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ALTERNATIVES TO AGRICULTURAL TRADE WAR

The international agricultural trading system is in a state of deep crisis — and nowhere more so than in the case of temperate commodities. While output and productivity in the OECD economies has continued to increase sharply, world demand has stagnated. The consequence has been a massive build-up of stocks, a fall in real prices to their lowest levels in fifty years and, on the political front, a thinly disguised EEC-US agricultural trade war. This trade war has had an especially severe effect on other agricultural exporting nations, including a number of developing countries. These two briefing papers offer sharply conflicting views of the causes of the crisis and the policy options available. Both of them, however, underline the urgent need for an end to the current subsidy war and the restoration of order in world agricultural trade relations.

US Farm Politics and the Common Agricultural Policy

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Reform of the Common Agricultural Policy (CAP) is at the top of the agenda in Europe's agricultural policy circles. Major contributions to this debate have come from dozens of sources, ranging from the European Commission's 'Green Paper' to a new proposal from one of the CAP's original architects, Sicco Mansholt. Churches, environmentalists, Third World Development groups and many others have added their voices to the traditional lobby of farm organizations and agribusiness corporations.

Within this broad debate, however, there has been very little discussion on the role of US farm policies in creating the three major criticisms of the CAP; high costs, surpluses, and some negative impacts on the Third World. European policymakers must take into full account current and potential US policy options in order to successfully reform the CAP.

At the outset, there must be a clearer understanding of the interrelationship between current Reagan administration policy and the critical problems facing the CAP. For example, as long as the US pursues policies designed to consciously raise the cost of the CAP, it will

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not be possible to solve the current EC budget crisis in a reasonable way. As US Agriculture Secretary John Block put it, 'bleeding European treasuries is essential', in order to destabilize the European Community.

Policymakers in Europe should also be considering the potential directions which US policy may take over the next few years, and preparing for any one of the potential outcomes. US farm policy is also being heavily debated, with the potential outcome no less far-reaching than Europe's debate over the CAP. Financial disaster in the countryside, falling export earnings, and skyrocketing budget costs are public measures of the disastrous results of the current farm legislation, the 1985 Farm Bill.

Democrats and Republicans, who have taken a bi-partisan approach to farm policy for at least the past twenty years, now find themselves defending drastically differing positions. Farm state Democrats have broken with the low prices and high subsidy policies of the Reagan Administration and more conservative Democrats, forging a new policy direction based on much higher prices, the elimination of subsidies, and the use of effective supply management to bring surpluses under control.

Rural voters, frustrated with the failed farm policies of the past, have responded overwhelmingly to the new proposals of farm state Democrats, resulting in an unprecedented political realignment in a dozen major farm states in 1986. This farm revolt helped Democrats re-take control over the Congress, setting off a full scale debate over farm policy, with an eye towards the 1988 presidential election.

The outcome of this debate in the US will be extremely important for any reform of the CAP. Policies under serious consideration range from Reagan's latest proposal for worldwide dismantling of all price supports and import controls to the mandatory supply management policy endorsed by US wheat producers in the recent national wheat referendum. Some proposals would make it much easier for Europe to make positive improvements, while others would make reform practically impossible.

European policymakers need to be fully prepared for any eventual outcome. A good starting point is an analysis of current US objectives in relation to the CAP, and the strategies being used to achieve these objectives.

CURRENT US POLICY TOWARDS THE CAP

The Reagan Administration has two stated goals in relation to the CAP. The first is to maintain access for US farm goods into the EC market, especially to prevent the 'closing of the CAP' to duty-free access for US soya and corn gluten feeds. The second is to reduce Europe's share of the world market in commodities where EC exports compete directly against the US, primarily in cereals and poultry. The US is working to create both internal and external pressures on Europe to accomplish these objectives.

The 'internal pressure' strategy includes intentional actions to force up the cost of the CAP to politically unacceptable levels in order to create conflicts and contradictions within the EC. The Reagan administration has not been shy about this economic war, repeatedly promising US farmers that their crisis would be solved by US pressure to force Europe to accept more US exports.

The 'external' strategy has been to isolate Europe politically in the international arena, by attempting to place the blame on the CAP for the crisis in world agricultural trade. The US has both attacked Europe directly and encouraged criticisms of the CAP by 'third parties', like the World Bank, OECD, and the newly formed Cairns Group. The US objective is to create enough international pressure to force the EC into significant concessions in the upcoming GATT negotiations. Both elements of this strategy have the added benefit of helping to divert internal attention away from the failure of domestic US farm policies by pointing a finger at 'culprits' in Europe, and promising that the US crisis will be solved by 'breaking down the walls of the Common Market'.

CREATING AN INTERNAL CRISIS IN THE CAP

Boosting the Cost of the CAP

One of the most powerful economic weapons the US has to pressure the EC with is the ability to strongly influence world prices for cereals, oilseeds, and feedgrains. By virtue of US dominance in the export markets of corn (maize), soya, and wheat, the domestic US price for these crops, as set by the US Congress, becomes the world market price. As US Agriculture Secretary Lyng has put it 'Our loan levels set the world pace'.[1]

By moving world wheat prices down, the US government knows that the EC will have to raise the total amount of their export restitutions in order to remain competitive in the world market. When the US lowers soya prices it knows that it will cost Europe a great deal more in deficiency payments to oilseed processors.

In addition, by heavily subsidizing rice and cotton exports, the US has gained the ability to control these world market prices as well.

The Reagan Administration continues to pursue policies designed to consciously lower US, and thus world prices, year after year. Their public explanation has [illegible] that lower US prices were needed to re-gain 'lost' ex[illegible] markets. However, since every economic study of their policy has shown that cutting US farm prices has not generated enough increased volume to make up for the lost revenue, this explanation has lost all credibility. Price cuts of over 30% since 1981 have been a major factor in the sharp fall in US farm exports revenues, from $44 billion in 1981 to only $26 billion in 1986.[2]

A more candid explanation of the thinking behind Reagan's policy of cutting world prices was expressed by a senior official at Cargill Grain Corporations, the most prominent force in shaping current US farm policy. Cargill's Future's Trading Department manager, Bob Kohlmeyer, called for a maximum reduction in farm prices and an increase in crop production when outlining their suggestions for the 1987 farm program, stating that this would 'better arm our negotiators as they proceed to meet with their counterparts from the European Community'.

Cargill argued for price cuts because they know this will put additional strain on the CAP budget. For example, when the US cut the world price of wheat by $1.00 per bushel in 1986, it cost the EC an additional $30 per ton in export restitutions. Lower prices for US soybean producers means the EC must pay even larger deficiency payments.

Some budgetary pressures are unintentional, but no less destabilizing. For example, Reagan Administration price cuts for US dairy farmers have forced many to increase their production, in hopes of generating enough volume to make up for the lower prices. This has created even greater US surpluses, which are being dumped onto the world market, further depressing record low world dairy prices. The US addition to the world's dairy surplus has added greatly to Europe's surplus and export restitution costs, and is undermining the EC effort to cut world surpluses by imposing deep production cuts through strict quotas.

The single most expensive element of the CAP is the historic exemption of soya and corn gluten feed from import duties or controls. An internal analysis prepared for the US Council on Foreign Relations by Harvard professor Robert Paarlberg discussed the critical importance of maintaining this 'window of opportunity' in order to wage a successful economic war against the EC.

According to Paarlberg, the attention of US negotiators within GATT, 'should be focused on the less well-controlled menace of additional EC market access restrictions. If the US preserves its current right to market access, the EC will soon find itself running into internal budget restraints'. He went on to define the most important issue for US negotiators as 'how can the US use GATT to discourage the EC from yielding to this money-saving temptation?'

The US is attempting a very difficult balancing act, needing to create an EC budget crisis large enough to force a retreat from the world market, but not so large it forces the Community to 'complete the CAP' by ending duty-free imports.

