

# Issue Brief for Congress

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## **Agricultural Trade Issues in the 107<sup>th</sup> Congress**

**Updated November 7, 2002**

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## Agricultural Trade Issues in the 107<sup>th</sup> Congress

### SUMMARY

The 107<sup>th</sup> Congress has been considering a variety of trade issues with implications for the U.S. agricultural sector. Trade in agricultural commodities and food products affects farm income and rural employment, and it also generates economic activity beyond the farm gate. With agricultural export sales the equivalent of about 25% of gross farm income, some policymakers view U.S. efforts to develop market opportunities overseas as vital to the sector's financial health. Decisions by the Bush Administration, and actions taken by Congress, thus could affect the outlook for agricultural trade.

U.S. agricultural exports are forecast to improve through FY2003. Agricultural groups and their supporters in Congress believe that the pace of improvements depends partly on U.S. trade policies that: (1) aggressively reduce foreign-imposed barriers to U.S. farm products, (2) hold other countries accountable for commitments they have already made in existing trade agreements, (3) resolve festering disputes with major trading partners, and (4) fully use U.S. Department of Agriculture (USDA) export and food aid programs. On the other hand, some continue to press for restrictions on various agricultural imports, to protect U.S. producers from what they view as unfair foreign competition.

On August 6, 2002, the President signed into law *fast track*, or *trade promotion authority (TPA)* (P.L. 107-210), to negotiate future trade agreements, capping a lengthy and often contentious debate in the 107<sup>th</sup> Congress. Many, but not all, commodity and food industry groups favor TPA, arguing it gives U.S. trade negotiators greater credibility and facilitates the passage of legislation to implement

future trade agreements.

Congress is closely monitoring the Administration's involvement in various trade negotiations that could further liberalize trade in agriculture and other economic sectors. These include the multilateral Doha Round under the auspices of the *World Trade Organization (WTO)*; the hemispheric *Free Trade Area of the Americas (FTAA)*; and *bilateral agreements* with Chile, Singapore, Morocco, and Central America, among others.

Following agreement on the terms of *China's accession to the WTO*, Congress has focused on ensuring that China adheres to its commitments to open markets to U.S. agricultural products. Despite such commitments, U.S. agricultural exporters continue to encounter major obstacles to Chinese markets.

Lawmakers have introduced bills to ease the tight rules on permitted *food sales to Cuba*. Farm bill conferees rejected a Senate plan to permit private financing of such sales, but the issue has surfaced in other legislation.

On May 13, 2002, the President signed into law an *omnibus farm bill* (P.L. 107-171) *with a trade title* amending and extending export and food aid programs through FY2007, and containing more stringent *country of origin labeling* requirements for food imports.

USDA's FY2003 appropriation, still not finalized, will determine *annual funding for USDA trade and food aid programs*. Separate measures address concerns about the treatment of *genetically engineered crops and food products in international trade*.

## MOST RECENT DEVELOPMENTS

*As of early November 2002, the full House and Senate had not yet considered the FY2003 agriculture appropriations measures (H.R. 5263 and S. 2801, respectively) that were reported in July by their respective Appropriations Committees. These bills contain funding levels for the full year for several international agricultural programs – export subsidies, market development programs, export credit guarantees, and food aid. Continuing resolutions are providing temporary funding for these programs in the interim.*

*USDA on October 8, 2002, issued guidelines for the voluntary phase of country-of-origin labeling of fresh fruits and vegetables, red meats, seafood, and peanuts, a program that will become mandatory for many retailers in 2004, under the 2002 farm law.*

*Congress continues to monitor the Bush Administration's involvement in, and plans for begin new, trade negotiations. Each of these negotiating venues – whether multilateral, hemispheric, or bilateral – has varying implications for U.S. agricultural trade and U.S. farm and agribusiness interests.*

*The President, on August 6, 2002, signed into law (P.L. 107-210) a wide-ranging trade bill (H.R. 3009) that includes his long-sought trade promotion (fast track) authority to negotiate and seek expedited approval of international trade agreements. The measure contains agricultural trade negotiating objectives, and mandates extensive consultation with the House and Senate Agriculture Committees during trade negotiations.*

## BACKGROUND AND ANALYSIS

### **U.S. Agricultural Exports**

Agricultural exports are important both to farmers and to the U.S. economy. The U.S. Department of Agriculture (USDA) estimates that the share of U.S. production volume exported in FY2000 was 44% for wheat, 53% for rice, 20% for corn, 43% for soybeans and products, and 45% for cotton. Measured by value, 18% of total U.S. agricultural production was exported. Calculations indicate around 25% of gross farm income comes from exports. According to USDA, each dollar received from agricultural exports in 1998 stimulated another \$1.30 in supporting non-farm activities. Agricultural exports generated an estimated 808,000 full-time civilian jobs, including 488,000 jobs in the non-farm sector. U.S. agricultural trade has consistently registered a positive, though recently declining, balance.

Nearly every state exports agricultural commodities, thus sharing in export-generated employment, income, and rural development. In FY2001, the leading agricultural exporting states were (in order) California, Texas, Iowa, Kansas, Illinois, Nebraska, Minnesota, Washington, Indiana, and North Carolina. These 10 states accounted for nearly 60% of the total value of U.S. agricultural exports.

After growing rapidly in the 1970s, U.S. agricultural exports reached a high of \$43.8 billion in FY1981, but then declined by 40% to \$26.3 billion by FY1986. A decade later,

agricultural exports had recovered and reached a new peak of nearly \$60 billion (FY1996), but then began a decline that dipped to \$49 billion by FY1999. Main reasons for the decline were continuing financial turmoil in East and Southeast Asian markets, and increased competition for corn, wheat, and soybeans in global markets. Exports since then have recovered, rising to \$52.7 billion for FY2001, and an estimated \$53.5 billion in FY2002. USDA currently forecasts FY2003 export value at \$57.5 billion.

