Collection: Danzansky, Stephen I.: Files
Folder Title: Soviet Union (Grain) (10)
Box: RAC Box 12

WITHDRAWAL SHEET
Ronald Reagan Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
~~1. notes~~ 86	~~from NSC/EPC meeting (7pp)~~	~~n.d.~~	~~P-5~~ open
2. cover sheet	from John Tidj re: extension of EEP to USSR (1p)	7/16/86	~~P-1~~ B1
3. memo	from David Cohen to Danzansky re: extension of Export Enhancement Program to USSR (3pp)	7/16/86	~~P-1~~ B1
4. report	Soviet Grain Purchases from th US (5pp)	n.d.	~~P-1~~ B1
5. memo	to Danzansky re: response to your question "What can Moscow do with $140 million?" (1p)	7/16/86	~~P-1~~ B1
6. background info	fro NSIS Working Group meeting (1p)	7/14/86	~~P-1~~ B1
7. memo Folder 9	from Commodity Markets Branch to Director of Golbal Issues via Chief Economics Dev. re: economic implications of possible US subsidy of Soviet wheat purchases (14pp)	7/14/86	~~P-1~~ B1
~~8. PROF note~~ 87 Folder 10	~~from S. Danzansky to J Poindexter re: EPC meeting on expanding US agricultural exports (1p, partial)~~	~~7/9/86~~	~~P-1, 5~~ open LBS 10/26/00

COLLECTION:

DANZANSKY, STEPHEN I.: Files — db

FILE FOLDER:

(10 of 11) RAC Box 12

Soviet Union (Grain) ~~[7 of 8]~~ ~~Box 91819~~ — 11/16/94

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]
- P-1 National security classified information [(a)(1) of the PRA].
- P-2 Relating to appointment to Federal office [(a)(2) of the PRA].
- P-3 Release would violate a Federal statute [(a)(3) of the PRA].
- P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA].
- P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA.
- P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA].

Freedom of Information Act - [5 U.S.C. 552(b)]
- F-2 Release could disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA].
- F-7 Release would disclose information compiled for law enforcemer purposes [(b)(7) of the FOIA].
- F-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA].
- F-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA].
- C. Closed in accordance with restrictions contained in donor's deed of gift.

476

§301

1) Debt

2) GATT 10bj incl

3) §301 cases

4 million tons — LTA agreement on wheat

5 corn
9

Bought 6.8 corn
.15 wheat

1985
Didn't buy LTA 1st year — only 2.8 — bought 15.

Soviets won't serve price preference.

4. Presses NO one else
Europe said they'll match
Canada can go matching

Soviets have a good
grain crop

Soviets
1) Hard currency bind

... we shortage
they weight heavy
4 mil tons
– Hard currency
–

This year = Soviets sent
maybe million tons

— Japan – 3.5 mil wheat
— 8.7 corn

Mexico – 1.5 2.5 corn

China –

Subsidy = $109
94
$15 mil

Total U.S. grain sales –
$40 mil tons.

total Soviet grain purchase 30-40 mil tons

<u>Peter Bisnell</u>

Possible to Test sales -

net gain 4 mil tons of wheat

OECD — Export-
~~Import~~ - subsidies
Soviets have been moved out

Is EC subsidizing grain sales to Soviet Union

1992-1993 — great
grain to Turkey

Prices

world price $105 ton
europe 109
others 107

1) certain Soviets $105 x
30 million =

2) subsidy = $10. = 95

3) others

capital · $ move
250 mil

CIA Hard currency constraint on Soviet union

FBI Estimates of soviet equip in place.

3 trends

1) Industrial globalization
drawing 3201 cases –
(A) Auto
(B) semi.
(C) Telec.

