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STATEMENT OF

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BEFORE THE

HOUSE COMMITTEE ON AGRICULTURE

ON

UNITED STATES PARTICIPATION
IN THE MULTILATERAL TRADING SYSTEM
AND RELATED AGRICULTURAL TRADE POLICY ISSUES



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Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss with you our work on agricultural trade issues in the multilateral trading system and related matters. In September 1985 we completed a comprehensive review of major issues concerning U.S. participation in the Multilateral Trading System as background for the forthcoming round of negotiations. (See our report GAO/NSIAD-85-118.) As part of that review, we focused significant attention on agricultural trade questions.

Objectives of our review included (1) providing information on the comparative trading practices of the United States and its major trading partners, (2) identifying and evaluating the reasons for alleged widespread variance from the principles and rules of the General Agreement on Tariffs and Trade (GATT), and (3) determining whether supporting the GATT continues to serve U.S. interests. To address the issues, we made case studies of three major areas of dispute within the GATT system--agricultural trade, services, and safeguard actions. Our summary comments today are based on that work as well as on our ongoing agricultural trade assignments. Attachment I is a list of reports we have issued on agricultural trade in recent months.

Before reviewing our work on agricultural trade, I would first like to summarize our observations on the GATT and multilateralism.

GATT and Multilateralism

The issues discussed in our September 1985 report can be interpreted as painting a rather discouraging picture of the GATT's ability to resolve the world's trading problems, particularly agricultural ones. The continued existence of unresolved disputes challenges not only the principles of the GATT but also the value of the system itself. However, this lack of success does not support a conclusion that the GATT is no longer valuable or important.

Many trade conflicts result from conflicts over important domestic policies which also affect trade. It is within a framework of considerable government intervention in domestic economies that the GATT is being called upon to provide guidelines and to settle such conflicts. Not surprisingly, the GATT has not been able to control government actions nor to settle all disputes between trading partners. But to judge the GATT on its ability to force governments to change their behavior is to judge it for failing to achieve objectives it was never intended nor given the wherewithal to achieve. The GATT does provide an external forum and force for change if national governments are willing to participate. However, trading disputes are often manifestations of domestic problems; this is particularly true for the agriculture area. Without attention on a national level to resolve these problems; no solution can be found between trading partners, GATT or no GATT.

Despite failures and problems, multilateralism and the principles obtained in the GATT continue to serve U.S. interests. As the world's largest exporter, the United States has a significant stake in this system. Our work leads us to believe that there remains a harmony between U.S. policy and interests and the underlying principles of the trading system. The benefits extend beyond the significant reductions negotiated in tariffs and the related expansion in trade over the last three decades. Today, with the growing number of participants, particularly developing countries, in the world trading system, the GATT provides the United States with a framework of standards in which to conduct its trade relations.

However, to continue to be relevant, the GATT must evolve to meet demands of the current trading environment, many of which were not of major concern when it was created. Thus, multilateral efforts, such as successive rounds of trade negotiations, have not only lowered tariffs but also have attempted to better define and establish some discipline for domestic policy actions which affect trade, such as government procurement, subsidies, and the imposition of product standards. Creation in 1982 of the GATT Committee on Trade in Agriculture reflects the desire of the contracting parties to see an evolution of the GATT. It is in the U.S. interest to support and to push for the successful conclusion of such endeavors.

The United States has initiated and supported calls for a new round of multilateral trade negotiation. Because of the numerous trade disagreements that exist, the necessary preparation for formal negotiations has been substantial. To be genuinely relevant, a new round of trade talks must include the problems of agriculture trade as well as of manufactured goods and service trade. A broad range of issues also allows maximum latitude for exchanging concessions and thus provides greater likelihood of success. If the negotiations are limited to one group or the other, some nations will have little interest in participating in talks in which they have much to lose and little to gain. Including all sectors increases the prospects for giving every country something to bargain for and something to offer in return for concessions.

It should be noted that no matter what progress might be made in the GATT, the U.S. trade deficit will not disappear as a result. The U.S. international trade deficit is not a problem that can be addressed in isolation but is integrally connected to a number of fundamental economic imbalances, including the U.S. budget deficit, domestic agricultural policies, Western European unemployment, the Japanese trade surplus, and Latin America's debt crisis. Although efforts to reduce the trade deficit by erecting new barriers to imports may be perceived to be in the interest of the United States, similar actions taken by other countries in retaliation would result in

economic loss for everyone in the end. To solve the trade deficit and at the same time avoid the high cost of new protectionist measures, fundamental problems need to be addressed, such as maintaining continuing efforts to reduce the federal budget deficit, which has played a key role in driving up the value of the dollar and making U.S. products less competitive.

