A Short History of U.S. Agricultural Trade Negotiations

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Introduction

Trade liberalization has been the subject of international negotiations for at least half a century, ever since the disastrous protectionist policies of the Great Depression. After World War II, the United States emerged as the world's leading economic power, and it was largely American influence that brought about the General Agreement on Tariffs and Trade (GATT) in 1947. American fears that free trade might hurt domestic price support programs resulted in GATT provisions excluding agricultural commodities from quantitative restrictions, permitting some export subsidies, and in 1955 legitimizing U.S. import quotas (section 22). There have been several rounds of GATT negotiations since 1947 and a significant reduction in world tariffs. New methods of restricting trade, however, have also appeared and the United States no longer enjoys the dominant position it once had. Trade prosperity in the 1970's gave way to lower prices and increased competition in the 1980's, setting the stage for the current Uruguay Round. The American proposal to include domestic subsidies on the agenda is a new departure and an effort to dismantle the nontariff barriers to trade that have become so important over the last quarter century.

Trading Arrangements Before GATT

During most of its history, the United States has been a major exporter of agricultural products. Until the last quarter of the 19th century, agricultural exports were an important source of foreign exchange for the United States. The agricultural sector had few problems with foreign markets since it was a low-cost producer, and the large European markets of England and Germany had adopted cheap food policies to support their industrial development. American farmers, however, wanted low-cost manufactured products. In contrast to manufacturers, who generally wanted high tariffs, farmers frequently supported the liberalization of tariffs. Until World War I, the United States was a debtor nation and Europe, our chief trading partner, held plenty of American dollars to purchase U.S. agricultural exports. During the war, however, the Allies depleted their supply of dollars to buy war materials and had to negotiate large loans to continue their purchases. There was no Lend-Lease Act in World War I. When the postwar depression in Germany prevented it from paying reparations to the Allies, the Allies defaulted on their debts to the United States. The United States retaliated by refusing to extend new credits and raising tariffs to record-high levels by 1930. These actions provoked a tariff war and contributed to the collapse of international trade and the Great Depression (5).[1]

New Deal agricultural programs altered international trading relationships for U.S. farmers. Crop production was to be brought into line with domestic demand, and price supports were to be adjusted to provide an equitable income to farmers. With prices supported and surpluses held off the domestic market, world supply, demand, and prices ceased to influence the U.S. market, but the U.S. market became attractive to foreign producers. Congress had no intention of supporting world prices and in 1935 amended the Agricultural Adjustment Act to permit import quotas on commodities under price support programs (section 22). It has been retained in agricultural legislation ever since. Surplus commodities, whether they were staples such as wheat and cotton or perishables such as dairy products or fruits and vegetables, could be sold and, in some instances, were sold abroad at world prices even if world prices were lower than domestic prices. Private industry in developed nations have long practiced export dumping of industrial products to relieve market gluts. Another 1935 amendment (section 32) permitted the U.S. Department of Agriculture (USDA) to use outright subsidies for agricultural exports. Neither import quotas nor export subsidies were used much in the 1930's, but the 1935 amendments set forth U.S. intentions to employ such methods when necessary (11).

During and immediately after World War II, all conventional trading rules were suspended. Instead, the United States and Great Britain regulated world trade among the Allies and neutral nations through the Combined Food Board. A system of requirements and allocations was established, and all sectors became claimants before the board. Although regulations were dismantled promptly at the end of the war, the dislocations in production and distributions persisted until the end of the Korean War in 1954.

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[1] Underlined numbers in parentheses refer to sources listed in References.

Since World War II, the Executive Branch of the U.S. Government has supported expansion and liberalization of international trade. Strong protectionist sentiments in Congress, emanating from both major political parties, made the subject of trade liberalization, a continuous battlefield in the Federal Government. As world agricultural production and trade began to become normal, the United States found itself with a highly productive agricultural sector that produced commodities for which there was no effective demand at home or abroad. American farmers, who had prospered from good prices and unlimited demand during the war, were not willing to return to lower support prices.

