

# CRS Issue Brief for Congress

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## Agricultural Trade Issues In the 106th Congress

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## Agricultural Trade Issues in the 106th Congress

### SUMMARY

U.S. agricultural interests are now following U.S. trade policy developments against a backdrop of weak foreign demand and large world supplies of agricultural products. The U.S. Department of Agriculture reports that the value of U.S. agricultural exports fell between FY1996 (a record year) and FY1999 by almost \$11 billion. FY2000 agricultural exports are forecast by USDA to be \$49.5 billion, a \$500 million increase over FY1999. The projected agricultural trade surplus of \$11.5 billion in FY2000 would be less than half the FY1996 surplus of \$27.2 billion.

Many agricultural groups and their supporters in Congress believe that long-term remedies for low farm prices and income depend upon enhancing U.S. trade policies, including 1) legislation to permanently grant China the same favorable access to U.S. markets that almost all other nations have; 2) exempting agriculture from U.S. economic sanctions; 3) increased use of export and food aid programs; and 4) aggressive negotiations to deal with foreign-imposed barriers to the movement of U.S. farm products.

A few farm groups are wary of such approaches. They point out that, by maintaining barriers to U.S. imports and their own high export subsidies and internal farm supports, not all countries have fully honored existing trade agreements. In fact, some of these U.S. critics have pressed for more restrictions on foreign farm and food imports.

Specific agricultural trade issues of interest to the 106<sup>th</sup> Congress include:

- Whether to accord China permanent normal trade relations (NTR) status with the United States, which currently must be renewed

annually. On November 15, 1999, the United States and China completed bilateral negotiations on terms for China's accession to the World Trade Organization (WTO). The agreement provides for tariff reductions and increased access to the Chinese market for a broad range of U.S. agricultural products. For the United States to benefit fully from China's accession to the WTO depends in part on a congressional vote to grant China permanent normal trade relations (NTR) status. Votes on the matter are expected in the House and Senate in late May and in June, respectively.

- The next round of WTO multilateral trade negotiations. Trade ministers, meeting in Seattle November 30 to December 3, 1999, were unable to agree on an agenda to launch a comprehensive new round. Nonetheless, sectoral talks on agriculture began March 23-24, 2000, but are expected to proceed slowly;

- Proposals to exempt agricultural exports from U.S. unilateral economic sanctions;

- Annual funding for USDA export and food aid programs. The President's FY2001 budget includes a proposed \$5.8 billion program level for these programs. Both Appropriations Committees have reported new appropriations bills; floor action could occur shortly.

- Efforts to resolve trade disputes with the European Union (EU), such as over its banana import regime, its continued ban on imports of meat treated with growth hormones despite a WTO panel ruling that it be lifted, and pronounced U.S.-EU differences over environmental effects of genetically modified organisms (GMOs) and the safety of GM foods.

## MOST RECENT DEVELOPMENTS

*On May 17, separate bills (S. 2277; H.R. 4444) were approved by Senate and House Committees to accord China permanent normal trade relations (NTR) status. This legislation follows completion, on November 15, 1999, of U.S.-China negotiations on terms for the latter's accession to the World Trade Organization (WTO). This agreement, and similar ones between China and other WTO members, must be endorsed by two-thirds of the Organization's membership before China will be admitted. This accession agreement, among other things, provides for tariff reductions and increased access to the Chinese market for a broad range of U.S. agricultural products. For the United States to receive the full range of benefits from China's accession to the WTO depends in part on the congressional vote to grant China permanent NTR status. Floor consideration is expected in the House the week of May 22 and in the Senate in June.*

*Sectoral negotiations to further liberalize agricultural trade began on March 23-24 in Geneva at a special session of the WTO's Committee on Agriculture, but are expected to proceed slowly. Part of the WTO's "built-in agenda" agreed to in the 1994 Uruguay Round Agreement, these negotiations will proceed even though the third ministerial conference of the World Trade Organization (WTO), which met in late 1999 in Seattle, failed to reach agreement on an agenda for more comprehensive multilateral trade talks.*

*The President, on February 7, unveiled his FY2001 budget request, which proposes a program level of \$5.8 billion for USDA's agricultural trade and food aid programs. The Senate and House Appropriations Committees reported, on May 10 and May 16, respectively, FY2001 USDA money bills (S. 2536; H.R. 4461); both also include an amendment exempting food from unilateral economic sanctions against Cuba and several other countries. Floor action could occur as early as the week of May 22.*

*The President, on May 18, 2000, signed into law the African Growth and Opportunity Act (H.R. 434), which includes several amendments aimed at supporting U.S. agriculture in international trade. The conference report on the bill was passed by the House and Senate on May 4 and 11, respectively.*

## BACKGROUND AND ANALYSIS

### Overview

U.S. agricultural interests are following trade policy issues against a backdrop of weak foreign demand and large world supplies of agricultural products. The U.S. Department of Agriculture (USDA) estimates that the value of U.S. agricultural exports was \$49 billion in FY1999, down from nearly \$54 billion in FY1998 and the record of nearly \$60 billion in FY1996. The FY1999 level, the lowest since 1987 is of concern because agricultural exports account for about 20% of the value of farm production and 25% of farm income. The forecast for FY2000 is \$49.5 billion. Export volumes of wheat and corn are now expected

