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A Short History of U.S. Agricultural Trade Negotiations

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Abstract

The U.S. proposal to eliminate domestic farm subsidies worldwide, presented to the Uruguay Round of the General Agreement on Tariffs and Trade negotiations in 1987, is a significant break with past policies. Trade liberalization has been a U.S. goal since the Reciprocal Trade Agreements Act of 1934, but, until recently, the United States and many other nations have acted to preserve their own farm subsidies. In the 1980's, slower growth in international farm trade, the threat of trade wars, and higher subsidy costs have led to a reassessment of domestic as well as export subsidies and have created a climate favorable to eliminating subsidies.

Keywords: GATT, trade liberalization, foreign trade, farm subsidies.

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A Short History of U.S. Agricultural Trade Negotiations

Jane M. Porter
Douglas E. Bowers

Introduction

Trade liberalization has been the subject of international negotiations for at least half a century, ever since the disastrous protectionist policies of the Great Depression. After World War II, the United States emerged as the world's leading economic power, and it was largely American influence that brought about the General Agreement on Tariffs and Trade (GATT) in 1947. American fears that free trade might hurt domestic price support programs resulted in GATT provisions excluding agricultural commodities from quantitative restrictions, permitting some export subsidies, and in 1955 legitimizing U.S. import quotas (section 22). There have been several rounds of GATT negotiations since 1947 and a significant reduction in world tariffs. New methods of restricting trade, however, have also appeared and the United States no longer enjoys the dominant position it once had. Trade prosperity in the 1970's gave way to lower prices and increased competition in the 1980's, setting the stage for the current Uruguay Round. The American proposal to include domestic subsidies on the agenda is a new departure and an effort to dismantle the nontariff barriers to trade that have become so important over the last quarter century.

Trading Arrangements Before GATT

During most of its history, the United States has been a major exporter of agricultural products. Until the last quarter of the 19th century, agricultural exports were an important source of foreign exchange for the United States. The agricultural sector had few problems with foreign markets since it was a low-cost producer, and the large European markets of England and Germany had adopted cheap food policies to support their industrial development. American farmers, however, wanted low-cost manufactured products. In contrast to manufacturers, who

generally wanted high tariffs, farmers frequently supported the liberalization of tariffs. Until World War I, the United States was a debtor nation and Europe, our chief trading partner, held plenty of American dollars to purchase U.S. agricultural exports. During the war, however, the Allies depleted their supply of dollars to buy war materials and had to negotiate large loans to continue their purchases. There was no Lend-Lease Act in World War I. When the postwar depression in Germany prevented it from paying reparations to the Allies, the Allies defaulted on their debts to the United States. The United States retaliated by refusing to extend new credits and raising tariffs to record-high levels by 1930. These actions provoked a tariff war and contributed to the collapse of international trade and the Great Depression (5).[1]

New Deal agricultural programs altered international trading relationships for U.S. farmers. Crop production was to be brought into line with domestic demand, and price supports were to be adjusted to provide an equitable income to farmers. With prices supported and surpluses held off the domestic market, world supply, demand, and prices ceased to influence the U.S. market, but the U.S. market became attractive to foreign producers. Congress had no intention of supporting world prices and in 1935 amended the Agricultural Adjustment Act to permit import quotas on commodities under price support programs (section 22). It has been retained in agricultural legislation ever since. Surplus commodities, whether they were staples such as wheat and cotton or perishables such as dairy products or fruits and vegetables, could be sold and, in some instances, were sold abroad at world prices even if world prices were lower than domestic prices. Private industry in developed nations have long practiced export dumping of industrial products to relieve market gluts. Another 1935 amendment (section 32) permitted the U.S. Department of Agriculture (USDA) to use outright subsidies for agricultural exports. Neither import quotas nor export subsidies were used much in the 1930's, but the 1935 amendments set forth U.S. intentions to employ such methods when necessary (11).

During and immediately after World War II, all conventional trading rules were suspended. Instead, the United States and Great Britain regulated world trade among the Allies and neutral nations through the Combined Food Board. A system of requirements and allocations was established, and all sectors became claimants before the board. Although regulations were dismantled promptly at the end of the war, the dislocations in production and distributions persisted until the end of the Korean War in 1954.

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[1] Underlined numbers in parentheses refer to sources listed in References.

