

POTENTIAL IMPACT OF TRADE NEGOTIATIONS ON THE USA PEANUT INDUSTRY

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Peanuts is one of the principal oilseeds in the world ranking third behind soybeans and cottonseed. India, People's Republic of China, and the United States are the three largest peanut producers. Normally, the United States accounts for approximately 10% of the world peanut production. Yet, in peanut exports, the USA has accounted for 20% to 40% of the world peanut trade (table 1).

Since the 1970s, the USA has been the major exporter of peanuts. In fact, the USA export market share reached 50% in the 1978 and 1979 calendar years. In 1979, the export level was more than twice the 1973 level. In 1980, severe drought and heat reduced the USA peanut output to the lowest level in 20 years resulting in a substantial decrease in exports in 1981. In filling the USA shortfall, competitors, especially the People's Republic of China, captured an increased share of the world peanut trade. The USA has regained some of the export market, but the share has fluctuated at a lower level -- in the 30% range.

Government intervention in domestic agriculture plays an important role. For example, intervention such as limiting world trade opportunities can create world supply and demand imbalance and distort commodity prices. Prior to 1981, the People's Republic of China was a minor peanut exporter. However, with the advent of the USA peanut production shortfall in 1980, China filled a void in the export market. Rather than entering the export market only during shortfall occasions, China's government decided to be a major player in the export market. A primary reason for such action may be the need for foreign exchange earnings. In any event, through government intervention, China has become a major competitor in the peanut export market.

The increased level of government intervention throughout the world had led many countries to call for a new international agreement that limits and/or reduces the adverse effect of government intervention on international trade. This led to the Uruguay Round of international trade negotiations under the General Agreement on Tariffs and Trade (GATT). With all the press surrounding these negotiations, USA peanut farmers are concerned as to what this means as peanuts has not been mentioned explicitly. Thus, this article addresses the potential impact of the trade negotiations on the USA peanut industry.

URUGUAY ROUND TRADE NEGOTIATIONS

During the 1970s and 1980s, the cost of agriculture support programs throughout the world rose rapidly. However, the world's farmers are probably no better off than they were before the rapid increase in supports. The Organization for Economic Cooperation and Development (OECD) estimated that the annual cost of agriculture subsidies from 1979-1981 for the industrial countries was approximately \$100 billion (1). These subsidies subsequently increased to about \$220 billion annually for 1984 to 1986.

With such an increase in the cost of agricultural policies, members of GATT called for multilateral trade negotiations with emphasis on agricultural commodities. In 1986, trade ministers of GATT met at Punta del Este, Uruguay to launch the eighth round of multilateral trade negotiations (MTN) under GATT with the signing of the ministerial declaration. This round of multilateral trade negotiations has become known as the "Uruguay Round."

Previous MTN rounds dealt with trade of industrial products. These rounds significantly reduced tariffs and barriers to trade for these products. However, prior negotiations did not include agriculture commodities. Agriculture has held a favored position within GATT. GATT's Article XI prohibits the use of quantitative restrictions except in the case of agricultural imports and exports (2). For example, the United States obtained a waiver in 1955 to apply agriculture import restrictions when such imports were alleged to interfere with the operations of the commodity program (i.e., Section 22 of the USA Agricultural Adjustment Act). In addition to Article XI, Article XVI allows member nations to subsidize agricultural exports. Moreover, GATT does not provide guidelines for many forms of agricultural trade barriers as it does for the industrial trade barriers. Thus, agriculture has a high priority in the Uruguay Round in bringing agriculture trade more in line with GATT's rules and disciplines as related to industrial products.

The Uruguay Round has six different proposals under consideration. The USA proposal is to liberalize agricultural trade over a ten year period (i.e., attain truly free trade). This would be accomplished by eliminating all production-stimulating and trade-distorting policies, including the

removal of Section 22 by the USA. At the other end of the spectrum, the European Community (EC) introduced a proposal that does not include the removal of all current government programs. Instead, the EC proposal calls for long-term balancing of support across commodities and countries through "harmonization" (2). Four other proposals were introduced by the Cairns Group (Argentina, Australia, Brazil, Canada, Chile, Colombia, Hungary, Indonesia, Malaysia, New Zealand, Philippines, Thailand, and Uruguay), Canada (independently of the Cairns Group), Japan, and the Nordic countries (Finland, Iceland, Norway, and Sweden). The substance of these latter proposals lie on the spectrum between the USA and EC proposals.