The commodity composition of U.S. agricultural exports has changed over time. Since FY1991, bulk commodities (grains, oilseeds, and cotton) have accounted for less than total non-bulk exports (intermediate products such as wheat flour, feedstuffs, and vegetable oils and consumer-ready products such as fruits, nuts, meats, and processed foods). In FY2001, high value agricultural exports accounted for 65% of the value of total agricultural exports.

Many variables interact to determine the level of U.S. agricultural exports: income, population growth, and tastes and preferences in foreign markets; U.S. and foreign production and commodity prices; and exchange rates. U.S. agricultural export and food aid programs, domestic farm policies that affect output and price, and trade agreements with other countries also influence the level of U.S. agricultural exports.

## **U.S. Agricultural Imports**

The United States is also a major importer of agricultural commodities and food products. USDA classifies these as either non-competitive or competitive imports. Non-competitive products include primarily tropical products (coffee, cocoa, bananas, rubber, and spices) that are not produced domestically. Imports that compete against domestic output include red meats (primarily beef), fruits and juices, vegetables and preparations, wine and beer, certain grains and feeds, certain oilseeds, sugar and related products, and dairy products. USDA estimates the import share of all U.S. food consumption was 9.1% in 1999. Agricultural imports have risen 72% over the last decade, from \$22.7 billion in FY1991 to \$39 billion in FY2001. Factors contributing to this growth in import demand include the extended U.S. economic expansion during this period, low commodity prices, the strong U.S. dollar which made imports cheaper, and the effects of trade agreements. Non-competitive imports (about \$6.3 billion) accounted for 16% of all agricultural imports in FY2001. The value of competitive imports was nearly \$33 billion (84% of the total).

The U.S. average tariff on agricultural imports (12%) is much lower than the global average tariff (62%) imposed on similar imports. However, the United States along with other developed countries restricts the entry of "import-sensitive" agricultural products to protect certain domestic producers. U.S. tariff-rate quotas allow zero or low duty access for specified amounts of foreign beef, sugar, peanuts, cotton, tobacco, and dairy products. Imports above the applicable quota may enter, but face prohibitively high tariffs. This usually makes such imports uncompetitive in the U.S. market. Safeguards (involving the temporary use of higher tariffs and/or quotas) allow producers of an affected commodity or product sector additional time to adjust to increased import competition. In recent years, the United States has imposed safeguards on imports of lamb meat and wheat gluten, both of which were successfully challenged in WTO dispute settlement and were not renewed after 3 years.

Though a large share of agricultural imports compete against U.S. products, they do nevertheless generate economic activity in the U.S. economy. These imports provide additional income to, and increased employment at, businesses involved in food processing and in providing transportation, trade, and related services.

(For more information on both agricultural exports and imports, see CRS Report 98-253, *U.S. Agricultural Trade: Trends, Composition, Direction, and Policy*.)

## Overview of Policy Debate

Although farm groups and agribusiness recognize that many world economic, political, and weather factors influence U.S. agricultural exports, many believe that the agricultural sector's future prosperity also depends upon U.S. trade policies that: (1) aggressively reduce foreign-imposed barriers to U.S. farm products, (2) hold other countries accountable for commitments they have already made in existing trade agreements, (3) resolve festering disputes with major trading partners, and (4) fully use USDA export and food aid programs.

A few U.S. farm groups 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 groups (particularly representing import-sensitive commodities) have pressed for more restrictions on foreign farm and food imports into the United States.

## Fast Track or Trade Promotion Authority

Congress in August 2002 restored the President's so-called fast track or trade promotion authority (TPA). TPA refers to the special procedures for considering legislation to implement trade agreements with foreign countries. Under the fast track/TPA authority, the President is required to consult regularly with Congress both before and during negotiations. Once an implementing bill that reflects a trade agreement's provisions is submitted, the time for debate is limited, and only an up or down vote on the bill, with no amendments, is permitted. Fast track authority expired in 1994, and a series of efforts to revive it failed in the 105<sup>th</sup> Congress and were not vigorously pursued in the 106<sup>th</sup>, in part because of opposition from those advocating inclusion of more protections for labor and the environment in future trade agreements.

TPA proponents in Congress have maintained that the authority is needed to strengthen the hand of the Administration in negotiations to establish the hemispheric Free Trade Area of the Americas (FTAA) and in World Trade Organization (WTO) negotiations on agriculture and other sectors in the comprehensive multilateral negotiating round – the Doha Development Agenda (DDA) launched in Doha, Qatar in November 2001 (see below). TPA also will enhance U.S. participation in negotiating free trade agreements with Chile and other bilateral trading partners, they say. Proponents add that foreign officials now will be more willing to conclude agreements with U.S. negotiators if they believe it will be harder for Congress to force subsequent rewrites after difficult compromises are reached.

Some opponents of fast track argued, however, that Congress should not give up its constitutional power to amend legislation. Other opponents maintain that previous trade agreements that were endorsed under TPA have resulted in few gains and sometimes negative benefits for U.S. agribusinesses and farmers. For example, U.S. sugar, peanut, dairy, and some wheat, fruit, and vegetable producers argue that imports under terms of both the Uruguay Round Agreement on Agriculture (URAA) and North American Free Trade Agreement (NAFTA) have significantly undermined the domestic market for their products. Critics have also often complained that some major foreign trading partners have not fully met their obligations under these agreements. Still, most agricultural commodity and farm organizations supported giving the President TPA on the grounds it does facilitate negotiations to open foreign markets to U.S. agricultural products.

The House on July 27 and the Senate on August 1, 2002, cleared TPA as part of the conference report (H.Rept. 107-624) on the wide ranging trade bill (H.R. 3009). This bill also renews the Andean Trade Preference Act, expands trade adjustment assistance (TAA) legislation for workers and firms, extends the Generalized System of Preferences for products of developing countries, among other matters. The President signed the measure into law (P.L. 107-210) on August 6, 2002, capping a protracted and often contentious debate.

Earlier, on December 6, 2001, the House narrowly passed, largely along party lines, a TPA bill (H.R. 3005) that had been approved earlier by its Ways and Means Committee. The Senate Finance Committee cleared its version of H.R. 3005 on December 18, 2001. This version was folded, as Title XXI, into a much broader trade measure [an expanded version of the Andean Trade Preference Act]. The Senate cleared this measure, with more bipartisan support, on May 23, 2002.

