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TALKING POINTS

NAT'L AG EXPORT COMMISSION

* I APPRECIATE BEING WITH YOU TODAY AND BEING PART OF THE "AGEXPORT '86" PROGRAM NOW UNDERWAY IN CONJUNCTION WITH NATIONAL AGRICULTURE EXPORT WEEK. IT WAS TWO YEARS AGO (JUNE 21, 1984) THAT I INTRODUCED THE JOINT RESOLUTION TO ESTABLISH THE NATIONAL COMMISSION ON AGRICULTURAL TRADE AND EXPORT POLICY.

* FRITZ GWINN FROM KANSAS, CHAIRMAN OF THE BOARD OF FARMLAND INDUSTRIES, SERVES ON THE COMMISSION. FARMLAND INDUSTRIES ORIGINALLY SUGGESTED THE BASIC IDEA OF A COMMISSION TO STUDY WAYS TO INCREASE OUR EXPORTS.

* THE COMMISSION IS A GOOD EXAMPLE OF INDUSTRY WORKING IN PARTNERSHIP WITH CONGRESS TO SOLVE SOME OF THEIR PROBLEMS. THE COMMISSION IS MADE UP OF TWENTY PRIVATE SECTOR INDIVIDUALS REPRESENTING A BROAD RANGE OF AGRICULTURAL INTERESTS AND IS PARTLY FINANCED BY THE PRIVATE SECTOR. SOMETIMES COMMISSIONS COME AND GO. BUT I SUGGEST THERE MAY BE A NEED FOR A SYSTEMATIC, ORGANIZED PRIVATE EFFORT TO FOCUS ON THE NEED TO INCREASE U.S. FARM EXPORTS AND TO FOLLOW UP ON SOME OF THE COMMISSION'S OBJECTIVES.

* WE IN CONGRESS ARE VERY APPRECIATIVE THAT TWENTY LEADERS IN THE PRIVATE SECTOR HAVE STUDIED THESE COMPLEX ISSUES FOR THE LAST 18 MONTHS AND I THINK THE COMMISSION'S RECOMMENDATIONS WILL GENERATE A LOT OF INTEREST. I UNDERSTAND SOME OF THE RECOMMENDATIONS ARE INCLUDED IN HOUSE TRADE BILL AND THAT THE COMMISSION IS NOW DEVELOPING ITS FINAL REPORT TO CONGRESS AND THE PRESIDENT.

* I AM AWARE THAT ONE OF THE COMMISSION'S RECOMMENDATIONS IS TO UPGRADE THE ROLE THE DEPARTMENT OF AGRICULTURE PLAYS IN AGRICULTURAL TRADE MATTERS IN AN EFFORT TO GIVE AGRICULTURE MORE ATTENTION ON THE NATIONAL AGENDA. I THINK THIS WILL GENERATE A LOT OF DISCUSSION BUT AT THE SAME TIME WILL BE CONTROVERSIAL.

* THE TIMING OF AGEXPORT '86 IS PARTICULARLY APPROPRIATE IN UNDERSCORING THE IMPORTANCE OF FARM EXPORTS TO RURAL AMERICA AND THE NATIONAL ECONOMY. CURRENTLY, THE GRAIN EXPORT SITUATION IS DISMAL -- AT A 13 YEAR LOW AND CONTINUING TO LOSE MARKET SHARE TO OUR COMPETITORS. CARRYOVER STOCKS OF WHEAT AND CORN ARE AT A HISTORIC HIGH. EXPORTS HAVE DECLINED 38% IN VALUE AND 29% IN VOLUME. BUT WHEN FARM EXPORTS RISE, AS THEY DID IN THE 70'S, FARM INCOME RISES WITH THEM. THE PEAK YEAR OF 1981 SAW THE VALUE OF U.S. FARM EXPORTS REACH \$44 BLN AND NET FARM INCOME REACHED NEARLY \$30 BLN. FARM EXPORT ESTIMATES THIS YEAR AT \$27.5 BLN ARE DOWN MORE THAN 50 PERCENT FROM 1981 AND NET FARM INCOME IS EXPECTED TO FALL BELOW \$23 BILLION. IF WE DON'T SEE THE FIVE YEAR DOWNTREND IN EXPORTS REVERSE, THEN WE COULD BE FACED WITH A SCALED-DOWN AGRICULTURAL INDUSTRY -- EITHER THROUGH ATTRITION OR MANDATORY PRODUCTION CONTROLS.

