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Adding a new perspective to US agricultural trade policy

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Abstract

US farmers and ranchers have actively pursued markets in foreign countries for their products since the 1970s. This priority was reflected by the US Congress in 1978 enacting the first set of laws establishing programs aimed at promoting US agricultural exports. In 1986, the US government initiated its first trade negotiations, with the government of Canada, with the express goal of liberalizing access in that market to all US food and agricultural exports. Since that time, the US government has completed free trade agreements with 20 countries, six in DR-CAFTA, 13 in bilateral agreements and adding Mexico to create NAFTA. The US government also devotes considerable resources to detecting and combatting unfair barriers to trade, through informal channels as well as through WTO dispute settlements. However, these tools primarily focus on capturing larger slices of existing markets. To generate better returns, we need to focus more energy on efforts to generate increased demand in developing countries, by helping their agricultural economies prosper. Once those economies are growing, the other tools can be utilized.

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Introduction

Over the last several decades, exports have been an important component of demand for US agricultural products, as productivity gains have enabled US farmers to produce far more grain, oilseeds, cotton, dairy products, and meat and livestock products than can be consumed within the USA. A variety of programs and policies conducted by the federal government have been essential to expanding markets where opportunities arise, and in some instances, maintaining markets when faced by efforts to restrict trade flows. With US export growth into mature markets significantly stagnating in recent years, it is time to acknowledge that expanding trade into developing country markets will require utilization of more than the usual policy tools such as trade promotion and export credit programs. While there are a variety of reasons why it is a good idea to assist developing country economies expand, including that it is the moral thing to do, such engagement will also help build US export markets over the long-run. In fact, this step need not involve creating a new policy tool, but simply engaging in new ways of thinking about long-standing programs and policies.

US agricultural trade—the long-term picture

In 2014, the nominal value of US agricultural exports was estimated to be nearly $150 billion on a calendar year basis, the highest level in history. However, in the context of the 241-yr history of the USA, export levels of that magnitude are a relatively recent development. As shown in Figure 1 below, the value of US agricultural exports did not exceed $10 billion annually on a regular basis until the early 1970s.

Pursuing more exports has been a key component of the policy agenda of organizations representing crop producers such as the National Corn Growers Association (NCGA), the National Cotton Council (NCC) and the American Soybean Association (ASA) for several decades. Groups representing livestock producers such as the National Cattlemen's Beef Association (NCBA) and the National Milk Producers Federation (NMPF) have lagged a bit. Their long-time focus had been on the US status as a net importer of several categories of dairy, meat and livestock products, so their trade interests have until recently been primarily defensive in nature.

Today, the value of agricultural exports accounts for about one-fifth of US farm income, and the share of production that goes for exports is even higher among certain key US commodities. According to the December 2017 World Agricultural Supply and Demand Estimate (WASDE) publication by the US Department of Agriculture (USDA), the share of exports out of total production was 50% or higher for five major crops—cotton (68%), sorghum (59%), rice (58%), wheat (57%) and soybeans (51%). The shares were lower but still significant for other US agricultural commodities, such as pork (22%) and corn (13%).