Agricultural groups successfully pressed for language in the TPA section of H.R. 3009 that recognizes their industry's "special status" and/or makes special concessions to them. H.R. 3009 enumerates explicit negotiating objectives for agriculture, and provides for extensive consultation between the Administration and House and Senate Agriculture Committees. These include special consultation procedures that could affect U.S. tariff reduction positions taken on some 200 import sensitive agricultural and food commodities. The enacted TPA also includes the preservation of U.S. export credit and food aid programs among negotiating objectives for agriculture. These provisions – special treatment for import sensitive products and preservation of export and food aid programs – could make negotiating new reduction commitments for export subsidies (a U.S. objective) more difficult, although the Office of the U.S. Trade Representative (USTR) maintains otherwise.

Another provision in the TAA section of H.R. 3009 as signed authorizes \$90 million annually (FY2003-07) in funds to assist farmers adversely affected by imports. Agricultural groups may petition the Secretary of Agriculture to certify them as eligible for TAA. If the Secretary determines that imports "contributed importantly" to lower than average prices for the affected commodity, producers could receive prescribed cash payments of up to \$10,000 per year each, although their benefits could be reduced proportionately to stay within the \$90 million authorization. (For more information, see *Fast-Track Trade Negotiating Authority* in the CRS Electronic Trade Briefing Book; CRS Report 97-817, *Agriculture and Fast Track Trade Legislation*; and RS 21182, *Trade Adjustment Assistance for Farmers*.)

## Trade Agreements

Provisions affecting agricultural trade are found in bilateral trade agreements approved to date by the 107<sup>th</sup> Congress and will be developed in other bilateral and regional agreements being negotiated. Particular attention focuses on how U.S. negotiators will deal with agricultural trade issues in negotiating a U.S.-Chile free trade agreement and the hemispheric-wide FTAA. While some commodity groups welcome the market openings these agreements are expected to provide, producers of import-sensitive commodities will carefully monitor and seek to shape those provisions that affect them. These producers will be most concerned about what negotiators include as the transition periods agreed upon for market access, rules of origin, safeguards against import surges, and the terms under which sanitary and phytosanitary (SPS) rules are applied.

### Bilateral Trade Agreements

The Clinton Administration in 2000 concluded trade agreements with Jordan and Vietnam. In 2001, the 107<sup>th</sup> Congress approved, and President Bush signed, measures to put them into effect (P.L.107-43 – H.R. 2603 – for a free trade agreement with Jordan; P.L. 107-52 – H.J.Res. 51 – to normalize trade relations with Vietnam). Now that TPA is law, President Bush and USTR Ambassador Zoellick have signaled their intent to conclude free trade agreements (FTAs) with Chile and Singapore by year end, and plan to initiate bilateral negotiations with other trading partners early in 2003.

Earlier, President Bush on January 16, 2002, announced that the United States will explore an FTA with five Central American countries in order to promote economic and social growth in the region. On April 23, 2002, the President announced that the United States will seek an FTA with Morocco. USTR officials have since notified Congress that negotiations with El Salvador, Guatemala, Honduras, Costa Rica, and Nicaragua, and separately with Morocco, will be launched early in 2003. On November 4, 2002, USTR notified Congress of its intent to begin FTA negotiations with South Africa and the other members of the Southern African Customs Union (Botswana, Lesotho, Namibia, and Swaziland) next February. U.S. trade officials and some Members of Congress have also mentioned Australia, Korea, New Zealand, and Taiwan as other FTA candidates. An FTA proposed last year by Australia has met with considerable opposition from some U.S. agricultural interests. They argue that such an agreement would not benefit farmers, since some longstanding SPS disputes with Australia have never been resolved, and state that the Administration should concentrate its efforts instead on working toward agricultural trade liberalization in the WTO talks (see below). To assist USTR in these efforts, the International Trade Commission on September 19, 2002, provided confidential reports that analyzed the probable economic effects on the U.S. economy of eliminating U.S. tariffs on certain agricultural products imported from Chile and Singapore.

**Chile.** The United States over the last decade has recorded a growing agricultural trade deficit with this major trading partner in Latin America. In 2001, U.S. agricultural exports to Chile totaled \$100 million; leading products sold were corn gluten meal, wine making ingredients, snack foods, planting seeds, and pet foods. Chile's exports of agricultural products to the U.S. market were much higher, valued just over \$1 billion. Sales of fresh fruit (primarily table grapes), wine, fruit juices, and planting seeds accounted for 90% of this total.



With TPA passage, both governments have agreed upon a negotiating schedule with the objective of finalizing an agreement by year end 2002. Negotiators are meeting in their 13<sup>th</sup> round the first week of November, and are scheduled to meet again in early December. Negotiators from both sides have stated that disagreements on the FTA's prospective agricultural provisions could be among those most difficult to resolve, and acknowledge this likely will not occur until the last minute.

U.S. negotiators are pressing for increased market access for commodities (wheat, wheat flour, edible vegetable oils, and sugar) now protected by Chile's price-band system. Price bands serve to insulate producers and processors when the world price for any commodity falls below a calculated reference price (e.g., a price target comparable to a commodity support level). Protection is provided the domestic sector by levying a variable charge on the imported commodity, which when added to the lower world price, raises the importer's cost to the reference price target. How this issue is handled in the U.S.-Chile FTA could be influenced by a May 2002 WTO ruling and recent appeals decision that found Chile's price band system largely violates multilateral trading rules for agriculture. With Chile directed on September 23, 2002, by WTO's Appellate Body to modify these price bands, how Chile in practice complies is on the negotiators' agenda. One option would be for Chile to convert the price bands into tariffs or tariff-rate quotas (TRQs). Some Chilean officials, though, argue the WTO only requires changes that would make the price bands operate more predictably and transparently, but this view is being challenged by others, including Chilean farm groups. However Chile responds to the WTO decision, USTR has signaled it will press for "full market access liberalization" for Chile's price band protected commodities.

