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WORLD TRADE ORGANIZATION

Progress in Agricultural Trade Negotiations May Be Slow

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to provide observations about the negotiations on agricultural trade being conducted by the World Trade Organization (WTO). Specifically, my testimony will address (1) U.S. and other countries' objectives in the agricultural trade negotiations, (2) progress achieved during the 1999 WTO Seattle ministerial conference, and (3) prospects for future negotiations.

My observations are based on our past and ongoing work; our review of WTO and executive branch documents; related literature; discussions with experts on the WTO and international trade; and interviews with U.S. government, WTO, and foreign government officials from 15 countries. In addition, I, along with members of my staff, attended the Seattle ministerial conference.[1]

SUMMARY

WTO member countries intended to launch a new round of multilateral trade negotiations covering agriculture and other issues at their biennial Ministerial Conference last December in Seattle. The principal objectives of the United States and several other agricultural exporting countries for liberalizing agricultural trade included (1) elimination of export subsidies, (2) a reduction in trade-distorting domestic agricultural support programs, and (3) an increase in market access for agricultural products in member countries. On the other hand, the European Union and other countries opposed any attempt to eliminate export subsidies.

Trade ministers meeting in Seattle intended to conclude the ministerial conference with a ministerial declaration that would launch a new round and set the agenda for negotiations in each subject area, including agriculture. There is general agreement by conference participants that negotiations on agriculture made the most progress of any area at the Seattle conference. Countries had moved closer to reaching consensus on many of the issues to be addressed and on the time frames for completing agricultural negotiations in a new round. However, this progress was essentially lost when countries could not reach consensus on an agriculture text, and the conference was adjourned without launching a new round or issuing a ministerial declaration.

Despite the impasse in Seattle, agricultural trade negotiations will resume this year in Geneva as mandated by the Uruguay Round Agreement on Agriculture. However, it is unlikely that these talks will meet U.S. objectives for liberalizing agricultural trade any time soon, for several reasons. First, the failure to issue a ministerial declaration may make it difficult for negotiators in Geneva to build on the progress made in Seattle. Second, there is some concern whether countries

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[1] For our assessment of the overall outcome of the ministerial conference, see World Trade Organization, Seattle Ministerial: Outcomes and Lessons Learned (GAO/T-NSIAD-00-86, Feb.10, 2000) for more details.

will be willing to make concessions on agriculture without trade-offs in other areas, as would have been the case in a trade round with a broader negotiating agenda. Third, not much progress should be expected this year, since groundwork must be laid before substantive negotiations can begin. For example, WTO members have yet to submit proposals as to what should be on the negotiating agenda for agriculture.

BACKGROUND

The United States is one of the largest importers and exporters of agricultural products in the world. Although accounting for only about 5 percent of overall U.S. exports, agricultural exports were about $48 billion in 1999. Furthermore, agricultural trade had nearly an $11 billion surplus compared with an overall U.S. trade deficit of about $271 billion in 1999. Also, U.S. markets for agricultural commodities are relatively open, with average tariffs on most agricultural products very low compared to those of many other WTO members. Consequently, the United States has pursued trade liberalization in the agricultural sector and has sought to include agriculture in previous rounds of multilateral trade negotiations.

The conclusion of the Uruguay Round in 1994 represented the first time that the multilateral trading system undertook to substantially reform agricultural trade. The Uruguay Round created the WTO, which provides the institutional framework for the multilateral trading system. WTO administers rules for international trade, provides a mechanism for settling disputes, and provides a forum for conducting trade negotiations. There are two agreements from the Uruguay Round that specifically address agricultural issues—the Agreement on Agriculture and the Agreement on the Application of Sanitary and Phytosanitary Measures (the SPS agreement).

