

US Agriculture and the WTO

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Grain World 2005

WTO Issues

Winnipeg, Manitoba

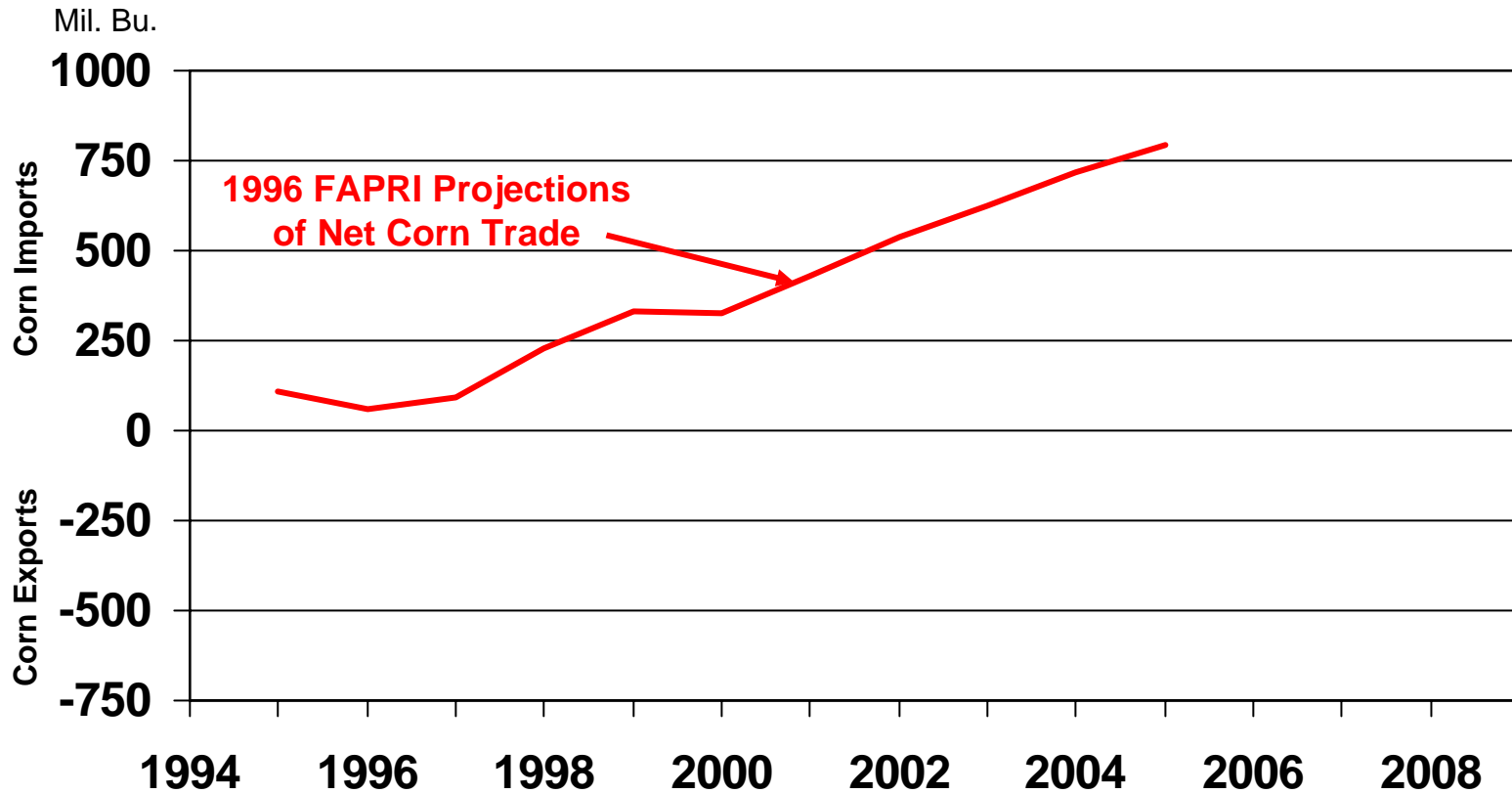
February 27, 2005

Original Expectations

- As often asserted by an American in a boastful tone and with a swagger:
 - “Give us a level playing field and we can out compete anyone”
- The more refined version: “Excellent opportunity to achieve gains in market penetration”
- 95% of the world’s customers are outside the US
- China’s expanding middle class will demand meat that will need to be fed with US corn and soybeans
- Bottom line: US agriculture **KNEW** it would benefit big time from freer trade—no thought given to increased competition

