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TESTIMONY TO THE COMMITTEE ON AGRICULTURE AND RURAL DEVELOPMENT OF THE
EUROPEAN PARLIAMENT
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Mr. Chairman, members of the committee. Thank you for this opportunity to share my views on the important subject of the hearing, the implementation of the GATT agricultural agreements.

My name is Mark Ritchie, and I serve as the President of the Institute for Agriculture and Trade Policy, an independent research center based in Minneapolis, Minnesota in the United States. As an institution, we have closely monitored the agriculture negotiations of the Uruguay Round, and we are now preparing a comprehensive report on the impacts of the new agricultural rules of the GATT/WTO.

First, I want to say how impressed I am that you have the wisdom and courage to explore this important subject.

Wisdom, because I believe that the negotiations and then implementation of the GATT agricultural provisions are among the causes of the current world food crisis -- certainly one of the most important short and medium term problems facing all of humanity. Like many other problems, this crisis cannot be addressed without a clear understanding of the root causes, including the role of international policies of the GATT and other international agencies. Fortunately, the GATT agriculture provisions are due to expire in the year 2000, so we now have an opportunity to reform these problematic provisions, and to adopt new policies better suited to the modern world of some 5 billion people, over 1/3 of whom are hungry.

I also think holding this hearing is a courageous act, given how many politicians have been destroyed or seriously wounded by the GATT agriculture debate along the way. There are few political leaders who have not been affected in some way by the political fallout from these negotiations and their eventual outcome. I still remember the incredible rows that took place between the US government and the European Commission, and within Europe itself, over soybeans. These negotiations sapped political strength from the then President of the European Commission Delors at a very critical moment, with impacts that will affect Europe for many years to come. National votes on both Maastricht and EU accession have all been wracked by debate over the agricultural impacts of the GATT.

In the brief time I have this afternoon, I want to focus on just one key outcome of the Uruguay Round, the creation of global grain shortages. I will address how the current GATT rules have made this shortage even worse and make it harder for governments to respond in an appropriate way. I will end with a few suggestions on what could be done in the upcoming rewrite of the agricultural provisions to tackle this problem.

In focusing on this one issue, I know that I am ignoring a whole range of other concerns like commodity dumping, currency manipulation to undermine tariffs, and escalating tariffs. I would be very happy to provide additional information in writing at any time in the future.

As you will recall, one of the key goals of U.S. farm policy for the past decade, both internal and external, has been the conscious discouragement of food production in other countries. My own state's Senator Boschwitz, in a letter to Time magazine in 1985, put it this way. " If we do not act to discourage these countries now" (meaning discouraging food production in Brazil and Argentina) "our worldwide competitive position will slide and be much more difficult to regain."

Other U.S. politicians were equally blunt in stating their desire to lower our domestic farm prices so far that it would make the cost of the Common Agricultural Policy unbearable, forcing Europe to abandon her farmers and withdraw from the world market, leaving it to U.S. based companies. Their idea was that driving down U.S. prices would drive down world prices, forcing Europe to pay out ever larger amounts of exports subsidies in order to remain competitive.

The U.S. position was so powerful that eventually Europe, Canada, and even Australia were forced to adopt U.S.-style approaches to domestic farm policies, setting prices at extremely low levels and then supplementing them with expensive government payments. Once the switch to this type of subsidy programs was accomplished, it became relatively easy to craft a GATT agricultural agreement that codified these policies within global trade and the GATT/WTO framework.

The U.S. approach to the Uruguay Round has been very successful, from this perspective. It has fostered greater dependency by many countries on imported foods for their survival, creating an expanded market for U.S.-based exporting companies.

Unfortunately, in the face of crop shortages in the U.S. and in other countries, this policy approach now appears very foolish, if not suicidal. In the United States today, we face the worst grain shortage since colonization. This shortage will soon become painfully obvious in countries dependent upon the U.S. for basic grains.

This situation should not come as a surprise given that the makings of this crisis began as far back as the 1981 farm bill, when the U.S. government decided to consciously lower the prices paid to U.S. farmers, making it possible for food processors and grain exporters to acquire grains from farmers at prices far below the cost of production. Since the US domestic price also sets world prices through market dominance, these low U.S. prices were then exported throughout the world. There were three important outcomes to this policy.

1) These below-cost-of-production prices put many farmers out of business, both in the major exporting countries and in the countries where governments decided to import below-cost grains instead of encouraging their own farmers. The Mexican government, for example, put at least half a million corn farmers out of business over the past couple of years by choosing to import heavily subsidized corn from the U.S.

