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## **INCONSISTENCIES IN U.S. TRADE AND AGRICULTURAL POLICIES VIS-A-VIS ITS MAJOR TRADING PARTNERS**

Jimmye S. HILLMAN\* and M. D. FAMINOW

*Abstract:* Internationalism has increasingly become a critical component in agricultural markets and policies. However, trade policy in the United States and elsewhere continues to reflect a narrow protectionist philosophy. While it must be ranked among the most liberal of world trading nations, United States agricultural trade policy has not evolved in a manner consistent with this increased internationalism. This inconsistency is highlighted by a case study of trade policies in the livestock and meat products sector. The paper concludes that the United States must assume leadership in coordinating the adjustment to a new international trade order that reflects interdependence among agricultural trading nations.

The principal objective of this article is to demonstrate that the United States, while gaining much attention in the Post-World War II period for its promotion of reduced agricultural trade barriers, has pursued policies inconsistent with its public posture. We shall also point out that, while the United States is among the most liberal of world traders, especially in agricultural products, the inconsistencies in its trade and agricultural policies still pose a problem for its agricultural exports. The growing internationalism of the United States economy has not been completely reflected in trade policy. In all the above, particular attention will be paid to the livestock and meat sector of agriculture. Finally, for the future, two immediate events stand out as important for United States agricultural trade: the formulation of new agricultural legislation; and potential new rounds of trade negotiations.

### **I.**

We are just now completing one of the most remarkable decades in the history of international commerce. Soon after the two United States devaluations of October, 1971 and March 1973, which for all intent ended the Bretton Woods

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era, a broad set of anomalous agricultural and food circumstances (1972–75) set in, accompanied by the first large oil price hike. The Tokyo Round of trade negotiations were inaugurated amidst all this. The second oil crisis, commencing in 1979, sent shock waves through legislature assemblies and business communities and the origins of the current international debt problem must be traced to the much-altered economic environment which ensued. Inflation, severe in industrial

TABLE 1. EXPORT VOLUME, SELECTED COUNTRIES AND PRODUCTS, 1972–83.

Item	1972– 1973	1973– 1974	1974– 1975	1975– 1976	1976– 1977	1977– 1978	1978– 1979	1979– 1980	1980– 1981	1981– 1982	1982– 1983 <sup>1</sup>
—Million metric tons—											
<i>Wheat:</i>											
United States	31.8	31.1	28.0	31.5	26.1	31.5	32.3	37.2	41.9	49.1	45.0
Canada	15.6	11.5	11.2	12.1	12.9	15.9	13.5	15.0	17.0	17.8	19.5
Australia	5.6	5.4	8.2	7.9	8.5	11.1	6.7	14.9	10.6	11.0	7.5
Argentina	3.4	1.1	2.2	3.2	5.6	2.6	3.3	4.8	3.9	4.3	5.5
European Community	6.8	5.8	8.2	9.5	5.1	5.0	8.8	10.4	14.7	15.5	16.5
World	67.4	62.6	63.8	66.3	63.3	72.8	72.0	86.0	94.3	101.9	100.0
<i>Coarse Grains:</i>											
United States	35.6	44.5	34.3	46.5	50.6	52.1	56.9	71.6	72.4	61.4	61.5
Canada	4.2	2.9	2.8	4.9	4.6	3.7	3.9	4.8	4.6	7.6	7.0
Australia	1.6	1.9	2.9	3.2	3.3	2.0	2.6	4.1	2.2	3.1	1.8
Argentina	4.2	8.4	8.5	5.3	9.5	11.0	11.5	6.6	9.9	13.6	12.0
South Africa	3.3	0.5	3.5	3.4	1.4	2.9	2.9	2.9	3.6	5.0	4.1
World	59.4	70.8	63.7	76.5	82.7	84.0	90.2	100.9	105.5	103.7	98.8
<i>Soybeans and Meal<sup>2</sup>:</i>											
United States	15.7	18.4	21.0	16.3	20.9	20.5	27.6	32.8	27.4	33.2	35.0
Brazil	3.0	4.4	7.1	8.9	9.6	11.1	7.4	8.1	12.5	10.7	10.8
Argentina	—	0.1	0.1	0.2	0.3	1.0	3.3	2.8	3.3	3.0	3.9
Paraguay	—	0.1	0.1	0.1	0.2	0.2	0.2	0.4	0.5	0.6	0.6
World	87.7	22.9	28.2	15.6	31.1	32.8	38.7	44.1	43.7	47.4	50.2
<i>United States:</i>											
Wheat	31.8	31.1	28.0	31.5	26.1	31.5	32.3	37.2	41.9	49.1	45.0
Coarse grains	35.6	44.5	34.3	46.5	50.6	52.1	56.9	71.6	72.4	61.4	61.5
Soybeans and meal	15.7	18.4	21.0	16.3	20.9	20.5	27.6	32.8	27.4	33.2	35.0
Total	83.1	94.0	83.3	94.3	97.6	104.1	116.8	141.6	141.7	143.7	141.5
<i>World:</i>											
Wheat	67.4	62.6	63.8	66.3	63.3	72.8	72.0	86.0	94.3	101.9	100.0
Coarse grains	59.4	70.8	63.7	63.5	82.7	84.0	90.2	100.9	105.5	103.7	98.8
Soybeans and meal	87.7	22.9	28.2	25.6	31.1	32.8	38.7	44.1	43.7	47.4	50.0
Total	145.5	156.3	155.7	168.4	177.1	189.6	200.9	231.0	243.5	253.0	249.0

Source: U.S. Department of Agriculture data, reported in Andrew Schmitz, et al., "Agricultural Trade and U.S. Policy Response" in *United States Policy in a World Dimension*, Special Report 305, Agricultural Experiment Station, University of Missouri-Columbia, Columbia, Missouri, 1984.

