

## TRADE AGREEMENTS AND U.S. AGRICULTURE

### Overview

International trade promotes competition, economic growth, and international market stability—key components to expanding consumer income and promoting consumption of agriculture products. In addition to the broader economic importance of trade, access to foreign markets for agricultural products directly supports U.S. farm income and related economic activity. Foreign markets are home to the vast majority of our potential customers and those markets for agricultural products are expanding much more rapidly than U.S. domestic markets.

US exports can meet those demands expanding our volume of sales and supporting producer prices. Removing trade barriers and strengthening commercial ties are important components of expanding exports. Those objectives can be achieved through trade negotiations and a key element of successful trade negotiations is the Trade Promotion Authority (TPA) granted by the Congress to the Executive branch to negotiate an agreement with foreign countries. That authority identifies negotiating objectives and procedural consultations with Congress, gives the assurance that the terms of the deal will not be changed by Congress, and ensures that Congress will give a simple up-or-down vote to an agreement concluded by the President. Failure to provide that authority will undermine U.S. negotiators and stall progress in trade negotiations.

### Trade Fuels Economic Growth

The underlying argument for trade was first advanced by the economist David Ricardo in the 19<sup>th</sup> century. Simply put, Ricardo argued that countries could gain from trade if each specialized in the production and export of goods in which it had a comparative advantage (greatest *relative* efficiency). If country A has a comparative advantage in raising cattle and country B in producing corn, both may improve their welfare by exchanging cattle for corn. Through the price system, the process can be extended to accommodate an infinite variety of goods and trading partners. That simple, yet powerful, principle provides an unshakable basis for free trade.

In practice, international trade is one of the most dynamic ways to increase competition in markets. That competition, and the trade that results when consumers have the ability to choose from more suppliers, generates the gains from trade that promote economic growth. Access to more suppliers gives consumers choices in the attributes they seek when making purchases. Competition drives down prices for consumers, allowing them to extend their disposable income. Producers can invest in supplying the goods that generate the most net returns. In short, competition encourages efficiency, provides access to broader markets attracts investment, and fosters innovation. Those expand productivity and increase the wealth of nations. Moreover, shifting more of our work effort to the most competitive areas of our economy helps raise the productivity of the average American worker and average compensation earned from employment.

## **Trade Has Been Very Good for U.S. Agriculture**

Trade is critical to America's prosperity - fueling economic growth, supporting good jobs at home, raising living standards, and helping Americans provide for their families with affordable goods and services. The United States is the world's largest economy and the world's largest trading nation, with exports of goods and services of nearly \$2.2 trillion in 2012. U.S. goods and services exports supported an estimated 9.8 million jobs in 2012. Every billion dollars of goods and services exports supported more than an estimated 4,900 jobs in 2012. U.S. manufacturing exports supported an estimated 2.4 million manufacturing jobs in 2009 (latest data available), 20 percent of all jobs in the manufacturing sector. U.S. jobs supported by goods exports pay 13-18 percent more than the US national average. Exports were 13.9 percent of U.S. GDP in 2012 – its highest share ever.<sup>i</sup>

Export sales generate revenue for American farmers. But more than that, U.S. agricultural exports generated employment, income, and purchasing power in both the farm and nonfarm sectors. USDA-ERS estimates that each dollar of agricultural exports stimulated another \$1.29 in business activity in 2011. The \$136.4 billion of agricultural exports in 2011 produced an additional \$176 billion in economic activity for a total economic output of \$312.3 billion. Every \$1 billion of U.S. agricultural exports in 2011 required 6,800 American jobs throughout the economy. Calendar year 2011 agricultural exports required 923,000 full-time civilian jobs, which included 637,000 jobs in the nonfarm sector. The agricultural export surplus helped to offset some of the nonagricultural trade deficit.<sup>ii</sup>

## **Trade Improves Food Security**

In addition to generating economic growth, international trade is also essential to meeting the world's demand for food. Agricultural resources are not always located in the same areas where populations and food markets are the largest or growing the most rapidly. Densely populated countries like China, India, and Japan have a third or less of an acre of arable land per person, while other countries with relatively small populations, such as the United States, have more than an acre of land per person<sup>iii</sup>.