Since World War II, the Executive Branch of the U.S. Government has supported expansion and liberalization of international trade. Strong protectionist sentiments in Congress, emanating from both major political parties, made the subject of trade liberalization, a continuous battlefield in the Federal Government. As world agricultural production and trade began to become normal, the United States found itself with a highly productive agricultural sector that produced commodities for which there was no effective demand at home or abroad. American farmers, who had prospered from good prices and unlimited demand during the war, were not willing to return to lower support prices.

Under the authority of the Reciprocal Trade Agreements Act of 1934, which had been extended again in 1945 for 3 years, President Truman proposed multilateral trade liberalization negotiations in 1946. Negotiations, begun in London, were resumed in Havana in 1947. A charter for an International Trade Organization (ITO) was completed at Havana in 1948. ITO was a manifestation of the one-world idealism prevalent at the end of World War II. The debates had snagged on the issue of subsidies, especially agricultural export subsidies which were a cornerstone of U.S. agricultural programs. Great Britain, Canada, and Brazil led the fight to prohibit export subsidies, and Great Britain even opposed income subsidies not tied to a specific commodity. By the time the final draft of the charter was approved by the conferees, the free trade proposals of 1945-46 had been negated by the addition of escape clauses and exceptions. According to the USDA delegate to the Havana Conference, the charter was no longer a plan for the reduction of trade barriers as much as an undertaking of the signatory countries to consult on matters of economic interest. The charter was to be submitted to the nations for signature. The original U.S. supporters of ITO, the U.S. Chamber of Commerce and the National Association of Manufacturers, regarded the charter as a betrayal of free enterprise. U.S. agricultural interests, including major farm organizations who had led the attack in Havana that had weakened it, became only lukewarm supporters. U.S. delegates had subordinated economic theory to political reality. U.S. congressional leaders realized that they could not muster the two-thirds majority necessary to ratify the ITO charter so they let it die in committee (16).

The Beginnings of GATT

Concurrent with the Havana meetings, meetings were held in Geneva to negotiate lower tariffs and other restrictions on international trade. The Geneva negotiations resulted in the GATT, a document even less restrictive than the ITO charter. The GATT was intended to be an interim measure, pending the ratification of the ITO. GATT was signed on October 30, 1947,

and came into force January 1, 1948. GATT was never submitted to Congress because of Congress' failure to ratify the ITO. Presidents over the years have interpreted the Trade Agreements Act and its extensions and amendments as authority to participate in tariff-cutting negotiations and to implement the results of such negotiations. Congress has written some restrictive amendments into various extensions of the act, but it has never questioned the authority to negotiate or repudiated the results of the negotiations.

The five rounds of negotiations under GATT between 1947 and 1961 present an example of productive international cooperation. In general, tariffs among the industrial nations were reduced. Though not a part of the GATT negotiations, the participatory nations concurrently largely dismantled the monetary and quantitative controls that had been erected during the economic crisis that followed World War II. The GATT contains a statement of general principles including:

(1) Tariffs are the only acceptable means of protection, and any quantitative or other form of restriction is not permissible.

(2) Direct subsidies that would prejudice international trade relationships should be eliminated as rapidly as possible.

(3) Countries should consult together to avoid injury by unilateral action by any individual country.

(4) Compensation to cover damages to any country or countries by unilateral action by one country in violation of the principles of GATT would be approved.

(5) Once a tariff concession had been made and accepted by the other participants it could not be unilaterally rescinded (17).

The 1947 Geneva meetings also completed a multilateral tariff-cutting exercise among the 22 participating nations that resulted in concessions on nearly two-thirds of total world trade. The United States participated in two additional rounds of GATT negotiations, one held at Annecy, France, in 1949 and the other at Torquay, England, in 1950-51, before Congress reduced the President's tariff-cutting authority from 50 to 15 percent of existing rates. In the 1951 Trade Agreements Act extension, Congress created a bipartisan Commission on Economic Foreign Policy (called the Randall Commission after its chairman, Clarence Randall). The report of this commission came out strongly for continued negotiations for the liberalization of international trade. Congress renewed the Trade Agreements Act, broadening the President's authority but limiting additional cuts

in tariffs to 15 percent. In 1954, GATT members reviewed their 5 years of experience with GATT and reaffirmed its basic objectives and obligations. They drafted an agreement to provide a secretariat to administer the GATT and codified the rules that had evolved under the GATT. The U.S. Congress failed to ratify this agreement, thus preventing the establishment of the secretariat. Under the authority of the 1951 act the United States participated in the fourth round of GATT talks held in Geneva in 1956. At this session, GATT dealt with the request of Japan for membership. By this time, GATT membership had grown to 40 countries (17).