<sup>1</sup> Projected.

<sup>2</sup> Bean equivalent.

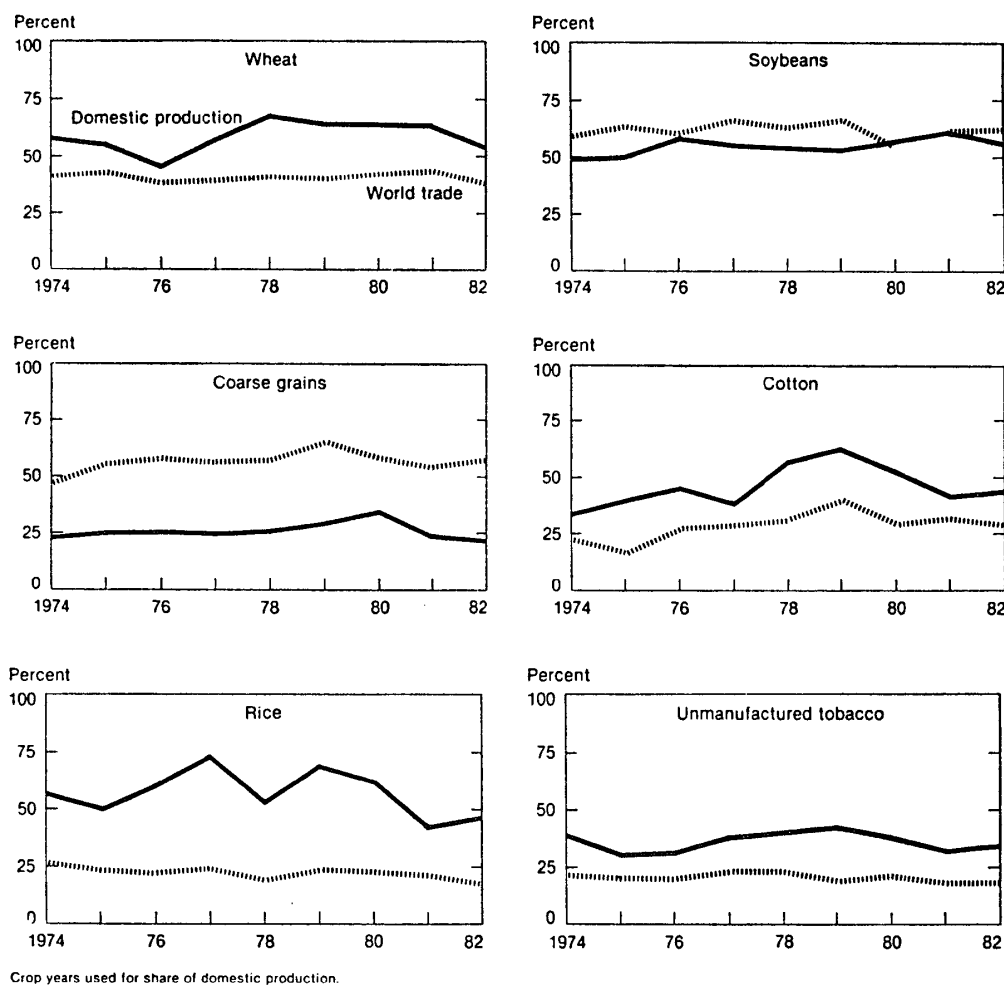


Fig. 1. U.S. Exports: Share of Domestic Production and World Trade.

Source: U.S. Department of Agriculture, 1983 Handbook of Agricultural Charts. January, 1984.

as well as developing countries, was a by-product, and its latent ghost continually haunts the halls of responsible monetary authorities. Nor is this all. Hundreds, if not thousands, of other smaller economic and political events occurred in the past ten years or so to make of this period a watershed, a resultant new world economy, which consists of some fundamentally new ingredients.

It has been said many times but it bears repeating; there has been an enormous growth in total world trade in agricultural products during this remarkable decade (see Table 1). Foreign commercial sales of coarse grains more than doubled. Wheat was up 50 percent; while cotton increased 30–40 percent. Even though the share of domestic agricultural production exported fell from 1980–82, the ratio of exports to domestic production and the United States share of world trade in major traded products was still high (see Figure 1). This ratio was still relatively high in 1986.

The increased dependence of United States agriculture on export markets has

both pleased and bewildered. The President's National Advisory Commission on Food and Fiber, in 1967 projected—one might say wistfully hoped for—a \$10 billion U.S. agricultural export market by 1980. Instead, it was \$41 billion! In 1983 it was \$36.1 billion. The enormous change and the rapidity of events in the 1970s caught many unawares and it is correct to say that one of the greatest deficiencies in the design of United States agricultural policy is the apparent failure on the part of policy makers to have not recognized the increased dependence of United States agriculture for income generated through exports (Schuh). Not only policy makers in Washington, but the entire agricultural establishment throughout the country was quite lethargic and slow to admit to, and take action upon, the dramatic turn of events. Accordingly, United States agricultural authorities seem to have been unprepared for the events which led to the decline of farm exports since 1981 toward a position which is now below the expectations and projections of the halcyon days of the late 1970s. In our opinion, those authorities may now be overreacting to the foreign market and related issues as to their potential for United States farm policy “salvation”—strange words from one (such as the senior author) who has, for three decades, pushed for increased international involvement of the United States agricultural establishment.

