GATT Negotiations: How to Succeed by Really Trying

The current talks on agriculture in the General Agreement on Tariffs and Trade (GATT) in Geneva are at a crucial stage. This year, the two agricultural giants, the United States and the European Community (EC), are tabling their final proposals. The talks are to be completed by the end of 1990, the same year that will produce a new farm bill in the United States.

Long-standing farm programs in the EC and U.S. operate differently. The EC pays for most producer support with high consumer prices and faces large budget exposure only when it has to use export subsidies to dispose of surpluses. The U.S. government pays directly for the bulk of producer support through the budget and avoids exporting surpluses by accumulating stocks or retiring land from production.

U.S. and EC farm programs cost money, especially when world prices drop. More importantly, they cost each other money. One USDA study shows that in 1986 nearly 30 percent of U.S. support was required just to neutralize the impact of the EC program. These mutually self-defeating costs, including expensive trade wars, are the reason why the GATT talks include agriculture.

Opportunity for Failure

The goal of the GATT talks is to "substantially" reduce trade distorting support to agriculture. However success in achieving this goal could be difficult. Recent droughts raised world prices and relieved budget pressures—one of the primary motivating forces behind the current GATT talks. Also, current U.S. proposals concentrate more on changing the nature of U.S. farm programs with a view to eliminating them, rather than focusing on cooperation with the EC to make both our farm programs less trade distorting. I fear this approach will guarantee failure in the talks.

Changing the way U.S. and EC farm programs operate, such as converting quotas and levies to tariffs, will just add another layer of political complexity to both our farm programs. With our proposal, the U.S. and the EC would first change the way our farm programs work so that trade negotiators in Geneva can understand and deal with them. Once we have done that, then reductions in trade distorting support can be negotiated. Then the Congress and the EC Commission must legislate these far- reaching changes in the type and level of support. This approach is like asking a wheat farmer to raise catfish because the cook knows how to fry catfish, but has forgotten how to bake bread. I know we can do better if we really try.

Kent Conrad is U.S. Senator from North Dakota.

A Carrot and Stick Strategy

The GATT negotiators can trade paper in Geneva but the hard work of looking at farm programs must be done in Washington and Brussels. The place to start is with a joint in-depth cooperative examination by the U.S. and the EC to understand the effects of our programs on each other and an honest attempt to move both our programs in directions that do not distort trade.

From the U.S. viewpoint, it is fairly easy to visualize what the EC could do to reduce trade distorting subsidies and still continue to support their farmers. Even if the EC maintained its system of high internal prices, the trade distorting effects of EC programs could be greatly diminished if surpluses were kept off world markets by holding commodity stocks and retiring land rather than dumping commodities on world markets with expensive export subsidies. For this reason, a carrot for the GATT talks could be a U.S. offer to negotiate a food and land reserve coordination agreement with the EC to jointly steer our existing programs toward GATT goals. The EC would initiate these types of programs and the U.S. would coordinate its programs with theirs under agreed upon procedures.

The stick that brought the EC to the GATT talks in the first place was the downward pressure on world prices and the upward pressure on the EC budget provided by our weather related surpluses and Export Enhancement Program. Because of Gramm- Rudman pressures to reduce farm expenditures under our current farm program, the U.S. will increasingly be tempted to support farm income with more set-aside and land retirement programs when good harvests again drive down world prices. Thus our stick to encourage the EC to negotiate is becoming shorter each year.

The 1990 farm bill represents an opportunity to lengthen our stick, even with budget constraints. For example, we could allocate our available funds to producer support via current target price and loan rate programs but convert our set-aside programs into "acres for export" programs at world market prices. The EC would then have a strong incentive to join with the U.S. in the GATT in coordinating and sharing food and land reserve programs with us, avoiding expensive export subsidy wars, and reducing mutually offsetting support.

Farmers in both the EC and U.S. do not want trade negotiators to re-write the programs that have served them over a long period of time. Instead, Washington and Brussels should really try to move their existing programs toward the goals laid out in Geneva. The paperwork and monitoring activities can be done in Geneva but the real work must be done in Washington and Brussels.