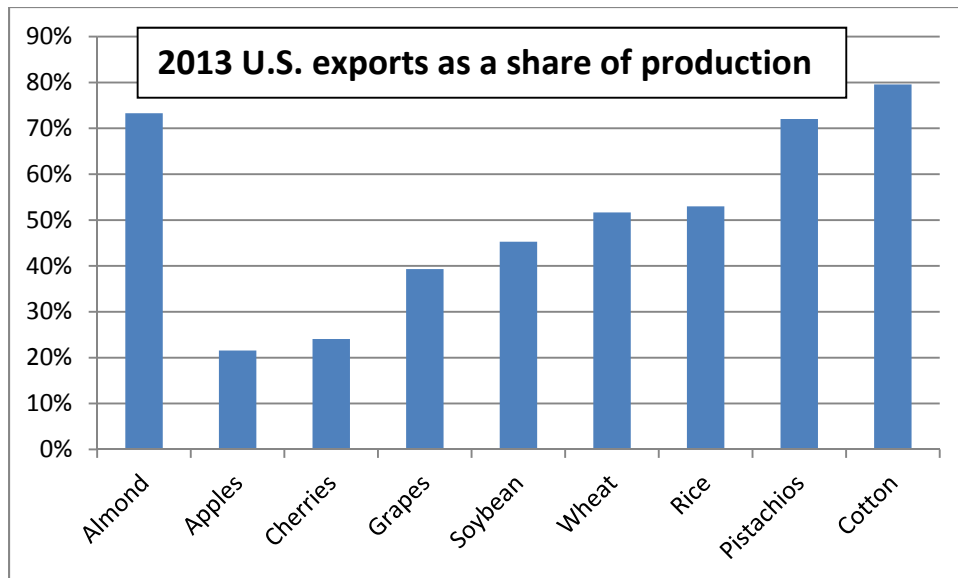
In addition, supplying food requires more than just agricultural production. Markets are needed in which buyers and sellers can trade. Transportation is essential for farm goods to reach markets and then consumers. Finance for commodity transactions, quality and safety assurance, and a physical infrastructure for processing, packaging, and storing are all parts of the supply chain that brings food to consumers. The post-harvest capacity needed to process farm products and get them to consumers is also distributed unevenly over the globe. Countries with large populations tend to support large-scale food processing that can operate at a low cost per unit of output. Wealthier countries with strong legal and financial systems have advantages, such as banks that can handle international transactions and lend money for investment. For many agricultural goods, countries such as the United States with a good transportation infrastructure and widespread refrigeration capacity have advantages over those that lack them. That relative advantage means that some supply areas can get food to other parts of the world at a lower cost than others and provide higher quality and food attribute options to consumers.

Those factors are at the heart of America's comparative advantage in agriculture and are key drivers in U.S. agriculture's net trade surplus.

### **U.S. Agriculture has Customers in Foreign Markets**

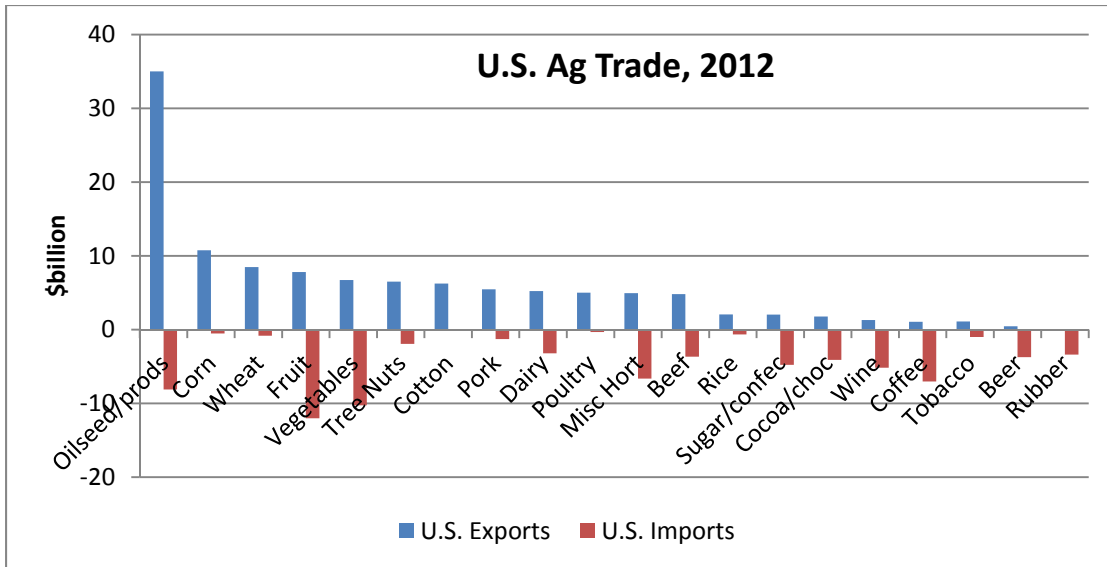
The United States accounts for only 4.5% of global population<sup>iv</sup> but U.S. agricultural productivity results in production far beyond our domestic needs. For example, U.S. wheat production is 8% of the global total and U.S. wheat accounts for nearly 20% of global world wheat trade. Similarly, the United States accounts for 58% of world corn production, and 30% of global corn exports<sup>v</sup>. Export markets are critical to finding a home for this surplus production and prevent ruinous price declines in domestic markets. Additionally, U.S. exports create food security and add to political stability in countries that are net importers and would otherwise be challenged to find dependable, safe sources of nutrition.<sup>vi</sup>

