

*FOCUS ON FAS*

# HIGH STAKES, HIGH HURDLES: U.S. FARM TRADE POLICY



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WHILE FAS STILL CARRIES OUT ITS “TRADITIONAL” FUNCTIONS, ITS ACTIVITIES ARE INCREASINGLY FOCUSING ON TRADE POLICY AND EXPORT PROMOTION.

*By ERIC TRACHTENBERG*

lthough it is not immediately apparent when one wanders through Iowa’s vast cornfields, 20 percent of total U.S. corn production goes to foreign markets. In fact, U.S. agriculture is twice as reliant as the economy as a whole on overseas markets, making it one of the United States’ most trade-dependent sectors. By 2000, exports accounted for 26 percent of total U.S. farm cash receipts, and considerably more for many products. Almost two-thirds of our almond harvest and 60 percent of American cattle hides are exported, as are nearly half of U.S. wheat and rice crops. About one-third of soybean, tobacco and cotton production, and fresh table grapes, dried plums, raisins, canned

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sweet corn, walnuts, and animal fats, go overseas.

These numbers are not just dry statistics. When Taiwan suspended imports of U.S. apples because of pest concerns in late 2002, lower demand pushed prices for apples on the West Coast down, causing major financial problems for some growers. The problem became important enough to involve the governor and Washington state's congressional delegation.

Farms are not the only beneficiaries of agricultural trade. Agricultural exports also benefit the packaging, shipping and financing sectors of the U.S. economy. Agricultural exports, expected to reach \$57 billion in 2003, will generate an additional \$80 billion in supporting business activities and provide employment for 765,000 Americans.

In response, while FAS still carries out its "traditional" functions (such as reporting on local agricultural conditions), its activities increasingly focus on trade policy, export promotion, food aid, export credits and international cooperation programs. But this shift in focus is really nothing new: ever since its establishment in 1953, the agency has continually reinvented itself in recognition that both American and world agriculture have changed and globalized; that information and communications technology have changed the way U.S. exporters do business around the world; and that the international trading system has expanded and evolved.

### **Pursuing Trade Agreements**

The increasing importance of foreign markets to U.S. agriculture has driven a major expansion of FAS's trade policy role. To secure markets for our agricultural prod-

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### ***Agricultural exports also benefit the packaging, shipping and financing sectors of the U.S. economy.***

This was the first multilateral trade round to deal with agriculture comprehensively. The Uruguay Round agreements resulted in lower tariffs, reduced export subsidies, constraints on certain kinds of farm support, and the conversion of bans and quotas to tariff rate quotas that allow the entry of a quantity of products at a lower duty.

- The North American Free Trade Agreement, which was implemented in January 1994 to establish free trade rules among Canada, Mexico and the United States. The agreement phases out most trade restrictions within 15 years. Partially because of NAFTA, U.S. exports to Canada and Mexico now exceed those to Japan and the European Union combined. In 2002, American exports to Canada exceeded those to Japan.

These and other agreements have opened markets, reduced unfair competition, brought some discipline to quarantine barriers, and introduced more effective dispute-settlement procedures in global trade. As a result, USDA estimates that trade liberalization has increased exports by \$3.5 billion a year since 1985.

The U.S. is hoping to deepen liberalization through the ongoing Doha Round and negotiations for a Free Trade Area of the Americas, along with free trade agreements with Southern Africa, Central America, Chile, Singapore and Australia. FAS works closely with the State Department and the U.S. Trade Representative to advance these initiatives.

At the same time, U.S. trade faces threats from regional trade agreements that exclude the United States. There are today more than 130 preferential trade agreements around the world, of which the United States is a party to only three. E.U. expansion into Eastern Europe poses a particular threat, both by shutting us out of markets in Poland, Hungary, Romania and Bulgaria, and by encouraging them to overproduce through high subsidies. This overproduction can cut U.S. market share in third countries and lower prices for U.S. farmers.

ucts, the U.S. government has aggressively pursued trade negotiations wherever possible. Over the past decade, Washington has signed more than 10 trade agreements with major implications for agriculture. The most significant of these are:

- The Uruguay Round, which resulted in the creation of the World Trade Organization on Jan. 1, 1995.

