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Cornhusker Economics

Update on Agricultural Trade: TPA, TPP, and TTIP

Market Report	Year Ago	4 Wks Ago	3-11-16
Livestock and Products.			
Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.	162.50	132.00	138.00
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	288.61	198.24	205.31
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	220.40	165.76	164.83
Choice Boxed Beef, 600-750 lb. Carcass.	246.59	226.24	222.96
Western Corn Belt Base Hog Price Carcass, Negotiated.	67.74	51.55	63.09
Pork Carcass Cutout, 185 lb. Carcass 51-52% Lean.	59.82	69.65	75.78
Slaughter Lambs, woolled and shorn, 135-165 lb. National.	*	143.71	137.92
National Carcass Lamb Cutout FOB.	367.29	359.79	344.92
Crops.			
Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu.	4.89	3.93	3.95
Corn, No. 2, Yellow Nebraska City, bu.	3.65	3.33	3.39
Soybeans, No. 1, Yellow Nebraska City, bu.	9.29	8.21	8.48
Grain Sorghum, No.2, Yellow Dorchester, cwt.	6.98	5.48	5.52
Oats, No. 2, Heavy Minneapolis, Mn, bu.	3.11	2.66	2.47
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	190.00	170.00	175.00
250.00A175.00Ifalfa, Large Rounds, Good Platte Valley, ton.	77.50	77.50	80.00
Grass Hay, Large Rounds, Good Nebraska, ton.	95.00	85.00	85.00
Dried Distillers Grains, 10% Moisture Nebraska Average.	170.00	134.50	132.50
Wet Distillers Grains, 65-70% Moisture Nebraska Average.	54.00	51.50	51.5
* No Market			

International trade is important for Nebraska and U.S. agriculture. Export sales account for about 27% of gross farm receipts in Nebraska, 32% for the United States as a whole. Consumers also benefit from agricultural trade which assures a steady supply of consumer goods ranging from tropical fruits to chocolate, coffee, and other goods that have become essential elements in consumer food baskets. Beginning in the 1990s, serious efforts to lower barriers to agricultural trade have been undertaken by parties to the World Trade Organization (WTO) as well as through regional trade agreements such as NAFTA. While substantial progress on agricultural trade liberalization has been made, there are still many trade barriers that impede international flows of food and agricultural goods.

To reduce these impediments, national governments negotiate agreements that set rules and regulations for the international exchange of goods and services. Multilateral trade negotiations are conducted by the 162 members of the WTO with the goal of establishing broad rules for the global trading system. A basic tenet of multilateral agreements, known as the “most-favored nation” principle, is that countries apply the same trade policies to all other members making WTO agreements non-discriminatory. In contrast, regional trade agreements, such as NAFTA, are fundamentally discriminatory: U.S. markets are more open to trade with NAFTA partners, Mexico and Canada, than is the case for countries that are not part of NAFTA. There is one other type of trade agreement: preferential agreements, such as the African Growth and Opportunity Act (AGOA), generally

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lower trade barriers applied to goods from developing countries with no requirement that they reciprocate by lowering their trade barriers. Such preferential agreements can be thought of as a form of foreign aid. Because WTO agreements require favorable votes from all members, they have become more difficult to negotiate as WTO membership has grown and the issues being addressed have become more complex. The Doha Development Round (DDR) of trade negotiations was launched in 2001 and, after 15 years, a final agreement is still not in sight. The slow progress on the DDR has led many countries to seek alternative arrangements through regional agreements, which have proliferated in recent years. The WTO counts about 450 such agreements.

U.S. trade negotiations are carried out by the U.S. Trade Representative whose office is part of the Executive Branch.

Agreements must be approved by Congress which usually gives the administration Trade Promotion Authority (TPA; previously known as “fast-track”) which stipulates that the final agreement will be voted on without attempting to amend it. Although there was substantial opposition, Congress finally granted the Obama administration TPA in June of 2015. TPA makes the United States a more credible negotiator and talks on two major regional agreements, the Trans-Pacific Partnership (TPP) involving the United States and eleven countries on the Pacific Rim, and the Trans-Atlantic Trade and Investment Partnership (TTIP) between the United States and the European Union (EU) have advanced since TPA was granted. The value of agricultural trade between the United States and these two regions is significant as shown in the Table below.

