



FAST TRACK WOULD EXACERBATE NAFTA'S DAMAGE TO U.S. FARMERS AND RANCHERS

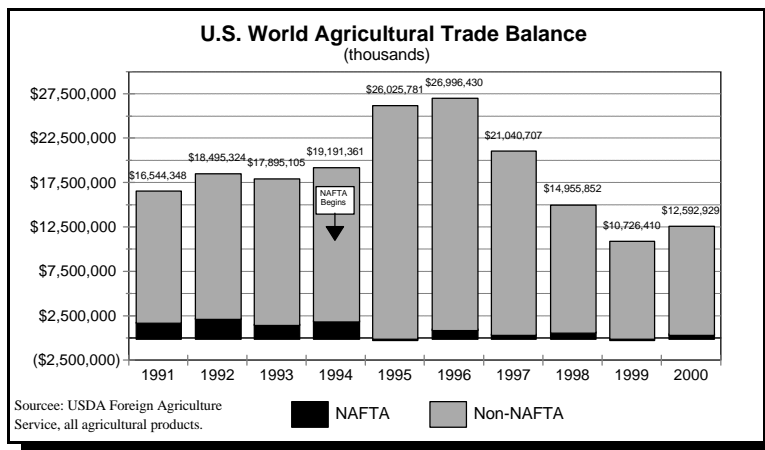
The Coming Fast Track Battle is a Referendum on NAFTA

The North American Free Trade Agreement has had a seven-year track record of broken promises for family farmers and ranchers. These broken promises were made to win support during the 1993 Congressional debate over the fate of NAFTA. While farmers were promised they could export their way to lasting economic success, consumers were promised lower food prices. The promised benefits never materialized: farm income has declined and consumer prices have risen while some agribusinesses — which lobbied hard for NAFTA and now are avidly promoting its expansion — have seen record profits.

President George W. Bush has asked Congress to delegate to him Congress' exclusive constitutional authority over trade. Bush seeks the so-called Fast Track powers to try to expand NAFTA to 31 countries in Latin America and the Caribbean. President Bush and his principal trade policy advisors have stated that they intend to make the debate about NAFTA expansion and Fast Track a referendum on NAFTA.

U.S. Agriculture Trade Surplus Shrank Under NAFTA

NAFTA already has had a devastating effect on U.S. farmers and ranchers. Since NAFTA, the U.S. trade surplus in agricultural products, which once was the flagship of U.S. exports, has declined significantly, and that trend is most profound with NAFTA partners Canada and Mexico. While U.S. exports to Canada and Mexico have grown modestly, imports to the United States from those countries have grown much faster. Before NAFTA (between 1991 and 1994), the U.S. agricultural trade surplus with Mexico and Canada increased by \$203 million. However, since NAFTA, the surplus fell by \$1.498 billion. Remarkably, the NAFTA agricultural product trade surplus has declined more rapidly than the U.S. worldwide trade surplus in agricultural products — falling 70.7% from \$1.6 billion in 1993 to \$456 million in 2000. The U.S. even had two years of agriculture trade deficits with Mexico and Canada in 1995 and 1999. Meanwhile, the U.S. worldwide trade surplus declined 29.6% to \$12.6 billion over the same period. Between 1995 and 1999, U.S. agricultural trade balances have been declining for an array of commodities as exports have fallen as a share of U.S. production:



- C The cattle and beef sectors' \$21 million surplus had become a \$152 million deficit. The grain and cereals surplus has slid by a third, with exports declining 31% and the share of production going to exports falling 17%.
- C The oilseeds surplus has fallen 17%, with exports declining 16% and the share of production going to exports falling 15%. The animal and vegetable oils surplus has been cut in half.

