MULTILATERAL AGRICULTURAL TRADE NEGOTIATIONS AND SOUTHERN AGRICULTURE

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This paper summarizes the economic implications of trade liberalization in agriculture with particular attention to the impact that liberalized trade may have on Southeastern agriculture. The major trade issue confronting USA officials in trade negotiations is the role of USA agriculture in world markets. The multilateral agricultural trade negotiations in the Uruguay Round of GATT offered an opportunity for the USA and other countries to improve the competitive environment of commodity markets. Recent changes in the focus of agricultural policy has caused USA negotiators to take a global approach to the problems that now beset USA producers. Prior to the 1980s, domestic policy remained rather independent of international trade developments. Now, the failure of domestic agricultural policies in the developed countries is considered a primary cause of disequilibrium in world agricultural markets.

An example of governmental policy affecting domestic and international developments occurred in 1981 when the USA Congress approved legislation which increased farm commodity prices and encouraged increased production (1). By 1985, the policy had priced many USA commodities out of the world markets, reducing competitiveness. Increased production had created large stocks of grain and dairy products, resulting in depressed prices that still haunt USA producers. Furthermore, record farm subsidy payments and high support prices distorted world markets, and exacerbated overproduction problems. Many inefficient producers also remained in business. Programs initiated in 1987 were of limited benefit to farmers and costly to USA taxpayers. The social costs of commodity price support programs and high food prices are being increasingly recognized.

While the USA and other developed countries suffer under agricultural surpluses, the economies of many developing countries are experiencing food shortages. Governmental policy in the Third World has maintained a system of explicit and implicit taxes on agriculture and has discouraged the development of vibrant farm economies. Over-valued exchange rates which make the purchase of foreign inputs difficult and excessive governmental interference in production and marketing have contributed to food shortages.

Distortions in world food supplies is attributed to the failure of policies in both the developed and developing countries. USA negotiators now realize that a domestic policy which leads to greater production and lower prices will worsen conditions for USA and Third World producers who depend upon receiving an adequate world price. The current round of trade talks will address the coordination problems that plague agricultural policy. By attacking all agricultural subsidies, the participating countries hope to solve problems on a comprehensive basis and find a long-term solution to world agricultural stability and viability.

AGRICULTURAL TRADE PROTECTION

Agriculture has not been a part of the trade liberalization trend that has been so evident since World War II (2). Manufactured goods have become less protected as tariff rates declined from 40% in 1960 to 6-8% in 1974. These rates fell another third after the Tokyo Round of GATT in 1974-1979. In contrast, the nominal rates of protection for agricultural goods increased from 21% to 28% in the 1965-1974 period. An important reason for this rise is the exemption that many domestic agricultural programs have from the rules prescribed by GATT.

During the Uruguay round of negotiations, the USA was willing to negotiate for the total liberalization of agricultural trade. Whether the USA's "zero option" proposal is merely a negotiating tactic or a serious proposal remains to be seen. The simplicity of the position is interesting in that USA negotiators have often settled for complicated trade formulas in the past. The USA's call for a total withdrawal of government support indicates that USA policymakers see the private market as the only mechanism which can rectify economic problems in agriculture. Through private control and free trade, the USA policymakers allege that overproduction at home and underproduction abroad will disappear as major trade distortions.

A review of the exact USA position as of July 1987 demonstrates the singlemindedness of the USA approach (3). First, the USA proposed the complete elimination of all production and trade distorting subsidies over a ten year period. Also, the USA will negotiate to eliminate all barriers to market access over the same ten-year period. These are short but profound demands (4). Within their bounds include the entire structure of market price supports and income support programs. If the USA has its way, import quotas, variable levies, minimum import prices, tariffs, state trading activities, export subsidies, export credits, government marketing boards, interest subsidies, stabilization funds, and all other governmental contributions to agriculture will end. Other income support programs which include deficiency, storage, and stabilization payments, acreage diversion payments, and negative payments such as producer levies will also cease.