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However, negotiating agreements is only half the battle. Since agriculture remains one of the most contentious points in international trade, every trade agreement requires a sustained monitoring effort to ensure full implementation — even by close allies of the U.S. In 1997, Israel nominally liberalized imports of American beef, only to ban them as “non-kosher.” Since the determination of kosher status lay in the hands of the rabbinical authorities, the government claimed that its hands were tied. And for all their political differences, both China and Taiwan have dragged their feet on issuing the regulations required to implement their tariff rate quota commitments when they entered the WTO last year.

### **New Frontiers in Protectionism**

As tariffs and other traditional trade barriers have fallen, countries have been creative in finding new ones. Led by the E.U., our trading partners increasingly are using issues such as quarantine, biotechnology and food safety standards to evade their trade commitments, despite the clear intent of the WTO.

For example, under the WTO Agreement on the Application of Sanitary and Phytosanitary Measures, better known as the SPS Agreement, WTO contracting parties are only supposed to use the “least trade-restrictive” barriers possible; to base their measures on sound science and international standards; and to accept alternative regulations that provide the same effective level of protection.

Nevertheless, many U.S. trading partners routinely use SPS measures to block trade. Some countries may suspend all American fruit imports when they find a pest in just one piece of fruit among thousands, or decide to ban imports from a whole state or country when only one county has a disease risk. Other tactics, such as E.U. restrictions on the approval and marketing of bioengineered food, or the Russian ban on U.S. poultry imports, violate another WTO guideline — namely, that contracting parties should rely on “sound science to protect human, animal or plant life.”

Not all SPS trade barriers are illegitimate, of course. Many agricultural quarantines keep out pests that could cause significant damage to the environment and agriculture of the recipient country. (This is why even American travelers can’t just bring fresh fruit or meat back with them into the U.S.) One pest, the Mediterranean fruit fly (*Ceratitis capitata*), also known as the Medfly, was inad-

vertently introduced into California in 1979 and into Florida in 1997. Although efforts to control the pest have been successful, they have not been cheap: since 1980, California has spent \$250 million to contain the Medfly. But the alternative is much worse: a University of California study calculated that a major infestation could cause output losses of \$538 million and 7,900 lost jobs in California alone.

In the post-Sept. 11 world, these SPS issues also have important national security ramifications. FAS works closely with USDA’s quarantine agency, the Animal and Plant Health Inspection Service, to protect the United States from harmful imports and to assist U.S. exporters in shipping products overseas. Reflecting this role, parts of APHIS were transferred to the new Department of Homeland Security.

Still, sometimes such restrictions reach the absurd. At FoodEx, the largest food show in Asia, the Japanese Ministry of Agriculture insisted that organic products displayed would have to carry the ministry-approved organic label. This is despite the fact that the U.S. is considered equivalent with respect to organic production and the product would not be sold in Japan. The ministry also tried to insist that the trade show floor be designated as an import location, and that importer representatives arrive the day before the show to verify documentation and individually label every organic item. Although Japan relented, acquiescing to having the food products labeled “Sample — not for resale” instead, even they required a concerted effort by FAS and others to achieve.

Another hurdle for U.S. farm exports has been the spread of “multifunctionality”: the idea that agriculture provides more than food and plays other important roles in conservation, the preservation of rural lifestyle, etc. The problem with this concept is that it can be applied to anything — for example, one could consider the steel industry multifunctional because it affects the environment and the local economy. At its base, multifunctionality, like opposition to biotechnology and other SPS barriers, is often merely an excuse to impede trade and thereby protect inefficient domestic producers under the banners of public health and environmentalism — without legal justification.

