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"What Congress Can (And Should) Do for World Trade", World Trade Conference

Max S. Baucus

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WHAT CONGRESS CAN (AND SHOULD) DO FOR WORLD TRADE

CONGRESSMAN MAX BAUCUS
WORLD TRADE CONFERENCE
BOZEMAN, MONTANA
MARCH 16, 1978

It's good to see so many people here. President Carter wants to balance the export deficit by importing less oil. You've got a better idea -- exporting more farm products.

I'm glad to have this opportunity to talk about the role of Congress in international grain trade.

Right now, the emphasis in Congress is on legislation to protect farm prices and income. But in the long run, the best way to insure the vitality of American agriculture is to expand overseas markets.

Two-thirds of the world's people live in developing countries. They'll continue to need more food supplies to meet the needs of growing populations with growing incomes.

Congress must create opportunities for world trade so American farmers can profit from this increasing demand.

INTERNATIONAL TRADE TALKS

As you well know, world trade in grains is affected by a complex system of subsidies, tariffs, quotas and government purchasing boards. This world system tends to discriminate against American grain.
One thing Congress has to do is work with the Administration to reduce trade barriers.

Currently, the Administration is involved in two sets of trade talks that affect agriculture. One is the Multilateral Trade Negotiations in Geneva. These talks, commonly called the Tokyo round, involve 97 countries and all manufactured as well as agricultural products. The second set of trade talks is the International Wheat Council negotiations, also in Geneva. These talks involve major wheat importing and exporting countries, and the goal is negotiating a new International Wheat Agreement.

Congress has an input and a responsibility in the trade negotiations.

Any trade treaties negotiated by the Administration have to be ratified by the Senate. In addition, any treaty changing U.S. domestic policies also requires House concurrence.

Farm State Congressmen need to work with Ambassador Strauss, the Administration's chief trade negotiator, to see that our interests are protected.

The Trade Act of 1974 authorizes U.S. participation in the current round of Multilateral Trade Negotiations. That act specifies that agriculture will be treated equally with other industries in the negotiations.

This provision was necessary because agriculture got the "short end" in the Kennedy round of Multilateral Trade Negotiations in 1968.
During the Kennedy round of negotiations, members of the Common Market insisted that there should be no restraints on their internal policies. U.S. negotiators went along with this idea and let the European Community keep its system of variable levies and export subsidies.

The variable levies keeps grain prices within the Common Market fairly constant. When world prices decline, the variable levy increases.

Thus, our wheat and feed grains can't compete in the European community even when we set prices very low. Common Market farmers are assured of their prices, which vary from $4.25 to $5.75 per bushel depending on the country.

A second trade problem with the European community is their export subsidies. The Common Market countries pay hefty export subsidies for dairy products, which then enter this country and compete with domestic dairy products.

Ambassador Strauss has promised not to come back from Geneva without trade concessions for agricultural goods.

I understand the difficulty of getting trade concessions from the Common Market. Agricultural policies have been called "the glue that holds the European community together." Their negotiators will be unwilling to relax export quotas and variable levies.

But we have to present a tough stance and do the best we can. The present system is just too unfair to our farmers.

I plan to hold Ambassador Strauss to his promise to obtain concessions for agricultural goods during the Multilateral Trade Negotiations.
The United States is also currently negotiating with other wheat-producing and consuming nations for an International Wheat Agreement.

The Administration's proposal for the wheat agreement is an international system of reserves.

When prices reach a certain price, or lower "trigger" point, participating nations will have to add to their reserves.

If prices reach an upper "trigger" point or price, nations would have to release wheat from reserves.

This reserve system would have a stabilizing effect on world prices. Hopefully, the boom-to-bust cycle we've experienced the past few years would be moderated.

Most farmers I've talked to don't oppose the U.S. proposal in principal. But they're worried about what the trigger prices will be.

The upper and lower trigger prices will effectively set a ceiling and floor on world wheat prices.

I'm concerned that the trigger prices might be set so low that farmers won't be able to obtain decent prices.

Recently, I joined other farm-state representatives in cosponsoring a resolution asking the President to seek two goals in international negotiations -- expansion of export markets and prices that would bring farmers parity returns.

The international wheat talks are scheduled to adjourn temporarily next week -- the lease on the building they're using runs out.
So far, there hasn't been any progress at all. The Common Market countries want the talks to include feed grains and they want firm upper and lower prices for wheat.