U.S. Trade Policies and Domestic Agricultural Policies

The U.S. Congress perceived the GATT negotiations as a threat to its policy of protecting U.S. agriculture. Therefore, Section 22 was reenacted as part of the Agriculture Act of 1948 but President Truman insisted on the limiting provision that "No proclamation under this section shall be enforced in contravention of any treaty or other international agreement to which the United States is or hereafter becomes a party" (P.L. 80-897, July 3, 1951). The President prevented the repeal of this limitation by veto threats but Congress finally won by attaching its amendment to a law which was important to the President, the 1951 extension of the reciprocal trade agreements authority. "No trade agreement or other international agreement heretofore or hereinafter entered into by the United States shall be applied in a manner inconsistent with the requirements of" section 22 (P.L. 82-50, June 16, 1951). However, it was not necessary to use Section 22 until Section 104 of the Defense Production Act expired. Controls on imports of dairy products, flax, linseed oil, peanuts, peanut oil, tung nuts and tung oil under Section 22 became effective July 1, 1953. Trade restrictions under Section 104 had been permitted by GATT as defense measures, but under Section 22 they could not be justified. Therefore, in 1955, the U.S. applied and was granted by GATT a waiver of the prohibition against import quotas. This weakened the GATT by providing a precedent for nontariff barriers on agricultural products by other GATT members.

The Common Market

The economic integration of Europe was an explicit objective of American policy as embodied in the Marshall Plan and the legislation implementing it. Integration got underway in earnest when "the six" (France, West Germany, Italy, Belgium, the Netherlands, and Luxembourg) agreed in 1951 to establish the European Coal and Steel Community, creating a common continental market for these commodities by abolishing internal quotas and tariffs. In 1957 in the Treaty of Rome, the "six" agreed to abolish all restraints on trade among them and to protect them all against unfair competition from outside with a common

associate member; Turkey, Austria, Switzerland, and Sweden were all seeking some form of associate membership; and the United Kingdom, Ireland, Denmark, and Norway had applied for full membership. If all were accepted, the population of the Common Market would have totaled 485 million in contrast to the U.S. population of about 185 million in 1961.

For the United States, these steps toward European integration raised serious problems of trade policy. A common external tariff around the large European market could place American exports, particularly farm commodities, under a severe handicap. In 1961, the Common Market took 23 percent of total U.S. agricultural exports and 31 percent of all U.S. agricultural exports sold for cash. The 1961 dollar value of U.S. exports to the Common Market and all applicants for membership ran to 51 percent of total U.S. export value. The fifth, or Dillon Round of GATT negotiations, in 1960-61, was the first after the advent of the Common Market and the last before the adoption of its Common Agricultural Policy (CAP). The authority of the U.S. negotiators had been increased by Congress so that they could offer an additional 20-percent tariff reduction on an item-by-item basis. The free bindings (no tariff) on soybeans, linseed, flaxseed, oilcakes, and cotton negotiated with the European Economic Community (EC or Common Market) in the Dillon Round have been of tremendous importance to U.S. agriculture (7, 9).

Although the Common Market did not accept the applications of Great Britain, Ireland, Denmark, and Norway in the 1960's, the growth of the Common Market amazed the world and, especially, U.S. policymakers, many of whom thought that substantial growth might be a long time in coming. In 1961, for example, the growth of the Common Market's gross national product was almost twice that of the United States. Even before the Common Market agreed on a Common Agricultural Policy a number of changes in internal trade had occurred. French imports of agricultural products from other members rose from 5 percent of the total imported in 1958 to 8 percent in 1961. French imports of food from other members increased $42 million annually, while total food imports dropped almost $38 million. Principal French export items to the Common Market were livestock products, cereals, and cereal preparations. More than half of these went to West Germany. Prospects of increases of French exports to member countries at the expense of nonmember countries led France in 1962 to pass legislation aimed at further modernization of agricultural production and marketing.

