



Analysis of the Effects of Trade Agreements on U.S. Agricultural Exports and U.S. Market Development Programs

Executive Summary

Trade works. Trade means millions of dollars generated for the U.S. economy. Trade means jobs right here in the U.S.

Those are the overwhelming conclusions of a new global study on agricultural competitiveness commissioned by U.S. Wheat Associates. The study not only examined the impact of trade agreements on the U.S. agricultural economy, but also the impact of non-party trade agreements, or those between nations excluding the U.S.

The study shows conclusively that lowering barriers to trade dramatically increases the value and volume of U.S. agricultural exports, and increases farm gate prices. The United States' failure to pursue or enact trade liberalization programs with trading partners results in missed opportunities – sales not made, flat or falling prices, and loss of market share to competitors who pursue trade opportunities more aggressively.

Following are some highlights of the report. For a copy of the full report, please contact Rebecca Bratter at U.S. Wheat Associates, rebecca_bratter@uswheat.org.

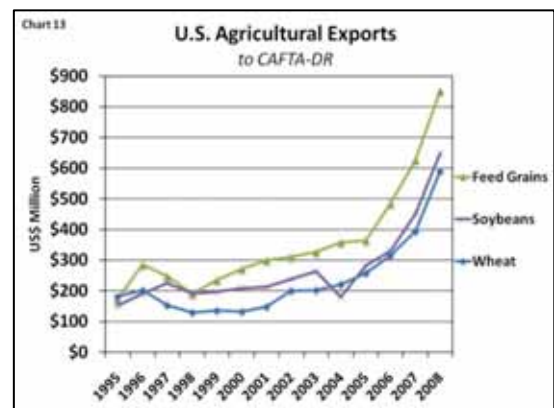
Trade Volume Increases Under Existing U.S. Trade Agreements

The North American Free Trade Agreement (NAFTA) went into effect on January 1, 1994 eliminating almost all import barriers to trade between the United States, Mexico, and Canada. Between 1994 and 2008, the value of U.S. exports of all commodities studied¹ increased more than 300% - or by more than \$12 billion.² Wheat exports increased from approximately \$100 million to more than \$1 billion, and feed grain export value increased by more than \$3 billion.

The Uruguay Round Agreement on Agriculture (URAA) went into effect on January 1, 2005. Here too, the export value of all commodities studied increased. Wheat exported in 1995 was valued at approximately \$4 billion; in 2008 it was \$8 billion. Most of the commodities at least doubled in export value – pork increased threefold, dairy fivefold. A notable exception is beef, which declined and is currently at about half the level it was in 1995; however this can be directly attributed to the BSE crisis in the early 2000s.

The Chile – U.S. Free Trade Agreement went into effect on January 1, 2004 and is being phased in gradually through 2015, however after remaining virtually unchanged in the ten years prior to enactment, exports to Chile have skyrocketed. Between 2005 and 2008, the value of wheat exports increased by 1,600%.

CAFTA-DR, and free trade agreements with Australia, Peru, and Morocco all also increased the value of U.S. agricultural exports to these countries even as full market liberalization is still being phased in until 2015 and beyond.



¹ This study looked at wheat, soybeans, feed grains, pork, beef, dairy, poultry, almonds, rice, potatoes, and horticulture.

² The report, pages 221-222.

U.S. Trade Agreements Push Farm Gate Prices Higher

The study finds that world grain prices, soybean complex prices, and meat and dairy prices are 4% - 18% higher under the URAA than they would be without the agreement. And with annual trade volume higher in almost every commodity studied,³ the URAA is putting millions of extra dollars directly into the hands of American farmers and ranchers.

For example, the price of wheat for the 2009-2010 crop year is \$5.27 per bushel with the URAA in place. Without the URAA, the study finds the price would be \$4.70 per bushel. With U.S. producers exporting more than one billion bushels of wheat this year under the URAA, the impact of this 57 cent per bushel difference is significant. The combination of lost sales and lower prices would cost American wheat producers more than \$50 million this year.⁴

NAFTA's impact on prices is similar, but less dramatic as the trading universe is smaller. However, with trade volume increasing under NAFTA, even a modest increase in prices benefits U.S. farmers and ranchers.

“...the URAA is putting millions of extra dollars directly into the hands of American farmers and ranchers.”

Trade agreements with CAFTA-DR, Chile, Australia, Peru, and Morocco all push farm gate prices up, with the exception of soybean meal prices in one of those markets. And again, with volume increasing almost across the board⁵ it is clear these agreements are resulting in greater profits and opportunities for U.S. producers.

