NEWS from
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FOR RELEASE: Monday P.M.'s (March 14, 1977)

PREPARED TEXT OF SPEECH
BY SENATOR BOB DOLE
TO WHEAT SEMINAR
WASHINGTON, D.C.

As one who has a continuing intense interest in the well-being of the wheat producer, I am greatly honored by your invitation to meet with you today and to discuss the outlook for farm legislation.

To get the proper perspective on the farm legislative situation, we must understand the background against which we are attempting to legislate. The Trade Act of 1974, signed into law by President Ford in January, 1975, opened the way for the current world trade negotiations. The trade bill passed with the strong support of the organizations representing American agriculture, especially western wheat, and the National Association of Wheat Growers. The legislation properly implemented is in the national interest and in the interests of the American farmers and our exporting community. I underline the words <u>properly implemented</u>.

The Act was the first U.S. trade legislation in 12 years. It came along during a period of international economic problems -- at a time when some governments were tempted to interfere with the movement of trade in an attempt to solve short-term financial problems. This ordinarily creates an environment that makes it difficult to move toward a more liberal trading system.

The objectives of the current negotiations go beyond tariff reductions. Besides reducing tariff barriers, it is hoped that they can shore up the system by establishing new trading rules and by removing or reducing non-tariff barriers, which are the most serious mechanisms disrupting trade.

<u>BACKGROUND OF TRADE TALKS</u>

Over the years, there were negotiations among all the major trading partners culminating in the Dillon Round in 1960-61 and the Kennedy Round of 1964-67. Agriculture did not share fully in the benefits of these negotiations. During the Kennedy Round, an across-the-board percentage reduction of tariffs was designed to replace the former item-by-item approach. However, agriculture did not get overseas markets as a result. Little was done to create a more favorable climate for agricultural trade.

So, U.S. agriculture enters the new negotiations with a memory of the severe frustrations experienced in past negotiations. The major difficulty rests with the systems many governments have created to protect the income of their farmers against imports from more efficient producers such as the United States. The European community plays a key part in the new round of negotiations. This time, the European community represents nine nations, rather than six. Besides the problems that come with enlargement, there is no great enthusiasm in the European community for negotiations at all on agriculture. The Common Market countries feel that their Common Agricultural Policy with its border protective mechanisms are just not negotiable. It is clear that they prefer stabilization of prices and trade as against liberalization of trade.

I advocate an open market system, and the elimination of restrictions so that prices can perform their function in allocating supply. Farmers must be given the incentives to produce those commodities that the world demands. I recognize that there are fundamental differences in approach and objective between our country and the European Economic Community. Tough bargaining will be necessary to get the EEC to change its position.

One of the major objectives in the negotiations must be the reduction and elimination of export subsidies by countries that endeavor to push domestic surpluses onto the world market in competition with U.S. exports. The U.S. has used subsidies in the past, but this is no longer the case. U.S. wheat producers should not have to compete with the finance ministries of other governments in the world market. I am sure this difference will be the subject of intense negotiations. Out of this, I hope there will result a new and economically sensible code controlling the use of subsidies.

DON'T SEPARATE AGRICULTURE AND INDUSTRY

Agricultural and industrial negotiations must be kept together if we are to make progress in liberalizing agricultural trade. We are experiencing significant problems, especially with the EEC, on that issue. Therefore, the negotiating strategy of the U.S. should consider making trade concessions only after achieving the best we can from the negotiations for all trade sectors, especially agriculture.

I have recommended to President Carter that he appoint an agricultural trade expert to be one of the ambassadors in the Office of Special Trade Representative. Agriculture must continue to be represented at the highest levels. Also, this person must be a tough negotiator, with plenty of patience and a firm belief in the values of the free market. I hope that your organization will join in requesting that the President make such an appointment.

I support President Carter's nomination of Robert Strauss as a U.S. Special Trade Represenative. As one who can appreciate his talents in the field of partisan political combat, I am confident that he will lend his considerable energy to the cause of trade liberalization. A trade publication recently referred to the possible advantages of the Strauss appointment. His personal access to the President. His record of getting along well with the officials of organized labor and with Congressional leaders. It was suggested, too, that his lack of experience with trade matters might be an asset rather than a liability. He begins his new assignment without any entangling alliances.

I am certain, however, that he will need help from you and me. We should be sure to provide him with our constant observance of his activities, suggestions and criticisms, if appropriate. Keep a close eye on his activities.

CANADIAN-U.S. AGREEMENT

I am disturbed, meanwhile, by Secretary of Agriculture Bergland's overtures to the Canadians. As you know, he has proposed an international wheat agreement that includes a price floor. I am sure he realizes that in this competitive world such an action would place the United States in the position of becoming the residual export suppliers in channels where markets were lost to competitors. So he wants Canadian assurances on minimum prices. Well, international economic policy is just not that simple. History is replete with failures of such price fixing schemes. In mid-1975, the Subcommittee on International Trade of the Senate Committee on Finance asked the U.S. International Trade Commission to undertake a study of the experience of the United States with international commodity agreements. The technicians made a careful study and reported to the Senate. I urge you to examine that report.

