

U.S. Agricultural Protectionism: FTAA Seed of Discord

by Marcos Jank

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The importance of agribusiness for the domestic economies of Mercosul member countries is undeniable. In Brazil's case, the sector represents 27 percent of GDP, 25 percent of all employment, and nearly 40 percent of overall exports. Brazil closed out the year 2000 with a US\$25 billion current account deficit, and a US\$700 million overall trade deficit. Through the year, while agribusiness generated a US\$13 billion trade surplus, other economic sectors combined for a US\$13.7 billion deficit.

These numbers show that Brazil would be outright irresponsible if it considered any type of international trade agreement – regional or multilateral – which doesn't take agribusiness into consideration in the broadest possible sense.

It would be disastrous for Brazil to eliminate its import tariffs (which currently average 14 percent) without, in return, demanding a serious overhaul of two very sensitive areas that directly affect agribusiness trade: tariff and non-tariff barriers, which effectively block market access, and the disciplining of all agricultural subsidies, on exports and on internal markets.

Let's consider what's at stake under each of these topics:

Market Access

The U.S. economy is one of the most open in the world, with an average import tariff below 5 percent. However, within the 10,000 different tariff lines that do exist in the U.S., there are 130 tariffs that reach more than 35 percent – currently the maximum tariff charged by Brazil. Of those 130 items, 100 are in agribusiness, directly protecting – with what might be described as “surgical precision” – the very products that are most relevant to Brazil, such as orange juice, sugar, fuel alcohol, tobacco, dairy products, and cocoa by-products.

The U.S. sugar regime is a good example. The U.S. General Accounting Office estimates that this protection mechanism costs American refiners, the food industry and consumers

about US\$2 billion per year, due to a perverse combination of guaranteed minimum prices and an obsolete import quota system. Frequently criticized in some of the best world economics textbooks, the U.S. sugar quota regime clearly discriminates against Brazil, certainly the world's most efficient sugar producer and number one exporter. So, clearly it would be of no interest to Brazil if its tariffs were eliminated, while the U.S. might keep in place these hundred key agricultural tariffs in exclusion lists, effectively keeping the products they cover out of a future free trade zone.

Sanitary barriers are another key example of market access restrictions. These barriers currently block exports of various types of fruit and vegetables, and practically all types of meats produced by Brazil. While some of these barriers are justified by the need to prevent against infectious outbreaks – foot and mouth disease being a good current example, others have no minimally acceptable reason for existing, such as all present U.S. restrictions on Brazilian poultry.

Domestic and Export Subsidies

Last year the U.S. had a strong fiscal surplus, as well as presidential elections. Economics and politics combined to push agricultural subsidies above the historical US\$30 billion mark. That's more than triple the annual average during the 1990-1997 period, and equivalent to more than 60 percent of the entire net income generated by U.S. agriculture. Soybeans provide a good example: last year, the U.S. government spent nearly US\$3 billion to guarantee minimum prices for its producers. That amount is equal to two-thirds of the total value of Brazilian soybean exports in 2000 – and soybean products rank first on Brazil's export list.

Marketing Loss Assistance Payment, Loan Deficiency Payment, Production Flexibility Contracts, Marketing Assistance Loans, Crop Disaster Payment, Oilseed Payment, Counter Cyclical Income Support Program, Agricultural Risk Protection Act... These are some of the programs that overlap in the intricate network of subsidies assembled by the U.S. government. Such subsidies inevitably end up generating huge production surpluses, which are then thrown at the world market, backed by another series of supposedly "legitimate" government programs: *Export Enhancement Program, Export Credit Guarantee Program, Supplier Credit Guarantee Program, Market Access Program*, plus various modes of *Food Aid Programs* – all of them "justified" by the indecipherable desire to obtain "fair access" for U.S. producers to international markets. These export subsidies and credits not only heavily affect international prices (due to the trade war between developed economies), but also sustain a hypocritical food aid dependency by the poorest countries.

A unique opportunity to reform U.S. agricultural policy

The United States should treat the proposed Free Trade Area of the Americas as an opportunity to seriously consider reforming, once and for all, its domestic protections and subsidies to agriculture, for three reasons:

First, because the global costs of North American agricultural protectionism (as Canada also distributes abundant subsidies) are quite small, when compared with the potential gains in well being that the integration process could bring to all economies in the hemisphere.

Second, because a significant portion of U.S. academia has demonstrated repeatedly that existing agricultural policies, which survive since the 1930's with only minor adjustments, no longer make the slightest economic sense. Especially when one considers that the major portion of handouts basically benefit the 17 percent largest producers that represent about 80 percent of all agricultural output, in dollar terms. In spite of expanding subsidies, the remaining 83 percent of producers are consistently losing money in agriculture, surviving only because of off-farm earnings such as retirement pensions, urban employment, and hobby farming, among others. It suffices to say that farmers with sales above US\$500 thousand per year represent only 4 percent of all producers in the U.S., but account for nearly 50 percent of the production value, and have a net farm income of more than US\$180 thousand per year! These mega-farms, owned by around 80,000 producers, are the true beneficiaries of the present agricultural policy model.

Third, because the United States has been highly critical of the European Union agricultural system of subsidies and protectionist policies, which generally doesn't jive with its own domestic practices. In the case of agriculture, what prevails is an absurd difference between what the U.S. preaches to the rest of the world, and what it practices within its own borders. Countless economic projections have shown that consumers and taxpayers could gain considerably with a wide-ranging liberalization of world markets for agricultural products.

Indeed, agricultural protectionism only benefits an ever-shrinking number of over-subsidized lobbyist farmers. It's time for all to show, through what they preach as well as practice, that the nations of the Americas want integration under the proposed FTAA to lead to a fair and equitable process of greater market access for services, industrial products and agriculture. The end result would be an example for the rest of the world.