

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

MTN/3E/W/14/Add.7

10 July 1974

Special Distribution

Multilateral Trade Negotiations

Original: English

GROUP 3(e) - WORK ON TASK 4

Views Submitted by Delegations

Addendum

UNITED STATES

It was agreed at the Group's second meeting that delegations should prepare statements of their views on:

"Questions that had arisen in, and the conclusions to be drawn from, the discussions that had taken place on the analysis of recent changes on the world market, or any other relevant question of interest to them."

Before we state the factual conclusions which we draw from the assessment of recent changes in world markets, it is appropriate to recall why we have undertaken to make this assessment. It was not undertaken as a routine fact-finding exercise. This would, of course, have been appropriate under any circumstances. However, circumstances were not normal. In 1972 world food production declined for the first time since the end of World War II. There was a tremendous upsurge in the world's import demand for food grains and feedingstuffs. World market prices of basic farm products doubled and tripled and some countries felt obliged to impose, for one reason or another, export restrictions thus further reducing the supplies available on the world market. Our discussion focused, therefore, on the question whether the phenomena which we observed in and since 1972 were merely temporary or whether they were indicative of new trends in the world's grain and feedstuffs supply.

The conclusions which we draw from the analysis of recent developments fall into two parts: On the one hand, we believe that an evaluation of recent developments does not warrant the conclusion that we have arrived at a turning point in the world's supply and demand of agricultural commodities. It is apparent that the production response triggered by high prices and deliberate United States farm policy adjustments produced a turn-around in the wheat, feedgrain and protein meal situation in the past crop year. World wheat and feedgrain prospects for 1974/75 remain strong-production is provisionally put at 2 and 3.6 per cent, respectively, above 1973/74. Output of oilseeds and meals (soybean meal basis) in 1974 is estimated to be 19 per cent above 1973 and a continued improvement is foreseen for 1975. These developments should more than satisfy world requirements so that many countries can begin to replenish reserves that were severely reduced last year. In other words, we do not believe that the recent events on the world markets indicate a period of scarcity. On the other hand, recent experiences indicate that we cannot dismiss the possibility of a renewal of temporary shortages or surpluses in the future.

1. The shortfalls in production, while of major importance in individual countries, were not of extraordinary dimensions on a world scale. In 1972/73, as compared to 1971/72, world rice production declined by only 5 per cent; world wheat production declined by only 2 per cent; world feed-grain production declined only by 3 per cent; and the output of oilseeds and meals (in terms of meal) increased actually by 3 per cent.
2. The shortages in individual countries were translated into a very strong import demand. Compared to the previous year, wheat imports in 1972/73 increased by 26 per cent, feedgrain imports by 21 per cent and imports of meals by 4 per cent.
3. It was partly, in consequence of this extraordinary strong import demand the location of supplies relative to demand and transfer problems that the prices of wheat and other grains as well as of feedingstuffs increased so strongly in 1972/73. However, it must be pointed out that the phenomenal rise in prices was not only due to the strong import demand generated by the shortfalls in production in certain countries, but also increasing population, rising incomes and associated changes in dietary habits. The increase in the prices of these products was further stimulated by the general inflationary climate in which it took place. It was further intensified by the restrictive export policies of certain countries which increased uncertainty with regard to supplies thereby increasing demand through precautionary and speculative purchases.

4. Finally, it must be pointed out that the tight supply situation on the world markets was as much the result of ill-guided policies as of unfavourable climatic conditions. Had import policies of many countries not forced the major exporting countries to restrict their production and had there been a more rational distribution of stocks throughout the world there would have been less tension on international markets and greater supplies available in world markets.
5. Thus, our general conclusion is that the events of the past two years should not be interpreted as indicating that the growth potential of the world's agriculture has been impaired and that we face a period of scarcity. In reaching this conclusion we also take account of recent theories concerning long-term changes in the world's climate. These theories do not represent at the present time more than unproven hypotheses. They cannot serve as point of departure for future policies.
6. Along with these theories there may also be new factors and forces such as the recent structural changes in the oil market and changing relative prices for industrial raw materials, which will have an important influence on world agriculture in years to come. Yet the presence or absence of these forces does not alter the general conclusion of production variability in agriculture. Hence we cannot enter negotiations with the expectation that the future will be characterized by either permanent shortage or by permanent surplus.

Our factual analysis of recent changes in supply and demand contained implicitly also the "problem" which we are called upon to identify. We believe that this problem arises because governments in many cases have implemented agricultural policies without due regard for their global effects. These policies were characterized by the fact that many importing countries pursued restrictive import policies which prevented the full deployment of the productive capacity of efficient exporting countries; and that a number of exporting countries restricted exports at a time when they were most needed.

In the United States view the solution of this problem calls for a more open trading environment than has existed in the past, leading to a better allocation of resources, increased productivity and specialization permitting efficient producers to respond quickly to the growing and changing pattern of consumer demand worldwide. Such a system will lead to a better and more stable balance of supply and demand. Moreover, such a system will be better suited to cope with temporary imbalances that may arise from time to time.

To achieve a more open trading system we see the need for dealing with a broad range of governmental measures which impede and distort international trade flows. Undoubtedly some degree of international understanding on the use

of trade controls relative to domestic measures will be required. As part of such an international understanding, it may be desirable to achieve a better co-ordination of those internal policies which are undertaken to moderate extreme fluctuations in food supplies and prices.

These are the views of the United States regarding the identification of problems and negotiating implications resulting from the commodity studies this group has conducted. We believe these views provide a realistic and workable framework upon which to base further work as these negotiations go forward.