Chile views the agriculture provisions of a prospective FTA important to its economic growth, because agricultural exports represent one-third of Chile's total exports to the U.S. market. Its negotiators are seeking reductions in U.S. tariffs on horticultural products it ships to the United States, as well as changes in how U.S. anti-dumping and countervailing rules are applied. Chile has repeatedly expressed concerns about the financial impact invoking these rules has had on Chilean producers of grapes, raspberries, and salmon.

Negotiators have found the pace at which to allow access into each domestic market for the other country's most sensitive agricultural products a difficult issue to bring to conclusion. Resolution of this and related market access matters appear to be tied to how Chile responds on removing certain SPS barriers that now limit certain U.S. agricultural exports to that market (see below), according to the U.S. lead negotiator. In market access talks to date, both sides reportedly have agreed to use TRQs for such products, to initially apply the current most-favored nation tariff on above-quota imports, and not to exclude any products from the agreement. Each side differs, though, on the timetable for phasing out protection for its most sensitive agricultural products. The United States is seeking a 10- to 15-year transition period for granting duty-free access on its most sensitive list; Chile favors a maximum 12-year period for eliminating tariffs on its most sensitive items. Both countries have not yet decided which agricultural products to place in the longest transition period category (though requests have been exchanged), and are still discussing the size of the quotas, the pace at which the over-quota tariff rate is phased out, the growth rate for each quota that is created, and whether the within-quota tariff would be zero for all such products. U.S. producers of apricots, mushrooms, cling peaches, fruit juices, and other horticultural products have requested exemptions or long tariff reduction periods in the final FTA. Chilean producers of price band-covered commodities similarly are seeking the longest

transition period possible. Protection on less sensitive agricultural products will be phased out in stages over shorter periods. Tariffs on some would be eliminated immediately; on other products, tariffs would disappear over either a 4- or 8- year period.

The United States is also seeking a special safeguard mechanism to protect against surges in agricultural imports during the transition period. Reflecting this, USTR specifically included in its negotiations' notification to Congress that "improving import relief mechanisms as appropriate" is one of the U.S. agriculture objectives in this FTA. Chile reportedly also favors an agricultural safeguard, but both sides have not reached any agreement on specifics. Negotiators are also grappling with rules of origin that would apply to each country's imports. Chile is seeking more flexible provisions, while the United States is pressing for tight rules that limit the FTA's benefits to products derived from Chilean in origin materials (applicable to fruit juice and canned fruit, as examples).

Negotiations on Chile's SPS barriers have been proceeding along a parallel track. With some U.S. exporters having faced SPS obstacles in recent years in selling pork, beef, dairy and poultry products, and certain fruit to the Chilean market, the United States is pressing to ensure that such matters in the future are addressed using WTO rules and procedures. Each country has reportedly agreed to recognize the other's beef grading rules. Both countries are still seeking to resolve outstanding SPS issues so that they do not affect market access. These include mutual acceptance of each other's beef and pork inspection systems, Chile's salmonella testing requirement for U.S. poultry products, and U.S. procedures affecting horticultural imports, such as clementines entering from Chile. (For background, see *The U.S.- Chile Free Trade Agreement* in the CRS Electronic Trade Briefing Book.)

**Singapore.** The United States runs an agricultural trade surplus with Singapore. U.S. agricultural and food exports in 2001 totaled \$228 million, compared to \$45 million in imports. Top agricultural exports were fruit and related products, vegetables and related products, cooking oils, snack foods, and poultry meat. Purchases of cocoa paste and butter, snack foods, rubber and related products, and spices from Singapore accounted for 57% of agricultural imports. Being primarily urban, Singapore produces little of its own food. Reflecting this, tariffs on imported foodstuffs are close to zero. Because this city state is a major shipping hub, some U.S. commodity groups seek the inclusion of rules of origin in the FTA to prohibit duty-free treatment of food products transhipped through Singapore from neighboring agricultural producing countries in Southeast Asia. Negotiators reportedly have made progress on market access provisions (including those that pertain to agricultural goods) and rules of origin. The next (11<sup>th</sup>) negotiating round is scheduled for the second week of November. USTR has indicated that these FTA negotiations should conclude by year end 2002. (For background, see CRS Report RS20755, *Singapore-U.S. Free Trade Agreement*, or a summary similarly titled in the CRS Electronic Trade Briefing Book.)

## **Free Trade Area of the Americas (FTAA)**

President Bush has stated he places a high priority on negotiating an agreement to completely remove trade barriers within the Western Hemisphere. The FTAA is intended to go beyond NAFTA to encompass all trade among all of the region's countries, and eventually supersede the panoply of current regional FTAs and those that are being negotiated. Crafting the FTAA rules for liberalizing agricultural trade and then negotiating the fine details between the region's 34 countries by the target date of 2005 are expected to

be difficult and contentious. Some Latin American countries, particularly Brazil, are seeking increased access to the U.S. market for competitive products such as beef, citrus, sugar, and vegetables. U.S. commodity groups and agribusiness seek additional openings for their products in the rapidly growing Latin American market as well as legal assurances that all countries will abide by sanitary and phytosanitary rules with respect to agricultural imports. The USTR on January 17, 2001, issued summaries of the U.S. positions on the objectives and rules to be followed to negotiate FTAA's agricultural provisions.

At the third Summit of the Americas in April 2001, hemispheric leaders, including President Bush, assessed progress to date and ratified the dates for completing FTAA negotiations and making the agreement effective. Leaders accepted May 15, 2002 as the deadline for initiating product and sector-specific negotiations, and agreed to conclude all FTAA negotiations by January 2005. Their goal is to have the final agreement take effect no later than December 2005. Leaders committed also to make the trade negotiation process more transparent and accessible.

