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Agricultural Trade Negotiations at a Crossroads

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Before the Subcommittee on Department Operations, Research, and Foreign Agriculture Committee on Agriculture House of Representatives

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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the status of the General Agreement on Tariffs and Trade (GATT) negotiations with respect to agriculture. At the request of the Chairmen of the House Committee on Agriculture and the Senate Committee on Agriculture, Nutrition, and Forestry, we have been monitoring the Uruguay Round since it was launched in September 1986. We issued a status report in May 1988 and a second report earlier this month. The latter report, entitled "Stalemate in the Uruguay Round,"<sup>1</sup> assessed the nature and extent of the negotiations through their suspension in Brussels in December 1990 and outlined the concerns of domestic agricultural commodity groups, several of which are testifying here later this morning. Today I will talk about the disagreement between the United States and the European Community, the need for an extension of fast-track authority, and the importance of the backing of U.S. agricultural groups.

Although agriculture was but 1 of 15 issues being discussed in the Uruguay Round of the GATT, it was clearly the key. Whereas the liberalization of agricultural trade had a low priority in previous negotiating rounds, the U.S. government made agricultural trade reform its top priority in the Uruguay Round.

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<sup>1</sup>See Agricultural Trade Negotiations: Stalemate in the Uruguay Round (GAO/NSIAD-91-129, Feb. 1, 1991).

During 4 years of negotiations, the United States and the European Community (EC), the two major participants in the agriculture negotiations, continued to disagree on the nature and extent of trade liberalization. Not only the United States, but other countries as well, especially developing country members of the Cairns Group,<sup>2</sup> made it clear that reform in agricultural trade was essential if the Uruguay Round were to succeed. The Uruguay Round was scheduled to conclude the week of December 3, 1990, in Brussels, but participating countries failed to reach a compromise on agricultural reform. Thus, the entire round of negotiations was suspended, with the ultimate outcome uncertain.

In retrospect, the United States and the EC may have been negotiating on different planes. The United States, seeking to extend the GATT system of trade rules to agriculture and to improve economic efficiency, was willing to make fundamental changes in its system of government support for agriculture. The EC through December 1990 never evidenced the readiness to make comparable changes in its agricultural support system given its long-standing commitment to use support for agriculture as a social policy tool.

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<sup>2</sup>The Cairns Group is a group of developed and developing countries that consider themselves to be "fair traders in agriculture." They include Argentina, Australia, Brazil, Canada, Chile, Colombia, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand, and Uruguay.

## DISAGREEMENT BETWEEN THE UNITED STATES AND THE EC

From the outset, the United States and the EC disagreed about the manner and extent to which agricultural trade should be liberalized. The United States initially proposed eliminating all agricultural subsidies that directly or indirectly distorted trade, as well as market access barriers, while the EC called only for a reduction in agricultural support. The Cairns Group largely supported the United States. Japan and the Nordic countries of Finland, Iceland, Norway, and Sweden generally supported the EC but sided with the United States on the export subsidy issue.

Although the United States retreated somewhat from its insistence that all trade-distorting support be eliminated over time in the three areas of export subsidies, market access barriers, and internal support programs that distort trade, European leaders through December 1990 were unwilling to make any compromise that would have been extremely unpopular with the agricultural communities in their countries. It should be noted that such external events as the movement toward a single EC market in 1992 and the changes in East and Central Europe, including the reunification of Germany, may have made European leaders less inclined to initiate radical reform of the Common Agricultural Policy (CAP), a policy that has been a cornerstone of the EC.

U.S. negotiators may have underestimated the political power of Europe's agricultural interests and the commitment of the EC to the social policy objectives of the Common Agricultural Policy. The EC has been especially concerned with maintaining its members' significant rural populations and incomes rather than with promoting economic efficiency.<sup>3</sup> U.S. negotiators expected from the beginning that European leaders at the highest level would ultimately intervene and assure a satisfactory agreement. However, the European political leadership was unwilling to do so. Similarly, the EC may have underestimated the resolve of the United States and the importance of the Cairns Group in insisting on fundamental reform and dramatic reduction in trade-distorting agricultural support. With the two sides of the negotiations never able to reach common ground, the negotiations were suspended. It was clear that the EC needed to show signs of flexibility before negotiations could be restarted.