The Agreement on Agriculture covers barriers to market access, such as tariffs and quotas, subsidies for exporters, and support for domestic agricultural producers. WTO members agreed to a 36 percent reduction in average tariffs of agricultural products by developed countries by 2000, and a 24 percent reduction by developing countries by 2004. In addition, the Agreement on Agriculture required that WTO members' spending on export subsidies be cut by 36 percent and that quantities subsidized be cut by 21 percent for developed countries by 2001.[2] The agreement also required cuts in certain types of domestic farm supports that could include price supports or subsidies for fertilizer and irrigation. Article 20 of the Agreement on Agriculture calls for renewed agricultural trade negotiations in the year 2000 to continue the long term objective of agricultural

[2] For more information on implementation of the Agreement on Agriculture, see The General Agreement on Tariffs and Trade: Uruguay Round Final Act Should Produce Overall U.S. Economic Gains (GAO/GGD-94-83b, July 29,1994), and Commitments by the European Union and the United States to Reduce Agricultural Export Subsidies (GAO/NSIAD-99-198R, June 18, 1999) for more details.

trade reform through substantial progressive reduction in support and protection. This is referred to as the "built-in agenda."

The SPS agreement sets out the basic rules for food safety and animal and plant health standards that affect international trade. It allows countries to set their own standards, but specifies that regulations must be based on sufficient scientific evidence, and it restricts the use of unjustified measures for trade protection.

In December 1999, trade ministers held their third biennial WTO ministerial conference to launch a new round of multilateral trade negotiations covering at least agriculture and services[3] but potentially including other areas such as industrial market access and government procurement. However, the December ministerial conference failed to achieve its goal. After 4 days of intensive talks, the conference was suspended on December 3 without agreeing on a round or issuing a ministerial declaration or any other formal documentation of its deliberations. As a result of the inconclusive nature of the Seattle meeting, the status of the ministerial conference and the prospects for a new round remain unclear. However, WTO members are scheduled to renew agricultural trade negotiations this year, as mandated by article 20 of the Agreement on Agriculture.

COUNTRIES' OBJECTIVES ON AGRICULTURAL TRADE

In efforts to launch a new round of trade negotiations in Seattle, the United States and other agricultural exporters sought to include additional disciplines on export subsidies and domestic farm supports, as well as market access issues, within the framework of agricultural negotiations. The European Union (EU) and Japan, on the other hand, had reservations regarding some of these issues and were more interested in making sure that certain agriculture-related nontrade concerns, such as food safety and food security, were addressed in the negotiations. Moreover, the EU and Japan were not satisfied with negotiations limited to the "built-in agenda" issues of agriculture and services. Rather, they called for a broad framework for negotiations to bring many new areas, such as investment and competition policy, under international disciplines.

The United States insisted that negotiations on agriculture address a number of tough issues, including the elimination of export subsidies, the imposition of substantial cuts in trade-distorting farm supports, and a call for reductions in tariffs. Other major agricultural exporting countries, known as the "Cairns Group," supported these goals. In addition, the United States wanted the agriculture negotiations to introduce stronger disciplines on the activities of state trading enterprises,[4] and guarantees that decisions on imports of new

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[3] As part of the built-in agenda, the Uruguay Round Agreement on Trade in Services, like the Agreement on Agriculture, called for negotiations in the services sector to begin in 2000.

[4] State trading enterprises are generally considered to be governmental or nongovernmental enterprises that are authorized to engage in trade and are owned, sanctioned or otherwise supported by the government.

technologies, such as biotechnology, would be based on scientific grounds and transparent (open) regulatory processes. At the same time, the United States sought to limit the introduction of nontrade issues, which the EU, Japan, and certain other countries wanted to be considered in the agriculture negotiations. The United States also opposed efforts to include U.S. export credit guarantee programs in the negotiations.[5] Finally, the United States wanted to avoid opening the SPS agreement to renegotiation, because of the possibility that such a move would undermine the principle that SPS measures must be based on scientific principles.

The efforts by the United States and the Cairns group to seek to eliminate agricultural export subsidies were difficult for the EU to accept. In particular, European officials noted that they simply could not support language calling for the "elimination" of all export subsidies as the starting point of negotiations. Although the EU has been reducing subsidies to agriculture since the Uruguay Round, it remains by far the world's largest user of agricultural export subsidies. Export subsidies are a key mechanism in the EU's Common Agricultural Policy, which is intended to preserve farm incomes and rural economies by supporting high domestic prices for a wide variety of agricultural commodities and products. EU member states have taken a very strong position on maintaining the Common Agricultural Policy, a central element in the EU's institutional system and regarded as essential to its cohesiveness. Moreover, the EU and Japan proposed that agriculture negotiations take into account the "multi-functionality" of the agricultural sector and address issues such as food security, food safety, environmental protection, animal welfare, and the economic viability of rural areas.

