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U.S. Agricultural
Policy:
An Australian
Perspective

By The Honorable Bob Collins



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Australians who watch policy debates in the United States have been impressed by the contribution The Heritage Foundation has been making, especially since last November's congressional election and the emergence of a Republican-controlled Congress.

The recent Heritage Foundation study on U.S. agriculture policy and its recommendations for reforms in agriculture policy in the 1995 farm bill is one we applaud—although, before starting on my main points, I might say that I don't oppose all forms of government support for agriculture. Personally, I support government contributions to agriculture research and development, and in Australia we have developed what I consider is a very effective form of R & D partnership between government and industry. Also, we have developed what I believe is an effective form of adjustment assistance to farmers, which we call our rural adjustment scheme.

Our policy, in essence, is not to provide those forms of assistance which directly intervene in the pricing or production processes.

Australia is a major agriculture producer and exporter which has a fundamental interest in seeing liberalization in world agriculture. We export around 80 percent of our agriculture produce, and for many commodities the figure is higher. We are the world's largest exporter of wool, meat, and sugar and a leading exporter of wheat, coarse grains, dairy products, rice, fruit and vegetables, and cotton.

You may not be aware of the large trading surplus the U.S. currently enjoys with Australia. Last year the surplus was over \$7 billion—the largest trading surplus the U.S. had with any country. The trade balance is currently running at 3:1 in your favor.

From Australia's perspective, our trade deficit with the U.S. as a proportion of GDP or on a per capita basis is larger than the U.S. deficit with Japan, and we are all aware of the bitterness that imbalance has caused.

It is little wonder that Australian governments and farmers react with some hostility to U.S. agriculture policies which subsidize U.S. exports into markets which are of significance to Australia or erect barriers to Australian agriculture exports to the U.S. Our agriculture is almost totally unsubsidized, and, along with New Zealand, we are the only OECD nations which can claim such status. With a vital interest in bringing about uncorrupted world markets in agriculture, Australia for many years has been a strong advocate for global agriculture policy reform. No sector of world commerce or trade suffers more government intervention or trade-distorting measures than agriculture.

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At the beginning of the Uruguay Round of trade negotiations, Australia convened a group of 14 fair trading nations in agriculture which became known as the Cairns Group. Australia continues to chair the Cairns Group, which has become the third force in world agriculture after the U.S. and Europe. Australia and the Cairns Group welcomed the outcome in agriculture in the Uruguay Round, although we were disappointed that the final outcome was less than initial expectations.

The Uruguay Round outcome is regarded only as a first step. Cairns Group ministers recently met in Manila and reaffirmed that the group would be active in seeking further reform in world agriculture trade. In particular, the Group will be vigilant in ensuring that there is no circumvention, either in the spirit or letter, of Uruguay Round commitments. The Group intends to monitor very closely developments in agriculture policy in major countries, including the U.S., the E.U., Japan, and Korea.

Australia and the Cairns Group believe that the 1995 farm bill is an important test of the agriculture reform process and an opportunity to develop more market-oriented agriculture reforms. We acknowledge that the U.S. farm bill is largely a domestic policy process, but countries such as Australia have a legitimate role in the debate as U.S. agriculture policies have a significant impact on world agriculture markets.

We have been seeking to play an active and constructive role in the debate. The Australian Bureau of Agricultural and Resource Economics has published a number of studies highlighting the impact of U.S. policies on world agriculture markets and the positive benefits that would accrue from market-oriented reforms. In fact, ABARE have just released a research monograph on U.S. agricultural policies. We intend to make the report widely available here in Washington to assist those involved in developing proposals for the farm bill.

In short, we would like to see the 1995 farm bill move in the direction of fundamental market reform and many of the more market-distorting individual commodity programs eliminated. Certainly, the 1995 farm bill should be consistent with the letter and spirit of U.S. commitments in the Uruguay Round, but I also believe that some of the lessons we have learned at home could well be applied in the 1995 farm bill. When we came to office, we were faced with the need to cut our budget deficit; this year we brought our budget back into surplus. We believe strongly that, in our own interests, we should move the whole economy towards a greater market orientation. We therefore decided to pursue a farm policy which would require our farmers to confront the realities of the world market.

Not surprisingly, many of our farmers were very fearful of this approach, especially those industries which received subsidies, such as our dairy industry, which I'll use as an illustration of the practical effects of our policies. Ten years ago, our dairy industry was on the verge of collapse, and it was widely believed that Australia would have to rely on New Zealand for supply of dairy products. Since we began the reform process, the industry as a whole has blossomed, increasing its production and profitability and doubling its exports over the last ten years.