EXPORT COMMISSION (CON'T.)

* AS A RESULT, THE "SAFETY NET" OF U.S. FARM PROGRAMS HAS ESCALATED SHARPLY -- FROM AN AVERAGE OF ONLY \$4 BILLION PER YEAR IN THE LATE '70'S TO AN ESTIMATED \$26 BILLION IN 1986.

* THE NEW FARM BILL SETS THE STAGE FOR ENHANCING EXPORTS BY REDUCING LOAN RATES. THE BILL ALSO INCLUDES A "TOOL BOX" OF VARIOUS EXPORT INITIATIVES, GIVING THE SECRETARY A GREAT DEAL OF DISCRETION IN TAILORING TRADE POLICY TO THE REALITIES OF WORLD MARKET DEMAND AND COMPETITION. HOWEVER, THE RESULTS OF THE NEW FARM BILL MUST BE CHARACTERIZED AS UNEVEN. IT APPEARS THE MARKETING LOAN WILL BE SUCCESSFUL FOR RICE AND COTTON. HOWEVER, THE ADMINISTRATION OPPOSES ITS USE FOR WHEAT, FEED GRAINS AND SOYBEANS.

* I HAVE WRITTEN SECRETARY LYNG ON TWO OCCASIONS IN RECENT MONTHS TO URGE THE ADMINISTRATION TO FIND A WAY TO REVERSE THE DOWNTREND IN GRAIN EXPORTS.

* LAST FRIDAY, I CALLED A MEETING OF KEY FARM STATE SENATORS, MAJOR FARM GROUPS, MAJOR EXPORTERS AND KEY ADMINISTRATION OFFICIALS. THE MEETING FOCUSED PARTLY ON THE EXPORT ENHANCEMENT PROGRAM WHICH TARGETS SALES TO COUNTRIES WHERE THE U.S. HAS LOST MARKETS TO UNFAIR SUBSIDIES BY THE EEC. MANY OF US FEEL THE SCOPE OF THE EEP IS TOO NARROW AND SHOULD BE EXPANDED.

* OTHER OPTIONS I PROPOSED FOR CONSIDERATION INCLUDED:
-FORGIVENESS OF INTEREST CHARGES TO ENCOURAGE PRODUCERS TO REDEEM THEIR LOANS RATHER THAN FORFEIT THE GRAIN; - ENSURE THE SOVIETS ADHERE TO THE LONG-TERM AGREEMENT TO BUY 4 MMT OF WHEAT AND CORN/YEAR; - EXPANDED FOOD AID; - USE OF EXPORT CREDITS; - AND AN AGGRESSIVE STAND TOWARD UNFAIR AGRICULTURAL TRADE IN THE NEW ROUND OF THE GATT.

* ITS TIME TO CONVINCING OUR FOREIGN COMPETITORS AND OUR IMPORT CUSTOMERS ABROAD THAT WE HAVE MADE THE LONG-TERM DECISION TO MAKE AGRICULTURE AND FARM EXPORTS A TOP NATIONAL PRIORITY. ALL OF US HAVE AN IMPORTANT ROLE IN COMMUNICATING THE MESSAGE THAT EXPORTS ARE THE LIFEBLOOD OF AMERICAN AGRICULTURE. I WOULD HOPE THAT WE COULD REDEDICATE OURSELVES TO THIS BASIC GOAL.

Trade: The House Bill

- The House-passed trade bill may have started out as a good-faith effort, but what emerged on the House floor is guaranteed to turn back the clock on years of progress towards freer, more open international markets. It's a job-killer, not a job-protector. Tip O'Neill is more interested in manufacturing an election-year issue than in really addressing the trade problems of American manufacturers and farmers.

- The House bill doesn't give the President new tools for dealing with unfair trade practices: it ties his hands in ways that are guaranteed to provoke retaliation against American producers--including our hard-pressed American farmers. The House would require the President to:

- retaliate against alleged trade violations,

- retaliate so as to cost the perpetrator of the trade violation an amount equivalent to the measured cost of the violation to the U.S.,

- retaliate against countries with 'unreasonable' trade practices, defined to include labor policies of those countries,

- negotiate with major trading partners that have "excessive trade surpluses" with the U.S., and impose quotas or tariffs unless a 10% reduction per year is achieved.

- The House bill also creates new expedited procedures for protecting U.S. industries against imports, broaden the definition of "dumping" that hurts U.S. industries, and allow duties to be imposed on "diversionary dumping" (when products are dumped into a third country, then incorporated into a product headed for the U.S. market).

