AGEC 410 – Agricultural and Food Policy

6– The Role of Trade

Except for period 1930-1970 Ag trade always
important

Highest U.S. ag export value $68 billion 2006, forecast 2007 $72 billion

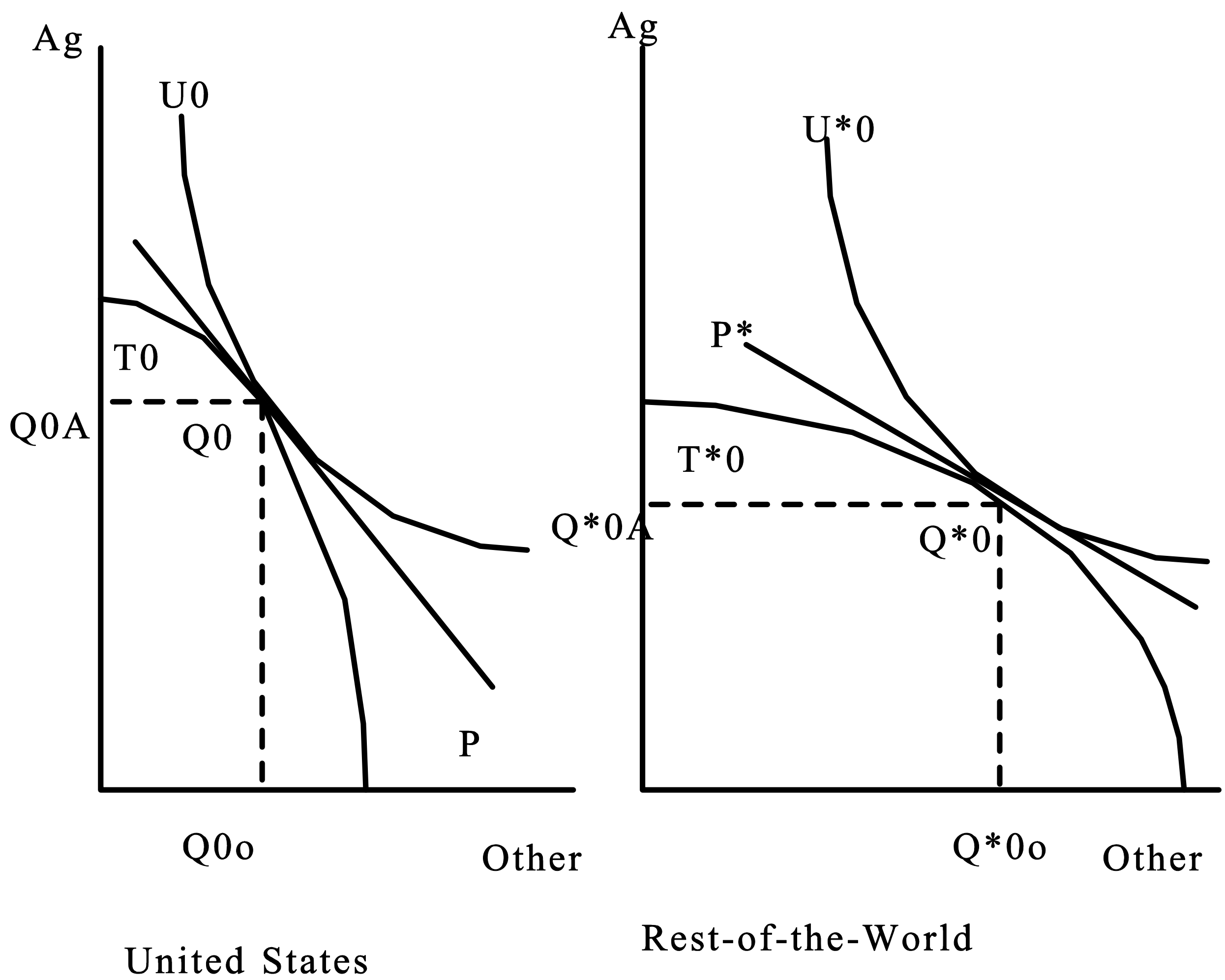
Highest import value 2006 $64.5 billion, forecast 2007 $68.5