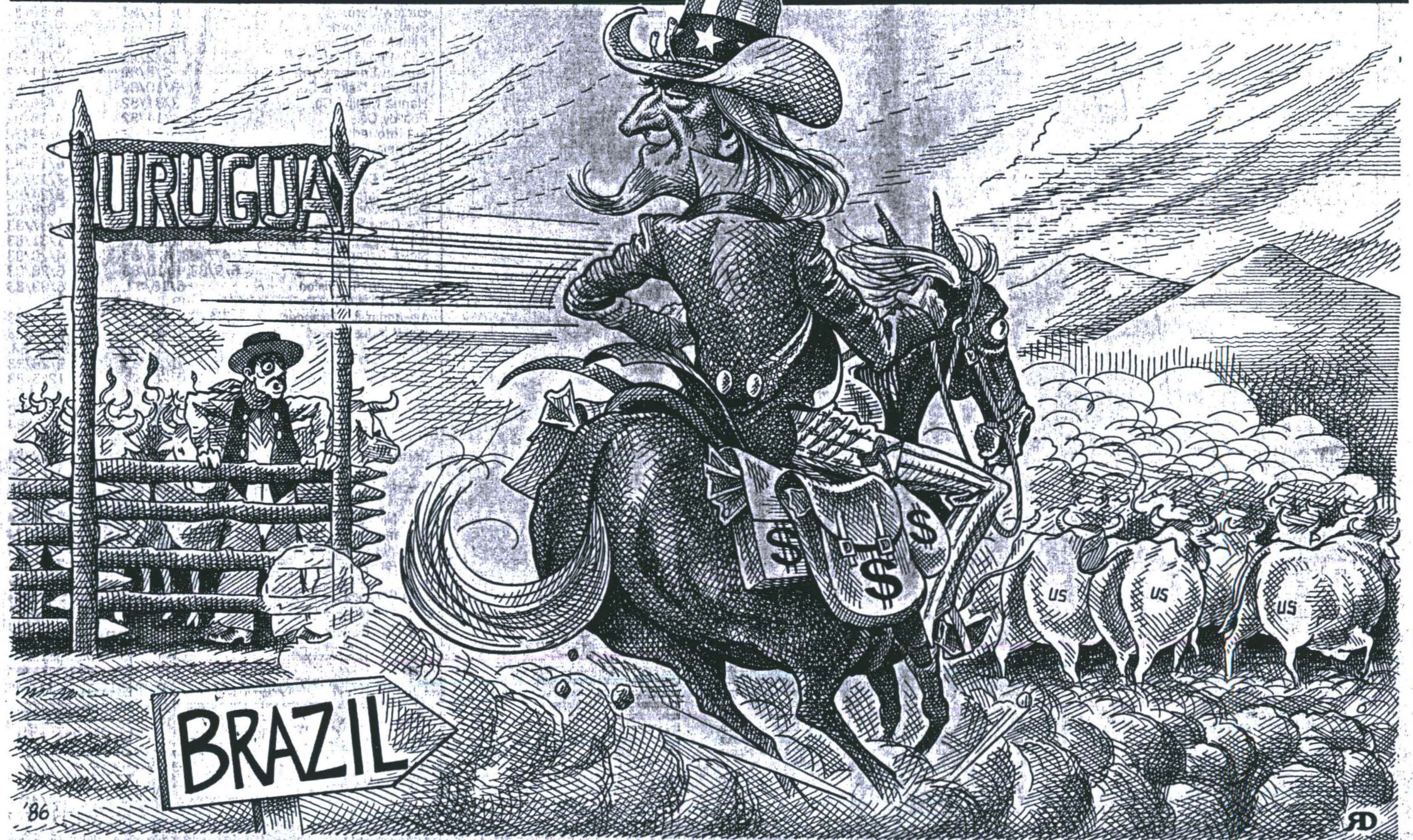
2) Opinion against economic statism

3) $200 bil capital flight, since 1976 into U.S.

4)

Wash. Post Sunday 7/13/86

BUSINESS



BY RAY DRIVER FOR THE WASHINGTON POST

Farm Subsidies Have Global Impact

Peavey Co.	4/14/82	4/19/82
Sta-Rite Industries	5/19/82	5/24/82
Olympia Brewing Co.	5/28/82	6/2/82
Allied Maintenance	6/10/82	6/18/82
Thiokol Corp.	7/13/82	7/19/82
Criton Corp.	8/17/82	8/24/82
Bendix Corp.	9/2/82	9/8/82
Itek Corp.	11/12/82	1/17/83
Instrumentation Laboratory	1/28/83	1/31/83
Sierra Research	4/7/83, 4/8/83	4/20/83
Maryland Cup	6/9/83, 6/10/83	6/28/83
Simmonds Precision	6/16/83, 6/21/83	6/29/83
Alexander & Alexander	7/5/83, 7/6/83	7/14/83
HMW Industries	8/15/83	8/17/83
RCA	9/20/83, 9/26/83	9/23/83, 9/26/83
Esquire	10/28/83, 12/2/83	12/5/83
Cone Mills	11/15/83	11/[illegible]/83

Developing Nations Say U.S., EC Policies Undermine Their Efforts to Compete in World Markets

By Stuart Auerbach
Washington Post Staff Writer

Uruguayan President Julio Sanguinetti had a major beef with the United States during his visit here last month.

