foreign policy
in focus
Interhemispheric Resource Center
and
Institute for Policy Studies

U.S. Foreign Agricultural Policy

U.S. agricultural policymakers have long relied on the world marketplace to serve a diverse agenda–including management of the domestic farm economy, promotion of geopolitical interests, and most prominently, bolstering exports. The U.S. has aggressively pursued agroexport growth since the 1970s, when the nation experienced its first trade deficit of the century and the international community suffered a widespread food crisis.

The U.S. Department of Agriculture (USDA) oversees export-promotion programs (primarily export subsidies) intended to boost sales of bulk grains and other commodities. Export subsidies–such as food aid and concessional sales (PL-480), credit guarantees (GSM), and direct in-kind and cash "bonuses" paid to agroexporters (EEP)—have helped pry open the doors of closed foreign markets by flooding them with low-priced commodities. In addition, the U.S. has more recently used trade negotiations to break down tariff and nontariff barriers to U.S. agroexports.

Key Points

- Since the U.S. is the world's largest exporter of cereal grains, its domestic and foreign agricultural policy has a significant impact on the world market.
- U.S. agricultural policy is aggressively targeted at building new market share and promoting international reliance on U.S. food exports.
- Import dependency undermines international goals (formulated at the 1974 UN World Food Conference and embodied in the International Declaration of Human Rights) to encourage food self-reliance and security from hunger.

U.S. agroexports—now totaling a record $54 billion— help offset the nation's chronic overall trade deficit. USDA Secretary Dan Glickman observed in 1996 that "American agriculture is currently twice as reliant on international markets as the U.S. economy as a whole, and by the year 2000 it will be 2.5 times as reliant."

Already the world's leading exporter of grains, the U.S. in 1996 laid plans to boost agricultural exports and import demand among the world's low-income countries (LICs) and large emerging markets. With the backing of leading agribusinesses, Congress passed the Federal Agricultural Improvement and Reform Act of 1996 (FAIR), which directs USDA to implement measures to: "Increase the value of U.S. agricultural exports each year at a faster rate than the increase in the value of overall world export trade in agricultural products." As in the past, federal export-promotion programs and trade negotiations are used to achieve this goal.

Vol. 1 No. 10
November 1996

The adverse effect of U.S. subsidies on the production capacity and overall food security of LICs has been well-documented. Nevertheless, the U.S. government continues to use subsidies to increase the competitive advantage of U.S. agroexporters. The USDA's Glickman vowed in January 1996 to "work closely with the Congress to protect the export assistance that helps keep [U.S.] agriculture strong." Several months later, export subsidies were authorized to continue through 2003. Most of these subsidies are subject to little, if any, restriction under GATT Uruguay Round commitments. PL-480 and GSM programs are exempt from all GATT restrictions, while other direct subsidy programs, such as the Export Enhancement Program (EEP) must be reduced 36 percent in value and 21 percent in volume from their 1986-90 levels—a period during which EEP spending levels were historically their highest, making reductions from current spending levels negligible for most commodities.

Although new GATT commitments will impose little restraint on subsidy spending in the near future, new changes in U.S. federal stockholding policies could potentially curtail some in-kind subsidies—such as food aid. The U.S. government, which managed 26 million tons of grain annually on average from 1978-90, completed long-term plans in 1996 to eliminate virtually all its stockholdings by terminating its supply-management and Farmer-Owned-Reserve programs.

With the outlook for in-kind subsidies somewhat uncertain in the long-run due to budget constraints, the U.S. government plans to make more aggressive use of trade negotiations to build food import demand abroad and fuel agricultural export growth. As stated in the FAIR bill, the U.S. will use upcoming bilateral and multilateral trade negotiations to dismantle foreign import tariffs, import quotas, production subsidies, and other "trade barriers." Many of these were put in place by high- and low-income countries alike following the food crisis of the 1970s (a time of shortages and high prices) in order to foster greater food self-reliance and security in basic food items.

Problems With Current U.S. Policy

The use of subsidies and trade negotiations to promote U.S. agroexport growth has resulted in a dangerous dependency on imported food grains among many countries while undermining the food security plans of several U.S. trade partners.

The PL-480 program, EEP, and other export-promotion programs have effectively undermined the capability of targeted nations to produce and store native staples. Subsidized prices of conventional wheat and corn imports regularly undercut the prices of domestically and regionally produced varieties of staple grains.