Many have pointed to the changes which have taken place in the international economy, and to the increased economic integration which has evolved so dynamically since about 1970. We shall defer to the many excellent discussions of the increased importance of monetary policies, interest rates, exchange rates and monetary instability; fiscal policies and budget deficits; adjustments in the structure of trade, payments and development efforts; and integrated capital markets (Orden). While the research evidence does not yet fully substantiate the strong emphasis placed by some on the exchange rate as an autonomous causal variable affecting the agricultural export-import equation, the important point is that new and powerful linkages have been formed among these issues and between national economies everywhere. Interdependence is no longer an idealistic, textbook matter; its effects have now arrived on the desks of almost every minister of all those economies, no matter how large or small (Hillman, 1984).

Interdependence is illustrated realistically and pragmatically by the impressive growth in total world commerce (as well as the growth in agricultural trade) after World War II. Since that time, the value of world trade had outperformed growth in world Gross National Product (GNP) in all but three years (see Figure 2). The aggregated international economy has become increasingly integrated through trade. Whether as Schuh implies, The United States can by this measure pronounce national economies as *more open* is, to use a pun, “open to question.” Is the openness of the international economy correlated solely with the trade statistic? What is openness? The issue of protectionism will be addressed shortly.

It should be pointed out that this growth in trade and inter-dependence has been achieved despite continued nagging protectionism in the farm and nonfarm

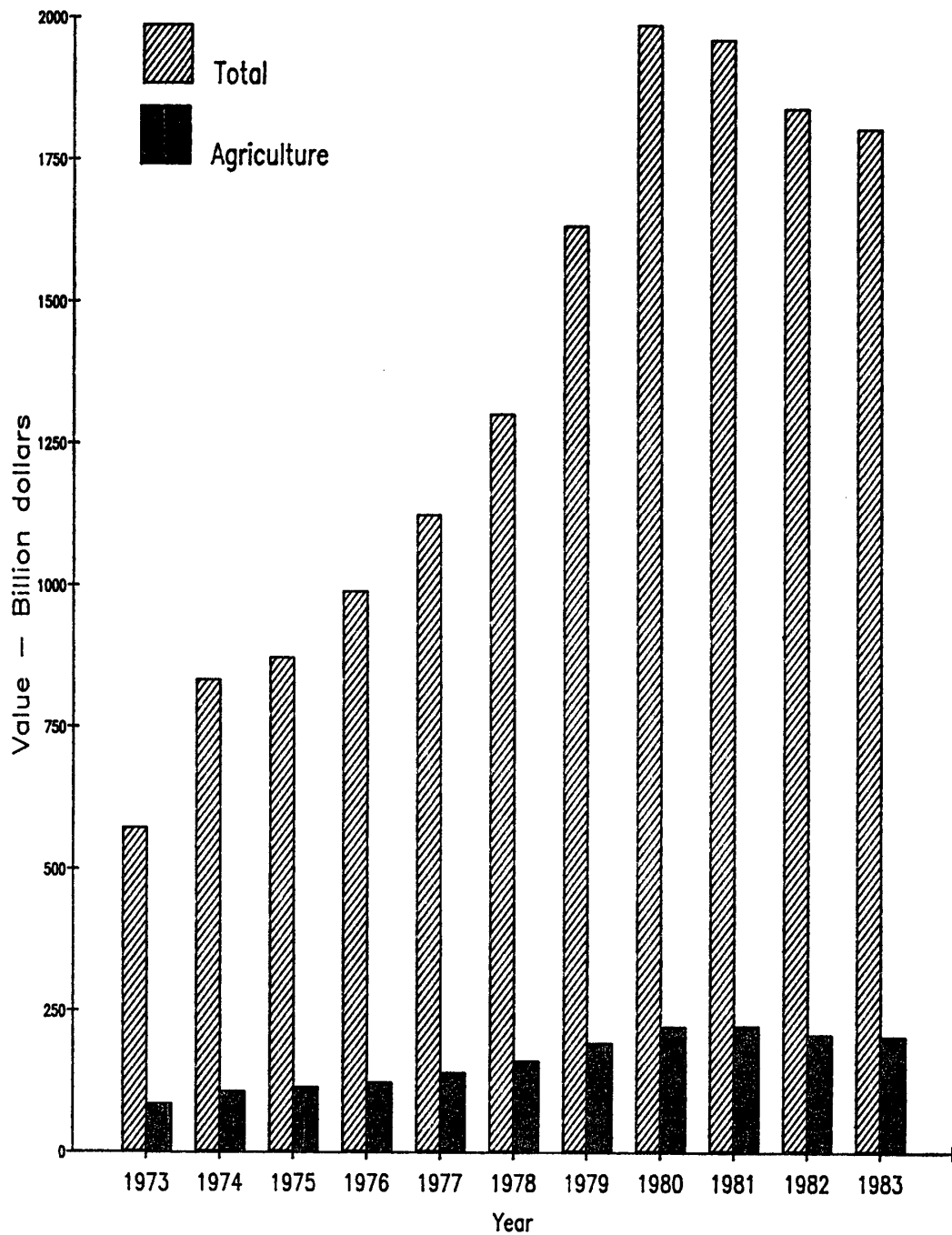


Fig. 2. The Value of Total and Agricultural World Trade.  
Source: GATT. *International Trade, Selected Issues*. Geneva.

sectors. Time and space will not permit detailed coverage of that subject here. Suffice to say, and despite what will be said later, with respect to agricultural protection, the United States has intervened less to protect its agricultural sector than has any other industrial power. Noted Japanese economists Yujiro Hayami and Masayoshi Honma provide data to substantiate this proposition. They

TABLE 2. NOMINAL RATES OF PROTECTION OF AGRICULTURE,<sup>1</sup>  
TEN INDUSTRIAL COUNTRIES, 1955-1980.