As he traveled around official Washington, Sanguinetti complained that U.S. efforts to help its farmers hurt two of Uruguay's major agricultural exports—beef and rice—and undercut efforts of his 16-month-old democratically elected government to stabilize its control of the country after 12 years of military rule.

He said he was shocked to find that the United States has agreed to sell beef to Brazil for 30 cents a pound, about half the price Uruguay charges its South American neighbor. The bargain from the United States, which is trying to cut its dairy herd to reduce the milk surplus, cost Uruguay sales in a traditional market, Sanguinetti said.

He added that the United States is not the only country playing a dangerous game with agricultural trade. While visiting Egypt, Sanguinetti found that his hotel bought beef from France at one-third of what it would have cost in Europe.

Heavy government subsidies to U.S. and Western European farmers, amounting to about $20 billion each for the United States and the European Community, cripple the chances of less-developed nations such as Uruguay to sell their products in world markets. These countries depend on farm income for their economic viability.

"Industrial countries' agricultural policies may be aimed at solving domestic problems, but their effects spill over onto the rest of the world," the World Bank said last week in its 1986 World Development Report.

Sanguinetti put the effects of U.S. and European Community farm policies more graphically last month during a breakfast meeting with reporters and editors of The Washington Post: "Their balls bounce back and hit our windows, and we end up paying for the broken glass."

More than beef sales are at stake. Thailand and Uruguay say they will be hurt by a heavily subsidized program to sell more U.S. rice abroad. A similar program for cotton probably will cut into Pakistan's and Australia's exports to Korea.

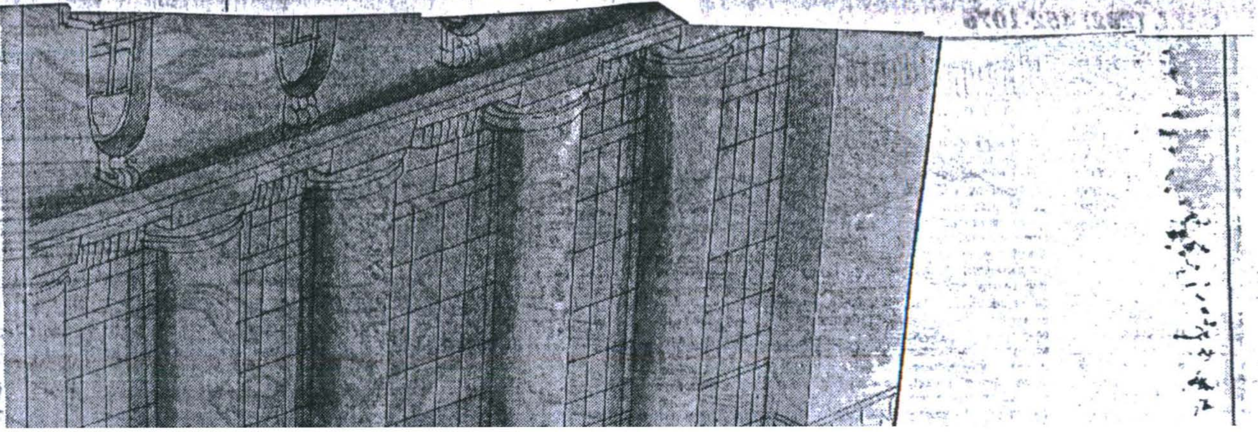
Europe, which was a major purchaser of sugar on the world market until 1975, has turned into one of the largest exporters in the world, second only to Cuba, to the detriment of traditional Third World suppliers, including the Dominican Republic and the Philippines. EC sugar exports jumped 514 percent in the decade between 1975 and last year.

According to World Bank figures, EC farmers received 18 cents a pound last year for their sugar, which was sold in the world market at 5 cents a pound.

A group of ambassadors from Caribbean nations told the House Ways and Means Committee that U.S. and EC sugar subsidies undercut Reagan administration efforts to improve the economies of countries in the region through its Caribbean Basin Initiative. Especially hard hit has been the Dominican Republic.

