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TOWARD A NEW EUROPE: U.S. AGRICULTURAL POLICY RESPONSE

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The U.S agricultural policy response to a New Europe can be considered in two dimensions or time frames:

- the current (short-term) agricultural policy response, and
- a future (medium/longer-term) policy response.

In both the current and future policy response dimensions, the intent of the response is to *strongly* support and encourage the market-oriented economic reforms in Eastern Europe and the Soviet Union. The U.S. agricultural sector has strong economic interest in the reforms underway, particularly in terms of the potential for expanded and growing markets, not only for selected food and agricultural products, but for agricultural inputs and processing technology as well.

With respect to the further integration of the twelve-member countries in the European Community, called EC 1992, the U.S. agricultural policy response in the current, as well as the future dimension, might be characterized as one of *guarded* support. Supportive in the sense that the deregulation and liberalization among the twelve European Community (EC) markets implies a more competitive internal market and, perhaps, an expanded opportunity for U.S. firms wishing to do, or already doing, business in the EC.

Current U.S. Agricultural Policy Response

In Eastern Europe, the current U.S agricultural policy response has three components — food assistance and credit programs, technical assistance, and encouragement of private sector investment. As privatization and economic reforms move ahead, U.S. government programs have been used to make agricultural commodities available to Poland and Romania. Emergency food assistance was focused on the two most populous East European countries, Poland and Romania, since it was those two which faced potential shortages of food supplies as economic reform moved ahead. Title I Food Aid Programs and Food Aid Grants under the Commodity Credit Corporation for fiscal year 1990 totaled $130 million and $65 million for Poland and Romania,

respectively. Commodities provided under the two programs included wheat, vegetable oil, cotton, corn, soybean meal and pork bellies for Poland, and corn and butter for Romania. The food assistance programs, as well as other export credit programs, serve a dual function. Not only does food assistance help satisfy an immediate short-term need for foodstuffs, but they also have a longer-term market building component — by making U.S. goods more familiar to East European consumers.

Since last November, when Secretary Clayton Yeutter led a presidential delegation to Poland, the U.S. Department of Agriculture (USDA) has significantly expanded its activities in Eastern Europe. In the 1990 fiscal year, the United States offered $40 million in export credit guarantees to Yugoslavia and $26 million in guarantees to Hungary to help them obtain commercial credit for the purchase of U.S. agricultural products.

Programs like the Export Enhancement Program and the Targeted Export Assistance, or TEA Program, are also available. These programs help counter subsidized competition from the EC. USDA recently announced a 100,000-ton rice initiative for the East European region under the Export Enhancement Program.

The second component of the current agricultural policy response toward reforms in Eastern Europe is technical assistance. In the transition from planned to market economies, many of the Eastern European countries, as well as the Soviet Union, face similar problems:

- Heavy consumer food subsidies which much be removed;
- Lack of a clear understanding of markets and how they operate;
- Lack of an effective/efficient marketing infrastructure;
- Lack of an effective extension/outreach system; and
- Lack of an effective rural/farm credit system.

The USDA, as part of a broader plan for providing assistance to reform-minded East European economies, has attempted to provide a package of technical assistance that would address some of the issues and constraints facing economic reform in the food and agricultural sectors. As a result of the presidential delegation to Poland, a program of technical assistance has been put in place which calls for expertise from all parts of USDA, including the Extension Service, Farmers Home Administration, Agricultural Marketing Service, and the Economic Research Service.

In the economics area, much of the technical assistance will focus on developing, within appropriate government organizations, an understanding of the functions of various economic institutions. In many countries there is only a limited understanding of competitive markets and the nature of the price discovery mechanism. The concept of a "market-orientation" in the agricultural sector must be broadened from a notion of simply removing constraints to the marketing and pric-

ing of agricultural output, to the need for open and functioning factor input markets and an efficient (privatized) marketing infrastructure.

This technical assistance component of the current agricultural policy response should not be underrated. While much attention is focused on the dollar amounts of food and credit assistance being provided, technical assistance, in terms of developing a technical knowledge base, is critical to the long-run success of the economic reforms.