#### EXTENSION OF FAST-TRACK AUTHORITY

According to deadlines imposed by the Omnibus Trade and Competitiveness Act of 1988, the President must ask the Congress, by March 1, 1991, for an extension of the authority to submit trade

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<sup>3</sup>While only about 2 percent of the U.S. population is engaged in agriculture, about 9 percent of the EC population is so engaged.

agreements to Congress for fast-track consideration.<sup>4</sup> The extension of fast-track authority, which could be disapproved by either the House or Senate, is essential if credible negotiations are to continue.

Without an indication of willingness on the part of the EC to reform its Common Agricultural Policy, there would be little reason to extend fast-track authority or to continue the negotiations. However, given the recent indications of increased flexibility on the part of the EC, we believe the basis now exists for meaningful negotiations. The Director General of the GATT, in fact, has announced that the negotiations will be restarted on March 1.

#### BACKING OF U.S. AGRICULTURAL GROUPS IS IMPORTANT

In any negotiated agreement, the backing of major agricultural commodity groups in the United States is important. While communication between government officials and representatives of the various commodity groups may take many forms, a formal mechanism for communication exists in the advisory committee process. The advisory committees are to give advice and counsel to U.S. officials concerning negotiating objectives and bargaining positions. In addition to the 10 Agricultural Technical Advisory

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<sup>4</sup>Under fast-track authority, the Congress must vote both an agreement and its implementing legislation up or down without amendments.

Committees<sup>5</sup> for specific commodity sectors, there is the higher-level Agricultural Policy Advisory Committee, which consists of about 25 representatives of national farm organizations, specific commodity groups, state farm bureaus, etc.

While Agricultural Policy Advisory Committee members have generally supported the U.S. position in the Uruguay Round and the proposals that the United States submitted in Geneva, members of some of the commodity-specific advisory committees have expressed concerns with respect to the negotiations. Some are fearful that, despite the assurances of U.S. negotiators to the contrary, agricultural interests may be traded off against the interests of other sectors of the economy. In addition, some are concerned that the interests of their particular commodity group might be bartered off against those of another commodity group.

Specific commodity groups' concerns vary. The likely effects of trade liberalization on particular commodity groups are difficult to predict, even in a scenario in which all trade-distorting support to agriculture is eliminated. Assessing the potential effects where there is only a reduction of support is even harder. How producers of a specific commodity would fare would depend on their costs of production and world prices under a liberalized

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<sup>5</sup>The 10 specific commodities are (1) cotton, (2) dairy products, (3) fruits and vegetables, (4) grain and feed, (5) livestock, (6) oilseeds, (7) poultry and eggs, (8) processed foods, (9) sweeteners, and (10) tobacco.

trade regime. Where U.S. producers of a particular commodity have a comparative advantage, production should continue and perhaps expand. It is not always clear, however, which countries have a comparative advantage for a particular commodity.

It appears that most U.S. commodity groups for which import quotas have been or may be a significant means of protecting domestic production are most fearful of the impact of trade liberalization. These groups include sugar, dairy products, peanuts, and cotton. Even within those commodity group sectors that are generally expected to prosper under a liberalized trade regime, however, there are inefficient producers who will lose out.

Many important commodity groups have publicly supported the thrust of the U.S. proposals. In principle, they agreed to the concepts of the "level playing field" and the elimination of all trade-distorting support by all countries. Despite repeated assurances by U.S. negotiators that they would walk away from a bad agreement, certain commodity groups became increasingly concerned that, in their desire to conclude an agreement encompassing areas in addition to agriculture, U.S. negotiators would agree to something potentially harmful to their particular group. Commodity groups have noted that their positions on any final package would depend on the concessions obtained from other countries and the concessions given by the United States.

In closing, Mr. Chairman, I would like to put the above comments in a broader context. We are at a crossroads in the world trading system. The United States began the Uruguay Round with an ambitious agenda which, for the first time, included extending the disciplines of the GATT to a whole host of new areas. Probably most ambitious was the attempt to deal with support for agriculture -- a sector which has been effectively excluded from the GATT. The United States could gain much from a good agreement. On the other hand, if the negotiations fail, the United States and its competitors will continue to confront government-imposed trade barriers, protracted subsidy wars, increasingly costly budgetary outlays, and an impaired world trading system.

The Congress should not deny the administration the authority that it needs to continue serious negotiations. However, the extension of the fast track must be used to realize a substantially strengthened world trading system. Business as usual and a limited agreement will not be enough to meet the challenge.

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Mr. Chairman and members of the Subcommittee, this concludes my statement. I will be happy to answer any questions you may have.