Let us examine the conclusions of this independent governmental body:

> International commodity agreements take various forms, but in general they are agreements between governments of both producing and consuming countries that attempt to raise and stabilize the prices of commodities.
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> In the pursuit of these objectives, such arrangements impose restrictions on the free movement of commodities in international trade. They often result in economic waste and the misallocation of scarce productive resources, and historical experience has demonstrated their frequent failure to achieve their objectives.

The March 1, 1977, issue of <u>Milling & Banking News</u> reported as follows:

> Mr. Bergland himself came to Congress as a Minnesota representative in 1970, which was after the abortive International Grains Arrangement had been abandoned. The U.S. experience under that pact, especially so far as American wheat producers were concerned in enjoying export sales, has long been ranked as one of the sorriest episodes in this country's crop exporting history. Under that pact, U.S. adherence to minimum I.G.A. prices resulted in competing countries undercutting American prices.

Mr. Bergland also spoke of persuading the Canadian government to have the Wheat Board establish initial prices to growers on the 1977 crop at the same level as the loan rate on U.S. wheat. Since the initial price has no reference to Canada's export selling prices, it was wondered whether Mr. Bergland understands the stark differences between the Wheat Board's monopoly position in wheat marketing and pricing in Canada and operations of the U.S. market.

On the occasion of that old agreement, the then President Johnson predicted incorrectly that the new arrangement would provide new price insurance to U.S. wheat farmers. An official of the Australian government admitted later that, as a result of the International Grains Agreement, his country had been able to take advantage of it and gain more than her traditional share of the world market.

ANOTHER FORM OF EXPORT CONTROL

I wonder how many of you recognize that Secretary Bergland's proposal to the Canadian government is fundamentally just another form of export control? I seem to recall some discussion of this subject during the last election campaign. This export control policy is a sharp reversal of the farm plank of the Carter Administration. By any name, export controls still smell sour. Already, this proposed departure from a free market policy is costing you money. I note that your March 4 wheat letter stated:

> The sharpest price decline occurred on Monday with the May, 1977 wheat contract falling as much as 14¢ per bushel, a development attributed in part by the trade to the U.S.-Canadian talks on a bilateral wheat export pricing pact.

This should have been a predictable consequence result as we have all experienced. I intend to fight all forms of export control with all the vigor at my command.

Let's stop blaming the futures markets or any other free market for all our economic ills. Those markets reflect the current supply and demand situation -- as they did when wheat prices were higher, not so long ago. If the soybean supply and demand situation is tight, we get higher priced soybeans. Quick fixes are not the answer.

OTHER PROBLEMS

The Bergland proposals are failure-prone for other reasons:

One -- the United States would need to reinstitute import controls on wheat and flour. The 21¢ per bushel duty might not be sufficient to preclude wheat and flour from entering the United States in large volume from many sources.

Two -- a basic minimum export price agreement with the Canadians must then be followed by a market sharing arrangement. How this would be implemented is not clear. Any student of markets knows that the various types of wheat produced in the United States do not fluctuate in any constant relationship with each other. Actually, even qualities of wheat within the same type are subject to premiums and discounts which change daily in relationship to each other.

Third -- there is serious question whether the Soviet Union would decide to disregard the United States-USSR agreement guaranteeing U.S. grain producers a six million ton market as being designed for a free market situation. One article of that agreement was a pledge not to engage in export control. I would not like to see a guaranteed market of such volume go down the governmental drain.

Four -- higher world market prices dictated by the government would mean less wheat and flour moving under Food for Peach program.

Finally -- the whole scheme means a sharp retreat from the liberal trade policy we have been pursuing in Geneva at the Tokyo Round trade negotiations. It is that liberal trade policy which has enabled us to reach record export levels.

HISTORY'S LESSON

It is easier to talk about the idea of a commodity agreement than it is to implement it. Evidence of the first such idea can be found in the book of Genesis. You will remember how Joseph, in the seven good years, advised the Pharaoh to "appoint officers over the land and take up the fifth part of the land of Egypt." The surplus was stored in storehouses adjacent to the chief cities. Then, when the seven lean years followed, Joseph, who had himself been appointed Minister of Food, "opened all the storehouses and sold unto the Egyptians." It was a triumph of economic planning. But, without wishing in any way to disparage Joseph's achievement, one may hazard a guess that his task was a good deal easier than that of establishing an international agreement for wheat. For one thing, he had to deal with onecountry only, not dozens; for another, a scheme of this kind is certainly easier to execute under the dispotism of a Pharaoh than in the modern trading world; and, of course, Pharaoh's divinely inspired dream had provided Joseph with a basis for economic forecasting that would not go wrong.

History tells us that the control agencies cannot avoid getting into trouble while trying to direct, manage and control <u>the vital energies of the free markets</u>. Monopoly prices get into trouble and generate intergovernmental problems as soon as their pricing arrangements are not in accord with market conditions. We have learned from experience that such approaches disrupt markets and disturb production to the long-term detriment of both producers and consumers.

Free markets and free institutions go hand in hand. We must not permit the replacement -- even temporarily -- of the free markets by government export controls and fixed minimum prices.

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