Specifically, access to foreign markets, and more generally policies that increase incomes of consumers, effectively expand demand for U.S. products. Increased demand allows for competitive producers to invest in research and production, increasing economic activity and jobs and expanding producer and national income. For U.S. agriculture, export markets are already home to some of our most important customers. As the figure below highlights, exports account for a substantial share of the current production volume for many U.S. commodities<sup>vii</sup>. For example, in 2013 more than half of the wheat and rice produced in the United States was exported, and over 40% of U.S. soybean production was exported. Even more impressive, over 70% of U.S. almond and pistachio production was exported and nearly 80% of cotton. Trade can also have important effects on producers' margins. In the meat sector, for example, parts of a carcass may have little or no value in the U.S. market but are highly prized in foreign markets. The case of chicken feet (or paws) is a case in point. There is little demand for chicken paws in the United States and they are generally rendered for other uses and prices are correspondingly low. Prior to the opening of China's market, U.S. chicken paws garnered only 10 – 12 cents per pound. Today, the majority of chicken paws are shipped to China and other overseas markets, earning over 51 cents a pound, which is in the range of the price of some chicken leg quarters. U.S. producers have received a new revenue source thanks to overseas markets, supporting farm and processor profitability.<sup>viii</sup>

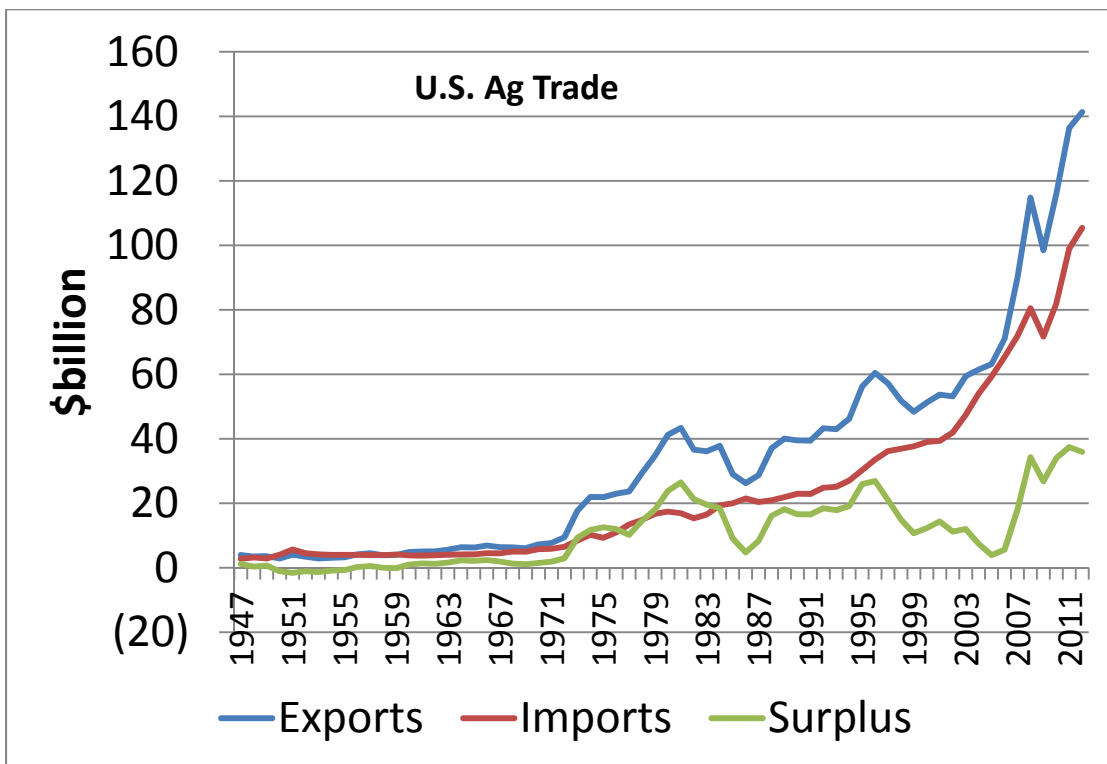


Put simply, without access to foreign markets U.S. producers would face plunging demand for their products and either dramatic reductions in the prices they receive. Moreover, U.S. consumer demand for food is growing slowly: per capita consumption of food is increasingly marginally and is flat for many commodities<sup>ixx</sup>. Consequently, finding a home for surplus production and ensuring higher prices for U.S. producers is becoming more critical over time as US production increases.