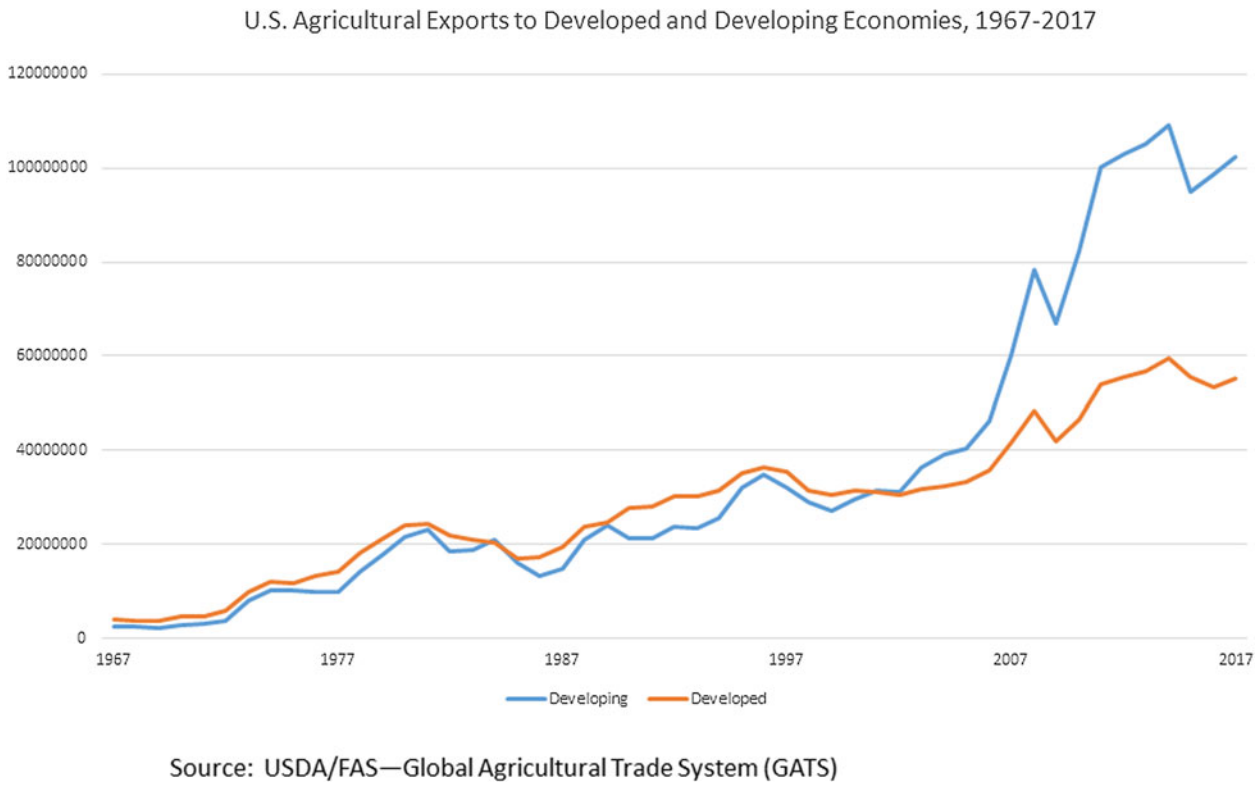

Fig. 1. US agricultural exports to developed and developing economies, 1967–2017. *Source:* USDA/FAS—Global Agricultural Trade System (GATS).

Current set of trade programs

Food for peace program

Within a decade of the end of World War II, Congress passed the Agricultural Trade Development and Assistance Act of 1954, also known as Public Law (P.L.)-480, which established formal programs to provide US commodities to people in developing countries who lacked the purchasing power to afford the food. These commodities were distributed under three formats: developing country governments could buy US commodities under highly concessional loan terms (Title I), NGOs could receive US commodities to undertake direct feeding and development programs in developing countries (Title II, also known as the Food for Peace program), and developing country governments could receive direct donations of commodities to run development programs (Title III).

In the first few decades of operation, P.L.-480 was the main program used to encourage US agricultural exports. In 1957, shipments under these programs accounted for more than 30% of all US agricultural exports (Ackerman *et al.*, 1995). In recent years, US food aid shipments have accounted for <1% of all US agricultural exports. Funding for the Title I and Title III programs was discontinued in recent years, in fiscal years 2002 and 2005, respectively. Donations under the Title II program, operated by the US Agency for International Development (USAID), continue, providing food to feed more than 60 million people around the world in fiscal year 2016 (Office of Food for Peace, USAID, 2017).

Export promotion programs

The next set of tools created to assist US agricultural exports emerged in the Agricultural Trade Act of 1978, which established General Sales Manager (GSM) export credit guarantee programs. These programs provided loan guarantees to US and foreign banks, enabling them to underwrite credit sales of US commodities to countries with less than stellar creditworthiness. The longer term program, GSM-103, which provided loans of between 3 and 10 yr, was repealed in the 2008 farm bill. The shorter term program, GSM-102, originally available for up to 3 yr, was modified administratively in 2010, reducing the maximum tenor to 18 months and imposing risk-based fees on borrowers, as part of an agreement with Brazil to resolve the WTO dispute settlement case against the US cotton program (Schnepf, 2014; McMinimy, 2016). It is still available today, used to export $2.2 billion worth of US agricultural commodities in fiscal year 2016.