The private sector and private investment must play a key role in our three-tiered policy response as a nation. East Europeans are unfamiliar with concepts such as profit margin, return on investment and Western-style management. Governments and technical assistance can provide only a certain degree of basic economic and management training. The rest must come from the private sector.

Moreover, Eastern Europe desperately needs foreign investment to improve its manufacturing and processing capabilities in order to produce quality goods for export and to meet the expectations of its own consumers. In agriculture and agribusiness, there are a number of opportunities for investment and joint ventures. Some of the most promising seem to be in the areas of: food processing, flour milling and bakeries; feedlots, feed compounding, and pork and poultry production facilities; health foods and other high-value foodstuffs; and refrigeration and storage equipment.

Like technical assistance, investment of foreign capital is critical to the long-run success of economic reforms in Eastern Europe. Within the Foreign Agricultural Service, the Department has established a new office — the Eastern Europe and Soviet Secretariat — to coordinate activities within USDA and to provide information to U.S. businesses exploring agricultural trade or investment opportunities in Eastern Europe. In early September, an Agricultural Trade and Development Mission spent two weeks visiting Czechoslovakia, Yugoslavia and Bulgaria. This combined U.S. government-private sector mission investigated opportunities for joint ventures, investment and trade in such areas as food processing, food marketing, feed manufacturing and livestock production.

Under the 1989 Support for East European Democracies (SEED) act, Congress made $300 million available over three years to support Polish-American and Hungarian-American Enterprise Funds. Among other activities to promote U.S. trade and investment, the funds provide loans and grants to U.S. companies that want to do business in those two countries.

Through these and other activities, the U.S. government is helping to pave the way for business ventures and closer commercial ties. Providing opportunities for private sector investment in agriculture and agribusiness is very much a part of the current U.S. agricultural policy response.

The current policy response with respect to EC 1992 is to closely monitor progress on integration and internal liberalization of markets

within the EC. Of the 279 directives which comprise the EC's legislative program to unify all markets, more than 100 deal with plant and animal health and food safety. Elimination of frontier controls and regulations will require an enormously complex effort at harmonization in these areas.

Much of the outcome will depend on the level at which the EC decides to harmonize its product and commodity standards and regulations. For companies that now face twelve different regulations, requiring adjustments to labeling and processing lines, the prospect of gaining access to twelve markets by meeting just one standard is viewed as a welcome development. But, as of now, there are still no clear answers to the question: Will the EC enact harmonized standards and regulations that prove to be, overall, more restrictive than those currently in place?

Support for EC 1992 is guarded in the sense that the U.S. policy response is to be vigilant, to monitor progress toward harmonization and to challenge the EC in areas in which harmonization is likely to substantially increase or heighten technical barriers to trade and market access. With the exception of the hormone ban and the third country meat directive (these are quite *major* exceptions), the harmonization process does not yet appear to present an explicit raising of technical barriers to EC imports. But, the process of harmonization of the various border regulations on plant and animal health and food safety is far from complete and the USDA continues its vigilance.

The Future/Long-Run U.S. Agricultural Policy Response

The longer-run agricultural policy response to a "New Europe" will be shaped not so much by unilateral U.S. farm policy decisions (1990 farm legislation, for example) as by decisions within the context of the current multilateral trade talks that will end in December, 1990. The nature of the U.S. agricultural policy response will be strongly influenced by the success or failure of these trade talks, particularly on agriculture.

Status of the Agricultural Negotiations

Where do we now stand in the negotiations? Progress has been slow and painstaking. In 1989, the member countries of the General Agreement on Tariffs and Trade (GATT) agreed to "substantial and progressive reductions in protection and support of agriculture," and this was taken earlier this summer by the GATT Secretariat as the basis for a proposed framework for the final form of the agreement. The framework paper, offered by Aart de Zeeuw, chairman of the Agricultural Negotiating Group, was accepted by all GATT participants as a "means to intensify" the talks.

