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WEEKLY OUTLOOK

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TRADE BARRIERS IN AGRICULTURE TO BE REDUCED BY THE END OF 1990

Negotiations to reduce trade barriers under the General Agreement on Trade and Tariffs (GATT) have focused on agriculture for the first time since 1955. In spite of major differences between the U.S. and the European Community (EC), an agreement was reached in April on a general framework and timetable for negotiations. Members of GATT agreed that agricultural protection should be reduced substantially and that agreement on how to do this will be reached by the end of 1990. Although these negotiations are slow-moving and the outcome is uncertain, the results are likely to have substantial impact on Illinois farmers by changing the structure of world corn and soybean trade.

The original U.S. position in these negotiations was a proposal to eliminate all agricultural subsidies around the world over the next 10 years. This goal was supported by other agricultural exporters (such as Canada, Australia, and Thailand), but was strongly opposed by the EC and Japan. These countries want to maintain their protection of agriculture because it helps them to achieve other goals of social policy.

In spite of disagreement between the U.S. and the EC, an agreement was reached in April 1989 that remains true to the spirit of the U.S. proposal but is more realistic. GATT members agreed that agricultural protection should be reduced eventually and that agricultural trade should take place within GATT rules. These rules would forbid the use of import quotas among other things, which would affect current U.S. policy on imports of sugar, dairy products, and beef. GATT members are to agree on the specifics for reduction of trade barriers by the end of 1990. In the meantime, member countries agreed to freeze existing levels of support in 1989 and to begin reducing levels of protection in 1990.

There are still strong differences between the U.S. and the EC, and both sides must compromise before an agreement can be reached. The change in U.S. administrations slowed development of fallback positions from the total subsidy elimination proposal, but some elements of a new U.S. proposal are emerging. The U.S. is pushing strongly for converting all nontariff barriers such as quotas into fixed tariffs (import taxes), followed by a gradual reduction in tariff levels.

If the U.S. succeeds, the EC would be required to abandon the variable levy it has used to insulate European prices from world prices. The variable levy adjusts so that it always equals the difference between the EC support price and the import price. It therefore provides the European market with perfect insulation from changes in world market prices. There is a variable levy on corn imports but not on soybeans, which enter virtually duty-free. The EC used to be a major purchaser of U.S. corn, but exports to the EC have dwindled to virtually nothing because of the variable levy system. Removal of the variable levy could restore demand for U.S. corn exports in the EC.

The EC, however, is very interested in raising new trade barriers against imports of commodities that now enter without import taxes. These include corn gluten and soybeans, both of which are exported from the U.S. The EC is still a large market for U.S. soybean products, and placing new taxes on these products would either reduce current exports to the EC or place a lid on any further growth in that market.

The EC is also interested in negotiating reductions in some overall measure of agricultural support, rather than reductions in tariffs. They prefer this approach because it would allow them to maintain a policy of stable domestic prices. To placate trading partners, the EC would reduce support for agriculture through more stringent controls on production. Such controls would reduce EC surpluses and the "dumping" of subsidized exports that compete with U.S. exports of wheat and corn.

Because the EC is so interested in putting some tax on soybean product imports, this may have to be a part of any eventual agreement. The question that U.S. producers and negotiators must ask is what the EC could offer in return that would make this concession worthwhile.

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