AGRICULTURE AND FOOD TRADE POLICIES

World policies that influence the international peanut market are addressed in this section. A listing of the foreign domestic policies is provided in table 2 (3). These policies were delineated into three categories: 1) production subsidy, 2) export restriction, and 3) import restriction. Most policies are production subsidies such as a support price and fertilizer subsidy. India is the only major peanut exporting competitor to the USA that has known production subsidies.

Using the producer subsidy equivalent measure (PSE), India's PSE for peanuts was \$63.27 per ton (US \$) on average for the 1982-1986 time period (4). Argentina, another competitor, has no production subsidies for peanuts. There is, however, very limited government funding for research facilities. People's Republic of China is a state planned economy. Thus, one may assume peanut production is subsidized in China, but as yet a value has not been assigned because of lack of information.

A few policies relate specifically to exporting and importing. Argentina has an export tax of 1.5% on edible peanuts. This policy was designed to encourage the export of value-added peanut products. There are no known export subsidies on peanuts by China. All Chinese peanut exports are made through the China National Cereals Oils and Foodstuffs Import and Export Corporation. Due to China's desire to earn foreign exchange, prices are thought to be set as high as will sell in the international market. Japan has a quota on raw peanut imports. However, processed peanuts are not subject to the quota. Japan also has an import tariff of 10% on raw peanuts and 25% on processed peanuts. USA has an import restriction of 1,709,000 pounds annually under Section 22 of the Agricultural Adjustment Act of 1933, as amended.

POTENTIAL IMPACT OF TRADE LIBERALIZATION

To examine the potential impact of trade liberalization by means of policy changes, the Static World Policy Simulation (SWOPSIM) model was utilized. The SWOPSIM model was developed

by the United States Department of Agriculture (5). This world trade market model was designed to provide projections of world supply and demand under alternative assumptions of world economic conditions, and to analyze the impact of major international economic and policy changes on trading countries and world agricultural trade. The model provides information about the world market-clearing price(s) and net trade of each trading region in the world market.

In this analysis, nine countries and/or regions were specified for the SWOPSIM model. USA, China, India, Argentina, and South Africa were selected as the major peanut producing and/or exporting countries. Japan, Canada, and the EC were the major peanut importing countries. A Rest-of-World (RW) region was constructed in order to clear the world market. The data used in the analysis were for the 1984 calendar year. More recent data were not available due to the lack of reported domestic prices for some of the countries.

The removal of the government policies relating to peanuts in the countries of Argentina, India, and Japan were incorporated into the SWOPSIM model. That is, the elimination of Argentina's export tax, India's production subsidies, and Japan's quota and tariff were examined in terms of the impact on world peanut trade. The USA peanut policy was not altered in this part of the analysis. Thus, the results would have implications only on the USA "additional" peanuts.

When these three countries' trade distorting policies were eliminated, the analysis estimated world trade to increase by 21.2% and the world price to increase by 1.9% (table 3 and figure 1). The United States, Argentina, and China exports were estimated to increase by 4.3%, 5.1%, and 48.3%, respectively. This implies that the USA is less sensitive than the other exporters to the abolition of trade distorting policies. In addition, India's exports were estimated to decrease 643.8% due to the removal of its production subsidy. Such a change was expected to cause Canada, EEC, RW, and South Africa to decrease their imports by 0.2%, 0.9%, 266.8%, and 57.0%, respectively. In other words, Canada was less sensitive than the other importers to the realization of free trade. In Japan's case, the removal of the three policies was estimated to result in an increase of 6.2% in imports. A negative percentage change of more than 100% implies that the country/region shifted from an exporter to an importer (like India) or from an importer to an exporter (like Rest-of-World).

Reexamination of figure 1 places into perspective the relative position of USA to the other exporters in terms of gains from simulated trade liberalization. While world net trade increased a little over 20%, USA net peanut export trade increased less than 5%. In fact, the USA, while the major peanut

exporter, had the smallest percentage increase in peanut exports while China was the major benefactor from the simulated trade liberalization. In spite of this relative position for the USA to the other exporters, what does this imply for the USA peanut industry? In terms of exports, USA peanut exports could increase by approximately 29 million pounds based on the average export level for 1986-1988. The average contract price for additional delivered to buyers in the 1980s ranged from \$250 to \$450 per ton (6). If trade liberalization was achieved by removing the peanut policies of Argentina, India, and Japan, the average contract price for additional could increase by \$5 to \$10 per ton based on the 1980s prices.

