An Address by Thomas O. Kay
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Trade negotiations are much akin to life itself. Just when you believe all the problems have been solved and you tend to relax, the unexpected rears its head and there are new problems to be resolved, new challenges to be met, and new obstacles to be overcome.

Nothing could be more relevant to the U.S. sugar industry in its involvement in the Uruguay Round of Multilateral Trade Negotiations and the North American Free Trade Agreement (NAFTA). Just when the U.S. sugar industry breathed a collective sigh of relief at not being required to take a 20 percent reduction in its support price as originally required under the Uruguay Round text, along came NAFTA exposing the industry to an influx of hundreds of thousands of tons of imported Mexican sugar as required by the agreement signed by the Presidents of the three participating countries--Mexico, Canada, and the U.S.--on December 17, 1992.

Let's take a look at the status of both the Uruguay Round and NAFTA and their effects on the U.S. sugar industry.

The Uruguay Round

This trade round of multilateral negotiations involving the 108 countries that are members of the General Agreement on Tariffs and Trade (GATT), began over six years ago with the goal of reducing high internal supports, reducing market access barriers, and reducing export subsidies. Since 1986, the blame for lack of progress in the fourteen other negotiating groups outside the agricultural sector was laid directly at the doorstep of agriculture with the major dispute being between the U.S. and the European Community.

Finally, the U.S. and the E.C. reached an agreement on internal supports and export subsidies on November 20, 1992, during negotiations in Washington, D.C. This agreement, now known as the Blair House agreement, required no further reductions in domestic support by the U.S. other than those taken under the 1990 Farm Bill and subsequent Budget Resolutions. It also requires a reduction over the next six years of budget outlays for export subsidies of 36% and by volume of 21%.

Most of the world thought that once this dispute between the U.S. and E.C. was settled the entire Round of Trade Negotiations would be successfully concluded by the end of the year in December, 1992. Such was not to be the case. Having made progress in the agricultural sector, the other negotiating groups in textiles, anti-dumping, intellectual property rights, dispute settlement, the reorganization of the GATT, financial and maritime services found themselves unprepared to reach a final agreement.

What is the outlook and what are the obstacles to a final agreement in the Uruguay Round by the end of 1993? As I see it, there are at least four major factors which must be resolved before the Uruguay Round can be completed:

1. <u>Market Access Problems</u>--The Blair House Agreement resolved domestic support issues and the export subsidy dispute, but left unresolved the main issues involving market access, i.e. the reduction of import tariffs, the elimination of non-tariff trade barriers like quotas, and the elimination of voluntary restraint agreements. This problem applies not only to agriculture but to the industrial and manufacturing sectors also. It involves services as well as goods.

What the European Community has offered in market access for agricultural goods could be described as ludicrous! Under the E.C. proposal, should it be accepted, there would be less market access into the Community after the Trade Round than currently exists. Should other countries like Japan and South Korea, who want to maintain their ban on rice imports, and Canada, who wants to retain its quotas on dairy and eggs and poultry, emulate the E.C., market access would be impeded rather than liberalized. Before the Uruguay Round can be successfully concluded, the issue of market access must be resolved to the satisfaction of all contracting parties to the GATT.

2. <u>The French Problem</u>--Though France is one of the 12 countries constituting the European Community, it has continued to reject the agreement reached by the U.S. and the European Commission negotiators at the Blair House last November. France's Foreign Minister and its Agriculture Minister have both declared the agreement "null and void" and have threatened to veto it when it finally comes up for a vote in the Council of Ministers. Basically, this opposition is spurred by politics since the parliamentary elections are scheduled for March 21 and March 28 of this year. Both major political parties are seeking the votes of the French farmers who have been openly demonstrating against the agreement because of the reductions in export subsidies and the restructuring of the Community's oilseeds program as required under the agreement. Once the elections are over, many think France will rethink its opposition but that remains to be seen.

3. <u>The U.S. Fast Track Authority</u>--Under the provisions of the 1974 and 1986 Trade Act, any trade negotiations authorized by the Congress will be considered under the "fast track" which means that once the President has given the Congress a notice of 90 calendar days, that trade agreement, when finally signed by the President, will be voted either up or down by the Congress and cannot be amended in any fashion.

Present fast track authority expires on May 31 of this year. In effect, the authority expired on March 2 since this was the final day the President could have notified the Congress he intended to enter into an agreement in order to meet the 90-day notification period.