Country	1955	1960	1965	1970	1975	1980
United States	2.3	0.9	7.6	9.8	3.8	-0.1
France	23.8	18.5	21.9	30.6	21.9	22.8
Germany	21.9	28.9	31.9	30.7	26.4	29.6
Italy	29.5	29.9	34.7	37.1	23.3	32.9
Netherlands	10.7	18.1	23.5	25.7	22.4	20.2
United Kingdom	29.9	25.4	15.9	19.9	5.3	24.3
Denmark	4.3	3.1	4.3	13.6	15.5	19.6
European Community <sup>2</sup>	23.3	24.3	28.1	31.5	20.8	26.0
Sweden	23.8	28.7	31.7	36.8	26.8	33.6
Switzerland	34.7	35.5	39.4	45.7	46.5	53.1
Japan	15.0	29.3	40.3	42.1	42.7	45.5

Source: Hayami, Yujiro, and Masayoshi Honma, *The Agricultural Protection Level of Japan in an International Comparative Perspective*. The Forum for Policy Innovation Research, Report No. 1 (English Summary), 1983.

<sup>1</sup> Larger numbers indicate a greater degree of protection of agriculture.

<sup>2</sup> European Community 1955-1970 weighted average of France, West Germany, Italy, and the Netherlands; 1975-1980 also includes Denmark and the United Kingdom.

compare domestic to world agricultural prices for ten industrial countries and compute the nominal protection received by agriculture from 1955 to 1980. Over this quarter-century, no downward trend in protection of agriculture in most countries can be discerned, as indicated in Table 2.

## II.

Turning to agricultural and agricultural trade policies, the record of the United States, though better than most, is not without blemish. The practice in the United States of using the export market and trade policy instruments to support domestic price and income farm objectives has a century or more of history behind it. Originally, a high tariff policy was used. When, after World War I, tariffs didn't seem to work, two price schemes were devised which involved discriminatory low pricing in foreign markets. After price supports and production controls were inaugurated with the Agricultural Adjustment Administration (AAA) in the early 1930s, farmers looked to Washington, and not to the foreign market, for solutions to their problems. This occurred for forty years. In fact, the foreign market was ignored except as an afterthought, and then only as a place to "dump" surpluses. These ideas originated in the form of two-price McNary-Haugan bills in the 1920s which provided for the sale of farm commodities abroad at discriminatory prices. The second measure was Section 32 of the First AAA which allowed 30 percent of the United States tariff receipts to be used for subsidizing commodity disposal at home and abroad. Third, and largest of all, is PL480, begun in 1954, which has resulted in some more than \$60 billion of surplus

farm commodity sales or gifts abroad. Finally, in this context, is the export subsidy itself which was an integral part of the schemes of the 1950s and 1960s to impose United States products on foreign markets, and which was used recently (1983) as a measure to "compete" with French flour exports to Egypt. Many subsidy-type schemes were proposed in the export section of 1985 United States farm legislation and subsidies have already begun in earnest. Such subsidy actions will, in all likelihood, be the focus of any new trade negotiations.

Problems related to domestic price maintenance and the resulting dumping of agricultural surpluses have intensified in recent years with the arrival of the EC as a major exporter. The Common Agricultural Policy of the EC and price support system of the United States are both injurious to a new international order of international cooperation and liberalized trade unless the respective governments are prepared to restructure domestic price maintenance policy. Thus far, this has not been the case and agricultural export market competition has been the cause of considerable tension. In 1986 the increasing protectionist temper in the United States has endangered basic relations with Canada, its neighbor. American agricultural trade policy, particularly export subsidies, has seriously strained market relations between the two countries.

To a large extent the exception granted to agriculture in GATT has opened the door to this problem. In an era where millions of people starve we have food surpluses in major exporting countries, which are maintained by costly government programs. Although the Committee on Trade in Agricultural Products (established by GATT in 1982) is working with the Agricultural Committee of the OECD on the issue of export subsidies (Aho and Aronson), not much progress has yet been realized. However, it may be the case that economic circumstances, not international negotiation, will provide the impetus for policy rationalization.

### *Section 22*

Fundamental to United States farm legislation and to the price support programs for basic, nonperishable commodities is Section 22 which was added to the U.S. Agricultural Adjustment Act of 1933 by Public Law 320, Seventy-fourth Congress. Approved August 24, 1935, amended several times, and supplemented by trade agreement legislation, Section 22 authorizes the President to restrict the importation of commodities by the imposition of fees or quotas if such importation tends to render ineffective or materially interferes with programs of the U.S. Department of Agriculture which relate to agricultural commodities. It requires the International Trade Commission (ITC) on direction of the President to conduct an immediate investigation, including a public hearing, and to make a report and recommendation to the President.

The scope of the original legislation was expanded by the Trade Agreements Extension Act of 1951, under which no trade agreement or other international agreement can be applied in a manner inconsistent with requirements found in Section 22. The Trade Expansion Act of 1962 also makes than exception. One



clause of Title II of this act reads as follows: "Nothing contained in this Act shall be construed to affect in any way the provisions of Section 22 of the Agricultural Adjustment Act, or to apply to any import restriction heretofore or hereafter imposed under this Section."

Section 22 special procedures, to be used in emergencies due to product perishability, were first introduced with the Trade Agreements Extension Act of 1951. The Secretary of Agriculture reports the emergency to the President and to the ITC, and the Commission must make an immediate investigation and make appropriate recommendations to the President. The Commission's report to the President and the President's decisions must be made not more than twenty-five calendar days after the case is submitted to the ITC. If the President believes it necessary, however, a decision may be made before the Commission's report is received.