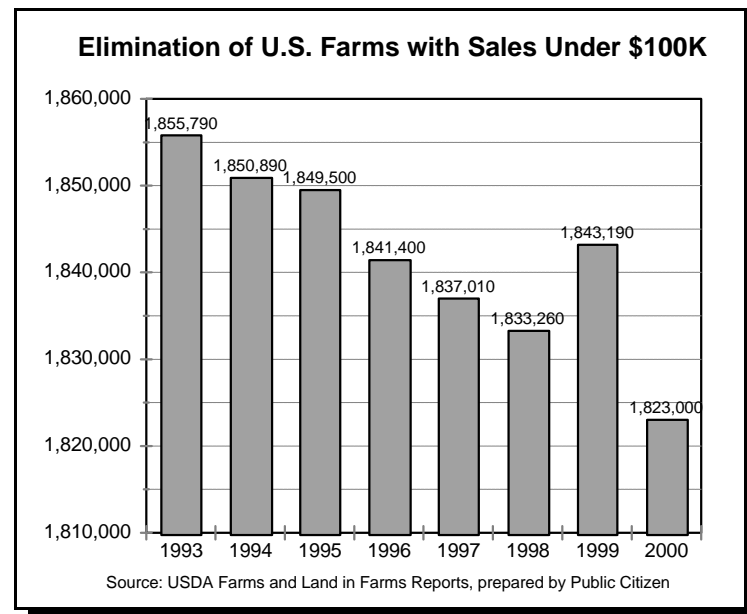
- C The poultry industry trade surplus fell 14% with exports declining 13% and the share of poultry production going to exports falling 26%.
- C The fresh, chilled and frozen vegetables trade deficit grew from \$438 million to more than \$1 billion.
- C The U.S. fresh fruit trade deficit grew from \$127 million to \$469 million. The frozen fruit trade sector saw its \$9 million surplus turn into a \$37 million deficit. The prepared and preserved fruit trade deficit grew by more than half, from a deficit of \$236 million to \$396 million. The value of tropical fruit exports such as pineapples, avocados and mangos declined 16% with the share of production going to exports falling 40%. The value of citrus fruit exports declined by a third and the share of production going to exports fell 37%.
- C The \$18 million fruit and vegetable juice surplus became a \$48 million deficit.
- C The dairy trade deficit nearly doubled from \$416 million to \$796 million.

Increasingly, agricultural imports are supplanting domestic crops and putting the squeeze on U.S. farmers. Competitive imports (those that replace crops produced in the U.S.) are growing as a share of U.S. imports. In 1989, the U.S. agriculture trade surplus was \$18 billion, with competitive imports at 38% of U.S. export levels and 71% of all U.S. agricultural imports. By 2000, the U.S. agricultural trade surplus fell to \$12.6 billion. Based on preliminary 2000 data, competitive imports were 60% of U.S. export sales and represented 80% of all U.S. agricultural imports.

Declining Agricultural Surpluses, Commodity Prices and Farm Incomes Are Driving U.S. Independent Farmers Out of Business

Along with falling trade balances and increased competition from abroad, commodity prices paid to farmers for crops — and thus farm income — have plummeted. The resulting rural crises have devastated small farmers in all three NAFTA countries. NAFTA requires countries to accept imports regardless of whether or not domestic supplies meet domestic demands. Floods of well-timed imports have resulted in excess supply and sharply declining commodity prices in all three NAFTA countries. Between 1995 and 2000, the bushel price received by U.S. farmers declined 33% for corn, 42% for wheat, 34% for soybeans and 42% for rice.

Moreover, total U.S. farm income is significantly below what it was before NAFTA went into effect and is projected to decline in the first years of the new century. In the U.S., farm income is projected to decline 9% between 2000 and 2001 — from \$45.4 billion to \$41.3 billion in 2001. This compares to annual farm income of \$59.0 billion before NAFTA went into effect in 1993 — a 24% drop in seven years. According to the well-respected Farm and Agriculture Policy Research Institute 2001 survey of representative farms, the next five years will be tough financially on most farmers. Contrary to the farm economy boom promised at the time of NAFTA and WTO's passage, the



study found that 76% of farms are projected to have a negative cash flow between 2000 and 2005, even without facing added FTAA-related imports. In the U.S., 33,000 farms with under \$100,000 in annual sales have been eliminated during the seven years of NAFTA. This is a rate six times steeper than the pre-NAFTA period. According to data from USDA's Economic Research Service, the percentage of farms filing for bankruptcy and of farm loan volume that was more than 30 days delinquent was higher on average between 1994 - 2000 than between 1989-1993, the five years before NAFTA went into effect. The U.S. fresh, chilled and frozen vegetables industry has lost 14% of its establishments and 11% of its workers between 1995 and 1999. During the same period, the U.S. fresh fruit sector lost 8% of its establishments

and 4% of its jobs, and the U.S. dairy sector lost 9% of its establishments and 6% of its jobs, and the U.S. poultry industry lost 4% of its establishments and 8% of the jobs.