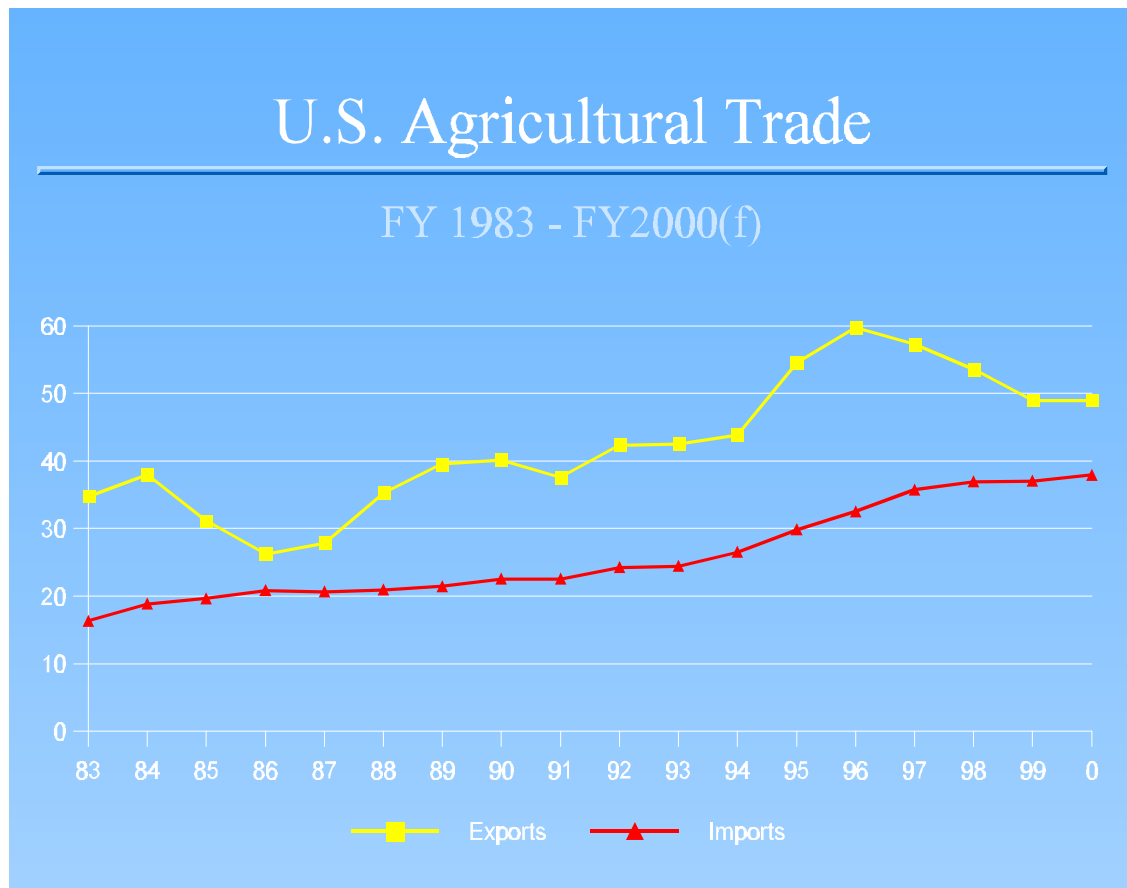
to be lower in FY2000 than USDA had predicted earlier, although soybean, meat, and poultry volumes are projected to increase.

Many agricultural groups and their supporters in Congress believe that long-term remedies for low farm prices and income depend upon enhancements to U.S. trade policies, including 1) passage of legislation granting permanent NTR status to China; 2) enacting into law an exemption from U.S. economic sanctions for commercial sales of agricultural products; 3) increased use of export and food aid programs; and 4) aggressive negotiations to deal with foreign-imposed barriers to the movement of U.S. farm products. A few farm groups are wary of such approaches. They point out that a number of our major trading partners, by continuing barriers to U.S. imports and their own high export subsidies and internal farm supports, have not fully honored existing trade agreements. Some of these groups have pressed for more restrictions on foreign farm and food imports.

## **Agricultural Trade Trends**

### **Exports**

Export markets are extremely important to U.S. producers, who are the world's leading agricultural exporters. Exports accounted for about 25% of farm income, and production from an estimated 30% of all U.S. crop acreage in 1998. Although agriculture consistently enjoys a surplus trade balance—one of the few U.S. sectors that does—this balance declined to \$11.5 billion in FY1999, well below FY1998's \$16.6 billion surplus and the lowest since 1987. The surplus is projected to remain at \$11.5 billion in FY2000 (see chart).

