Bilateral and Multilateral Trade Agreements

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Background

In the United States, since the mid-1970s under the Ford Administration, successive presidents have sought and frequently been given fast track authority by Congress to negotiate trade agreements. Under fast track authority, the Congress agrees to allow the president to negotiate all of the elements of a trade agreement, and then to vote without amendments on whether or not the whole agreement will be accepted — rather than to vote on each provision of the agreement. Fast track authority is widely viewed as having enhanced the ability of U.S. administrations to be more effective and credible in trade negotiations. Currently, the president's fast track authority has expired and Congress has not been willing to renew it. Many commentators believe that as long as the U.S. administration does not have fast track authority, little progress is likely to be achieved in the current round of WTO negotiations or other multilateral trade initiatives.

This paper describes the various forms that trade agreements may take and discusses the agricultural commodity provisions of major agreements that have direct or indirect economic consequences for the U.S. agricultural sector.

Issues

Types of Trade Agreements

Trade agreements are either bilateral, involving only two countries, or multilateral, involving more than two countries. They are usually intended to lower trade barriers between participating countries (though not necessarily between those countries and other non-participating countries) and, as a consequence, increase the degree of economic integration between the participants.

The Reciprocal Trade Agreements Act of 1934 (RTA) authorized the President of the United States to fix tariff rates. Between 1934 and 1947, the United States negotiated bilateral trade agreements with 29 nations. In 1947, however, GATT emerged as the primary forum for trade negotiations and the RTA declined in importance as a mechanism for trade liberalization. Since 1947, generally, although not always, the United States has pursued trade liberalization in multilateral settings.

Typically, trade agreements that increase access to each member country's markets are supported by sectors that export their products but are opposed by sectors that face competition from imports.

Trade Agreements and Forms of Economic Integration

For the most part, trade agreements entered into by the United States have created free trade areas as one form of economic integration. In a free trade area, tariff and non-tariff barriers to trade between member countries are removed. Trade barriers with the rest of the world differ among members and are determined by each member's policy makers.

In customs unions, trade barriers between members are eliminated and identical barriers to trade with nonmembers are established, typically by common external tariffs. A common market is a customs union in which the free movement of goods and services, labor, and capital is also permitted among member nations.

An economic union is the most complete form of economic integration. National agricultural, social, taxation, fiscal, and monetary policies are harmonized or unified among member countries, and a common currency may be adopted.

The GATT and the WTO

From the perspective of agricultural producers in the United States, the 1994 General Agreement on Tariffs and Trade (GATT), which created the World Trade Organization (WTO), is an extremely important multilateral trade agreement. The World Trade Organization (WTO) is a voluntary group of nations that negotiates, monitors, and enforces global rules for international trade. More than 140 nations have joined the WTO and have agreed to accept pre-negotiated trading rules. The WTO describes itself as dedicated to reducing barriers to trade between nations and ensuring that members adhere to predetermined rules for international trade.

Prior to the Uruguay Round agreement in 1994, many nations, including the United States, were signatories to the General Agreement on Tariffs and Trade (GATT), but no official "global organization" regulated trade. Nations participating in the GATT system (which was established in 1947) met regularly and GATT rules were enforced with the help of a small staff. Thus, the shift from GATT to WTO involved a relatively small transition. The GATT continues to be the basic trade agreement contract between WTO members.

The 1994 Uruguay Round agricultural agreement included reforms related to market access, export subsidies and domestic support, as well as new rules concerning human health, animal health, and plant health regulatory trade barriers developed under the Sanitary and Phytosanitary (SPS) agreement. Market access provisions include:

(1) Converting non-tariff barriers to tariffs,

(2) Creating minimum market access for small import quantities at low or zero tariffs (typically three percent of domestic consumption expanding to five percent over time) when imports had been prohibited or almost prohibited,

(3) Reducing all tariffs by an average of 36 percent over a 6-year period (or 24 percent over 10 years for developing countries), and

(4) Requiring a minimum cut of 15 percent for every tariff.

No country could utilize these provisions to reduce previously available market access. However, safeguard provisions also allowed countries to raise temporary barriers if import surges caused economic hardship to specific domestic industry. Export subsidies are generally prohibited under the GATT. Between 1994 and 2000, agricultural export subsidies were reduced by 36 percent in value terms and 24 percent in volume terms and by 2000, agricultural export subsidies were smaller and less frequently used than in the 1980s and early 1990s.

The agricultural agreement also included provisions related to domestic farm subsidy programs that could distort trade. Nonetheless, the 1994 GATT recognized that many farm subsidy programs are used for objectives other than trade concerns. The agreement therefore attempted to limit the use of "trade distorting" domestic subsidies, phasing down the aggregate of these "amber box" subsidies over six years, while placing no restrictions on so-called "green box" subsidies that were not viewed as trade distorting.