Ancillary support services for agriculture are some of the most entrenched programs in the USA, but they will come to an end if the USA position prevails. Policies such as subsidized crop insurance, concessional farm credit or interest subsidies, fuel and fertilizer subsidies, some capital grants, marketing programs, research, advisory services, and structural investments will be excised from the USA budget and left to the private sector. Whether state governments will be allowed to replace these federal programs is an interesting question and one that the USA will probably have to confront if its proposal is accepted.

In addition, the USA position recommends elimination of all non-tariff barrier aspects of sanitary and phytosanitary regulations through international harmonization. These health related rules have often prohibited the importation of beef and dairy products into many countries. A unified system of grading would reduce the many trade distorting effects of different inspection programs. Finally, the USA wants to use a "producer subsidy equivalent" as a unit of measurement to determine the level of agricultural subsidization that exists in specific countries.

The USA proposal is most closely related in principle to the Cairns Group proposal (5). This group includes Argentina, Australia, Brazil, Canada, Chile, Columbia, Hungary, Indonesia, Malaysia, New Zealand, Philippines, Thailand and Uruguay, and thus represents many of the world's major agricultural producers with exportable surplus commodities. The Cairns Group proposal would have long term effects similar to those of the USA proposal. However, the group asks that liberalization proceed along a more measured path, with a freeze of agricultural programs to occur as an initial relief measure. Later, the group would move closer to the USA position by eliminating trade-distorting practices and disengaging government from agricultural markets.

The Cairns Group would not completely end income support programs but would decouple them from production requirements. Also, non-commodity specific aids, such as research, extension, education, market information, inspection and grading, and pest and disease control would possibly be exempt from change. In some respects, the Cairns Group proposal is more specific than the USA proposal. For example, the Cairns Group would eliminate all provisions for special treatment in agriculture including waivers granted by GATT for particular domestic programs. The reference here is to Section 22 of the Agricultural Adjustment Act of 1933. The USA proposal appears to include elimination of this waiver but whether the Section 22 quotas will remain on the table is open to question. These quotas have had a major impact on USA agricultural imports since the 1950s and their special effect on southeastern agriculture is noteworthy.

The European Community (EC) proposal as set forth in October, 1987, is probably the least drastic proposal (6). Although the EC would reduce support levels in the long term, the principles of the Common Agricultural Policy (CAP) would be considered non-negotiable. This position is discouraging from a free trade point of view. Apparently it means the EC will not reform its two-price system nor its community-preference policy. Consequently, agricultural commodities entering the EC will continue to compete at a price disadvantage. However, some room for greater reform has been left open by the EC negotiators. According to their proposal, a significant long-term reduction in trade-distorting support is possible, but such reductions must occur on a reciprocal basis.

The Nordic and Japanese Proposals follow the more moderate position of the EC (7). The Nordic countries consist of Finland, Iceland, Norway, and Sweden and their proposal for reform was put forth in December, 1987. Under the Nordic recommendations, the competitive environment of world agriculture should be improved through a series of adjustments. Like the EC, the Nordic countries want to gradually reform agriculture and are unwilling to instantly expose their producers to the full pressure of world market forces.

The Japanese Proposal has much of the same flavor with a few provisions that are particularly worth noting (8). First, the Japanese want to improve market access rules and at the same time take into account the need to stabilize domestic production of "basic foodstuffs." Japan's position seems to concern its ability to protect a powerful group of Japanese rice producers. Negotiations over import barriers will have to address Japan's concern if a viable import policy is found. Perhaps a USA offer to withdraw its Section 22 waiver would entice the Japanese to support import liberalization. On the export side, the Japanese have much less to lose because Japan is not a major player in the international agricultural export markets. Like the USA, Japan favors phasing out export subsidies over a fixed period of time. However, subsidies for improvement of agricultural infrastructure would be excluded from change. Evidently the Japanese government believes that research and development should remain a public function.