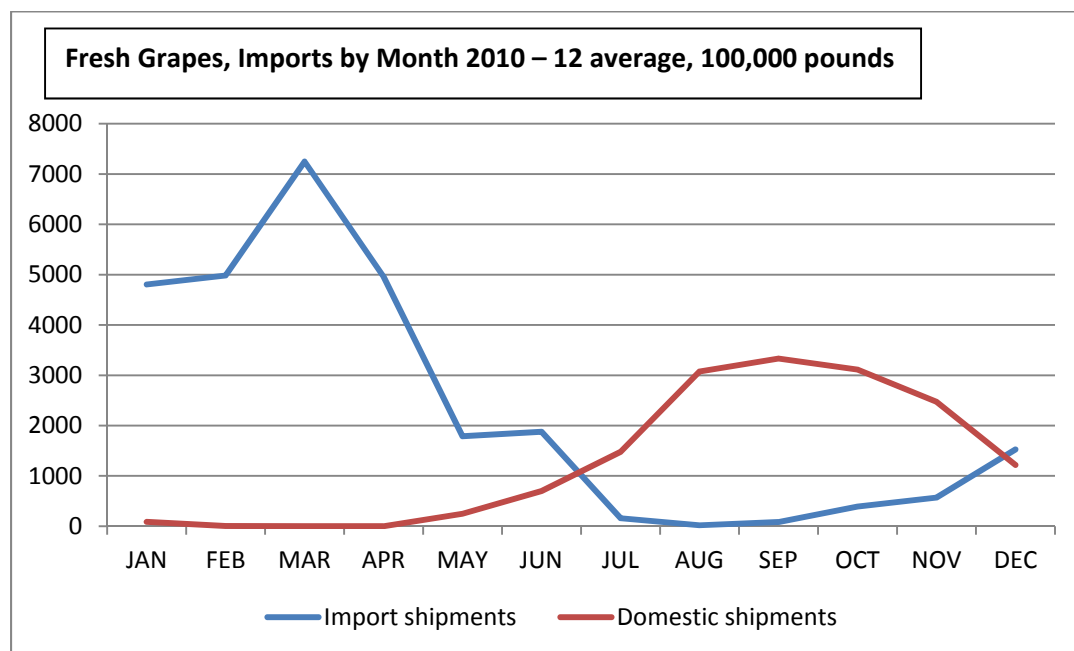
That is particularly important because U.S. agriculture, across the board, is competitive and abundant. As the chart below shows, all sectors export, and nearly all sectors experience trade surplus. The largest U.S. export crop by value is soybeans. Together, total oilseed and product exports exceeded \$30 billion in 2012, while imports of oilseeds and vegetable oils, like palm oil, were less than \$10 billion. U.S. corn exports exceeded \$10 billion and wheat exports were almost \$10 billion, while imports of both products were negligible. The United States is a significant exporter of fruits and vegetables, and also a big importer particularly of tropical fruits and vegetables that do not grow abundantly in our climate like banana and pineapple and of counter-seasonal imports like grapes. U.S. tree nut, cotton, pork, poultry, and rice exports are also substantial, and there are minimal imports of all of these products. The United States is a net exporter of beef and dairy products, another case where imports focus on particular niches and complement U.S. production. The United States also imports substantial amounts of high quality consumer goods like beer, wine, and cheeses that have an appeal as foreign luxury items as well as cocoa and sugar that are inputs for the domestic food processing industry.<sup>xi</sup>



U.S. agriculture exports in FY 2013 amounted to \$140.9 billion, a record high.<sup>xii</sup> That continues a healthy trend of increased exports over the past decade, a period in which the NAFTA and WTO agreements were fully implemented, China joined the WTO, and a number of Free Trade Agreements were negotiated.



