AUSTRALIAN/CAIRNS GROUP PERSPECTIVE: SOUTHERN AGRICULTURE AND THE WORLD ECONOMY: THE MULTILATERAL TRADE NEGOTIATIONS

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Last week was Australia's 200th birthday. When the rebels in America won what they called their war of independence, Britain lost her penal colonies in the Carolinas and looked around for replacements. The first colonial fleet arrived in Australia on January 26, 1788, and included, along with 700 convicts, 44 sheep and 6 cattle. If Britain had defeated her American colonists, then the history of both Australia and Louisiana would likely have been very different. The French flag might be flying today over both Sydney and New Orleans.

We have our own flag now, of course. We also have around 170 million sheep and 23 million cattle and have really been more successful at growing animals than people. Our human population of 16 million is spread over a land area about the same as the continental U.S. (i.e., about 3 million square miles). The main reason is a lack of water. Over 70 percent of Australia is arid, in the sense that there is not enough rainfall to support the farming of either crops or pasture. The sole agricultural use of that land is extensive grazing, where the animals range over large areas of sparse native vegetation. These properties can be thousands of square miles in size, and yet the land itself has almost no economic value other than that of the animals themselves. One result is that Australia is a very low-cost producer of the products of extensive grazing. Our aridity is in stark contrast to the U.S. I have heard that the flow of the nearby Mississippi over five days equals all the flow in all the rivers in Australia over a year.

We also have a strip of land—called the "wheat/sheep belt"—which is usually productive and is where we grow most of our wool and crops. Although not major producers, we are major agricultural exporters: the world's leading wool, mutton, and live sheep exporters, and highly ranked in beef and veal, lamb, wheat, and sugar. We sell 80 percent of our food and fiber overseas. This has made our farmers and our government acutely aware of world market conditions and of the interrelationship of domestic and international agricultural policies. An inescapable fact has been that sometimes world prices are high and other times they are low. As well, the long-term real prices for agricultural products often appear to be in decline.

Our farmers, like yours, have thus had to face the twin evils of price variability and income decline. For some time in the European Community (EC) and Japan, and now in the U.S., farmers have faced these problems by relying on funds from taxpayers and consumers. In general, however, Australian farmers have abandoned this approach. One reason is simply that our treasury is not big enough to finance large direct subsidies.

But there are other reasons. Our farmers have become much more aware of macroeconomic factors. They realize that the exchange rate and the inflation rate can affect their real net returns more than the nominal price. They have also been at the forefront of demands for cutting our budget deficit, a stance which is hardly compatible with increased subsidization. Incidentally, partly as a result of these pressures, Australia this year will have a small budget surplus.

We also watched some of our protected industries, such as dairy, suffer a merciless decline when times grew hard. Many of our farmers drew the conclusion that the protection had merely encouraged a high cost of production, which made the eventual fall even harder. Incidentally, I have heard Secretary Lyng make similar comments about the dangers of U.S. farm programs setting in cement a high cost structure in U. S. grain industries.

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Exposure to the market can hurt, however, as our grain farmers have learned over the past few years, faced with declining world prices, a significant cause of which was the 1985 Farm Bill. We have a Guaranteed Minimum Price (GMP) scheme in place for wheat which will require a government payout this season for the first time ever (of about U.S. $150 million). But this has not encouraged excess production. On the contrary, because the GMP is calculated from world market prices, plantings have dropped dramatically, by over 20 percent last year, and so has production.

But the outlook for Australian agriculture is by no means one of unrelieved gloom. The net value of our rural production this year is predicted to increase by around 30 percent, mainly because of good growth in wool, livestock, and crops other than wheat and barley. Our farmers have had no artificial incentive to remain in wheat production, and some have switched to more profitable alternatives.

These comments have been intended to give you some understanding of Australian agriculture in order that you can more readily appreciate our attitude towards the current Multilateral Trade Negotiations (MTN) and the Cairns group. We believe that a free market is the most profitable goal. We also believe that in the long run it is futile to fight market forces. The cost of doing so is now greater than it has ever been. The World Bank estimates that currently around $250 billion is spent worldwide on agricultural subsidies, taking into account both direct taxpayer subsidies and artificially high consumer prices. There has to be a better way to spend this money.

Economic forces are inextricably linked. Once distortions are introduced into one market, they inevitably affect others even in unpredictable ways. To give just one example, the U.S. sugar policy is intended to benefit U.S. sugar producers. The results have been far-reaching. Production of corn sweetener has become economic in the U.S. because of the artificially high support prices for sugar. Moreover, the U.S. has become an efficient producer of corn gluten, one of the by-products of corn sweetener production. The U.S. ships vast quantities of this gluten to the EC which then feeds it to its dairy cattle. If those EC dairy products were sold at world market prices, they would sell for less than the EC pays for its corn gluten.