So far the US has successfully balanced this strategy, and although the budget crisis has not yet forced Europe to dismantle the CAP or retreat from the world market, it has created many difficult problems. For example, the financial crisis is blocking the implementation of structural adjustments needed to reduce EC surpluses, and making it impossible to fund the necessary social programs. These pressures could eventually lead to the re-nationalization of European farm policy, a move that could spell the end of the CAP. Given the central role of the CAP in holding together the European Community, its destruction could possibly be the end of the Community itself, perhaps the long-term goal of Reagan's Administration.

US Trade Representative Clayton Yeutter is well aware of this 'Achilles heel' of Europe, and is clearly attempting to exploit it to achieve Reagan's 'free trade' objectives in GATT. At the May 1987 meeting of the Organization for Economic Cooperation and Development (OECD), in response to a question about dismantling the CAP, Yeutter said 'We are aware of the importance of the Common Agricultural Policy to Western Europe; it is the glue that binds them together. But no economic policy is sacrosanct forever'.

Creating Larger EC Surplus Stocks

Another serious impact of US policies on Europe is the creation of even greater surpluses. The continuing surplus of US dairy products is only one of several areas where US policies are making Europe's surplus problems more difficult. A related example is the US dairy whole herd buyout program, which has resulted in tens of thousands of high-producing dairy cows being virtually given away to many countries, like Saudi Arabia, who were formerly some of Europe's best markets. These cows will allow these countries to greatly expand their production, adding even more milk to the world's surpluses. It has also put millions of tons of beef on the world market at give-away prices, just when EC beef stocks are at their highest.

The heavily subsidized US corn gluten and soya exports into Europe has meant cheap feed for EC livestock and dairy producers. Cheap feed encourages intensive production practices, resulting in even larger surpluses of milk, beef, poultry, and pigmeat, along with the tremendous environmental problems of manure disposal, especially in Holland and Denmark. As long as the EC continues to allow this loophole to undermine the CAP, the problems of high budget costs, growing surpluses and environmental damage will continue.

Perhaps the greatest impact of the US on the CAP's growing problems is ideological. Reagan administration pressure has encouraged some EC policymakers, especially those who believe in pure free market theory, to propose some of the agricultural policies pursued by the US over the last six years, especially in the areas of cutting farm price and the conscious displacement of farmers. Some policymakers, for example, appear to be accepting the Reagan theory that surplus production is the result of prices being set too high, therefore the solution must be price cuts to discourage production. Although this theory has little basis in fact, and has been seriously discredited in the US, it appears to be growing in prominence in Europe.

A darker side of this ideological shift is the belief of some nationalistic elements in Europe that their own nation's farmers 'can survive price cuts long enough to put other less efficient producers out of business, giving us their market'. This attitude is heard among some of the dairy policy leaders in northern Europe, and among some trade experts talking about French wheat producers.

At the Paris OECD meeting, German Economic Minister Martin Bergmann even used the same language as the Reagan Administration to paint a positive picture of his governments agreement to the language in the final communique calling for a cut in farm prices, using Reagan's 'Support farmers not farming' slogan. The final OECD declaration was based on the Reagan administration theories about cutting farm prices as the 'solution' to mounting surpluses and the growing global food crisis.

Dr Sicco Mansholt, in his proposal for CAP reform, 'Less is Difficult', however, has explained how these price cuts can lead to even greater, not smaller, surpluses: 'A price reduction for a single product will be bound to result in a shift to other products . . . A lower price for wheat will result in greater quantities of other cereals being grown'.

'Lower cereal prices all around will probably mean an increase in the growing of protein-bearing crops. What will be the consequences of an all-round reduction in product prices. There is no doubt it will provoke an accelerated exodus of farmers from agriculture. And will this mean a reduction in total production? Not at all. The evidence points if anything to the opposite, to an increase in total production. The accelerated exodus of farmers on account of un-profitability will mean that land will simply revert to those who remain. That will mean bigger farms. We shall see that increases in farm size actually lead to higher production per hectare'.

In the EC, where every country has a social policy, the pursuit of this policy means that every displaced farm family must be cared for in some other way, including re-training and re-location, at an extremely high expense.

Negative Impacts on the Third World

Individuals and organizations concerned with agricultural development in the Third World have, at times, been sharp critics of the CAP, pointing out areas where certain CAP policies have had damaging effects on food self-reliance in developing nations.

The major criticisms of the CAP, in regards to the Third World, have centered on export dumping of dairy products and sugar, and import controls, like the proposed tax on oilseeds. Analyzing how US and EC policies interrelate to create these negative impact is vital to making any meaningful changes in the CAP to address these concerns.

Dairy Exports

The negative impact of EC dairy exports and food aid on Third World dairy producers has been carefully documented, eventually becoming a major factor in the decision to impose quotas to reduce surplus milk production, previously dumped onto the world market.

Unfortunately, EC efforts to end this practice by sharply cutting production has been undercut by policies in the US which have resulted in an increase in US milk production, leading to the creation of a new dairy export subsidy program just to get rid of these new surpluses. Not only has this resulted in a worse situation on the world market, it also threatens the efforts of the EC to control surplus production through supply management. US actions have given strength to those forces in Europe opposed to the quotas, who had warned that if Europe cut production the US and New Zealand would replace EC cuts with increases.

Although they have been proved partially correct, this has not yet forced EC policymakers to abandon their efforts to stop the dumping of milk surpluses onto the world market. However, it has made it infinitely more difficult to argue for reducing production in other crops, like cereals. Free market ideologues, opposed to supply management, already point to the EC's experience in dairy to prove that other countries will 'stab Europe in the back' if the EC unilaterally reduces wheat production.

Given that overproduction in the North, which is then dumped onto the world market, is one of the greatest threats to expanding food production in the South, any disruption of EC supply management efforts will be a serious blow to the Third World.

Sugar

In sugar there is a more deadly inter-relationship between US and European policies. The EC plays a double role in the world sugar market. On the one hand, the EC has maintained sugar imports from the ACP (Africa, Caribbean, and Pacific) countries as a conscious part of its development assistance programs spelled out in the Lomé Agreement. At the same time, EC price cuts in other crops have promoted sugar beet production, creating an overall surplus situation when imports and domestic production are combined. The EC has been using a combination of quotas, buffer stocks, and export dumping to reduce this surplus, but it has had devastating effects on the world market. Whatever sugar is dumped on the world market both depresses prices and displaces sugar exports from other countries, most importantly from the Third World.

However, the addition of EC sugar to the world market is only one of the many factors affecting the world price and demand situation. An equally important factor is the enormous drop in US beet and cane sugar consumption as a result of the 1985 Farm Bill. By using massive deficiency payment subsidies to force down the world price of corn, the 1985 US Farm Bill has made it possible to produce high fructose corn syrup (HFCS) at a much lower price than the cost of production for beet or cane sugar. In the US, this has triggered a massive shift from sugar to HFCS by the carbonated beverage industry and other food processors. Last year the average person in the US consumed more corn sweeteners than sugar.

One immediate effect of this shift has been a huge reduction in US sugar import quotas. The Philippines, for example, has suffered a 60% cut in its US market share quota. There are now nearly a quarter million people slowing starving to death on the Philippines sugar island of Negros, thrown out of work because of the loss of the US sweetener market to heavily subsidized corn.

The next round of price cuts proposed by the Reagan Administration will make corn so cheap it may be economically feasible to convert corn sweetners into a crystalized form, which would totally ruin the world sugar trade. Already the US is predicting an end to its sugar imports by 1990. The question is whether cheap, heavily subsidized corn will allow the US to become a major exporter of sweetners in direct and devastating competition with the sugar producers of the Third World.