The increasing supplies of imported agricultural products and crashing prices paid to farmers have had a particularly severe impact since the policy mechanisms designed to temper such extreme market swings have been eliminated. Using NAFTA as a sales pitch and equally as the political instrument to force policy change, agribusiness and food manufacturing and retailing interests in Washington set about to eliminate domestic farm programs aimed at stabilizing the growers situation *vis a vis* market forces. The deregulation theory held that with increasing exports under the new trade agreements, the safeguards that protected independent farmers and the plentifulness of the U.S. food supply were no longer needed.

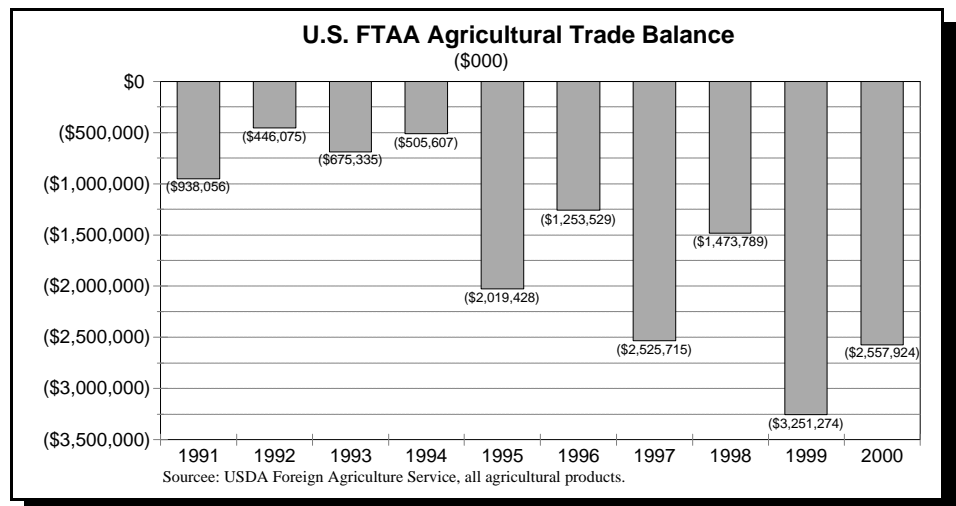
Yet the new “free market” approach embodied in NAFTA and in the ideologically-related Freedom to Farm Act, federal agriculture spending rose to a record \$23 billion in 2000. But even with these notably non-“free market” emergency support payments, the NAFTA model is killing small, independent farmers. Only 1% of all farms were eligible for any of the emergency support in 1999, and the largest operators received on average 14 times the amount of the smallest farms. The largest 10% of farms received 56% of the emergency taxpayer assistance despite the fact that smaller family farmers have faced higher rates of bankruptcies and loan delinquencies after the implementation of NAFTA, the global WTO and the implementation of these pacts’ philosophy through the Freedom to Farm Act.

FTAA Will Expand NAFTA’s Attack on Farmers

Granting President Bush Fast Track to expand NAFTA will only increase the damage suffered by U.S. farmers and ranchers under NAFTA. Expanding the NAFTA model to open U.S. markets to South American agricultural export giants such as Brazil, Argentina, Chile and Uruguay would mean floods of imported wheat, soy, beef, citrus and other products. However, FTAA would not offer significant new export opportunities for U.S. producers. This is because many of the FTAA countries already have lower than NAFTA-level agriculture tariffs, yet the United States has few export markets in the Caribbean and Latin America because competitive goods can be produced more cheaply there than in the U.S.

Seven years later, the NAFTA promises of farm prosperity failed to materialize, President Bush is making the same promises to farmers and ranchers to promote Fast Track for FTAA. The proposed FTAA would grant foreign producers new import rights into the plum U.S. consumer market. However, since many of these countries already have lower-than-NAFTA trade barriers for U.S. goods and because production is cheaper because of lax environmental and food safety regulation and cheap labor, U.S. farmers will not see greater exports to Latin America and the Caribbean. Given NAFTA’s seven-year record of broken promises, it is not surprising that farm families are viewing Bush’s promises with a healthy dose of skepticism.