The Kennedy Round

The Trade Expansion Act of 1962 set the stage for the Kennedy Round of GATT negotiations. This act provided the President with much more power than had been conferred by any single tariff law

since the original Trade Agreements Act of 1934. The President was empowered to offer tariff reductions of 50 percent of the tariffs applicable in 1961. On items with a tariff of 5 percent or less, the levy could be eliminated entirely. The objective of the United States in its negotiations was to create a climate in which the principle of comparative advantage would replace import substitution and protection for new industries. By executive order in 1963, President Kennedy established the Office of Special Trade Representative (STR) as a separate agency in the Office of the President. Two STR's, each with the rank of ambassador, served concurrently during the Kennedy Round negotiations. One was assigned to Washington and the other to Paris. The Kennedy Round of GATT negotiations began in 1964, but the consideration of agriculture was postponed because the countries in the Common Market had not agreed on a CAP and were negotiating among themselves.

The Common Agricultural Policy and U.S. Trade Policy

Agricultural policy was probably the most difficult economic issue for the EC countries to negotiate because the agriculture of each differed in significant ways. Some were food deficit countries, while others were food exporters; some had a highly specialized agriculture that relied heavily on imported inputs, while others were diversified and largely self-sufficient in agriculture; and some were high-cost producers, while others could compete effectively in world markets. Each country had its own food and agricultural policies developed to meet the needs of its citizens.

Food grains are a good example of these issues. Sales of food grains were an important source of income for the diversified family farmers of Germany and also for the specialized grain farmers of France. France wanted to sell its surplus grain in the German market, but the Germans preferred to support prices for their own farmers and to buy supplemental supplies at lower prices from the United States or Canada. Neither wanted to see its markets inundated with low-priced grain from overseas. The Netherlands wanted to buy food and feed grains from the lowest cost source because its farmers specialized in livestock, dairy, and horticultural enterprises.

Food security was of overriding importance to everyone because the deprivation of the war years was still fresh in people's minds. The CAP, which emerged from Common Market negotiations, was designed to protect the agricultural sector of each member country as well as to protect the whole EC from external competitors. Consequently, for low-cost producers of wheat, dairy products, and livestock, the CAP provided strong incentives to increase production.

The Common Agricultural Policy and GATT

In developing measures to implement its Common Agricultural Policy (CAP), the EC felt that it had carte blanche because the external tariffs of all member countries were to be superseded by the Common External Tariff (CET) and, furthermore, the United States had secured a waiver from the GATT rules for its price-supported agricultural commodities (see p. 5). A system of targeted prices and intervention levels for member countries was to gradually eliminate internal trade restraint over a 6-year period. For foreign producers, a system of variable levies structured to reserve the internal market for member countries was developed. Variable levies are like a tariff but are flexible on a day-to-day basis which prevents bargaining on rates between the EC and other GATT members, except perhaps, by establishing a certain range. The EC maintains, correctly, that variable rates are not prohibited by the GATT rules but they certainly defeat the purpose of making trade barriers clearly viable and negotiable.

The Common Agricultural Policy and the Kennedy Round

During most of the Kennedy Round, the EC refused to negotiate on agricultural products because negotiations to harmonize trading relationships among nations within the EC were not completed and, in fact, were in severe difficulty. The principle problem area was grains and grain-fed livestock. The United States was especially anxious to have an agreement on grains because the International Wheat Agreement was expiring and the United States was trying to reduce its surplus production. The United States wanted the EC to guarantee that 13 percent of EC grain requirements would be reserved for foreign suppliers. The EC would offer only 10 percent. Finally, with only 1 month left to complete negotiations, the United States dropped its demand, thus removing the barrier and negotiations proceeded.

The International Grains Arrangement

The preliminary International Grains Arrangement was announced at the conclusion of the Kennedy Round. The conferees were able to agree in principle that the International Grains Arrangement would be composed of two parts: (1) an agreement on the price range within which wheat could be traded in international markets without intervention, and an agreement to establish a world food reserve with each country building and maintaining a set percentage of the reserve stock; and (2) a food aid convention to which all developed countries would contribute in cash or in kind. The United States viewed such an arrangement as an executive agreement and not a treaty. Therefore, the Senate would not need to approve it. The United States did not think it possible for the EC to achieve self sufficiency in food grains in the next few years, assuming that the French contribution to the

Food Aid Convention would reduce EC self-sufficiency and lead to larger grain imports by the EC (4). The nations participating in the Kennedy Round, including the EC, accepted the final document, although it included only an outline for the International Grains Arrangement. The details of the International Grains Arrangement and the Food Aid Convention were later accepted by all parties.