This has put Third World producers in a terrible squeeze, and will undoubtedly lead to a push by ACP sugar producers to get Europe to import even more of their production to make up for some of the lost US markets and increased competition from US-produced HFCS.

Reducing the production quota for the EC's sugar producers is one proposal for dealing with this problem, but will unfortunately have very little impact on either world prices or the oversupply situation in the world market if US corn prices continue to fall, as dictated in the current Farm Bill. Furthermore, if EC sugar quotas are reduced without any compensation for the sugar farmers, the main result could be further disruptions in other sectors of European agriculture leading to increased pressure to reduce ACP purchases. This would further undermine efforts to help poor countries handle the US disruption of the world market.

EC attempts to protect EC and ACP sugar producers by maintaining a strict limit on the use of HFCS is under serious attack. In a recent speech by a Cargill executive in the United States, US corn growers were promised that their economic crisis would be soon solved by forcing the EC to repeal its quota restrictions on HFCS, so the US can flood the European sugar market with US-produced corn sweeteners.

Rice

Rice is yet another example of the impact of US price cutting policies on the Third World. The 1985 US Farm Bill included a special provision for rice and cotton, called marketing loans, to provide an additional export subsidy above the regular deficiency payments. It gave the US the ability to lower world prices from around $8 per hundredweight to less than $4.

According to the *Washington Post*, the US will spend up to $17 for each hundredweight (cwt) of new rice exports, currently worth only $4 per cwt.

One of the main targets of this US action was Thailand, the world's largest exporter, where rice exports bring in 15% of desperately needed foreign exchange. Rice farming is also the sole source of income for many of the 4 million Thai farmers. US action to cut world rice prices in half last year threw the Thai economy into a grave crisis, prompting demonstrations against the US Farm Bill at the US embassy in Bangkok.

But no matter how far the US may lower world rice prices, Thailand's huge external debt to both US and European banks makes it impossible for them to cut back exports. Instead of reducing production, as hoped by the

US. the Thais have simply lowered their prices to remain competitive with the US price and have increased their volume of production to maintain the cashflow needed to meet debt obligations.

Although this US policy has created a serious economic and political crisis for Thailand, by far the most serious impacts have been on the rice producers in the poorest countries in West Africa. Local farmers in this region, struggling to build up their productive capacity in order to feed their own nations, are being squeezed out of business by heavily subsidized US rice, priced nearly $80 per ton below the local costs of production, and roughly $140 per ton below the US cost of production.

Not only has this severely damaged efforts in these nations to build food self-reliance it has also forced them to divert scarce foreign exchange earnings to pay for imported rice, resulting in a cutback of other imports like fuel, medicines and capital goods for long-term development.

Cutbacks in Third World buying power, due to falling revenues and the diversions of export earnings into buying foodstuffs, is having a major impact on many sectors of the European economy. European banks who are heavily involved in major loans to Third World food exporters or food importers are already finding it difficult to collect on their loans. Exporters will have a harder time selling into Third World markets because they will have even less money, and they will find that the Third World will become an even more aggressive exporter, forced to boost other exports in the hope of making up for low commodity prices.

Oilseeds and Fats Tax

The most recent criticism of the CAP in relation to the Third World has been aimed at the proposal for a tax on oilseeds and fats, necessary to reduce the enormous budget costs of deficiency payments to oilseeds processors.

This huge budget cost is directly related to the US-set world price for soya. By controlling 70-80% of the world market, the US not only sets soya prices, but also strongly influences all oil and fat prices. By setting prices far below costs of production, the US forces the EC to pay huge deficiency payments in order to keep the price differential between vegetable and olive oil roughly in balance.

The EC proposal may, as critics contend, reduce EC imports of oilseed products somewhat, but this will be partially off-set by the severe production restrictions being placed on domestic EC farmers, ensuring a long-term market for Third World and US producers. More important to the Third World, however, is that Europe will no longer be a market where price cutting policies of the US will work against them. All producers will have equal access to the EC market, not just those countries able to afford huge farm production subsidies.

US Policy Towards the Third World

There is concern about these negative effects among some EC policymakers, and there have been some conscious policy changes to address them, for example the cutback in milk and sugar production through quotas, and the help provided to ACP countries through the Lomé Agreement. This stands in sharp contrast to the publicly stated US intentions of actually attempting to slow down or reverse the rate of growth of food production in both the poorest nations and the emerging exporters like Brazil, Argentina, and Thailand.

Agriculture Secretary John Block offered this **explanation for the Reagan Administration strategy to discourage Third World food production: 'The push by some developing countries to become more self-sufficient in food may be reminiscent of a bygone era. Those countries could save money by importing more food from the US. Modern trade practices may mean that the world's major food producing nations, especially the US are the best source of food for some developing nations'. The US has used the World Bank to back up this policy, going so far as making the dismantling of farmer support programmes a condition for loans, as in the case of Morocco's support for their domestic cereal producers.**

Third World countries attempting to repay their foreign debts by expanding their agricultural exports, are finding themselves in severe difficulties because of these US policies, as the Reagan Administration has aimed its export subsidy guns against these smaller producers.

Senate Agriculture Committee member Rudy Boschwitz (R-MN), in a letter published in *Time* magazine, made a strong defence of the Republican policy of slashing US farm prices in hopes of discouraging food production in these nations: 'If we do not lower our farm prices to discourage these countries now, our worldwide competitive position will continue to slide and be much more difficult to regain. This (discouragement) should be one of our foremost goals of our agricultural policy'.

ORGANISING EXTERNAL POLITICAL PRESSURE ON THE CAP

US efforts to create enough internal pressure to destabilize the EC have not, thus far, been successful. In fact, it appears that some US actions have been counter-productive. As EC External Affairs Commissioner Willy de Clercq recently observed:'Since the US started behaving like Rambo, they've done more to federate the EC than 100 speeches'.

This lack of success has forced the US to place more emphasis on their external strategy of attempting to isolate Europe in the international arena. This shift in emphasis has accelerated in recent months because of perception that Irangate is a fatal wound for the Republicans, and that a Democrat will most likely occupy the White House after Reagan leaves. The US is now attempting to force through changes in the rules of international agricultural trade that would prevent the Democratic Party from making any changes in US policy that could threaten the financial interests of US-based grain traders. The goal is to achieve maximum access to unfettered international markets to compensate for any loss of the flexibility they have enjoyed under the Reagan Administration.

The Administration is now enlisting the support of various international bodies, ranging from the OECD to GATT, to the Cairns Group and the World Bank in their campaign to pressure Europe. Their goal, as spelled out by former Cargill executive Daniel Amstutz, now serving as head of USDA's international and domestic commodity division, is nothing less than a total re-structuring of the world's food system. In a Reuters interview Amstutz summarized the three main goals of the US.

> 'The US goal is to achieve a general agreement on agriculture by the end of the Reagan Administration, January 1989, which would lead to free trade in agricultural products within ten years. The United States

will seek a global phase out of all domestic farm subsidies affecting trade, as well as an end to all export subsidies and all barriers to agricultural imports'.

The essence of the plan, as spelled out by Amstutz, is that the US is 'offering our market to non-subsidizing producers. We want them to offer their markets to us. If this US proposal is accepted by other countries, the US would be forced to dismantle its direct subsidy payments to farmers, called deficiency payments'. In addition to ending the deficiency payment export subsidy programme, it would mean the dismantling of US import controls on dairy, beef, peanuts, tobacco, and sugar.

For the EC, this would mean an end to price support and export restitution programmes. For the Third World, it would mean an end to import barriers erected to protect local producers, and an end to price support programmes that provide incentives to boost domestic production.