"Our hopes for growth have been thwarted, largely because of the increased U.S. restrictions on Dominican sugar imports and because of the disastrous low prices in the world sugar market brought about by the EC's agricultural-subsidy practices," Dominican Ambassador

See TRADE, G6, Col. 3



U.S., EC Farm-Subsidy Policies Have Global Reach

TRADE, From G1

Eulogio Santaella told the House committee last February.

In a speech two weeks earlier to an international meeting of sugar users, he said, "The Dominican situation may serve as a case study of the impact that protectionist policies of industrialized nations have in the nations that depend heavily upon agricultural products."

Agriculture Undersecretary Daniel G. Amstutz said last year that EC sugar policies cost less-developed producing nations about $2 billion a year in lost export earnings.

"Your sugar policies have disrupted the economy of Central America more over the past two years than Castro has ever since he took power," Sen. Lloyd Bentsen (D-Tex.) said he told President Francois Mitterand of France, the major EC sugar producer.

U.S. Agriculture Secretary Richard E. Lyng acknowledged that U.S. and EC farm policies "are clearly causing problems to developing countries as well as to developed countries in the export field.

"We lament this very much," he said.

Lyng's European counterpart, EC Vice President Frans Andriessen, agreed that "the situation created on the world market has impacted not only the European Community and the United States, but other countries. That is one reason we have to come to a mastering of [world] production.

"I do agree there is a problem. We try to avoid damage to others as much as we can," Andriessen continued.

But Australian Prime Minister Bob Hawke called U.S. and EC farm subsidies "a monstrous absurdity," and added, "What those two major trading blocs have to understand is not only are they hurting Australia . . . but they are ruining their own economic prospects."

Some of the affected countries are seeking ways to fight back. The issues are likely to come up in September, when trade ministers from around the world meet in Uruguay to begin talks that could start a new round of global-trade negotiations.

In advance of that meeting, though, beef-producing nations such as Argentina, Uruguay, Australia and New Zealand have met to discuss the U.S. program of reducing its dairy herds by selling 22 million pounds of beef at cut rates in overseas markets. Similarly, rice-producing nations of Australia, Thailand and Uruguay are meeting to see what they can do about U.S. subsidies that allow its producers to sell at lower costs.

Ironically, the World Bank's 1986 Development Report asserts that industrialized and Third World nations both suffer economically from their efforts to shield farmers from the forces of the world market.

According to World Bank estimates published last week, the farm-subsidy programs cost taxpayers and consumers of the United States, Western Europe and Japan $104.1 billion—almost twice the $55.6 billion that the farmers of those countries gain. Cutting out those farm programs would save $48.5 billion for the industrialized nations, almost twice what they spend on aid projects for the Third World. These programs shield 2.25 million U.S. farmers and 11 million EC farmers from world-market conditions.

Developing countries, moreover, could help their economies to the tune of $28.2 billion if they liberalized their agricultural policies, the World Bank concluded.

The real losers of a global liberalization of farm policies would be the nonmarket economies of the Eastern European Soviet bloc, which the World Bank estimated would lose $23 billion.

"So why do countries not tear down their agricultural policies? The reason, of course, is that the interest groups whose support the policies aim to capture would lose," the World Bank said in its 256-page report, which this year is devoted mainly to agricultural policies and trade.

With U.S. agricultural trade running in the red

See TRADE, G7, Col. 1

TRADE, From G6

in May for the first time in more than 20 years and a decline in farm exports from $44 billion in 1981 to $27 billion last year, it is unlikely that the Reagan administration will ease its export promotion programs—no matter how much they distort world trade.

While President Reagan has opposed some subsidies—particularly the one for U.S. sugar producers—Lyng acknowledged 10 days ago, "Now we are engaging in some of the practices which we have strongly criticized in the past.

"We are doing so because we are determined to regain a substantial part of the agriculture exports we have lost during the past five or six years. We have taken this course reluctantly, after years of unheeded appeals on our part for the EC to reduce its production and subsidies."

Lyng said U.S. and EC farm-pricing policies are different. "Ours tended to keep our own commodities out of world market competition, while EC policies in effect flooded the world with heavily subsidized European commodities."

But Andriessen, denying that EC policies hurt U.S. overseas farm sales, said Western Europe is not going to roll over in the face of new, aggressive U.S. policies to recapture export markets.