- Now, there is nothing wrong with being tough on unfair trade practices, dumping, nontariff barriers, and all of that. Senate Republicans took the lead in pointing out the need for a tougher U.S. bargaining stance. And we're still taking the lead: for a stronger trade position that will open markets to American goods and services, not shut doors all the way around.

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- What the House bill does, then, is cloak protectionist gimmicks that will backfire on the U.S. in the rhetoric of a "get-tough" trade policy. If we really want to get tough on trade, first we have to get smart.

- A wise trade policy starts off by recognizing that the U.S. has the most to lose from a collapse of the world trading system. No one needs to explain that to American farmers, whose sales abroad have fallen by one-third over four years: from \$43.8 billion to \$28 billion.

A Better Approach

- Without a more realistic value for the dollar against the currencies of our major trading partners, no legislation on trade can have much of an impact. So our first job is to support the G-5 initiative that has succeeded in moderating the value of the dollar: it's fallen more than 35% from its 1985 peak against the yen. And we can support the dollar initiative by following through on U.S. commitments to reduce the budget deficit and implement a tax reform that will improve the productivity of American producers. So that's number one.

- Second, we should carry forward the Reagan economic revolution by pursuing policies that make our economy work better--because that makes our producers second-to-none in international competition. That means following a low-inflation, low-interest rate policy, keep cutting back unneeded regulatory barriers, and limiting government interference in the domestic economy.

- Finally, any legislative initiative on trade should emphasize quick response to truly unfair trade practices that cut U.S. exports out of foreign markets. Where we're really being discriminated against, let's encourage the President to keep hammering away until we get some results. Again, the key is to open markets to the U.S.--not to hurt U.S. consumers with a blanket shut-out of foreign competition.

- We can also review existing trade preferences that may have become obsolete given the shift toward Third World producers; streamline procedures for pursuing anti-dumping cases against nonfree, State-run economies; and give the President new tools for promoting exports.

June 3, 1986

TRADE TALKING POINTS

- o While good news on the trade front is slow in coming, exports of U.S. capital equipment and other goods are running about 4% over the pace at the end of 1985. If this trend continues, we should see significant improvement in the trade deficit before the end of this year.
- o This positive shift is, in part, the result of past year's decline in the value of the dollar. The dollar has fallen almost 35% from its peak in February 1985 against the yen, and since last September's G-5 meeting it's fallen about 15% against a basket of major currencies.
- o I hope this turnabout continues--but there's more to trade trends than exchange rates. Even with the good news, we must face facts: the United States does not have a clearly defined trade strategy or policies to carry it out.
- o We Americans believe that trade is an exchange of goods and services -- a two-way street between businesses, states, and countries. However, many countries are only too happy to sell us their goods. But when it comes to buying ours, they say "No thanks."
- o The truth is that most of us in Congress, as well as most businesses, don't want to erect protectionist barriers to prevent foreign goods from entering the United States. What we want is access -- the opportunity to sell American products in overseas markets.
- o In the past, the United States blinked at other countries' trade barriers even though our markets are among the most open in the world. In view of the current U.S. political and economic climate we can no longer afford this luxury.

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CONGRESS AND TRADE POLICY

o I have never seen stronger Congressional sentiment for acting on the trade front. My colleagues, including strong advocates of free trade, are fed up with what they believe to be basic unfairness.

o Trade already is and will continue to be a major political issue in the 1986 and 1988 elections. Many in Congress are already moving to gain early political advantage. Hundreds of trade bills have been introduced to date. The stakes are high -- maybe control of the Senate in 1986.

o Although there is a diversity of opinion among members of Congress on how best to address the trade issue, there seems to be a consensus that Congress must reassert its broad constitutional authority over trade policy. Under Article I of the Constitution, the Congress is expressly vested with the power to regulate commerce with foreign nations and to set tariffs. Over the years, Congress has ceded to the Executive Branch the primary role not only in implementing these policies but also in setting our overall trade policies.

o Last November a bipartisan group of my Senate colleagues joined with me in introducing a major trade initiative which attempts to reestablish our involvement.

Specifically, this bipartisan initiative addresses the following objectives:

To insure systematic enforcement of existing trade laws against foreign unfair trade practices;

To expand trade through market liberalization;

To promote meaningful adjustment of import-impacted industries to new competitive conditions; and

To remedy misalignment of the dollar, developing country debt, and disincentives to U.S. exports.