As such barriers proliferate, FAS will need expertise not only in trade policy but, increasingly, in the hard sciences. Although FAS works closely with scientists in APHIS, the Food Safety and Inspection Service, the

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Food and Drug Administration and other agencies, there is always more demand for expertise than supply. Thus, FAS officers will need to deepen their own understanding of food safety and be able to distinguish between legitimate concerns and unjustified trade barriers.

### **Debunking “Frankenfoods”**

Of all the SPS issues, biotechnology is probably most important to the future development of U.S. agriculture and international development. As of mid-2002, biotech varieties accounted for 34 percent of corn, 71 percent of cotton, and 75 percent of soybean plantings in the United States. This dependence on biotechnology has made gaining worldwide acceptance of this technology vital for U.S. trade and the continued competitiveness of U.S. agriculture.

Conversely, failure to bring down such barriers will be very costly. The European Union's restrictions on biotech foods (commonly known as Genetically Modified Organisms, or GMOs) are already costing U.S. corn exporters \$200 million annually. A proposed E.U. labeling regulation could result in a loss of an estimated additional \$4 billion in agricultural trade.

Unfortunately, these problems are likely to worsen before improving. Alarmed by failures in their food safety systems and by misplaced environmentalist sentiment, the governments of America's trading partners are under increasing pressure to regulate trade. In Europe, outbreaks of “mad cow” disease, formally known as bovine spongiform encephalopathy (BSE) and foot-and-mouth disease, and the detection of cancer-causing dioxin in chicken, have all undermined European consumers' confidence in their regulatory systems. Meanwhile, Japan has grappled with contaminated dairy products and processors who mislabel imported beef as domestic products to get higher prices. At the same time, parts of the environmental movement have been co-opted by protectionists into opposing biotechnology, despite scientific evidence that properly regulated GMOs are safe, reduce the use of pesticides and herbicides (not only helping the environment, but saving farmers' lives, especially in the developing world), and help prevent erosion through use of min-

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imum tillage cropping systems.

To counter negative public opinion (as shown in the popular denunciation of GMOs as “Frankenfoods”) and head off regulatory action against biotechnology, FAS also needs to reach out to host country opinion-leaders. Our message should be that biotechnology, trade and modern farming contribute positively to poverty reduction, the environment and public health. For example,

biotech Golden Rice has enhanced levels of Vitamin A that could sharply reduce the incidence of childhood blindness in many countries. Planting Roundup Ready Soybeans result in a lower application of chemicals and allow use of minimum tillage systems that reduce erosion and help conserve soil resources. GMO products also can increase yields and permit farming in adverse conditions, which benefit poor farmers, who make up a majority of the world's poor.

Some FAS posts, often in cooperation with embassy public affairs sections, have held educational seminars and study tours for journalists and legislators along with outreach and scientific exchange programs between U.S. and foreign scientists and regulatory officials. (See “Speaking Out: Using Public Diplomacy to Promote Agricultural Biotechnology” by Michael Conlon, July-August 2002 *FSJ*.) By conveying the benefits of biotechnology and sound SPS regulation to regulators, government officials and the public, such programs not only benefit U.S. trade interests, but can reduce hunger, increase rural income and improve the environment. This is a message worth spreading.

### **Marketing and Export Promotion**

FAS is unique in the Foreign Service because of its close relationships with U.S. private sector groups. Funded by U.S. producers and agribusiness, market development cooperator groups such as the American Soybean Association, U.S. Grain Council, U.S. Meat Export Federation, American Hardwood Export Council and the Washington State Apple Commission maintain a network of offices overseas to promote U.S. exports. FAS jointly funds market development activities with these and other cooperator organizations. In addition,

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FAS provides funding to state and regional trade groups that provide support to small and medium enterprises that have shown promise as agricultural exporters.

