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"Trade Reform, the Key to the Future of U.S. Farming"

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"Trade Reform, the Key to the Future of U.S. Farming"

I have been asked innumerable times why world agricultural trade reform is so important to U.S. farmers. Some of the people doing the asking are often afraid of what such reform might mean to U.S. agriculture. A question I occasionally ask back is, "What is there to fear?"

If we are the efficient agricultural producers we say we are -- and I believe we are -- then the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) offers American farmers an unprecedented opportunity to gain market share in the growing world markets for food. American agriculture has not yet reached its full potential for economic performance, and the biggest constraints are policies which lead to unfair trade conditions in world markets. Farmers, consumers and taxpayers will all gain if we can work through the GATT to successfully streamline agricultural trading rules.

No one -- not Americans, not Europeans, nor citizens of any land -- should be willing to sit idly by and continue paying the excessive costs of outdated agricultural trade barriers and outmoded production policies. While there are numerous examples of sound agricultural trade policies in the world, and of sound production policies as well, I believe every nation can -- and should -- do better. Over time nations have simply created too many bottlenecks restricting the buying and selling of agricultural commodities. Too often what could be a healthy flow of goods has been squeezed down to a trickle, and in those situations almost everybody loses.

The high risk path for U.S. agriculture in today's world is to **not** seek trade liberalization. Despite acknowledging that trade barriers are a problem, most nations have over the years steadily erected them. There is no reason to believe this will not continue if we fail to reach a successful conclusion in the Uruguay Round of the GATT. The most likely alternative to a successful GATT Round will be mounting pressure to erect even more protectionist barriers in agriculture. This has to stop, and the Uruguay Round is our best shot at putting on the brakes.

Past accomplishments in the GATT to liberalize industrial trade demonstrate that the process can succeed. Tariffs on manufactured goods in industrialized nations have been hammered down from about 40 percent in the mid-1960's to a current level of 4-6 percent. Unfortunately, agricultural trade has not been a significant participant in this post-World War II liberalization effort. During the same period, the nominal rate of protection on agricultural goods in industrial nations has risen from 21 percent in the mid-1960's to a current level of about 40 percent.

In spite of this dismal record of agricultural protectionism, world trade in farm products has expanded tremendously during the last 20 years. Imagine what it might have done under a system of freer trade. Would the United States be paying $10 to $15 billion a year to throttle back our agricultural abundance -- at a time when more people are demanding more food every day? I think not.

Even worse than tariffs, which are overt, is the prevalence of non-tariff barriers set up to impede agricultural trade. Ironically many of these are now legitimate under the GATT for agriculture even though they are prohibited for industrial goods. GATT Article XI 2(c) permits quantitative restrictions if agricultural imports would adversely affect domestic supply control programs. This opens up a Pandora's Box allowing any nation to severely tie up agricultural trade if it really wishes to do so.

One of the U.S. proposals in the Uruguay Round is to foster trade by eliminating Article XI 2(c) and converting all existing non-tariff barriers to tariffs. Quotas and other non-tariff barriers are like a brick wall. When you hit the quota number, exports cease no matter how competitive you may be. With tariffs you at least have a chance to penetrate the market if you are sufficiently competitive.

To ease the adjustment from non-tariff measures to tariffs, we have suggested the use of "tariff-rate quotas" during a 10 year transition period. In other words, a combination of tariffs and gradually expanding quotas would be used for a decade, after which nations would be expected to rely entirely on tariffs to protect their domestic agricultural interests. Stating it differently, their producer sectors would have 10 years of additional protection, after which they'd be expected to compete in the world. They might still have some tariff protection, but the expectation would be that those levels would also be reduced over time.

