions could be argued to create a form of dumping.

5. Finally, through its changes to domestic farm legislation, the US has removed many of the buffers that protected its prices from world market price fluctuations. The US now sees its domestic interest in the promotion of new farm technologies, such as genetically-modified organisms (GMOs). While labeling is traditionally an area which the developing countries have strongly opposed, there are new elements on the table that perhaps call for some significant re-thinking on this question. Labels may be a tool developing countries could use to their advantage and the lack of some kinds of labels may even represent a threat to developing countries' market share.

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