The Foreign Market Development Program (FMDP) was first operated by USDA's Foreign Agricultural Service in 1955, and authorized specifically in statute in the Agricultural Trade Act of 1978. This program provides matching resources for US commodity organizations to work within foreign markets to combat barriers to their products entering the market and familiarize consumers with the taste of various US food products. A related program, the Market Access Program (MAP), focused on building demand for US food products, was first authorized in the Food Security Act of 1985.[1] FMDP and MAP receive $34.5 and $200 million each year, respectively, under the 2014 farm bill. Sixty-six organizations received MAP funding in FY18, and 27 organizations received FMDP funding in the same year. These cooperator groups work in markets all over the world. Some

[1]This program was originally called the Targeted Export Assistance Program, or TEA, then renamed as the Market Promotion Program in the 1990 farm bill, then a second name change in the 1996 farm bill to Market Access Program.

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states, such as Missouri and Minnesota, also operate small programs that provide cost-share assistance for agribusinesses in their states to participate in international trade shows.

Negotiating bilateral or regional trade agreements

The Canada–US Trade Agreement, or CUSTA, was the first trade agreement negotiated by the US government that sought to fully liberalize access for US food and agricultural products into a trading partner's market. This deal, completed and brought into force in 1989, fell short of that objective with respect to access to Canada's dairy and egg markets, but this objective has been pursued in every bilateral or regional US trade negotiation since that time. This agreement was later folded into the North American Free Trade Agreement (NAFTA), completed in 1994, which added Mexico as a full partner.

In addition to NAFTA discussed above, the USA has completed a regional trade deal with six countries within Central America (known as the Dominican Republic-Central American Free Trade Agreement, or DR-CAFTA), as well as bilateral free trade agreements with Australia, Bahrain, Chile, Colombia, Israel, Jordan, Morocco, Oman, Panama, Peru, Oman, Singapore and South Korea. Except for the FTA with Israel, all US FTAs have incorporated substantial liberalization of barriers to agricultural trade, with a few politically sensitive commodities carved out in each agreement, such as rice with South Korea. Negotiations were completed with 11 countries in the Trans Pacific Partnership (TPP) in 2015 during the Obama Administration, but the ratification process for TPP was never initiated in Congress and President Donald Trump withdrew from the deal in his first days in office in 2017.

Invoking multilateral trade rules

The USA was also a prime mover in the decision to add agriculture as a negotiating area in the Uruguay Round of multilateral negotiations launched in 1986 under the General Agreement on Tariffs or Trade (GATT). Due to the political sensitivity of food and agricultural policy in most countries, this Round was the first time in seven multilateral negotiating rounds since 1947 that member countries agreed that agricultural policies would be subject to liberalization. The final outcome in the Uruguay Agreement on Agriculture was relatively modest in scope, primarily establishing caps on tariff rates, export subsidies and allowed spending on the most trade-distorting forms of domestic farm support, with modest reductions below previous levels. However, it did establish the principle that agricultural policies would continue to be subject to negotiated reductions in future rounds of negotiations under the World Trade Organization (WTO), which supplanted the GATT in 1995. In addition to capping support in these categories of agricultural policy, the Uruguay Round also established a legally binding dispute settlement process between member countries to address alleged violations of WTO rules, some aspects of which will be discussed in greater detail below.

Although a new round of negotiations under the WTO was launched in 2001, the Doha Round has long been stalled, not yet realizing the comprehensive agreement on agricultural policy, market access for non-agricultural goods and trade in services that had been envisioned at the beginning of discussions.

The negotiations in the Uruguay Round also yielded an agreement on Sanitary and Phyto-Sanitary (SPS)[2] barriers, requiring that member countries not establish such rules unless justified on a scientific basis. However, each country establishes their own rules individually, which are then subject to challenge under the WTO dispute settlement process if they fail to conduct an appropriate risk assessment on a new rule or other countries believe that rule's application to be inconsistent with good science. A USDA study published in 1999 found that questionable SPS barriers and other technical barriers to trade (TBTs) cost US agricultural exporters an estimated $5 billion based on 1996 data (Roberts *et al*., 1999). Because of the complexity of evaluating such measures, more recent estimates are not available (Johnson, 2014). Consequently, several USDA agencies assiduously monitor other countries' issuance of new SPS rules, evaluate them for scientific validity, and challenge those found to be dubious, initially through informal bilateral channels. If bilateral consultations are unsuccessful, such cases may be pursued through the WTO. Since 1995, the USA has filed 11 WTO dispute settlement cases under which the SPS and/or TBT measures of six different countries have been challenged.[3] Of the five cases that were submitted to formal dispute settlement panels, the USA has prevailed in all of them, including the finding in 1997 that the European Union's (EU) beef hormone ban was inconsistent with WTO rules and in 2006 that the EU biotech crop approval system was also in violation of such rules (WTO, 2018).