The prospect that the TPA measure will address the concerns of import-sensitive U.S. agricultural producers (e.g., citrus and sugar, among others) in future trade negotiations prompted Brazil's President and the country's lawmakers in mid-December 2001 to object to these stipulations and urge they be dropped. The retention of the special consultation procedures and requirements on such products in the final enacted TPA are viewed as too restrictive, and could hinder ongoing negotiations, according to statements made by top Brazilian officials. Brazil has also identified the U.S. farm bill (P.L. 107-171), which potentially will increase U.S. spending on trade-distorting subsidies, as an obstacle to negotiating an FTAA. U.S. trade negotiators, however, argue that the farm bill provides that spending on farm subsidies will be kept within earlier agreed-upon limits. These officials also maintain that the United States is committed to further reducing domestic support in multilateral WTO negotiations. The pace and substance of how key agricultural trade issues (e.g., export subsidies and domestic support) are handled in WTO agriculture negotiations will influence the way FTAA negotiators address them.

Trade officials for countries in the hemisphere met in Panama in mid-May 2002 in an effort to keep to the schedule ratified in Quebec City. While agreement was reached on a schedule for the market access phase of FTAA negotiations, agreement on the modalities (formulas or targets) to be followed for tariff reductions was not reached until late August (see below). According to the schedule agreed upon, countries would make initial offers for tariff reductions between December 15, 2002 and February 15, 2003, followed by market access requests between February 16 and June 15, 2003. Revised offers would follow this initial "request-offer" process. To prepare U.S. negotiators for this next negotiating step, USTR received mixed public comments at a hearing on September 9 on the effects of eliminating tariffs and non-tariff trade barriers and pursuing other market liberalization among FTAA countries.

Unresolved at the Panama meeting was whether to begin the process of reducing tariffs from the applied tariff rate used by countries or from the most-favored-nation (MFN) rate which is bound in the WTO. The choice is important because the MFN rates are generally higher than applied rates. Observers have noted that cuts based on MFN rates could result in little or no increase in potential market access. The United States, Canada, Mexico, and Central American countries agreed to allow the Andean (Bolivia, Colombia, Ecuador, Peru,

Venezuela) and MERCOSUR (Argentina, Brazil, Paraguay, Uruguay) countries some flexibility in adjusting tariffs even after notifying what base rates they plan to use. The Andean countries are engaged in phasing in a common external tariff, while MERCOSUR countries are adjusting their common external tariff in response to financial problems in Argentina, among other factors. The United States insisted on reductions based on applied rates. Opposed to that position were the CARICOM countries which held out for basing reductions on MFN rates.<sup>1</sup> Trade ministers, at their August meeting in the Dominican Republic, agreed that all countries (except CARICOM members) would start tariff cuts from the current applied rates. CARICOM countries would be allowed to identify those agricultural and other products where the maximum bound rate would be used as the reference point for reducing tariffs. A November 1 meeting of trade ministers in Quito, Ecuador, finalized the negotiating pace and process to be followed over the next 2 years. Final stages of the FTAA negotiations, to be co-chaired by Brazil and the United States, will take place from November 2002 through December 2004. (For more information, see CRS Report RL30935, *Agricultural Trade in the Free Trade Area of the Americas*; and A Free Trade Area of the Americas in the CRS Electronic Trade Briefing Book).

## **Agricultural Negotiations in the World Trade Organization**

At the World Trade Organization (WTO) Fourth Ministerial Conference in Doha, Qatar, in November 2001, trade ministers agreed on a declaration to begin a new round of multilateral trade negotiations (MTNs), including negotiations on agriculture. This new round, because of its emphasis on integrating developing countries into the world trading system, will be called the Doha Development Agenda (DDA). A first phase of agricultural trade negotiations had been underway since early 2000. The DDA incorporates those negotiations into a comprehensive multilateral trade negotiation and begins a second phase of negotiations in agriculture.

For agriculture, the Doha Ministerial Declaration states that “*building on the work carried out to date (in the sectoral negotiations)*” and “*without prejudging the outcome of the negotiations, we commit ourselves to comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support.*” The Declaration also provides that “*special and differential treatment for developing countries shall be an integral part of all elements of the negotiations.*” The Declaration takes note of “*non-trade concerns reflected in negotiating proposals of Members*” and confirms that “*non-trade concerns (discussed below) will be taken into account*” in the negotiations.

During 2002, WTO member countries have been discussing the issues of market access, export competition, and domestic support. These discussions are expected to culminate in agreement by March 31, 2003 on “modalities” (e.g., formulas for reducing tariffs or timetables for reducing export subsidies) for achieving the objectives mandated by the Doha

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<sup>1</sup> The Caribbean Community (CARICOM, is composed of Antigua, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Monserrat, St. Kitts-Nevis-Anguilla, St. Lucia, St. Vincent, and Trinidad and Tobago).

Declaration Once agreement on modalities is reached, member countries will begin to negotiate individual country schedules or lists of commitments. Member countries will differ in their choice of modalities. For example, some will want to reduce high tariffs more rapidly than lower tariffs, while others will want to protect “sensitive” products by slowing the pace of tariff reduction. Similarly, some will want rapid reductions in export or domestic subsidies while others will want longer timetables for reductions. To facilitate the process of reaching agreement on modalities, the chairman of the Agriculture Negotiating Group will prepare, by December 18, 2002, a draft paper based on the discussions so far. The deadline for concluding the negotiations in the DDA, including those on agriculture, is January 1, 2005.

The United States, the Cairns Group of agricultural exporting countries,<sup>2</sup> the European Union (EU), Japan, and several developing countries submitted negotiating proposals during the first phase. The U.S. position, first tabled in June 2000 and amplified in a July 2002 proposal, includes the elimination of agricultural export subsidies; substantial reductions in tariffs (with no country’s individual tariff exceeding 25%); 20% increases in tariff-rate quotas on agricultural imports; disciplines on state trading enterprises; and reductions in amber box spending (trade distorting domestic support) to no more than 5% of each country’s total agricultural production value – the objective being to make all countries’ domestic support levels comparable in relative terms. Most of these changes would be phased in over 5 years. Ultimately, according to the U.S. proposal, tariffs and domestic support would be eliminated.

