

TRADE NEGOTIATIONS AND THE FUTURE OF AMERICAN AGRICULTURE

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Until recently, international trade has taken a back seat to issues of unemployment, inflation and the budget deficit. Now, however, with the trade deficit almost as large as the budget deficit, opinion polls show that the U.S. public is beginning to see trade as an important concern.

Trade has been one of the primary interests of the Reagan administration. The policies and programs resulting from this focus reflect a strong commitment to free trade.

Basically, the administration believes that free trade produces more jobs, more income, more production and a higher standard of living for all. It accomplishes this through the process of increased competition, and that often makes us think there must be winners and losers. But that depends on your time frame. In the long run, all contestants in an open trading system are winners. In the words of John Stuart Mill: "The benefit of international trade is a more efficient employment of the productive forces of the world."

President Reagan recently issued a statement on agricultural trade noting, "It has become clear that ultimately no one benefits from the current policies employed around the world—not farmers, not consumers and not the taxpayers. It is equally clear no nation can unilaterally abandon current policies without being devastated by policies of other countries. The only hope is for a major international agreement that commits everyone to the same actions and timetable"(Reagan).

This philosophy has guided U.S. actions over the years. And, while the world has not always agreed with us, history does show orderly, if slow, progress toward the realization that trade barriers of any sort undermine national interests and erode the potential to produce.

This philosophy also has led to the U.S. proposal for world agricultural trade reform made before the General Agreement on Tariffs and Trade (GATT) on July 6, 1987, in Geneva, Switzerland.

A little background on the GATT and what has led to the current round of negotiations may be useful.

The GATT

The GATT is a multilateral agreement that lays down rules governing the trade relations between member countries. It also functions as the principal international body concerned with reducing or eliminating trade barriers. It does so through the sponsorship of international rounds of trade negotiations.

Since its inception, seven major rounds of negotiations have taken place under GATT auspices: in Geneva in 1948; in Annecy, France, in 1949; in Torquay, England, in 1951; in Geneva in 1956; in Geneva (the "Dillon Round") in 1960-61; in Geneva (the "Kennedy Round") in 1964-67; and, finally, the "Tokyo Round" which began in Tokyo, Japan, in 1973 and ended in 1979.

As a result of these past rounds of trade negotiations, tariff rates on thousands of items entering world commerce have been reduced or bound against increase.

The Kennedy Round alone reduced the average level of world industrial tariffs by one-third. These reductions affected a high proportion of the total trade of GATT countries and, indirectly, the trade of many nonmembers. These reductions also contributed greatly to the immense growth in world trade since 1948.

In the 1970s, the Tokyo Round negotiations attempted to remove both tariff and nontariff obstacles to trade on a whole range of industrial and agricultural products, including tropical products and raw material, whether in primary form or at any stage of processing.

The United States has consistently supported the concept of improved trading rules for guiding trade transactions even though trade is relatively less important to us than to our trading partners. While U.S. gross national product (GNP) is 23 percent of the world economy, we only account for 10 percent of world trade. U.S. exports are about 7 percent of U.S. GNP versus 32 percent for Germany, 29 percent for the United Kingdom and Canada, 25 percent for Italy, 24 percent for France, 16 percent for Japan and Australia and 13 percent for Brazil.

Nevertheless, the United States continues to support further improvements in the GATT as the most logical means of, in John Stuart Mill's words again, gaining "a more efficient employment of the productive forces of the world."

The Uruguay Round

We are now standing at the beginning of another round of multilateral negotiations. This, the Uruguay Round, launched on September

20, 1986, is shaping up to be a critical, timely opportunity for us to resolve international trade problems. It is an opportunity we may not have again in the foreseeable future.

U.S. Trade Representative Clayton Yeutter recently observed:

One of the major shortcomings of the GATT during its 40-year existence is that it has never effectively confronted agricultural trade policy problems. It has done a reasonably good job in the industrial area over the past four decades, but very little has happened to provide any discipline over the way agricultural trade is conducted (Yeutter and Lyng).

