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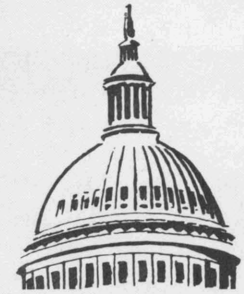
EXPORT AND IMPORT POLICIES



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WHAT IS THE ISSUE?

Grain export embargoes, beef and dairy imports have made export and import controls major food policy issues. The issue of import and export controls involves the conditions under which foreign producers and consumers are to have access to U.S. markets as either sellers or buyers. The nature of the issue varies depending upon whether the general economic and specific commodity situation is one of short supply and high prices or surpluses and low prices as indicated below:

U.S. Supply Situation	Controls	
	Export	Import
Short Supply	1. Embargoes 2. Licensing 3. State trader 4. Trade agreements	1. Increase quotas 2. Lower tariffs 3. Trade agreements
Surplus	1. Subsidies 2. Two price plans 3. P.L. 480 4. Trade agreements	1. Increase tariffs 2. Lower quotas 3. Other nontariff 4. Trade agreements

If the situation is one of short supply and high export demand consumer and government pressures build to impose export controls. Such controls may be in the form of export embargoes, export licensing, trade agreements or the government could become the exporter as a state trader.

Trade agreements may be used to ration supplies among major customers by providing both minimums and maximums on shipments. In times of short supply, on the other hand, trade agreements may be used as a form of import controls to assure a supply of commodities imported such as sugar or coffee. The U.S. might also react to a short supply situation by lowering tariffs, increasing quotas or even subsidizing imports.

In a surplus situation the problem is one of low prices, insufficient demand and excess foreign competition. The reaction is one of moving commodities out of the U.S. and preventing them from being imported. Export assistance in the form of subsidies, plans which price exports at a lower level than domestic sales, shipments under P.L. 480 are proposed and frequently adopted. Trade agreements are viewed in the context of providing an assured market and incentives exist to establish international commodity agreements among exporters for a minimum price floor. Problems of excessive foreign competition are dealt with by pressures to impose tariffs, quotas, or other nontariff barriers to products entering the U.S. Informal trade or "orderly marketing" agreements are sometimes negotiated.

WHY IS IT AN ISSUE?

Both foreign producers and consumers want access to our markets. Foreign consumers and livestock producers want access to our grain. For grain the U.S. represents one of only a few major excess supply sources. Access to it can actually mean the difference between the availability of food and shortage. At home, however, U.S. consumers apply pressure on public officials to control or stabilize rising food prices by limiting exports. Producers fear embargoes will both destroy foreign markets and be used to place an upper limit on prices.

Surpluses bring calls by grain producers for export subsidies and from livestock and milk producers for import controls. Both beef and dairy producers suggest that import controls are necessary if they are to produce the quality and quantity of beef and milk demanded.

Despite particular protectionist policy, the U.S. government has historically expounded the virtues of free trade in agricultural products. It has been a leader in efforts to negotiate lower trade barriers. This policy has both selfish economic and humanitarian basis. From an economic standpoint U.S. producers have had lower production costs for major food and feed grains than most other countries. From a humanitarian standpoint, free trade results in more food being available to more people of the world at a lower cost.

Exports are critical to a prosperous farm economy. Food and fiber exports are necessary to pay for the products we import, especially oil.

THE CURRENT SITUATION

Legislation for export controls in situations of short supply is provided by the Export Administration Act. This Act gives the President the power to impose controls for three reasons: a short supply situation, foreign policy or national security. The President has substantial discretion in determining when these reasons are satisfied. The President also has substantial latitude to reduce import tariffs or increase quotas in a short supply

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situation as was done in the case of beef and dairy imports in the early 1970's.

For surplus situations much of the export assistance and import protection stems from the need to complement U.S. target and price support programs and control program costs.

Beef and sugar are special cases in that import quotas are not tied to price supports. In beef and textiles, quota restrictions have been supplemented with "orderly marketing agreements." Controversy currently exists on the need to impose tariffs on palm oil entering the U.S. in competition with soybean, cottonseed and peanut oil. When sugar prices rose sharply in the early 1970's, an intensive system of legislatively mandated quotas were removed.

POLICY ALTERNATIVES

Presidents have generally favored flexibility to manage import policy in line with what is deemed to be in the national interest as is done with other aspects of foreign policy and is currently the case under the Export Administration Act.

Export Controls

Four basic alternatives to present policy exist for controlling exports in a short supply situation: (1) remove authority for embargoes; (2) congressional power to reverse Presidential action; (3) export licensing and (4) centralization of exports in the hands of government. Specific proposals exist which would give Congress the power to reverse a Presidentially imposed embargo within a specific period of time and to have the Commodity Credit Corporation act as an exclusive export agency.

A move back into surpluses will once again raise a spector of concerns about export subsidies, two price plans, and increased levels of P.L 480 shipments. Such concerns will be increased if support prices are raised above world prices. Pressure will once again develop for international commodity agreements to establish price floors and/or preferential trade agreements.

Import Controls

Import alternatives relate to the level of tariff and non-tariff restrictions for commodities, as well as the placement of responsibility for imposing import controls. Excess supplies and generally low prices by foreign nations have created substantial pressure to increase exports for milk, beef and sugar to U.S. Producer and consumers will question the extent to which beef and sugar quotas should be further limited by law or eliminated.

CONSEQUENCES

Generally speaking, lower export and import controls represent movements toward free trade.

Producers are adversely affected by export controls. Controls lower producer prices. In the longer term export controls jeopardize the dependability of the U.S. as a source of grain. The unpredictability of export embargoes results in increased uncertainty and price instability. On the other hand, export assistance in the form of subsidies on P.L. 480 helps to expand foreign markets and raise prices. However, they transfer our surplus problem to the foreign producer. Producers of commodities on which import controls exist benefit from higher prices. However, U.S. producers in total might be hurt in the sense that import controls create incentives for other countries to control imports of U.S. products where we have a comparative advantage such as grains. U.S. producers cannot expect to have free access to foreign markets if foreign producers are denied access to U.S. markets.

Agribusiness is most adversely affected by uncertainty of government policies with respect to either exports or imports. Most firms that deal in exports or imports are multinational and therefore deal in the products of all countries. While making the U.S. a state trader would substantially change the relation of government and the major grain exporters, they would still be major factors in domestic and international grain trade. Similarly agribusiness has substantial flexibility to adjust to import controls but would prefer a free trade situation.

Foreign Consumers are denied access to our markets by export controls. World prices rise relative to U.S. prices. Export assistance, on the other hand, increases supplies available to foreign consumers and lowers their prices. Import controls prevent foreign products from moving into U.S. markets and thus tend to benefit foreign consumers.

U.S. consumers benefit from lower food prices resulting from export controls to the extent that lower farm prices result in lower retail prices. While producers desire no export controls, if food scarcity develops the public will likely demand that the impact of food shortages be minimized by embargoes, licensing or state trading. While export assistance in the form of P.L. 480 or subsidies increase consumer prices, consumer willingness to support P.L. 480 in the face of higher prices results from humanitarian considerations.

Government has substantial power to influence domestic farm and food prices by export and import policies. Such policies, however, run counter to our basic free trade policy. Government costs are increased by export subsidies and P.L. 480. On the other hand, import controls of price supported commodities reduce government costs and are in fact, essential to maintaining the integrity of these programs if domestic support prices are established above world prices.

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