World Agriculture Without GATT

by Richard Gilmore

➢ **Clearly the world and U.S. agriculture would be better off with a new GATT agreement that reduces internal support for producers, cuts protection from imports, and limits export subsidies. American agriculture, however, cannot afford the wait. A mild prescription for becoming more competitive and responsive to market developments offers a high economic return for U.S. consumers and producers. It is time to reinforce the movement toward greater planting flexibility for U.S. producers, encourage value added exports and implement a U.S. export strategy for non-GATT countries.**

The United States is sending contradictory messages at home and abroad. We support a GATT agreement for agriculture that tackles the basic ag trade issues: internal supports, import protection and export subsidies. On the other hand, the President requested and received from Congress in March an increase in our EEP (Export Enhancement Program). The cacophony mounts with the changes in our negotiating posture from the opening of the Uruguay Round to the present. We first embraced a rigid, somewhat ideological position in favor of drastic subsidy and support reductions. Now it would appear that the art of diplomacy has diluted our courage to the point that we are ready to accept what was deemed totally unacceptable one year ago.

The MacSharry plan for EC agriculture presented and approved by the EC (European Community) in January certainly provided signs of encouragement. The fact that it was shot down in subsequent EC meetings should dampen any enthusiasm or expectations. However, if the underlying principles laid out in this plan are accepted by the EC member countries, we could still be well on our way. It recognizes that the budgetary costs of the Common Agricultural Policy (CAP) are unsustainable. To remedy the spiraling costs and unavoidable surpluses, the plan would have effectively cut 1992 price support for wheat and oilseeds by 47 percent, for beef by 15 percent, and for milk by 10 percent.

However, such CAP stalwarts as the United Kingdom (UK), the Netherlands and Denmark succeeded in making the cut-backs smaller. Consistent with these more modest objectives, in March, the EC Commission issued its 1991/92 price supports. The 7 percent reduction in durum wheat intervention prices and the 3 percent cut for oilseeds are hardly a spiritual reflection of the MacSharry plan. Worse yet are the EC's own estimates of the net effects of their 1991/92 program—0.2 percent cut-backs in across-the-board.

A Mild Prescription

While the EC fights it out, the United States would do well to concentrate on developing competitive export strategies so that it will be better equipped for a world with or without GATT. If the timetable for GATT negotiations should happen to drag on, then the United States will have positioned itself to increase its world market share. Moreover, trending away from subsidies which are linked to production can help keep a lid on the agricultural budget and further rationalize American agriculture.

Restrain EEP

Unlike the EC, Congress made significant progress toward a long-term competitive position in agriculture with the 1991 Farm Bill. Particularly, the planting flexibility provisions promote efficiency and market-based production, while moving away from the outdated price support structure. Unfortunately, Congress recently lifted the upper limit on the Export Enhancement Program (EEP) from its previous $425 million to an unlimited amount. The justification is two-fold: to help the American farmer compete for world markets and to force the EC to the bargaining table. The timing of increasing EEP funding was poor, since EEP is often cited by the European Community as a major obstacle to GATT. EEP had already sparked the fury of Canada and Australia. And now the Government of Canada has threatened to reconsider its role in the Free Trade Agreement if the programmed increase in EEP is not retracted.

Apart from political effects, the decision to increase export subsidies at this time sends the wrong production signals to American farmers. It undermines the headway made by the new farm bill in introducing flexibility for planting decisions. For example, 93 percent of EEP exports are in crops already supported by government programs. Higher value or consumer oriented products, on the other hand, do not qualify for concessional programs and yet, trade in these products now accounts for over half the value of total world agricultural trade. Thus, the emphasis on EEP discourages U.S. farmers and agribusiness from developing opportunities for U.S. exports of higher value agricultural products.

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Do we really need large export subsidies? The United States is already competitive in grains and oilseeds. In wheat, for example, our average variable cost of production is $71.17 per acre versus $206.39 for the UK, France and Italy. U.S. producers of these crops already receive 65 percent of all net government support outlays. An export subsidy on these products then becomes a real income transfer away from other subsectors which are potentially equally competitive and offer the American taxpayer a higher return per budgeted export subsidy dollar.