OECD

One of the most important international bodies being used to support the Reagan Administration's position is the Organization of Economic Cooperation and Development, the OECD. The ministerial meeting in Paris in May of 1987 was one of the most important events in the US strategy to gain approval of their proposals. Amstutz spelled out this part of their strategy. 'Top Administration officials are to begin paving the way for this proposal next week by urging the ministerial meeting of the OECD to call for broad, global negotiations on agriculture. The US will follow the OECD offensive with a plea by President Reagan at the Venice economic summit for a joint statement from western leaders'.

In a press conference immediately following the OECD meeting, Yeutter expressed his satisfaction with the progress he made in persuading the other OECD countries to support the US plan for global food trade restructuring, calling their support 'near unanimous'. The final OECD statement was a clear statement of support for the main ideological positions of the Reagan Administration. Although some European policymakers were satisfied that they were able to prevent the US from inserting language into the final declaration calling for an 'early harvest' at the GATT negotiations, meaning a commitment to an agreement before the end of 1988, the message back in the United States was clearly one of victory and vindication for Reagan's policies. 'Even Europe now agrees with me' was his message to his critics in the US.

What are the implications of the OECD recommendations? Perhaps most disturbing for farmers and exporting nations is the clear willingness to dismantle the current US price support system, as inadequate as it may be. Although the US is, at present, setting the world price quite low, there is still some floor under the market. Proposals by the Administration to do away with price supports would take world wheat prices below to roughly $60 per ton. Soya could fall below $100 per ton and corn below $50.

And what do they propose for the farmers? In the rich countries, the plan is to put farmers onto direct government payments. Amstutz phrased it this way. 'Some direct payments to farmers would still be permitted provided the subsidies are shielded from any impact on the market or on farm production decisions'. This is, of course, absurd. It is impossible to understand what he may be referring to when he talks about subsidies 'shielded from any impact on the market', perhaps because it is a contradiction in terms.

The OECD draft communiqué was a bit clearer. 'Farm income support should not, in any case, be provided through price guarantees or other measures linked to production or to factors of production, but through direct income support designed to meet the needs of low-income farmers and those in particularly disadvantaged regions'.

This concept, long advocated by the grain corporations in the United States, is re-emerging with a new name, 'de-coupling'. One of the earliest proposals to put farmers onto direct welfare came from the Committee for Economic Development, a policy lobbying council made up of the presidents of 100 US-based multi-national corporations. In 1974, in their report titled 'Toward a New Farm Policy' they advocated deep price cuts to boost US grain exports. They proposed that farmers who could not survive these price cuts should be maintained on direct income subsidies.

Today, the most articulate US spokesman for this concept is Cargill's vice-president Robin Johnson. In a recent Cargill Bulletin, Johnson outlined the main points of this proposal: 'Since it is important to protect farm income without undermining international competitiveness, it is time to restructure farm programmes to today's realities ... Farmers should receive income payments regardless of what or whether they produce ... Farmers should receive a given year's payment regardless of the actual level of market prices'. This will undoubtedly be the direction the Reagan Administration will attempt to take US farm policy during its last year.

Cairns Group

One of the most important developments in the US strategy to build pressure on Europe is the emergence of an association among smaller exporting nations called the Cairns Group. This group, initiated and sustained by the Australian government, has advocated proposals surprisingly similar to those of both the major US grain corporations and the Reagan Administration. Even its relatively mild criticisms of the US are very similar to those made by the US-based grain companies.

Australian Trade Minister Dawkins, the group's main spokesman, spelled out the main demands in an interview following their meeting in Canada.

Like the Reagan Administration, the Cairns Group is calling for a cut in farm support prices and the liberalization of agricultural trade, including the end to export subsidies and import restrictions. Furthermore, they strongly endorsed the US demand for an 'early harvest' in the GATT negotiations. According to Dawkins, 'The Cairns Group strongly feels that at least preliminary agreements on agricultural and tropical products must be reached through GATT by the end of 1988'.

He went on to say, 'There is a better chance for success in negotiating the agreements before the end of President Reagan's term because his Administration is one of the best friends of the trade reform movement'.

This is all quite ironic, since it is the Reagan Administration which has consciously lowered the world prices of cotton, rice, wheat, feedgrains and other crops which have devastated Australian producers. The current Administration has increased deficiency payment export subsidies to nearly $20 billion, and then added an 'export enhancement' programme to force down world prices even further.

Last year the United States spent $2 billion to subsidize rice exports worth only $500 million. The

National Farmer magazine from Australia has estimated that this US decision to cut world rice prices in half cost Australian rice farmers over $200 million. The Reagan Administration, one of the 'best friends of the trade reform movement', spent $6 billion to subsidize corn exports only worth $2 billion, and $4 billion to subsidize wheat exports worth $2 billion.

Perhaps the Australian government wants to encourage this trend towards lower world prices because it believes its producers can grow wheat cheaper than producers in any other countries, and so should have the 'right' to displace other farmers based on the theories of 'free trade' and 'comparative advantage'. They seem to be perfectly willing to allow their own producers to suffer deep price cuts believing, like Reagan, that lower prices will eventually wipe out 'less efficient' producers, resulting in more markets for themselves, and eventually, they hope, bring higher prices.

The curious thing about this effort is that the Australians know that the world price of wheat is not set by some 'invisible hand' of the free market or supply and demand. World wheat prices are set by the United States government through the Commodity Credit Corporation (CCC) price support loan level.[2] Certainly the export enhancement programme used by the US has further reduced prices, but the fundamental price level is set by the domestic US price, or the price floor loan programme of the CCC.

The EC program of supporting internal prices, and then providing export subsidies down to the US-determined world price has been the principle target of Cairns Group criticisms. The US practice of setting world prices far below the cost of production, even for the most efficient family producers barely receives any mention.

It is absolutely vital for smaller exporters to band together. It is, however, quite a different matter for these exporters to band together in order to advocate the same theoretical and ideological positions as the Reagan Administration.

Both Reagan and the Cairns Group argue that low prices are due to surpluses, therefore we need to get rid of the surpluses. Then they argue that we have surpluses because prices are too high. The conclusion is that we need lower prices to get rid of the surpluses, and then higher prices will return when the surpluses are gone.

There are two problems with this theory. The first is that world prices are not set by supply and demand, they are set by government decisions in the dominant exporting countries. For example, in wheat, corn, and soya it is the decision of the US government that sets the price, not some invisible hand. If the Cairns group wants and needs higher prices, as do most of the farmers in the US, Australia and the Third World, the demand to lower prices worldwide is a curious place to begin.

The second problem is that the Cairns Group nations but want to reduce surpluses, their demand to cut prices will most likely result in an increase in production, and not a decrease. The reality is that we have structural overcapacity, resulting in production increases in the major countries under almost all conditions; low prices, high prices, and medium prices.

For example, major debtor nations and individual farmers with big debts are forced to produce even more when prices fall, just to keep up with their payments. At medium-range prices, the technological advances of our university systems and agribusiness corporations guarantees a 2% increase year after year, even when national populations are no longer growing. At higher prices, speculators and corporations move into agriculture, unless they are restricted, pushing smaller producers out and using their available capital to intensify production to the maximum.

The only way to control surpluses is to directly control production; not through price cuts, price increases or the 'invisible hand' of the free market. What is needed is the same business practice used to balance supply with demand in every other industry, supply management.

Although the Canadian government is a main player in the Cairns Groups and a strong advocate for their proposals, their most successful farmers are those who are applying this basic business principles to keep supply and demand in balance in their industries. In milk, chicken, turkey, and eggs the Canadian producers have successful marketing programmes in place.

It is not clear if the Cairns Group wants to dismantle these farm marketing agencies or not, but the Australian government has made it quite clear that it is strongly opposed to supply management. Their attacks seem to be taken almost verbatim from grain company literature. 'Direct supply control faces practical problems of administration, can inflate costs faced by producers, and constrain improved efficiency through technological change'. They would accept supply management on an interim basis, but only as a transition to 'lower prices'.