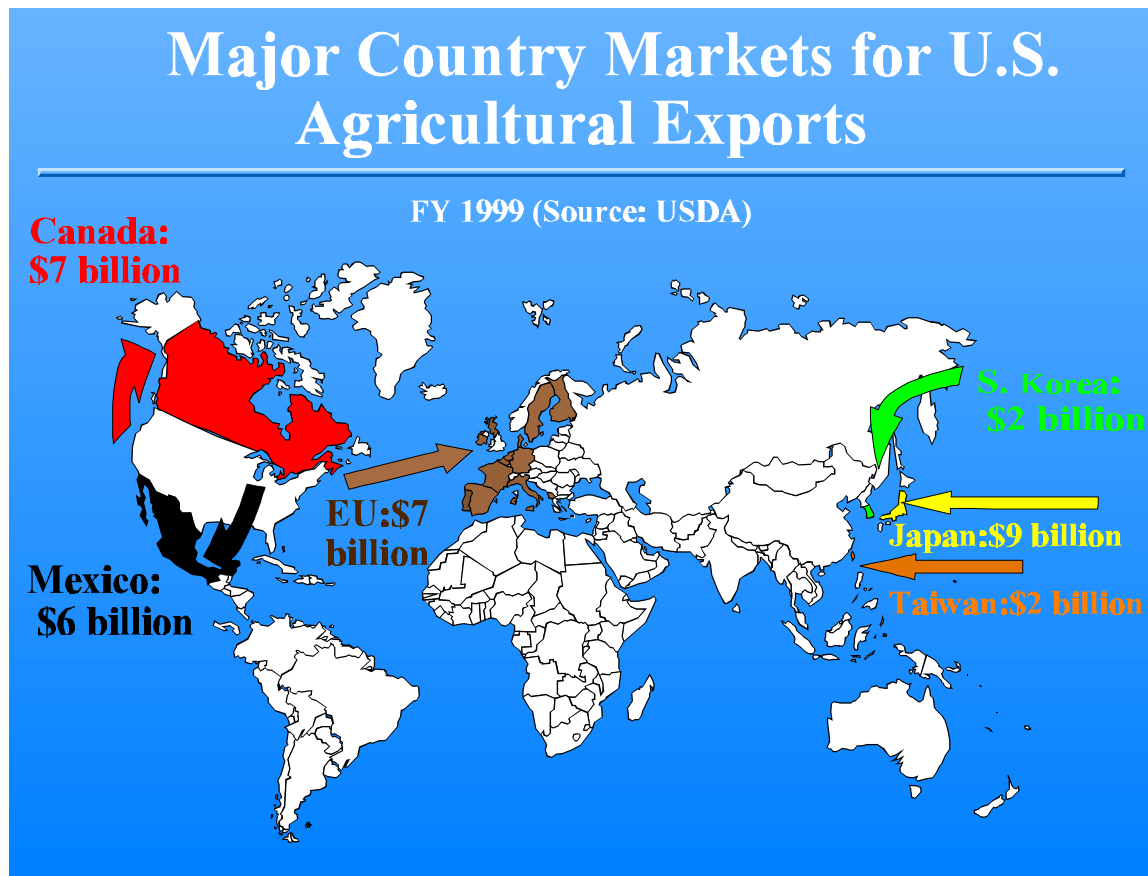


**Leading Markets:** The leading U.S. farm export markets (value, FY1997-99) are: Japan, the European Union (EU), Canada, Mexico, Taiwan, and South Korea. Asia in general, and China in particular, are viewed as critical long-term growth markets.

**High Value Products:** Worldwide, U.S. exports of bulk commodities (e.g., oilseeds and grains) remain significant, but high-value exports such as meats, fruits, vegetables, and processed foods are increasing—now representing more than 60% of the value of total U.S. farm exports.

**Dependence on Exports:** Some products depend more heavily on exports for total sales than others. For example, 70% of almond sales are exports. Hides/skins, wheat, walnuts, and rice depend on exports for 50% or more of their total sales. Other products where exports constitute 25% or more of sales include cotton, prunes, grapefruit, raisins, soybeans, salmon, pulses, tobacco, animal fats, lemons, grapes, broccoli, pears, oranges, coarse grains, canned corn.

**State Export Rankings:** Nearly every state exports agricultural products, led by California, with agricultural exports valued (in 1998) at \$7.7 billion—more than twice the level of number two Iowa. Others with at least \$1 billion (by rank, 1998) were Illinois, Texas, Nebraska, Kansas, Minnesota, Washington, Arkansas, Indiana, North Carolina, Ohio, Missouri, Wisconsin, Georgia, Florida, and South Dakota.



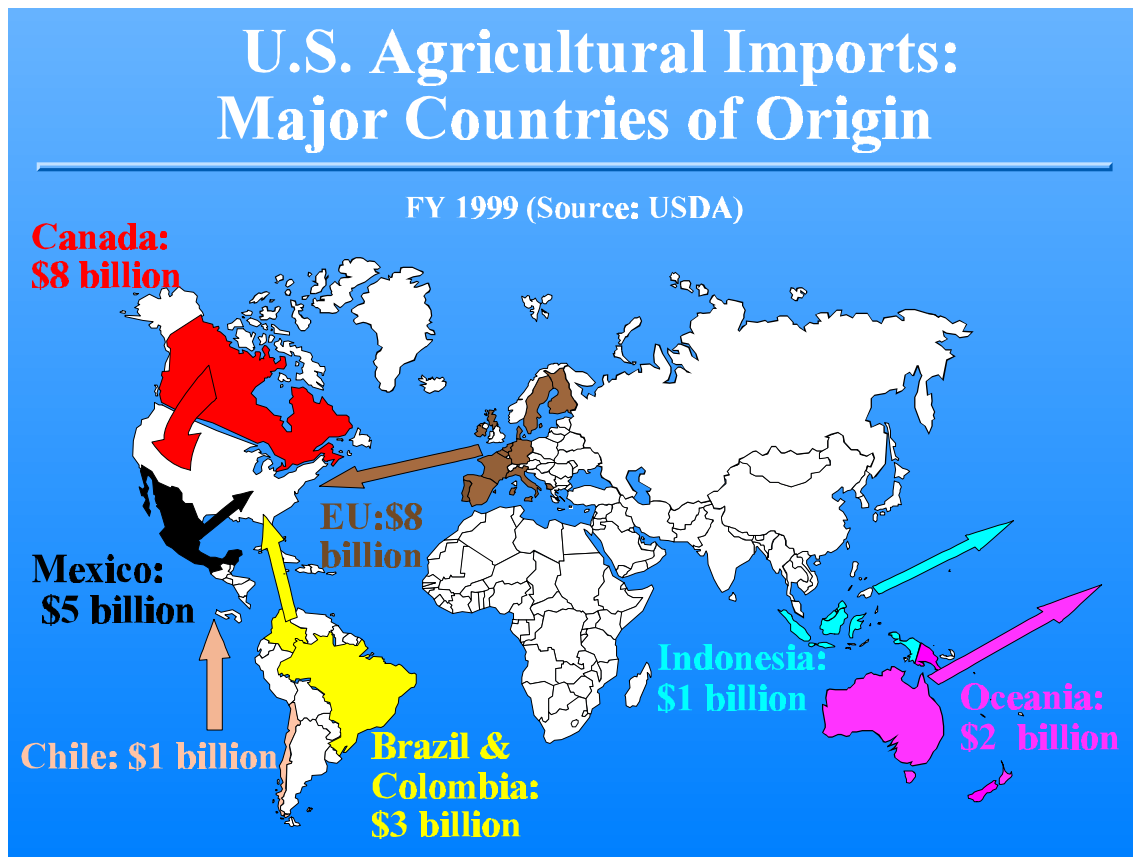
**World Market Share (1999):** The United States was the major world exporter of:

- **Corn**, with 60% export market share. Major competitors were Argentina (11%), China (5%), and South Africa (2%).
- **Soybeans**, with 57% export market share. Major competitors were Brazil (23%), Argentina (8%), and Paraguay (6%).
- **Wheat and products**, with 29% export market share. Major competitors were Canada (14%), Australia (16%), the EU (16%), and Argentina (9%).
- **Cotton**, with 18% export market share. Major competitors were Uzbekistan (16%), Franc-Zone Africa (group of former French colonies that share a common currency, 15%), and Australia (13%).
- **Poultry meat**, with 41% export market share. Major competitors were the EU (14%), Hong Kong (14%), Brazil (12%), and China (7%).