The United States approach has been to place every type of trade restriction on the table. The fundamental fact for most basic commodities is that domestic systems of support and protection inhibit growth in demand, stimulate excess production, and, in so doing, provoke more frequent use of import restrictions and export subsidies.

This administration is convinced the time has come for an international approach to removing the domestic systems that restrict growth in world agricultural trade. That simple idea has taken a long time to gain acceptance. Better late than never. The statement issued in Paris at the conclusion of the ministerial meeting of the Organization of Economic Cooperation and Development (OECD) was the consensus for which we have long hoped (Organization of Economic Cooperation and Development). The section on agriculture, agreed to by all the industrialized countries, recognizes that long-term reform of domestic programs is essential and declares that the Uruguay Round should establish the framework in which this reform can take place.

In keeping with that sentiment, on July 6, 1987, in Geneva, the United States submitted its formal proposal for the reform of agricultural trade under the GATT.

The proposal is easy to describe but sweeping in concept. We are seeking the elimination of all direct and indirect subsidies and all import barriers that affect agricultural trade. We have proposed that these subsidies and restrictions be phased out over the next ten years.

We are not proposing a simple swapping of tariff cuts or other concessions, product by product. We are linking subsidies and access barriers together in order to phase out whole systems of excess support and protection. Only by eliminating the source of the problem can we end the creation of price-depressing surpluses and put competition back on an even playing field.

Our proposal does include a safety net for those farmers who need help making the shift to a market-oriented world agriculture. Farmers unable to compete could receive help in the form of direct income supports. Such direct help would prevent them from being

forced off their land, but it would not disrupt world markets by tying aid to greater farm production. With overproduction already one of the biggest problems facing world agriculture, it is hardly helpful to producers to support income through price guarantees or other devices that encourage them to produce even more.

Our proposal to the GATT also seeks an internationally agreed on approach to assure that the development and application of health and sanitary regulations are based on scientifically verifiable needs and not for the purpose of trade restrictions. Individual countries now have their own health and sanitary regulations. Commodities produced and exported under strict health standards in one country must conform to different regulations in importing nations, thus complicating trade. Standardizing health and sanitary rules worldwide would help facilitate flow of trade.

Ambassador Clayton Yeutter called the U.S. proposal a quantum leap forward in the conduct of agricultural trade and a quantum leap forward in the disciplines that will exist throughout the world (Yeutter and Lyng). He went on to say that everybody will have to go down the reform road together; trade reform cannot be accomplished unilaterally.

Bilateral Issues

While reform through the Uruguay Round negotiations shows much promise, it is not the only avenue for resolving trade difficulties. Even as we are working in the GATT to bring about broad, long-term changes in the world trading system, we also are continuing to negotiate bilaterally with other countries, such as the European Community (EC) and Japan.

Our ongoing talks with the EC, for example, provide a forum to discuss pressing policy issues.

In the past year, we have addressed and successfully concluded an agreement on EC compensation to the United States for trade losses stemming from Spain's and Portugal's joining the EC last year. We expect, and will insist, that the EC live up to its commitments in this agreement.

We have also satisfactorily settled the "citrus-pasta" dispute. But we still have a number of contentious issues pending, among them a proposed EC tax on consumption of vegetable oils and the EC's restrictions on meat imports from third countries. We are greatly concerned about the implications of these issues for our oilseed and meat trade.

Certainly much work remains to be done in the EC where government policies are impeding the natural processes of adjustment to a global agriculture.

In Europe the impediments include efforts to hold on to obsolescent or inefficient industries, wages that are unresponsive to the market and social policies that impede growth. These help account for Europe's inability to adjust quickly to changing economic conditions and for a persistently high unemployment rate now averaging more than 11 percent in the EC. In contrast, the U.S. rate is less than 7 percent and the U.S. economy has created 11 million new jobs since 1982.