The underlying assumption of their proposal is that if prices were lowered, then the surpluses would be gone, which would eventually restore the balance between supply and demand, ultimately bringing higher world prices. Unfortunately, this theory has very often failed in the real world.

Whenever farmers face price cuts, they are forced to intensify production in order to get more crops to sell, and keep up their normal cashflow. Third World debtor nations do this as well. When the US cut the world price of rice, Thailand was forced to increase production and exports, hoping to generate enough hard currency to pay its international loans. Since 1981 the US has consistently cut both farm prices and subsidies, resulting in record production almost every year.

US dairy farming is a good example. The recent cuts in dairy prices, from $14 per cwt to around $11, has forced many US producers to add more cows, feed more concentrate, and to even begin milking three times a day in order to maintain their cashflow. Those farms unable to intensify production have been taken over by larger economic units, for example insurance companies or farm management firms, able to make the investments needed.

The theory that if the price gets low enough some countries and farmers will quit producing has turned from fantasy to nightmare. The multi-national banks are already having trouble collecting their loans. Price cuts will, in fact, require an increase in production in many countries, including the United States, if producers are to meet their financial obligations.

The third major demand of the Cairns Group, an end to export subsidies, is absolutely vital. There are, however, two kinds of export subsidies. One kind is used by price-setting nations to establish the basic world market/price. For example, the deficiency payment export subsidy used by the US is its mechanism for setting the basic world price on wheat and corn, while the export restitution program of the EC is the major factor in setting world dairy price levels.

Second, there are the subsidies that are used by other exporters in order to remain competitive with the price levels set by the leading exporter. EC export restitutions in wheat to bring their prices down to the US level is a good example of this type of subsidy.

The elimination of these subsidies can only be achieved by the major exporters coming to some agreement on general world price levels and market/shares. **Once agreements are reached, however, there must be serious supply management by the major producers to insure that surpluses do not build-up.**

Perhaps the Cairns Group can be a positive force in bringing a halt to the global grain trade war. However, this will require that they stop acting merely as an extension of the Reagan Administration, and start putting forward business-like, realistic proposals. What is needed from the Cairns Group is serious leadership to accomplish a significant rise in US prices, an agreement on an acceptable range of world export prices and markets, and serious production controls, including effective import controls, in the major producing countries.

The Cairns Group leadership, however, seems to be set on accomplishing other goals. Describing their most important accomplishments thus far, spokesman Dawkins bragged that 'US Trade Representative Clayton Yeutter and Agriculture Secretary Richard Lyng used the Cairns Groups' position to pressure the EC nations to agree to include the US position on farm trade talks in international negotiations'.

GATT

The OECD and Cairns Groups are seen by the United States as pieces in a strategy aimed at maximizing their strength in the upcoming GATT negotiations. If Reagan is only able to achieve one of his three demands within the next year, it will have long-term global consequences.

It is most likely that the US will focus its efforts on attempting to alter or remove Article XI of the GATT agreement, the provisions which allows countries to control their imports.

Another demand shared by the US and the Cairns Group is for the dismantling of all agricultural import controls. It is often linked with the idea that the Northern countries should open their borders to more manufactured goods from the Third World, especially by reducing tariffs. The assumption made is that if the US and EC would open their borders to more food imports from the Third World, it would ultimately be good for those developing countries.

However, the fundamental idea behind this demand, that the Third World would benefit from exporting more food crops to the US and EC is quite disturbing, especially when many of these countries are not yet feeding themselves. Furthermore, if world prices dropped as low as proposed by the Reagan administration, the actual income these countries could receive from expanded food crop exports might be less than it is today.

Beyond the ethical questions of expanding the exports of food crops from the Third World, there are even more disturbing elements to this Cairns Group demand. If the underlying problem in the world's food economy is over-production in the North and under-production in the South, their proposal to eliminate all import barriers could very likely make this situation even worse. Without being able to protect their borders from predatory pricing, farmers in poorer countries will be unable to compete against the food exports of the North, and will be forced out of production.

On the other hand, in order to have a successful production control effort in the richer countries of the North to prevent the dumping of surpluses on the world market, it is absolutely vital that a country be able to control its borders to prevent any under-mining of their supply management efforts.

For example, Canada is able to prevent the build-up of milk, eggs, and chicken surpluses *because* they are able to prevent dumping into their local markets. However, Europe has been unable to manage its cereal production because it does not control the imports of cereal substitutes.

This demand for an end to import restrictions may be the most vital to the grain exporting corporations, even more important than cutting world prices or eliminating export subsidies. The serious long-term threat faced by the grain trade is the development of greater food self-reliance by the hungry nations of the world.

As long as trading corporations have unfettered access to all markets they can use a variety of other methods to maintain a dependency on agricultural imports and exports by many countries. For example, by arguing the theory of 'comparative advantage' they can defend the production of cash crops for exports to pay for food imports.

The GATT and Supply Control, Article XI

This provision of GATT permits countries to protect their borders from dumping by other nations, if they have implemented an effective supply management program for the particular crop or product in question. The exact language of Article XI, section 2(C) permits:

> 'Import restrictions on any agricultural or fisheries product, imported in any form, necessary to the enforcement of governmental measures which operate:
> (i) to restrict the quantities of the like domestic product permitted to be marketed or produced, or, if there is not substantial domestic production of the like product, of a domestic product for which the imported product can be directly substituted'.

In other words, countries can implement domestic supply management programs without fearing that their efforts will be ruined by uncontrolled imports, as long as they maintain a certain percentage of imports roughly equal to the share of imports at the time the controls were instituted.

This article was originally inserted by the US to protect successful New Deal-era supply management programs. The thinking was, at that time, that in order for a nation to prevent the build-up of burdensome surpluses within its own borders, some system of supply management that included import controls, was required. Ironically, it is now the Reagan Administration which is most determined to alter or repeal this provision.

In a recent meeting with Canadian farmers, senior US agriculture trade negotiator, Suzanne Early commented that this article was a 'disgrace' and she was 'embarrassed to admit' that the US was ultimately responsible for its inclusion in GATT.

But developing countries have a large stake in maintaining Article XI in GATT. Export dumping has been devastating in the Third World, and must be resisted in the future no matter what direction US or EC policy may take. Third World countries need the measure of self-defense contained in this provision to provide a relatively stable environment to further develop their internal food production. Every dollar of foreign exchange they can save by not importing food means more money for other imports, like fuel, medicines, capital goods, and for servicing their foreign debt.

It is disturbing that a number of groups concerned with Third World development have confused the demand by developing nations for better access to industrialized countries markets for their product as somehow consistent with the demand by Reagan for a global dismantling of agricultural import controls.

The end result of his demand would be to take the power away from governments to protect their agricultural systems, thereby giving free reign to the grain trade. This might possibly mean more exports by the Third World to the North, but certainly at lower prices (thus lower net export earnings), and it would be at the expense of local food production and consumption.

DEMOCRATIC PARTY FARM POLICY PROPOSALS

In the 1986 election 'Democratic candidates throughout the Midwest made it crystal clear that they advocated massive changes in the farm bill. In fact they succeeded in winning control of the Senate by exploiting farmer discontent with the farm bill, channelling frustration toward the Administration in particular and toward Republicans in general'. This was the post-election assessment of farm state Republican Congressman Vin Weber, who was himself nearly defeated by this farm revolt.

During the last four years, Democratic Party farm state activists had been laying the groundwork for this election, publicly rejecting the bi-partisan policies that had dominated the national debate for the past twenty years. Democratic challengers to incumbent Republican Senators ran high-visibility campaigns in favour of mandatory supply management and higher prices. In most of the key farm states, like North and South Dakota, North Carolina, Georgia, Missouri and Idaho, Democrats received between 60% and 70% of the farm crisis vote. In three states the strong Democratic vote by farmers was their margin of victory.