Mr. Chairman, I would now like to focus on some specific agriculture trade issues.

GATT Discipline Weak for Agriculture Trade

Our report notes many exemptions, disagreements in interpretation, and failures to abide by GATT rules in agricultural trade. Most of these are reflected in GATT's Committee on Trade in Agriculture work program. The most contentious areas have been closely related to important national policies and objectives. International concern has centered on establishing clearer GATT discipline over export subsidies and market access restrictions. The 1985 U.S. complaint in the GATT on the European Community subsidies for wheat exports and the Community's counter-complaint against the U.S. Agricultural Export Enhancement Program underscores the deepening conflict over subsidies. There is also support for broadening GATT coverage to trading practices not presently covered, including those maintained under waivers and exceptions, and for improving transparency.

The Subsidies Code, developed during the Tokyo Round to improve GATT subsidy provisions, is still characterized by many as embodying the same weaknesses as the provisions it interpreted. It prohibits export subsidies on non-primary products without qualification but retains complex standards for determining the acceptability of export subsidies on primary products, the category into which agriculture trade falls. Many terms crucial to the interpretation of these standards remain vaguely defined and amenable to varying interpretations. As a result, disputes such as the U.S.-European Community wheat, wheat flour, and pasta cases have been highly contentious.

Similarly, market access for agricultural goods is more restricted than for other kinds of products primarily because of unbound tariffs and non-tariff measures. Fewer tariff lines are bound for agricultural commodities than for other exports.

Non-tariff measures are more widespread in agriculture than in other areas and take a variety of forms, including quotas, licensing, minimum pricing, and seasonable restrictions. GATT's Article XI places a general ban on non-tariff measures but allows significant exceptions for grading and marketing standards and for protecting farm support programs that restrict domestic production or are designed to remove temporary surpluses.

The governments we studied--Argentina, Australia, Brazil, Canada, the European Community, Japan, and South Korea--have extensive agricultural programs that affect international trade. Some, such as import quotas, have a direct trade effect. Others, such as farm subsidies, are designed and adopted for domestic impact but affect production and prices to such an extent that they change international trading patterns. Programs in both categories are adopted to advance specific domestic priorities, such as higher farm incomes or greater food self-sufficiency. Taken together, explicit trade controls and trade effects of domestic programs constitute de facto national trade policies.

Major changes in national agriculture trading practices or in the GATT principles guiding them are unlikely in the near term. The present trade regime, with its evident lack of discipline, reflects the concensus among contracting parties that the success of domestic agricultural programs is more important than international trade liberalization. As long as the parties retain this ordering of priorities, basic changes to expand trade based more on competitive factors will come slowly, if at all.

However, marginal change in favor of better GATT discipline is possible. The major trading nations have recognized that the present situation needs to be improved, as reflected in their commitment to ongoing multilateral and bilateral negotiations

under the auspices of the GATT and the creation in 1982 of the GATT Committee on Trade in Agriculture.

Two powerful stimuli are working to promote international movement toward better trade discipline: domestic budgetary pressure and the need to re-establish harmonious trade relations between competing agricultural exporters.

The mounting expense of farm support programs has caused internal pressure for reform in several of the countries we visited. For example, the European Community's Common Agricultural Policy absorbed about two-thirds, or \$14.7 billion, of the Community's total budget in 1985, and Japanese, Korean, and Brazilian programs also incurred significant costs. Korea and Brazil have taken steps to cut back on farm spending. The Japanese government last year lowered the payments made to farmers who divert rice acreage to wheat. In the United States, high program costs, \$16.8 billion in 1985, helped set the stage for an indepth examination of farm policy during deliberations on the 1985 farm bill.

Potential international political and economic costs of failure to reach a new accord on agricultural trade are very great. Settlement of the dispute between the United States and the European Community is of great importance to the continued health of the world trading system. It has become even more significant in view of the major agricultural trade problems brought on by the European Community's enlargement to include Spain and Portugal.