Imports have also delivered benefits to the United States by expanding variety and quality of food products, with minimal disruption for U.S. producers. American consumers benefited from trade every time they have a cup of coffee, a glass of iced tea, or when they add vanilla, cinnamon, or pepper to their food. As displayed above, U.S. imports are focused heavily on products not grown here, such as tropical fruits, coffee, cocoa and rubber. Imports of other products have proven to be complementary as much as competitive. For example, U.S. imports of fresh fruits have increased dramatically over the past two decades. However, those imports have occurred simultaneous with increases in U.S. production, as imports have concentrated in months when U.S. product is not available.<sup>xiii</sup> This counter-seasonal pattern helps to expand demand by providing consumers with a year-round affordable supply of product, ensuring both U.S. and foreign producers benefit. Over that past decade U.S. imports have increased as well, but despite that the U.S. agriculture trade surplus was nearly \$40 billion in 2012.<sup>xiv</sup>



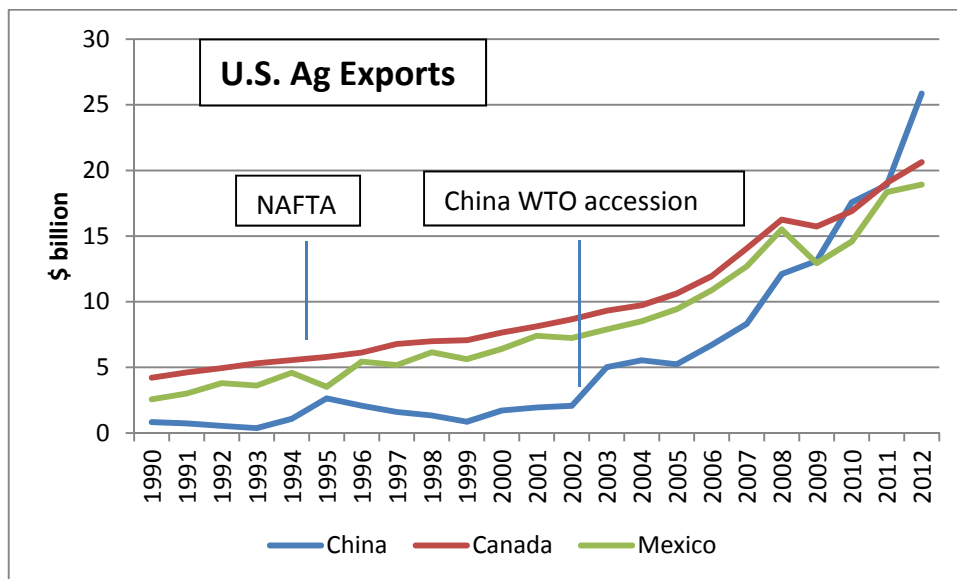
### Trade Negotiations Open Foreign Markets

U.S. exporters are hindered by numerous policies that can restrict trade. Those include tariffs charged to imports, regulatory practices, and administrative procedures. Trade negotiations are one of the most effective ways to reduce these barriers and open foreign markets to competition. In particular, trade negotiations are the only way to ensure countries will reduce tariffs and other barriers and keep them down.

The United States has negotiated 21 trade agreements since the end of World War Two, including that which established the World Trade Organization.<sup>xv</sup> Those agreements have helped open U.S. markets and contributed to the U.S. agriculture export boom of the past 30 years. U.S. exports to our top three markets illustrate the case (see figure below).<sup>xvi</sup>