This just makes good sense. We need to get off dead center in the agricultural trade arena and this is the way to start. Trade barriers cost billions of dollars each year in direct costs, and more in lost revenue opportunities. Efficient agricultural producers everywhere get hurt, whether they grow corn in Indiana, rice in Thailand or wheat on the Canadian prairies. Taxpayers and consumers around the globe pick up a heady share of the tab -- through higher grocery bills, higher taxes, or both. Economists have given us estimates of these costs, and while the dollars and cents aren't itemized on your supermarket check-out receipt, it's important to know that many of these costs ultimately come out of your personal pocketbook!

- Agricultural trade protection and production support policies currently cost developed nations about $135 billion every year. The support is delivered inefficiently too. Consumers and taxpayers pay about $1.40 for each $1.00 transferred to producers.

- The price-depressing effects of other countries' agricultural support and trade policies cost U.S. producers $11 billion annually.

- Developing country producers, who need cash flow to help their economies grow, lose $16 to $26 billion each year because of the agricultural and trade policies of developed countries.

- With trade reform, the developing countries would increase annual exports by $10 to $12 billion -- which, in turn, would spur economic growth and increase demand for imported agricultural products from the U.S. and other farmers.

By spotlighting losses such as these, the U.S. was able to get agricultural trade elevated onto the primary agenda of the Uruguay Round. Essentially, the U.S. has proposed reforms in four major areas: 1) import access, 2) export competition, 3) internal support policies, and 4) sanitary and phytosanitary measures. Our farmers sometimes say, "Fine, but what does all this have to do with the success or failure of my own business during the next twenty years?"

That's a fair question, and we need your help in explaining to the widest possible audience that agricultural trade reform is not just another phrase in the speaker's tool kit; it is a vital issue.

U.S. agriculture must broaden its horizon. Our future success in world markets will require more than just being global order-takers loading grain onto ships headed overseas. We must become aggressive marketers of higher value agricultural products.

In 1988, the U.S. exported $7.6 billion of consumer-oriented agricultural products, but the rest of the world exported $133.7 billion of such products, including processed fruits and vegetables, nursery products, cut flowers, processed meats, bakery products and prepared oilseed products.

We could also improve our exporting of intermediate agricultural products. In 1988, we exported $9.4 billion of such products, but other countries shipped $43.5 billion, including semi-processed goods such as flours, prepared feeds, oilmeals, vegetable and animal fats and live animals.

To put the challenge another way, in 1988, the U.S. held 35.3 percent of the value of world trade in bulk agricultural commodities, but only 17.8 percent of the value in intermediate agricultural products, and less than 6 percent of the world's trade in consumer-oriented agricultural products. Surely this is one area in which we can improve our performance. Trade reform is absolutely key to exporting higher value products -- which will return more revenue to America's countryside.

Barring unforeseen breakthroughs in the industrial use of agricultural commodities here in the U.S., overseas markets will continue to offer American farmers their best opportunities for increased sales. Global population today is about 5.2 billion -- 5 billion outside the U.S., and 240 million inside the U.S. Shortly after the turn of the century, global population will reach 6.2 billion -- and the U.S. population will still only be about 250-260 million. It is easy to see that feeding six billion people offers more marketing opportunities for food than limiting ourselves to providing for only 260 million. Those billions of people outside the U.S. do not all have purchasing power, but a good number of them do. And by the turn of the century some of them may have more purchasing power than American consumers!

The population of another India will be added to Asia in the next 10 to 12 years. Even now, the developing nations are the fastest growing market for U.S. agricultural exports. For this to continue the LDC economies must grow -- and that means two things, 1) a long-term solution to the debt crisis many of those countries currently face, and 2) agricultural trade reform. The LDCs can ill afford that $16 to $26 billion dollars in lost business that trade restrictive policies around the world now impose on them -- and neither can we. We need their business, just as they need ours.

As we look forward into the world of tomorrow, we also need to acknowledge that agricultural export competition from other countries is increasing. The day has passed when American agriculture had a lock on the world marketplace for food. Farmers in most nations have made great strides in increasing agricultural productivity during the last two decades.