Unable to compete with U.S. production resources and U.S. Treasury-subsidized cereal prices, farmers in many poorer nations find that the prices they receive for their crops don't cover their costs. As early as 1965, researchers concluded that food aid to India had driven down the price of domestic wheat and curtailed native production. This same experience has been repeated during the past three decades in nations throughout Africa, Latin America, and Asia.

Consumer preference in targeted nations has shifted to U.S. cereals, mainly wheat and corn, as imports of these surplus U.S. commodities have flooded local markets. Indonesian consumers, for example, who have long enjoyed access to abundant supplies of locally produced rice, now prefer wheat noodles, partially as a result of cheap U.S. wheat subsidized through GSM credit programs. Once nations become dependent on foreign suppliers, following the loss of domestic production and shifts in consumer preference, they become increasingly vulnerable to international price and supply volatilities.

Worldwide grain shortages in 1996—led by declines in U.S. production—caused prices to double in U.S. and world markets. As a result of ballooning cereal prices, the FAO estimated that low-income-food-deficit countries (LIFDCs) experienced a 75 percent surge in their food import bills between 1995-96. As the supplier of more than one-third of world wheat exports and of other food grains, the U.S. now transfers its production fluctuations directly to the world market following recent changes in U.S. stockholding policy.

Industrialized food importers, like Taiwan, can afford to ride out extreme fluctuations in grain import prices. These cycles are financially devastating, however, to LIC food importers, which account for 80 percent of world wheat imports and 60 percent of coarse grain (corn, barley, millet, oats, rye) imports.

Despite U.S. pledges to provide food during emergency periods of civil strife and crop disasters, the U.S. government's four- million-ton Food Security Commodity Reserve will have little stabilizing effect in a world market that annually consumes 910 million tons of food grains. Counter-cyclical food aid programs are also unlikely to cushion the effect of future price surges. Once the main outlet for Commodity Credit Corporation (CCC) stocks, food aid and credit programs will become more expensive to operate as the U.S. government will need to purchase grains directly from the commercial market. U.S. food aid reductions, which totaled 25 percent between 1995-1996, have followed declines in CCC stock levels over the past decade. The elimination of this food lifeline (without prior restoration of production capacity in targeted countries) will be devastating.

LICs will face new challenges as the U.S. strives to make "more efficient use" of its subsidy programs by targeting the emerging market of Asia's high-income consumers, who represent new growth for competitive processed foods. For example, of the $5.5 billion annual GSM spending, FAIR stipulates that escalating allotments must be in the form of high-value-product exports. Indebted LIC countries, which account for the lion's share of GSM transactions, cannot afford to import processed products to meet minimum food needs.

These policy changes, however, have not precluded the threat of grain dumping. During surplus U.S. production periods, when international market prices are relatively depressed and the need for subsidized grains is less urgent among net importers, the U.S. government can still employ PL-480 and GSM programs to manipulate domestic supplies and prices, since these and other market-promotion programs are exempt from GATT-mandated restrictions.

Although the U.S. managed to preserve many of its market-development tools in the Uruguay Round, U.S. negotiators were generally dissatisfied with the new levels of agricultural market access. Confident that its agricultural sector is stronger than that of other exporting nations, the U.S. government, in partnership with agroexporters, insists on the benefits of a world food production system based on comparative advantage. Cargill's Rob Johnson asserted in 1996 that "self- sufficiency is not a practical answer to Asia's growing food demand." Instead, he advocated the removal of all "trade-distorting" agricultural policies among Asia Pacific Economic Cooperation members—and ultimately among World Trade Organization (WTO) members—thereby opening up new markets for U.S. exports.

Key Problems

- U.S. export-expansion policies have undermined foreign production capacity, altered consumer preference, and consequently created dependence on imports of wheat and other grains.
- Domestic U.S. farm policies aggravate supply and price volatility for wheat and other cereal crops.
- Developing nations are pressured during trade negotiations to exchange domestic food security policies for access to the world trade market and debt-servicing arrangements.

But efforts by exporters to use trade negotiations to dismantle food security policies and open market doors will prove costly. for importers. Once self-sufficient in corn production, Mexico agreed under NAFTA to abandon its system of corn price supports with the understanding that cheap corn imports from the U.S. would be available. But worldwide grain shortages have pushed up corn prices, and in 1995 Mexico had to import 2.5 million tons of U.S. corn at historically high prices.