Although American wheat exports dropped from 49 percent of the world market in 1982 to 36 percent last year, he said EC exports grew only slightly in that period, from 14 percent to 16 percent, and appear likely to drop back to 15 percent this year. In dairy products, Andriessen said, the United States has taken market shares from Europe, going from near-zero to 10 percent of the butter market "mainly at our expense" and increasing from 10 percent to 26 percent of milk-powder sales "to our detriment."

He said the EC has "reacted precisely, and rather effectively, to keep our markets" against the onslaught of new U.S. export programs. "Did you really think we would do otherwise?" he asked at a recent EC seminar for journalists in Annapolis.

So there is a stalemate between the United States and Western Europe, and the impact of the fight for markets keeps reverberating around the world. In Thailand, for instance, stories on U.S. farm policies played on newspaper front pages every day for four months. The issue overshadowed First Lady Nancy Reagan's efforts during a May trip to Bangkok to deal with drug problems and came up during President Reagan's meeting with officials from Southeast Asian nations in Bali on his way to the Tokyo summit.

"The emotional level is high. There is anti-American talk at every level of society. Rice is the No. 1 political issue in Thailand," said Ammar Siamwalla, a rice expert visiting here from the Thailand Development Research Institute in Bangkok.

Michel Fribourg, head of a major agribusiness firm, Continental Grain Co., said U.S. policies, which fail to practice what Reagan preaches about free trade, leave Washington "in no position to pressure anyone else to reduce price supports and subsidies. American farm programs have been largely part of the problem, not the solution.

"But neither is the European Community in a position to point a finger of scorn at anyone," he said. "It has always geared its own price support programs to provide more and more production, guaranteeing even its highest cost producers a price well above the world market for their grain, livestock and poultry."

noon file: V (N) (1) ~~subsid~~ subsidized sales

NOTE FROM: STEPHEN DANZANSKY Subject: EPC Meeting onExpanding U.S. Agricultural Exports pleas print *** Forwarding note from NSWRP --CPUA 07/09/86 19:23 *** To: NSJMP --CPUA JOHN M. POINDEXTER

NOTE FROM: BOB PEARSON
Subject: EPC Meeting onExpanding U.S. Agricultural Exports
*** Forwarding note from NSSID --CPUA 07/09/86 17:04 ***
To: NSRBM --CPUA JOHN M. POINDEXTER NSWRP --CPUA JOHN M. POIN
NOTE FROM: STEPHEN DANZANSKY
SUBJECT: EPC Meeting onExpanding U.S. Agricultural Exports

One of the issues on today's EPC agenda was the question of expanding U.S. agricultural exports. As you may know, Bob Dole sent a letter to the President (6/27/86) noting the radical decline in U.S agricultural exports since 1981 and recommending six possible strategies for ameliorating the situation.

An EPC working group met last week (in which we participated) and drew up an options paper as follows:

1) Continue with the present program of targeted export enhancement (subsidizing only where other countries are doing so). That program is administered by DOA under previously agreed-upon (EPC) criteria among which is the guideline that no Soviet Union/ Communist Bloc country could be directly targeted (subsidized) under the program.

2) Provide a six month relief program to farmers by allowing across the board export enhancement i.e. allow subsidized sales to the Soviet Union until December.

3) Implement a Marketing loan program for wheat and other feed grains similar to the rice program set up under the 1985 Farm Act.

The working group was practically unanimous in its support of option #1 given the potential cost and foreign policy implications of #2 and #3...However at the EPC today, Darman, supported by Baldrige thought we ought to take a look at the possible costs of across-the-board subsidies and thus revisit our policy of subsidized sales to the Soviets.

Baker, correctly surmised that such a decision would have to be made by the President and closed the meeting by promising another EPC session (principals only) at which the domestic as well as foreign policy costs could be discussed.

McAllister is heading a working group to ascertain the domestic costs and I am heading a similar group of the foreign policy community to assess the foreign policy costs. On Monday I am convening the NSIS core group and have asked the CIA for some analysis as to the net gain to the Soviets of a U.S. decision to subsidize grain.

