the first such action in the history of the EC, thus provoking a crisis which threatened to break up the CAP. The German veto was rescinded after the EC agreed to a thorough review of its CAP. The entry of Great Britain into the EC provided another opponent to the CAP, which had previously reflected the position of the major exporters in the community (France, Belgium, the Netherlands, and Denmark). Implementing the CAP had become very expensive. In 1973 and 1974, $12.46 billion or nearly 70 percent of the total budget of the EC went to finance the CAP. The chief importing countries, Great Britain and Germany, were not only paying high prices for their food, they were paying to support those prices. They wanted cheaper food. They especially resented the export of large quantities of butter to the Russians at low prices financed by export subsidies. They wanted to change the whole basis of the CAP from commodity price support to income support for low-income farmers. The Irish and the Italians also favored this because of their large numbers of low-income farmers.

On February 27, 1975, the EC made public its stock-taking report on the CAP. No dramatic changes in policy directions were proposed, and the CAP's performance was defended. For major commodities, the commission proposed improved price relationships among products, active stockpiling to ensure food security, and co-responsibility of producers for surpluses. To U.S. observers, this indicated that the price of feed grains would be increased relative to the price of wheat to encourage farmers to shift land from wheat to feed grains. Surplus foods, the report said, should be offered to EC consumers at subsidized prices. The long-term remedy for EC agriculture was held to be structural reform. The changes recommended would alter the operation of the CAP marginally but definitely in directions in accord with U.S. positions on international trade. The United States noted two unfavorable prospects: (1) the prospect of increasing trade restraints on feed grains and soybeans and (2) the likelihood of long-term supply agreements with countries outside the EC as in Germany's negotiations with Brazil as an alternative source of soybeans (20, Vol. 15, No. 8, "EC's Mediterranean Proposals").

In June 1975, the United Kingdom voted decisively in favor of permanent membership in the EC. From the U.S. point of view, this was a mixed blessing. British Government policy would focus on such traditional EC objectives as expanded agricultural self-sufficiency and increased trade with other EC members. The Americans, however, rejoiced that the British would join the Germans in supporting modification of the CAP. British livestock policy, before Britain joined the EC, had allowed imports at world market prices and used deficiency payments to compensate domestic producers rather than a policy of restricting imports and maintaining high domestic prices as had been the case with the CAP. The large British market was very attractive to EC livestock producers who, at the time, were trying to work off a

glut of meat. They were not about to let others share this market. The application of the CAP to United Kingdom grain imports would cause the loss of some U.S. exports because the continent had surpluses of grain. The British wanted the EC to adopt deficiency payments as the primary method for supporting farm income. Concurrently, the United States was revamping its farm programs toward providing income supports for producers rather than commodity price supports (20, Vol. 12, No. 30, "What Does the British 'Yes' on EC Mean").

On March 23, 1975, in an effort to get GATT negotiations moving, the United States proposed a general formula for cutting tariffs on all products including agriculture. Meanwhile, in the subgroup on Subsidies and Countervailing Duties, the United States proposed to prohibit direct export subsidies on all products. The EC, however, refused to regard its export restitutions as export subsidies and denied the jurisdiction of the subgroup. The EC asserted that the nature of agricultural trade and support programs was such that the goal for most products should be stabilization of international markets, primarily through international commodity agreements. In November 1975, President Ford met with the leaders of France, Germany, Italy, Japan, and the United Kingdom at Rambouillet, France, where they agreed to intensify the effort to conclude the multilateral trade negotiations (MTN) in 1977. It was further agreed that the negotiations should aim at significantly expanding agricultural trade.

The issue of whether agriculture would be negotiated separately or together with industrial goods was not resolved until 1977 when it was agreed that the rules for agricultural negotiations would be somewhat different from those for industrial goods. Negotiations for removal or changes in tariffs and other trade restrictions on agricultural products would be made in response to specific requests. Finally, negotiating groups were established to consider commodity agreements for grains, meat, and dairy products. Only the negotiations on grains ended without a successful agreement. In the end, the major participants were not able to reach an agreement on the key elements of an international system of nationally held reserves. Nevertheless, the 1971 IWA was extended to June 30, 1981, providing for consultation among signatories on issues relating to world wheat trade and for annual food aid to the developing countries.