Under the authority of the Reciprocal Trade Agreements Act of 1934, which had been extended again in 1945 for 3 years, President Truman proposed multilateral trade liberalization negotiations in 1946. Negotiations, begun in London, were resumed in Havana in 1947. A charter for an International Trade Organization (ITO) was completed at Havana in 1948. ITO was a manifestation of the one-world idealism prevalent at the end of World War II. The debates had snagged on the issue of subsidies, especially agricultural export subsidies which were a cornerstone of U.S. agricultural programs. Great Britain, Canada, and Brazil led the fight to prohibit export subsidies, and Great Britain even opposed income subsidies not tied to a specific commodity. By the time the final draft of the charter was approved by the conferees, the free trade proposals of 1945-46 had been negated by the addition of escape clauses and exceptions. According to the USDA delegate to the Havana Conference, the charter was no longer a plan for the reduction of trade barriers as much as an undertaking of the signatory countries to consult on matters of economic interest. The charter was to be submitted to the nations for signature. The original U.S. supporters of ITO, the U.S. Chamber of Commerce and the National Association of Manufacturers, regarded the charter as a betrayal of free enterprise. U.S. agricultural interests, including major farm organizations who had led the attack in Havana that had weakened it, became only lukewarm supporters. U.S. delegates had subordinated economic theory to political reality. U.S. congressional leaders realized that they could not muster the two-thirds majority necessary to ratify the ITO charter so they let it die in committee (16).

The Beginnings of GATT

Concurrent with the Havana meetings, meetings were held in Geneva to negotiate lower tariffs and other restrictions on international trade. The Geneva negotiations resulted in the GATT, a document even less restrictive than the ITO charter. The GATT was intended to be an interim measure, pending the ratification of the ITO. GATT was signed on October 30, 1947, and came into force January 1, 1948. GATT was never submitted to Congress because of Congress' failure to ratify the ITO. Presidents over the years have interpreted the Trade Agreements Act and its extensions and amendments as authority to participate in tariff-cutting negotiations and to implement the results of such negotiations. Congress has written some restrictive amendments into various extensions of the act, but it has never questioned the authority to negotiate or repudiated the results of the negotiations.

The five rounds of negotiations under GATT between 1947 and 1961 present an example of productive international cooperation. In general, tariffs among the industrial nations were reduced. Though not a part of the GATT negotiations, the participatory nations concurrently largely dismantled the monetary and quantitative controls that had been erected during the economic crisis that followed World War II. The GATT contains a statement of general principles including:

(1) Tariffs are the only acceptable means of protection, and any quantitative or other form of restriction is not permissible.

(2) Direct subsidies that would prejudice international trade relationships should be eliminated as rapidly as possible.

(3) Countries should consult together to avoid injury by unilateral action by any individual country.

(4) Compensation to cover damages to any country or countries by unilateral action by one country in violation of the principles of GATT would be approved.

(5) Once a tariff concession had been made and accepted by the other participants it could not be unilaterally rescinded (17).

The 1947 Geneva meetings also completed a multilateral tariff-cutting exercise among the 22 participating nations that resulted in concessions on nearly two-thirds of total world trade. The United States participated in two additional rounds of GATT negotiations, one held at Annecy, France, in 1949 and the other at Torquay, England, in 1950-51, before Congress reduced the President's tariff-cutting authority from 50 to 15 percent of existing rates. In the 1951 Trade Agreements Act extension, Congress created a bipartisan Commission on Economic Foreign Policy (called the Randall Commission after its chairman, Clarence Randall). The report of this commission came out strongly for continued negotiations for the liberalization of international trade. Congress renewed the Trade Agreements Act, broadening the President's authority but limiting additional cuts in tariffs to 15 percent. In 1954, GATT members reviewed their 5 years of experience with GATT and reaffirmed its basic objectives and obligations. They drafted an agreement to provide a secretariat to administer the GATT and codified the rules that had evolved under the GATT. The U.S. Congress failed to ratify this agreement, thus preventing the establishment of the secretariat. Under the authority of the 1951 act the United States participated in the fourth round of GATT talks held in Geneva in 1956. At this session, GATT dealt with the request of Japan for membership. By this time, GATT membership had grown to 40 countries (17).