The U.S. must balance its trade objectives with its commitment to promote food security. At the 1974 World Food Conference, the U.S. made this commitment—one that was reaffirmed at the 1996 World Food Summit. Food security should not be interpreted—as the U.S. government commonly does—to mean adherence to the principles of comparative advantage and free trade. Instead, a food security system should include the following characteristics: 1) capacity to produce, store, and import sufficient food to meet basic food needs for all groups; 2) maximum autonomy and self-determination (without implying autarky); and 3) reducing vulnerability to market fluctuations and political pressures.

Key Recommendations

- The U.S. government should abandon export subsidies and other practices harmful to international food security.
- The next GATT/WTO agricultural talks in 1999 should focus on changes needed to support food security policies.
- The U.S. government should not use trade policy and aid as a leverage to undermine food security agendas of other nations, particularly with respect to the local production of staple grains.

Nongovernmental organizations (NGOs) from nearly every region (Asia, Africa, and South America) have urged the U.S. and other wealthy countries to discontinue export practices that undermine LIC efforts to pursue self-sufficiency, increase domestic production of staple food crops, or promulgate food security policies. The U.S. should recognize the wisdom of the farm-and-food agenda of these NGOs. As a leader in both the WTO and the global export market for grains, the U.S. should reexamine its foreign agricultural policy and adopt new policies that provide the necessary support for UN declarations guaranteeing the basic "human right to food." Specifically, the U.S. should:

- Halt commodity dumping during surplus periods and reaffirm "good faith" commitments to refrain from using GATT-exempt, export-promotion and food-aid policies as dumping tools. Although the U.S. and other developed nations have agreed not to use market-development programs as dumping outlets for surplus commodities, no WTO member is legally bound by such pledges and they are commonly violated.

- Lead other nations of the North in providing the poorer nations of the South with a more balanced package of assistance that includes financial and research aid to help them adjust to the rapidly changing trade environment. FAIR legislation commits the U.S. to honor the commitment it made to provide such assistance in the Marrakesh Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries.

- Cease all food aid except that used for short-term, humanitarian emergency relief. In such cases food should be bought from within the recipient country when possible (or from neighboring countries) to promote regional food security. Food aid together with other U.S. programs, such as the extension of "most favored customer" stock guarantees to needy importers, primarily benefit U.S. agribusiness while fostering food-import dependency among the world's poorest nations.

- Ensure that U.S. assistance to food-poor nations takes the form of debt relief, technical assistance to increase local production, and support for trade measures that help build sustainable food systems. Such measures will help prepare countries for changes in commercial food markets anticipated as a result of the GATT Uruguay Round and ever-changing U.S. farm legislation.

- Take the lead in the next WTO round of negotiations (scheduled for 1999) to establish new rules to guide agricultural trade. These rules should recognize the need for food security policies at all levels. Rather than targeting these policies as trade barriers, the U.S. should support trade-rule exemptions for food-security-related plans by: 1) negotiating trade policy exemptions for staple food crops, and 2) launching a legitimate discussion of the creation of regional cereal reserves. Additionally, the U.S. must advance efforts to eliminate all agroexport subsidies.

- End the practice of promoting uneven market development and instead support food-security policies that increase the production of staple grains in poorer nations. As it is, many nations find it difficult to pursue food security policies in the face of international pressure to open markets and import foodstuffs. Countries must have the right to build food security in a manner deemed appropriate without fear of economic sanctions or political intimidation by the U.S.

Written by Gigi DiGiacomo, Institute for Trade & Agricultural Policy (ITAP)

Foreign Policy in Focus is a joint project of the Interhemispheric Resource Center (IRC) and the Institute for Policy Studies (IPS). It is supported by subscriptions, by financial support from the John D. and Catherine T. MacArthur Foundation, and by various church organizations. *In Focus* internships are available.

Editors
Martha Honey (IPS)
Tom Barry (IRC)

Production
Grant Moser

Communications Director
Erik Leaver (IRC)

Orders and subscription information:
Mail: PO Box 4506
Albuquerque, New Mexico 87196-4506
Phone: (505) 842-8288
Fax: (505) 246-1601
Email: resourcectr@igc.apc.org

Editorial inquiries and information:

IRC Editor
Phone: (505) 388-0208
Fax: (505) 388-0619
Email: resourcectr@igc.apc.org

IPS Editor
Phone: (202) 234-9382/3 ext. 232
Fax: (202)387-7915
Email: ipsps@igc.apc.org

Website: http://www.zianet.com/infocus

sources for more information

Organizations

ANEC (National Association of Producers Marketing Organizations in Mexico)
Miguel Angel de Quevedo 50-403,
Col. Agricola Chimalistac, Deleg. Alvaro,
Obregon, Mexico, D.F. Mexico.
Voice: (525) 661-5914
Fax: (525) 661-5909
Email: anec@laneta.apc.org.
Contact: Victor Suarez.