China Net Corn Trade

1996 FAPRI Projections



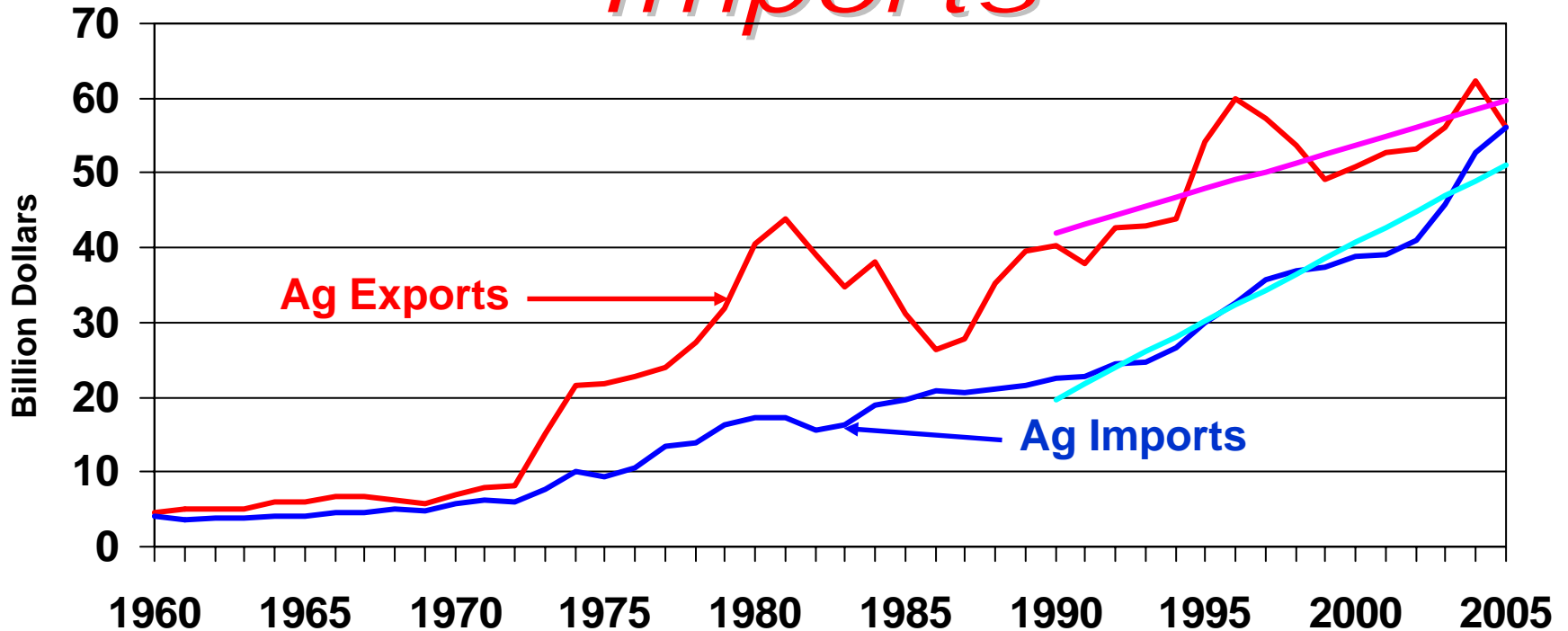
Relished the Prospects of:

- **Reduction of tariff barriers to US agricultural products**
- **End of state trading entities**
- **Protection of US Intellectual Property Rights, in part for agricultural technology**
- **Institution of “non-trade distorting” decoupled payment system**
- **Enforceable trade dispute resolution mechanism**