Generalized System of Preferences

The U.S. Trade Act of 1974, in addition to authorizing the Tokyo Round of multilateral trade negotiations, provided for unilateral tariff preferences to beneficiary developing countries (BDC's). The Generalized System of Preferences (GSP) was put into operation by the United States on January 1, 1976, thus linking

the United States to virtually all other developed nations in offering tariff preferences to developing nations. In 1971, the contracting parties to GATT had adopted a waiver that authorized developed countries to give tariff preferences to developing countries for 10 years without violating the most favored nation principle upon which GATT is anchored. At the end of the first 2 years, 98 countries and 40 nonindependent countries and territories had been designated. Sugar was the most important agricultural commodity covered, and it represented 37.9 percent of total eligible agricultural products. The GSP was instituted as a temporary, nonreciprocal, nonnegotiable unilateral measure outside the MTN (21, 22).

Tropical Products

In the MTN meetings, the Tropical Products Group was the only one able to make any real progress in dealing with agricultural products. The U.S. position was that developing countries should be asked to give something in return for concessions offered to them by developed nations. Such concessions should be consistent with each country's trade, financial, and developmental needs. The United States circulated a list of the products on which it was prepared to make offers in March 1976. A number of bilateral negotiations followed, but only two agreements were reached. The agreement with India went into effect and was later carried over in large part into a broader MTN agreement with Mexico. The agreement with Mexico was never ratified by Mexico and never took effect. Developing countries were seeking priority treatment not only in the tropical products group, but in nearly all subgroups of the MTN (23).

Nontariff Barriers

The acceptance of the anti-dumping code in the Kennedy Round demonstrated that nontariff barriers were negotiable. In February 1975, the Trade Negotiations Committee established a group to oversee the negotiations on nontariff measures. This group then set up four subgroups to deal with (1) quantitative restrictions including licensing, (2) subsidies and countervailing duties, (3) technical barriers to trade (standards), and (4) customs matters. In July 1976, a fifth subgroup on government procurement was added to the original four. Negotiations in these subgroups and between interested countries eventually led to agreement on new rules governing subsidies, standards, customs valuation, government procurement, and import licensing.

Multilateral Trade Negotiations Results

The agreements reached in the Tokyo Round were extremely complex. As had been expected, agriculture was the most difficult sector in which to negotiate and progress was less than had been hoped

for. Despite a drive by some nations for food self-sufficiency, the degree of interdependence between countries was increasing rapidly. The process itself may have been the most valuable result. Nations, developed and developing, and rich and poor, were learning to solve problems through negotiation. Reciprocity, they found, could be applied to sectors other than weapons of war. The advantages to be gained from access to large markets were being learned by emerging nations, many of whom were participating in such negotiations for the first time. The rulemaking, standard-setting, and codification that has been enlarged upon and updated by each of the GATT rounds are as essential to increasing trade as reductions of tariffs, taxes, and subsidies.

Agricultural Issues Leading to the Uruguay Round: 1970's

Agricultural and macroeconomic developments in the 1970's led to the latest round of GATT negotiations. World conditions in the 1970's were initially very favorable to agricultural trade, especially for the United States. In 1971, the dollar was devalued, and, in 1973, it began to float on world currency markets. The multilateral trade-weighted value of the dollar dropped 18 percent between 1970 and 1973 and nearly 28 percent between 1970 and 1980, giving American exports a significant boost (3, p. 365). In 1972, the Soviet Union began to import large quantities of grain, much of it from the United States. The OPEC oil embargo, the subsequent rise in oil prices, and the recycling of "petrodollars" led to a flood of loans to developing nations, which, in turn, increased the demand for agricultural products. World agricultural trade expanded 41 percent in volume during the 1970's and by over 10 times that amount in current dollars (17, pp. 72-73).

U.S. farmers were well situated to respond to surging demand because they had long had excess capacity. Between 1970 and 1976, U.S. wheat output grew by 59 percent, corn by 51 percent, rice by 38 percent, and peanuts by 25 percent. Prices for all these commodities also increased, but foreign demand remained heavy throughout the decade. Exports rose strongly, especially for corn, which more than tripled overseas shipments between 1970 and 1976 (18, 1985). Production and markets shifted so rapidly after 1973 that the transportation system became seriously overburdened. Between 1971 and 1981, U.S. farmers secured for themselves over 100 million of the 160 million metric tons of world trade growth in that decade (14, p. 9).

The rise in exports had mixed implications for U.S. agriculture. Production and price increases boosted real farm income close to the record levels following World War II. Government price support payments fell below $1 billion in the mid-1970's, and the programs themselves were in use in name only for several years.