Previous discussion centered on the removal of the peanut policies in Argentina, India, and Japan without any adjustments in the USA peanut program. However, in the Uruguay Round the USA's proposal is to phase out all production-stimulating and trade-distorting policies by the year 2000. This implies the removal of Section 22 by the USA. The elimination of Section 22 would open the USA peanut market to foreign competitors. The USA peanut industry would be facing major adjustments.

Additional peanuts have been on average approximately \$150-\$200 per ton lower than the United States domestic market quota peanuts. The additional peanut's prices reflect the world market price while the quota peanut price reflect the USA government supported domestic market. This difference is maintained by the USA peanut program where additional can not be used for domestic human consumption. However, without Section 22 and given the price differential between the world price and USA quota peanut price, imports of foreign peanuts could increase dramatically even after accounting for quality differences. If the USA peanut program is not modified, CCC stocks of quota peanuts would also increase dramatically. While CCC net outlays for peanuts have been virtually nil from 1984 to 1987 (6), this relationship would change. Thus, the USA would need to adjust the domestic peanut program. Two options available would be no federal program for peanuts or a decoupling program.

Given the direction of negotiation in the Uruguay Round, the discussions of the 1990 USA farm program have revolved around a decoupling program and a no federal program. An in-depth discussion and implication of these programs on the USA peanut industry is provided in reference (6). Only the highlights of these alternatives will be presented here.

A decoupling program provides a mechanism for the transition to a competitive market situation without price supports, production controls, and import restrictions. Under such a program, USA quota peanuts would not exist and the two-tier price supports would be eliminated. Equity payments based on the

quota base would be paid over a series of years at a decreasing rate to ease the transition. A loan price for peanuts would be set at variable cash cost of production. If peanut acreage remains the same, farm prices for peanuts would decrease toward the loan rate. Given the international peanut market, the USA farm price for peanuts would become more variable. Peanut prices for USA edible use would be considerably lower, probably close to the world price at the outset of the decoupling program. Finally, returns to risk and management for a typical Georgia peanut farm was estimated to range from 53% to 68% lower under decoupling compared with the current peanut program (6).

The option of no federal program immediately moves the USA peanut industry to a competitive market situation without price supports, production controls, and import restrictions. The USA farm price for peanuts would move quickly to the world price with differentials for quality differences. That is, the expected farm price could average \$150 to \$200 per ton less than the current USA quota price support. This program translates to an estimated 70% to 90% lower return to risk and management for a typical Georgia peanut farm compared to the peanut program as it existed prior to 1990 (6).

CONCLUSIONS

Since the 1970s, the USA has been the major exporter of peanuts even though it only accounts for approximately 10% of the world peanut production. In recent years, the People's Republic of China and Argentina have become major competitors of the USA in the peanut export market. USA's share of the export market has declined in recent years in spite of promotions and government subsidies on exports.

The increased level of government intervention throughout the world has distorted trading opportunities and led many countries to call for the eighth round of multilateral trade negotiations under GATT. This set of negotiations have become known as the "Uruguay Round." Proposals to liberalize agricultural commodities trade could open the USA peanut market to foreign competition.

If trade liberalization was achieved only by removing the peanut policies of Argentina, India, and Japan, the average contract price for additional could increase in the range of \$5 to \$10 per ton based on the 1980s prices. USA peanut exports could increase by about 29 million pounds. Thus, trade liberalization by these means would not significantly affect the USA peanut industry.

In contrast, if trade liberalization includes the elimination of USA's Section 22 and the peanut program, the USA peanut industry could be faced with major adjustments. USA's additional peanut prices reflect the world market and have been on

average \$150 to \$200 per ton less than the USA quota peanut prices. Thus, the expected USA farm price for peanuts (without a program) would move to the world market price adjusted for type and quality differences. Furthermore, the USA farm price would become more variable with no government program. Finally, estimated returns to risk and management in USA peanut production would be substantially lower compared with the current program. In any event, the USA peanut industry would be forced to adjust to lower prices and greater worldwide competition as trade liberalization progresses.