The United States also had major shares of world markets for beef/veal, pork, and rice — but trailed Australia, the EU, and Southeast Asia, respectively for each of those products.

### Imports

U.S. agricultural imports, which were \$37 billion in FY1998 and \$33 billion in FY1997, were a record \$37.5 billion in FY1999 and are projected to be \$38 billion in FY2000.



**Types of Products:** Most U.S. agricultural imports are high value. The largest component is horticultural products, which have contributed heavily to the year-to-year rise in imports. Leading imports by value (\$1 billion or more annually) are: coffee, vegetables and preparations, fruits and nuts, meats and poultry, animals, cocoa, rubber, and bananas.

**Major Suppliers:** Canada, the EU, and Mexico are the leading exporters to the United States. Oceania (mainly Australia and New Zealand), Indonesia, Colombia, Brazil, Chile, and other Latin American countries are also major import suppliers. (For more data see: CRS Report 98-253, *U.S. Agricultural Trade: Trends, Composition, Direction, and Policy*.)

## U.S. Agriculture and China's Accession to the WTO

The prospect of future growth in demand for agricultural products makes China's accession to the WTO an important issue for U.S. agriculture. Most U.S. agricultural interest groups are looking to China's eventual membership in the WTO as a way to enhance U.S. agricultural exports and increase farm incomes. U.S. agricultural exports to China were valued at \$1.002 billion in 1999, making it the eighth largest market for U.S. farm products. Another \$1.3 billion of U.S. farm products were shipped to Hong Kong in 1999. In the short run, U.S. agricultural exports to China are expected to decline because China's economic growth, and thus its demand for imports, has slowed. In the long run, if growth resumes, as



many economists expect, China's 1.2 billion population, and its growing middle class, suggest an enormous potential as a market for U.S. agricultural products.

The U.S.-China negotiations on terms for the latter's accession to the WTO were concluded November 15, 1999. The agricultural components of this agreement appear identical to those of an earlier agreement negotiated in April 1999 but not finalized due to U.S. problems with it and, subsequently, to diplomatic fallout from the accidental U.S. bombing of China's embassy in Yugoslavia on May 8, 1999. Negotiations resumed in September 1999. The November 15, 1999 agreement provides that China, if it becomes a member of the WTO, will make substantial reductions in agricultural tariffs and establish market access quotas that should expand trade for several important U.S. agricultural products, including soybean products, wheat, corn, rice, and cotton. Several other WTO members, notably the EU, also must conclude agreements with China; ultimately, China's application for membership must be agreed to by other members of the WTO.

U.S.-China WTO negotiations in April 1999 were accompanied by bilateral agreements to end China's sanitary and phytosanitary (SPS) barriers to U.S. wheat, meat, and citrus exports. When accession negotiations were suspended, however, China's implementation of the bilateral agreements came to a standstill. Since the November 15 agreement, China has begun to implement the bilateral agreements, with reported purchases of wheat, citrus, and meats occurring by May 2000.

The WTO requires that members extend most-favored-nation (MFN) treatment, also known as normal trading relations (NTR), to all other members. Such status means that products enter the United States at the same low tariff rates that apply to virtually all other nations. To benefit from the full range of concessions, Congress would have to grant China permanent NTR status. The Administration submitted permanent NTR legislation to Congress on March 8.

On May 17, 2000, the Senate Finance Committee and the House Ways and Means Committee each approved bills (S. 2277; H.R. 4444) to accord permanent NTR. These bills are expected to reach the House floor the week of May 22 and the Senate floor in June.

Under current law, the United States can extend NTR treatment to China on an annual basis only if China complies with freedom of emigration conditions in the Jackson-Vanik amendment to the Trade Act of 1974 (P.L. 93-618, Section 401). Providing NTR for China has depended on the extension of an annual waiver of Jackson-Vanik by the President, subject to a resolution of disapproval by either congressional chamber. Such disapproval resolutions have always met with defeat (see Legislation section).

(For more information, see: CRS Report RS20169, *Agriculture and China's Accession to the World Trade Organization*, and [China and U.S. Agriculture](#), in the CRS electronic briefing book on trade.)

## **Agriculture in World Trade Negotiations**

### **Multilateral (WTO) Negotiations**

A new round of multilateral trade negotiations was to be launched formally when trade ministers of World Trade Organization (WTO) countries met November 30-December 2, 1999, in Seattle. Continuing the process of agricultural trade liberalization begun in the Uruguay Round Agreement has been a priority. While the Uruguay Round provided new and strengthened rules for the conduct of agricultural trade, a new round is intended to expand markets for agricultural products and further ease trade barriers, export subsidies, and trade-distorting domestic support. The operations of state trading enterprises (STEs), like the Canadian Wheat Board, and trade in genetically engineered products also are at issue.

Trade ministers at the Seattle meeting were unable to agree on an agenda for a comprehensive new round, which would have included not only agriculture, but services, intellectual property, industrial tariffs, and perhaps broader issues of competition, investment, and the relationship of trade agreements to labor and environmental considerations. However, Article 20 of the Uruguay Round Agreement on Agriculture requires negotiations in agriculture to begin in early 2000. These sectoral negotiations on agriculture were launched March 23-24, 2000 at a special session of the WTO's Committee on Agriculture, where it was that countries would submit their detailed negotiating proposals by March 2001. The negotiations are expected to proceed slowly.

