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TRADE POLICIES FOR THE 1990's: QUESTIONS*

Ambassador Hills and Secretary Yeutter

AMBASSADOR HILLS: I would now like to take any questions you may have.

SECRETARY YEUTTER: Thank you very much, Carla. We'll take questions now.

QUESTION: How would you compare our relationship to the Common Market with our relationship to Japan?

AMBASSADOR HILLS: In both instances, we are persuading our trading partners to open their markets so as to expand trade. With all of our trading partners, we are exerting leadership to get this done. And we have plenty of opportunity with both the European Community and with Japan to cause market openings. They are somewhat different, but the net result is that where there is a closure, whether in an excluded sector like energy or transportation in Europe or whether it is rice in Japan, the restriction is fundamentally a problem.

Japan has a history of market closure. The world trading system is dislocated incredibly when the second largest market in the world refuses to open up. As an industrialized developed country, Japan imports far less from the developing world than the European Community in aggregate and much, much less than the United States. That does tend to dislocate the trading system when you have a player that is aggressive in exporting and investing, but which has various barriers that prevent a flow of trade based upon price and quality. Market opening is not a request from us for Japan to be altruistic. No one has gained so much from the open trading system as have the Japanese. And to continue to gain from the trading system, Japan simply must open further. So I really think that fundamental reform and market openings must be on their short-term agenda.

QUESTION: Mr. Secretary, it seems amid all this international change that American agricultural could be poised for real expansion. What are your personal feelings of the set-aside programs in the long term and the conservation reserve program in the short term?

SECRETARY YEUTTER: I draw some distinctions between the two. The CRP (under which we take land out of production on 10-year contracts, with some to go into forestry, and some to go into grassland) has been designed to take our highly erodible lands out of production and conserve them for the future. It has significant environmental benefits not only in terms of soil conservation but also in terms of air quality to the degree that forestation is stimulated as a result of CRP activities.

*Based on a transcript.

I have been a strong supporter of the CRP through the years and its predecessor programs designed to preserve some of our very valuable natural resources for future generations. As we move into 1990, however, with more than 30 million acres of land already taken out of production in the conservation reserve -- and clearly with our most erodible lands having been removed from production -- the policy trade-off becomes much more difficult.

Taking additional land out of production through the CRP is going to become increasingly costly. This is done on a bid basis, and the land that would be bid into the CRP in the future will not come in at a rental rate as low as in the past. It is likely to come in at a higher rental rate because it is better land. So the cost will go up. And the environmental benefits thereof will probably begin to diminish, since the remaining land is less erodible.

With something like 34 million acres out of production now and a legislative goal of 40 million, we still have about 6 million more to go under our existing legislative authority and our direction. Some folks would like to see that go up to 50 million. That's going to be difficult to achieve except at substantial additional cost.

The more traditional set-aside programs annually remove some land from production as a part of our farm program apparatus. It becomes increasingly difficult to justify set-aside programs. They cost money to our economy. They spread fixed resources over fewer acres in agricultural production, which means that they reduce our international competitiveness. And they also signal to the rest of the world that we're prepared to remove some of our resources from international competition. And that often stimulates our fellow trading partners to increase agricultural production at the time when we are reducing. That is precisely what happened to us in 1983 when we took something like 80 million acres of land out of production in order to strengthen prices in the midst of an economic depression in American agriculture. What happened is that many others around the world planted a lot more and we just handed them market share on a silver platter. That was not the best policy decision we ever made, and we don't want to repeat that mistake.

So we have to be careful about the kinds of signals we send around the world and the kind of umbrellas we provide for our competitors. To some degree, the program may be necessary for budgetary purposes. Also, I wouldn't strike set-aside programs or set-aside provisions from our laws because we should have as many arrows in our quiver as we possibly can to flexibly design our farm program format here in the United States. Assuredly, there are times when a set-aside is desirable; but I would be very pleased if we could, in the next few years, achieve an outcome through the negotiating process and through other actions to produce a sufficient magnitude of demand generation that we could afford to eliminate set-asides from our policy mix.

QUESTION: Mr. Secretary, earlier you offered a pretty thorough putdown of the concept of U.S. supply management programs. Do you know of a legitimate reason why marketing boards and the like work well for a country like Canada

but would not apply here? And a double-headed question may be related to that: Do you view farmer income support programs as trade distortive? I ask because I think the Ontario Minister of Agriculture is in Washington this week to argue that such programs do not unfairly affect the export price of Canadian farm commodities.

