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Montana Graingrowers Association

Max S. Baucus

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Thank you, Larry. I am very glad to be at your annual convention again this year. I had such a good time here last year that I wouldn't miss it for the world.

As all of you know, the U.S. Senate will not be privileged with the presence of John Melcher next year.

That is a terrible loss both for the Senate and for Montana farmers.

I don't have to remind all of you of Senator Melcher's tireless efforts to keep the wheat target price near $4 per bushel in the 1985 farm bill, and of his tremendous contributions to this year's drought bill.

John has also worked tirelessly to expand agricultural export programs. His Food Aid and Trade Missions bill became law last year, and should help open new developing markets for Montana wheat for years to come.
With John gone I felt I had to take a seat on the Agriculture Committee to carry on his work. But his shoes are going to be impossible to fill.

Agriculture has lost a friend in the Senate and so have I.

John, I think I speak for everyone when I say we wish you all the best in whatever you decide to do.

I am sure your all very familiar with the debate on the farm bill that is beginning to shape up in Washington. But there may be a new constraint on the next farm bill that we write--a new international agreement limiting agricultural subsidies.

GATT is an acronym you probably haven't heard much before, but you are going to be hearing it a lot for the next few years.

GATT stands for the General Agreement on Tariffs and Trade. The GATT is the international organization that regulates world trade. It is both a forum to negotiate new rules of international trade, and a referee that sees that existing rules are enforced.

The GATT was formed in 1947. The U.S. was the driving force behind the GATT in those days. America wanted to make sure that its exports would be allowed into foreign markets.
Originally, the GATT focused on reducing tariff levels worldwide because tariffs were the biggest trade barriers. But recently the U.S. has been trying to expand the GATT to cover quotas and subsidies. The U.S. is also trying to expand the GATT to cover trade in services--like construction and accounting--and to protect patents in other nations.

Why has the U.S. been so interested in expanding the scope of the GATT? Simply put, because U.S. jobs are on the line. More than 23% of the U.S. GNP, and one in five American jobs depend directly upon international trade. In order to protect American jobs and help our economy grow, we need access to foreign markets.

But what does the GATT have to do with agriculture?

In truth, it doesn't have much to do with agriculture right now, but in two years it may become critically important.

As most of you know, Montana agriculture depends heavily upon exports. For example, more than half of the wheat grown in the U.S. is consumed overseas, and more than 70% of the wheat grown in Montana eventually finds its way to Pacific Rim markets, like Japan and Korea.

But even though about 20% of the goods traded in the world are agricultural goods the GATT virtually ignores
Agriculture.

At the time the GATT was formed, many nations, particularly the European nations and Japan, were unwilling to put any constraints on their ability to subsidize production and shut out agricultural exports.

But that will all change if the Reagan Administration gets its way. The Administration has proposed a plan that requires all nations to eliminate all of their agricultural subsidies and other trade barriers by 2000. In the current round of GATT negotiations, they are trying to convince the rest of the nations in the world to sign on to their plan.

In fact, next week in Montreal they will attempt to get the rest of the world to agree to start phasing out agricultural supports almost immediately.

Now, even though I am a Democrat, I think that President Reagan is on the right track with his agricultural proposal.

It is probably unrealistic to talk about phasing out all agricultural subsidies in the next few years, but U.S. farmers--particularly Montana grain farmers--could benefit if all nations reduced their subsidies.

A recent study conducted for the USDA concluded that farmers in this part of the country can produce high quality
quality grain as efficiently and cheaply as farmers anywhere in the world.

You have all heard a lot about how cheaply farmers in Australia and Argentina can grow wheat. But according to this study, Montana farmers can beat their Australian and Argentinian competition by 4 cents per bushel.

What does all that mean in practice? It means that if all subsidies and trade barriers were eliminated Montana wheat farmers could be in for a bonanza. They would no longer have to compete with subsidized competition from Europe, and could expand into new markets around the world.

Now the outlook isn’t all rosy. Some sectors of American agriculture, particularly dairy and sugar producers, would have a tougher time. We need to give special consideration to those sectors.

Further, the Europeans and the Japanese aren’t going to drop their subsidies and open their markets easily.

We have to be tough negotiators. We have to make sure other countries really do phase out their subsidies, and we have to make sure we don’t go too far too fast.

Frankly, I am a little concerned that our current negotiators may be inclined to go too far too fast. That is why I, in my capacity as probable chairman of the
Senate Finance Committee's Trade Subcommittee and new member of the Agriculture Committee, am going to Montreal tomorrow to oversee the negotiations.

But, if we can get a deal, it could help Montana.

Now, in practical terms what would a GATT agreement on agriculture mean?

Well, for one thing it could change the shape of the next farm bill.

If an agreement is reached to phase out subsidies it will limit what we can do with the Export Enhancement Program and may force us to cut target prices slightly.

But, as long as the rest of the world does the same thing, farm income should rise instead of fall because many new markets would open up.

Now there is no doubt about it, we have to be very careful in these negotiations. But if it works out right, it could mean major new opportunities for Montana farmers.