The various proposals of the participating countries reflect different philosophies about the power of the marketplace. While many of the world's producers favor less governmental interference, at least one group of countries, the EC, is uncertain about the consequences of an open market. The effects of trade liberalization on a barrier-free Europe are presently unclear. Unification of many EC programs in 1992 may enable Europe to have an even more protectionist policy. On the other hand, the political influence of the European farm lobby may lessen as national farm groups have to present their views before the entire EC. Operation of the CAP has already given European farmers a unifying device and so far a lessening of farm group influence has not occurred. Despite differences, some common ground among the participating countries in Uruguay exists (9).

All of the proposals call for a harmonization of sanitary and phytosanitary regulations which relate to agricultural products. A standardization of these rules would remove the nontariff barrier aspects of many grading systems. Also, the proposals recognize the need for differential treatment of the developing countries' trade policies. However, the USA proposal does not address this subject. If the Uruguay Round is to be successful, fundamental changes have to occur. International agreement over sanitary and phytosanitary regulations is too small an accomplishment for the greater goals that are now within reach.

TRADE LIBERALIZATION AND WORLD AGRICULTURE

The USDA and the Institute for International Economics have presented interesting scenarios on how trade liberalization would affect world agriculture. Agricultural Outlook has presented analyses by several groups, two of whom were the Organization for Economic Cooperation and Development (OECD) and the World Bank. These organizations foresee many advantages that could arise from trade liberalization. First, total agricultural trade would increase for beef, rice, and sugar. The prices for sugar, dairy products, and meats would rise and these price increases would largely replace subsidies that would no longer be available. In the USA, EC, and Japan, income from agricultural exports would grow while government support would make up a smaller proportion of total farm receipts.

Moreover, consumers in the developed countries would gain more than a dollar for every dollar that producers lose through trade liberalization. Most of the consumer gain in the USA would be realized through smaller federal budgets, while the consumer gains in the EC and Japan would be from lower food prices. Total gains would exceed $100 billion with the EC and Japan enjoying a higher net gain than the USA. Finally, the developing countries would see their agricultural export earnings rise as import barriers came down in the developed countries.

The Institute for International Economics presented the findings of a study conducted by Tyers and Anderson. The results from this study, summarized by Hathaway (10), are more detailed and less optimistic than the findings described above. If liberalization only occurred in the industrial market economies, Tyers and Anderson predict that world prices would rise only modestly, with ruminant meat and dairy prices experiencing higher gains. Also, trade volume would rise for coarse grains, rice, meat, and dairy products.

Should liberalization also occur in developing countries, trade volume would significantly increase for most products and world commodity prices would rise appreciably. Tyers and Anderson concur with the earlier study, in that the biggest gainers from liberalization of the developed countries would be consumers. Most of the gain would be felt in the EC and Japan, with consumers in Eastern Europe, the USSR, and most developing countries actually losing ground. Total liberalization in both the developed and developing countries would benefit producers in Australia, New Zealand, Argentina, Brazil, Thailand, and some Latin American and Asian developing countries.

The Cairns Group Proposal calling for total liberalization makes sense after the beneficial effects of such a reform are examined. Nevertheless, producers in other countries, including the USA would not enjoy a more favorable position. Although consumers would see their purchasing power substantially increase, at least one author contends that the political nature of the Uruguay Rounds will make consideration of consumer interests difficult (10). In short, domestic farm interests prevent any fundamental changes from the negotiations.

TRADE LIBERALIZATION AND THE AGRICULTURAL ADJUSTMENT ACT OF 1933

The key to the success of the USA proposal will depend on the negotiability of Section 22 of the Agricultural Adjustment Act of 1933. Use of Section 22 as a bargaining chip to encourage other countries to retreat from various proposals must be a major USA strategy. A brief history of the act indicates how entrenched this piece of protectionist legislation has become in USA politics (11). Article XI of GATT and Section 22 were originally consistent provisions. Although GATT was supposed to reduce import barriers such as those that Section 22 raised, Article XI made certain exceptions for particular domestic programs. A 1948 amendment to Section 22 contains a clause forbidding enforcement of the statute in contravention of the GATT articles.