The suddenly increased profitability of export crops encouraged farmers to enlarge their operations by adding to inputs and buying more land. Land prices tripled between 1972 and 1980. But in the midst of prosperity, farmers were becoming increasingly dependent on circumstances beyond their control. The more heavily capitalized agriculture became, the more vulnerable were farmers to changing interest rates. Those rates had already begun to rise by the late 1970's, though they appeared low in real terms. The more farmers produced for export, the more they were affected by unpredictable fluctuations in world demand. The amount of land devoted to exports rose from 72 million acres in 1970 to 137 million in 1980, 39 percent of all harvested acreage (18, 1985).

American farmers were not alone in benefiting from expanded trade. Both the EC and other competitors, such as Canada, Australia, and Argentina, stepped up their plantings and exports. The EC's increased support of agriculture made it into an important grain exporter. New trade barriers erected by the EC, along with its export subsidies, made Europe a difficult market for the United States to enter. Exports to Europe grew, but greater growth came from exports to developing countries and the Soviet Union. In spite of new trading opportunities, relations between major trading partners showed increasing strain in the late 1970's. There were as many formal complaints filed with GATT between 1978 and 1981 as in its entire previous history. The EC also became more protective of its own industries in this period, initiating many investigations of dumping and other trading practices (19, pp. 5-3, 5-4).

America's competitors were also unwittingly provided an advantage that would soon have a telling effect on this country's ability to compete. When prices began to fall from their 1973-75 highs, farmers asked for and received the most dramatic boost in price support loan rates since World War II. The wheat loan, for example, rose from $1.25 per bushel in 1973 to $2.25 in 1976 and $3.00 in 1980. Between 1973 and 1978, corn loans went from $1.05 per bushel to $2.00, soybeans from $2.25 to $4.50. These changes caused little concern at the time because, except for corn, loans were still below world prices. When world prices weakened, however, U.S. loan rates had the effect of putting a floor under prices, enabling other countries to undersell the United States (18, 1985).

Trade Problems of the 1980's

In the early 1980's, world agricultural trade faced a sudden and unexpected shock. A second OPEC price hike in 1979 hit developing nations hard. When the Federal Reserve tightened its monetary policy in late 1979, it brought about a surge in interest rates. Developing nations that had been using borrowed

money to purchase agricultural imports found they could now barely meet the interest on their debts. The ensuing world recession slowed overseas demand for agricultural products. After the Russians invaded Afghanistan in late 1979, the United States began a 16-month embargo of agricultural shipments to the Soviet Union, which changed some short-term trade patterns, especially for the United States. Meanwhile, the multilateral trade-weighted value of the dollar rose steadily, gaining 43 percent between 1980 and 1983 and continuing to rise until 1985 (3, p. 365).

Yet, when the 1981 farm bill was written, much optimism about future exports remained. The minimum target price levels for the next 4 years set forth in the final legislation had built-in yearly increases based on the presumption of continued high inflation. Loan levels were guaranteed at relatively high minimums. These provisions had several negative consequences. They gave notice to foreign competitors that the U.S. price floor would remain high over the next few years, encouraging them to expand production and sell their surplus below U.S. export prices. In other words, the United States became a residual supplier. American agricultural exports peaked at $43.8 billion in 1981 and then dropped off to $26.3 billion by 1986. U.S. stockpiles of wheat, corn, upland cotton, and rice grew rapidly. By 1983, Government-held stocks had reached such levels that a Payment-in-Kind program was launched to reduce planted acreage and Government-owned supplies. Another consequence of the 1981 farm legislation was high Government costs. Lower commodity prices and acreage reduction programs combined to raise direct Government payments to farmers from $1.9 billion in 1981 to $11.8 billion in 1986, with billions more going to farmers from Commodity Credit Corporation loan operations (1, p. 56). Nevertheless, farmers were not prospering. When interest rates went up and prices began tapering off after 1980, many farmers who had borrowed heavily during the 1970's boom found themselves in a precarious financial situation. Land prices started dropping in 1982 for the first time since before World War II, thus eroding farmers' equity (18, 1985, p. 375; 1967, p. 517). Foreclosures became commonplace, and the farm credit system itself required infusions of Government aid. The farm credit situation made it harder to write major changes into price support policies.

