Agriculture

AN EIGHTH DISTRICT PERSPECTIVE

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The GATT Focuses on Agricultural Trade

Nations throughout the world have chosen to actively manage the production and trade of agricultural products by governmental policies rather than rely on free market forces. For example, the United States uses quotas to limit the importation of sugar and dairy products as a means of maintaining high domestic support prices. It also uses export subsidies to sell commodities abroad. Japan supports its politically influential farmers through quotas on imports of rice, beef, citrus and other products. The European Community (EC) uses variable levies on farm imports to maintain high domestic prices and subsidies to stimulate farm exports.

These trade-distorting practices have spawned serious problems. Trade conflicts have strained relationships between the United States, the EC, Japan and other countries. For example, EC subsidies on pasta exports to the United States led to a retaliatory U.S. tariff on pasta imports. The conflict was eventually resolved but not without a political cost. World economic growth and efficiency are sacrificed to protectionist policies. Poor agricultural nations that might be the low-cost producers of many agricultural products are unable to compete financially with the production and export subsidies of rich nations. Agricultural trade policies have been costly to developed countries as well. It is estimated that the United States and the 12-country EC spent more than $48 billion in 1986 for agricultural support programs. These costs do not include the additional expense to consumers that results from the farm policies.

Because the cost of these interventions was likely to escalate, members of the General Agreement on Tariffs and Trade, commonly known as the GATT, agreed to discuss agricultural trade practices in the current round of negotiations. In the past, GATT negotiations have succeeded in lowering protectionism in the trade of manufactured goods. Agricultural trade, however, has been exempt from most GATT guidelines.

The GATT

The GATT has been called the United Nations of world trade. Its goal is to liberalize world trade through the reduction of trade barriers. It was founded in 1947 when 23 nations signed the General Agreement on Tariffs and Trade which was to be part of the International Trade Organization (ITO), a United Nations agency. The ITO was never approved because of U.S. opposition, but the GATT survived to become an independent institution. It now has 96 member nations.

The GATT serves two primary roles. First, it functions as a forum for member countries to discuss trade practices and recommend improvements in GATT procedures. The eighth round of trade talks began in September 1986 and is scheduled to continue into 1992. It is known as the Uruguay Round because the initial meeting was held in Punte del Este, Uruguay. Subsequent meetings, however, are held at the GATT headquarters in Geneva, Switzerland. A mid-term review meeting to present a progress report is scheduled for December 1988 in Montreal.

The second GATT role is that of arbitrator in trade disputes among member nations. Most complaints are handled directly among concerned nations with the assistance of GATT experts. When necessary, a GATT panel can rule on a dispute and demand compensation for the aggrieved nation. For example, in October 1987, a GATT panel ruled that Japanese import restrictions were "GATT inconsistent" for a group of 10 minor agricultural products such as prepared meats, tomato juice, canned pineapple and others.

Agriculture and the GATT

The GATT's success in reducing barriers to agricultural trade has been extremely limited. Despite numerous appeals to the GATT, farm trade barriers have grown. GATT has failed to liberalize agricultural trade because it treats agriculture differently than most other forms of trade. It allows nations to use trade practices for farm

products that would be considered "GATT inconsistent" for most other traded goods.

For example, the use of import quotas and other restrictions on import quantities is not allowed by the GATT. The United States, however, demanded an exception to this guideline for agricultural and fisheries products at the inception of the GATT because many U.S. farm policy tools would have been ineffective without quotas. The exception allows quantitative restrictions for agricultural or fisheries products if domestic production restraints are used. The stipulation that domestic production restraints be used has proved too vague to significantly inhibit the use of quotas.

The United States further weakened this already loose restriction when it requested, and was granted, a waiver to the constraint that domestic production be limited. This waiver has weakened the GATT's clout and has made it more difficult for the United States to effectively criticize other nation's trade practices.

