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Critical Agricultural Issues in Negotiating a Free Trade Area of the Americas[1]

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As the countries of the Western Hemisphere embark on the development of a trade agreement covering all the nations of the Western Hemisphere with the exception of Cuba, it is important to understand the implications such an agreement may have for critical sectors of our economy. Negotiations for the Free Trade Area of the Americas (FTAA), which began four years ago, have set a target date of 2005 for implementation of the agreement. The United States has long been a proponent of global markets and has worked diligently through the years at removing trade barriers throughout the world so that U.S. and other producers could have access to markets and become more efficient in producing and marketing those goods where they have a comparative advantage. The development of the World Trade Organization was a large step forward in leveling the playing field for agricultural producers, but concerns remain over the uneven application of environmental and labor regulations across countries.

The agricultural sector of Florida knows first-hand the importance of competing in global markets. Global markets have provided added opportunities to many of our growers and expanded the market for many of the products they produce. The citrus industry has benefited from expanded exports of fresh and processed products, but the fresh fruit and vegetable sectors have experienced significant stress from the influx of imports from Mexico following the implementation of NAFTA in 1994. The fresh tomato industry experienced serious declines in market share and price as Mexican producers increased their presence in the U.S. market in 1995 and 1996. Only after an investigation by the U.S. Department of Commerce verified that fresh tomatoes were being unfairly sold in our markets below a fair market price (i.e., dumping) did Mexican producers sign a suspension agreement with the U.S. government, assuring they would not sell fresh tomatoes below a fair market price. The U.S. industry cooperated with this agreement by limiting its own sales of fresh tomatoes when prices were depressed. The suspension agreement eliminated disastrously low market prices, which would not have been achieved without the protections insured by dispute resolution procedures allowed within the disciplines of the WTO.

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Part of the cause for the increase in imports of fresh products from Mexico was the devaluation in the peso that occurred between December 1994 and March 1995. Following a change in Administrations within the Mexican government, the peso was devalued nearly 50 percent from 6.7 pesos to the U.S. dollar to 3.4 pesos. This devaluation resulted in declines in domestic demand within Mexico and in export products being shipped to the U.S. at prices well below cost of production.

Our experiences with NAFTA point to some very important lessons as we embark on an agreement that could encompass all of the western hemisphere. Producers in the tropical and subtropical climates of the southern U.S. suffered following the implementation of NAFTA because of the direct competition that existed with Mexico even before implementation of NAFTA. Grain and livestock producers faced greater competition with Canada. An agreement that brings in all of the countries of the western hemisphere provides a threat to even more producers. As southern hemispheric producers are given freer access to U.S. and global markets without assurances of fair trade practices, a much larger part of our agricultural sector will be at risk. The fresh fruit and vegetable industries and the sugar industry will need to cope with greater competition in the marketplace. Brazil has become a world leader in the production and export of many agricultural crops including citrus, sugar, and oilseeds. Grain production has also increased in South America. Many of these industries evolved following assistance from their governments to develop land and processing facilities for these crops. In addition, U.S. producers incur much larger regulatory costs associated with the environment, labor practices, and food safety, putting them at a disadvantage in competition with other producers in the FTAA. It will be imperative in this environment of increased competition that measures are allowed to assist import-sensitive crops that compete against industries that benefit from these advantages.

Other issues important to the agricultural industry and U.S. consumers include disciplines for proper implementation of Sanitary and Phytosanitary (SPS) restrictions. There are numerous risks that increased trade brings to food safety (e.g., the recent discovery of *salmonella* found on cantaloupes from Mexico) and food security (e.g., Foot and Mouth Disease that can threaten an entire industry). States like Florida are at much greater risk because of the increased flow of goods and people that pass through them. Although the business sectors of these states benefit financially from the increased flow of goods and people, the agricultural sectors are at a much larger risk to invasive pests and diseases. Discipline will be critical to ensuring the safety and security of our food. Discipline on SPS will also be critical to ensuring that SPS restrictions do not serve as a mechanism used primarily for restricting trade. The guidelines of the WTO must be followed to ensure restrictions are science-based, but appropriate dispute resolution procedures must be developed to ensure parties injured by inappropriate use of SPS measures are compensated fairly for lost markets. The beef hormone case in Europe is one example of an industry that lost markets from unjustified SPS restrictions, yet the dispute resolution procedures of the WTO did little to compensate U.S. beef producers when the U.S. retaliated against products not related to those produced by the U.S. cattle industry.

As we move to freer markets with fewer tariff and non-tariff barriers, currencies will become even more important in impacting trade between nations. The EU recognized this issue and chose to develop a common currency for trade across nations, following the model of the U.S. Federal Reserve Banking system. Changes in currency value can have much larger impacts on trade flows than other tariff and non-tariff barriers. The trade dispute with Mexico on fresh tomatoes and bell peppers was caused, in part, by the large devaluation in the peso. The impact on U.S. producers from the surge in imports from Mexico was great enough to cause U.S. producers to seek relief through U.S. trade laws. Mechanisms to facilitate adjustments in currency value without injury to global competitors could go far in ensuring that markets are driven by resource advantages instead of macroeconomic policy. It would also avoid the costly remedies for which producers must file through trade remedy laws when injury is caused by surges in imports.

These issues also point to the need to maintain reasonable trade remedy laws. The Escape Clause provisions allowed by the WTO were placed into the U.S. Code (Section 201 of the Trade Act of 1974). This law allows an industry to seek relief from surges in imports that cause serious injury to a domestic industry. Section 202(d) of the Act allows growers of perishable agricultural products to seek provisional relief pending the completion of a full 180-day investigation by the U.S. International Trade Commission and the 60-day Presidential review period. U.S. growers of fresh tomatoes sought relief under these provisions in 1995, only to be denied. Both tomato growers and bell pepper growers sought relief under Section 201 in 1996, again only to be denied. Dissenting Commissioner Lynn Bragg wrote in her opinion in the 1996 Section 201 petition for fresh tomatoes and bell peppers that "by making a negative determination in these investigations, the [ITC] has set a standard for obtaining relief under Section 201 that is virtually impossible to satisfy." These trade laws are critical to ensuring the future of many industries within the U.S., especially in light of the fact that many producers in the western hemisphere will be entering the global market, with high aspirations and little experience. These trade laws need to remain in place and must be enforceable to ensure a reasonable adjustment to increased trade within a FTAA.

It is also critical that countries within the FTAA be allowed to support their industries as they move forward in imposing stricter environment and labor practice standards. No country can be forced to adopt environmental or labor standards without consent, but those who adopt stricter standards should not be penalized for becoming better stewards of their resources. Regulatory offsets would allow countries to subsidize production practices that increase costs, without increases in quality or yield. Allowing a system of regulatory offsets would require discipline to ensure they do not become veils for production-related subsidies. The U.S. has been a leader in protecting the environment and workers. Regulatory offsets would allow the U.S. to continue on that path and other countries to follow without penalties to their producers.

Trade is important to all of the producers in the western hemisphere. Producers in all of these countries have resources that may be impacted by the changes that will occur when a FTAA is implemented. Trade can become an engine of growth for all countries that participate. It is critical, however, that fair trade practices be ensured so that adjustments that follow the implementation of a FTAA are caused by resource advantages and the ingenuity of the people who control those resources.