This possible emergency action was clarified by Section 104 of the Trade Agreements Extension Act of 1953 and is now incorporated in Section 22 legislation. The President may take immediate action without awaiting the recommendation of the ITC whenever the Secretary of Agriculture reports with regard to any article that requires emergency treatment. Such action by the President may continue, pending receipt of the report and recommendation of the commission on the Section 22 investigation and any action thereon. Strangely enough, the emergency clause was never used until the cheddar cheese action of 1966, and ironically, in that case a *quota increase* was recommended by the Secretary.

Three specific guidelines are given the President in acting on these recommendations: (1) fees not in excess of 50 percent ad valorem may be imposed; (2) reductions in the importation or warehouse withdrawal are limited to less than 50 percent of a representative period; and (3) the designation of any article or articles may be described in terms of physical qualities, value, use, or any other attribute.

All actions under Section 22 are initiated in the Department of Agriculture, with primary responsibility assigned to the Administrator of the Foreign Agricultural Service. It is here that preliminary investigations and actions are usually initiated. There have been more than fifty investigations, many of which have been devoted to studies and reports on cotton and wheat. One would naturally expect this because it is in these products that the stakes are highest. That is, price support and control programs have intervened more significantly in these commodities. More recently, however, dairy products, particularly cheese, have provided the most activity.

As of early 1985, import controls under Section 22 were in effect for four groups of commodities: cotton and cotton products, specified dairy products, peanuts, sugar and sugar blends. Tobacco is under study. Cotton and wheat controls were in effect for many years: cotton since 1939, wheat since 1941 but was dropped recently. The controls on other products were instituted more recently.

Since Section 22 was enacted, import controls have been imposed on eleven different commodities or groups of commodities. All or a part of nine of these

commodities or groups of commodities have been removed from import controls. Details on commodities or groups of commodities under Section 22 control at one time or another, and those now under control, may be obtained from the Foreign Agricultural Service, U.S. Department of Agriculture.

Section 22 controls are of a continuing nature; that is, they continue automatically until modified or terminated by the President. Certain other details apply to the various commodity programs, but time and space preclude their discussion here.

#### *United States Export Embargoes*

In addition to the imposition of import restrictions, the United States has, on occasion, embargoed exports of agricultural goods. The 1973 oilseed and oilseed products embargo, the agricultural sales moratoria of 1974 and 1975, and the 1980 Soviet embargo all reduced, restricted or curtailed specific United States exports. The export restraints were imposed for both economic (1973 embargo; 1974 and 1975 moratoria) and political (1980 Soviet embargo) reasons.

These actions have generated considerable controversy, both in the United States and abroad. Quite understandably, American farmers objected strenuously to the perceived imbalance in the economic burden borne to achieve political goals. Given the chronological timing of the 1980 embargo and the subsequent financial crisis in American agriculture, it is not surprising that the curtailment of exports, either in general or with respect to a specific country, evokes controversy. Although a causal link between United States export restrictions and farm problems has not been directly established (and a recent U.S. Department of Agriculture report directly refutes the notion) it is likely that many American farmers will continue to blame United States export policy for much of their current economic problems.

International criticism of United States policy also developed. For example, Japan reacted sharply to the 1973 soybean embargo by branding the United States, the source of 90 percent of Japan's soybean imports, as an "unreliable supplier." At least in times of political rhetoric, the effects are still felt today. On occasion, negotiations for the revision of beef import levels to Japan have dwelled upon the perceived unreliability of United States supplies.

### III.

Perishable commodity trade regulations and trade restrictions present a different set of problems. Treatment here will be limited to livestock and meat products. Unlike certain other agricultural producers whose commodities were subject to import control, meat producers of the United States have not been tied directly to government assistance programs. Consequently, under the specifications of Section 22 as described above, imports of red meats were not subject to control by the existing legislation and therefore faced only minor import restrictions and

trade impediments. Not until 1963–64, when red meat imports reached record highs at the same time farm prices for meat products in the United States declined, was Congress moved to pass legislation.

In 1964, the 88th Congress passed Public Law 88–482 which established a quota on imports of red meats (fresh, chilled, and frozen cattle meats and fresh, chilled frozen goat and sheepmeats) while entrusting to the President additional executive powers regarding the control of the importation of such meats into the United States. The initial quota set by this bill was based on the average volume of imports during 1959–63. This figure was 725.4 million pounds, or approximately 4.6 percent of domestic production during the base period. Quotas for years following 1964 were set at levels representing 4.6 percent of the commercial domestic production for the same year, and imposition of these quotas was triggered when imports exceeded 110 percent of the base quota.

The most sweeping action taken under the executive powers of PL 88–482 was the complete relaxation of quotas in June 1972 due to inflationary pressures on domestic prices of red meat. The duration of the removal of quotas has so far been a variable factor since such presidential actions have maintained a high degree of flexibility. For example, depressed economic conditions in the United States livestock feeding industry in 1974 led to political pressures for a change in the country's meat import policy. Discontent among livestock producers again resulted in a coordinated effort to restrict imports of red meats.

The Meat Import Act of 1979 (Public Law 96–177), which sets forth the formula for determining the annual quotas of beef imports, now requires nations to voluntarily maintain their import quantities below a set negotiated ceiling. In practice, the United States prefers to negotiate bilateral export agreements. The 1964 law proved unsatisfactory, and the 1979 legislation introduced a counter-cyclical formula for determining the annual quota with a lower limit of about 1.2 billion pounds (or 0.545 billion kilos). Also included were certain prepared or preserved meats which were not in the previous act.