Experience

- **Ag exports have grown slower than ag imports**

U.S. Ag Exports & Imports

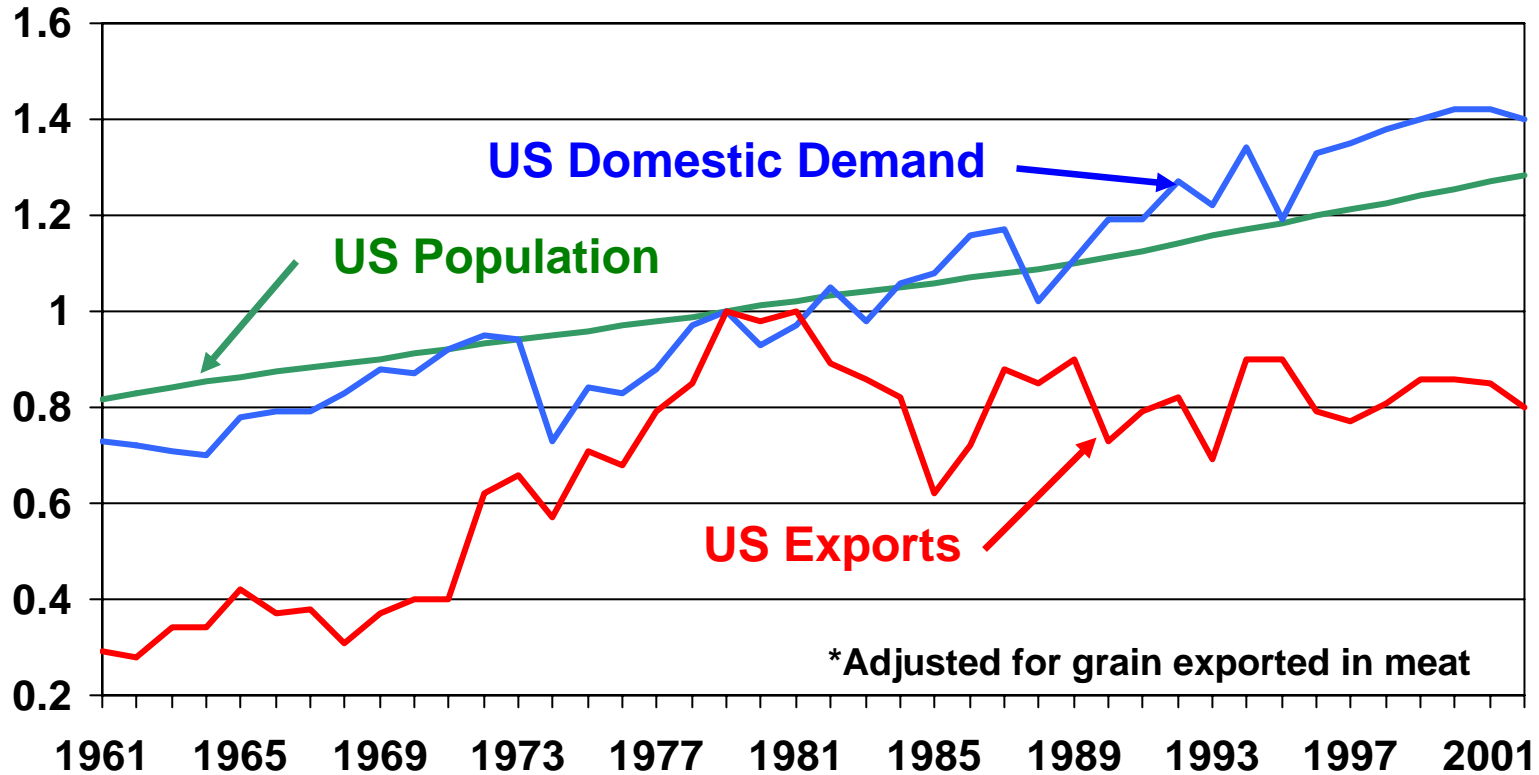


- Since 1972, U.S. agricultural exports have been highly variable
- On the whole, U.S. agricultural imports have increased at a steady rate, with an acceleration showing up in the last three years

Experience

- Ag exports have grown slower than ag imports
- **Ag exports that tend to generate additional income to crop farmers have remained flat**