U.S. wheat trade with Chile and CAFTA-DR countries under the free trade agreements has pushed prices up 10 cents per bushel for this year and the foreseeable future. This agreement places an additional \$4-\$6 million in the wallets of American wheat producers annually.⁶

Even more impressive is the impact of the U.S. – Morocco FTA on wheat prices. Forty-three cents higher per bushel today, 41 cents higher by 2018, the agreement boosts exports by more than 100 million bushels per year, meaning an additional \$41-\$43 million per year for U.S. wheat producers.⁷

Non-U.S. Trade Agreements Between U.S. Trading Partners, Undermine U.S. Interests, Resulting in Billions in Lost Revenue for the U.S.

The study examined 16 U.S. exclusive trade agreements to determine if those agreements had an adverse impact on U.S. interests.

It comes as no surprise that the study finds U.S. interests are negatively impacted by these agreements – as trade is liberalized between other countries, U.S. market share is threatened or lost. However, it is also interesting to note that the overall impact was less dramatic than

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³ Declines in soybean and turkey exports were anticipated during the period studied due to a variety of factors, see pages 232-233 of the report.

⁴ The report, page 233.

⁵ In some instances, liberalizing trade can cause product substitution, but the modeling used for this study only takes into account the substitution, not the timely and appropriate reaction by the producing sector to find new markets or product lines.

⁶ The report, page 238, 241.

⁷ The report, page 250. The econometric modeling only looks at relative prices and tariffs but does not take non-tariff barriers into account such as the method of administering TRQs and fill rates allowing for a margin of error in the numbers. The margin of error does not change the conclusions nor the impact on farm gate prices.

anticipated. Why? Because many of the non-U.S. agreements feature prominent loopholes, excluding a large percentage of the agricultural sector, which means many of these agreements are not WTO-compliant, as they do not cover substantially all trade, but rather are sectoral agreements, or “carve outs.” Meanwhile, the U.S. plays by the rules, as our trade agreements do cover substantially all trade.

The World Will Not Wait for the U.S – Stalled U.S. Trade Agreements Come at a High Cost

There are currently at least 126 foreign free trade agreements under negotiation or in planning stages between nations and regions that do not include the United States. However, U.S. trading partners are involved in every one of them.

In places where there is already a U.S.-based trade agreement in place, such as between the U.S. and Chile, American exporters can expect competition to intensify, and will need to adjust their market strategies. However, in markets where there is not a U.S. agreement, or a negotiated agreement has been unnecessarily stalled, such as between the U.S. and Colombia, U.S. agricultural interest will see a rapid erosion of hard won market share as the new trade agreements will give our competitors a clear market advantage. Nowhere is this more evident than in Colombia where a Canada – Colombia trade agreement will result in the loss of U.S. wheat market share costing American wheat producers \$100 million dollars annually.

“...U.S. agricultural interest will see a rapid erosion of hard won market share...”

Additionally, as seen throughout the report, trade agreements lead to higher prices for exporters. So not only does the failure of the Administration to ratify the U.S. – Colombia FTA threaten our market share, it also lowers the price for the trade that exporters will be able to retain.

Recommendations

Liberalizing trade by lowering tariffs and removing other barriers expands market access for U.S. agricultural producers, which helps keep farm gate prices stable, in most cases pushing them up, and increases overall trade volumes and values.

The United States should aggressively pursue opportunities to expand market access for U.S. commodities around the world, particularly as we seek to get our own economy moving again. More international trade can be directly linked to a stronger U.S. economy, job creation, and reinvestment.

Agricultural exports have grown exponentially over the past five years, and are one of the few sectors of the economy to perform well during the economic downturn. The U.S. is competitive in agriculture when the trade environment confers an advantageous tariff structure to U.S. exports in lieu of a level trade playing field.

“...lowering barriers to trade dramatically increases the value and volume of U.S. agricultural exports, and increases farm gate prices.”

Stalled trade agreements, such as the U.S. – Colombia FTA and the U.S. – Korea FTA, should be implemented as quickly as possible. Our competitors are not waiting for us to get our house in order; they are aggressively pursuing their own bilateral trade agreements with our customers that will negatively impact American interests, businesses, citizens, and our economy. Once our market share has been eroded, it will be far more difficult and costly to get it back than it would be to take steps today to retain that market share.

The United States should push the World Trade Organization to clearly define the term “significantly all trade.” The new study indicates that many countries are using the current ambiguous definition to create

sectoral trade agreements, protecting domestic industries from trade liberalization, which is not permissible under the WTO rules.

Supporting U.S. trade is a win-win proposition. Agricultural exports directly support more than 800,000 jobs,⁸ and increasing trade creates new opportunities for American producers. Trade supports, and raises, farm gate prices, increases wages, and creates new American jobs. Trade also helps boost standards of living and quality of life for our trading partners, while offering Americans access to varied and affordable food, year-round.

In short, trade works. For the economy, and for jobs. For the world, and for the United States of America.

⁸ “Benefits of Trade,” U.S. Trade Representative website, <http://www.ustr.gov/about-us/benefits-trade> Accessed May 27, 2010.



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