The new law established a base quota of 1,204.6 million pounds, equivalent to the average annual imports of meat subject to quota during 1968–1977. For any calendar year after 1979, the annual import quota shall be the base quota multiplied by the product of the two fractions. The numerator of the first fraction (of the formula) is a three-year moving average of (the) domestic production of specific meat articles. The denominator is the average annual production of such meat in 1968–1977. The numerator of the second fraction is a five-year moving average of per capita domestic production of cow beef. The denominator is a two-year moving average of per capita domestic production of cow beef. The cow beef ratio is intended to be counter-cyclical, because the import quota is increased when domestic production declines, and reduced when production increases. Although the quota formula acts in a counter-cyclical fashion under normal conditions in the beef industry, some circumstances may cause the formula to be pro-cyclical (Simpson).

The formula to determine annual beef quota has been constructed by Simpson and Farris:

$$\text{Annual Quota} = \text{Average Annual Imports (68-77)} \times \frac{\text{3-year moving average of domestic production}}{\text{10-year avg. of domestic production (1968-1977)}} \times \frac{\text{5-year moving avg. of domestic cow beef prod.}}{\text{2-year moving avg. of domestic cow beef prod.}}$$

### *Monitoring Meat Imports*

The U.S. Customs Service monitors all meat imports subject to the Meat Import Act. When a Voluntary Restrictive Agreement (VRA) program is in effect, the Customs Service, on direction for USDA, monitors imports from any country approaching its limit to ensure that they do not exceed the negotiated level. If formal quotas are in place, the Customs Service sees that imports for each country are held to levels determined by the Secretary of Agriculture. Countries not on the allocation list may not export meats covered under the law to the United States as long as import restrictions are in place.

United States meat imports subject to the Meat Import Law vary from year to year. For example, imports subject to the law dropped in 1983 (see Table 3).

TABLE 3. U.S. MEAT IMPORTS SUBJECT TO MEAT IMPORT LAW DROPPED  
IN 1983<sup>1</sup>  
(In 1,000 pounds)

Country of origin	1982 <sup>2</sup>	1983 <sup>2,3</sup>	Country of origin	1982 <sup>2</sup>	1983 <sup>2,3</sup>
Australia	714,837	601,135	Guatemala	5,237	19,066
			Haiti	882	662
Canada	124,680	129,998	Honduras	31,737	34,102
Costa Rica	45,525	33,427	Mexico	451	1,318
Dominican Republic	10,244	8,017	New Zealand	348,761	367,877
El Salvador	2,568	3,267	Nicaragua	23,248	28,094
European Community	7,004	11,223	Panama	4,419	11,223
			Total <sup>4</sup>	1,319,594	1,240,086

Source: U.S. Department of Agriculture, Foreign Agricultural Service, *Foreign Agriculture*, May 1984, p. 16.

<sup>1</sup> Fresh, chilled or frozen beef, veal, mutton and goat meat and certain prepared items from these. Excludes canned meat and certain other prepared or preserved meat products.

<sup>2</sup> Calendar year.

<sup>3</sup> Preliminary.

<sup>4</sup> Data may not add due to rounding.

### *Customs and Administrative Entry Procedures*

Other United States laws enacted—such as those dealing with health and disease standards or regulations, or with product standards and technical details—are currently regarded as harassment by foreign exporters and they could definitely restrict trade if rigorously enforced. Every nation wishing to export red meats,

red meat products, or slaughter animals to the United States must first approach the U.S. Department of State and apply for a license to trade. Once this application is registered with the State Department, USDA officials are sent to the applicant nation to investigate sanitary conditions in its meat processing industry and health of its livestock population. They particularly concentrate on conditions and facilities for slaughtering animals, as well as facilities for the processing, packaging, storage and transportation of red meats. The exotic disease situation in the prospective exporting country is also studied. If, in the judgment of investigating officials, the country complies with the U.S. Code of Federal Regulations on Health and Hygienic Standards, it becomes eligible for a license.

Until the creation of the EC Third Country Directive in 1972, the sanitary standards required of the export meat processing industries under the U.S. Code of Federal Regulations, and the health standards required of the livestock population of the meat exporting countries were among the most restrictive of the industrialized trading countries. Under Section 205 of the Tariff Act of 1930, as amended, importation of cattle, sheep, swine and forms of meats from these animals is prohibited from all countries where rinderpest or foot-and-mouth disease exist. As a consequence of this act, during the early 1970s, United States imports of these animals and/or meat products in a fresh, chilled or frozen state were restricted from all areas except the nations of North and Central America, Australia, New Zealand, Fiji Islands, Japan, the Republic of Ireland, Norway, Iceland, and from the Channel Islands and Northern Ireland. United States imports from the important meat producing countries of South America have been virtually all in the form of cooked, canned or cured meats.

In addition to the strict posture by the U.S. government on the exotic disease situation in exporting countries, every country exporting meats in fresh, chilled, frozen, cooked, canned, or cured state must have an adequate local veterinarian and health inspection service. This service must have adequate staff and facilities to perform ante- and post-mortem checks of meat animals slaughtered for export, to maintain the sanitary standards of processing plants, and to report accurately on the contagious and exotic disease status of its livestock population to United States authorities. To guarantee the proper supervision of the meat exporting industry by the local veterinarian and health inspection services, each country is also subject to periodic checks by United States authorities to ascertain whether standards are being maintained. In some countries, United States inspection officials are on assignment in the country to oversee the supervision of these health standards by local agencies.