Share of value-added increasing
- now over half
- varies as bulk commodity trade varies

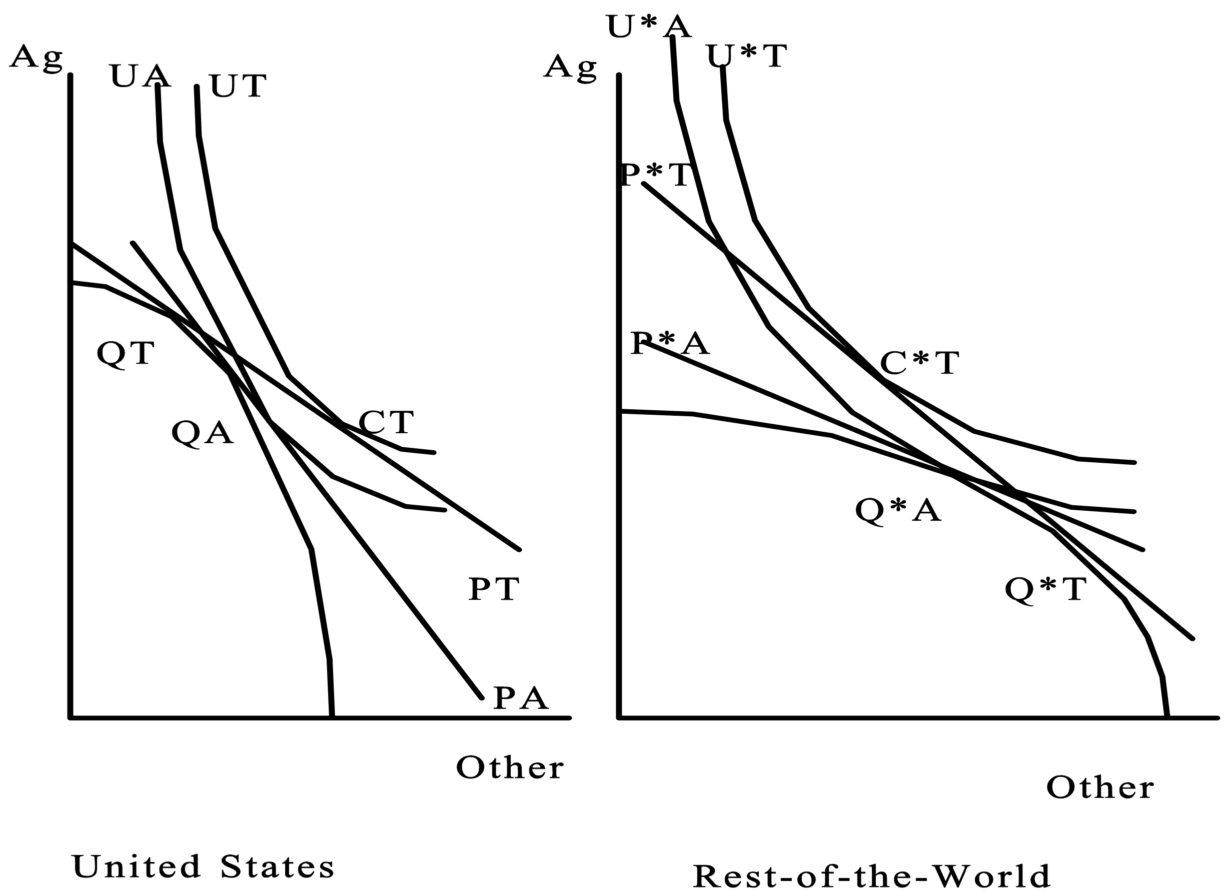
Why trade and what pattern?

absolute advantage vs comparative advantage

Comparative Advantage



Gains-from-Trade



Reasons offered for barriers to trade

1. protection against painful adjustment
2. maintaining government support programs
3. protect national security
4. protect infant industries
5. protect national health
6. retaliation
7. improve balance of payments
8. improve terms-of-trade
9. provide revenue