Exports Did Not Deliver

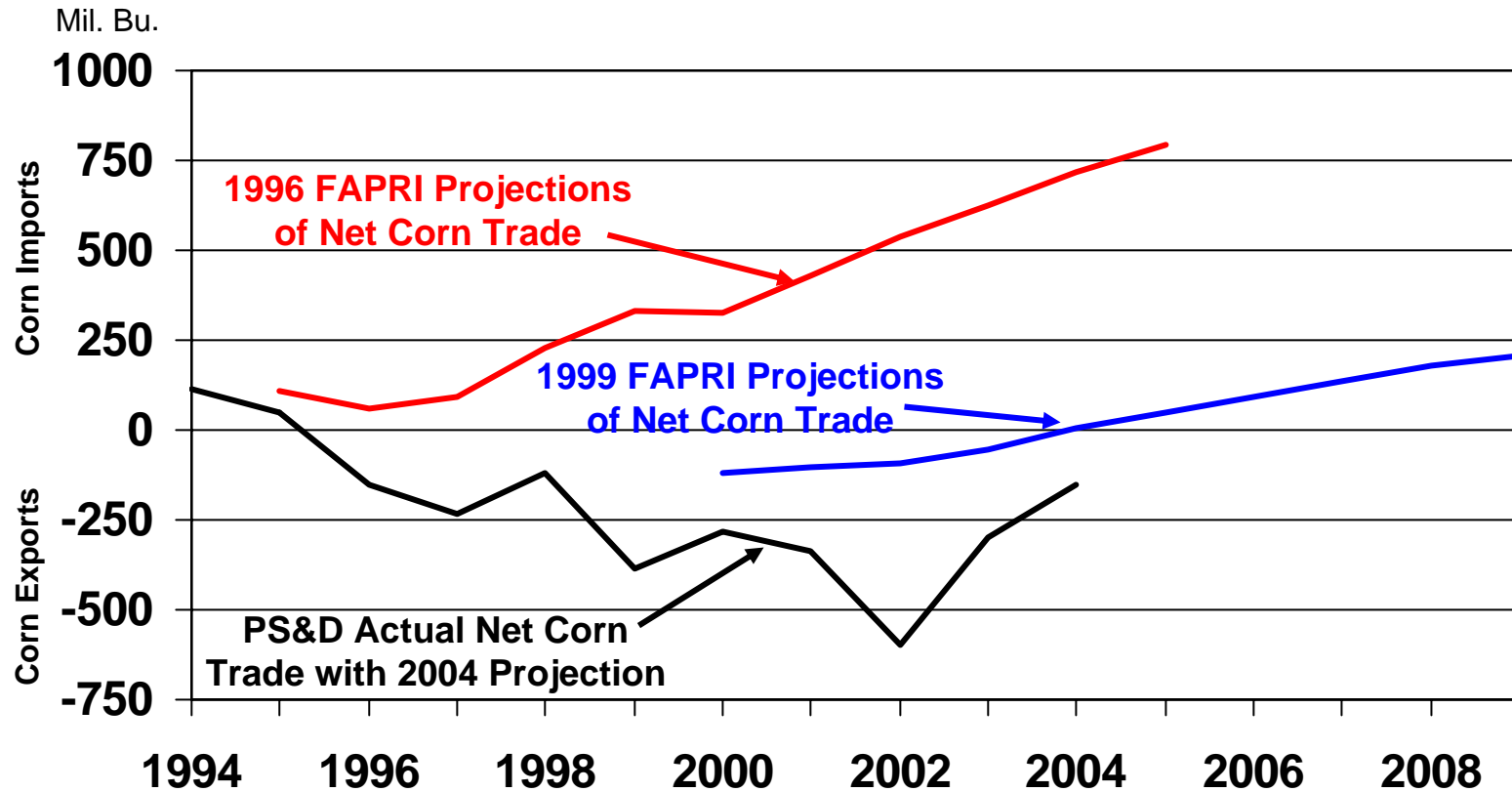


Index of US Population, US Demand for 8 Crops and US Exports* of 8 Crops
1979=1.0

- Exports down to flat for last two decades
- Domestic demand increases steadily
- Since 1979, exports have **NOT** been the driving force in US crop markets