Global Network on Food Security, Secretariat
United Nations Association in Canada
130 Slater Street, Ste. 900
Ottawa, ON Canada K1P 6E2
Voice: (613) 238-5751
Fax: (613) 563-2455
Email: unac@magi.com
Contact: David McDonald.

Institute for Agriculture and Trade Policy
1313 5th Street SE, Ste. 303
Minneapolis, MN 55414-1546
Voice: (612) 379-5980
Fax: (612) 379-5982
Email: iatp@iatp.com.
Contact: Karen Lehman.

Institute for Food and Development Policy (Food First)
398 60th Street
Oakland, CA 94618
Voice: (510) 654-4400
Fax: (510) 654-4551
Email: foodfirst@igc.apc.org
Contact: Peter Rosset

Oxfam, U.K.
274 Banbury Road
Oxford, England OX2 7DZ
Voice: (44-1865-311-311)
Fax: (44-1865-312-417)
Contact: Kevin Watkins

World Sustainable Agriculture Association
2025 I Street NW, Ste. 512
Washington, DC 20006
Voice: (202) 293-2155
Fax: (202) 293-2209
Email: wsaadc@igc.apc.org
Contact: Linda Elswick

World Wide Web

A Seed Europe (Action for Solidarity, Equality, Environment and Development):
http://antenna.nl/aseed/Campaigns.html

Food and Agriculture Organization (FAO)
http://www.fao.org/

Global Network on Food Security
http://www.ncf.carleton.ca/ip/social.services/global-food/

Institute for Agriculture and Trade Policy–Food Security
http://www.sustain.org/foodsec/index.htm

Rural Advancement Foundation International
http://www.charm.net/~rafi/rafihome.html

U.S. Department of Agriculture
http://ffas.usda.gov/ffas/food_summit/press.html

The Interhemispheric Resource Center, founded in 1978, produces books, policy reports, and periodicals about U.S. foreign policy and U.S.-Mexico border issues. The Institute for Policy Studies has served as an independent center for progressive research and education for more than three decades.

Interhemispheric Resource Center
P.O. Box 4506
Albuquerque, NM 87196-4506

Institute for Policy Studies
733 15th Street NW, 10th Floor
Washington, DC 20005

Subscription Information

You can subscribe to *In Focus* at one of three levels, you can receive *In Focus* in one of five ways, and you can choose which categories of *In Focus* you want to receive. Please mark the level of subscription you want, how you want *In Focus* delivered to you, and the topic categories you want. There is no extra charge for email delivery to mail and fax subscribers. (Individual copies of *In Focus* are $2.50, postpaid; bulk orders of *In Focus* are $12.00 for 10 copies, postpaid; orders for delivery outside the US are double the listed prices.) Make checks payable to the Interhemispheric Resource Center. We also accept VISA and MasterCard.

Level

- ❑ $15 10 briefs
- ❑ $30 20 briefs
- ❑ $60 50 briefs

Delivery

- ❑ Regular mail only
- ❑ Regular mail and email
- ❑ Fax only
- ❑ Fax and email
- ❑ Email only

Topic Categories

- ❑ All (receive all briefs)
- ❑ Foreign Policy Overview
- ❑ Trade and Investment
- ❑ Government Agencies
- ❑ Military and Peace
- ❑ Human Rights and Democracy
- ❑ Environment
- ❑ Labor
- ❑ Economic Aid
- ❑ Global Governance/United Nations
- ❑ International Financial Institutions (IFIs) and Debt
- ❑ Food and Farm
- ❑ Border and Immigration
- ❑ Central America
- ❑ Caribbean
- ❑ Mexico
- ❑ South America
- ❑ Africa
- ❑ Middle East
- ❑ Asia/Pacific
- ❑ Western Europe
- ❑ Central and Eastern Europe
- ❑ Former Soviet Union

Name **Institution**

Street Address

City **State** **Zip Code**

VISA/MasterCard Number **Expiration Date**

Signature **Daytime Phone** **Fax Number** **Email Address**