The chairman's paper calls for separate rules and disciplines in three areas: market access, internal support programs and export competition. But the paper also adopts the idea of using an aggregate measure of support (AMS) to determine commitments to reduce support. The framework paper is consistent with the U.S. view that an AMS is useful

for identifying protectionism, but that it must be used with commitments on specific policies themselves in order to achieve meaningful reform. The paper is also consistent with the U.S. view on tariffication and the reduction of export subsidies at a faster rate than the reduction in border protection and internal support.

The U.S. proposal, in keeping with the de Zeeuw framework, requests that, in order to open markets, nontariff barriers such as import quotas and variable levies be converted to tariffs. These tariffs would be bound and then substantially reduced over time. Thus, tariffication would allow world market prices to be transmitted to domestic markets. Where initial import access is very small, such as for Japanese rice, immediate market access would be assured by tariff quotas. What's a tariff quota? It's an initial quantity (quota) of rice, for example, which can be imported into Japan at a low or negligible tariff. Imports above the quota level would be allowed but only under a substantially higher tariff. The quota would be increased and the over-quota tariff reduced substantially over time. For countries concerned about the domestic effects of import surges, the U.S. has proposed safeguards that would allow a temporary "snapback" to a higher level of tariff protection.

The U.S. proposal calls for a reduction in subsidized exports by commodity — both in quantity and total expenditures. Export subsidies would be reduced at a faster rate than tariffs or internal support because export subsidies have the most distorting effects on world trade and are the least defensible of any policy. Nations should not be allowed to simply buy export markets. For example, the EC's dominant position in world trade for beef, dairy products, poultry, pork, sugar and, to a lesser extent, grains is only possible because of their $10 billion annual expenditure for export subsidies.

These market-oriented actions at the borders must be matched by reductions in internal support programs that distort farm production. Administered prices that act to keep prices to producers above those prevailing in world markets; direct payments tied to current production of specific commodities; and specific input subsidies such as fertilizer or transportation are examples of internal support programs that distort production and trade. The key issue is how to reduce such support policies. The U.S. proposal calls for the use of commodity-specific AMS's to determine the level of support that will be cut. Countries would then indicate in their country plans the commitment for a change in policies to meet their AMS reductions.

While it is most important to cut support provided by distorting policies, it is also necessary to allow countries to support farmers in other ways. Thus, the United States proposes the development of criteria to define "permitted" policies countries can use that will not be subject to support reductions. These could include environmental and conservation programs, bona fide disaster assistance and income safety net programs.

The U.S. proposal is comprehensive; it calls for actions in three areas — market access, export subsidies and internal support. In October,

member countries are to present detailed proposals which, hopefully, will add specifics to Chairman de Zeeuw's negotiating framework.

The other part of the agricultural negotiations deals with the harmonization/standardization for plant and animal health and food safety. There the negotiations focus on the development of a common international standard for sanitary and phytosanitary measures and for a scientific-based dispute settlement arrangement.

The Eastern Europe-GATT Connection

Again, the nature of the U.S. agricultural policy response to a New Europe over the long term will be strongly influenced by the outcome of the deliberations of the agricultural negotiating group. For Eastern Europe, it is important that they face a more market-oriented world agricultural trade environment as their transitioning economies become full participants in the international economic system. Over the long term, the prosperity of these East European economies will depend not so much on the short-term assistance provided by the developed countries, but will be closely tied to the continued liberalization and growth in world trade. In essence, the prosperity that we expect to find over the longer term in Eastern Europe, as well as the anticipated markets for food and agricultural products and processing technologies, will be tied to the ability of these countries to export. An increasingly protectionist world agricultural trade system, the likely result of a failed GATT Round, would most certainly slow (perhaps even prevent) economic growth and thus the basis for expectations of larger markets for food and agricultural products in Eastern Europe.

The EC 1992-GATT Connection

Two issues on which the United States is seeking an agreement from the EC with respect to the harmonization of sanitary and phytosanitary standards and regulations are:

- The use of international scientific bodies to settle sanitary and phytosanitary trade disputes, and
- Acceptance of a common international standard for harmonization purposes, such as the already existing Codex Alimentarius.