1. Evolution of U.S. Trade Policy and agriculture

A. Until 1930s U.S. used mostly tariffs on manufactures

B. In 1930s U.S.

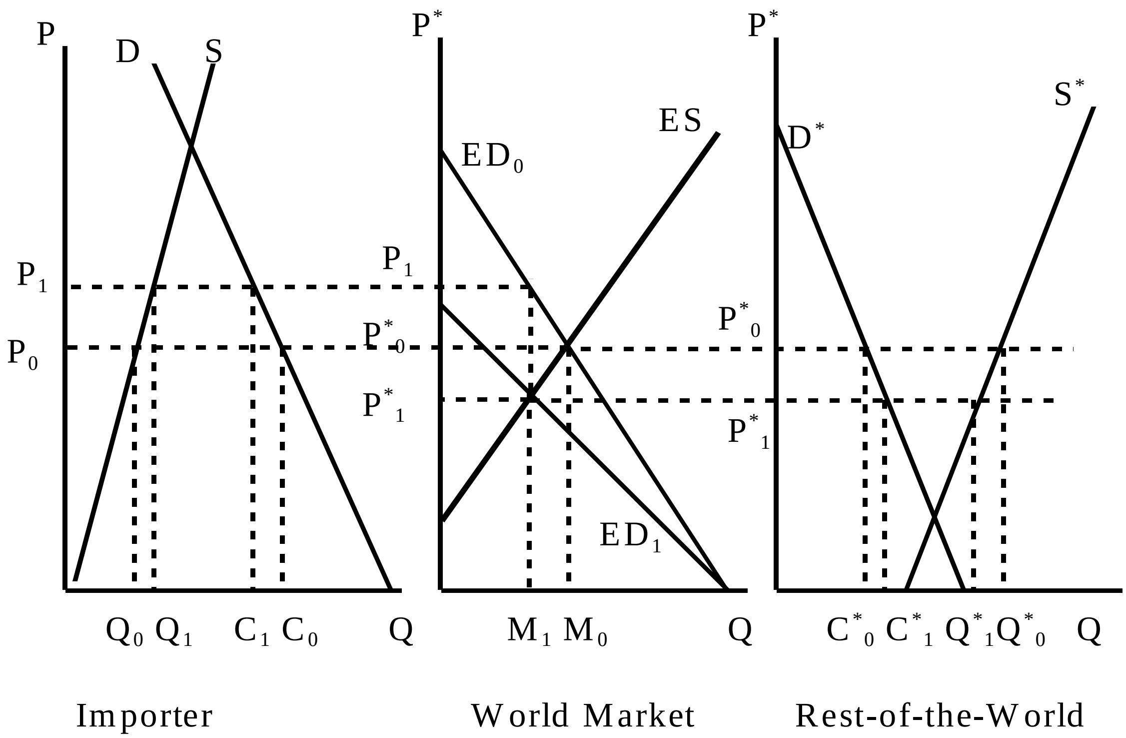
    1. raised tariffs high (Smoot-Hawley)

