

Testimony of Craig Thorn
Powell, Goldstein, Frazer and Murphy, LLP

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Subcommittee on International Trade

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THE IMPORTANCE OF THE NEW ROUND OF WTO NEGOTIATIONS FOR U.S. AGRICULTURE

Mr. Chairman and Members of the Subcommittee:

My name is Craig Thorn. I am a Senior Policy Advisor at Powell, Goldstein, Frazer and Murphy. Our firm represents a number of agricultural companies and trade associations, but I am here today in a personal capacity to discuss the importance of the new round to the future of U.S. agriculture and the prospects for a successful negotiation. The views I will be sharing with the Committee are based on fifteen years of trade policy experience in the Department of Agriculture.

The New Round in Context

Mr. Chairman, American farmers and agribusinesses have long recognized that international trade is vital to the economic health of their industry. Government has understood this as well, and both the public and private sectors have dedicated significant resources to various programs designed to improve U.S. export prospects. However, I believe that no program and no policy has a greater potential to effect positively the long-term prospects for agricultural exports than the new round of multilateral trade negotiations under the World Trade Organization (“WTO”).

While many factors affect export markets, it is the production and import policies of foreign governments that establish the limits for market potential. Trade-distorting subsidies and import barriers, where they exist, make it difficult for U.S. producers to exploit their natural competitive advantage in export markets. The most effective means of disciplining the use of trade-distorting practices by foreign governments is the development and implementation of the rules of international trade under the WTO.

The United States made significant progress toward strengthening rules and opening markets in the Uruguay Round of multilateral trade negotiations. However, at the end of that round, U.S. negotiators accepted a compromise that, in effect, postponed the achievement of many of the most substantial gains. In order to bring the negotiations to a conclusion, the U.S. accepted an agreement that fundamentally reformed the rules of agricultural trade, but required only modest cuts in subsidies and import protection. However, they demanded and got a “continuation clause,” Article 20 of the *Agreement on Agriculture* (“Agriculture Agreement”), which commits WTO members to another round of negotiations aimed at further liberalization beginning one year before the end of the Uruguay Round implementation period.

Because the Uruguay Round agreements laid the groundwork for a healthy multilateral trading system in the agriculture sector – a good foundation of rules, plus better compliance and dispute settlement mechanisms – the U.S. will be able to concentrate in the new round on achieving substantial reductions in trade-distorting subsidies and import barriers. The stage is therefore set for significant gains for U.S. farm exports.

Prospects for progress

Therefore, the failure of the Ministerial Conference at Seattle was especially disappointing for U.S. agriculture. Rather than launching a new round of trade negotiations and laying the foundation for a further strengthening of the multilateral trading system, the Seattle Ministerial exposed serious political and institutional problems and led some to wonder whether there could be a new negotiation under the present circumstances.

Fortunately for all of us, the WTO has shown considerable resilience in the succeeding weeks. Trade diplomats from WTO Member countries have been busy in Geneva putting the pieces back together and preparing to move forward. The focus has been on the “built-in agenda” – the negotiations on agriculture and services that were mandated in the Uruguay Round agreements. Despite continued disagreements over certain unresolved issues, the Member countries were able to work out a means of beginning the negotiations in those two sectors using existing structures, the Committee on Agriculture and the Services Council. The Services Council held its first special negotiating session in late February, and the Agriculture Committee will do the same the week of March 20.

Given sufficient political will and appropriate U.S. leadership, the coming year can be a productive one for the agriculture negotiations. The first year of any multilateral negotiation is mainly preparatory. Countries prepare and present their initial negotiating proposals, and there is an inevitable process of debate and coalition-forming. Negotiators develop the ideas and concepts that will form the basis for the final agreement. All of this can take place despite the absence of a full-fledged new round of negotiations.

At the same time, I want to stress the critical importance of the eventual launching of a comprehensive round. While the agriculture negotiations can begin on their own, it is highly unlikely that they could ever be concluded on their own. For that we need a much larger package that will meet the needs of all countries and allow our more reluctant negotiating partners to justify the concessions they will have to make on agriculture. I will return to this issue later in my testimony.

The U.S. Negotiating Agenda

Since the agriculture negotiations are about to begin, the U.S. is in the process of developing its negotiating agenda. As I indicated, most of the elements of that agenda should be self-evident. The primary focus should be on achieving 1) the elimination of export subsidies and 2) substantial reductions in trade-distorting domestic subsidies and market access barriers.

Export subsidies: The number one negotiating priority for the U.S. in the Uruguay Round was to discipline the use of export subsidies. We tend to forget the circumstances that made that goal such an urgent one. From the initiation of the EU Common Agricultural Policy in the 1960's, we had experienced a steady and dramatic rise in

subsidized EU exports. By the mid 1980's the EU had taken a major share in world markets for nearly every temperate-zone agricultural product. The obvious inequity of this situation focused world attention on the need for international discipline.

The Uruguay Round outcome was a clear success in this regard. The European share of world markets is declining across the board. For example, EU exports of wheat and wheat flour in marketing year 1992/93, before they adopted the policy changes designed to allow them to accept a WTO agreement, were nearly 24 million tons, or 24 percent of the world market for wheat. Next year they will be limited by their WTO commitments to 14.4 million tons, a 14 percent market share. Reductions are less dramatic for other commodities, but still significant. Subsidized pork exports will decrease from 560,000 tons to 440,000; beef from over 1 million tons to 820,000 tons; and cheese from 406,000 to 321,000. The EU is being forced to make domestic policy changes in order to meet these commitments.