The Cairns Group also calls for deep cuts in domestic support and the elimination of export subsidies. The EU, Japan, and Korea place greater emphasis on so-called non-trade concerns like protecting the environment and rural development. The EU has conditioned its support for export subsidy reduction on negotiating disciplines for export credit programs and food aid programs. A recent agreement between France and Germany to maintain EU domestic farm support at current levels and postpone any reductions in support until 2007 may make it more difficult for the EU to agree to agricultural trade reforms in the current round. Developing countries who constitute the majority of WTO members are calling for rapid dismantling of trade barriers of developed countries coupled with exemptions for domestic support deemed essential for economic development.

Most U.S. agricultural interest groups support the inclusion of agriculture in a broader multilateral trade round. These groups believe that trade-offs possible in a more comprehensive negotiation would result in improved market prospects for U.S. agricultural exports. Others, such as winter vegetable producers or wheat farmers in states that border Canada, who feel disadvantaged by previous trade agreements (i.e., NAFTA) are not enthusiastic about U.S. participation in a new round.

While the Administration claimed substantial success in terms of the negotiating mandate for agriculture in the new round, the President on May 13, 2002, signed into law a

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<sup>2</sup> The 18 members of the Cairns group are: Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Fiji, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand and Uruguay. Negotiating proposals submitted by individual countries, and background papers on negotiating issues prepared by the WTO Secretariat, can be found at [[http://www.wto.org/english/tratop\\_e/agric\\_e/negoti\\_e.htm](http://www.wto.org/english/tratop_e/agric_e/negoti_e.htm)].

farm bill (P.L. 107-171) to replace the 1996 Federal Agricultural Improvement and Reform, or FAIR, Act) that, many critics say, could raise trade-distorting domestic support above U.S. commitments to reduce such spending and also undermine the U.S. position in the new round of multilateral trade negotiations. However, the conference report on the farm bill stipulates that the Secretary shall, to the maximum extent possible, make adjustments in domestic support to ensure that it does not exceed levels allowable under the Uruguay Round Agreement on Agriculture. Moreover, U.S. trade officials insist that the United States has not wavered from its negotiating objective of securing substantial reductions in domestic subsidies that distort trade. (For more information, see CRS Report RS21085, *Agriculture in WTO Negotiations*, a summary so titled in the CRS Electronic Trade Briefing Book; CRS Report RL30612, *Farm Support Programs and World Trade Commitments*; and CRS Report RS20858, *Agricultural Export Subsidies, Export Credits, and the World Trade Organization*.)

## Biotechnology and Agricultural Trade

Conflict between the United States and its trading partners over regulations for genetically engineered (GE) crops and food products that contain them pose a potential threat to, and in some instances have already disrupted, U.S. agricultural trade. Underlying the conflicts are pronounced differences between the United States and several important trading partners in consumer attitudes about GE products, their potential health and environmental effects, and the role of risk assessment in determining food safety.

Consumer acceptance of GE crops and foods at home and abroad is critical to U.S. producers, processors, and exporters. U.S. farmers have adopted GE crops because they offer prospects of reducing input costs or making planting more flexible. Aside from their agronomic benefits, supporters of GE crops maintain also that the technology holds promise for enhancing agricultural productivity and improved nutrition in developing countries. For the most part, U.S. consumers have not questioned the health or safety of GE foods. Concerns about the environmental consequences of planting GE varieties are more widely held. In contrast, in the EU, Japan, South Korea, and elsewhere, consumers, environmentalists, and some scientists maintain that the long-term effects of GE foods on health and the environment are unknown and not scientifically established. The EU, in particular, insists that precaution should be used in approving and regulating GE foods.

The U.S. regulatory framework for GE foods facilitates their introduction into U.S. agriculture and food processing. The guiding principal is that GE foods are “substantially equivalent” to conventional foods; therefore, existing regulations for approving foods are appropriate and adequate. Labeling with respect to GE content is not required in the United States, except where there is a significant difference between the conventional and the GE food product (for example, the presence of an allergen). The EU, Japan, South Korea, and China—all major U.S. export markets—either have or are establishing mandatory labeling requirements for products containing GE ingredients. New legislation on GMO approvals went into effect in the EU on October 17, 2002, but a *de facto* moratorium on approvals in place since 1998 remains in effect until legislation for tracing GE crops through the marketing chain and for labeling products that contain GE ingredients (including products where no trace of modified DNA is present) is approved and takes effect, presumably in

2003. The possibility of a U.S. challenge to EU regulations in WTO dispute settlement has been raised by both industry and government spokespersons.

Both the food industry and government regulators are likely to be involved in trying to influence as well as meet the diverse labeling regulations in overseas markets. U.S. industry is assessing the costs and benefits of separating GE from non-GE crops and of preserving crop identity in the marketing chain. U.S. officials are considering changes in the regulatory framework to permit and facilitate voluntary labeling and/or enhance systems for certifying the statements about the GE content of foods.

Biotechnology issues have received attention in the 107<sup>th</sup> Congress. Biotechnology provisions in the 2002 farm bill (P.L. 107-171) include: a biotechnology and agricultural trade program, aimed at barriers to the export of U.S. products produced through biotechnology (Section 3204); competitive grants for biotechnology risk assessment research (Section 7210); agricultural biotechnology research and development for developing countries (Section 7505); and a program of public education on the use of biotechnology in producing food for human consumption. (Section 10802). A bill introduced in the 107<sup>th</sup> Congress calls for mandatory labeling of GE foods (H.R. 4814). Other bills (H.R. 4812, H.R. 4813, and H.R. 4816) deal respectively with legal issues raised by cross-pollination with GE plants, a study of the safety of GE foods, and liability for injury caused by GE organisms. (For more information, see CRS Report RL30198, *Food Biotechnology in the United States: Science, Regulation, and Issues*; CRS Report RS20732, *StarLink Corn Controversy: Background*; CRS Report 98-861, *U.S. European Agricultural Trade: Food Safety and Biotechnology Issues*; and Biotechnology and Agricultural Trade in the CRS Electronic Trade Briefing Book. Also see: General Accounting Office, *Concerns Over Biotechnology Challenge U.S. Agricultural Exports*, GAO-01-727, June 2001.)