    2. imposes import quotas on “program” crops
        Section 22

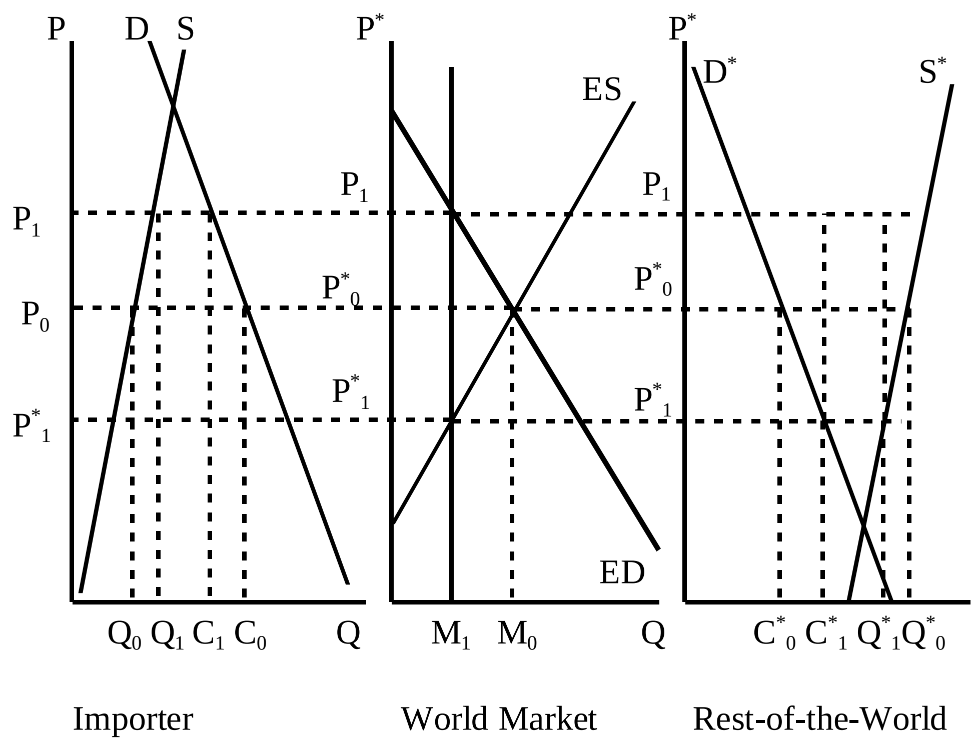
    3. two price plans, dumping, disposal