U.S. Trade Policies and Domestic Agricultural Policies

The U.S. Congress perceived the GATT negotiations as a threat to its policy of protecting U.S. agriculture. Therefore, Section 22 was reenacted as part of the Agriculture Act of 1948 but President Truman insisted on the limiting provision that "No proclamation under this section shall be enforced in contravention of any treaty or other international agreement to which the United States is or hereafter becomes a party" (P.L. 80-897, July 3, 1951). The President prevented the repeal of this limitation by veto threats but Congress finally won by attaching its amendment to a law which was important to the President, the 1951 extension of the reciprocal trade agreements authority. "No trade agreement or other international agreement heretofore or hereinafter entered into by the United States shall be applied in a manner inconsistent with the requirements of" section 22 (P.L. 82-50, June 16, 1951). However, it was not necessary to use Section 22 until Section 104 of the Defense Production Act expired. Controls on imports of dairy products, flax, linseed oil, peanuts, peanut oil, tung nuts and tung oil under Section 22 became effective July 1, 1953. Trade restrictions under Section 104 had been permitted by GATT as defense measures, but under Section 22 they could not be justified. Therefore, in 1955, the U.S. applied and was granted by GATT a waiver of the prohibition against import quotas. This weakened the GATT by providing a precedent for nontariff barriers on agricultural products by other GATT members.

The Common Market

The economic integration of Europe was an explicit objective of American policy as embodied in the Marshall Plan and the legislation implementing it. Integration got underway in earnest when "the six" (France, West Germany, Italy, Belgium, the Netherlands, and Luxembourg) agreed in 1951 to establish the European Coal and Steel Community, creating a common continental market for these commodities by abolishing internal quotas and tariffs. In 1957 in the Treaty of Rome, the "six" agreed to abolish all restraints on trade among them and to protect them all against unfair competition from outside with a common associate member; Turkey, Austria, Switzerland, and Sweden were all seeking some form of associate membership; and the United Kingdom, Ireland, Denmark, and Norway had applied for full membership. If all were accepted, the population of the Common Market would have totaled 485 million in contrast to the U.S. population of about 185 million in 1961.

For the United States, these steps toward European integration raised serious problems of trade policy. A common external tariff around the large European market could place American exports, particularly farm commodities, under a severe handicap. In 1961, the Common Market took 23 percent of total U.S. agricultural exports and 31 percent of all U.S. agricultural exports sold for cash. The 1961 dollar value of U.S. exports to the Common Market and all applicants for membership ran to 51 percent of total U.S. export value. The fifth, or Dillon Round of GATT negotiations, in 1960-61, was the first after the advent of the Common Market and the last before the adoption of its Common Agricultural Policy (CAP). The authority of the U.S. negotiators had been increased by Congress so that they could offer an additional 20-percent tariff reduction on an item-by-item basis. The free bindings (no tariff) on soybeans, linseed, flaxseed, oilcakes, and cotton negotiated with the European Economic Community (EC or Common Market) in the Dillon Round have been of tremendous importance to U.S. agriculture (7, 9).

Although the Common Market did not accept the applications of Great Britain, Ireland, Denmark, and Norway in the 1960's, the growth of the Common Market amazed the world and, especially, U.S. policymakers, many of whom thought that substantial growth might be a long time in coming. In 1961, for example, the growth of the Common Market's gross national product was almost twice that of the United States. Even before the Common Market agreed on a Common Agricultural Policy a number of changes in internal trade had occurred. French imports of agricultural products from other members rose from 5 percent of the total imported in 1958 to 8 percent in 1961. French imports of food from other members increased $42 million annually, while total food imports dropped almost $38 million. Principal French export items to the Common Market were livestock products, cereals, and cereal preparations. More than half of these went to West Germany. Prospects of increases of French exports to member countries at the expense of nonmember countries led France in 1962 to pass legislation aimed at further modernization of agricultural production and marketing.