Post Kennedy Round Negotiations

Countries engaged primarily in trade in fresh, chilled, and frozen beef and veal and in butter, cheese, and dried milk had sought to negotiate international arrangements for these products. The aim was to liberalize access to world markets and, consequently, to expand world trade. Despite continued "protracted" negotiations, no multinational arrangement was concluded. After the Kennedy Round ended, these countries shifted to bilateral negotiations through which they were able to negotiate improved access to some markets. The United States participated in these negotiations and granted concessions on livestock and meat imports valued at $221 million and received concessions on exports valued at $152 million. The dairy, poultry, and eggs group could not reach terms for a multilateral agreement. Concessions on some of these products were subsequently made on a bilateral basis. The United States granted concessions on imports of dairy, poultry, and eggs valued at $50.7 million and received concessions on exports of $17 million.

In the end, tariff concessions on a wide range of agricultural products were made by major participants other than the EC, but reductions were generally less than those made on industrial products. The United States benefited from reductions on soybeans, tallow, tobacco, poultry, and horticultural products, including citrus and canned fruits. These concessions covered nearly $870 million of U.S. agricultural exports. In return, the United States made concessions of about $610 million of its agricultural imports. John A Schnittker, then Under Secretary of Agriculture, said that the Kennedy Round "accomplished a modest liberalization of agricultural trade but a greatly increased awareness of the unresolved problems in removing barriers of all sorts to trade in agricultural products" (23).

The Interim, 1967-72: The Issue of Export Subsidies

After the close of the Kennedy Round, events in world trade moved swiftly. The EC had begun the 1960's as a food deficit area. By 1968, the agricultural self-sufficiency programs of the member countries were showing results. France, finding herself with a large wheat surplus for the first time since World War II, provided export subsidies to dispose of it on world markets. The origins of export subsidies are shrouded in the history of market

development and marketing. Before the 1930's, there had been few attempts to establish fair trading rules for international trade.

Export dumping and export subsidies were widely used as a means of disposing of surpluses. The United States had used its authority under section 32 of the Agricultural Adjustment Act of 1933 primarily for the disposal of small surpluses of perishables, wheat, and cotton. In the 1950's, when the United States developed unmanageable surpluses of grains and other agricultural products, Congress passed Public Law 480 [1954]. P.L. 480, soon named Food for Peace, provided authority for sales of surplus U.S. agricultural products for nonconvertible foreign currencies, for donations of such commodities to relief organizations and foreign countries for various nonprofit uses, for the barter of such commodities for strategic and critical materials for the U.S. stockpile, or for use in U.S. foreign diplomatic or aid programs.

Some countries contended that all of the concessional sales under the Food for Peace program (1954) could be classified as export subsidies. The United States has consistently rejected this interpretation. The United States, however, contended that the French export subsidies were a flagrant violation of part 1 of the International Grains Arrangement. U.S. agricultural interests vowed that there would be no more trade negotiations for industry without primary consideration for agriculture.

Preparations for another round of GATT negotiations began almost immediately. Before adjourning, the GATT signatories had established several preparatory committees to meet in the interval before the next round of GATT negotiations: the Agriculture Committee, the Committee on Trade in Industrial Products, and the Committee on Trade and Development for the Benefit of the Developing Countries. The initial task of the Agriculture Committee was to assemble the basic documentation, identify the principal problems, and search for possible solutions. This examination revealed that agricultural support measures in most cases resulted in artificially high prices protected from outside competition by variable levies, quotas, or other restrictive devices. In the absence of measures to limit production, the system often created surpluses which were dumped on world markets with the aid of export subsidies. Consequently, the system penalized efficient producers in the protected markets and in third countries.