All nations agree that legitimate public policy concerns may require restricting imports that threaten food safety, or plant or animals populations with pests or diseases. However, some sanitary or phytosanitary (SPS) barriers were used to restrict imports that posed no real SPS threat. The 1994 GATT SPS agreement required that all SPS barriers be based on sound science and that countries demonstrate the legitimacy of any barrier that was challenged. The WTO is currently engaged in three major activities: (1) monitoring trade policies and providing information about the benefits of freer trade, (2) providing an active dispute resolution program entailing a legal process of convening panels to provide an objective and fair dispute resolution process, and (3) initiating a new round of trade liberalization negotiations in agriculture, services, and (perhaps) other areas.

Under the 1994 GATT, agricultural negotiations were to begin in 2000 with the objective of rapidly developing a new agreement. These negotiations did begin but have progressed slowly with countries only stating their initial objectives. No real progress was expected until the new U.S. administration had its senior level trade team and strategies in place, and most observers expected the pace of negotiations to pick-up in the latter part of 2001

Developed Countries and the WTO

During the Uruguay Round negotiations, the United States was generally a strong proponent of improved market access and reductions in internal supports that provided incentives for expanded domestic production. Given that the United States is a major exporter of many agricultural commodities, the U.S. administration may well retain a focus on further reductions in barriers to trade and output expanding domestic subsidies. In those respects, it is likely to find supporters for its negotiation positions among other major agricultural exporting nations such as Canada, Australia, Argentina, New Zealand, and other members of the CAIRNS group. This was a group of countries that developed a common set of freer trade oriented negotiation positions in the Uruguay round.

Some other countries such as Japan and the EEC, who provide producers with relatively large subsidies are concerned about further mandated reductions in tariffs and domestic support programs. Appealing to the multifunctionality of agricultural subsidies, they argue that both domestic subsidies and some trade barriers can be justified. Multifunctionality, in this context, involves a perceived need for domestic food security, maintenance of rural communities, and the provision of environmental amenities in densely populated countries.

The U.S. has also indicated that trade distorting operations of import and export State Trading Enterprises should be disciplined by new WTO rules, a view that is shared by the EEC. However, these disciplines are generally opposed by countries such as Japan, New Zealand, or Canada, which rely on import or export STEs to manage trade in important agricultural commodities.

Reductions in, or the abolition of, export subsidies (including export credit guarantees) are being sought by many countries, including the CAIRNS group. The United States has generally supported export subsidy reductions, but it opposes abolition of export credit guarantees.

Finally, the United States, along with Canada, has been strongly supportive of maintaining and strengthening the SPS provisions of the 1994 GATT, particularly because of concerns about the proliferation of non-science based restrictions on trade in genetically modified organism (GMOs) and livestock products produced with hormone additives. In contrast, some countries, such as Japan and the EEC, have indicated interest in modifying the SPS to allow for perhaps more arbitrary restrictions on trade in these products. A recent EEC-U.S. agreement on labeling requirements for products containing GMO crops may mitigate some of the heat generated by these issues.

Developing Countries and the WTO

Since the Uruguay Round, developing countries have played a larger role in the WTO. Of the 140 WTO member countries, 105 are classified as developing and, of those, 29 are least developed. Although developing countries differ in many ways, they have much in common and, since the 1960s, have attempted to influence trade negotiations by forming coalitions with common objectives, such as increasing access to industrialized country markets.

Several trade issues have emerged as important to developing countries. Expanding access to developing country markets may have adverse consequences for some, especially the poorest countries. One concern is that higher and more volatile food prices will reduce real disposable incomes for many poor households in some developing countries. Another is that poor farmers could be adversely affected by large imports of relatively low priced foods (Diaz-Bonilla). Some developing countries have also objected to policy making being determined in the WTO, arguing that the process sacrifices national sovereignty, and they have argued for a halt to the WTO process.

Nevertheless, some developing countries argue that reducing tariffs and expanding tariff-rate quotas in developed countries, especially for commodities like sugar and textiles, could improve market access for many poor countries. In addition, some countries consider their agricultural import barriers as highly regressive taxes on food consumption by low-income households that benefit large and affluent producers. Developed countries also usually impose higher import duties on processed products than on raw materials, discouraging processing in other countries. Therefore, lowering tariffs on processed products is also an objective for many developing countries.

Mechanisms and policies that provide enough regular and emergency food aid and reduce fluctuations in world prices are also supported by developing countries. Some developing countries also support expanded agricultural export credit and financial assistance programs that target the poor and do not displace commercial sales.

Several other WTO-related issues are important for developing countries. Generally, they are supportive of an international legal system that limits the unilateral actions of large developed nations by developing a more transparent, rules-based international trading system. Most developing nations also support special and differential treatment for themselves in the form of longer transition periods for implementing changes in agricultural trade barriers and less rigorous adjustments than those required of developed countries, as was the case in the Uruguay Round Agricultural Agreement.

Regional Trade Agreements

Trade agreements are often regional, involving only a relatively small number of countries. Several important regional trade agreements have been negotiated in the Western Hemisphere over the past 12 years. Two of these agreements, the Canada-United States Trade Agreement (CUSTA) and the North American Free Trade Agreement (NAFTA), have substantially reduced trade barriers for agricultural commodities, manufactured goods, and services in North America.

