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AGRICULTURAL POLICY AND TRADE NEGOTIATIONS

The success or failure of negotiations to reduce agricultural trade barriers now under way in the current round of the General Agreement on Trade and Tariffs (GATT) talks will determine prospects for growth in agricultural trade for the next decade. As a result, negotiating strategy has now become a concern in domestic agricultural policy making. The ominibus trade bill just passed by Congress includes a provision to allow implementation of marketing loans for feed grains and oilseeds if no progress has been made in the talks before 1990. The bill also extends funding for the Export Bonus Program to continue current export subsidies. The question of negotiating strategy will also provide a unique dimension to upcoming policy debates for the 1990 farm bill.

The current Uruguay round of GATT negotiations provides a forum for addressing the growth in protection of agricultural markets and in subsidization of exports. The GATT is a multinational forum for discussion of trade disagreements and for negotiation of reductions in trade barriers. The agreement to discuss agriculture in the current talks represents a major breakthrough. In the 1960s, during the so-called Kennedy round of negotiations, the United States argued for excluding agriculture from the talks in order to protect its farm income subsidy programs. Subsequently, the European countries became more protectionist and also did not want to discuss agriculture.

One of the breakthroughs for the current negotiations was an agreement on a common framework for measuring subsidies to agricultural production. Imposing a tax or quota on imports has the obvious effect of reducing imports. But paying producers to grow crops has an indirect effect on trade by increasing domestic supply. For example, the current U.S. policy of providing deficiency payments to farmers is a subsidy because it encourages more production than would be the case if a farmer's only income was from market sales. Deficiency payments, therefore, increase the exportable surplus from the United States. According to GATT measurements of subsidies, from 1982 to 1986 the United States subsidized 27 percent of the value of its corn production. The European Community (EC) subsidized its corn production by 46 percent mainly through the use of import tariffs.

Due to abundant natural resources and very efficient production technology, the United States would have a strong comparative advantage in the production of many agricultural commodities if barriers to agricultural trade were completely removed. In the GATT talks, the United States has proposed an ambitious plan to eliminate all agricultural subsidies and trade distortions in the world within 10 years. The EC has a counterproposal to separate short-run market stabilization from long-term adjustment. In the short run, agricultural markets would be stabilized based on existing market shares. Stabilization would benefit the EC, which has increased its market share recently by subsidizing exports. In the long run, all countries would agree to reduce the level of subsidies to agricultural production, but such subsidies would not be completely eliminated. A third proposal has been offered by the Cairns group of 14 agricultural exporters including Canada, Australia, Argentina, Brazil, Thailand, and others. The Cairns proposal agrees with that of the United States on eventual removal of import barriers and export subsidies, but proposes some interim measures to ease adjustment.

U.S. policies that reduced world prices for many agricultural commodities through the drop in loan rates and the dollar exchange rate have put pressure on the EC. The cost of subsidizing exports from the EC as a result has risen dramatically in the last 3 years, a fact that may have increased its willingness to negotiate. The omnibus trade bill passed by Congress last week includes a provision that triggers marketing loans for feed grains and oilseeds if there is no progress in the trade talks by 1990. Marketing loans would provide an essentially unlimited subsidy to exports and would allow current large U.S. stocks of feed grains to flood the world market. If implemented, they would be very costly to the U.S. treasury. The trade bill allows provisions for the Administration to postpone or delay the marketing loans so that the loans are not automatic.

The GATT talks should also influence the debate on the 1990 farm bill. Continuation of current deficiency payments for wheat and corn would conflict with the U.S. proposal to eliminate subsidies. Therefore, the bill might give discretionary power to reduce support payments if the talks are successful. "Decoupling" support payments from production levels would make the payments exempt, however, from negotiation at the trade talks, a fact that might make decoupling more attractive. U.S. producers of sugar and dairy products and other commodities that would suffer in a free trade environment may be concerned about maintaining the protection they currently receive.

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