It was fairly easy to see this farm vote revolt coming. Just a few months before the election, US wheat producers voted in a national referendum on US farm policy. The question asked to all producers was;

> 'Do you favour imposition of mandatory limits on the production of wheat that will result in wheat prices that are not lower than 125% of the cost of production'.

Out of an estimated 250,000 eligible commercial wheat growers over 129,000 participated, a greater percentage voting than in most US political elections. The referendum passed by a 56%-44% margin nationwide, with the major wheat states voting 'yes' overwhelmingly; 74% in Texas and Minnesota, and over 60% in Kansas and Oklahoma.

Within one month after taking control of the Congress, Democratic Party farm leaders had drafted and submitted to Congress various alternative farm bills, based on the main principles endorsed by the farmers in both the wheat poll and last fall's elections.

● Raising internal US farm prices to roughly cost of production levels by raising Commodity Credit Corporation price support loan levels, thereby eliminating deficiency payment subsidies

● Maintenance of US export marketshare either through multilateral negotiations or an export enhancement program.

● Orderly liquidation of US surplus stocks over five to seven years, primarily through ethanol production subsidies, food aid, and soil conservation programs.

● Effective supply management to prevent the build-up of future surpluses, based on a paid Conservation Reserve land set-aside program, quantitative restrictions, and quotas.

One of the major comprehensive Democratic farm legislation proposals, officially titled the 'Family Farm Act', was co-authored by Iowa's Senator Tom Harkin, and Democratic Caucus Chair (and presidential candidate) Congressman Richard Gephardt from Missouri, along with forty co-sponsors.

One of the most important new elements of many of the new Democratic proposals was the call for international grain negotiations. For example, the 'Family Farm Act' includes explicit language requiring the President 'to take immediate action to initiate the negotiation of a multilateral trade agreement with exporting nations to ensure that the United States market share of the world export market for each commodity is equivalent to the United States market share during the marketing year for 1985'.

Other key farm state Democrats have made similar proposals. For example, Congressman Byron Dorgan from North Dakota has introduced a resolution calling for 'immediate negotiations with the governments of other leading wheat exporting countries — (1) to ensure a stable and equitable wheat prices for producers in all countries through a multilateral wheat production agreement; and (2) to eliminate subsidies of commercial wheat exports'.

In recent testimony before the Senate Subcommittee on Agricultural Credit, former Senator and now Governor Henry Bellmon of Oklahoma summarized the sentiments reflected in many of the new Democratic proposals: 'I believe the time has come for the United States to lead the way in the establishment of an international grain agreement. At the present time, many countries, including the United States, are offering export subsidies which have the effect of reducing grain prices even further. This is helping to impoverish food producers worldwide'.

The desire to negotiate multilateral agreements should be understood alongside the willingness to use any means necessary to maintain US marketshare if agreements cannot be reached. The Family Farm Act sets a nine-month timelimit for negotiations.

If an agreement cannot be reached within nine months, the bill requires that 'The Secretary shall use an agricultural payment-in-kind or export enhancement programme, or both — (1) to dispose of excess carryover stocks of each commodity; and (2) to ensure the achievement of a market share for each commodity equivalent to the United States market share of the commodity during the marketing year for the 1985 crop'.

For example, the US could subsidize its exports of corn, soybeans, and wheat by providing one free bushel for each one purchased, at a total cost of roughly $6 billion per year. Although clearly not as desirable as an international agreement, at least this approach would cost far less than the $10-20 billion the US is now spending on direct and indirect export subsidies under the Reagan farm bill. By including the export enhancement program, the Family Farm Act does not make the US dependent on the formation of any type of 'grain-cartel' or even on reaching any agreements to be successful in maintaining export markets. It would simply be cheaper for our taxpayers, increase our export earnings, and provide better incomes to the farmers if agreements can be reached.

POTENTIAL IMPACT ON EUROPE

The three key elements of the Democratic proposals, higher US prices, international negotiations, and supply management, would have a tremendous impact on Europe. Most important, there would be enormous cost savings to the EC as the increase in US prices helped lift world prices closer to internal EC levels. This should allow Europe to begin serious work on effective supply management, especially in the cereal and sugar sectors, where there will be costs involved in protecting farm income while cutting production. Increases in corn and soya prices will affect Europe's intensive livestock industries, reducing overproduction.

Democratic proposals for multilateral grain negotiations should be welcomed by the EC, especially given the strong European interest in negotiating an end to the trade war already expressed by policy makers. For example, the efforts by French agricultural minister Guillaume to form a grain-producers association, creates the real possibility of agreement. If the US and the EC, can come to an agreement, it will be much easier to bring along the other exporters. However, there is likely to be only a very short time in which to negotiate an agreement. Protectionist pressures inside the US may prevent any agreement from being ratified if it cannot be accomplished quickly.

PRESSURES AGAINST REFORM OF US FARM POLICY

Aligned with Reagan and the multinational grain traders in opposition to these Democratic proposals are a number of very powerful forces. However, the single most serious barrier to action at this moment is the inaction of a few important Democratic Party leaders. Congressman Weber spelled this out clearly in a recent editorial:

> 'While the Democrats are fanning the flames of farmer discontent by publicly deploring and renouncing failed farm policy as formulated in Washington, the chairmen of the Democratic-controlled House and Senate Agriculture Committees publicly state that we must give the current farm bill at least another year to see if it will turn the farm crisis around.
>
> 'The Democrats gained great political mileage last year by manipulating the farm crisis and the dissatisfaction over the farm bill. When Midwestern voters elected Democrats to Congress, they expected them to lead the way in changing agricultural policy. But while continuing their rhetoric, the Democrats still are not acting to change the policies they attacked. If the Democrats want to stay with the agriculture policies in place, fine. Let them say so. But if they won't bring their policies in line with their rhetoric, the voters won't be fooled the next time around'.

The reluctance of some Democrats in the Congress to act on their rhetoric is understandable, given the political and economic power of the agribusiness corporations who are opposing supply management legislation. In a recent newspaper interview, Cargill's Robin Johnson made it clear their intention to attack any Democrats who support supply management proposals: "When Cargill surveyed the political landscape last year, it looked for House and Senate candidates opposed to controversial farm-production controls that would raise prices of the crops that Cargill buys and trades'. They made large financial contributions to over a dozen Republican candidates in the 1986 elections, chosen for their public opposition to higher prices and supply management.

Many of the candidates supported by Cargill, especially the incumbent Republican Senators in the farm states, lost their seats to outspoken supporters of supply management and higher farm prices, giving the Democrats control again in the Senate. Alarmed at this growing trend, Johnson has pulled together a coalition of the largest agribusiness corporations to finance a national lobbying effort to stop the passage of the Family Farm Act. According to their hired lobbyist, former USDA executive William Lesher, 'our agreement is that all members are liable for up to $250,000 . . . It depends if the Harkin bill is a threat for a longer period of time'.

Although there may be good political arguments for delaying action on farm policy reform until after the 1988 election, the consequences of delay are enormous, including the further deterioration of the US rural economic situation and an acceleration of the US-EC trade conflict.

In addition, there is a serious political dilemma. Will the Democrats make the changes that farmers have voted them into office to make, or will they turn their backs on rural America, possibly losing the rural votes they need to win in 1988?

PRESSURES TO REFORM US FARM POLICY

The Farm Movement

At present, the most visible support for major reform of US policy are the producers themselves, from all regions of the country. There are nearly 20,000 farmers and ranchers actively engaged in local, regional and national organizing in support of the Harkin-Gephardt farm bill. At least 100,000 have taken part in local meetings, rallies or demonstrations. In recent months, farmers have begun using civil disobedience to stop foreclosure actions against farms and rural businesses.

