Trade Negotiations
They Won't Solve Agriculture's Problems

"The Trade Agreements Act of 1979 received an overwhelming bipartisan mandate from both Houses of the United States Congress. This is an achievement of cooperation that's almost unprecedented between the executive branch of Government, the Congress, business, labor, farmers, consumers, others interested in the economic strength of our country."

President Jimmy Carter
on signing the Trade Agreement Act of 1979, July 26, 1979

by Dale E. Hathaway

The members of the General Agreement on Trade and Tariffs (GATT) have now embarked upon another Multilateral Trade Negotiations (MTN). The initiative for this MTN has come heavily from the U.S., which has asserted that two major issues need to be addressed. One is to bring trade in services under GATT rules, and the second is to strengthen GATT rules relating to agriculture.

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This MTN starts at a difficult time for American agriculture. U.S. agricultural exports during the fiscal year just ended were at the lowest level, in terms of both volume and value, that they have been in some 15 years. Even though it appears that export volume might improve modestly during the coming year, the probabilities are that the value may drop even further. Many, including some in the Administration, suggest that rapid progress in MTN on agriculture will substantially improve our agricultural export picture. This has led many farm groups to support a new round of trade negotiations.

An MTN in agriculture is a good idea. But it is a mistake for U.S. agricultural groups to believe that even a successful

MTN in agriculture will solve most of their problems. To understand why this is true we must briefly review why U.S. farm exports have declined, and discuss which of these reasons can be effectively dealt with in a trade negotiation.

The Fall in U.S. Exports and Farm Prices

There are four fundamental reasons for the five-year decline in U.S. agricultural exports:

—Lack of growth in world trade in agricultural products, and especially in those markets which were most important to the United States.

—Loss of U.S. competitive position.

—Excess productive capacity in agriculture on a worldwide basis.

—Trade practices of competitors in world markets and of major importers of agricultural products.

Even at the peak of the export boom in U.S. agriculture, United States agricultural exports consisted largely of exports of bulk commodities—grains, oilseeds, cotton, and rice. These are products we can grow competitively on our large-scale farms and move at low cost from farm to world markets via the world's most effective transportation and distribution system for such products.

Furthermore, at the peak of our export boom, the United States was not competitive in most of the so-called "value added" products, which usually have a relatively high labor component. This is not surprising since labor costs in the production of certain kinds of fruits and vegetables and products of orchards and vines are substantially higher in the United States than they are in many other countries.

World trade in products in which the U.S. had the greatest advantage grew at an unusually rapid pace during the 1970's. Very rapid growth in middle-income developing countries caused demand for farm products to outstrip their domestic production capabilities. In addition, major shifts in policies in the Soviet Union, Eastern European socialist countries and China in the 1970's brought them into world agricultural markets as major importers of grains, oilseeds, and cotton.

A series of events caused this growth in U.S. export demand to come to a halt at the beginning of the 1980's. Both, middle-income developing countries and Eastern Europe experienced increasing debt and balance of payments problems. Sharp changes in domestic agricultural policies in China changed their situation from being a net importer of significant quantities of grains, oilseeds, and cotton to either zero imports of these products or a net exporter in competition with the U.S.

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The 1970's was marked not only by a boom in trade in agricultural products but also by a sharp run-up in both nominal and real prices for farm products. These price increases reflected a worldwide scare about the long-term availability of agricultural products. These conditions resulted in a series of public and private decisions in countries around the world to expand the capacity to produce agricultural products. In the United States these decisions brought significant expansion of the area planted for export crops and huge investments in machinery and equipment, including irrigation equipment. Commercial exporters expanded export facilities, barges, and rail transport to move products from farms to foreign buyers. Most of these decisions were not a direct result of U.S. government policies, but a result of private investment decisions in response to price. It was government officials who cheered them on, telling farmers that the time had come for them to plant "fence row to fence row."

Market forces are not being allowed to remove this excess capacity.

About the time that most of this production capacity came on stream in the early 1980's, there was a sharp slowdown in world economic growth and some shifts in import policies by some countries. This caused world demand growth to fall far below what was expected when the capacity was put in place. Thus, in the United States and other countries, there is now a substantial excess productive capacity. Most of this capacity is in countries which also have some kind of government programs to maintain farm incomes. Thus, market forces are not being allowed to remove this excess capacity, and in some cases may even be encouraging further expansion.