## China and U.S. Agriculture

Since China's formal admission to the WTO in December 2001, Congress has monitored its compliance with the terms of its WTO agreement. By 2002, the Administration already was expressing concern that China would not be adhering to its commitments on tariff-rate quotas (TRQs) for agricultural imports. After repeated delays in announcing regulations for these TRQs, details were finally released – but China does not appear to have provided the market access that the United States and other exporting countries had expected under China's WTO's accession agreement when

There is concern also about new Chinese regulations for the approval and labeling of farm products containing genetically modified organisms (GMOs), which are expected to be finalized later in 2003. U.S. producers and Administration officials contend that so far, the emerging rules appear to be vague, potentially conflicting, and administratively burdensome. GMO regulations and how they are implemented could impede the nearly \$1 billion of U.S. soybean exports to China (much of the U.S. soybean crop now contains GMOs). In addition, U.S. trade officials in Beijing said they believe China may be subsidizing corn and other farm exports in violation of its commitment to end such subsidies. Furthermore, U.S. meat industry officials contend that China is impeding imports of U.S. meat and poultry products in violation of the country's obligations under the bilateral 1999 Agreement on U.S.-China Agricultural Cooperation. Agriculture Secretary Veneman spent 3 days in China in late July

2002 to discuss these issues; and Administration officials are continuing to meet with their Chinese counterparts in efforts to resolve problems.

The stakes are high due to the size of China's market for U.S. agricultural products generally and future prospects for growth in demand. U.S. agricultural exports to China were valued at \$1.9 billion in FY2001 (although declining to an estimated \$1.7 billion in FY2002), making it the United States' seventh largest market for farm products. An additional \$1.2 billion of U.S. farm products were shipped to Hong Kong in FY2001 (and an estimated \$1.1 billion in FY2002), many of which were destined for mainland China. If long-run growth is strong, as many economists expect, China's 1.3 billion population, and its growing middle class, suggest an even greater potential as a market for U.S. agricultural products. (For more information, see CRS Report RS21292, *Agriculture: U.S.-China Trade Issues*; CRS Report RS20169, *Agriculture and China's Accession to the World Trade Organization*; and China's Accession to the WTO in the CRS Electronic Trade Briefing Book.)

## Agricultural Export and Food Aid Programs

Major agricultural export and food aid programs, which now operate under the authority of the Farm Security and Rural Investment Act of 2002 (P.L. 107-171) are: (1) the Export Enhancement Program (EEP) and Dairy Export Incentive Program (DEIP), the only current direct price export subsidy programs; (2) food aid programs (Section 416 food donations, Food for Progress and P.L. 480 – Food for Peace); (3) export credit and credit guarantee programs (GSM-102 and GSM-103); and (4) market promotion programs (Market Access Program (MAP) and the Foreign Market Development Cooperator Program (FMD)). These programs are shaped and funded both by authorizing legislation (primarily omnibus farm bills) and by annual appropriations.

**Omnibus Farm Bill.** The new farm bill amends and extends most agricultural export and food aid programs through 2007. The bill reauthorizes both EEP and DEIP through 2007. Funding for MAP, currently at \$90 million, will be increased to \$100 million in FY2002, \$110 million in FY2003, \$125 million in 2004, \$140 million in FY 2005, and \$200 million for FY2006-2007. For the FMD program, funding will increase from the current \$27.5 million per year to \$34.5 million annually. The export credit guarantee programs are reauthorized at current levels (\$5.5 billion per year).

P.L. 107-171 reauthorizes the Food for Peace or P.L. 480 food aid program through FY2007. It eliminates the annual \$1 billion cap on Title II spending, increases the minimum level of commodities to be donated under Title II to 2.5 million metric tons per year, and funds transportation, storage and handling charges in the distribution of Title II commodities at between 5% and 10% of annual Title II funding. The farm bill conference report made a number of changes intended to streamline program administration of P.L. 480. Reauthorized also are the Bill Emerson Humanitarian Trust, a reserve of commodities and funds, that can be used under certain circumstances in P.L. 480 programs, and the Farmer-to-Farmer Program of technical assistance financed by P.L. 480 appropriations.

The 2002 farm bill also reauthorizes the Food for Progress program through FY2007, lifts funding caps on administrative costs and costs related to commodity transportation, and sets a minimum tonnage of 400,000 metric tons per year. The farm bill authorizes the



President to establish a “McGovern-Dole International Food for Education and Child Nutrition Program” with funding mandated at \$100 million in FY2003. Thereafter, the funding level for this program will be subject to annual appropriations.

**FY2003 Appropriation.** Congress may take up agricultural appropriations legislation during the session scheduled for November 11 to November 22, 2002. (Currently the programs are being funded under a series of continuing resolutions.) The Bush Administration's FY2003 budget request for USDA's international activities estimated FY2003 budget outlays of \$2.31 billion to support a program level of \$6.45 billion. Foreign food aid programs would decline under the FY2003 proposal, to \$1.35 billion compared with an estimated \$1.61 billion in FY2002, which food aid advocates argue would sharply reduce tonnage. The Administration has recommended curtailing the use of Section 416 as a vehicle for food aid, which it rationalized through its recent review of food aid. That review recommended (also found in the budget proposal) that all programs now run through private voluntary organizations, cooperatives, and the World Food Program be placed at AID, with USDA food aid activities confined to government-to-government programs.

The House Appropriations Committee on July 26, 2002, reported a FY2003 appropriation (H.R. 5263) that recommends budget authority of \$1.491 billion in FY2003 for USDA's international activities that are subject to annual appropriations (P.L. 480 food aid, salaries and expenses of the Foreign Agricultural Service, and administrative expenses for managing export credit guarantee programs). The House Committee level is \$367 million greater than enacted in FY2002 and \$41.5 million greater than requested by the President for FY2003. The Senate Appropriations Committee bill (S. 2801), reported July 25, 2002, recommends budget authority of \$1.464 billion, \$27 million less than the House Committee bill. S. 2801 is around \$15 million greater than the President's request.