Of course, subsidized EU tonnage is still substantial. Our goal in the next round should be the complete elimination of export subsidies. Given the negotiating context, I believe this is a realistic and achievable goal.

Domestic subsidies: The achievements in the Uruguay Round with respect to domestic subsidies were more modest. The twenty percent reduction in support on a sector-wide basis left countries with significant flexibility with respect to individual products. Moreover, the Agriculture Agreement contains large loopholes, in particular the so-called "blue box" (Article 6.5), which allows EU direct payment programs to totally escape reduction commitments.

The U.S. would benefit from much tighter disciplines and substantial reduction commitments, and we should be in an excellent position to push for that outcome. Going into the new negotiations, the EU AMS commitment will be about \$68 billion, over three times the limit for the U.S. Japan's final AMS limit will be nearly double ours. And, unlike the U.S., both countries are spending a substantial portion of that total, even without counting EU blue box policies.

Moreover, unlike the Europeans, Japanese and others, we in the U.S. made major changes in domestic support policies after the Uruguay Round that brought our programs for most commodities into harmony with the new international disciplines. In fact, the FAIR Act of 1996 caused anxiety among EU officials, who saw it as an indication that the Americans would be aggressive on domestic and export subsidies in the next round. A further tightening of the domestic support disciplines would force countries either to reduce subsidization or move to less trade-distorting means of support. The result should be fairer and more open world markets.

Market access: In the long-run, the greatest benefits for U.S. agriculture will come from reductions in import barriers. Fortunately, the market access negotiations in the new round should be much less complicated, and more productive, than in the Uruguay Round.

In the Uruguay Round, negotiators focused mainly on eliminating the non-tariff barriers that were so common in agricultural trade at the time. These barriers – import quotas, variable import levies, discretionary licensing systems, and so forth – were converted under the Agreement to tariffs, which were “bound” (that is, countries committed not to raise them above specified levels) and then reduced, along with pre-existing tariffs, by an average of 36 percent. Because tariffs in the agricultural sector were in many cases so high, market access gains from the tariff reductions have been limited. There are, however, some notable exceptions. For example, reductions in Japan’s import duty for pork turned that country almost overnight into the largest export market for our pork producers. Korean agricultural imports increased overall by more than fifty percent in the first year of implementation of the Agreement.

Because non-tariff barriers were eliminated in the Uruguay Round, U.S. negotiators will be able to focus on the magnitude of tariff reductions and the methodology for achieving those cuts. American interests would be best served by a “formula” approach, which brings down duties on all products, rather than a request/offer approach, which would allow countries to avoid reductions for sensitive products or product sectors. A formula approach will bring meaningful liberalization where it matters most, while a request/offer negotiation would lead inevitably to a small outcome.

Biotechnology: Trade in biotech products is the single biggest problem facing U.S. agriculture today. The U.S. worked unsuccessfully in Seattle to get an agreement on the formation of a WTO working party to discuss trade problems related to the products of biotechnology. The failure of the Ministerial left the issue in limbo.

It is essential that we find a WTO forum where we can address biotechnology. The purpose of such a discussion would be to 1) reaffirm that applicability of WTO rules – in particular the *Agreement on the Application of Sanitary and Phytosanitary Measures* – to biotech trade (an especially important task in light of the recent conclusion of the Biosafety Protocol negotiations); 2) examine the adequacy of those rules; and 3) provide a forum for the discussion of biotech issues with officials who understand WTO obligations.

Prospects for a Successful Outcome

There are reasons to be optimistic about our chances for achieving a good agreement in an acceptable timeframe. As indicated above, we have the advantage of the rules framework negotiated in the Uruguay Round. We also have established a direction and a certain momentum for reform. From a technical as well as a political perspective, this agriculture negotiation is less complex than the previous one.

Moreover, we have the advantage of the deadline imposed by the expiration of the so-called “peace clause.” The peace clause, Article 13 of the Agriculture Agreement, suspends until January 1, 2004, the application to the agricultural sector of certain WTO rules, most notably Articles 3, 5 and 6 of the *Agreement on Subsidies and Countervailing*

Measures (“Subsidies Agreement”). Its expiration could have serious consequences for the EU and other exporting countries with high levels of subsidization, whose policies would then be subject to the much more stringent disciplines of the Subsidies Agreement. Used properly, the peace clause could be a powerful incentive for concluding an agreement.

Finally, Europe is once again feeling internal pressures for reform. Negotiations have begun for a substantial enlargement of the EU. It will be very difficult to bring the countries of Central and Eastern Europe into the Union without fundamental reforms in the Common Agricultural Policy. Some European officials see the WTO negotiations as providing welcome pressure for the necessary changes.

However, achieving an agreement is certainly not a forgone conclusion. As indicated previously, success in the agriculture negotiations is dependent on the conclusion of a substantially broader package of agreements that contains something for all participants. The U.S. understood this fact in the Uruguay Round, when we pushed for an ambitious negotiating agenda and a “single undertaking” approach, which meant that nothing in the final package was agreed until all elements were agreed.

Unfortunately, this was not the U.S. approach in the run-up to the Seattle Ministerial. Rather, U.S. negotiators stressed limiting the scope of the negotiations and allowing for “early harvest” in sectors where it might be possible to reach quick agreement. At times, the U.S. seemed more intent on keeping issues off of the new round agenda than in putting them on. It is difficult to lead from such a defensive posture.

The U.S. needs to reexamine its negotiating position. We need to be prepared to discuss in the new round some subjects that are politically difficult for us so that our negotiating partners will agree to do that same. If we are not willing to do so, we will not be able to assemble a viable negotiating package, and we will lose a historic opportunity for American agriculture.

Thank you, Mr. Chairman.