Import Tariff

tax collected at the border



Import Quota



C. In 1950s and 1960s:

1. introduce export subsidies (Section 32),
    a. promotion,

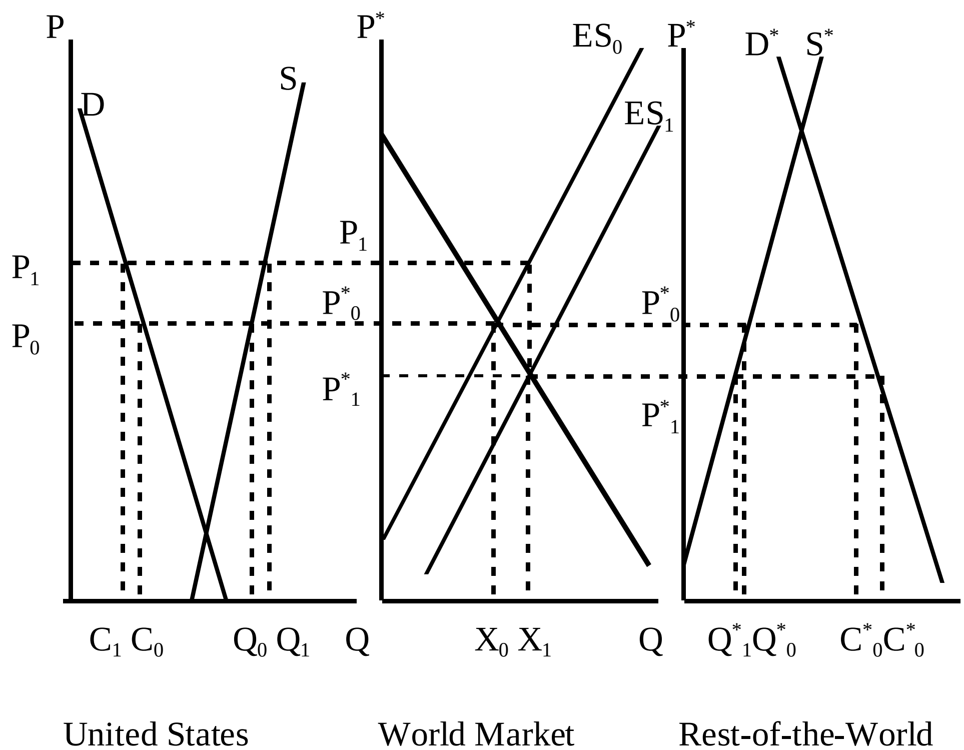
    b. food aid (PL-480),

    c. surplus disposal

2. obtain GATT waivers for Sections 22 & 32

3. International Commodity Agreements

Export Subsidies, Two-Price Plans, Dumping



D. Export boom in 1970s:

1. end export subsidies

2. reduce food aid

3. no surplus disposal, instead embargoes

4. Trade Act of 1974

5. Exchange Rate Changes
   Rising dollar like import subsidy or export tax

E. Early 1980s U.S. agr exports collapsed, policy shift

1. 1983 subsidized flour exports to Egypt
2. boost food aid, export promotion
    a. direct credit sales – blended credit
    b. credit guarantees – GSM 102, 103
3. 1985 farm bill export oriented
    a. lower support prices
    b. new export subsidies
    c. push for new GATT round

F. Late 1980s slow progress GATT, interest in RTAs

1. Canada-U.S. Free Trade Agreement (CUSTA)

2. North American Free Trade Agreement (NAFTA)

3. propose Free Trade Agreement of the Americas (FTAA)

G. 1994 Uruguay Round Agreement

Trade operates under rules established by WTO (GATT)

- purpose avoid Beggar-thy-neighbor policy
- mutally agreed
- 3 basic principles
  - reciprocity
  - national treatment
  - transparency

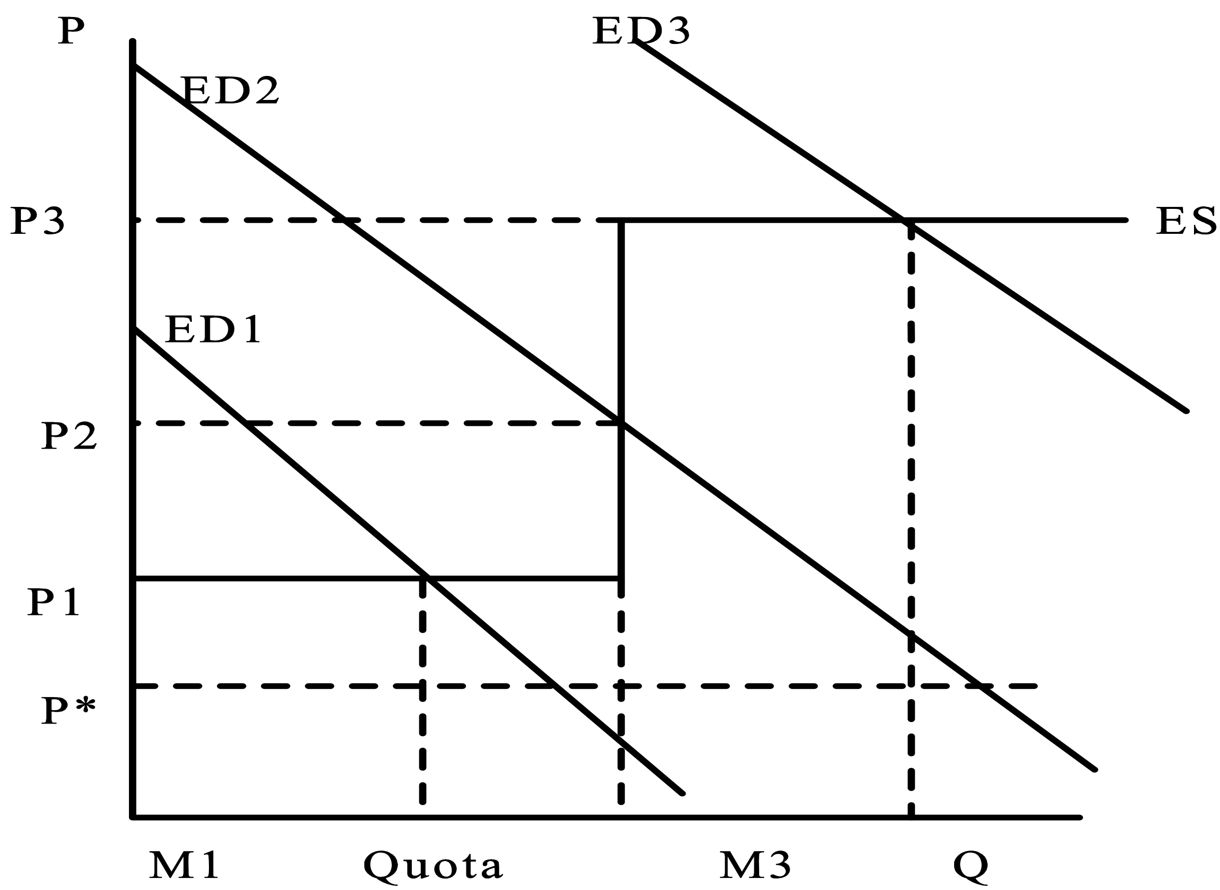
Several rounds, Doha Development Round underway
latest Uruguay Round – 1986-1994