The GATT rules prohibit both direct and indirect export subsidies. Again, however, there is an exception for agricultural and other "primary products" as long as a nation does not gain a "more-than-equitable" share of world trade compared to a "previous representative period" through the use of export subsidies. Enforcement of the subsidy law has been hindered by the difficulty in determining what constitute equitable trade shares and representative periods.

The Uruguay Round

The United States and other countries have recognized that the existing GATT guidelines are flawed and have contributed to the lack of progress in agricultural trade liberalization. At the start of the current GATT round, member nations agreed to examine all barriers to agricultural trade including domestic agricultural policies that often have substantial trade effects. Member nations will now consider changing the guidelines that have treated agricultural trade differently.

Numerous difficulties face GATT negotiators in their attempts to liberalize agricultural trade. Many trade-distorting practices are linked to domestic price support programs. For example, the U.S. support program that purchases dairy products to support milk prices would be unable to function without quotas on dairy product imports. GATT negotiators are limited because, generally, they do not have authority to change domestic programs. Additionally, GATT negotiations will be difficult because many nations feel the need to be self sufficient in food production for national defense reasons and use import controls to stimulate domestic production. Furthermore, negotiating the reduction in agricultural protectionism will be difficult because of the wide diversity of price support programs across the world.

In July 1987, the United States proposed that all subsidies and barriers that distort agricultural trade be phased out over a 10-year period. The U.S. proposition, in turn, stimulated other countries and groups to offer agricultural trade proposals for consideration by the GATT. Currently, the GATT is attempting to form a consensus around a proposed negotiating framework for use during the balance of the Uruguay Round. The GATT hopes to announce its approach at the December 1988 mid-term review.

Some observers fear that the recent surge in commodity prices will alleviate some of the pressure on GATT nations to liberalize agricultural trade. The higher commodity prices reduce the budgetary expenditures related to national price support programs. These lower costs, in turn, may lessen the political expediency of agreeing to ambitious reforms, particularly in those nations where strong political opposition from farm groups is anticipated. Alternatively, the higher commodity prices might provide a "window of opportunity" during which reductions in government support to farmers could be made with a lower political cost.

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Agriculture—An Eighth District Perspective is a quarterly summary of agricultural conditions in the area served by the Federal Reserve Bank of St. Louis. Single subscriptions are available free of charge by writing: Research and Public Information Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, Missouri 63166. Views expressed are not necessarily official positions of the Federal Reserve System.

EIGHTH DISTRICT AGRICULTURAL DATA

Prices and Costs[1]	Mar. 1988	Apr. 1988	May 1988	Average for 1987	Percent Change: Year-To-Date 1988[2]	Percent Change: Same Month Year Ago
CONSUMER PRICE INDEX (% change)						
Nonfood	0.4%	0.4%	0.3%	0.4%	1.9%	4.1%
Food	0.4	0.7	−0.4	0.3	1.5	3.3
PRODUCTION COSTS FOR FARMERS (% change)						
Agricultural machinery and equipment	0.6	1.0	−0.1	0.0	1.5	1.5
Fertilizer Materials	2.5	1.5	−1.8	0.8	5.8	9.6
Agricultural chemicals and chemical products	1.4	0.9	−0.5	0.5	3.8	7.9
Gasoline	−0.4	6.0	4.9	1.7	10.1	1.5
PRICES RECEIVED BY FARMERS (% change)						
All products	0.0	0.0	3.1	0.4	5.5	4.7
Livestock	−0.7	0.0	2.7	0.0	7.8	2.7
Crops	0.9	0.9	4.5	1.2	2.7	7.4
FEEDER CATTLE						
Wholesale price - Kansas City ($/cwt.)	$85.20	$86.50	$82.88	$75.36	5.0	13.0
FEEDER PIGS						
Wholesale price - So. Missouri ($/head)	$48.65	$52.16	$46.85	$46.69	47.6	−9.3
BROILERS						
Wholesale price - 12-city (¢/lb.)	48.10¢	48.70¢	N.A.	47.42¢	22.4	0.1
TURKEYS						
Wholesale price - Eastern U.S., 8-16 lb. young hens (¢/lb.)	47.00¢	46.90¢	N.A.	57.81¢	−29.5	−19.6
CORN						
Wholesale price - No. 2, yellow - St. Louis ($/bu.)	$ 2.09	$ 2.10	$ 2.13	$ 1.76	8.1	10.4
SOYBEANS						
Wholesale price - No. 1, yellow - Central Illinois ($/bu.)	$ 6.30	$ 6.71	$ 7.31	$ 5.33	23.1	32.4
WHEAT						
Wholesale price - No. 1, hard winter - Kansas City ($/bu.)	$ 3.10	$ 3.14	$ 3.20	$ 2.89	−13.5	6.0
LONG-GRAIN RICE						
Wholesale price - Arkansas ($/cwt.)	$24.05	$24.00	$22.50	$13.89	11.3	95.7
COTTON						
Average price received by U.S. farmers (¢/lb.)	57.70¢	59.40¢	56.40¢	60.87¢	−12.2	−13.0