Indeed, FTAA will have a minimal positive impact on farm incomes in the U.S. at best, according to a comprehensive 1998 analysis of FTAA by the U.S. Department of Agriculture (USDA). The U.S. already has an agricultural trade deficit with the FTAA countries, even though many of these nations’ markets are already open to U.S. imports. The USDA report found that FTAA would increase the U.S. agricultural



trade deficit with FTAA countries. The USDA estimates that FTAA would increase agricultural imports into the U.S. by 3%, but increase U.S. agricultural exports by only 1%.

According to USDA, the U.S. already has an agricultural trade deficit within the FTAA region of \$2.6 billion in 2000. The USDA found that the FTAA would increase the regional U.S. agricultural trade deficit by \$250 million — an 18% increase — and put downward pressure on the U.S.’ already declining agricultural trade surplus with the world. Updated 2000 USDA figures on FTAA show that if the FTAA were implemented, the U.S. agricultural trade deficit with the FTAA countries would grow by 1% for the first five years, 2% for the next 10 and then keep increasing.

The FTAA would worsen NAFTA’s impact on farmers because it would open markets to competitive imports from Latin American agricultural powerhouses. For instance, Chile is a world-class producer of fruits and vegetables and Brazil produces vast quantities of citrus. Argentina, Brazil and Uruguay produce cereal, grains and livestock which compete directly with agricultural products grown in the United States. Many U.S. commodities would be hurt if FTAA went into effect, for example:

- C The U.S. has significant **beef** trade deficits with Argentina, Brazil and Uruguay. The U.S. beef deficit with Brazil has grown 1400% since 1991, from \$6 million to \$91 million.
- C Even without special market access privileges for Chile, U.S. **fresh fruit** imports from Chile grew by 42%, to \$597 million between 1996 and 2000.
- C California’s dominant domestic market share of **wine and table grapes** is vulnerable to imports from Chile. The U.S. world grape trade deficit has doubled between 1996 and 2000 to \$191 million in 2000. Over the same period, the value of grape imports from Chile has grown 32% since 1996, to \$388 million in 2000.
- C In 2000 the U.S. had a \$2.8 million soy deficit with Argentina and a \$843,000 soy deficit with Brazil.

Fast Track Is Unnecessary and Will Further Harm Independent Farmers

The Bush Administration argues that Fast Track is necessary for the U.S. to successfully negotiate and approve trade agreements. Yet although hundreds of trade pacts were implemented since Fast Track’s 1974 inception, Fast Track has been used only five times. According to the Office of the United States Trade Representative, nearly 300 separate trade agreements were negotiated and implemented by the Clinton Administration — only two of which were negotiated under Fast Track.

Indeed, at a May 2001 House Agriculture Committee hearing on trade, U.S. Commerce Secretary Evans could not name a single country that refused to negotiate with the U.S. because of the absence of Fast Track. Evans admitted that several additional Latin American countries already have approached the U.S. to negotiate Free Trade Agreements (FTAs) even *without* Fast Track. Given that these countries join a list of countries seeking FTAs that includes Singapore, New Zealand and others, the issue seems to be a shortage of U.S. negotiators to work with all of the countries seeking deals, not a lack of Fast Track keeping away new potential trade partners.

The only way to ensure that U.S. trade policy suits the broad needs of U.S. farmers and consumers is for Congress and the public to play a more prominent and continual role in the entire policy process — from setting the U.S. agenda to selecting appropriate prospective trade partners with whom to negotiating to ensuring the negotiations are obtaining U.S. goals and then to guaranteeing that only agreements that meet U.S. goals are approved and implemented. This level of involvement and oversight is impossible under the Fast Track process.

For more information, contact Public Citizen’s Global Trade Watch 202-546-4996

(For a comprehensive analysis see Public Citizen’s Global Trade Watch study, *Down on the Farm: NAFTA’s Seven-Years War on Farmers and Ranchers in the U.S., Canada and Mexico*, at www.tradewatch.org)