FAS's agricultural trade offices, in particular, work closely with the cooperators and SRTGs on a variety of activities. The ATOs, SRTGs and cooperators co-sponsor educational seminars for food processors and importers, "America Week" supermarket and restaurant promotions for U.S. foods and beverages, and American pavilions at major food shows. FAS also organizes trade missions from our host countries to major trade shows in the United States. In recent years, the agency has moved away from micromanaging the cooperators to providing them with more strategic input. For example, 20 years ago every single activity required an FAS signature to pay the bills. Ten years ago, guidance was broader but any change in activity, no matter how small, still needed approval. Now the relationship focuses more on the "big picture."

Agriculture officers also work with exporters to find clients overseas. If a new apple exporter in California wants to find a market in Japan, it will work through FAS and its cooperators. The goal is to identify and build on new prospects for U.S. exports. Many of these come from several important trends including population growth and increasing urbanization in developing countries, the expanding middle class in emerging markets, and demand for new, specialty products in high-income markets.

Since FAS works so closely with the private sector, it is heavily driven by export numbers. FAS has performance indicators related to program efforts and generally expects cooperators to meet goals, especially over time. This close relationship also makes FAS very client-focused. If the trade is going badly, it reflects poorly on the FAS office in the country. Conversely, if a major trade barrier comes down, it's time to celebrate.

### **Food Aid, Export Credits and International Cooperation**

FAS offices are often called upon to play important roles in food aid programs. USDA provides U.S. agricultural commodities to countries in need of food assistance through direct donations and long-term concessional sales programs. Initiatives have helped fight starvation in sub-Saharan Africa, and are playing a major role in providing food aid to Afghanistan as it struggles to rebuild after more than 20 years of civil war. FAS food

aid also played a major role in Central America's recovery from Hurricane Mitch in 1998: a total of 180,000 metric tons of U.S. wheat and 50,000 tons of corn were provided.

FAS also runs export credit programs that reduce risk to U.S. exporters and increase their competitiveness. The latest farm bill will make \$5.5 billion annually available for the Export Credit Guarantee programs. The largest programs are the short-term (GSM-102) and intermediate-term (GSM-103) credit programs that guarantee repayment of credit extended by U.S. financial institutions to eligible foreign banks that issue letters of credit to pay for U.S. agricultural commodities. The Supplier Credit Guarantee Program insures short-term, open account financing. The goal of these programs is to help U.S. exporters become more competitive by offering lower interest rates, extending longer credit terms or increasing the amount of credit available to foreign buyers.

Finally, Foreign Agricultural Service offices work closely with host governments on a whole range of cooperation programs, from technical assistance and training, to collaborative research projects where U.S. and foreign scientists work on topics of mutual interest. FAS works with developing countries as they try to comply with their WTO agreements and take a science-based approach to biotechnology. The Cochran Fellowship Program, which provides a short-term U.S. training program for senior and mid-level public and private sector specialists and administrators from middle-income countries, emerging markets, and emerging democracies, has been particularly effective. Cochran programs have helped strengthen connections between U.S. agribusinesses and government officials and overseas importers and officials. Most programs focus on agricultural trade, agribusiness development, management, policy, and marketing along with U.S. agricultural and economic policies and business practices. Cochran alumni often go on to become some of FAS's most valuable foreign interlocutors.

### **Market Intelligence and Analysis**

When FAS was established in 1953, its primary emphasis was on agricultural reporting, with secondary attention to food aid and market development. (Involvement in trade disputes was actually discouraged.) Though that is no longer the case, the ability of an FAO to

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observe and report on local agricultural conditions (particularly in remote corners of the world) can still play a critical role in determining a country's contribution to the worldwide supply of a given commodity and thereby have a significant effect on market prices. A FAS report out of the Ivory Coast a few years ago added almost \$50 per ton to the value of cocoa on world markets by correctly projecting a relatively low pre-harvest forecast of production in the world's largest cocoa producer.

The individual agricultural attaché reports from around the world, along with satellite imagery used by FAS's Production Estimates and Crop Assessment Division and the analysis done by Washington-based FAS commodity divisions, are put together with other sources in the USDA "Lockup" to determine each country's offi-

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cial production, consumption and demand figures. (The name comes from the fact that this process of data reconciliation is so sensitive that employees used to be literally locked up until the report's release to prevent leaks.)