limit export subsidies

reduce domestic support

market access

Tariff-Rate Quota (TRQ)
a stepped tariff
current U.S. sugar, beef, dairy products



Uruguay Round also tighter Sanitary and Phytosanitary Restrictions (SPS)

- Article XX of WTO/GATT allows if:
  - based on science
  - based on acceptable risk
  - not disguised protection
  - harmonized, equivalent to international standard
  - allows regionalization
- Problems in identifying
- Analytically complicated
- Balamcing trade-off in gains-from-trade to cost of disease outbreak

Technical barriers (TBTs)

product standards, similar to SPS

H. 1990s trade policy erratic

end fast track, 1994 -2002

increased use trade remedy laws

carousel retaliation

no use of EEP, but expand credit & promotion

push for new WTO round

I. Development Round (Doha) proposals:

- increased market access
- end export subsidies
- reduce further domestic support
- no multifunctionality
- leave SPS agreement alone
- tighten rules on state trading enterprises (STEs)

2. Competitiveness of U.S. agriculture an emerging issue

A. Many definitions and often confusing
- price at or below competition
- or costs low enough given world prices
- expanding market share

B. Often hear U.S. is the lowest cost producer and U.S. wants a "level playing field."

Costs Soybeans 1998/99

Cost	U.S. Midwest	Brazil Parana	Brazil Mato Grosso	Argentina BA
	– $ per bushel –			
VC	1.71	2.78	3.17	1.90
FC	3.40	1.38	0.72	2.02
Total	5.11	4.16	3.89	3.93
Transp				
Dom.	0.43	0.85	1.34	0.81
Intl.	0.38	0.57	0.57	0.49
Total	5.92	5.58	5.80	5.23

Agricultural Outlook. Sept 2001 p. 30.

What about the playing field?

Depends on time of comparison and what is compared.

Producer Support, 1998 - 2000, U.S. Dollars

Nation	Per farmer	Per hectare
U.S.	20,803	120
E.U.	16,028	762
Australia	2,894	2
N. Zealand	336	3

Source: OECD Producer Support

Producer Support from Government as a % of Income

Year	Aus.	Canada	Japan	US	EU	N. Zea.	Korea
1986	10.57	37.87	64.75	24.21	42.34	19.62	65.25
1990	9.62	33.16	51.60	17.02	31.90	2.09	74.36
1995	5.96	19.46	62.19	10.27	35.57	1.53	72.00
2000	4.34	19.08	59.44	23.51	33.68	0.45	66.28
2007P	5.52	18.43	45.49	9.86	25.72	0.71	59.84

Source: OECD

High compared to Australia and New Zealand.

Same story with respect to Brazil, Argentina, and to some extent Canada.

So by leveling the playing field, does the U.S. mean?

a. dropping its support to levels in the southern hemisphere
b. or letting their support rise to U.S. levels?

C. In long-run competitiveness determined by:

- endowments
- investments in education
- investments in infrastructure
- investments in technology
- resource mobility
- public policy