Many agricultural interests support U.S. participation in a comprehensive round (rather than a sectoral negotiation) because they believe the trade-offs possible in a larger negotiation would result in improved market prospects for U.S. agricultural exports. Some agricultural groups, who feel that they have been disadvantaged by previous trade agreements, oppose U.S. participation in a new round. In Congress, the Senate Agriculture Committee held hearings on WTO issues on June 24 and September 30, 1999; the House Agriculture Committee held its own hearing on June 23, 1999. In early 2000, several other committees had started hearings on the WTO Seattle meeting and its implications for future talks, including on agriculture. The African Growth and Opportunity Act (H.R. 434; see below) contains negotiating objectives for agriculture.

A joint resolution (H.J.Res. 90) to withdraw from the WTO was introduced on March 2, 2000, but final passage is viewed as doubtful at this time. (See [The WTO Seattle Ministerial](#) in the CRS electronic briefing book on trade; CRS Report 98-254, *Agricultural Negotiations in the World Trade Organization*; and CRS Report RS20422, *United States' Withdrawal from the World Trade Organization: Legislative Procedure*.)

### **African Growth and Opportunity Act**

The President, on May 18, 2000, signed into law the African Growth and Opportunity Act (H.R. 434), which includes a number of amendments of direct interest to agriculture. The primary purpose of H.R. 434 is to increase trade opportunities with Africa and the Caribbean Basin. Among the agricultural provisions added by the Senate in November 1999 and retained by conferees is the so-called "carousel retaliation" provision that would require the

Administration periodically to rotate, or change, the types of products targeted for trade retaliation against a foreign country. Its immediate objective is to intensify pressure on the EU to permit imports of beef produced with hormones and to resolve a long-running dispute over banana imports (see below), by penalizing wider range of foreign industries and regions. Other agriculture-related provisions include: creation of a chief agricultural negotiator in the office of the U.S. Trade Representative, and a list of explicit U.S. objectives for agriculture in WTO negotiations, including an end to export subsidies and a reduction of foreign trade barriers.

A Senate provision permitting farmers to apply for Trade Adjustment Assistance benefits was dropped from the final conference version (H. Rept. 106-606), which then passed the House on May 4 and the Senate on May 11, 2000.

## **Economic Sanctions and Agricultural Exports**

To counter the fall in agricultural exports and declining commodity prices, farm groups and agribusiness advocate that U.S. sanctions policy be changed to exempt agricultural commodities and food products from prohibitions and restrictions on their export to targeted countries. Their position is reflected in proposals that the 106th Congress has debated and considered, and in their support for broader measures to change the process and scope of future sanctions imposed by both the executive branch and Congress.

The U.S. government restricts, but does not prohibit, commercial exports of agricultural products as part of across-the-board economic sanctions currently imposed on Cuba and Iraq. Exceptions are allowed for humanitarian reasons, allowing food products to be licensed for sale and donation to these two countries. The Administration in 1999 moved to lift prohibitions on U.S. commercial sales of most food and agricultural products to three other countries—Iran, Libya, and Sudan. The Treasury Department on July 27, 1999, issued country-specific export licensing regulations to implement the Administration's policy decision to exempt commercial sales of food and medical products from future, and some current, sanctions. This now allows sales that meet specified conditions and safeguards to be made to these three countries. Since this policy went into effect, Treasury has approved licenses that have resulted in U.S. exports of corn to Iran and durum wheat to Libya. This policy change reflected the view that food should not be used as a foreign policy tool, with officials acknowledging that U.S. sanctions policy had cost farmers lost sales to targeted countries. A separate September 17, 1999, White House announcement on easing sanctions against North Korea likely means that farm product sales will be allowed under a less restrictive licensing policy, expected to be finalized sometime this year.

Reflecting the situation prior to the Administration's announcements, the above six countries account for a relatively small share of world agricultural trade. In 1998, they purchased \$7.7 billion of agricultural products (1.9% of worldwide agricultural imports). USDA estimates that U.S. economic sanctions on these six countries "reduced U.S. agricultural exports by roughly \$500 million in 1996."

Spurred by falling farm exports, mounting interest in this issue led lawmakers to introduce almost 20 bills to exempt food and medicine from U.S. economic sanctions and to

change the way that such sanctions can be imposed. Five committees held hearings on selected bills. Those in favor of having agricultural and food exports exempted in the application of U.S. sanctions policy argue that prohibitions only hurt U.S. farmers and business, undermine this country's reputation as a "reliable supplier," and do not change targeted countries' behavior. Exemption opponents argue that current law gives the President sufficient flexibility to permit humanitarian food shipments, and that U.S. foodstuffs, if sold, could be misused by foreign governments or not made available to those in need.

In 1999 floor action, the House and Senate approved measures that differ in their approach. The "Selective Agricultural Embargoes Act of 1999" (H.R. 17; H.Rept. 106-154, Parts I and II), passed by the House under suspension of the rules on June 15, 1999, lays out congressional procedures for the approval or disapproval of a future embargo on agricultural products that is not a part of an embargo on all products to a country. The Senate on August 4 adopted, after considerable debate, an amendment to its version of the FY2000 agriculture appropriations bill (H.R. 1906) to exempt commercial sales of agricultural commodities and food products from U.S. unilateral sanctions. A motion to table the amendment was defeated on a 29-70 vote. The Administration signaled its opposition to the amendment, arguing that to require the President to secure congressional approval before sanctions that include farm commodities can be applied limits the President's flexibility in using sanctions to advance foreign policy and national security objectives. Because conferees were not able to agree on how to handle this amendment, primarily because of opponents' concern that it would relax the long-standing trade embargo on Cuba, congressional Republican leaders dropped this contested language from the final agriculture appropriations conference report.

Agricultural commodity groups and business interests have continued to push for legislating the agricultural exemption in U.S. sanctions policy. For example, language in S. 2382 is similar to that added by the Senate to the agriculture appropriations measure last summer, but dropped in conference. If enacted, its significance would be to effectively allow commercial sales of U.S. agricultural exports to Cuba. Food and medical products would be allowed to be sold to governmental entities in sanctioned countries; such exports, though, would be subject to specific export licensing requirements. Prohibited would be the use of U.S. government export programs (e.g., credit guarantees, subsidies) to facilitate such exports to countries affected by this policy change.