In addition to this effort there are numerous sector-specific bills which the Congress may consider. Notable among them, the so-called textile bill, which passed overwhelmingly in both the House and Senate and was vetoed by the President.

CANADIAN FREE TRADE AGREEMENT

o One more recent example of congressional determination to become a more active partner on trade is the debate over the Administration's proposal to begin negotiations on a free trade zone agreement with Canada.

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o The administration got its way. On a tie vote, the Finance Committee defeated a motion to put the negotiations on a slow track--in effect gutting the initiative. But the Administration came close to losing this one. There were a number of senators unhappy about specific trade issues with Canada, such as timber. But there were others, Republicans included, who are dissatisfied with the administration's failure to be more aggressive overall on the trade front and to take Congress for granted.

o The trade issue is not going to go away. Members of Congress recognize that America's trade policy is in a shambles. And Congress seems prepared to pick up the pieces -- if you can believe all the rhetoric.

AGRICULTURE AND TRADE

o Agricultural trade is vital to the economic health of rural America and the Nation. 20 million jobs and 20% of our economic activity can be tied to the farm sector. Low farm prices are one of the primary reasons for the low inflation being enjoyed by other Americans as well as foreigners.

o I am especially sensitive to the importance of world markets to U.S. farmers. U.S. agricultural sales have fallen by over one-third in four years: from \$43.8 billion in 1981 to \$28 billion in 1985.

o Problems facing ag exports have included:

- reduced buying power and increased food production in developing countries. These trends are tied to long-term economic trends, and will not change soon.
- the relatively high value of the dollar in 1981-85. With the 30% decline in the dollar since a year ago, U.S. sales should improve somewhat. However, many of our competitors either trade in dollars or tie their currencies to shifts in the dollar's value to prevent losing market share.
- U.S. price supports have been above world market levels. This has been addressed through the lower loan rates in the 1985 farm bill. However, these 15-25% reductions will not be effective until the 1986 harvest begins (June for wheat; September for feedgrains and soybeans). Current "old crop" prices are significantly higher than "new crop" prices later this year.
- government-assisted competition. The EEC's use of export subsidies is only the most blatant example of government intervention in farm exports. Others have used (and are using) various production, processing, and ocean freight subsidies or allow domestic hyperinflation to underprice their exports.

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--lack of a coherent U.S. trade policy. Food has been used as an economic and political weapon by Administrations of both parties, either by cutting exports off in embargoes or by discriminating in the application of subsidies. U.S. refusal to offer Export Enhancement Program (EEP) bonus commodities across-the-board has cost sales to friends (Korea, Brazil) as well as global adversaries (Soviet Union, PRC).

o The Reagan Administration has launched a more serious effort to counter unfair trade practices. Lyng and Yeutter met their EEC counterparts (Andreissen and de Clerq) in Paris last week to make clear that the U.S. will not accept the new EEC restrictions on farm trade with Spain and Portugal. If restrictions are imposed, the U.S. will offset the value of lost sales of wheat, feed grains and soybean products through parallel restrictions on EEC agricultural exports.

o We do not want to get into a farm trade war. We would like to normalize ag trade by eliminating subsidies now allowed under GATT. The EEC has refused to put ag subsidies on the agenda for the new GATT round ever since the last Ministerial meeting broke down in November 1982. We cannot start new negotiations without ensuring that this issue will be addressed. The President is expected to address this question at the Tokyo Summit next week.

o I have urged the Administration to consider setting annual targets for the volume or value of farm exports in 1986, 1987, and 1988. This would introduce a needed element of accountability into evaluating our export performance, particularly as it relates to the results of our domestic farm programs. It would also be recognition that the U.S. must accept a more active role in competing for agricultural exports as long as other governments continue to actively intervene in international trade.

o When a farmer is threatened by bankruptcy or a processing plant is in danger of closing down, the men and women whose lives are dependent on those ventures are not interested in the comparative advantages of free trade or in how the EEC subsidizes its exports -- they want the Government to protect their jobs.

CONCLUSION

o The clock is ticking. Ticking for our trading partners throughout the world, who need to take some decisive action soon.

o The clock is also ticking here at home. We must do something quickly, on two fronts. We have to get our deficits, and our dollar, under control. And we must set up an effective mechanism to deal with trade issues on a comprehensive basis. If we ignore the problem any longer, we put at risk our own prosperity and our role as the engine of global economic progress.