China Net Corn Trade

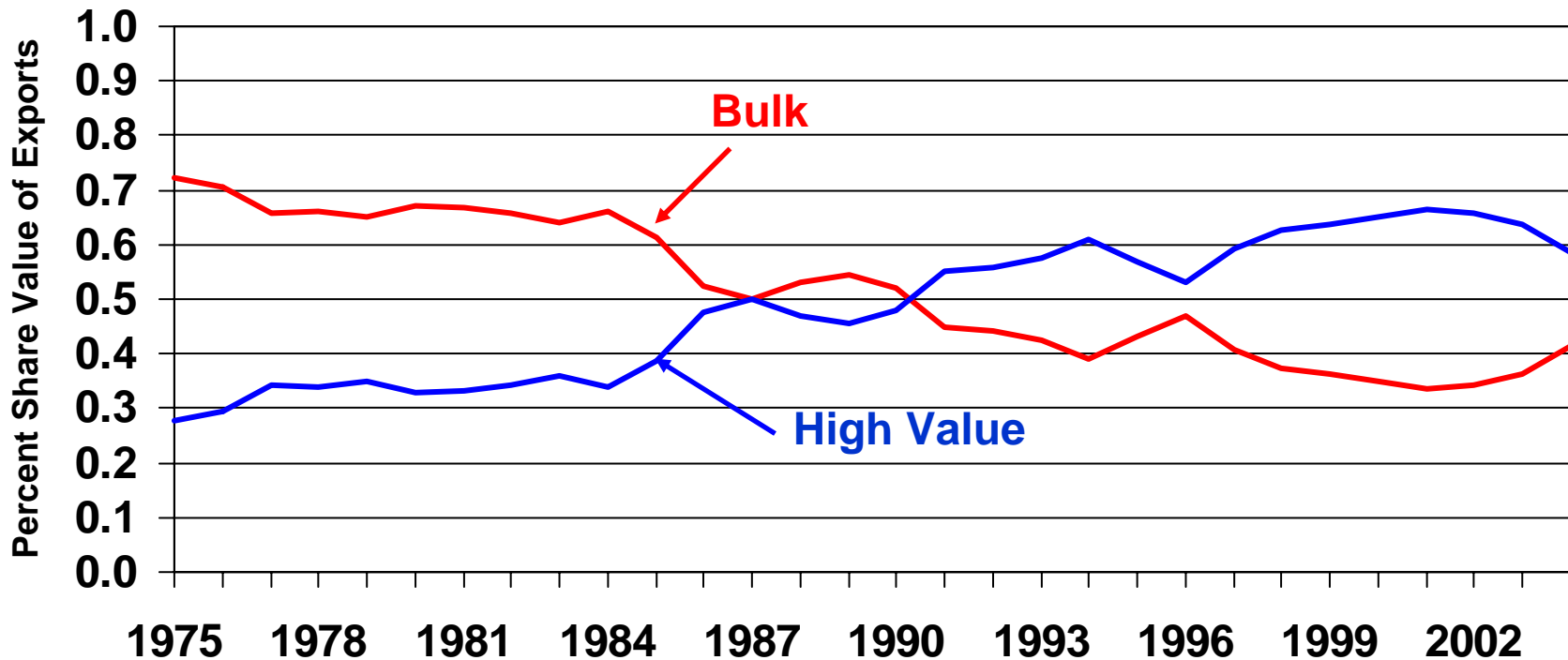
Comparison between 1996 and 1999 FAPRI projections and PS&D actual



Experience

- Ag exports have grown slower than ag imports
- Ag exports that tend to generate additional income to crop farmers have remained flat
- **Valued-added ag exports changed places with bulk commodities**

U.S. Bulk and High Value Exports



- The percent share of export value for bulk agricultural products has declined over the whole period
- The percent share of export value for high value agricultural products has increased over the whole period

Experience

- Ag exports have grown slower than ag imports
- Ag exports that tend to generate additional income to crop farmers have remained flat
- Valued-added ag exports changed places with bulk commodities
- **Globalization has benefited multinationals not farmers**
 - **Multinationals increasing productive capacity of the countries that US farmers expected to have as insatiable customers**

Experience

- **US becomes major target in WTO Disputes Panel cases**
 - **Brazil Cotton Case**
 - **Peace clause violated because 1999-2002 subsidies exceeded 1994 levels – restrictions on planting of fruits and vegetables**
 - **US price programs caused serious harm to Brazil's producers**
 - **Cotton Step 2 is a prohibited export subsidy**
 - **US subsidy mechanisms under fire**
 - **May force major changes in design of Farm Bill provisions**

Current WTO Goals

- **Export competition**
 - **Eliminate export subsidies over fixed period**
 - **End single-desk trading by State trading entities**
 - **Impose disciplines on export credits and food aid**

Current WTO Goals

- **Market access**
 - Harmonize tariffs with 25% upper limit
 - Reduce tariffs from applied rates
 - Flexibility to protect sensitive products
- **Domestic support**
 - Combine amber and blue box supports
 - Limit to 5% of total value

Personal View

- **The whole WTO process shows a complete lack of understanding that food and agriculture are different**
 - **Economic response is different**
 - **Aggregate agricultural markets do not readily self-correct**
 - Quantity demanded does not respond much to lower prices
 - Quantity supplied does not respond much to lower prices
 - **Political response is different**
 - **Food security and other social objectives often trump all other considerations in the case of food and agriculture**

Thank You

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