Almost all of the additional funding in both bills goes to food aid programs. The increased budget authority requested for FY2003 reflects a decision by the Administration to phase out food aid that is dependent on surpluses and to pay for much of U.S. foreign food aid with discretionary rather than mandatory spending. Although both bills recommend increases in budget authority for discretionary food aid programs, the Committee reports also stress the continuing importance of commodity assistance and the use of surplus commodities in U.S. food aid programs. The Senate Committee report (S.Rept. 107-223), for example, expresses strong disagreement with Administration decisions to phase out food aid based on commodity surpluses.

Complicating the Administration's proposals to phase out food aid based on surpluses (i.e., food aid provided under Section 416(b)) is the large number of food crises occurring around the world and the apparent inability of the United Nations World Food Program to mobilize sufficient food aid resources to meet estimated needs. Severe food shortages in southern Africa, the Horn of Africa, North Korea, Central America, and Afghanistan are putting pressure on the ability of the international donor community to respond. The United States has been the major contributor of food aid mainly via the WFP to the affected countries, but the demands for food aid during the current fiscal year could exceed the amount of food aid that has been proposed in appropriations legislation.

For the CCC-funded EEP, H.R. 5263 limits spending to \$28 million. In contrast, the Administration had proposed \$478 million for EEP, the maximum permitted by the 1996

farm law and world trade obligations. For its proposed reductions from the authorized level, the House bill scored savings of \$450 million. Savings from EEP reductions were reallocated to a variety of other USDA programs (although only about \$1 million annually has been used in recent years). In the past, the Congressional Budget Office has scored no savings for proposed cuts to EEP funding, since actual spending in the program has been negligible. However, this year, the House Budget Committee used the Office of Management and Budget (OMB) score which allows dollar-for-dollar savings for cuts from the authorized EEP level.

House Committee actions imply a program level of around \$6 billion for all of USDA's international activities—food aid, export credit guarantees, export market development, and export subsidies. (For more information on both farm bill authorization and budget issues, see CRS Issue Brief IB98006, *Agricultural Export and Food Aid Programs*.)

## Country-of-Origin Labeling

The 2002 farm bill (P.L. 107-171) contains a provision (in Title X) for grocery stores to provide country-of-origin information for buyers of fresh fruits and vegetables, red meats, seafood, and peanuts. The initiative is voluntary until September 30, 2004, when it becomes mandatory. (The law exempts processed products, and dining-out establishments, from the requirement.) USDA on October 8, 2002, issued guidelines for the voluntary phase of the controversial labeling program, which supporters view as providing U.S.-raised products with a competitive edge and consumers with more information about their purchases. Opponents argue these guidelines will constitute an unfair trade barrier, excessively costly to implement and enforce. (See CRS Report 97-508 ENR, *Country-of-Origin Labeling for Foods*.)

## Sanctions and Agriculture

The 106<sup>th</sup> Congress codified the lifting of U.S. sanctions on commercial sales of food, agricultural commodities, and medical products to Iran, Libya, North Korea, and Sudan, and extended this policy to apply to Cuba (Title IX of H.R. 5426, as enacted by P.L. 106-387; the Trade Sanctions Reform and Export Enhancement Act of 2000, or TSRA). Enacted provisions place financing and export licensing conditions on sales to these countries; those applicable to Cuba are *permanent* and *more restrictive* than for the other countries. The inclusion of Cuba in this exemption to U.S. unilateral sanctions policy generated the most controversy. Proponents argued that the embargo on sales to Cuba (a sizeable nearby market) harmed the U.S. agricultural sector, and that opening up limited trade would be one way to pursue a “constructive engagement” policy. Opponents countered that such an exemption would undercut current U.S. policy designed to keep maximum pressure on the Castro government until political and economic reforms are attained. In conference action on TSRA, opponents succeeded in inserting the restrictive provisions that apply to Cuba.

Under the new policy, Cuba since late 2001 has made cash purchases worth about \$130 million of U.S. wheat, corn, rice, poultry and other food products from U.S. agribusinesses in order to quickly rebuild food reserves lost in a hurricane and to cover its food import needs.

Members of Congress opposed to TSRA's prohibitions, particularly with respect to Cuba, have introduced measures to repeal these provisions (H.R. 173; H.R. 174; H.R. 797/S. 402; H.R. 798/S. 400; H.R. 2138/S. 1017; S. 171; and S. 239). Some of these bills include provisions to amend TSRA as part of broader proposals to modify or end the U.S. embargo on Cuba. Reflecting in part these views, the Senate farm bill would have repealed TSRA's prohibition on the private U.S. financing of agricultural sales to Cuba (Section 335 of S. 1731). The Bush Administration strongly opposed this provision. During debate on this bill in December 2001, the Senate tabled (effectively rejected) on a 61-33 vote an amendment that would have conditioned U.S. sales of agricultural products to Cuba upon a Presidential certification that Cuba was not involved in supporting international terrorism. The farm bill conference report filed on May 1, 2002, however, dropped the Senate provision. President Bush on May 20 in a major Cuba policy speech restated his opposition to efforts to remove this provision, stating such a change "would just be a foreign aid program in disguise, which would benefit the current regime." Secretary of State Powell and Secretary of the Treasury O'Neill in a joint letter to House Appropriations Committee leaders in mid July reiterated they would recommend that the President veto any legislation that weakened current policy toward Cuba by permitting the private financing of agricultural sales, among other changes.

Nevertheless, some in Congress indicated they would offer amendments to permit private financing of U.S. farm sales to Cuba to FY2003 appropriations measures. On July 23, the House adopted by voice vote an amendment to the FY2003 Treasury-Postal Operations appropriations measure (H.R. 5120) offered by Representative Moran that prohibits the use of funding to implement U.S. sanctions on private commercial sales of agricultural commodities, medicine, or medical supplies to Cuba.

Separately, in reauthorizing export controls (S. 149), the Senate on September 6, 2001, passed an amendment that effectively prohibits their use to limit food sales for national security and foreign policy reasons. Related provisions require that the exercise of any export control authority on food conform to TSRA provisions. (For more information, see CRS Issue Brief IB10061, *Exempting Food and Agriculture Products from U.S. Economic Sanctions: Status and Implementation*; and Cuba Sanctions in the CRS Electronic Trade Briefing Book.)