In 1998, early reporting from Russia and timely PECAD imagery helped detect the worst harvest there in 50 years. As a result, the U.S. was able to prepare a food aid package that helped stabilize the country during a time of extreme economic difficulty. Since this was also the year of the ruble devaluation and economic crisis, the intervention was particularly timely, and literally saved lives, as it does in other countries with potential food shortages.

FAS reporting also contributes to an embassy's knowledge of local economic and political conditions in a way that other sections of the mission may not be able to do.

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Agriculture officers usually travel frequently and extensively in-country, especially in places where reliable data are hard to come by. FAS officers can be seen evaluating the sturgeon catch on the Volga, examining the cotton harvest in China's Xinjiang province or talking to soybean farmers in Argentina. This breadth of contact allows an FAS officer to gain insights into life outside the capital that can be potentially valuable in post decision-making.

Yet with the proliferation of the Internet and other information sources and an increasing workload, FAS faces the question of how many resources to dedicate to reporting — and what reports to write. In recent years, FAS has moved away from long, production-focused reports to smaller documents of more use to small and medium enterprises. These reports cover foreign agricultural import regulations and standards, as well as specific sectors including retail trade, institutional buyers and consumers of organic products. FAS reports are free, unbiased and publicly available on the Internet at [www.fas.usda.gov](http://www.fas.usda.gov). It is true that this information can help competitors, but that risk is outweighed by the benefits to analysts and exporters who could not afford access to a commercial agricultural news service.

Although there is pressure to cut reporting even more, allowing FAS personnel to spend more time resolving trade disputes or investigating a new market, going too far will result in the loss of valued contacts and expertise on local markets, deprive USDA of important input for its lockup process, and deny exporters a valuable information resource. So finding the proper balance between reporting and FAS's other overseas roles poses an important challenge for the agency.

### **Other Challenges**

As FAS works to promote U.S. exports, resolve trade disputes, report on agricultural markets and provide support to developing countries, it faces a number of additional challenges:

*Maintaining faith in liberalization.* Low prices for commodities and higher volatility in exports, taken together with the use of SPS and other non-tariff barriers to trade by key importers, may undermine some

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farmer and agribusiness support for agricultural trade liberalization. If farmers lose faith in export markets, they will likely ask for more protection against imports. This change would pose a special challenge to FAS, an agency strongly dedicated to market access and export promotion rather than import administration. For this reason, it needs to continuously demonstrate progress in market access by successful agreement negotiation and imple-

mentation.

*The war on terrorism.* Trade promotion has become more difficult since Sept. 11, 2001, as Americans are understandably more reluctant to go overseas and there has been renewed attention to threats to the U.S. that could enter via trade. Although the Public Health Security and Bioterrorism Preparedness and Response Act of 2002, requiring pre-notification of shipments for the U.S. and exporter registration along with improved container security, may reduce threats to the U.S., it will also add costs to foreign exporters and could bring about equivalent measures on U.S. exports. The key will be to balance security with openness. The war on Iraq may also trigger an anti-American backlash which may make it more difficult to promote U.S. products, especially in the Middle East, where "Mecca Cola" is already taking market share away from Coke.

*Information technology.* With elevated fears of travel resulting from the war on terrorism, there is a temptation to replace personal contact with e-mail, home pages and videoconferences. But to understand and influence consumers and markets, there is simply no substitute for personal contact. In any case, like most government agencies, FAS has been unable to keep up with the pace of change in information technology: many of our overseas offices are still using technology from the mid-1990s.

Although these issues will test FAS, its experience in promoting U.S. agricultural interests overseas will likely see it through. FAS offices overseas and in Washington have worked together to open up new markets to billions of dollars worth of U.S. agricultural products. With continued adjustments, there is every reason to believe this encouraging trend will continue. ■