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We would like to thank the secretariat for the timely and thought provoking papers on the supply and demand of representative commodities which it has distributed for our consideration. The current situation of tight supplies for many key agriculture commodities is of intense concern to all of us. We have had a careful look at these commodity papers and they bring to mind a number of some of the broader considerations which we must also bear in mind as we go into negotiations which could affect the world trading system for agriculture for some time to come.

The first point to recognize is that short supply situations occur from time to time. Twice since World War II, the world has been rocked with fear and pessimism about its ability to feed its people.

Shortly after the war, when food stocks were exhausted production was down, and population was projected to increase 20 per cent over the ensuing ten years, there were great worries as to whether this growing population could be fed. Again in the mid-1960's, when drought afflicted the Asian subcontinent, a wave of alarm swept the world about a major food shortage and famine in many areas. Yet, neither previous food crisis lasted. Eventually surpluses developed and prices fell. The result was that, through production restraints and the build-up of stockpiles, a handful of countries, and especially the United States, were forced to take on responsibility for supply management for the entire world. Thus, while the years 1968-1973 are an appropriate period to consider, they cannot be examined in isolation from other periods if we are to have a complete understanding of factors affecting supply and demand for these commodities.

Our objective in the trade negotiations will be to find solutions to problems that will face international trade in agricultural products in the next five, ten or twenty years. While we can look at the problems that have arisen in the last five years, we will have to satisfy ourselves as we proceed that we have identified those problems we may face in the future. Generally speaking, therefore, it will be

necessary to look at a longer time series in order to understand the negotiating problems ahead of us, since these cannot be identified solely on the basis of the supply, demand and price tables just prepared by the secretariat, it will be necessary at appropriate points in our work to discuss a great deal of related information, some of it statistical, some of it having to do with changes in weather, policies affecting production and trade, and economic developments outside agriculture.

We recognize that social, political and other economic objectives undergird governmental policies for intervention in agricultural markets, and these must be taken into account in negotiations. Among the social and political objectives which governments often give considerable weight to are the reduction of disparities between rural and urban income levels; the availability of employment opportunities as an alternative to farming; conservation of land and the rural environment; stable and adequate food supply including some accumulation of reserve to ease the shock generated by shortfalls in other parts of the world. These factors have often led governments to develop domestic policies with insufficient consideration for their global effects.

As a consequence, too much attention has been given to resolving short-run problems and too little to the need for finding solutions to the problems of world agricultural trade which will work over the long haul.

We should also recognize that there are considerable differences among commodities, even price between two commodities which may both be experiencing sharp price rises. These differences include, among others, the degree to which the supply/demand situation for one commodity is interrelated with that for other commodities; the degree to which patterns of production and prices are cyclical, the demand trend for the commodity; and the degree to which structural differences among countries are reflected in trade policies affecting the commodity.

In an examination of supply and demand in recent years there is the natural inclination to proceed directly to a consideration of price variability. To do this is to examine the symptom of the problem rather than the cause. It is the function of price to allocate goods in consumption and resources in production. Although policy measures and interventions which impede price movement may at times seem warranted such actions prevent the market from sending needed signals to producers and consumers to provide sufficient incentives to bring about the adjustments required. Without these signals supply and demand can more easily become unbalanced. The underlying causes for, and the functions of, price changes must therefore be accounted for in any discussion of supply and demand conditions.

While we think the studies before us are useful in focusing attention on certain clearly visible characteristics of the current supply/demand situation for key agricultural commodities, obviously a number of other factors must also be considered before negotiating problems can be identified. That the commodities under discussions are the key commodities for this type of analysis is indicated by the fact that they include the ones which are most significant in world trade, production, and consumption, and the ones where the degree of government intervention is most extensive.

Looking to the future and the commodity outlooks that we must consider in defining negotiating problems and arriving at solutions, what does our experience from the past tell us.

It tells us that any set of rules intended to govern world agricultural trade must be flexible enough to accommodate a variety of supply/demand situations which could develop. It tells us further that when problems arise, be they problems of scarcity or problems of surplus, the trade practices of governments have frequently aggravated rather than ameliorated these problems.

When we look at agricultural supply and demand in the world since World War II, what do we see?

On the one hand, we see a number of years when there have been surpluses in various commodities. In some cases, surpluses were generated because of high price supports and restrictive trade barriers. During the periods of surplus, there has been a tendency by many governments to subsidize exports aggressively, thus artificially depressing world market prices and encouraging introduction of import protection schemes to protect farmers at home from the competition.

We also see times of shortage when a combination of bad weather, short-sighted policies, and rising world demand have resulted in export restrictions as well as price controls within our respective national economies.

Then there have been years which lie somewhere between these peaks and valleys. In this middle area, it should be possible for the market mechanism to do a reasonably good job of allocating food and feed throughout the world, but we have had to face an intricate variety of trade distorting measures which limit imports and subsidize exports, altering the pattern of world production and trade, usually to the long-range detriment of both consumers and producers.

Unless governments can develop some understandings on the use of trade measures during periods of excess or inadequate food production throughout the world, tensions will be inevitable. Exporting countries, on the one hand may be reluctant to make commitments necessary to expand production unless they are assured of continued access to foreign markets. On the other hand, importing countries are reluctant to increase their dependence on foreign trade without some assurance of steady supply. All governments also have an interest in assuring that none pursue policies which seek to shift to their trading partners the costs of supporting farm incomes and stabilizing food prices at levels which differ from country to country.

To relieve these tensions, a major aim of the GATT multilateral trade negotiations must continue to be the reduction of agricultural trade barriers consistent with domestic commitments. We believe that the agricultural negotiations should concentrate on improving the agricultural trading system so governments can honour their commitments to both farmers and consumers at lower levels of protection. The United States believes that a reduction of the level of protection would not only benefit consumers by reducing real food prices but encourage producers to use their resources in a manner more consistent with comparative advantage. At the same time, in order to make countries willing to accept a greater degree of interdependence in the agricultural area, it will be necessary to achieve some understanding on the use of trade measures under all kinds of supply/demand conditions.

It is with these thoughts in mind that the United States believes that discussion of the commodity papers before us today should proceed. Near the conclusion of the discussion the United States will make further proposals as to some important questions which experience with these commodities implies for the further work of this group.