SECRETARY YEUTTER: Some price and income support programs are distortive and some are not distortive. That's one of the reasons we designed the red, yellow and green categories, and we'll argue at the negotiating table in Geneva about what fits into each category. The whole objective of this negotiating process, whether it applies to Canada or the U.S. or to anybody else, is to try to move as many of these policy measures from the red category to the yellow, or from the yellow to the green. That, we believe, will be in the best interest of everybody and particularly in the best interest of those who are the most competitive. As to whether marketing boards are distortive, as I said, let's leave that for the negotiations.

AMBASSADOR HILLS: One of your questions was, how do we feel about supports for farmers? We do not tell our trading partners that they should not support their farmers. What we tell them is that they should not support their farmers in ways that distort trade. If they want to write every farmer a check to the full extent of their treasury, fine. If they want the farm sector to be the richest sector in their society, wonderful. I like farmers, too. What I don't want is for other countries to write a check for their farmers to grow a crop that results in overproduction and prevents U.S. farmers from getting a fair shake in the world market.

QUESTION: Mr. Secretary and Ambassador, with the activities now going on in Eastern Europe and the talk of a possible reunification of Germany, which we all know has had historic strength in world markets, how will this affect the GATT negotiations, and will these activities in Eastern Europe even be contemplated in those negotiations?

AMBASSADOR HILLS: The GATT negotiations involve 97 countries. And there was a decision in 1986, when we and our leaders launched the Uruguay Round down at Punta del Este, that after April 1987 no new members would be permitted to join the GATT, even in observer status. So in the 13 months that remain in the Uruguay Round of negotiations, we will negotiate only with those nations now at the table. However, Hungary is a member of GATT, as is Poland. Although East Germany and the Soviet Union are not, some nonmarket economies did enter the GATT early on. We will proceed with negotiations with 97 countries and, hopefully, achieve gains from increased disciplines that will again show those economies that are run by the state, the economic benefits that come from market forces.

QUESTION: Mr. Secretary, given your comments earlier about set-aside programs being trade-distorting and providing umbrellas for other commodities, how can we still justify having a 5-percent ARP on oats, a commodity that has had to be imported over the last few years to a major degree?

SECRETARY YEUTTER: There were particular trade-offs in each of the ARP decisions made this year. I don't want to go into all the details of that particular process because we were looking at the whole feed grains area as well as oats, and we balanced all the interests that were involved in that particular case and concluded that a 5-percent ARP was appropriate at the moment. But you certainly raise a legitimate point with respect to the way the existing design of our programs discriminates against oats and also discriminates against products like soybeans. The answer is that we ought to try to deal at least with some of that in the 1990 Farm Bill. But I didn't feel that we should try to solve all of those problems in the ARP decision that was made just a few weeks ago.

QUESTION: Ambassador Hills, have you given Korea any firm deadlines to open their beef market?

AMBASSADOR HILLS: We are seeking to achieve an opening in Korea as soon as possible. And as you know, we have proceeded with negotiations that culminated in November with the adoption of a GATT Panel Report which declared that Korea could no longer use balance of payments as an exception to the bans on beef importation. I congratulate Korea because they did adopt that report, which was very difficult for them politically. And now we are engaging in bilateral negotiations seeking to phase in the sort of reform that we have been negotiating over a period of time.

QUESTION: Mr. Secretary, with the predicted rapid growth in world population, I certainly agree with you that we have great opportunities to expand world trade in the next decade. But American agriculture feels threatened in its capacity to produce by the multitude of proposals to take away some vital tools -- the chemicals, pesticides, insecticides -- and the talk of limiting output through sustainable or alternative agriculture. How do you think these will play out in the 1990 Farm Bill or the ones following that?

SECRETARY YEUTTER: There's going to be a tense debate on that point. It is important that everybody in this room be a participant in that debate process because we need to develop some rational policies and rational decisionmaking. I believe rationality is now in some jeopardy. You cited some specific examples. If I have a chance, I'll mention others later in the day. But the fact is, we will have food safety legislation before the Congress next year. We may have other legislation in other areas also potentially limiting for our production capacity.

We have lost perspective on this issue in many cases because of deliberate destructions, and in other cases perhaps simply out of ignorance. I get distressed by the distortions, whatever the cause, whether they be inadvertent or deliberate, and I get distressed when we lose perspective in the policymaking process. It is incumbent upon all of us to try to respond to that challenge if we can possibly do so. Let me just make a couple of points about this if I may without trying to give a speech.