A new attitude toward old trade policy tools

What most of these trade policy tools have in common is that they are designed to gain an advantage over competitors to sell more product into a given market, either through offering more attractive price or credit terms, by convincing consumers in that market of the superiority of US products, or selling into that market under a lower tariff structure. Challenging SPS or TBT barriers is the exception, since successful efforts open up markets for all potential exporters of that commodity. Essentially, the US objective in using most of these tools is to seek to capture a larger slice of an existing pie for US food and agricultural products.

A major problem with this strategy is that the size of the pie in developed countries where the US trade policy effort has been primarily focused over time has not been growing very quickly in recent years. Since 2000, the inflation-adjusted value of US agricultural exports into the mature markets of developed economies—primarily Europe, Canada, Australia and Japan—has increased at an annual rate of only 1.7%, while the comparable growth rate for US agricultural exports into developing economies was 9.4%. A portion of growth during that period is due to US FTAs with some developing countries taking effect, with lower resulting tariffs, but those markets account for only 14 out of 139 developing countries.

A basic rule of investing is that you should look for areas already generating strong returns. Over the last few decades, the US effort has been getting a poor return on its investment in promoting trade with developed countries, which suggests that more of those resources should be devoted to creating opportunities in developing countries.

In most of those countries, the main US engagement has been with development projects advanced under the Food for Peace program, discussed above, and related USDA and USAID agricultural research and development activities, intended to promote

[2]Sanitary and phyto-sanitary rules address the human, plant and animal health implications of imported agricultural and food products.

[3]Frequently, WTO member countries initiate a given dispute settlement procedure under more than one WTO agreement, such as the SPS and TBT agreements.

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the improvement of agricultural sectors in developing countries. On average, World Bank data show that agriculture accounts for about 15% of GDP and employs more than 25% of the labor force in least developed countries, so helping to improve agricultural productivity in such countries can bolster both the agricultural sector and the overall economy. Over the long-term, these efforts should generate more disposable income for average consumers in these economies, and bolster US exports of a range of products, including food.

There are concrete examples of how these type of investments in developing countries can help spur US agricultural exports. Over the last few decades, US agricultural exports to Guatemala have increased considerably, from $100 million in 1990 to $1.1 billion annually in recent years. Part of that gain can be attributed to lower tariffs under the DR-CAFTA agreement which went into force in 2006. However, US and multilateral assistance over a longer period has helped Guatemalan farmers in a number of ways—improved corn and wheat seed varieties to plant, enhanced nutritional knowledge and diversified agricultural practices—all contributing to improved agricultural productivity. The total value of the country's agricultural production has more than doubled over that period, helping the entire economy grow at an inflation-adjusted annual rate of 2.4%. Similarly, US agricultural exports to Ghana grew from $21.6 million in 1990 to an average of $134.5 million between 2013 and 2016, due at least in part to investment in the country's agricultural infrastructure and training of Ghanaian farmers by US agencies such as the Millennium Challenge Corporation and USAID. These types of US policies help to grow the size of the export demand pie around the developing world, along with the myriad other benefits they create.

With the passage of the Global Food Security Act in 2016 with broad bipartisan support, Congress has formally endorsed continued US engagement in international agricultural development, with a strong emphasis on better coordination of this work across US government agencies. Reauthorization of this legislation is under consideration as of the summer of 2018—such a bill (S. 2229) passed the US Senate on a voice vote on June 19, and similar action is expected by the House by the end of the year. With the strong backing on Congress, USDA and USAID can take the tools they already have and focus them more sharply on creating export growth opportunities in developing countries.

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