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Table 1. Peanut Exports by Country, Calendar Year 1973-1987, In-Shell Basis

Year	World	USA	CN	AG	BZ	SA	SD	SN	GB	MW	ID	VN	THL
(1,000 MT)													
1973	955	255	47	2	78	75	195	7	39	39	43	2	2
1974	1041	344	40	0	72	74	184	15	61	29	123	2	0
1975	1159	325	32	7	75	97	294	14	81	37	96	14	0
1976	1378	179	43	1	30	44	431	189	66	37	220	23	6
1977	1115	413	23	38	36	33	222	102	53	22	50	15	13
1978	1004	512	29	53	19	64	132	20	32	10	10	17	15
1979	994	500	48	120	26	61	61	0	64	20	11	20	15
1980	975	421	110	98	39	38	52	0	39	23	20	20	3
1981	1121	209	343	73	37	52	133	3	15	15	63	7	15
1982	963	287	126	69	19	39	131	6	36	7	47	18	25
1983	974	314	155	123	13	5	70	0	61	9	35	40	1
1984	963	371	143	97	12	6	51	24	34	12	60	33	6
1985	1123	432	215	128	20	47	15	0	33	13	20	35	2
1986	1137	397	227	150	12	21	11	2	25	19	40	45	2
1987	1300	351	364	215	20	15	10	15	20	20	50	40	2

Source: USDA-FAS.

Note: AG = Argentina, BZ = Brazil, CN = China, GB = Gambia, ID = India, MW = Malawi, SA = South Africa, SD = Sudan, SN = Senegal, THL = Thailand, USA = United States, VN = Vietnam.

Table 2. Foreign Domestic Policies Influencing Trade in the International Peanut Market (excluding USA)

Country	Production subsidy	Export restrictions	Import restrictions
Argentina	_a	1.5% on edible peanuts	-
Brazil	rural credit system, support price	-	peanuts imported must be in "drawback" system
Egypt	free water	-	-
Gambia	fertilizers, chemicals	price support to insure production	-
Japan	-	-	Quotas on raw peanuts, tariffs: 10% on raw peanuts, 25% on processed peanuts
India	seeds, fertilizers, support price	-	-
Nigeria	seeds, fertilizers	-	-
Senegal	fertilizers	-	-
South Africa	landbank credit, production credit	-	-
Sudan	irrigation	-	-

Source: U.S. Department of Agriculture, FAS, 1988 (communications).

a. Means the country does not have this policy.

Table 3. Estimated Percentage Change in Prices and Quantity of Peanuts Traded Resulting from the Removal of Peanut Policies in Argentina, India, and Japan

Country ^a	Trade price	Supply quantity	Producer price	Demand quantity	Consumer price	Net trade
----- percentage change -----						
WORLD	1.91					21.17
USA	1.91	1.66	2.99	-2.01	2.99	4.34
AG	1.91	1.59	4.14	-.36	4.14	5.12
SA	1.91	8.22	3.16	-8.08	3.16	-56.98
CH	1.91	1.70	1.91	-.27	1.91	48.32
IN	1.91	-5.58	-22.99	-1.89	7.04	-643.82
CA	1.91	.00	1.91	-.21	1.91	-.21
JP	1.91	-2.66	-5.81	2.48	-8.09	6.18
EC	1.91	2.82	2.04	-.77	1.91	-.87
RW	1.91	.85	6.24	-1.32	6.24	-266.85

a. WORLD = world market, AG = Argentina, CA = Canada, CH = China, EC = European Community, IN = India, JP = Japan, RW = Rest-of-World, SA = South Africa, and USA = United States.

Note: The results shown were obtained with the use of SWOPSIM model.

Table 4. Percentage of Peanuts Imported from the U.S., by Country, Calendar Year 1973-86