The Kennedy Round

The Trade Expansion Act of 1962 set the stage for the Kennedy Round of GATT negotiations. This act provided the President with much more power than had been conferred by any single tariff law since the original Trade Agreements Act of 1934. The President was empowered to offer tariff reductions of 50 percent of the tariffs applicable in 1961. On items with a tariff of 5 percent or less, the levy could be eliminated entirely. The objective of the United States in its negotiations was to create a climate in which the principle of comparative advantage would replace import substitution and protection for new industries. By executive order in 1963, President Kennedy established the Office of Special Trade Representative (STR) as a separate agency in the Office of the President. Two STR's, each with the rank of ambassador, served concurrently during the Kennedy Round negotiations. One was assigned to Washington and the other to Paris. The Kennedy Round of GATT negotiations began in 1964, but the consideration of agriculture was postponed because the countries in the Common Market had not agreed on a CAP and were negotiating among themselves.

The Common Agricultural Policy and U.S. Trade Policy

Agricultural policy was probably the most difficult economic issue for the EC countries to negotiate because the agriculture of each differed in significant ways. Some were food deficit countries, while others were food exporters; some had a highly specialized agriculture that relied heavily on imported inputs, while others were diversified and largely self-sufficient in agriculture; and some were high-cost producers, while others could compete effectively in world markets. Each country had its own food and agricultural policies developed to meet the needs of its citizens.

Food grains are a good example of these issues. Sales of food grains were an important source of income for the diversified family farmers of Germany and also for the specialized grain farmers of France. France wanted to sell its surplus grain in the German market, but the Germans preferred to support prices for their own farmers and to buy supplemental supplies at lower prices from the United States or Canada. Neither wanted to see its markets inundated with low-priced grain from overseas. The Netherlands wanted to buy food and feed grains from the lowest cost source because its farmers specialized in livestock, dairy, and horticultural enterprises.

Food security was of overriding importance to everyone because the deprivation of the war years was still fresh in people's minds. The CAP, which emerged from Common Market negotiations, was designed to protect the agricultural sector of each member country as well as to protect the whole EC from external competitors. Consequently, for low-cost producers of wheat, dairy products, and livestock, the CAP provided strong incentives to increase production.

The Common Agricultural Policy and GATT

In developing measures to implement its Common Agricultural Policy (CAP), the EC felt that it had carte blanche because the external tariffs of all member countries were to be superseded by the Common External Tariff (CET) and, furthermore, the United States had secured a waiver from the GATT rules for its price-supported agricultural commodities (see p. 5). A system of targeted prices and intervention levels for member countries was to gradually eliminate internal trade restraint over a 6-year period. For foreign producers, a system of variable levies structured to reserve the internal market for member countries was developed. Variable levies are like a tariff but are flexible on a day-to-day basis which prevents bargaining on rates between the EC and other GATT members, except perhaps, by establishing a certain range. The EC maintains, correctly, that variable rates are not prohibited by the GATT rules but they certainly defeat the purpose of making trade barriers clearly viable and negotiable.

The Common Agricultural Policy and the Kennedy Round

During most of the Kennedy Round, the EC refused to negotiate on agricultural products because negotiations to harmonize trading relationships among nations within the EC were not completed and, in fact, were in severe difficulty. The principle problem area was grains and grain-fed livestock. The United States was especially anxious to have an agreement on grains because the International Wheat Agreement was expiring and the United States was trying to reduce its surplus production. The United States wanted the EC to guarantee that 13 percent of EC grain requirements would be reserved for foreign suppliers. The EC would offer only 10 percent. Finally, with only 1 month left to complete negotiations, the United States dropped its demand, thus removing the barrier and negotiations proceeded.

The International Grains Arrangement

The preliminary International Grains Arrangement was announced at the conclusion of the Kennedy Round. The conferees were able to agree in principle that the International Grains Arrangement would be composed of two parts: (1) an agreement on the price range within which wheat could be traded in international markets without intervention, and an agreement to establish a world food reserve with each country building and maintaining a set percentage of the reserve stock; and (2) a food aid convention to which all developed countries would contribute in cash or in kind. The United States viewed such an arrangement as an executive agreement and not a treaty. Therefore, the Senate would not need to approve it. The United States did not think it possible for the EC to achieve self sufficiency in food grains in the next few years, assuming that the French contribution to the

Food Aid Convention would reduce EC self-sufficiency and lead to larger grain imports by the EC (4). The nations participating in the Kennedy Round, including the EC, accepted the final document, although it included only an outline for the International Grains Arrangement. The details of the International Grains Arrangement and the Food Aid Convention were later accepted by all parties.