A GATT agreement in the area of harmonization of sanitary and phytosanitary standards would go a long way toward ensuring that internal harmonization under EC 1992 keeps "on track" with international standards and concerns. Lack of an agreement would allow the EC to "go its own way." A way that is likely to be even more difficult to step back from in five or ten years when, no doubt, another multilateral effort to harmonize animal and plant health and food safety regulations will take place.

An Unsuccessful GATT Round?

An unsuccessful GATT round may mean a continuation, perhaps a quickening, of the pace and the trend toward trade blocs — a polariza-

tion of trade into large, highly protected economic blocs. In Europe several things have happened: first, an enlargement of the EC to twelve countries; then, a move toward tighter integration — a true common market; and now, reform-minded East European countries which already are pushing for stronger economic ties to Western Europe. It doesn't take much imagination to see the potential for development of a huge European trade bloc, potentially including the Soviet Union and the growing market economies in the North Africa/Middle East region.

In North America, the United States has completed a free trade agreement with Canada and will begin earnest negotiation on a like agreement with Mexico in 1991. Additionally, President Bush, as part of a broader package to address the debt burden of the Latin American countries by enhancing foreign exchange earning capabilities, has opened the door to discussion of trade agreements with other Latin American countries.

If Japan and other East Asian countries find their products walled off from European and American markets, an Asia trade bloc may emerge by default. A bloc to include Japan, the 4 Tigers (Korea, Taiwan, Hong Kong and Singapore), Australia, New Zealand, and "New Tigers" like Thailand and Indonesia, holds the economic and trade potential to be a strong integrated trade bloc.

Bilateral or preferential trade arrangements, lets say between the United States and Western Hemisphere countries, would likely provide net economic and trade benefits to all participants. But, if at the same time the United States is walled off from other trade blocs — say, a "New Europe" — the trade and income benefits of a bilaterial liberalization approach would likely be smaller than the potential benefits associated with mulilateral reform. Trade blocs, coming on the heels of a breakdown in multilateral talks would be a poor second best solution to trade liberalization.

U.S. Farm Policy — 1990 Farm Bill

The 1990 farm bill contains little in the way of a direct/explicit response to a New Europe. The "Food for Progress" component directs an increase in the use of export program and food assistance funds for the newly emerging democracies in Eastern Europe. Other than that, the interesting aspect of the new farm legislation is what it implies about market-orientation.

The administration suggested a highly market-oriented approach to the development of 1990 farm legislation. The "1990 Farm Bill, Proposal of the Administration" (the so called "Green Book"), essentially would have attempted to keep program prices in line with the movement in market prices. Additionally, it would have given producers a high degree of flexibility in production/planting decisions — decisions that would be made increasingly on the basis of market prices, not policy prices.

What emerged from the House and Senate versions was something that offered much less of a market orientation than that contained in the administration's proposal. In fact, given the legislative proposals to freeze target prices, freeze the support prices for dairy and provide only token flexibility in planting decisions, the administration expressed strong concerns about back sliding from the market-oriented path begun with the 1985 farm legislation.

It's ironic. Just as countries in Eastern Europe are moving full steam ahead on developing a market-oriented economy, where signals on what to produce, how much to produce and how to produce it are provided increasingly by the market place — not by central planners; and just when Congress is attempting to find ingenious ways to facilitate that process in Eastern Europe, we seem to be, at least in American farm legislation, attempting to swim against the tide for a more market-oriented agriculture. (In October, 1990, farm legislation was passed that did take account of several of the administration's concerns.)

Final Note on U.S. Agricultural Policy Response

The U.S. agricultural policy response, as discussed to this point, has had to do with direct and indirect, current and future policy responses directed at a New Europe. However, the likelihood of several East European countries developing export surpluses in feed grains and livestock products could put them in direct competition with U.S. agricultural producers over the longer term. Those adjustments in Eastern Europe along with adjustments within the EC could force U.S. agricultural policy/program changes in response to those new competitive forces. Likely increased competitive forces within the EC as a result of the 1992 initiative, and the likely emergence of a stronger, more efficient and competitive agricultural sector in many of the East European countries mean that the U.S. agricultural sector must be more responsive to changing global forces if American agriculture is to remain competitive. That, in turn, means U.S. farm policy must be flexible.