2) The extremely low prices of the 80s and early 90s created a highly distorted structure of demand. With corn prices set by the U.S. government at about half the cost of production, for example, it encouraged farmers to switch to industrial-style confinement livestock production instead of grazing for beef, and made it possible to produce feed-intensive chicken and pork meat at very low prices. These low prices also made corn sweetener so cheap that Pepsi and Coca Cola abandoned cane and beet sugar altogether in favor of cheaper corn syrup -- as did many other manufacturers, leading to the current situation, where over 1/2 of the sweetener consumed in the US is made from corn, not from sugar. Finally, these low prices also

encouraged the conversion of corn and other agricultural products into industrial products, like ethanol and plastic. As a result, there is not enough corn to go around.

3) Uruguay Round-mandated minimum import quotas for basic foods and prohibitions on non-tariff import management tools have forced significant changes in the structure of agriculture all over the world, contributing to the alarmingly unpredictable patterns of food and feed availability.

A number of countries are preparing emergency measures to address the short-term crisis, but the long term crisis will not be addressed because the current GATT rules get in the way of the kinds of flexible approaches needed. For example, new GATT rules have abolished quantitative import controls, discouraged supply management and limit preferential buying from local producers. All of these are essential tools of governments for maintaining viable family farms and food security -- but prohibited by the Uruguay Round.

>From many perspectives, the current GATT agriculture rules are in need of serious reform. It is no surprise that environmental, consumer, labor and animal rights groups have joined with farmers and farmworkers in many different countries to oppose the adoption of the final GATT agreement -- and the opposition has grown stronger as their worst fears have been confirmed.

It comes as no surprise that the U.S. Congress has refused to extend fast track trade negotiating authority, and that the Clinton Administration has stalked out of the maritime and telecommunications talks; the U.S. no longer has a domestic political consensus on trade policy. Unless there are changes made to the GATT agriculture rules that begin to reverse the growing opposition to the GATT, I can only see more trouble ahead.

This signals a third impact of the GATT agriculture provisions -- growing opposition to multilateral agreements and to multilateralism in general. Unless there are significant improvements in the agriculture rules in the upcoming re-write, hostility will build. Add this to historical enmity from conservatives and you have a broad popular coalition of strange bedfellows challenging the entire GATT and WTO process, not to mention the United Nations and the notion of global cooperation generally.

Let me make a few suggestions for responding to these three impacts of the GATT agricultural agreements: the food crisis, the difficulty of governments to address this crisis domestically, and the political threat to multilateralism.

First, we need a mechanism that reduces the volatility in the supply/demand equation and in global prices. Farmers have to know that they will be able to pay their bills as well as invest in more environmentally sound and efficient technologies. Consumers need to know they will have a steady supply of safe foods and other agricultural products.

A key element in this process of reducing uncertainty and chaos in the world food system would be the creation of decentralized global food reserves, perhaps along the lines proposed by Europe's former Ambassador to the GATT Tran van Think or U.S. Senator Kent Conrad. These issues of food security are increasingly being seen as human rights issues, in the context of the Universal Declaration of Human Rights, Article 25 which prohibits government actions that harm food security.

Second, the rules need to be reformed to make it as easy and efficient as possible for countries to address food security problems of all kinds -- be they politically created like the current crisis or caused by weather or war. The next set of GATT agricultural rules have to stop being used to lower farm prices, the cause of the current shortage and inflated demand. Governments need to be able to use quantitative import controls, as were previously permitted under Article 11 of the GATT, to protect themselves against being flooded by heavily subsidized exports. Arguments that

tariffs are sufficient tools for controlling imports were shown to be completely false with the sudden and dramatic devaluation of the Mexican peso a little over a year ago. A 10% tariff is meaningless when currency values fluctuate by 50%.

Also, the dumping of agricultural products at prices below the full cost of production, as was the case for most of the previous decade, must be strictly prohibited. Why bother having these rules in the GATT if they are not to be enforced?

Third, political opposition to the multilateral system can be addressed first by tackling the concerns outlined above in a serious and committed way. In addition, the processes of trade negotiations and dispute settlement must be opened up to public discussion and debate. As long as GATT is seen (and operates) as a secret society hidden away from scrutiny in Geneva, most citizens will continue to feel alienated and react against it. Opening up the global institutions to more citizen discussion and involvement would bring new insights and ideas into the process and it would help build broad public support for the difficult decisions that are needed.

The US led the way in creating the problems in the GATT agriculture talks, but Europe went along. Perhaps it will have to be Europe that leads the way back to a more sane and rational middle ground. Much hangs in the balance.

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