As long as the Federal Code of Health and Hygienic Regulations is maintained, exporting nations will continue to be licensed to ship red meats, red meat products or slaughter animals into the United States. The primary stated intent of these licensing procedures is to protect the consuming public and the domestic livestock sector from diseased or contaminated meat imports. Manipulation of licenses has not been necessary because quotas have been used to control meat imports.

Yet the avoidance of using licensing as an overt control does not preclude its potential as an effective nontariff barrier. This has been very apparent with respect to imports of meat products from South America. After the relaxation of the quota system in June 1972, the United States became a ready market for South American red meats. But the licensing mechanism, guided by the strict health and sanitary standards regarding exotic diseases, excluded South American fresh, chilled, or frozen meats and meat products.

The customs and entry procedures administered by the United States port and customs authorities for imports of red meat and slaughter animals represent another form of nontariff barrier. Imports of meats or slaughter animals must be accompanied by numerous documents to verify health and sanitary conditions. These documents include certification by the official health inspector of the exporting nation regarding ante- and post-mortem checks on slaughtered animals, verification of proper processing of meat under the U.S. Federal Code, information on the origin of slaughter animals, identification of the slaughter plant and verification of proper labeling of the cargo according to the type of meat, cuts and weight. All this information is completed and checked by an official application examiner to ascertain if proper documentation has been completed by the exporters before the shipment is allowed entry into a United States port.

Once the documentation is completed and checked by the officials at the port of entry, random samples are taken from the cargo. At present, the number of computer samples drawn will depend on the reputation and integrity of the importer, shipping line, and meat packers. The contents are examined for wholesomeness and bacteria levels. Frozen (boneless or bone-in) meats are checked by cutting a piece away from the carcass for defrosting and inspection. Canned meats are also randomly checked—cans are opened, the product examined for wholesomeness, and the weight is checked. Contamination of the samples or irregularities in weight or labeling will result in confiscation of the cargo.

The degree to which imports are affected depends on how strictly customs and entry procedures are interpreted. If the interpretation is excessively strict, the procedures can be a very effective nontariff barrier, particularly when there are undue delays in distribution. Minor errors or documentation problems with perishable imports such as fresh, chilled, or frozen meats can cause delays resulting in economic losses for the exporter.

#### *The Beef Grading System*

The USDA beef grading system greatly affects the beef trade. It works in favor of the United States beef industry by restricting beef imports, but it can also affect United States beef exports adversely. The U.S. Meat Import Law places quotas on fresh, frozen and chilled beef and canned and preserved beef products. While the quota does not stipulate grades, the USDA beef grade specification requirement in essence precludes the importation of table and hotel/restaurant trade beef into the United States from regions producing range-fed beef. Range-

fed cattle are leaner than grain-fed, and thus fall into the lower United States manufacturing categories. Australian and New Zealand cattle are mostly range-fed while Canadian beef is somewhat similar to that produced in the United States. However, because the Canadian beef grading descriptions and nomenclature are different from those of the United States, beef must be regraded for United States importation, thus incurring extra costs. For this reason, most fresh, chilled, and frozen Canadian beef enters the United States classified as lower quality manufacturing beef.

During the GATT multilateral trade negotiations, the European Community granted the United States a levy-free quota for 10,000 metric tons of high quality beef (HQB). The GATT definition for high quality beef was negotiated, with the United States recommending the USDA definition for prime and choice beef. The basic definition was subsequently accepted by the European Community and the other GATT members, but it also stipulates that the beef must originate from carcasses of steers which are no more than 30 months old and have been fed no less than 100 days on a minimum of 10 lbs. of high protein rations containing no less than 70 percent grain. The definition further specifies that USDA prime and choice graded beef automatically meets the conditions. The HQB standards are stricter than the USDA official standards for prime and choice beef, which do not specifically require the fattening or the finishing process. The USDA standards, in fact, indicate that the maximum maturity for prime and choice cattle is around 40 months old.

The GATT high quality beef description does not take into account the consumer's preference but indicates United States producers' and trade preferences. Japan and the United States are the two major importing countries whose consumers prefer more heavily marbled meat, yet the present trend in the United States is toward leaner beef for economic and dietary reasons. However, the beef raising industry in Europe is using supplementary grain to finish the cattle before slaughter and the European consumer is also acquiring a taste for grain-fed beef.

The U.S. Meat Export Federation field reports, however, indicate a substantial demand for leaner United States beef in the EC countries, but very little demand for United States high quality beef as presently defined by GATT. Community import buyers would like to avoid the variable levy they must pay on leaner beef by importing it under the EC high quality beef quota. Seeking a way to achieve this goal, the buyers have been demanding tenderloins from cows but United States packers are hard pressed to come up with grain-fed cows that also meet the GATT standards. Most cows are much older than 30 months, and if animals are found that have been grain-fed, there is the additional problem of obtaining a certificate of authentication from the feeder verifying that the cows have met the GATT standards. As a consequence, what little beef the United States packers have shipped to the EC under the 10,000 metric ton quota barely passes the GATT standards.

United States exporters are caught in a bind because if they lower the marbling

of the beef it will become subject to the variable levy. Most United States HQB is used by the hotel and restaurant trade. Because of heavy promotion by the United States beef industry, some is being sold in retail chain stores in the United Kingdom. Because the GATT accepted the USDA definition of high quality beef, and EC consumers demand leaner beef, United States exports to the Community are severely restricted.

The 1981 proposals were submitted to change the official USDA standards for grades of carcass beef. The initial thrust for the change came from the National Cattlemen's Association (NCA) which advocated less marbling in all grades. Specifying a leaner product at all grades would reduce production costs and improve net returns for cattlemen. With strong lobbying against the initiative by purveyors and the hotel-restaurant trade, the U.S. Department of Agriculture decided against adopting the proposal.