In 1951, USA Congress' allegiance to GATT began to slip when new quotas in contravention of GATT were passed. After realizing the incompatibility of domestic legislation and international agreements, Congress again amended Section 22. This time Congress specified that "no trade agreement or other international agreement heretofore or hereafter entered into by the United States shall be applied in a manner inconsistent with the requirements of this section" (11). Because the amendment was approved after the USA had joined GATT, any USA action under the amendment would have constituted a breach of GATT. At the 1954-55 review session, the USA requested and was granted a waiver of its GATT obligations. Now, the USA government can impose restrictions on imports of agricultural products that "render or tend to render ineffective, or materially interfere with" any USA agricultural program or "reduce substantially the amount of any product processed in the USA from any agricultural commodity or product thereof" (12).

The quotas that have been established pursuant to Section 22 remain an important part of USA trade policy. Today, milk and cream, cheese and cheese substitutes, chocolate, and a number of other dairy products are subject to quotas. Peanuts, cotton, and sugar are the other major products in the quota program, with sugar being the most important (13). Import restrictions on sugar were lifted in the 1970s, but were reimposed in 1982 when a high domestic support price resulted in large quantities of foreign sugar entering the country. Also, the domestic price of peanuts for edible use is protected by zero import quotas under Section 22. The quotas have raised the value of peanuts and made peanut allotments a valuable store of economic value. Restrictions were relaxed in 1981 when there was a shortfall in domestic production. However, increases in domestic consumption and prices will usually not expand the quota limit (14).

Section 22 has special importance for agriculture in the Southeast (15). Dairy products, cotton, peanuts, and sugar are highly important to the region. In every Southeastern state, except North Carolina, at least one of these protected products was among the state's five leading cash receipt commodities in 1985. Peanuts accounted for 14.7% of total farm receipts in 1986 and remained Georgia's second leading commodity behind commercial broilers in gross value (16). Nationally, six of the top ten states in cash receipts from peanuts were located in the Southeast in 1985. Similarly, five of the top ten states in receipts from cotton were also Southeastern states. The dairy industry in the Southeast is of minor importance to the nation.

Sugar plays a small but important role in Southeastern agriculture. Cane for sugar was Florida's fourth leading commodity in 1985 and both Florida and Louisiana are leading national producers. Since the protected products under Section 22 are so important in the Southeast, one has to consider the regional effects of ending the Section 22 waiver. If cotton and peanuts were no longer protected by import barriers, would Southeastern producers be competitive in the international market? If not, which countries would become major USA suppliers?

Statistics for estimated cotton production in 1986-1987 indicate that India, Pakistan, and Brazil would have the capacity to sell cotton to the USA (17). Whether these countries have an adequate marketing and transportation system to deliver high quality cotton has not been determined. Should the People's Republic of China becomes fully integrated into GATT, the situation could change drastically. China is the world's leading producer of cotton and cottonseed and could become a dominant world exporter. In peanut production, China and India are also international leaders (18). Again, whether countries that have been major importers can construct marketing and transportation facilities for export is unclear. As far as sugar production is concerned, Brazil, India, and China are large producers of cane (19). Brazilian cane would be of particular interest to Southeastern producers because of the close proximity of South American ports and the importance of sugar to the Brazilian economy. Between 1985 and 1987, Brazil increased its cane production by 11%. The potential for future Brazilian expansion is immense and prospects for greater competition from that part of the world are great.

CONCLUSIONS

Acceptance of the USA proposal at the Uruguay rounds would benefit producers and consumers worldwide. Elimination of the Section 22 waiver would have particular importance in the Southeast. Producers in the region would be exposed to greater competition from countries with enormous production capabilities. USA superiority in marketing and transportation efficiencies should allow the Southeastern producer to successfully compete against foreign imports. However, in the long term, foreign competitors would become more experienced with the potential to capture more of the market. At that time, producers in the USA and particularly in the Southeast would have to find alternative uses for their land and labor resources. These adjustments are a long way in the future, but trade liberalization is inevitable. USA withdrawal of its Section 22 waiver would certainly hasten the process.

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