The most active vehicle for the sanctions legislation currently is the USDA FY2001 money bill, which was reported by the Senate Appropriations Committee on May 10, 2000 (S. 2536) and by the House Appropriations Committee on May 16, 2000 (H.R. 4461). Both bills include amendments to exempt food and medical products from U.S. unilateral sanctions that apply to Cuba and other countries. Floor consideration of these bills could occur the week of May 22, with the sanctions provision currently encountering some strong opposition in the House. (For more information, see CRS Report RL30108, *Economic Sanctions and U.S. Agricultural Exports*, and [Economic Sanctions and Agricultural Exports](#) in the CRS electronic briefing book on trade.)

## U.S.-EU Issues

### Biotechnology Issues

Disputes over genetically engineered crops and foods which contain them threaten to disrupt U.S.-European agricultural trade. Generally referred to as genetically modified organisms, or GMOs, in trade discussions, such crops and products are a focus of disputes over differences in approval procedures and on whether there is a need to label GMO products. Underlying the disputes are pronounced U.S.-EU disagreements over the environmental effects of GMOs and the safety of GM foods.

Crops produced from GMOs are rapidly being introduced into U.S. agriculture, especially crops for export such as corn, soybeans, and cotton. Acceptance of GMOs in the EU and other markets for U.S. agricultural products is thus critical for U.S. producers and exporters. In the United States, for the most part, consumers have not questioned the health or safety of GM foods, although some U.S. consumer groups have called for labeling. Conversely, in the EU, environmentalists, consumer groups, and some scientists argue that the long-term effects of GMOs on health and the environment are unknown and not scientifically established.

The U.S. approval process for GMOs has facilitated their introduction into the U.S. food system. The U.S. position has been that GM foods are no different from non-GM foods. Thus existing regulations for approving them are appropriate and adequate. The EU, however, maintains a separate (and longer) regulatory system for approving GMOs. The EU also requires mandatory labels for products containing GMOs, which it justifies, not on the basis of science, but on consumers' right to information. Labeling is not required in the United States, except when there is a significant difference between the conventional and the GM product or if the GM product poses a health risk.

The EU Council of Ministers instituted, on June 24-25, 1999, a *de facto* moratorium on any new approvals of GMO crops while a new approval and regulatory framework is established. This new process would become effective in 2001. The prospect of an effective approval process is attractive to many proponents of GMO crops because under the present system practically no new GMO crops are being approved. However, some harbor doubts about the ability of the EU to overcome apparent strong consumer and environmental resistance to GMOs even with a more effective and scientifically based system. Such doubts may have contributed to recent decisions by major U.S. agribusiness firms to ask suppliers to begin separating GMO and non-GMO corn and soybean products.

Congress is becoming a main venue for the domestic debate on labeling of GM foods. S. 2080 and H.R. 3377 would require that food that contains a genetically engineered material, or that is produced with a genetically engineered material, be labeled accordingly. A more recently introduced bill, H.R. 3883, would levy user fees on firms seeking approval for GM foods to pay for FDA safety reviews and ban GM foods likely to cause allergic reactions. The debate will reflect views of regulators and manufacturers who argue that GM foods are safe, and those of opponents who say long-term effects and unintended problems have not been adequately assessed. Several bills introduced in the 106th Congress reflect the

views of opponents of labeling and those who are concerned that it may become a trade barrier. S. 19, S. 101, S. 566, and H.R. 817 would require U.S. trade negotiators to address any “unjustified restrictions or commercial requirements affecting new technologies, including biotechnologies” in the next round of trade negotiations (For more information, see CRS Report 98-861, *U.S.-European Agricultural Trade: Food Safety and Biotechnology Issues*, and [Biotechnology and Agricultural Trade](#) in the CRS electronic briefing book on trade.)

## **Banana Dispute**

A World Trade Organization dispute arbitration panel has ruled that the EU’s preferential regime for importing bananas violates WTO rules and that the United States has the right to retaliate against the EU by imposing prohibitive duties on almost \$200 million in EU imports. (Recently a WTO panel has ruled preliminarily that the United States erred in its decision in March 1999 to suspend clearance of EU exports by the U.S. Customs Service before it had been authorized to do so multilaterally. The ruling will be finalized after 30 days at which point the United States may appeal or possibly negotiate compensation with the EU if it is established that the EU suffered trade losses as a result of the suspension of customs clearance.)

Since 1993, the EU has operated a banana import regime favoring imports from EU countries’ former colonies, especially in the Caribbean, and limiting access to bananas produced in Latin America and marketed by U.S. firms. The EU has indicated its acceptance of the WTO ruling, but the United States and other complainant countries have rejected EU proposals for altering the banana import regime. Attention in both the United States and the EU still focuses on finding a solution to this long-running dispute, and the effects of the ruling on banana exporters in developing countries is a factor.

Options for changing the banana import regime include: 1) establishing a tariff-only banana import regime (apparently unlikely), while maintaining some degree of preferential treatment for bananas imported from former European colonies; or 2) revising the existing tariff-rate quotas and licensing procedures to expand market access to the EU for Latin American bananas. A related consideration is the issue of compensation or adjustment aid for developing country exporters for the withdrawal or reduction of banana trade preferences.

The United States and Ecuador rejected an EU Commission proposal to change its banana import rules that would set two separate tariff-rate quotas for Latin American and African, Caribbean and Pacific bananas, and change to a system based on tariffs only on January 1, 2006. Ecuador requested and was granted WTO permission to retaliate against the EU for failure to comply with WTO rulings, but has delayed retaliating in hopes of reaching a negotiated settlement. The United States has criticized the EU proposal for continuing to discriminate against Latin American bananas regarding license allocations and tariff preferences, but has not re-instituted WTO dispute settlement.