Most of the general farm organizations, including the American Agriculture Movement, National Farmers Union, and the National Farmers Organization, have thrown their full weight behind the Harkin-Gephardt Farm Bill. In addition, a Save the Family Farm Coalition of farm, church, labour, environmental, and civil rights organizations have been formed specifically to lobby for the Harkin-Gephardt Farm Bill. Even some of the commodity organizations are beginning to actively lobby for new policies.

For example, the Texas Corn Growers have withdrawn from the National Corn Growers (NCGA) to form a new national group, the American Corn Growers Association, because 'the leadership and lobbyists of the NCGA have continued to push for lower and lower prices and fewer and fewer farmers'.

Although the National Wheat Growers Association still officially opposes supply management proposals, the overwhelming 'yes' vote by wheat producers in last years wheat poll has forced a number of state associations to reassess their positions. Some state wheat groups, especially in Nebraska and Texas, have long been key leaders in the fight to win supply management legislation. The National Grain Sorghum Producers Association has even put forward its own legislative proposal calling for higher prices and supply management based on marketing certificates.

Expanding Public Concern

Churches, trade unions, hunger relief groups, and environmental organizations have begun to join in this effort. In the US, churches are one of the most important supporters of the farmers. This includes unanimous endorsement by the National Council of Churches for the Family Farm Act, and strong support by the Conference of Catholic Bishops of higher prices and supply management. In Europe the churches are becoming increasingly involved, especially as they examine the implications for the Third World.

The success of the churches in the Nestlé Boycott is an indication of the power they possess when they become engaged in a global effort. No single entity, not even the UN, has more expertise in both the practical and political matters required to prevent this potential 'holocaust of hunger'.

The environmental movement is also becoming more active. For example, the Dutch affiliate of Friends of the Earth, called Vereniging Milieudefensie, is leading European support for the Cola boycott initiated by the sugar plantation workers from Negros sugar island of the Philippines. This organization also organized a campaign against soya-based artificial dairy products, objecting to the environmental damage being created by the reckless expansion of soybean production, for the Dutch market, in southern Brazil.

Another indication of growing public support is reflected in the media. A recent editorial in the *Boston Globe* is an excellent example. 'A more difficult, longer term need is to coordinate agricultural policies in Europe and America to avoid persistent overproduction of key crops for which adequate markets cannot be found anywhere. Neither economy benefits from pumping billions into an output that ends up in warehouses that must be expanded every year. Until such coordination develops, repeats of the just-ended conflict appear inevitable'.

Third World Debt Situation

The dangerous crisis created by the Third World debt situation can greatly enhance the effort to win higher prices and supply management in the US. It is becoming clear to the large US banks deeply involved in Third World loans that short-sighted US policies of trying to push these countries out of the food export business has been disastrous to their foreign exchange earnings, and to their debt servicing abilities.

The Deepening Crisis in Rural America

Unfortunately, the strongest force pushing for real reform in US farm policy is the condition of crisis in rural America. Contrary to recent reports that the US farm crisis is over, the situation continues to deteriorate with each passing week. It would serve no purpose to recount here all the grim statistics of the US farm crisis. There are, however, several new developments with broad implications.

First of all, the US is planning to continue lowering world prices over the next four years, even though prices are now so low that even with enormous federal subsidies, most US farmers cannot break even. There will be some relief for US farmers in late 1987 and 1988, as the Reagan Administration distributes a large amount of subsidies and PIK certificates in hopes of winning back the rural vote in the next election.

Although this will at least allow some American farmers to hang on, it will be disastrous for world prices. As long as US producers are kept alive on government payments, we are likely to see prices fall even further.

Without a significant increase in farm income, many of the outstanding $200 billion in farm loans cannot be repaid and the agri-industries who depend on farmers cannot survive. Adding this additional dislocation to a US industrial sector already weakened by the cumulative effects of Reagan's trade and monetary policies has been devastating.

1988 Election Politics

In the US, the Democratic Party needs to carefully consider the perils of postponing action on the farm crisis. If Reagan can get the changes he wants in international trading rules, he could use it to defend his policies in the 1988 elections, claiming that although it has been painful, the policies are working, the world is bending to our demands, and all will be better soon. The Republican Party's major farm organization, the American Farm Bureau Federation, has already begun testing this theme. In a recent speech Farm Bureau President Dean Kleckner, stated that the 'EEC is going broke on farm subsidies. If American politicians resist pressures to change the 1985 farm law, US farmers will reap export benefits by the end of the decade'.

Some politicians in the Democratic Party see this political danger, and are moving to maintain their momentum in the countryside for the 1988 election. For example, almost all of the major Democrats running for the presidential nomination are strong supporters of the Harkin proposal.

House Speaker Jim Wright and Senate leader Robert Byrd have both placed agricultural policy reform, along with trade legislation, as their top priority. Speaker Wright also hosted a meeting of 30 major Democratic House leaders to spell out his farm policy agenda, including debt relief and a wheat and feedgrains package of higher prices and supply management.

Congressman Richard Gephardt's strategy for attracting farm support for his presidential candidacy is based largely on his position as co-author, along with Senator Tom Harkin, of the 'Family Farm Act'. Rev. Jesse Jackson, one of the most articulate critics of Reagan's farm policies, has long been a strong advocate of fair farm prices and supply management within the Democratic Party. Candidates Gore and Simon both supported the Harkin proposal when it was first introduced in the Senate in 1985.

There is a strong possibility that Democrats will push through some major farm policy reform in 1987, along the lines outlined by Speaker Wright, even if there is the possibility of a Reagan veto. Passing strong farm legislation which draws clear lines of distinction between themselves and the Republicans is exactly what Democrats need for 1988.

First of all, farm state voters were promised action on the farm crisis by the Democrats during the 1986 election. They must deliver something if they expect to continue receiving rural support in 1988.

Second, if Reagan vetoes a strong Democratic farm package, especially one that would raise prices, increase export earnings, and help balance the budget, it could be worth literally a million rural votes in 1988.

A Republican editor of a midwestern newspaper captured the sentiment in the countryside: 'I've voted Republican, as my parents did, since I was 18. I'm thrilled that you got booted out of control of the Senate. I'm proud of the millions of Republicans and Democrats who rejected your filleting of rural America. Read the cards now and don't get in the way of radical reforms. Or I promise you, those of us who might still be left in rural America two years down the pike will spend our last bit of energy getting rid of you. Here's a clue, reread the Harkin bill and start putting a fair price back into agricultural products'.

Farmers and rural people, like those the newspaper editor was referring to, are determined to win higher prices and supply management, not only to benefit themselves, but from a global perspective as well. They believe that there are no other solutions to either the domestic or international farm crisis. Their question is how many farmers will be lost before Congress can make the changes needed in US policy.

This global perspective, which includes the support international trade agreements and the protection of food producers in the Third World, is viewed as one of the most important new political trends in Democratic foreign and trade policy thinking.

Political columnist Jim Ridgeway picked up on this during last year's election: 'If these younger activists, who built political momentum in the Middle West by running hard against Reagan's farm policy, have their way, the Democratic Party will undergo a political version of the Republican's supply side revolution. The fundamental change will revolve around trade policy, where they will attempt to define a position somewhere between Reagan's free trade imaginings and the Democratic Party's newly found protectionist stance. Such a policy would argue for multilateral trade negotiations with commodity-rich Third World countries'.

WHAT EUROPE CAN DO TO HELP

Europe and much of the rest of the world could benefit greatly from some of the changes being proposed by the Democrats, but it will not come about without an enormous effort. There are things that Europe can do to help.

Just Say No

It is absolutely vital that Europe lead the way in preventing the Reagan Administration from restructuring of the world food system before it goes out of office. Although the political and financial pressure will be tremendous, it is critical to not go backwards any further if there is going to be a serious attempt to come to some agreement with Europe.