The EC also dumps feed grains on world markets, telling alternative suppliers, such as Australia, that it would not have to sell so much feed grain if it did not buy so much corn gluten from the U.S. So a policy introduced to benefit U.S. sugar producers adversely affects not only Australian sugar producers, but also Australian feed grain producers. It is highly questionable whether the policy even benefits U.S. sugar producers, given their loss of market share in recent years.

Of course the direct losers out of the U.S. sugar policy have been those developing countries which rely heavily on sugar exports, such as the Philippines and the Dominican Republic. Developing countries have also been hurt by aggressive U.S. export subsidies in other areas, such as Thailand for rice and Argentina for wheat.

This helps to explain why some of these developing countries agreed to join the Cairns group when the proposal was made by Australia in Cairns in 1986. The idea behind the group was to join with other countries who relied on agricultural export income but who were not sufficiently large in their own right to significantly influence the outcome of the MTN. These countries therefore decided to combine forces and present a united front in the MTN process. These countries are: Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, Philippines, Thailand, and Uruguay.

The Cairns group proposals were presented by our Prime Minister in Geneva late last year. Their basic objective is similar to that of the U.S. proposals, namely the elimination of agricultural subsidization. You will also be aware that the EC has tabled its proposals and has committed itself to negotiating towards a substantial reduction of agricultural subsidies. However, it has not proposed the elimination of all subsidies and seems inclined to favor some form of market organization—either of production or prices or both—by the exporting countries.

The Cairns group sees its proposals as lying in between those of the U.S. and the EC. In the following important respects, they differ from the U.S. proposals in that they seek:

- an immediate end to any escalation of subsidization,
- short-term measures (consistent with the long-term goal of subsidy elimination) to be put in place at once to provide early relief from the agricultural subsidy war,
- priority in phasing out subsidies to be given to those which most affect trade, and
- some form of special and differential treat-

ment for developing countries.

As to timing, our aim is to have a mid-term review of the MTN by the end of 1988, at which time countries would agree to a program for reform to follow. This will be by no means easy to achieve. The Japanese, who are major offenders in distorting world agricultural markets, still appear to be reluctant to admit that the problems have been caused by anybody other than exporters. Nevertheless, the rhetorical support for reform has reached unprecendented and unpredicted high levels. This may be the best chance to achieve progress for the remainder of this century. We certainly intend to give it our best shot.

We see the U.S. role this year as being pivotal. It probably does not help that this is the last year of the current U.S. administration and is, therefore, an election year. Certainly it is in the hands of the U.S. to make or break the MTN this year. One aspect of current U.S. policies which is troubling is the apparent intention to not only maintain, but actually increase, grain subsidization. The Export Enhancement Program (EEP) is being used at a faster rate than ever. Deficiency payments for grain will be down slightly this year, which is a step in the right direction. However, a reduction in acreage controls could mitigate the effects of that fall. These moves are politically popular in the U.S. The justification given for them is that they are directed primarily against the EC and it is necessary to keep the heat on the EC to maintain momentum in the MTN.

This is a view that we do not share. For a start, the EC is not the only other exporter of grains in the world, and U.S. policies adversely affect countries like Australia, Canada, and Argentina just as much as the EC. Furthermore from our perspective, the EC is already at the negotiating table. There is a danger that if the U.S. turns up the heat, this will only encourage the EC to lock into place and include budget measures which will ensure an even higher degree of subsidization than exists now. The Europeans themselves say that the EEP has not been a major cost burden for them. The decline in the dollar has been more significant, and its major cost burdens lie in the dairy and livestock sectors rather than in grains. If the U.S. were to agree this year to a cease fire and short-term alleviating measures, I believe there is a distinct possibility that a preliminary agricultural MTN agreement could be reached before the end of 1988.

Too much attention is generally focused on the possible losers from reduced subsidization in the farming sector in the U.S. Farmers everywhere, including the U.S. and Australia, stand to gain greatly from a genuine liberalization of world trade. The developing countries remain vast untapped markets. These countries will not be able to pay all their debts and achieve real income growth without more access to developed countries' markets. But if that growth occurs, then the potential is immense. A common change in diet when income grows is away from rice and into wheat products, which would of course benefit both our grain farmers. Meat consumption also of course increases greatly. I understand the average consumption of meat in developed countries is around 40 lbs. per head per year, but only 14 lbs. in developing countries. An increase in consumption of only a few pounds per head would be of considerable economic significance.

No one doubts the technical efficiency of U.S. farmers. Economic efficiency is another factor which we believe only comes from competition. A single Australian sheep farmer now runs up to 8,000 sheep, and 5,000 is common. Cattlemen are starting to run 600 or even 1,000 cows, and sugar farmers up to 200 acres. Our wheat farmers' last season received something like U.S. $1.70 per bushel on farm, and yet many were profitable.