Now, the Administration must go to the Congress and request new fast track authority. Both President Clinton and the U.S. Trade Representative Kantor have stated a request will be made but neither has said when the request will be made or for how long the extension might be. The Congress can either approve or reject the request or place conditions and restrictions upon the negotiations before granting the request. Most believe that once the request is made, however, the Congress will approve it.

4. U.S. Demand for Changes in the Draft Final Act--In December of 1991, the Director General of the GATT, Arthur Dunkel, produced a draft of what he perceived as a model final text for the completion of the Uruguay Round. This has come to be known as "the Dunkel text." In December, 1992, the again in January, 1993, the Bush Administration announced some 25 changes it wanted in the Dunkel text before the U.S. could accept it as a final text. The current administration has apparently concurred, believing that those changes must be realized before the Congress would vote to approve it. The more changes demanded, the longer negotiations will take since all 108 members of the GATT must accept the changes.

In spite of the objections outlined above, it is possible, in my judgement to reach a final agreement in the Uruguay Round by the end of 1993.

The North American Free Trade Agreement

As I indicated at the outset, the NAFTA was signed by President Bush on December 17, 1992, allowing him to give the Congress the required 90-calendar-day notice prior to the expiration of the fast track authority on June 1, 1993. The U.S. sugar industry feels more threatened by the provisions of the NAFTA than by the presently agreed-upon provisions of the Dunkel text in the Uruguay Round. And, I might add, with ample justification.

Under NAFTA, the required imports of Mexican sugar will increase from the present quota of 7,258 tons up to some 322,000 tons over the life of the agreement as a minimum. If, however, Mexico becomes a surplus producer of sugar for two consecutive years during years 7 through 15 of the agreement, the U.S. is liable to import the total and entire surplus produced in Mexico. The U.S. sugar industry is concerned with three basic provisions of the NAFTA and with ample justification:

1. The Length of the Transition Period--All import-sensitive commodities like sugar were promised a 15-year transition period before the U.S.-Mexican borders would be totally open to trade without any tariff or duty. In actuality, under the terms of NAFTA, the U.S. industry has only six years transition since year seven of the agreement opens the door to all Mexican surplus production. "Surplus producer" means the excess which exists in Mexico after consumption is subtracted from production.

2. The High Fructose Factor--Since Mexico currently uses about 1.5 million tons of sugar in its soft drink industry, it is capable of becoming a surplus producer overnight if the Mexican bottling industry decides to substitute corn syrup for sugar. Most of the sugar mills in Mexico which have been privatized are owned by soft drink bottlers. Like the industry in the U.S., it would make economic sense if the Mexican industry switched to a substitute caloric sweetener for internal use. Such a decision would then free up Mexican sugar for export into the U.S. market at a much higher price than could be received in their domestic market. The U.S. industry has asked and continues to ask that the consumption of substitute caloric sweeteners be factored into the formula which defines "surplus producer."

3. The Effect on Historic, Traditional Suppliers--Should Mexico begin to flood the U.S. market with its sugar, what would happen to the exports from our traditional suppliers in the Caribbean and Latin and Central America? With the minimum import quota into the U.S. of 1.25 million tons of sugar, our traditional suppliers would feel the economic impact of an agreement which gives preference to Mexico. The U.S. industry sees the provisions of NAFTA as a backhanded way of forcing changes in the U.S. sugar program now in effect as a result of the 1990 Farm Bill.

4. During the Presidential election campaign, President Clinton proposed and has now instituted further negotiations with the Canadians and Mexicans in three areas which he believes must be addressed and clarified adequately prior to submission of the NAFTA to Congress for approval. They are: (1) environmental concerns, (2) labor and workers' rights, and (3) import surges. The President has stated that he is opposed to re-opening the NAFTA text but that he believes his concerns can be adequately addressed in these three side or parallel agreements. The U.S. Trade Representative, Mr. Kantor, will meet with his counterparts from Canada and Mexico beginning March 17 in Washington to initiate these so-called parallel agreements, and he has stated that it is his hope that such side agreements can be completed within 90 days. Should such be the case, you can expect the Congress to consider the NAFTA sometime this summer since the goal is to begin implementation of the agreement on January 1, 1994. In addition to approval by the U.S. Congress, the legislative bodies of both Canada and Mexico must approve the agreement as well.

The U.S. sugar industry hopes to see its concerns addressed and alleviated in the "import surges" parallel agreement so as not to be put into a position of having to oppose the agreement when considered by the Congress.

At any rate, I can assure you that your Washington representatives are working night and day to see to it that at the end of the day your receive royal treatment rather than the royal shaft!

Thank you for the opportunity to be with you this morning.

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