Agriculture in GATT

GATT codes relating to agriculture differ from those relating to trade in other products in two important ways. The one that appears of most concern to the U.S. relates to Article XVI. It governs the use of subsidies.

Essentially, Article XVI bans the use of subsidies that affect the exports of non-agricultural products. However, the famous Article XVI:3 says that subsidies in agriculture are okay as long as they do not result in the subsidizing country getting an unfair share of the market.

This part of Article XVI was put in primarily at the insistence of the U.S. negotiators, who assumed that we would continue to support farm commodity prices at levels above international prices. Thus, export subsidies would be necessary for U.S. products to be competitive in world markets.

As it turned out, of course, a number of other countries have made the most extensive use of export subsidies. This is particularly true for the EC because its CAP has maintained internal prices well above world prices. As the EC expanded production beyond its domestic use, there has been widespread use of export subsidies in order to move the excess products into the world market. With the generous use of export subsidies the EC is now the number one exporter of dairy products, beef, and sugar, and a major exporter of grains and poultry products.

It is this section of the GATT codes which is of most interest to the U.S. This is the case because the Administration and others believe the use of export subsidies, especially by the EC, is the most significant factor affecting U.S. exports of agricultural products.

However, Article XVI is the subsidies code, not the export subsidies code. Therefore, the EC and a number of other countries have said that if there is to be a substantial revision of this code, the negotiation must cover all programs which affect the export of farm products—not just direct export subsidies.

This gets us to the fundamental question: Will the U.S. and other major countries concerned and involved in the export market be willing to put their domestic programs that affect production and exports under international disciplines? Unless the U.S. is willing to put its domestic and export subsidy programs on the negotiating table, there is very little prospect of any significant progress can be made to bring subsidies in world agriculture under any kind of international discipline.

The U.S. Government's reentry into direct export subsidy competition as a result of the 1985 Farm Bill caused a number of agricultural exporting nations to come together to condemn both the EC and U.S. practices. In late August, 14 such nations met in Kairns, Australia. They declared that the banning or phasing out of all subsidies that adversely affect agricultural exports should be the number one item on the agenda for GATT negotiations. Included in that were the U.S. export subsidies, target prices, and other subsidy programs, as well as the infamous EC export subsidies.

Import Restrictions

The second place where the GATT treatment of agriculture deviates markedly from treatment of other goods relates to the use of quantitative controls on imports. Here again, the United States was a major force in bringing about the special rules for agriculture.

Apart from certain balance-of-payment and national security considerations, the use of quantitative restrictions on either imports or exports of traded goods is prohibited under GATT rules. However, certain parts of Article XI, which cover quantitative restrictions, provides special rules for agricultural products. And according to Article XI import restrictions (quotas) can be applied if the importing nation is operating a production control program, marketing orders, or other special programs to reduce or remove surplus production.

But Article XI left our dairy import quotas illegal under the GATT since the U.S. was not restricting dairy production. Therefore, the United States threatened to withdraw from GATT unless it was given a special waiver which permitted the continuation of the dairy program. This waiver is called the Section 22 Waiver. It allows the United States to apply import quotas on price supported products if imports threaten to undercut domestic price support programs.

It happens that import quotas and other import barriers of other countries also are a major concern to United States exporters. Thus, reduction or abolition of these import controls also are a major goal of U.S. trade policy. However, the world has changed markedly since the 1950's. It is clear that now there cannot be one set of rules for the United States and another set of rules for the rest of the world. If the United States is to make significant progress toward dismantling import restrictions of other countries on agricultural products, it will be forced to put its own Section 22 Waiver on the bargaining table as part of this process.

The Seven Rounds of GATT

"Negotiations under the GATT are carried out in sessions, termed rounds that often last for several years. There have been seven of these rounds of multilateral trade negotiations since the inauguration of the GATT:

Geneva	1947
Annecy, France	1949
Torquay, England	1950-51
Geneva	1955-56
The Dillon Round	1960-61
The Kennedy Round	1963-67
The Toyko Round	1973-79"

Taken from Senate Committee Print 99-162 Agriculture and the GATT: Toward the Next Round of Multilateral Trade Negotiations, June 1986.