By the mid-1980's, the United States had an expensive farm policy that kept prices high at a time of declining exports and permitted foreign competitors to make inroads into markets once dominated by American products. Because of this and the dollar's strength, some significant shifts had occurred in world trade by 1985. Agricultural trade continued to grow, but at a slower rate. Excess capacity was not just a U.S. problem, and a number of countries expressed concern for the protection of their agricultural sectors. The relative trading position of several

countries changed. The EC had by this time become a net exporter of grains, and it benefited greatly from the rising dollar. The U.S. agricultural trade surplus with the EC fell from $7.5 billion in 1980 to $2.5 billion in 1986 (10, p. 2). Spain and Portugal joined the EC in 1986, bringing the total nations in it to 12 and affecting U.S. trade with those two countries. America's trade deficit with Japan reached new records. Even though Japan has long been America's largest agricultural customer, its continued restrictions on rice and other commodities have remained a sore point.

The trade problem dominated congressional discussions of farm policy in 1985. A number of proposals for price support reform were considered in the new farm bill that year, ranging from a near complete reliance on the marketplace for price-setting to mandatory supply controls. The compromise Food Security Act of 1985 guaranteed continued high target prices (income supports), while sharply dropping loan levels in recognition of the need to reverse the decline in exports. Marketing loans for cotton and rice permitted prices to drop easily below the official loan rates. A new export subsidy program, the Export Enhancement Program (EEP), was also begun in 1985 to aggressively recapture lost markets. Under the EEP, exporters to specially targeted countries receive certificates good for CCC commodities, which enables them to lower their export prices. Wheat has been the main beneficiary of the EEP. A Targeted Export Assistance Program (TEA) extended further assistance to commodities that had been subject to unfair trade practices.

These programs, in addition to older export assistance plans such as P.L. 480 and CCC credit guarantees, have become a significant part of American exporting. About half the exports of wheat, flour, and vegetable oils came under export programs in 1986, as did about 35 percent of rice and over 30 percent of cotton (10, pp. 4-7). Due to a combination of a weaker dollar and export subsidies, agricultural exports turned up again in quantity in 1987 and made further gains during 1988 in both quantity and value. But rising imports have kept the agricultural balance of trade lower than in the early 1980's.

The Uruguay Round

The eighth round of GATT negotiations was launched in September 1986. The GATT Committee on Trade in Agriculture, established in 1982, laid the groundwork for this round. Amid growing nationalistic and protectionistic tensions and threats of a trade war, this committee thoroughly examined agricultural policies of GATT member nations. By late 1986, most of the leading agricultural nations agreed that trade was gravely out of balance. Low prices were making it difficult for farmers in those nations, (Canada, Argentina, and Australia, for example),

which depended heavily on farm exports but did not have extensive price support programs. The United States and the EC found themselves spending nearly equally massive amounts, about $25 billion annually, for price and income supports (17, p. 80). Even Japan, with its firm policy of import restrictions, was having an increasingly hard time justifying that policy in light of its trade surpluses and the high cost of food to its citizens. As protectionist pressures increased, so did the possibility of a trade war and its likely effects on the world economy.

The U.S. proposal to tie trade negotiations to reform of domestic agricultural policies was a historic step beyond the traditional agenda for trade talks. On July 6, 1987, the U.S. delegation to GATT formally proposed to the Negotiating Group for Agriculture that all forms of support and protection for agricultural production be eliminated gradually over a 10-year period. The United States placed all of its policies on the table.

This move by the United States put farm subsidies and market-access barriers at the top of the agenda in trade negotiations. The GATT nations, now 92 member countries, agreed on a 2-year, fast-track timetable which called for identifying the issues and getting serious negotiations underway in 1988. At the same time, the United States increased its pressure on the Common Market by threatening huge retaliatory duties if Europe raised duties on U.S. corn and sorghum. This caused the EC to revise its plans. A few months later, the status of fats and oils, long on the free list in the Common Market, was jeopardized. The United States promptly threatened retaliation. Moreover, a year-long controversy over the use of growth hormones in cattle feed reached crisis proportions in December 1988 when the Common Market refused to postpone its ban on imports of beef from hormone-fed cattle, effective January 1, 1989. The GATT talks convened in Canada in December amid such rancor that some commentators predicted the death of GATT.

Despite these conflicts, an agreement was reached in April 1989 to negotiate rules governing agricultural trade. The agreement froze existing domestic and export supports and barriers to market access within the scope of existing legislation through 1990. This paved the way for further negotiations to reduce agricultural supports and bring the member nations closer to a market-oriented system. Whether or not these negotiations succeed, the nature of the debate on trade has clearly changed. The EC and the United States now both recognize that a system of commodity price supports stimulates overproduction and costly competition.

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