The work of the Agriculture Committee soon revealed two major views. Efficient producers urged that negotiations should provide conditions that lead to more unfettered world trade. Less efficient producers held that negotiations should seek to stabilize conditions through regulated markets based on commodity agreements and minimum prices. According to Vernon Sorenson "we presented a confused picture in the relationship between our

principles and our actions.... We asserted, possibly somewhat with tongue in cheek, that we wanted inclusion of agriculture in trade negotiations and that we would be willing to discuss our domestic policies as a part of these negotiations." (7)

U.S. Trade Deficits and the Dollar

Important changes occurred in the world trading community, which, if unchecked, would threaten the ability of the United States to maintain its postwar position in agricultural trade. Foremost among these was the development of regional trading areas, with the EC being the most formidable but not the only example. The increasing use of nontariff barriers, export subsidies, and dumping also posed serious threats. Other events, just over the horizon, would exacerbate this threat. Since the Great Depression, the U.S. dollar had been the anchor for gold standard currencies throughout the world. The United States, however, had been running a balance-of-payments deficit for a decade. With deficits settled by transfers of gold, U.S. gold reserves were being rapidly depleted. By the Smithsonian Agreement of December 17-18, 1971, the United States devalued the dollar by 8.57 percent in an attempt to stem the flight of gold. But only 14 months later, the United States was forced to announce an additional devaluation of 10 percent and less than 2 weeks after this, the international monetary crisis flared again. President Nixon vowed no further devaluation by the United States. The countries of the EC, to protect themselves against the influx of dollars, decided to float their currencies. Then, on March 16, 1973, after 2 weeks of negotiations, the United States and 13 other major trading nations agreed on a package of measures designed to relieve the problem of excess dollars abroad (20, 1971-73).

During the period that the dollar was under pressure, the Soviet Union was negotiating the purchase of large amounts of food and feed grains. The Russians had a poor harvest in 1971, and the Kremlin had decided to import grain rather than reduce livestock herds. They were both lucky and smart. They bought while U.S. export subsidies were still in effect and they were able to pay in devalued dollars. As other importing nations became aware that the devaluation had made American agricultural products a bargain in the world market, they too rushed in to buy. When drought reduced U.S. production in 1973, there were impending shortages and prices climbed rapidly. U.S. policymakers placed an embargo on soybean exports from June 27 to July 3, 1973. Although the embargo was short lived, soybean shipments were closely controlled for several months, and there were threats of embargoes on grains. The damage to U.S. exports, the U.S. reputation as a reliable supplier, and U.S. influence in trade negotiations was significant, reinforcing the determination of the EC and Japan to pursue food security through agricultural self-sufficiency and the development of alternative external

sources of commodities that they had to import. The Japanese began negotiations on binational cooperation on direct investments for the development of Brazil, including agricultural development, in 1972. By 1978, the Germans, the Japanese, and the Netherlanders had become the second, third, and fourth largest foreign investors in Brazilian economic development. The United States remained first because of its large investments in the 1960's. The fruition of investments in agriculture was delayed by inadequate infrastructure in the new agricultural areas of Brazil. Large foreign investments in transportation, chemicals, and agricultural research in the late 1970's and 1980's are overcoming these problems.

On February 1, 1973, the United Kingdom, Ireland, and Denmark took the first step toward membership in the EC. This jeopardized well over half of the $500 million of U.S. agricultural exports to these three countries. Meanwhile, the EC was becoming less tractable. On June 26, 1973, it published a ringing defense of its Common Agricultural Policy, while urging the negotiation of international commodity agreements (20, Vol. 15, No. 21, "An Attache's Look").

The Tokyo Round

The next round of GATT negotiations after the Kennedy Round began in Tokyo in September 1973. The number of contracting parties had increased to over 90, with well over half representing developing countries. U.S. participation was authorized under the Trade Agreements Act of 1974, which directed that negotiations on agricultural trade must take place "in conjunction with industrial trade barriers." The Tokyo Round coincided with a massive increase in oil prices resulting from the price fixing of the newly established Organization of Petroleum Exporting Countries (OPEC). The consequent disruption of world trading patterns created a climate in which the most astute trade negotiators would find it difficult to function.

During the first year of negotiations, which took place in Geneva, although this is called the Tokyo Round, major differences in approach to the treatment of agriculture became increasingly evident. The EC and many other countries wanted to negotiate on agricultural products separately from other products. The organization of negotiations under the committees already established effectively isolated agriculture.

The Role of the European Community

The solid front of the EC began to show some cracks. The EC Council of Agricultural Ministers had approved two increases in support prices in 1974 to compensate for rapid increases in costs of production. The German Parliament vetoed the second increase,

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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