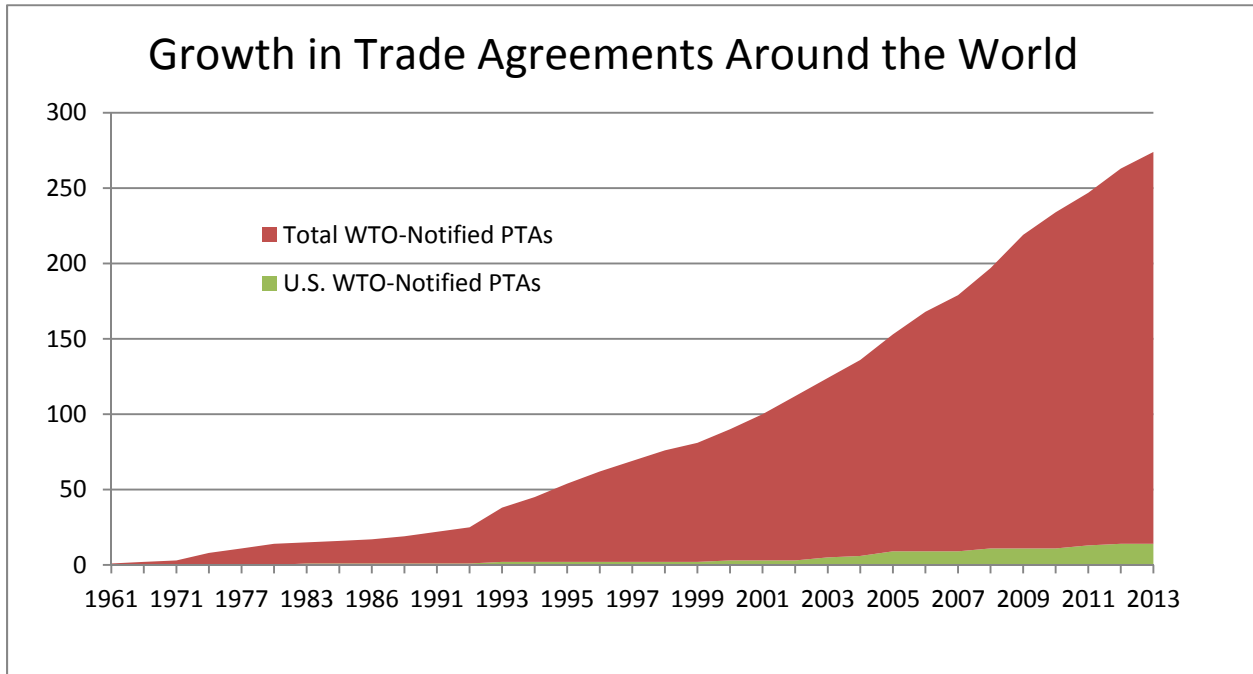
When the NAFTA agreement was implemented in 1994, U.S. exports to Canada and Mexico were around \$5 billion a year, trailing the larger and richer markets in Japan (\$8 billion) and the European Community (\$6 billion). Since NAFTA eliminated tariffs on agricultural products and generally strengthened commercial ties, U.S. exports have experienced strong and steady increases. In 2012, U.S. exports to each Canada and Mexico totaled around \$20 billion, about twice the level of Japan and the EU.

In comparison, U.S. exporters continue to face many tariff and non-tariff barriers in the EU and Japan, and lack the closer economic ties that come with a Free Trade Agreement. As a consequence, U.S. exports to those two markets have stagnated, growing only around \$2 billion in each market over the same period. That means U.S. agricultural exports have grown only by 25% - 33% to the Japan and the EU while they have increased by 300% to Canada and Mexico. Similarly, since implementation of China's WTO accession, following a long bilateral negotiation with the United States, U.S. agriculture exports to China have boomed, growing from less than \$1 billion a year to over \$25 billion in a decade. U.S. exporters have benefited from lower tariffs, improved application of trade rules, and closer commercial ties between the two countries. Demand has increased in China over this period, thanks to rapid economic growth and domestic market liberalization that has gone hand-in-hand with trade liberalization. The benefits of trade agreements have provided an important boost to U.S. exports in Canada, Mexico, and China. Today, those three markets account for nearly half of all U.S. agricultural exports.



In 1994, when NAFTA entered into force, there were approximately 40 preferential trade agreements, and the United States was party to 1 of them—an FTA with Israel from 1985. Today, there are approximately 260 preferential trade agreements, 20 of which the United States has signed onto. Pursuing the benefits offered by increased trade has been the key factor motivating countries to negotiate these agreements. Compare this with the European Union—itself a 28-country customs union—which has preferential trade agreements in place with 45 countries and is officially negotiating preferential agreements with another 87 countries.<sup>xvii</sup> The United States risks being left behind as other

countries agree to preferential agreements that lower tariffs between themselves, but leave them high for U.S. exports.