Regarding Japan, which ranks as the biggest market for U.S. agriculture, Allen Wallis, under secretary of state for economic and agricultural affairs, has said:

Japan's success as an exporter has created the appearance of a miraculously efficient economy. Notwithstanding that popular view, much of Japan's economy is still quite backward. The complications of the distribution system are legendary and its intricate web of obstacles to imports is a serious obstacle to its own full prosperity.

With small plots and many part-time farmers, Japan's agricultural sector is one of the least efficient and most heavily subsidized of any major industrialized country. This support, combined with the tax treatment of capital gains, limits the land available for residential purposes and generates a ripple effect throughout the Japanese economy. It contributes to weakness in the consumer goods market and in imports. It particularly limits agricultural imports, though in spite of that Japan is the largest buyer of U.S. agricultural products (Wallis).

Wallis added that structural adjustment is now a key element of U.S. economic policy in relation to Japan and "complements our other efforts to secure greater internationalization, deregulation, freedom and openness throughout the Japanese economy. We hope to see Japan becoming an importing superpower, not just an exporting superpower."

U.S.-Canadian Talks

I would like to turn your attention to the U.S.-Canadian trade talks. Both our countries are working hard for a U.S.-Canadian agreement that would open up trade along our mutual border—the longest border anywhere in the world that is open, unguarded and friendly. A lot of trade already crosses that border—and it is in the interest of both countries to expand that trade further.

Negotiations—even agreements—between the United States and Canada on free trade date back more than one hundred years. The first move in this direction came in 1854 when our two countries signed an agreement that permitted each to fish in the other's waters

and to trade freely in natural resources. That first treaty lasted twelve years but was not renewed following British support for the Confederacy in the 1860s.

Another major effort at freer trade between the two nations was made in 1911 when we negotiated a reciprocity agreement that would have introduced free trade for agricultural products and reduced tariffs on manufactured products. That agreement was never ratified by Canada because of concerns, stemming from U.S. political rhetoric, that the free trade might have only been a first step in eventual annexation of Canada.

During the mid-1930's, the United States and Canada negotiated an agreement that reduced U.S. tariffs on Canadian goods imposed during the Depression under the Smoot-Hawley Tariff rules. The pact was renewed in 1938 but it was superseded in 1948 when both countries participated in the multilateral GATT.

At the present time, only one major bilateral economic accord—the 1965 treaty creating a duty-free market for automobiles and parts—is in effect between the two countries.

The current talks are the first in nearly forty years in which the United States and Canada have addressed the issue of freer trade. They are the result of a summit meeting two years ago in March, 1985, between President Ronald Reagan and Prime Minister Brian Mulroney.

The U.S. Congress has authorized the Reagan administration to pursue these negotiations on a “fast track” basis. However, this authority expires at the end of 1987. To meet the deadline, U.S. negotiators need to submit whatever they have come up with to Congress by early October. This means the negotiations have been conducted under great time pressure.

On the agriculture side, we have held meetings at least once a month since July, 1986. More recently, the meetings have been more like once every other week. We have focused much attention on the harmonization of health and sanitary regulations. A task force with representatives from both governments was formed to discuss this topic and I believe we have made some headway.

We have also undertaken to identify the various agricultural subsidy programs—at the federal as well as the state and provincial levels—that distort agricultural trade between our two countries.

The subsidy question is one of the more contentious issues being addressed. In Canada, Secretary for External Affairs Joe Clark has blamed both EC and U.S. subsidies for “devastating” the livelihood of Canadian farmers. He says that, “Agricultural production in Europe is subsidized to an extent that defies all economic sense. The United States finally responded to this structural distortion with equally absurd export subsidies of its own” (Davies).

While U.S. subsidies are a highly charged issue in Canada, the issue is not entirely one-sided. Last December the Canadian government authorized \$1 billion in Canadian dollars for the special Canadian Grains Program to use as a subsidy for the country's grain and oilseed producers. That is certainly a step in the *wrong* direction as far as our free trade talks are concerned.

As part of the free trade talks, we also have formed a working group on access issues. This group is concentrating on nontariff barriers such as various U.S. import restrictions and Canadian provincial wine regulations and marketing board import licensing requirements.