For More Information

Senate Committee Print 99-162 Agriculture and the GATT: Toward the Next Round of Multilateral Trade Negotiations, was prepared by Charles Hanrahan, Penelope Cate, and Donna Vogt of the Congressional Research Service. It focuses on past negotiations, the role of agriculture in these negotiations and issues that continue to be unresolved. For a copy, write to the U.S. Government Printing Office, Washington, D.C. 20402.

The abolition of Section 22 would affect only two major programs in the U.S. The dairy program has operated under tight import quotas for more than 30 years. The sugar program has operated with intermittent import quotas on sugar for most years since the 1930's.

It will be interesting to see whether U.S. agricultural interests are willing to exchange the protection of the U.S. dairy industry and the U.S. sweetener industry from foreign competition to gain either improved access to foreign markets or an end to export subsidies.

The Political Context of the MTN Negotiations

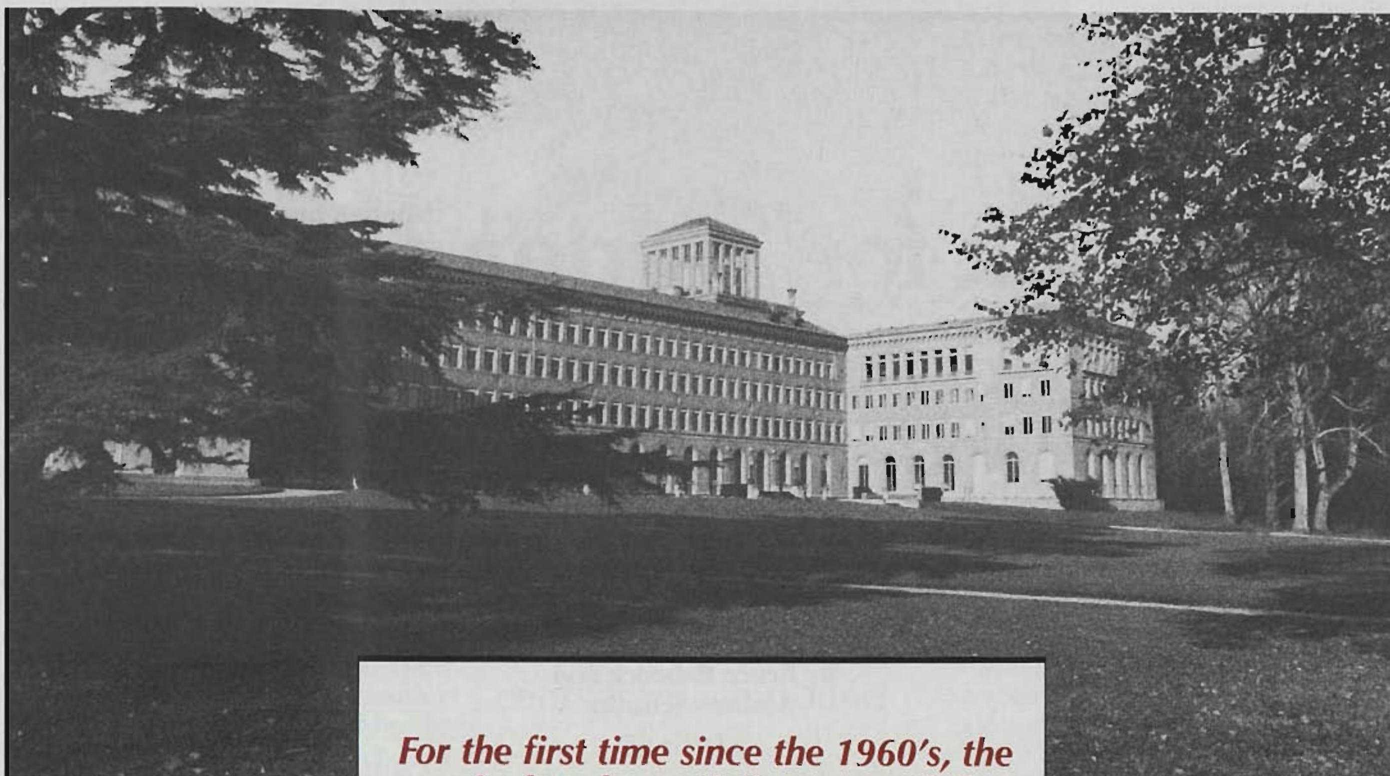
The negotiations will provide an interesting test of whether the U.S. agricultural sector believes they can be fully competitive in world markets in the absence of import protection, export subsidies, and other domestic agricultural programs. In the current trade negotiation, the United States is the initiator and major advocate of the application of GATT rules to the trade in services, investment, and intellectual property. The U.S. also is one of the significant advocates of tightening or changing the GATT rules relating to agricultural subsidies.