This is a real change from the early 1970's when only the United States had the excess agricultural capacity, coupled with the technological and management skills, to respond quickly to the suddenly surging demand for grain in the world. At that time, it was generally popular to believe that in the future only America would be able to expand production to "feed the world."

Producers in the rest of the world, however, had a slightly different viewpoint -- they wanted to get in on the action as well -- and they did so. With higher prices, agricultural productivity literally exploded around the world.

This was in sharp contrast to what most people believed would happen. A senior U.S. official, speaking at the 1972 World Food Conference in Rome said, "In the past 30 years.... surpluses of food and raw materials were considered a burden rather than a blessing.... That time has ended. Now there are fundamental questions about our capacity to meet even our most basic needs.... In 1972.... we were made ominously conscious of the thin edge between hope and hunger, and of the world's dependence on the surplus production of a few nations.... A handful of countries.... can produce more [food] than they need and thus are able to export. Reliance on this production is certain to grow through the next decade...."[1]

Another government agency went even further, saying, "The whole world has become dependent on North America for grain.... Only four countries -- the U.S., Canada, Australia, and New Zealand -- are found to be net exporters of grain.... Trying to provide adequate food supplies will become a problem of overriding priority in the years and decades immediately ahead -- and a key role in any successful effort must fall to the U.S...."[2]

During the same period, William and Paul Paddock took USDA to task for being too optimistic. In one of their popular books they said, "The Department (USDA) claims that if all our crop land now in the Soil Bank were withdrawn, the U.S. could produce 70 million tons of grain for export by 1970, 72 million by 1975, and 74 million by 1980. I am sure that this is possible. Even so, optimism prevails in this implication of what the U.S. will and can do."[3]

It turns out that even USDA was way too cautious in its estimates.

> In 1970, the U.S. exported over 40 million metric tons of grains, and almost 19 million metric tons of oilseeds, protein meal, vegetable oils, feeds and fodder -- for a total of 59 million metric tons.
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> In 1975, the U.S. exported over 74 million metric tons of grains, and an additional 20 million metric tons of oilseeds, protein meal, vegetable oils, feeds and fodder -- for a total of 94 million metric tons.
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> In 1980, the U.S. exported over 113 million metric tons of grains, and over 39 million metric tons of oilseeds, protein meal, vegetable oils, feeds and fodder -- for a total of almost 153 million metric tons.[4]

The gains outside the U.S. have been equally dramatic. Today, 15 years later, there are 27 grain exporting countries around the globe, and 68 oilseed exporting countries.

Quite a contrast to the prognostication of the notorious Report to the Club of Rome which, in 1974, drew the conclusion that the end of rising expectations was definitely at hand and the only rational path was to follow their advice that, "The rich nations.... must aim to construct their policies on a series of 'maxima' which define an appropriate style of civilized living in a world of deprivation and declare that all consumption beyond that fixed by the 'maxima' is not only waste but a conscious action against the welfare of large numbers of poor and disprivileged, their own children and the prospects for a peaceful world."[5]

Now that was very strong material -- and absolutely dead wrong. Imagine where we would be today if we had followed their advice. The point is, all this affects the public debate on food and agricultural issues -- and all too often leads governments in the wrong direction in policy-making. The unfortunate fact is that most countries' domestic agricultural and trade policies have contributed heavily to the wide swings in world commodity stocks and trading prices during the past 20 years -- while also hindering world economic growth.

There is no question in my mind that agricultural trade reform, if carried out globally, would allow producer and consumer decisions to be based more firmly on price signals from the marketplace, and thereby better allocate precious agricultural resources to meet consumer demand.

As I indicated earlier -- the path of greatest risk for American agriculture is the path of the status quo. The path of greatest opportunity and least risk is the path of trade reform. This is what our negotiators at the Uruguay Round of the GATT in Geneva are working diligently to accomplish between now and the end of December. Give them your support -- we will all be better off for it.

Thank you.