EEP is far from a way out of a flat export market in the short term. It is, instead, an expressway to long-term structural distortions. The American farmer needs to find new markets, but certainly not risk having EEP induce a trade war or rigid price supports force him to lose his share of world markets.

Focus on High Growth Markets

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my countries, not the traditional GATT members. Whereas the EC was once the largest market for U.S. agricultural exports, accounting for as much as one third of total exports, it has declined to the second spot behind Japan, representing 17 percent of the total 1989 value of U.S. farm exports. Exports to Japan, itself, have reached a plateau, falling off from the high growth period of the 1970s. U.S. agricultural exports to developed countries as a whole have declined more than 25 percent in the last two decades.

The United States can create a liberalized international trade environment through free trade agreements.

Most countries in the high growth grouping are not currently members of GATT. All Eastern European countries (other than Romania and Albania, now under suspension), however, do enjoy "most favored nation" status with the United States. As a result, they are accorded virtually the same access to U.S. markets as if they were members of GATT. Last year the Soviet Union accounted for the largest share of U.S. wheat and corn exports. Between 1970 and 1985, centrally planned economy countries (including the Soviet Union) jumped almost 600 percent in their imports of American agricultural goods.

Developing countries increased their imports of U.S. agricultural products by over 10 percent from 1975 to 1985. This figure would be greater except for the fact that a large number suffer from a high level of indebtedness which affects their ability to import U.S. farm products.

Another factor affecting the growth rate of U.S. agricultural exports is the international value of the dollar. The influence of changes in exchange rates is strongest among the non-GATT developing countries. Among these countries a rise of 10 percent in the value of the dollar results in at least a corresponding decrease in their imports of U.S. wheat and soybeans. Japan and the EC, on the other hand, are relatively non-responsive to fluctuating exchange rates in their demand for U.S. agricultural products. Therefore, U.S. monetary policy is likely to impact on developing country imports of our agricultural products to a greater extent than any new GATT directed trade rules.

Expand Free Trade Agreements

When it comes to trade policy, the United States can create a liberalized international trade environment through free trade agreements. Our 1989 agreement with Canada has never been considered by either party as a substitute for a multilateral agreement. In fact, if crafted well, such an arrangement may serve to widen the field of players wanting to participate. The U.S.-Israel agreement of 1985 may actually have served as a catalyst for the successful agreement we now have with Canada.

Similarly, the "outs" may want to join the "ins" if another agreement is signed with Mexico. In sheer numbers, these bilateral arrangements may do more for U.S. agriculture than we could ever expect from any changes in GATT. Canada and Mexico rank 2nd and 5th, respectively, as import markets for U.S. food and feed products.

Although Mexico is now a member of GATT, an agreement with the United States would afford both countries a trading relationship freed from virtually all trade barriers, some of which will continue to constrain trade with other countries under any new GATT rules. A Mexican agreement would also help non-participating developing countries which are now entitled to the General System of Preferences (GSP) program. By graduating Mexico out of GSP, these countries would be entitled to greater access to the U.S. market assured under this program.

Adjust Government Services

The U.S. government has made substantial advances in providing marketing services to producers, processors and would-be exporters. Government information resources are unassailable but are not necessarily sufficiently well coordinated or targeted to provide maximum benefit for export promotion and market development purposes. Special trade and investment financing programs are available to exporters but again, all too frequently suffer from a lack of focus on a given market and remain a well concealed secret to many well qualified businesses. Like marketing, these financing programs are already in place. Their disbandment probably would cost more than their repair which, if well executed, could be budget neutral.

Policy For All "Seasons"

Thus, whatever the turn of events in the diplomatic arena, there is much the U.S. government and private sector can do to improve the export position of American agricultural products. All too often, U.S. products have lackluster sales or do not even make it to foreign shores for reasons having nothing to do with price or trade barriers imposed by other countries.

The longer we wait for these types of reforms, the less prepared the United States will be for the possibility of a GATT agreement which liberalizes agricultural trade. Without a meaningful GATT initiative, U.S. agriculture cannot rely on trade war measures to insure its competitiveness in world markets. As the clock ticks, the American farmer is rapidly losing time and money.