U.S. Exports	Mar. 1988	Apr. 1988	May 1988	Average for 1987	Percent Change: Year-To-Date 1988[2]	Percent Change: Same Period Year Ago
Corn (mil. bu.)	165.3	167.3	N.A.	134.9	12.1%	9.1%
Soybeans (mil. bu.)	74.8	65.1	N.A.	65.0	−15.1	20.8
Wheat (mil. bu.)	150.5	156.4	N.A.	99.9	32.0	115.1
Rice (rough equivalent, mil. cwt.)	5.9	5.0	N.A.	6.4	2.0	−15.3
Cotton (thou. bales)	779.0	571.0	N.A.	547.8	−20.8	−13.5

Non-Real-Estate Farm Debt Outstanding

	Banks			PCAs[3]		
	Outstanding ($ millions)	Percent Change 3/87 - 3/88	Percent Change 3/86 - 3/88	Outstanding ($ millions)	Percent Change 3/87 - 3/88	Percent Change 3/86 - 3/88
United States	$28,164	– 2.2%	– 16.7%	$9,479	9.1%	– 26.5%
Eighth District[4]	1,879	– 7.2	– 22.3	NA	NA	NA
Arkansas	350	– 3.9	– 12.7	153	– 2.5	– 28.3
Kentucky	368	– 6.4	– 35.1	155	– 11.2	– 35.9
Missouri	950	– 2.0	– 18.3	103	– 11.8	– 57.7
Tennessee	239	– 11.7	– 22.8	201	– 0.9	– 16.9

Agricultural Bank Loan Performance[5]

	Percent of Farm Loans Overdue at Agricultural Banks			Percent of Net Loan Losses at Agricultural Banks		
	3/88	3/87	3/86	3/88	3/87	3/86
United States	2.9%	4.7%	6.8%	.15%	.27%	.40%
Eighth District[4]	4.0	7.1	8.6	.08	.20	.28
Arkansas	2.0	5.7	6.9	.07	.10	.24
Kentucky	6.2	7.1	6.9	.12	.11	.17
Missouri	2.8	5.4	8.6	.09	.36	.37
Tennessee	4.7	5.3	6.3	.09	.02	1.00

Agricultural Production Loan Interest Rate[6]

	Banks		PCAs	
	5/88	5/87	3/88	3/87
Eighth District Average	10.5%	10.1%	11.0%	11.0%

[1] The consumer price index components are seasonally adjusted. All other data are not seasonally adjusted.
[2] Percent change from December of previous year, based on the most recent month available.
[3] Source: Farm Credit Banks of Louisville and St. Louis, Farm Credit Administration.
[4] Includes all of AR and parts of IL, IN, KY, MO, MS and TN.
[5] Agricultural banks are defined as those with more than 25 percent of total loans in agricultural loans.
[6] Interest rate data are for different dates. PCA rates are weighted averages for Arkansas and Missouri, not adjusted for stock purchase requirements. Source: Farm Credit Banks of St. Louis.