Actually, three proposals were outlined in the U.S. Federal Register. The Meat Export Federation, in commenting on the NCA proposal, indicated that a "lowering" of the beef grading standards—meaning a reduction in the fat content—would improve United States chances of expanding its beef export trade to the Community. It is clear, therefore, that in this particular case, the USDA grade specification requirements are acting as a nontariff trade barrier for the exporting of United States beef to the Community.

The Japanese also have a quota for high quality grain-fed beef. The basic GATT definition governs Japanese imports except for one minor change with regard to minimum external fat covering the ribeye (12th rib for the Japanese and the 6th rib for USDA). In this case, the definition favors the United States exporter over the Oceania exporters because a major criterion is the requirement that the beef must be from grain-fed cattle. When the Japanese increased their high quality beef quota in 1982, stipulating grain-fed beef, the Australians protested and accused them of applying a nontariff barrier to their beef trade. Subsequently, the Australians, through negotiations with the Japanese Livestock Industry Promotion Corporation (LIPC), redefined high quality beef to include cattle that have four permanent incisor teeth. This allows the Australian beef industry to bid on the LIPC high quality grain-fed beef tenders. The redefinition also allows the Canadians to bid more easily on the same LIPC tenders, though of course the United States beef industry protested the change. At present, the Australian and Canadian exports to Japan in this category remain insignificant when compared to United States exports; nevertheless, the U.S. Meat Export Federation foresees a possible erosion of its position in the Japanese market. The above account shows an inconsistency in the actions of the United States between its exports of beef to Europe and Japan.

As would be expected from any profit-oriented sector, the United States beef industry supports the liberalization of international trade principally where such liberalization benefits its own exports of beef. Needless to say, such actions when condoned by official United States policy, are inconsistent with free trade.



## IV.

The heart of the problem of improving the trade environment for agriculture is that of reconciling trade and domestic policy objectives, or to harmonize and adjust national agricultural policies. Since it is highly unlikely that any of the industrial countries will *unilaterally* reduce the protection to their agricultural sectors; since the United States has currently returned to its "residual supplier" position in several products; and since no coordinated system of grain stockpiles seems likely, some attention should be given to ways to integrate agricultural policy discussions into negotiations among countries. World agricultural adjustment and liberalized trade are necessary so that agricultural resources will not be wasted and so that efficient production and marketing methods may be used to improve world food and, to a degree, fiber consumption standards. Without such adjustment, the cycle of inward-looking agricultural policies will be perpetuated from crisis to crisis.

Ironically, the import policies of many other developed countries have become more restrictive in recent years, making the United States' task of adjustment in agricultural and trade policies that much more difficult. The "illusory effect" of increased exports since 1972 tends to hide the propensity of countries toward more protection of their agricultural sectors. A leading factor in this illusion has been the subsidization of agricultural exports. Unfortunately, it is probable that subsidized and/or regulated trade in agricultural products will continue undiminished among industrial countries, and between them and the rest of the world, because it is unlikely that protective agricultural and trade policies which have been built up for the past 50 years will be fundamentally altered.

In fact, policies have been followed in most of the developed nations which protect their farmers from low international prices. Stable and higher prices have stimulated higher yields even if they have not induced a more modern agrarian structure in many countries. In consequence, net imports often have declined or remained stable despite rising consumer incomes in those developed countries. One result is the increased interest in food aid as an outlet for United States, Canadian, and European grain surpluses. Another is the recognition that, in practical terms, the Soviet Union and China are the major near-term markets for above-normal production of grains. The potential of the developing countries (LDCs) to purchase more grain commercially, if they earn more hard currency, makes the general trade policies of the developed countries vis-a-vis the LDCs of much more than passing interest to farmers producing for export. The International Food Policy Research Institute (IFPRI) is giving this issue considerable attention.

If the general structure of farm policies in the industrial countries is not altered, the economic waste will grow rather than diminish in the years ahead. Analyses have shown this clearly (Josling and Hillman, Johnson). Political tensions in that case are apt to increase, because it is probable that unsubsidized trade in

agricultural products among the industrial countries will decline. The continuing difficulty in reaching an agreement on wheat stocks provides an example. Tensions will not only likely grow among the industrial nations but also between them and the developing nations which are, increasingly, the importers of wheat.

Administrative decisions with respect to trade policy and trade negotiations include target prices, loan levels, size and function of payments to farmers, production targets, and stock objectives. In the current world trade situation, the way in which these decisions affect the carry-over of stocks will be of greatest importance.

Even though a new round of trade negotiations is scheduled to take place in GATT, a longer-term approach to resolving conflicts between domestic agricultural policies and international trade in agricultural products should include a forum for regular consultations on overall national agricultural policies. Such a forum might conduct an annual review of national policies and international commodity arrangements; it might review changes in historical patterns of agricultural trade and changes in market shares of individual exporting countries; and it might also review the general objective of world agricultural adjustment along the lines of comparative advantage, taking into account national food and agricultural program, international commodity agreements, etc. The forum might provide a place for the observation of world distortions in equity stemming from the instabilities which arise from beggar-try-neighbor agricultural and trade policies. This forum is, of course, clearly in concert with the senior author's call (Hillman, 1984) for a strong coordinating political thrust, reflecting the realities of global political, as well as economic power, capable of putting pressure on the international institutions to reflect the new era of interdependence. Needless to say, the United States must exert a strong leadership role in all this, thus reversing a decade or more of drift.

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