However, it should be noted that the contracting parties' adoption of the recommendations of the GATT Committee on Trade in Agriculture at their November 1984 meeting signifies agreement only on an agenda for substantive work, not a commitment to make any changes in their own policies or in the GATT. It will be necessary for the United States to continue to support a new round of comprehensive multilateral trade negotiations and seek improvements in GATT discipline over trade in agriculture--a sector in which this country has historically enjoyed a comparative advantage.

More effective limitation of export subsidies, such as restitution payments by the European Community, would reduce the participation of non-competitive suppliers in the international market and transfer sales to efficient producers. Abatement of market access restrictions also would allow efficient exporters to supply markets presently supplied by expensive and/or highly subsidized domestic production. Other major exporters support U.S. efforts to reduce the scope of market-distorting trade practices, particularly those maintained by the European Community.

While working toward better international regulation, however, U.S. policymakers need to recognize that foreign trading practices constitute only one of several factors contributing to U.S. agricultural trade difficulties.

U.S. farm programs over the past few years encouraged foreign competitors to increase production for export by establishing a relatively high floor under the international market price of wheat. This country has been willing to defend that price by removing U.S. production from the market, while at the same time other producers were expanding their production. The decline in U.S. export sales was also caused by the high value of the dollar against other currencies, increasing production in other countries due to technological advances, the constraint on worldwide demand caused by recession and widespread credit difficulties, and the negative impression left on purchasing nations by U.S. agricultural embargoes.

Recent changes should help to correct the current problem. There has been a substantial decline in the value of the dollar, and the recently enacted 1985 Food Security Act gave the Secretary of Agriculture authority to lower loan rates. The Secretary has used this authority to greatly lower rates for the forthcoming crop year. For example, the loan rate for wheat was cut from \$3.30 per bushel for crop year 1985 to \$2.30 per bushel for 1986. This should lead to U.S. market prices well below any of our competitor's current prices. This change combined with the decline in the value of the dollar should lead to an increase in U.S. agricultural exports and create circumstances that should encourage our trading partners to enter into serious negotiations.

It should also be remembered that the United States itself maintains restrictive trade practices similar to those which it is trying to have removed by other countries. The U.S. retention of a GATT waiver allowing restrictions on imports that disrupt farm support programs could undercut its arguments in favor of greater control over access restrictions and subsidies.

In attempting to maximize the benefits this country can obtain from its comparative advantage in agriculture, then, U.S. policymakers cannot focus exclusively on the restrictive trade practices used by our trading partners and/or competitors. The international implications of U.S. farm and trade programs must also be taken into account.

Mr. Chairman, this completes my statement and I would be pleased to answer any questions you may have.

RECENT GAO REPORTS AND TESTIMONY ON AGRICULTURAL TRADE

April 10, 1986, "The Agriculture Export Enhancement Program and Agricultural Foreign Market Development Programs," before the Subcommittee on Department Operations, Research, and Foreign Agriculture, House Committee on Agriculture

November 1985, "Agriculture Overview: U.S. Food/Agriculture in a Volatile Economy," GAO/RCED-86-3BR

October 10, 1985, "Financial Condition of American Agriculture," GAO/RCED-86-09

October 8, 1985, "The Agricultural Export Enhancement Program" before the Subcommittee on Department Operations, Research, and Foreign Agriculture, House Committee on Agriculture

September 26, 1985, "United States Participation in the Multilateral Trading System," before the Subcommittee on International Economic Policy, Oceans and Environment, Senate Committee on Foreign Relations

September 23, 1985, "Current Issues in U.S. Participation in the Multilateral Trading System;" chapter 2, GATT Discipline Weak for Agricultural Trade, GAO/NSIAD-85-118

September 13, 1985, "Compendium of GAO Reports Pertaining to Public Law 480 from July 1973 through August 1985," GAO/NSIAD-85-96

August 19, 1985, "Federal Price Support for Honey Should be Phased Out," GAO/RCED-85-107

June 18, 1985, "Transportation of Public Law 480 Commodities--Efforts Needed to Eliminate Unnecessary Costs," GAO/NSIAD-85-74

April 9, 1985, "Controls Over Export Reporting and Futures Trading Help Ensure Fairness, Integrity, and Pricing Efficiency in the U.S. Grain Marketing System," GAO/RCED-85-20