The EU and Japan also viewed the prospect of launching a new round as an opportunity to establish international rules in other areas of the global trading system. In addition to agriculture and services, they proposed including investment, competition policy, government procurement, and other issues in a broad framework for negotiations. According to an EU official, the EU expected that compromises on agriculture would be compensated by concessions in these other areas. Although U.S. negotiators indicated support for continued study of investment and competition policy by WTO working groups, the United States and many other WTO members were unwilling to include these issues in the negotiating agenda for a new round.

PROGRESS ACHIEVED AT SEATTLE MINISTERIAL CONFERENCE

There is general agreement by participants at the ministerial conference in Seattle that negotiations on agriculture made the most progress of any area. Many officials indicated that consensus was close on a draft text setting forth issues to be addressed and on time frames for completing agricultural sector negotiations

[5]U.S. export credit guarantee programs allow foreign buyers to purchase U.S. agricultural commodities from private U.S. exporters, with U.S. banks providing the financing.

in a new round. However, this progress in the agricultural area was essentially lost when countries could not reach final consensus on the text, and the ministerial conference ended without agreement on a final declaration to set the agenda for a new round of trade negotiations.

In an effort to give all WTO members an opportunity to take part in the negotiations at Seattle, five large working groups, open to all member delegations, were set up to address major issues, including agriculture. U.S. and foreign officials agreed that the working group on agriculture made the most progress in Seattle. Although many working groups were hampered by the late selection of their chairs, the agriculture working group chair was named 2 days before the conference officially began and was able to begin work immediately on a draft agriculture text. In addition to two formal working group meetings, the chair held over a dozen smaller meetings with key delegations where most of the progress was made on developing a text. The chair completed a draft text on agriculture on the next to the last day of the conference, which contained only few areas of disagreement among interested WTO members.

The negotiations proceeded in a "green room" process on Friday, the last day of the conference.[6] In the green room, negotiators worked with the draft agriculture text; the negotiations on agriculture lasted 6 hours. By mid-afternoon, the parties appeared to be close to reaching consensus, and a draft text was issued that represented considerable compromise among the interested countries.

The draft agriculture text included many provisions favored by the United States. For example, it called for negotiations to cover, "substantial reductions" in subsidies in the "direction of progressive elimination of all forms of export subsidization." Similarly, the text called for negotiations to cover, "substantial progressive reductions" in domestic supports to agriculture. However, the United States was unable to get any specific reference to state trading enterprises in the text, as it had sought. Some non-trade concerns that the EU and Japan had wanted to introduce into the negotiations were included, but they were to be addressed through WTO transparent and non-trade distorting measures. Furthermore, these measures were to be in compliance with WTO principles, in general, and with the existing SPS agreement, specifically.

However, at the end of the conference, neither an overall agreement nor an agreement on agriculture was reached, and no ministerial declaration was issued. Thus, no agenda was set for a new round of negotiations. Several factors led to the failure to reach consensus, including differences among key players on certain issues, including agriculture. Although the participants we interviewed generally agreed that progress had been made in the agriculture talks, they noted that differences on some controversial issues remained. For example, the EU still had

[6] As opposed to the working groups that were open to all member delegations, traditionally negotiations have taken place among a smaller number of key WTO members to work out privately some of the more difficult compromises. This smaller group negotiation of 20-30 members is known as the "green room" process.

difficulties with language in the agriculture text that called for the elimination of export subsidies, while Japan and Korea opposed wording on market access that might have ruled out maintaining high tariffs on certain imports, notably rice. Ultimately, the EU said it would not agree to the draft text on agriculture without reaching consensus on the other issues in the negotiations, including investment and competition policy.