Post Kennedy Round Negotiations

Countries engaged primarily in trade in fresh, chilled, and frozen beef and veal and in butter, cheese, and dried milk had sought to negotiate international arrangements for these products. The aim was to liberalize access to world markets and, consequently, to expand world trade. Despite continued "protracted" negotiations, no multinational arrangement was concluded. After the Kennedy Round ended, these countries shifted to bilateral negotiations through which they were able to negotiate improved access to some markets. The United States participated in these negotiations and granted concessions on livestock and meat imports valued at $221 million and received concessions on exports valued at $152 million. The dairy, poultry, and eggs group could not reach terms for a multilateral agreement. Concessions on some of these products were subsequently made on a bilateral basis. The United States granted concessions on imports of dairy, poultry, and eggs valued at $50.7 million and received concessions on exports of $17 million.

In the end, tariff concessions on a wide range of agricultural products were made by major participants other than the EC, but reductions were generally less than those made on industrial products. The United States benefited from reductions on soybeans, tallow, tobacco, poultry, and horticultural products, including citrus and canned fruits. These concessions covered nearly $870 million of U.S. agricultural exports. In return, the United States made concessions of about $610 million of its agricultural imports. John A Schnittker, then Under Secretary of Agriculture, said that the Kennedy Round "accomplished a modest liberalization of agricultural trade but a greatly increased awareness of the unresolved problems in removing barriers of all sorts to trade in agricultural products" (23).

The Interim, 1967-72: The Issue of Export Subsidies

After the close of the Kennedy Round, events in world trade moved swiftly. The EC had begun the 1960's as a food deficit area. By 1968, the agricultural self-sufficiency programs of the member countries were showing results. France, finding herself with a large wheat surplus for the first time since World War II, provided export subsidies to dispose of it on world markets. The origins of export subsidies are shrouded in the history of market development and marketing. Before the 1930's, there had been few attempts to establish fair trading rules for international trade.

Export dumping and export subsidies were widely used as a means of disposing of surpluses. The United States had used its authority under section 32 of the Agricultural Adjustment Act of 1933 primarily for the disposal of small surpluses of perishables, wheat, and cotton. In the 1950's, when the United States developed unmanageable surpluses of grains and other agricultural products, Congress passed Public Law 480 [1954]. P.L. 480, soon named Food for Peace, provided authority for sales of surplus U.S. agricultural products for nonconvertible foreign currencies, for donations of such commodities to relief organizations and foreign countries for various nonprofit uses, for the barter of such commodities for strategic and critical materials for the U.S. stockpile, or for use in U.S. foreign diplomatic or aid programs.

Some countries contended that all of the concessional sales under the Food for Peace program (1954) could be classified as export subsidies. The United States has consistently rejected this interpretation. The United States, however, contended that the French export subsidies were a flagrant violation of part 1 of the International Grains Arrangement. U.S. agricultural interests vowed that there would be no more trade negotiations for industry without primary consideration for agriculture.

Preparations for another round of GATT negotiations began almost immediately. Before adjourning, the GATT signatories had established several preparatory committees to meet in the interval before the next round of GATT negotiations: the Agriculture Committee, the Committee on Trade in Industrial Products, and the Committee on Trade and Development for the Benefit of the Developing Countries. The initial task of the Agriculture Committee was to assemble the basic documentation, identify the principal problems, and search for possible solutions. This examination revealed that agricultural support measures in most cases resulted in artificially high prices protected from outside competition by variable levies, quotas, or other restrictive devices. In the absence of measures to limit production, the system often created surpluses which were dumped on world markets with the aid of export subsidies. Consequently, the system penalized efficient producers in the protected markets and in third countries.