Both CUSTA and NAFTA are free trade agreements that eliminate many tariffs and other trade barriers between member countries, but they have no impacts on their trade policies with non-participants. The CUSTA free trade agreement between Canada and the United States was signed in 1988 and came into effect on January 1, 1989. The NAFTA was ratified by the U.S. Congress in November 1993, and was implemented on January 1, 1994.

Although the provisions of both of these free trade agreements have provided substantially improved U.S. access to agricultural markets in Canada and Mexico, they have also generated some controversy. Over the past 10 years, trade disputes between Canada and the United States have occurred over Canadian wheat, cattle, processed potatoes, and sugar exports to the United States, market access concerns and, in 2000, over U.S. exports of corn to Canada. Similarly, trade disputes and concerns between the United States and Mexico have arisen over U.S. wheat and other grain exports to Mexico and Mexico's feeder cattle, fruits and vegetables, and sugar exports to the United States. Such disputes are to be expected because free trade agreements tend to benefit a country's producers of exports but adversely affect producers of import competing products. On balance, across the entire U.S. agriculture sector, however, both CUSTA and NAFTA appeared to have provided the average U.S.

farmer with small net benefits in terms of impacts on farm gate prices and revenues.

Several important bilateral and multilateral trade agreements have been established in other parts of the world. Many of these agreements liberalize agricultural trade between participating countries, some have created common trade barriers against imports from other countries and one, the European Economic Community, has operated a common agricultural domestic and trade program.

In the context of U.S. agriculture, the European Economic Community (EEC) is clearly the most important regional trading bloc. Currently, the EEC consists of 15 member countries (Austria, Belgium, Britain, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, and Sweden). Together, these countries produce about $200 billion of agricultural commodities each year. Many other countries have applied to join the EEC, including several that have important agricultural sectors such as Poland, Rumania, and Hungary. The EEC's agricultural policies have generally been characterized by relatively high guaranteed domestic prices buttressed by import tariffs and export subsidies. Beginning in 1992, support prices for key commodities such as beef and cereals were reduced quite substantially first under the McSharry reforms, and then under the Agenda 2000 reforms. EEC farmers have been compensated for these price cuts through a series of partially de-coupled subsidies called compensation payments. However, EEC export and domestic subsidy programs remain a prime target for other countries under the current WTO negotiations.

Several other regional trade agreements are important for US agriculture. MERCOSUR is a customs union agreement among Argentina, Brazil, Uruguay, and Paraguay with common external tariffs for imports from other countries and (with a few exceptions) zero tariffs for commodities traded within the customs union bloc. MERCOSUR was formed on January 1, 1991, and has provided considerable advantages to member countries over third countries in terms of market access for key agricultural commodities such as wheat and oilseeds.

Other Western Hemisphere trade agreements include the Andean Pact, established in 1969, the Central American Common Market (CACM), established in 1960, and a series of bilateral trade agreements between Chile and several other countries. Andean pact countries, which include Bolivia, Colombia, Ecuador, Peru, and Venezuela, generally impose common external tariffs and enjoy free trade within the trading bloc. The Andean Pact imposes relatively modest external tariffs on import raw agricultural commodities such as wheat and corn but much higher tariffs on processed commodities such as flour. The CACAM, which includes El Salvador, Guatemala, Honduras, Nicaragua, and Costa Rica, also imposes common external tariffs and, generally, creates a free trade environment within the region.

Chile has negotiated a series of regional bilateral agreements with other Central and South American countries and also, in 1997, with Canada. The Chilean agreement with Canada is of substantial concern to U.S. agricultural producers as the agreement provides for lower tariffs of imports of commodities such as wheat, vegetable oil, and potatoes. Chile has also signed a trade agreement with MERCOSUR that will gradually eliminate all tariff barriers between MEROSUR and Chile, but it does not require Chile to impose MERCOSUR's common external tariffs on third country imports.

Other important regional trade agreements include (1) the Closer Economic Relations (CER) agreement between Australia and New Zealand initiated in 1983, (2) the Association of Southeast Asian Nations (ASEAN) Free Trade Area agreement between Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand initiated in 1991, and (3) the proposed Asia Pacific Economic Cooperation Forum. Countries in APEC include the founding members — Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Philippines, Singapore, South Korea, Taiwan, Thailand, and the United States — as well as three more recent entrants — Peru, Russia, and Vietnam — which joined APEC in 1998.

Summary

This paper has described and discussed the structure and expanding role of bilateral and multilateral trade agreements for international trade and their implications for U.S. producers. Considerable attention has been given to the WTO, CUSTA and NAFTA, which have been the most important trade agreements for the United States in the past decade. While the farm bill debate is unlikely to address bilateral and multilateral trade agreements, the commitment under WTO and these agreements will certainly influence what is perceived to be trade distorting (amber) or green U.S. farm policy provisions.