It is impossible to determine whether an agreement on agriculture could have been reached in Seattle because of the number of other factors that led to the breakdown of the talks, particularly the intense disagreement on the scope of the new round. According to U.S. government officials, failure to reach consensus at Seattle was partly due to the unwillingness of the EU and Japan to compromise on certain key aspects of the agriculture negotiations. Some European officials told us they probably could have made concessions on agriculture if the rest of the negotiations had been successful. However, other European delegations told us they would not have been able to accept the term "elimination" of subsidies in the text, and they would have pushed for it to be deleted if the negotiations had continued.

PROGRESS IN THE MANDATED NEGOTIATIONS MAY BE SLOW

Despite the failure to launch a trade round in Seattle, agricultural trade negotiations will resume in late March, under article 20 of the Uruguay Round Agreement on Agriculture. However, progress in achieving substantive trade liberalization may have been impeded for several reasons. For example, the failure to launch a new round may make it difficult for negotiators in Geneva to continue where they left off in Seattle. Furthermore, negotiating agriculture in isolation without the possibility of trade-offs in other areas may be problematic. Finally, much groundwork must be laid before substantive negotiations can begin.

First, the inconclusive outcome of the ministerial conference will make it difficult for negotiators in Geneva to start where they left off in Seattle and thus take advantage of any forward movement on the issues that occurred. The draft agricultural text from Seattle will not be used as a starting point for renewed negotiations; rather, article 20 will be the basis for the negotiations. The draft text was more definitive than article 20 regarding the specific issues on the negotiating agenda and time frames for the negotiations. For example, article 20 only calls for the continuation of the reform process with a stated long-term objective of making substantial and progressive reductions in agricultural support. In contrast, as previously noted, the draft Seattle text specifically called for, among other things, negotiations to cover "substantial reductions" in subsidies in the "direction of progressive elimination of all forms of export subsidization." Additionally, the draft Seattle text contains interim benchmarks and a deadline for the negotiations of December 15, 2002. Article 20, however, does not set a final deadline or such interim benchmarks. Specifically, it does not state when members must reach agreement on how the negotiations will be conducted or when members must submit their negotiating offers.

The U.S. Trade Representative has maintained that the expiration of the "peace clause[7]" at the end of 2003 may be an incentive to negotiate on agricultural subsidies by that date; after expiration of the peace clause, for the first time WTO members will be able to challenge certain agricultural export subsidies and domestic support measures of other members. However, one senior European official did not believe that the expiration date would act as an incentive to complete the negotiations.

Second, there is some concern about whether countries will be willing to make concessions in agriculture without obtaining trade-offs in other areas, as would have been the case in a round with a broader negotiating agenda. As demonstrated in Seattle, trading partners with politically sensitive agricultural sectors, such as the EU, want to show their constituents that they have gained concessions in other areas in order to agree to reduce agricultural protection and support. One EU trade minister recently stated that, for this very reason, the mandated article 20 negotiations are unlikely to move forward in the absence of a comprehensive new trade round.

Finally, several U.S. government officials told us that not much progress should be expected during the first year of the built-in agenda negotiations because many decisions about how to proceed have yet to be made. Negotiations under the built-in agenda for agriculture will be conducted under the auspices of special sessions of the Committee on Agriculture, a standing committee within the WTO. The first special session of the Committee on Agriculture will meet the week of March 20th. Although the committee chair has yet to be named, U.S. and WTO officials told us that they expect this to occur before the first special session. The first meeting may cover procedural matters, such as agreeing on a work program for the remainder of 2000, and setting a deadline for WTO members to submit proposals on what should be on the negotiating agenda. A WTO official told us that the deadline for submitting proposals will likely be sometime this fall, or early next year.

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Mr. Chairman and Members of the Subcommittee, this concludes my prepared remarks. I will be happy to respond to any questions you may have.

Contacts and Acknowledgments

For future contacts regarding this testimony, please call Susan Westin or Beth Sirois, at (202) 512-4128. Individuals making key contributions to this testimony included Nina Pfeiffer, Juan Gobel, and Tim Wedding.

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[7] The "peace clause" is a provision in the WTO Agriculture Agreement that protects WTO members from some challenges to their agricultural support programs and subsidies.

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