The work of the Agriculture Committee soon revealed two major views. Efficient producers urged that negotiations should provide conditions that lead to more unfettered world trade. Less efficient producers held that negotiations should seek to stabilize conditions through regulated markets based on commodity agreements and minimum prices. According to Vernon Sorenson "we presented a confused picture in the relationship between our principles and our actions.... We asserted, possibly somewhat with tongue in cheek, that we wanted inclusion of agriculture in trade negotiations and that we would be willing to discuss our domestic policies as a part of these negotiations." (7)

U.S. Trade Deficits and the Dollar

Important changes occurred in the world trading community, which, if unchecked, would threaten the ability of the United States to maintain its postwar position in agricultural trade. Foremost among these was the development of regional trading areas, with the EC being the most formidable but not the only example. The increasing use of nontariff barriers, export subsidies, and dumping also posed serious threats. Other events, just over the horizon, would exacerbate this threat. Since the Great Depression, the U.S. dollar had been the anchor for gold standard currencies throughout the world. The United States, however, had been running a balance-of-payments deficit for a decade. With deficits settled by transfers of gold, U.S. gold reserves were being rapidly depleted. By the Smithsonian Agreement of December 17-18, 1971, the United States devalued the dollar by 8.57 percent in an attempt to stem the flight of gold. But only 14 months later, the United States was forced to announce an additional devaluation of 10 percent and less than 2 weeks after this, the international monetary crisis flared again. President Nixon vowed no further devaluation by the United States. The countries of the EC, to protect themselves against the influx of dollars, decided to float their currencies. Then, on March 16, 1973, after 2 weeks of negotiations, the United States and 13 other major trading nations agreed on a package of measures designed to relieve the problem of excess dollars abroad (20, 1971-73).

During the period that the dollar was under pressure, the Soviet Union was negotiating the purchase of large amounts of food and feed grains. The Russians had a poor harvest in 1971, and the Kremlin had decided to import grain rather than reduce livestock herds. They were both lucky and smart. They bought while U.S. export subsidies were still in effect and they were able to pay in devalued dollars. As other importing nations became aware that the devaluation had made American agricultural products a bargain in the world market, they too rushed in to buy. When drought reduced U.S. production in 1973, there were impending shortages and prices climbed rapidly. U.S. policymakers placed an embargo on soybean exports from June 27 to July 3, 1973. Although the embargo was short lived, soybean shipments were closely controlled for several months, and there were threats of embargoes on grains. The damage to U.S. exports, the U.S. reputation as a reliable supplier, and U.S. influence in trade negotiations was significant, reinforcing the determination of the EC and Japan to pursue food security through agricultural self-sufficiency and the development of alternative external sources of commodities that they had to import. The Japanese began negotiations on binational cooperation on direct investments for the development of Brazil, including agricultural development, in 1972. By 1978, the Germans, the Japanese, and the Netherlanders had become the second, third, and fourth largest foreign investors in Brazilian economic development. The United States remained first because of its large investments in the 1960's. The fruition of investments in agriculture was delayed by inadequate infrastructure in the new agricultural areas of Brazil. Large foreign investments in transportation, chemicals, and agricultural research in the late 1970's and 1980's are overcoming these problems.

On February 1, 1973, the United Kingdom, Ireland, and Denmark took the first step toward membership in the EC. This jeopardized well over half of the $500 million of U.S. agricultural exports to these three countries. Meanwhile, the EC was becoming less tractable. On June 26, 1973, it published a ringing defense of its Common Agricultural Policy, while urging the negotiation of international commodity agreements (20, Vol. 15, No. 21, "An Attache's Look").

The Tokyo Round

The next round of GATT negotiations after the Kennedy Round began in Tokyo in September 1973. The number of contracting parties had increased to over 90, with well over half representing developing countries. U.S. participation was authorized under the Trade Agreements Act of 1974, which directed that negotiations on agricultural trade must take place "in conjunction with industrial trade barriers." The Tokyo Round coincided with a massive increase in oil prices resulting from the price fixing of the newly established Organization of Petroleum Exporting Countries (OPEC). The consequent disruption of world trading patterns created a climate in which the most astute trade negotiators would find it difficult to function.

During the first year of negotiations, which took place in Geneva, although this is called the Tokyo Round, major differences in approach to the treatment of agriculture became increasingly evident. The EC and many other countries wanted to negotiate on agricultural products separately from other products. The organization of negotiations under the committees already established effectively isolated agriculture.

The Role of the European Community

The solid front of the EC began to show some cracks. The EC Council of Agricultural Ministers had approved two increases in support prices in 1974 to compensate for rapid increases in costs of production. The German Parliament vetoed the second increase,