Such trade agreements have immediate and specific benefits for U.S. producers. For example, the U.S.-Korea FTA, which took effect in 2012, eliminated tariffs on many agricultural products such as soybeans for crushing, whey for feed use, cherries, pistachios, almonds, orange juice, and wine. Through the US-Korea FTA, duties on U.S. pork, wine, and grapes are still catching up to the tariff advantages gained previously by major competitors, such as Chile. Similarly, prior to the U.S.-Colombia TPA, the United States was losing market share in soybeans and products due to tariff preferences Colombia had with Mercosur countries. The TPA leveled the competition and U.S. exports rebounded. In the first year of the agreement, U.S. soybean exports increased from around \$23 million to almost \$124 million. Soybean meal grew from under \$320,000 to almost \$200 million.<sup>xviii</sup>

According to the Peterson Institute for International Economics, American real incomes are 9% higher than they would otherwise have been as a result of trade liberalizing efforts since the Second World War. In terms of the U.S. economy in 2012, that 9% represents nearly \$1.4 trillion in additional American income. The potential economic gains from trade for America are far from exhausted. Roughly three quarters of world purchasing power and almost 95% of world consumers are outside America's borders. The Peterson Institute analysis also estimated that elimination of remaining global trade barriers would increase the gain America already enjoys from trade by another 50%.<sup>xix</sup> Trade remains an engine of growth for America. The negotiation of further reductions in global barriers and efforts to effectively enforce existing agreements are the tools to reap those additional benefits.



## **Trade Promotion Authority**

TPA has three primary functions: (1) to give U.S. negotiators leverage in talks with other countries by giving their negotiators confidence they are negotiating with partners who can deliver on offers and thereby have the confidence to make strong offers themselves can get other countries to their bottom line; (2) to give the U.S. Congress a chance to provide policy guidance and specific negotiating objectives to the Executive branch; and (3) to ensure a simple up-or-down vote for trade agreements that follow the Congressionally-mandated procedure.

Any negotiator needs the confidence that her negotiating partner can deliver on agreements, and will not have a commitment made at the negotiating table rescinded by some other authority. That is intuitively true in buying a consumer good, where purchasers can be exposed to a salesman offering a good price to see if it is within the consumer's bottom line, and then have the manager come back and ask for more money or extra conditions. It is also true in trade agreements, where negotiators identify the willingness to make concessions to close an agreement and are disappointed when a country reneges on their concessions by pulling back an offer after negotiations have finished. If a negotiating partner fears that the person across the table doesn't have the authority to deliver on promises, it makes it hard, if not impossible, to get the best deal possible and finish the negotiation. Over the past 30 years with TPA authority in various forms US negotiators have concluded and implemented a number of highly successful trade agreements. However, when TPA has lapsed, the United States has failed to advance negotiations; including having ongoing negotiations stall until a political commitment is made and specific steps are established to ensure fair and speedy consideration of a trade deal.<sup>xx</sup>

Trade agreements are complex and cover a range of legal issues across tariff and non-tariff measures. TPA addresses Congress' Constitutional authority over tariff policy, allowing the Executive Branch to enter into negotiations while allowing Congress to identify which non-tariff policies it consents to be addressed in trade agreements. For agriculture, that has allowed Congress to identify the objective of eliminating export subsidies and substantially reducing trade-distorting domestic supports in WTO negotiations and to encourage new disciplines on sanitary and phytosanitary measures. That information provides a vital reference point for negotiators to ensure they are meeting the objectives of America's lawmakers, and sends a powerful signal to trading partners about U.S. expectations for reform through negotiation. TPA generally also included requirements for U.S. negotiators to keep Congress informed of progress in the negotiations and to meet timelines for submitting an agreement to Congress for a vote. If the Executive Branch negotiated an agreement that met the TPA terms, both substantive and procedural, Congress then committed to allow a vote on the agreement without undue delay and without any amendments.

## **Trade Opportunities**

The United States is currently involved in trade negotiations with a number of significant partners, including Japan and the European Union, and has been approached by a number of others interested in a trade agreement to forge closer economic links. U.S. agriculture stands to be a substantial beneficiary

if these agreements are concluded and implemented, and TPA will help facilitate negotiation and implementation of these agreements.

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<sup>i</sup> Office of the United States Trade Representative, Trade Delivers, July 2006.

[http://www.ustr.gov/archive/assets/Document\\_Library/Fact\\_Sheets/2006/asset\\_upload\\_file920\\_9647.pdf](http://www.ustr.gov/archive/assets/Document_Library/Fact_Sheets/2006/asset_upload_file920_9647.pdf)

<sup>ii</sup> USDA Economic Research Service, Effects of Trade on the U.S. Economy. <http://www.ers.usda.gov/data-products/agricultural-trade-multipliers/effects-of-trade-on-the-us-economy.aspx#.Uqh1WCeMn5M>.