My feeling right now is that if we stand together we can beat back what is clearly a strong political movement, however, the situation bears vigilance. More later.

cc: NSSID --CPUA NSPBT --CPUA
NSPWR --CPUA

THE WHITE HOUSE

WASHINGTON

July 10, 1986

NOTE TO DAN AMSTUTZ
STEVE DANZANSKY
RANDY DAVIS
ALAN WOODS

FROM: GENE McALLISTER EM

You are all doing some work in preparation for the next EPC meeting on agricultural exports. I propose that my office, in the persons of Tim Hauser and Shellyn McCaffrey, take a shot a pulling the disparate parts into a draft paper, which you would review before the paper was more widely circulated for comment.

A proposed outline of the paper is attached. I would appreciate it very much if you could provide the analysis or options to Tim and Shellyn by c.o.b. Monday, July 14. Please feel free to make any suggestions with regard to the content or sequence proposed in the outline.

Thanks very much.

THE WHITE HOUSE

WASHINGTON

OUTLINE

AGRICULTURE EXPORT PAPER

1. Introduction: one paragraph summary of issue and major factors, e.g. trade, Soviet Union, budget.

2. Background: bullets

o what we are spending on agriculture — OMB

o current status of stockpile — USDA

o what we are doing to help exports — USDA

-- how the EEP is working

-- key features of the 1985 farm bill -- e.g. lower loan rates -- that will help exports

-- other measures to help exports?

o prospects for exports — USDA

o status of world production vis-a-vis world demand — USDA

3. Options: Pros & Cons

Option 1: status quo -- rely on EEP and retain guidelines — USDA

Option 2: across the board subsidy for limited period of time (option 2 in previous paper)

Costs: cash & in-kind — OMB/USDA

Option 3: targeting the Soviet Union and China — USDA

suboptions (to be provided by Dan Amstutz)

discussion/pros & cons — NSC/USDA/OMB

Option 4: marketing loan program for wheat, feedgrains, soybeans (see rice model) — USDA

July 8, 1986

WORLD AGRICULTURAL TRADE

I. U.S. Trade Environment in the 1970's and Early 1980's

1970's

o The gap between the growth in foreign consumption and production of farm products rose during the 1970's, causing a four-fold surge in world agricultural trade, from $50 billion in 1970 to $225 billion in 1980.

o The U.S. share of this expanded market rose six-fold, from $7 billion to over $40 billion in U.S. farm exports.

o The U.S. entered the 1970's in a strong competitive position. Price support levels, adjusted for inflation, had been reduced by the end of the 1960's, and there were two large devaluations of the dollar in the early 1970's.

o Foreign consumption growth was spurred by rapid economic growth which led to a rising demand for improved diets. Means to finance imports were provided by an expanded Euro-dollar market, use of SDR's, recycled petro dollars and greater foreign exchange earnings from rising exports from food-importing countries. Low to negative real interest rates encouraged debt financing of food imports.

o Foreign farm production growth slowed from the levels of the 1950's and 1960's as low farm prices in these earlier years discouraged investment in the agricultural sectors of many foreign countries. Consequently, foreign exporters did not have the capacity to meet the world demand increases, and they were further hampered by several global crop shortfalls.

o The U.S. was able to capture the gains in world trade because 60 million acres of cropland idled under government programs in the late 1960's and early 1970's were quickly returned to production. U.S. producers expanded in response to a commodity price run up that was magnified by a global monetary expansion and a steadily depreciating dollar, which fell to artificially low levels by the end of the 1970's. The low dollar supressed local-currency prices of U.S. farm products in foreign countries and improved the U.S. competitive position.

o Import growth was greatest in Centrally Planned countries and in LDC's. The USSR changed its import policy and, along with Eastern Europe and China, entered world markets in order to improve living standards. Higher foreign meat and dairy product demand greatly increased feedstuffs imports. As a dominant producer of corn, soybeans, and other feeds, this favored the U.S.