First, we need to keep saying over and over again, because it is true, that farmers are committed environmentalists. I don't know a farmer who is not committed to protection of the environment. There are many farmers, including me, who have been environmentalists a long time before the environmental advocates ever became environmentalists. So I see no reason why we should apologize for what we've done and how we view the environment. I'm as interested in protecting the environment as anyone. But I also believe that we need some sanity in this process. When we begin to discuss dramatic changes in the use of agricultural inputs, we need to understand the trade-offs.

To illustrate the challenge that we all have in getting rational thinking in this area, I'd like to cite a couple of quotations. One of them is in an article in the November 1989 issue of Atlantic Monthly Magazine entitled "Back to Eden." It says: "Although agriculture has given us cities, wealth, the arts and sciences -- what we call civilization; on the whole, it has been a mistake." I just believe that's an irresponsible statement. It becomes particularly irresponsible when it goes on to conclude that correcting this mistake involves switching out of traditional agricultural crops into some kind of a perennial. Apparently what the author has in mind is some kind of prairie grass that would be used to feed the world. I come from Nebraska, and the prairie grasses are buffalo grass. We have a hard enough time feeding cattle on buffalo grass, let alone feeding 6 billion people in this world.

Here's another one, from the National Resources Defense Council cited in a Wall Street Journal editorial on November 14. The spokesperson for the National Resources Defense Council said, "Allowing the EPA to condone continued use of a chemical whenever the benefits outweigh the risks is an absolutely anathema to the environmental community." Now that's a remarkable statement: to suggest that for any kind of health risk whatsoever, no matter how minor -- even if the economic benefits exceed that health risk -- the product still should be banned. We simply cannot throw away benefit-cost calculations in American society. If we are going to do that, we are going to get in deep, deep trouble not only in food production but in a lot of other aspects in our society.

The President's proposal on food safety calls for a change in the so-called Delaney clause which now provides zero residues in products that are determined to be carcinogens. It needs to be changed because we can now measure residues down to one part per trillion. If you follow the rationale of the quote that I've just cited from the National Resources Defense Council, a residue of some particular agricultural chemical that was one part per trillion would ban its use in food production. And when the President's proposal surfaced, we saw all kinds of editorial comment around the world saying what a terrible thing it was for the President of the United States to be proposing a modification in the Delaney clause. I wish the editorial writers would sit down and think about one part per trillion and what it means in this kind of an analysis and why this becomes so ludicrous.

One part per trillion, which most of us cannot conceive, is equivalent to one second in 32,000 years. Now, do we make public policy decisions and ban products that help produce food in this world on the basis of one part per trillion? Let me give you one other illustration that Deputy Secretary of Agriculture Jack Parnell uses. It is also a really good illustration because it has some comparative relevance to the Alar case when we, as a nation, lost perspective earlier this year. This doesn't involve Alar, but it reflects it. And this is one part per billion, not trillion, billion. We've been able to detect that minute level for a considerable time now. If you took one-sixth of an aspirin, a little piece of that aspirin, put it in a railroad tank car full of water, that's about one part per billion. And if you drank out of that tank car of water the recommended two quarts a day, do you know how long it would take for you to consume that one-sixth of an aspirin? Eighty-eight years. Yet we are banning products on the basis of one part per trillion now, not one part per billion. And whether you're talking about eating apples or consuming water or anything else, when it takes 88 years to consume one part per billion, you just have to wonder when we're going to get some sanity into this public policymaking process.

QUESTION: There's talk of granting the Soviet Union most favored nation status. How would that affect ag and non-ag trade?

AMBASSADOR HILLS: Two conditions are required to grant most favored nation status to any non-market economy: first, adopting freedom to emigrate, and second, negotiating a commercial agreement that nudges the country toward market orientation. Were the Soviet Union to be able to adopt over time policies that converted it from a state-run economy to a market-run economy, it could participate in the GATT. And were it to participate in the GATT and were we to be successful in the Uruguay Round, it would be bound by the same disciplines that we are currently seeking. And were that the case, I think that their agriculture would compete on the world market along with other competitive products and we would look to expanded trade in agriculture as well as industry to our mutual advantage. I have a lot of faith in our farmers competitive capacity. Historically, they do very well in worldwide competition.