U.S. agricultural interest may find it difficult to believe, but in many of the past MTN negotiations, the U.S. agricultural position has been aided by the fact that access to U.S. industrial markets could be used as a lever to improve U.S. agricultural access to other markets.

However, in this current negotiation, we are demanding improved access for our services. Therefore, these sectors cannot be used as a tradeoff to provide any additional leverage for agricultural negotiations. It is also clear from the massive merchandise trade deficits and the general attitude toward imports of manufactured goods in the United States that there are no possibilities to trade off increased imports of manufactured goods or textiles into the United States in exchange for improved agricultural access abroad.

This means that, for the first time since the 1960's, the agricultural negotiations essentially have to be self-contained. In order to gain things that we want in agriculture, we will have to provide our bargaining chips from the agricultural sector.

It is not absolutely clear what, if any, agricultural bargaining chips the U.S. has to offer. Moreover, it is even less clear whether the U.S. agricultural sector is willing to make the kinds of trades that might be implied.



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COURTESY GATT SECRETARIAT
Headquarters of the GATT Secretariate in Geneva.

Things the MTN Won't Address

Finally, it should be noted that even if the MTN in agriculture is completely successful, it will not tackle three of the four reasons that inhibit world agricultural trade growth and U.S. export growth. The MTN is not the forum for dealing with the issues of expanding world economic growth and world demand for agricultural products. These issues, if they are to be tackled, require the coordination of finance ministers, the IMF, the World Bank, and private banks because they involve dealing with the debt burdens of developing countries in ways that do not destroy their economic growth.

Neither is the MTN the proper forum to deal with the matter of stabilizing exchange rates and coordinating national economic policies. One of the major factors that has caused the U.S. to lose its agricultural competitiveness and encouraged increased output from many competitors is the high value of the U.S. dollar in recent years.

Finally, the MTN is not likely to tackle the major and most pressing current problem: What can be done internationally to deal with the current excess capacity in world agriculture until world demand and world trade expand sufficiently to make better use of this agricultural capacity?

Moving MTN's Takes Time

American agricultural producers, and the export-oriented agricultural industries want relief now. This, however, is not the way that MTNs work. Multilateral trade negotiations are complex and lengthy. It would seem reasonable to expect, even under the best of circumstances, that an MTN may last somewhere between four and six years.

Then, however, if we have serious agreements to phase out subsidies, one could expect that these changes would be phased in gradually. Certainly a minimum of five years would be expected, and possibly as long as ten years. Adding this all together means that any significant changes in U.S. exports resulting from U.S. success in MTN negotiations are not likely to appear for 10 to 15 years. Thus, it is a mistake for agricultural groups to pin hopes for immediate recovery in agricultural exports upon a successful MTN.

This does not mean that an MTN in agriculture is a bad idea. It merely means that an MTN in agriculture should be undertaken to deal with the difficult and thorny issues which need to be addressed to remove serious distortions in agricultural trade, not because it offers a quick and easy solution to the current export problem of U.S. agriculture or to the excess capacity problems of world agriculture. C

Article XVI:3 of General Agreement on Trade and Tariffs

"... contracting parties should seek to avoid the use of subsidies on the export of primary products. If, however, a contracting party grants directly or indirectly any form of subsidy which operates to increase the export of any primary product from its territory, such subsidies shall not be applied in a manner which results in that contracting party having more than an equitable share of world trade in that product, account being taken of the shares of the contracting parties in such trade in the product during a previous representative period, and any special factors which may have affected or be affecting such trade in the products."