Early 1980's

o Many of the factors which stimulated the rise in U.S. exports in the 1970's reversed in the 1980's. After peaking at a record $44 billion in 1981, U.S. farm exports dropped to an estimated $27 billion in 1986.

o The growth rate in foreign economies fell by two-thirds during 1980-84, compared with the rate during the 1970's. Some African and Latin American countries had very sharp drops in per capita nominal incomes.

o Declining trade volume and primary commodity prices caused growth in export earnings in middle income countries to drop from over 20 percent a year in the late 1970's to 3 percent in the early 1980's, greatly restricting purchasing power.

o High interest rates on huge debt levels caused excessive debt service costs in many LDC's, restricting foreign exchange available for food imports. As some LDC's began to have difficulty meeting debt obligations, bank lending slowed, further lowering importers' purchasing power. Growth in foreign demand for agricultural products fell below the 1970's rate.

o The dollar appreciated rapidly, raising the local-currency price of farm products. This further deterred imports and provided the incentive to continue to expand production in foreign countries.

o Global monetary tightness contributed to the overall economic and trade slowdown. Recent research indicates prices, interest rates, and exchange rates all adjust more than proportionally ("overshoot") in the short run in response to monetary shocks. These factors worked to provide strong incentives to expand production and trade in the late 1970's. In the 1980's, they worked to shrink trade and production. However, the 1981 Farm Bill mandated high and rising price support levels, which prevented U.S. farm prices from falling. The artificially high U.S. farm prices sustained U.S. production and encouraged foreign expansion.

o Many countries, including the Centrally Planned countries, pursued self-sufficiency in agriculture in the 1970's in order to improve trade balances. Foreign production gains were facilitated by the price protection and risk reduction provided by U.S. price support programs. Foreign crop acreages, yields, and exports expanded, while U.S. production was restrained by farm programs and exports plummeted.

II. Outlook for the Next 5-10 Years

o The volume of global agricultural trade and the U.S. share therein will expand in the late 1980's, but only gradually. In a mixed but improving economic climate, U.S. agricultural trade may expand 4 to 5 percent a year--half the rate of the 1970's and similar to that of the 1960's. However, new record volumes and especially values of agricultural trade may not be achieved until during the 1990's.

o Foreign economic growth is expected to rise to 3-4 percent a year, below the 4-5 percent of the 1970's but well above the 1-2 percent of the early 1980's. Lower debt service costs due to lower interest rates, reduced oil prices, and increased export earnings will raise purchasing power in many countries.

o The Food Security Act of 1985 greatly reduced U.S. price support levels on crops. Current large excess supplies of crops mean world crop prices will decline with support levels, likely by 25 percent or more. In conjunction with a depreciating dollar, local-currency prices will fall in many foreign countries, encouraging imports as their consumers and producers react to lower prices. However, the effect of the lower dollar has not benefited agriculture much yet as the dollar has not fallen against the currencies of many countries that import U.S. farm products and against the currencies of some export competitors.

o Lower farm returns will curtail the incentive to expand production in many export-competing countries; e.g., Canada and Australia will pass much of the price declines on to their farmers, who will likely shift some grain land to oilseeds or livestock pasture. Competitors that insulate producers from lower prices, such as the EC, are likely to continue production increases.

o The lower U.S. support prices and exchange value of the dollar will raise U.S. competitiveness in world markets and increase the U.S. share of world trade. The United States is likely to gain most of the increase in world agricultural trade in the late 1980's.

o The growth in world and U.S. trade will be slow. Limiting factors include the continuation of the international debt crisis; the mixed effect of lower oil prices, especially in the short term; a continued high exchange value of the dollar against currencies of many LDC's and export competitors; continued self-sufficiency goals and farm productivity increases in Centrally Planned countries and in many LDC's; protectionist policies which will insulate many countries from the decline in world farm prices by increasing production and export subsidies, especially in the EC; and large, earlier investments in production capacity in competing countries which will be little affected in the short term by low farm prices.

III. The Current Agricultural Policy Environment

o World agricultural trade is burdened by a range of tariff and non-tariff barriers. For example, over 90 percent of world wheat trade is affected by some form of regulation.

o Many of these agricultural policies support internal prices above market clearing levels or provide other production subsidies. This retains labor and attracts capital into agriculture, bids up land prices, and causes excess production capacity.

o In many cases, the primary form of support is through domestic agricultural programs. However, other measures such as tariffs quotas and other non-tariff barriers, are required to protect the domestic programs. These policies place more output on world markets, reduce world prices, and distort trade patterns.

o Production subsidies may be measured using producers subsidy equivalents--total transfers to producers divided by their gross returns from production (market value plus direct transfers). As illustrated in the table, the EC and Japan have highly subsidized wheat production sectors. U.S. subsidies have grown in the early 1980's.