TABLE: US Agricultural Trade (billions of dollars and percentages).

	1990	2000	2010	2015
US Exports to:				
World	39.5 (100%)	51.3 (100%)	115.8 (100%)	133.0 (100%)
TPP	15.7 (39.7%*)	24.6 (48.0%)	48.2 (41.6%)	57.2 (43.0%)
EU-28	7.5 (19.0%)	6.5 (12.7%)	8.9 (7.7%)	12.1 (9.1%)
US Imports from:				
World	23.5 (100%)	39.2 (100%)	82.0 (100%)	111.9 (100%)
TPP	9.1 (38.7%)	18.7 (47.7%)	40.5 (49.4%)	58.2 (52.0%)
EU-28	5.1 (21.7%)	8.4 (21.4%)	14.5 (17.7%)	20.1 (18.0%)

* US agricultural trade with countries in TPP or the EU-28 as percentages of total U.S. agricultural trade.

Source: Foreign Agriculture Service, GATS.

The twelve countries negotiating TPP (USA, Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam) finalized an agreement on February 6, 2016. For this agreement to go into effect either the governments of all twelve parties have to ratify it or at least six countries with combined GDPs equal to 85% of the aggregate GDP for the twelve countries must ratify it (Putz, 2016). In 2014, the U.S. GDP was equal to 62% of aggregate GDP for the twelve countries while that of Japan represented 16% so there is no way the TPP could enter into force without U.S. and Japanese ratification. The impacts of TPP on agricultural trade are likely to be relatively small. Burfisher et al. (2014) predict

that agricultural trade among the TPP partners would be \$8.5 billion or 6% higher with TPP than without while the third country exports of agricultural products to the TPP region would be \$2.6 billion lower. For the United States, the impact of TPP is likely to be limited due in part to the fact that the United States already has free trade agreements with Canada, Mexico, Peru, Chile, Australia, and Singapore. On the other hand, the Japanese government has agreed to open its agricultural markets quite substantially. This is significant because Japan is the leading agricultural importer in TPP and has a history of highly protectionist policies. Of particular interest to Nebraska, Japan’s tariffs on –imported

beef, one of the state's leading exports, are to be gradually reduced from as much as 50% to 9% over several years (USTR, 2016).

TTIP will bring together the two largest economic entities in the world accounting for almost half of the world economy. According to a study prepared for the EU, agricultural exports from the EU to the United States could increase between 19% and 56% depending on the extent to which both tariffs and other trade barriers are reduced. Because EU trade barriers are generally higher than those of the United States, the impact of TTIP on U.S. exports to the EU is likely to be greater with increases between 56% and 116% (Bureau et al., 2014). Most of the increased agricultural trade under TTIP would be in high-value foods such as meat, dairy, fresh fruits and vegetables, tree nuts, beer, and wine. In addition to strong differences over the use and regulation of transgenic commodities, such as glyphosate-resistant soybeans, geographic indicators may complicate the TTIP negotiations. It is common in Europe to restrict the use of product names associated with particular regions. Cheese labeled as "feta" has to be produced in Greece. If similar cheeses are produced in, for example, Denmark, they have to be labeled "Danish feta." Some geographic indicators, such as Champagne, are already enforced internationally but many are not and this is likely to be something the Europeans will want to include in TTIP and that may be resisted by U.S. food producers (Jurenas, 2015).

All trade agreements involve sectors of the economy other than agriculture as well as aspects of trade and investment that have broad, economy-wide effects. Historically, agricultural negotiations have been difficult to resolve. U.S. farm groups generally favor trade liberalization but there is often strong opposition in other countries and, in the United States, labor, environmental, and other groups are skeptical about the overall benefits of trade agreements. This has been made clear by the current presidential campaigns with both Democrats and Republicans expressing opposition to TPP and other trade agreements. Ratification of TPP and completion of the TTIP negotiations are both likely to be difficult making the future of agricultural trade liberalization uncertain.

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