The U.S. is insisting on the reserve proposal and doesn't want to include feed grains.

So the prospects for an International Wheat Agreement don't look too good right now.

As farmers, we shouldn't be too concerned, though. It's better to have no agreement than one that puts U.S. producers at a disadvantage.

Congressional Action to Expand Trade

In addition to cooperating with the President, there are things Congress should do on its own initiative.

One of the most important bills currently pending in Congress is the Agricultural Trade Expansion Act developed by Senator Humphrey and Congressman Findley. I'm a cosponsor of the House bill.

What the bill does is authorize the Commodity Credit Corporation to offer intermediate-term credit for periods of three to ten years. In addition, the bill authorizes the CCC to offer credit to countries with non-market economies.

For many foreign countries, credit is a major factor in determining where they buy grain.

Intermediate-term credit has been lacking for buyers of U.S. wheat. The CCC currently can offer credit for only three years or less. P.L. 480 loans have been available for periods of over ten years, but only to poor countries. Many countries
CAN'T GET COMMERCIAL CREDIT AT A COMPETITIVE INTEREST RATES.

In addition to offering intermediate-term credit, the Trade Expansion Act opens the door for increased sales to the non-market economies of Eastern Europe and Red China.

I expect the House International Trade Committee to act soon on this legislation.

Cooperator programs, such as Western Wheat Associates, have been useful in expanding our overseas markets. I serve on the Agricultural Appropriations Subcommittee which has jurisdiction over cooperator programs, and I'm happy to report that even the Administration recognizes their importance.

This year, one of the few budget increases the Administration requested within USDA was a 19 percent expansion in the cooperator programs.

This arrangement, where diplomatic representatives work hand in hand with various components of American agriculture, has resulted in very effective market development.

The Domestic Situation

It's appropriate to talk about domestic farm policy here because our export sales and income are affected so much by the U.S. loan rate.

Farmers are hurting. A survey of banks in Montana recently showed that a third of farm borrowers are in financial trouble.

The effective campaign spearheaded by the American Agriculture Movement showed the public how bad the farm situation is.

The Administration has refused to use the discretionary power it has under the present Farm Act to improve farm income.

So now Congress is taking the bull by the horns.
Since the beginning of January, over a hundred bills dealing with agriculture have been introduced in the House alone. Both the Senate and the House have held hearings to get testimony from agricultural groups.

The most discussed proposal right now is a bill introduced by Senator Talmadge of Georgia. It provides for land diversion payments of about $75 per acre to encourage farmers to plant less.

The Talmadge bill was passed by the Senate Agriculture Committee on Monday and may come to the Senate floor today.

Although Talmadge's bill has some merit, it should be amended to include higher target prices and loan rates.

Raising loan rates has provoked endless debate in farm circles. The major argument against loan rate increases is a possible detrimental effect on export sales.

I don't deny that we might lose some export sales in future years. Other countries probably will increase their production somewhat in response to higher prices.

But I hold that the higher price will more than compensate for decreased sales. It just doesn't make sense to have a loan rate for wheat that's below the cost of production.

Recently the USDA completed a study that sheds some light on this matter. Their study shows that if U.S. wheat prices were raised all the way to 100 percent of parity, wheat exports would decrease very little the first year.

By 1982, wheat exports would decrease 30 percent in volume -- but because of the higher price the value of exports would increase.
So I think some increase in loan rates is desirable. Next week I’m going to Ottawa where I’ll be meeting with Gene Whalen, Minister of Agriculture, and Otto Lang, head of the Canadian Wheat Pool. One thing I intend to discuss is the Canadian reaction to higher U.S. loan rates.

In addition to increasing loan rates, Congress should provide higher wheat and feed grain target prices. These are necessary to increase farmers’ incomes and encourage them to participate in set-aside programs.

Finally, I think any new agricultural bill should provide some relief for livestock producers.

I’m encouraged about the recent increases in cattle prices. But we still need some way to reduce the destabilizing influence of beef imports.

I’ve introduced two bills dealing with meat imports. In addition, I’ll be talking next week with Canadian officials about the flow of Canadian feeder calves that have been raising havoc in Montana. Hopefully, we can make some progress toward resolving this complex trade problem.

I know I’ve covered lots of ground, so now I’d like to answer any questions you might have.