The wine and beer access problem exemplifies how a nontariff trade barrier can be every bit as damaging as a tariff. Under Canadian law, complete control over sales and distribution of alcoholic beverages is given to the provinces. Although Canada is currently the largest market for U.S. wines, discriminatory price mark-ups, lack of listing opportunities and restrictive provincial marketing and distribution practices are serious impediments to expansion of U.S. wine exports.

With respect to beer, U.S. brewers have had little or no success in obtaining provincial liquor board listings allowing them to sell their products in Canada. However, in most provinces beer produced there may be sold outside of the provincial liquor board system. That gives domestic production a large advantage over imported beer. As a result, U.S. brewers have had to license Canadian brewers to produce U.S. brands. This at a time when Canadian beer exporters have ready access to a large U.S. market.

Will U.S. and Canadian negotiators be able to come up with an agreement by the October deadline? More to the point, will we be able to draft an agreement in which both sides will come out winners—an agreement that stands a chance of being approved in both the United States and Canada?

One thing that suggests success is that there are strong pressures for a free trade agreement in both countries. While oftentimes the opponents seem to get most of the publicity, there are many, many businesses on both sides of the border for which freer trade is essential for continued economic growth.

There are also pressures on both of our nations from outside sources—in particular from the EC, which is becoming more and more protectionist, and from Pacific Rim countries, which are becoming more and more aggressive exporters. European and Pacific Rim trade policies have heightened the importance of the U.S. market for Canada and the Canadian market for the United States.

The United States and Canada already enjoy the largest bilateral trade relationship in the world. For agriculture, Canada is both a

major U.S. market and a major U.S. supplier. U.S. agricultural imports from Canada totaled nearly \$2 billion in 1986 and Canadian imports from the United States totaled \$2.4 billion.

Canada consistently ranks as the fifth or sixth largest U.S. agricultural customer. It is our biggest foreign buyer of a number of high-value products such as oranges and orange juice, fresh grapes, fresh tomatoes, lettuce and nursery stock and flowers. About 70 percent of U.S. agricultural exports to Canada is comprised of more than 100 products with a relatively small export value—less than \$40 million annually.

Canada also is one of our foremost competitors in third country agricultural markets, with nearly three-fourths of its exports destined for countries other than the United States. Besides being our No. 1 rival in world wheat markets, especially for spring varieties and durum, Canada also is a major competitor in barley, oilseeds, horticultural and livestock items.

Canada is the United States' largest supplier of competitive agricultural products. Frozen pork, beef and veal plus live cattle and hogs head the list at nearly \$1 billion. Other significant Canadian exports to the United States include horticultural items and grain products. Some of Canada's most important exports to the United States are commodities for which it has few alternative markets—for example, live hogs and fresh potatoes.

U.S.-Canadian free trade talks are also significant because they offer both our countries an opportunity to get a head start on issues that will undoubtedly be addressed in the multilateral forum of the Uruguay Round.

The Uruguay Round of multilateral trade negotiations represents the best opportunity U.S. and Canadian agriculture will have in this decade, and possibly for the rest of the century, for developing ground rules that will facilitate expanded trade.

If the United States and Canada—both of which have highly developed agricultural systems and a big stake in freer and fairer agricultural trade—can find ways to resolve the issues that trouble our trade, our chance for success in the Uruguay Round will be greatly improved.

Our achievements in these bilateral talks may well be perceived as a test of whether progress in resolving agricultural trade disputes is possible in the multilateral GATT forum.

Conclusion

I am optimistic about success in our talks with the Canadians and in our negotiations with our Uruguay Round partners, provided we set ourselves the right goals.

If our sole object in these talks is just to boost U.S. exports and not trade, which is a two-way street, we have set ourselves the wrong goal and I suspect both exercises are doomed to fail.

If, however, our goal is to create a trade environment wherein this country and all other countries can compete fairly, then I think we are aiming at the right goal and we have a real chance to succeed.

That is the outcome that U.S. agriculture, and world agriculture, needs.

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