The European farmers are taking the lead in demanding an end to the altering of EC policy to meet Reagan Administration demands. For example, 30 to 50,000 farmers from all over the continent marched in Brussels in May of 1987, demanding an end to price cuts and the growing trend towards free market ideology they see coming out of the European Commission. Several of the national farm organization presidents who spoke laid the blame squarely at the feet of US economic pressure.

Other nations can be key allies for Europe in this process. For example, US pressure on Japan is perhaps even more intense than on the EC. US Trade Representative Yeutter recently threatened that if Japan did not eliminate import controls on beef, citrus, and rice 'the United States would be entitled to refuse all automobile imports and to have the nation's automobiles all manufactured domestically'.

Japanese farmers have received strong support at home from the National Liaison Committee of Consumer's Organizations, made up of the 18 most important consumers groups, including the Consumers Cooperative Union, the Housewives' Association, and the General Council of Labor Unions of Japan. They recently issued a joint statement stating their total opposition to the US demand to liberalize Japanese agriculture. The essence of their support was captured in their declaration:

'Because no civilization can survive without agriculture as a base, improvement of the self-supply rate should be a basic policy of the nation (and) the disorderly free trade of foodstuffs should be opposed'. So far strong consumer and farmer pressure has kept Japan from agreeing to US demands. But this may not last forever given the tremendous pressure the US will apply over the next two years.

The solidarity shown by Japanese consumers and trade unions with their farmers should be a model for Europeans, laying the basis for cooperation also between EC and Japanese groups.

In addition, farmer organizations all over the world can be allies of Europe, with the correct approach. For example, the successful farm marketing boards in Canada are being threatened by the US efforts to wipe out import controls. Many of the Third World producer organizations, including those represented in the International Federation of Agricultural Producers, have spoken out for higher farm prices. These could also be crucial allies for the EC.

Speaking Out

One of the major arguments against passing new US farm legislation has been the argument that if the US cuts back on production Europe will just 'stab us in the back' by increasing production. It is a legitimate concern, and needs to be addressed directly and publicly by major European farm leaders and policymakers.

Some EC farm leaders and politicians have come to the United States to talk with US policymakers about the EC's desire to coopèrate with the US on an international grain agreement and to assist farm organizations who are working to change policies. More of these visits and exchanges need to be organized.

There are also many international forums for addressing these issues, including UNCTAD, GATT, OECD and the United Nations itself. These bodies provide opportunities to address the media and the world's leaders on these critical questions. Europe needs to provide the leadership at each of these forums by presenting a comprehensive proposal for a global agreement that can help create positive momentum in solving this crisis.

Began Laying the Groundwork for Real Negotiations

Even if it takes until after the 1988 to implement alternative Democratic policies, preparations for serious negotiations need to be underway at this very moment so that no time will be lost.

For example, the problem of finding an equitable formula for determining the base periods for market agreements can begin. Discussions on the need for favouring least developed nations in markets can be explored. Problems that may face low-income countries who are 'hooked' on subsidized food imports should be given a high priority, especially in light of current debt situation. Working closely with existing successful market agreements, like the rubber pact, could also be important for any preparatory meetings.

Experts from various countries can begin formal information sharing on successful and unsuccessful supply management approaches.

This should include a serious review of historical experiences in supply management, including land setasides, conservation reserves, marketing certificates and quotas. Techniques for targeting benefits to small- and medium-sized family producers and for fair allocation of market shares can be explored, and problems relating to the standardizing of health standards can be discussed. Perhaps most important, the real world experiences of trying to use price mechanisms to decrease or increase production can be thoroughly examined outside of the ideological context.

The agricultural crisis is no longer simply a question of control over the world's food supply or even the survival of our private enterprise system of family farming. As we rapidly deplete our non-renewable resources, like petroleum and coal, we are being forced to shift our dependency onto renewable resources, based on plant and animal life. Rapid advances in biological science and engineering are making these the fundamental materials for the 21st century. The overarching issue has now become who will control the one and only primary source of these renewable raw materials, agriculture.

The battle for control over these resources is being played out at this very moment, in both the countryside and around the negotiating tables of Geneva. The fate of the CAP, and perhaps the fate of Europe, is closely tied to the outcome of this struggle. There must be a stronger CAP, not weaker, in order to develop the social vision and organization necessary to make this exploding 'agricultural revolution' one that contributes to world economic growth and stability. This may well be one of Europe's most important contributions to the well-being of future generations.

Notes

1. One of the more interesting recent studies on the US role in setting world wheat prices is *Structural Characteristics of the International Wheat Market*, by Dr William Wilson, North Dakota State, 1985.
2. Food and Agricultural Policy Research Institute, University of Missouri, *Expected Impacts of Agricultural Legislation*, May 1985 and *Analysis of Farm Bill Options*, February 1985.

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The Cairns Group Perspective*

ROGER FARRELL

INTRODUCTION

I very much welcome the opportunity to be here today, and to have the chance to address you. The theme of this seminar, 'International Solutions to the Crisis in Agriculture', is a subject close to the heart of New Zealanders. As a country, how well we do economically has always been strongly determined by our success in exporting the products of our grassland farming. We claim to be the most efficient grassland producers in the world. More than most, we have felt the effects of the protectionist agricultural policies adopted by countries around the globe. Agricultural protectionism in recent years has halved our agricultural export receipts. With the pastoral sector still accounting for over half New Zealand's total export earnings, our prosperity remains inextricably linked to resolution of the current crisis in world agriculture and farm trade.

Recognition by a number of other similar food exporting countries that concerted joint action is urgently required to resolve the crisis in world agriculture led to the formation last year of the 'Group of Fair Traders in Agriculture', commonly known as the Cairns Group after the Australian City where it was established.

I want to outline for you the overall approach adopted by the Cairns Group to resolving the current crisis in agriculture. It can be summed up as a determination to establish a trading environment for agriculture where market forces rather than administered prices and subsidies determine production levels, and where export performance is determined essentially by efficiency and comparative advantage. Individual Cairns Group members may of course present the finer details in different ways. But the thrust is identical. I should stress at the outset that I am not here as a Cairns spokesperson, rather as the representative of an active member of the Group.

THE AGRICULTURAL CRISIS

There can be little doubt that world agriculture is in crisis. Few pretend otherwise. The symptoms are now well known and widely documented — massive overproduction in industrialised economies, with huge stockpiles of major agricultural commodities existing alongside insufficient food supplies and hunger in the Third World. World prices for agricultural commodities are at historically depressed levels. Costs to taxpayers and consumers supporting their farmers are becoming insupportable. Subsidisation of farm exports by the major OECD economies in an effort to gain or retain market share is bringing about serious international trade tensions.

A fundamental cause of these problems is the high level of domestic support and border protection afforded the agricultural sectors in many countries. In particular, price supports, which comprise the bulk of the assistance to agriculture, have been encouraging production at levels divorced from market reality. What has been termed the 'price adjustment gap' — the difference between world prices and the higher, administered, domestic farm prices — has widened dramatically since the beginning of the 1980s. This has led to the type of nonsense aptly described thus by *The Economist*: 'The Japanese Government pays its farmers three times the world price for rice, feeds it to pigs for half the world price, then charges consumers 8-10 times the world price for pork'. Closer to home, the EC pays its farmers over three times the world price for butter, spends a million pounds a day storing the resulting surpluses, which it then disposes of internationally sometimes at a tenth of the price British consumers have to pay, and to calves at around 3% of the price charged to humans.

Reflecting this economic irrationality, government spending on agriculture has mushroomed. The US spent US$2.7 billion on its farmers in 1980, and $26 billion in 1986. Ten years ago, EC farm support cost Community taxpayers US$6.2 billion. In 1986/87 the bill reached $23 billion.