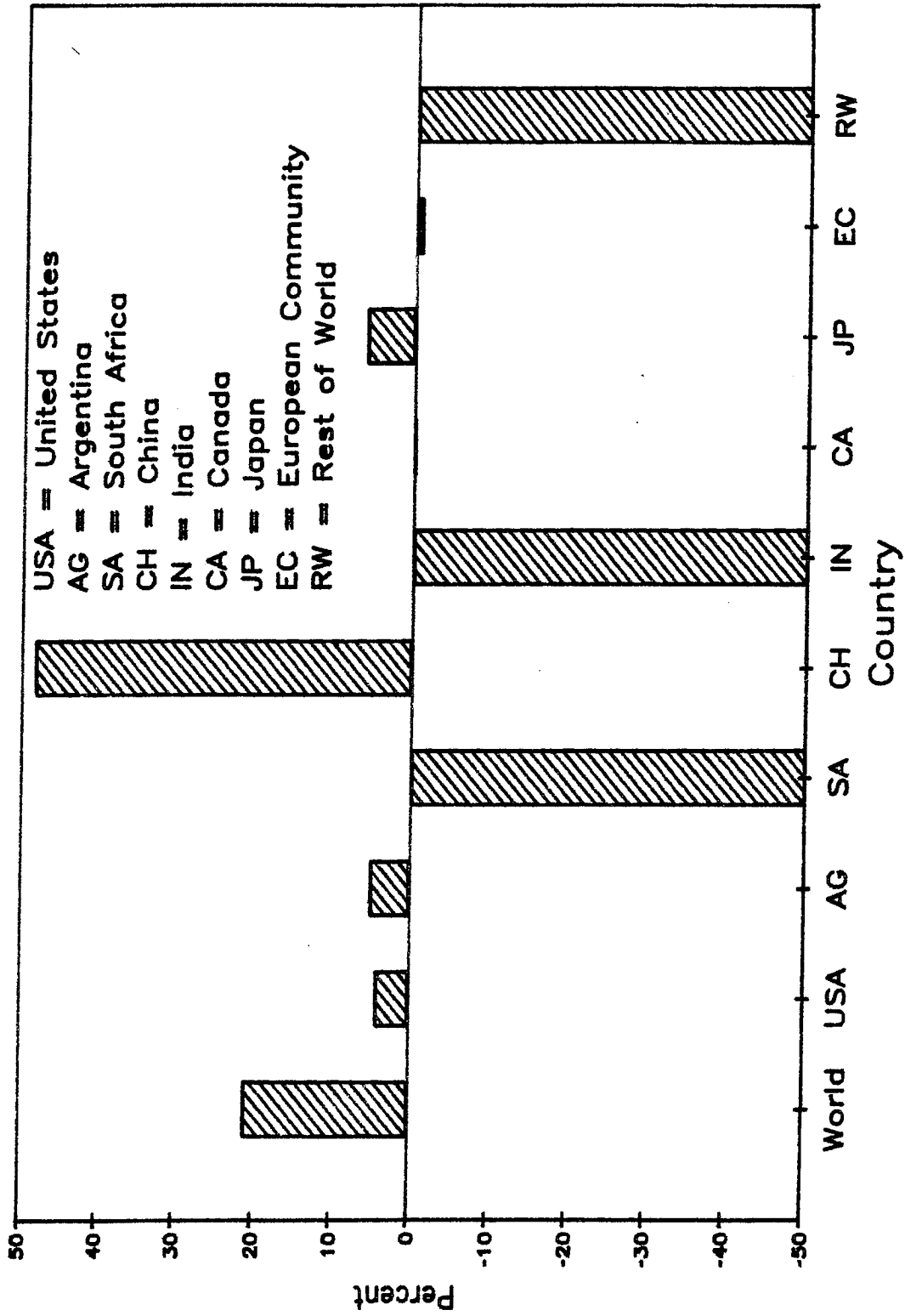
Year	CD	WE	IO	JP	USSR
----- % -----					
1973	94	14	0	27	0
1974	97	21	0	39	0
1975	96	22	0	32	0
1976	71	6	0	38	0
1977	99	26	0	47	0
1978	99	42	0	42	0
1979	99	54	0	48	0
1980	92	52	0	45	0
1981	47	27	0	14	0
1982	93	36	0	38	0
1983	87	34	0	43	0
1984	89	43	0	47	0
1985	98	42	0	48	0
1986	81	37	0	44	0

Source: Oilseeds and Products (USDA).

Note: 1. CD = Canada, WE = European Community, Norway, Sweden, and Switzerland, IO = Indonesia, and JP = Japan.

2. The "0" values for Indonesia (IO) and USSR only indicate a near zero or very insignificant percentage.

Figure 1. Net Trade Percentage Change from Removal of Peanut Policies in Argentina, India and Japan, Based on SWOPSIM Model



Note: SA's change is -56.99, India's is -643.82 and RW's is -266.85.