<sup>iii</sup> *The World Factbook*. Washington, DC: Central Intelligence Agency. Continually updated. China: 0.20 acres/capita. Japan: 0.08 acres/capita. India 0.32 acres/capita. USA: 1.116 acres/capita

<sup>iv</sup> UN Population Division, 2010 data. [http://esa.un.org/unpd/wpp/unpp/panel\\_population.htm](http://esa.un.org/unpd/wpp/unpp/panel_population.htm)

<sup>v</sup> USDA Foreign Agricultural Service, Grain: World Markets and Trade, December 2013.

<http://www.fas.usda.gov/psdonline/circulars/grain.pdf>

<sup>vi</sup> USDA Economic Research Service, Developing Countries Dominate World Demand for Agricultural Products, Ronald Trostle and Ralph Seeley, August 5, 2013. <http://www.ers.usda.gov/amber-waves/2013-august/developing-countries-dominate-world-demand-for-agricultural-products.aspx#.Us1okZ5dV8E>

<sup>vii</sup> USDA Foreign Agricultural Service Production, Supply and Distribution Online data for latest year (2012 or 2013). <http://apps.fas.usda.gov/psdonline/>

<sup>viii</sup> USDA Agricultural Marketing Service (Chicken Part Prices)

<http://search.ams.usda.gov/MNDMS/2014/01/PY20140115TBROILERFRYER.pdf>. Global Trade Atlas, China Customs (Chinese Paw Prices) <http://www.gtis.com/gta/>.

<sup>ix</sup> USDA Economic Research Service, Food and Agricultural Commodity Consumption in the United States: Looking Ahead to 2020, Lin, Variyam, Allshouse, and Cromartie. Agricultural Economic Report No. 820.

<http://www.ers.usda.gov/publications/aer-agricultural-economic-report/aer820.aspx#.Us1d55dV8E>

<sup>x</sup> UN Population Division data. U.S. population is forecast to grow .8% a year between 2010 – 2020, while the rest of the world increases 1.2% a year.

<sup>xi</sup> USDA Foreign Agricultural Service GATS. <http://apps.fas.usda.gov/GATS/default.aspx> U.S. Census data, FATUS categories. <http://www.census.gov/main/www/access.html>

<sup>xii</sup> Statement by Secretary Vilsack, November 14, 2013.

<http://www.usda.gov/wps/portal/usda/usdahome?contentid=2013/11/0215.xml>

<sup>xiii</sup> USDA Economic Research Service, Imports Contribute to Year-round Fresh Fruit Availability, Sophia Wu Huang. December, 2013. <http://www.ers.usda.gov/publications/fts-fruit-and-tree-nuts-outlook/fts-356-01.aspx#.Us1I9J5dV8E>

<sup>xiv</sup> USDA Foreign Agricultural Service GATS. U.S. Census data.

<sup>xv</sup> Australia, Bahrain, Canada, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Honduras, Israel, Jordan, Korea, Mexico, Morocco, Nicaragua, Oman, Panama, Peru, Singapore, and the WTO.

<http://www.ustr.gov/trade-agreements/free-trade-agreements>

<sup>xvi</sup> USDA Foreign Agricultural Service GATS. U.S. Census data.

<sup>xvii</sup> Regional trade agreements notified to the WTO. See <http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx>

<sup>xviii</sup> USDA Foreign Agricultural Service trade agreement fact sheets:

[http://www.fas.usda.gov/sites/development/files/colombia\\_tpa\\_detailed\\_fact\\_sheet\\_05-15-12.pdf](http://www.fas.usda.gov/sites/development/files/colombia_tpa_detailed_fact_sheet_05-15-12.pdf)

[http://www.fas.usda.gov/sites/development/files/korus\\_detailed\\_fact\\_sheet\\_03-11.pdf](http://www.fas.usda.gov/sites/development/files/korus_detailed_fact_sheet_03-11.pdf)

<sup>xix</sup> Peterson Institute for International Economics, Payoff from the World Trade Agenda 2013. April, 2013.

<sup>xx</sup> Congressional Research Service, Trade Promotion Authority and the Role of Congress in Trade Policy, Hornbeck and Cooper, August 2, 2013. <http://fpc.state.gov/documents/organization/152034.pdf>