While many in Congress have supported the U.S. approach to the banana issue in the WTO because of its implications for dispute settlement, some Members have indicated that they think the banana decision will harm developing countries that depend on bananas for export earnings. Legislation reflecting this point of view (H.R. 1361) has been introduced in the 106<sup>th</sup> Congress. It would bar the United States from retaliating against the EU because



of its failure to comply with the WTO's decision. (For more information, see CRS Report RS20130, *The U.S.-European Banana Dispute*, and [U.S.-EU Banana Dispute](#) in the CRS electronic briefing book on trade.)

## **Meat Hormone Dispute**

WTO dispute settlement panels have ruled that an EU ban, in place since 1989, on imports of meat derived from animals treated with growth hormones, is inconsistent with the Uruguay Round SPS Agreement. The WTO panels agreed with the U.S. argument that the ban lacks a scientific justification; left open the option for the EU to conduct a risk assessment of hormone-treated meat; and gave the EU until May 13, 1999, to bring its hormone measure into compliance with SPS rules. The EU did not meet this deadline. Citing studies that, it contends, raise human health questions about the use of such hormones, the EU said it would maintain the ban while continuing a risk assessment. In response, the United States in May stated that it would seek to impose economic sanctions on EU products valued at \$202 million. A WTO panel agreed that sanctions are warranted, but in July set the value subject to sanctions at \$116.8 million. The United States then announced the list of agricultural goods on which the 100% tariffs will be imposed, effective July 29, 1999.

The EU has lifted a threat to ban the export of all U.S. meats to its market as a result of inadequate residue testing and standards for ensuring that meat is hormone free. The EU has indicated that this decision, which clears the way for hormone-free meat exports, should facilitate negotiations to reduce the \$116 million retaliation list imposed for the EU's refusal to accept imports of hormone-treated meat. The EU would presumably offer increased market access for hormone-free meat as compensation for not importing hormone-treated meat. Some in the U.S. meat industry are cool to the idea, arguing that imports of hormone-free meat would not be adequate to compensate it for losses incurred on account of the EU's ban on hormone-treated meat. (See CRS Report RS20142, *The European Union's Ban on Hormone-Treated Meat*, and [U.S.-EU Meat Hormone Dispute](#) in the CRS electronic briefing book on trade.)

## **Country-of-Origin Labeling**

Federal law requires most imports, including many food items, to bear labels informing the "ultimate purchaser" of products' country of origin. However, for certain foods (e.g., meats, produce) such labels appear only on bulk containers usually not seen by retail purchasers. Bills have been introduced into Congress that would impose expanded country-of-origin labeling requirements on meat products, fruits, and vegetables at the retail level. The proposals are viewed (by some advocates) as a way to help U.S. producers dealing with low farm prices, on the assumption that most U.S. consumers will choose U.S. over foreign goods. Also, some perceive that food products from certain countries might pose greater risks than those from the United States. Proponents of the bills contend that additional country labeling requirements would enable consumers to know the source of retail food offerings and include that knowledge in selecting their purchases. Opponents counter that country-of-origin labeling bears no relation to food safety and would not raise U.S. commodity prices. They argue that it would impose excessive and costly regulatory burdens

on processors, retailers and consumers, be difficult to enforce, and—by imposing new non-tariff trade barriers—undermine ongoing U.S. efforts to reduce other countries' trade barriers and expand international markets for U.S. products.

In Congress, bills covering meat products include H.R. 222, H.R. 1144, S. 242, and S. 251. Bills covering fruits and vegetables include H.R. 1145 and S. 860; others (H.R. 3263; S. 1669) would cover peanuts and peanut products. New country labeling requirements for meats and produce were included in a wide-ranging Democrat farm relief amendment (S. Amt. 1514) that was defeated by the Senate on August 4, 1999. Hearings on this issue were held on April 28 and May 26, 1999, in the House and Senate Agriculture Committees, respectively. (For more information, see CRS Report 97-508 ENR, *Country-of-Origin Labeling for Foods: Current Law and Proposed Changes*, and [Country-of-Origin Labeling](#) in the CRS electronic briefing book on trade.)

## **Agricultural Export and Food Aid Programs**

The 1996 Federal Agricultural Improvement and Reform (FAIR) Act (P.L.104-127), authorized several USDA programs that 1) subsidize agricultural exports; 2) develop foreign markets for U.S. farm products; 3) guarantee commercial financing of exports; and 4) finance concessional sales or donate commodities to low-income developing countries.

Export subsidies include the Export Enhancement Program (EEP), used mainly to subsidize wheat, oilseeds, and other bulk commodities, and the Dairy Export Incentive Program (DEIP). USDA's export promotion programs include the Market Access Program (MAP) and the Foreign Market Development (FMDP) or "Cooperator" Program. MAP, which can be used to fund promotion of brand name products overseas, is often a target of budget cutters who consider it corporate welfare.

Export credit guarantees are authorized at the level of \$5.5 billion (the value of exports financed under the program, not the outlays incurred). They have been used extensively to finance U.S. agricultural exports to Asian countries currently experiencing financial and economic difficulties. Food aid programs include P.L. 480 (concessional finance and donations), Food for Progress (mainly donations), and Section 416 (donations). Food aid programs have also been used extensively to finance or donate U.S. agricultural exports to Russia, some financially stressed Asian countries such as Indonesia, and several food-short developing countries such as North Korea.

Many in Congress support these programs, especially when demand for U.S. agricultural exports is weak as in the current international economic environment. They view the programs as helping maintain agricultural exports in markets which are experiencing slow economic growth. Others contend that some of the programs are "corporate welfare" and thus should be eliminated. Legislation reflecting this latter point of view, H.R. 1470, would repeal both EEP and MAP. Some U.S. trading partners have criticized recent large U.S. food aid shipments, alleging that food aid is being used to reduce surpluses and increase domestic U.S. prices rather than meet international food needs. U.S. food aid shipments have not yet, however, been challenged in multilateral trade dispute settlement on the basis that they distort trade.



Funding for export and food aid programs is taken up in annual appropriations bills. The FY2000 USDA appropriation (P.L. 106-78; H.R. 1906), signed by the President on October 22, 1999, sets funding at \$5.6 billion of program activity. The FY1999 program level was \$5.7 billion.