Producers Subsidy Equivalents

Item	U.S.	EC	Canada	Japan	Australia	Argentina
			Percent			
1979-81						
Total	17	28	18	106	1	NA
Price & income measures only	5	21	1	96	-2	NA
1982-84						
Price & income measures only	21	21 1/	2	NA	2 2/	-21

1/ 1982-83 avg. 2/ 1983

o The U.S. has traditionally offset some of the production incentives associated with price and income supports with supply control programs. The 1985 Farm Bill has lowered price supports but frozen target prices for 1-2 years. However, the incentive to overproduce has been reduced by freezing bases and program payment yields.

o Countries typically try to avoid adjustment to annual shocks such as global surplus production and low world prices by subsidizing exports and restricting imports. In particular, quotas and other non-tariff barriers are commonplace.

o Consequences of domestic price support policies, border measures, and the market disruptions they cause include: restricted access to markets, greater required adjustments for those countries not insulating their markets, heightened trade tensions, adoption of substitutes for high-priced products (such as cassava and corn gluten feed for grains and oilseeds and HFCS for sugar), increased expenditures on agriculture, high consumer food prices, diminished export revenues and economic growth for LDC's. The table shows farm program expenditures for major traders.

Farm Program Expenditures

Item	U.S. (1984-85)	EC (1984)	Canada (1983-85)	Japan (1984-85)	Australia (1983-85)
Farm program costs (bil. $) 1/	19.5	23.2	1.7	14.2	.4
Program costs to gross agric. prod. (%)	13.8	11.5	11.3	28.9	3.3
Program costs per farm ($)	8,161	4,091	5,345	3,046	2,339

1/ Costs for price, income, marketing, research, and conservation programs. U.S. state and EC country contributions excluded. Cost estimates understate total transfers to farmers because they ignore high consumer expenditures as a result of high price supports (implicit food tax). This cost is especially significant in the EC.

o Primary problem commodities facing excess global production capacity include grains, dairy, meat, and sugar.

o No country can afford to unilaterally reduce its policy distortions because of the high adjustment costs it would bear. A country's adjustment costs would be lower under multilateral trade liberalization. Because most agricultural trade barriers exist to protect domestic price support programs, domestic policies must be addressed to have successful multilateral negotiations.

o Direct income transfer programs which distort farm prices and encourage production should be opposed. However, direct income transfers to poor people, including poor farmers, should not be opposed, provided the transfers are not linked to agricultural production. Transfer costs will be large for countries that rely on high consumer food prices; e.g., the EC, in general, and the U.S. for sugar.

IV. What Can Be Accomplished in International Forums

o Rome Summit-- (To be filled in by working group)

o OECD--Membership limited to industrialized countries where most agricultural policy and trade disputes are concentrated. This forum can be used to provide research and analysis on domestic and trade policy interrelationships. Membership has agreed on summary indicators for comparing levels of price and income support and other transfers among countries. These indicators are producers subsidy equivalents and consumers subsidy equivalents. OECD is currently conducting a study measuring government support in agriculture and effects of reductions in support. OECD can be used to provide an annual assessment of domestic agricultural policies and their associated levels of income transfers.

o GATT--Primary forum for negotiation of trade issues. GATT rules are most relevant for border measures and are difficult to apply to many internal agricultural support programs. Countries have often denied GATT jurisdiction over what they regard as purely domestic policy issues; e.g., EC and their CAP. Because many trade disputes stem from producer and consumer reactions to domestic policies, successful GATT negotiations must consider the changes in domestic policies needed to resolve trade disputes.

V. Effects of Successful Multilateral Trade Negotiations

o Eliminating domestic production incentives and permitting consumers to buy at world prices would cause world agricultural prices to be higher than otherwise. All countries would share in the adjustment to supply and demand shocks resulting in greater price stability. Global resources would be allocated more efficiently, promoting economic growth and benefiting all trading nations.

o U.S. farmers would increase access to export markets and face less unfair competition from subsidized exports. LDC's who have lost export markets to export-subsidizing developed countries would also gain.

o There would be substantial adjustment costs, particularly in highly protected industries such as grains in the EC and sugar, tobacco, and dairy in the U.S. Agriculture is highly capitalized with equipment and land. Removing protection will cause the value of these investments to drop. A successful MTN needs to address policies to facilitate adjustment and to provide compensation to those disadvantaged by the removal of domestic programs in order to neutralize their resistance to change. In addition, income transfers which do not distort prices and production should not be opposed.