Our farmers are rising to the challenge of a competitive world market. They, like you in America, view the booming Asian markets as a very strong source of growth. Adjustment has taken place, and the number of dairy farmers has fallen by 30 percent. However, over the past ten years, the production of milk in Australia has increased by one third, and the volume of exports has more than doubled. Industry profits and land prices have improved considerably, and the 70 percent of farmers remaining are now contemplating a sustainable future—provided a fair trading environment exists.

The dairy support system in the United States is a good example of why Australia has a legitimate interest in the farm bill debate. It is a complex web of artificial mechanisms designed to support domestic prices for dairy products and is administered by thousands of bureaucrats who balance the effect of those programs. On the export side, the Dairy Export Incentive Program (DEIP) is used as a tool to draw surplus product away from the U.S. domestic market to maintain consumer transfers to dairy farmers, estimated by ABARE at \$9 billion each year (resulting in almost all dairy exports being effectively subsidized). Expansion of the DEIP into Asia will depress prices for everyone and would have the effect of Australian dairy farmers paying for those subsidies as well.

I could give other examples from our rural sector. Since reforms were introduced, the rural sector's volume of output has grown significantly despite a reduction in farm numbers consistent with international trends. Land values, while fluctuating, have not declined in real terms. There is no comprehensive safety net for Australian farmers. The application of sound policy principles to agriculture has benefited not only the economy generally, but agriculture itself.

Our efforts to create an internationally competitive agriculture sector are hampered, however, by the continued presence of export subsidization by the U.S. and the European Union.

While in Washington this week, I met personally with E.U. Commissioner Fischler and expressed our continuing strong concerns with E.U. subsidies. I am conscious of the concerns in the U.S. about Canadian grain subsidies, but I believe your problems with Canada should be resolved through NAFTA rather than in third markets. While we acknowledge U.S. assurances that their programs are not aimed at Australia, we are concerned by the emerging trend towards the use of subsidies as a market development tool. In particular, forthcoming announcements under the Export Enhancement Program (EEP) and the Dairy Export Incentive Program (DEIP) for 1995/96 are a matter for serious concern.

I have been leaving a strong message in Washington that EEP and DEIP not be further extended in Asia/Pacific markets. We have sensitive markets for wheat, wheat flour, barley, rice, and barley malt and dairy products in the Asia/Pacific region. The U.S. is correct in identifying these markets as key targets for growth, but the large future volumes in these markets will obviate the need for subsidized sales.

The other aspect of the bilateral relationship that still causes us concern is access for our products. Beef access has improved under the Uruguay Round with the disappearance of the meat import law. Access for Australian sugar and dairy products remains restricted, mainly because of the domestic programs for these commodities, which I have mentioned.

There are many common characteristics between U.S. and Australian farmers. Our farming, like yours, is built on the family farm; 95 percent of Australian farms are still family-owned. We both have a lot of land under farming. Some 60 percent of Australian land is used for farming; most is range land extensively grazed by sheep and cattle. The U.S. has a smaller percentage of land under farming, but compared to much of our land, your land is highly productive, enjoying higher crop yields and better pasture.

Your farmers have an enormous domestic market and an internal transport and distribution system second to none. We have no doubt that, given the underlying strengths, U.S. agriculture would continue to expand without subsidies. Your agriculture would probably be stronger and, as a result, provide stiffer competition for us in world markets. We believe that all farmers would be better off with less government intervention. Foreign consumers, not farm exporters, are the real beneficiaries from export subsidies.

The fundamental difference I have noted between our two countries is that, in Australia, we have created an environment where our farmers farm for the market and respond to market signals. American farmers seem to spend a lot of their time farming for government programs, so much so that much of U.S. agriculture loses sight of the product it is supposed to be selling. As a result, the U.S. entrepreneurial spirit is lost.

The EEP and DEIP were originally designed to counter E.U. subsidies in the particular markets to which they were applied. In Asia, however, the E.U. do not have a significant presence, with only an average 15 percent of the Asian dairy market, for example. Extension of the EEP and DEIP into Asia would be impossible for the U.S. to defend and would put a substantial strain on the excellent relationship which has existed between our two countries.

For this reason, the major purpose of my visit has been to attempt to ensure that the important decisions that the U.S. is to make on agriculture policy in the coming months do not undermine the good relationship between our two countries. I will be leaving here shortly to put that case to the Secretary, Dan Glickman. I hope, for both our sakes, our message is heeded.