The President's FY2001 budget plan, released February 7, 2000, proposes a program level of \$5.8 billion for these activities next year. The plan also includes a proposal for legislation permitting USDA to reallocate unused EEP funds to food aid and market development programs. The House and Senate Appropriations Committees in May marked up and reported the 2001 bills (H.R. 4461, H. Rept. 106-619; S. 2536, S. Rept. 106-288). Both versions generally provide funding to support the Administration's proposed program levels for the major programs, although at slightly lower levels for some. (For more information see CRS Report RL30501, *Appropriations for FY2001: U.S. Department of Agriculture and Related Agencies.*)

## LEGISLATION

*(Selected bills that have seen committee action.)*

### Trade Policy (General)

#### **H.R. 434 (Crane)**

African Growth and Opportunity Act. Final version includes the following amendments affecting agriculture: "carousel retaliation" requiring the Administration to rotate, or change, the products targeted for retaliation (in order to pressure the EU to resolve the meat hormone and banana disputes by penalizing a wider range of foreign industries and regions); creation of a chief agricultural negotiator with the office of the U.S. Trade Representative; and a statement of U.S. objectives for agriculture in WTO negotiations. Introduced February 2, 1999. Passed House without the agriculture amendments on July 16, 1999. Passed Senate with the agriculture amendments on November 4, 1999. Conference report (H. Rpt. 106-606) filed on May 4, 2000, and passed by the full House on the same day. Passed by the full Senate on May 11, 2000. Signed into law by the President on May 18, 2000.

### Economic Sanctions and Agricultural Trade

#### **H.R. 4461 (Skeen); S. 2536 (Cochran)**

Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act for 2001. Both committee versions contain an amendment to exempt food and medical products from U.S. economic sanctions imposed on Cuba, Iran, Libya, Sudan, and North Korea. See Agricultural Export and Food Aid Programs, below, for status.

#### **H.R. 17 (Ewing)**

Selective Agricultural Embargoes Act of 1999. Amends the Agricultural Trade Act of 1978 to require the President to report to Congress on any selective embargo on agricultural commodities, to provide a termination date for the embargo, to provide greater assurances for contract sanctity, and for other purposes. Introduced January 6, 1999; referred to Committees on Agriculture, and on International Relations. Agriculture Committee and

International Relations Committee reported the bill May 20, and June 14, 1999, respectively (H.Rept. 106-154, Parts I & II). Passed House under suspension of rules June 15, 1999.

**S. 566 (Lugar)**

Agricultural Trade Freedom Act. Amends the Agricultural Trade Act of 1978 to exempt agricultural commodities and value-added products from unilateral economic sanctions, to prepare for future trade negotiations affecting United States agriculture, and for other purposes. Introduced March 8, 1999, referred to Committee on Agriculture. Committee approved the bill and ordered it reported, with an amendment in the nature of a substitute, May 26, 1999. S.Rept. 106-157 filed on September 13, 1999.

**S. 1712 (Gramm)**

Export Administration Act of 1999. Title IV exempts agricultural commodities, medicine and medical supplies from the bill's foreign policy export control provisions. Exemption specifically does not apply to Cuba and North Korea or to export. Reported by the Senate Banking Committee on October 8, 1999 (S.Rept. 106-180). Laid before the Senate, but returned to the calendar, on March 8, 2000.

**S. 2382 (Helms)**

Trade Sanctions Reform and Export Enhancement Act of 2000 (Title I, Subtitle C). Exempts agricultural and medical products from U.S. unilateral embargoes maintained for foreign policy or national security reasons unless Congress specifically approves (following a prescribed process) the imposition of agricultural and medical product sanctions. Committee on Foreign Relations ordered bill reported as an original measure on March 23, 2000. Report filed April 7 (S. Rpt. 106-257); placed on Senate legislative calendar. Referred to the Committee on Banking, Housing, and Urban Affairs April 11, 2000.

**China**

**S. 2277 (Roth)**

A bill to terminate the application of Title IV of the Trade Act of 1974 with respect to the People's Republic of China. Introduced March 23, 2000; referred to Finance Committee. Committee approved the bill, 19-1, on May 17, 2000.

**H.R. 4444 (Archer)**

To authorize extension of nondiscriminatory treatment (normal trade relations treatment) to the People's Republic of China. Introduced May 15, 2000; referred to the Ways and Means Committee. Committee approved the bill, 34-4, on May 17, 2000.

**H.J.Res. 57 (Rohrabacher)**

Joint resolutions disapproving extension of normal trade relations with China. H.Res. 57 introduced June 7, 1999; referred to Ways and Means Committee, which reported the measure, adversely, by voice vote July 1, 1999. The full House voted against the resolution on July 27, 1999, by a vote of 170 to 260.

**Agricultural Export and Food Aid Programs****H.R. 4461 (Skeen); S. 2536 (Cochran)**

Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act for 2001. Includes funding for agricultural export and food aid programs. Senate bill reported as an original measure by the Appropriations Committee on May 10, 2000 (S. Rept. 106-288). House bill reported as an original measure by the Appropriations Committee on May 16, 2000 (H. Rept. 106-619).

**P.L. 106-78/H.R. 1906 (Skeen); S. 1233 (Stevens)**

Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2000. Includes funding for agricultural export and food aid programs. House bill reported as an original measure by the Appropriations Committee May 21, 1999 (H.Rept. 106-157). Passed, with amendments, by House June 8, 1999. Received in Senate June 9, 1999, and referred to Committee on Appropriations, which reported its version June 17, 1999 (S.Rept. 106-80). Passed Senate August 4, 1999; among floor amendments are provisions exempting agricultural commodities from current and future unilateral economic sanctions, and that require the President to obtain advance congressional approval for such decisions. Conference agreement, reported September 30 (H.Rept. 106-354), dropped the sanctions amendment. Conference agreement approved by the House October 1, and by the Senate on October 13, 1999. Signed into law October 22, 1999.