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At the first meeting of the Sub-Group - almost exactly a year ago - my delegation stressed the importance the United States places on achieving trade liberalization in grains in this round of negotiations. We pointed out the great importance of grains in the agricultural economy of the United States and the pre-eminent rôle of the United States as a supplier of grains to the world.

In the crop years 1972/73, 1973/74 and 1974/75, the total increment in world trade (as compared to the year 1971/72) amounted to 76 million metric tons. The total increment in United States exports during this period was 91 million metric tons. This means that the United States did not only account for the total increase in world grain exports but for an additional 15 million tons to compensate for reduced exports from other countries. The dramatic United States supply response was triggered by market forces operating in a market-oriented farm economy.

The implication is clear. An international trading structure based on liberalized national trade policies is by far the most reliable and efficient basis for ensuring the availability of adequate grain supplies to meet world needs.

Let us examine the three major United States market responses in terms of their relevance to our efforts in the MTN to find a solution to the problems in the grain sector.

Stocks

The 1972/73 crop year was characterized by a major shortfall in grain production in the Soviet Union. United States grain exports in that year increased by over 75 per cent. In order to achieve this export volume, the United States reduced stocks by 26 million tons. As world demand remained strong relative to supplies during the following two years, United States stocks were further drawn down so that over the three-year period a total of 45 million tons of grains were released from United States stocks. Significantly, world stocks during this time decreased by only 44 million tons.

Why did the United States bear the burden of the world stock adjustment? First, because other key grain consuming countries had never established a level of reserves proportionate to that carried by the United States. They preferred instead to maintain lower stock levels insulated from world market forces. This was, no doubt, partly related to the high cost of carrying substantial surplus reserves. Moreover, so long as the United States and two or three other exporting countries carried reserves, other countries did not perceive a need to do so.

What conclusions can be drawn from recent events? Clearly, a major conclusion is that even the relatively high level of world stocks held at the beginning of the 1972/73 crop year (approximately 150 million tons of wheat and foodgrains) was inadequate to stabilize world prices in the face of a succession of production shortfalls in key areas and of increased demand. If countries still believe that their 1972 stock levels were adequate - and the United States clearly believes that it was holding an excessively large share at that time - the costs to the United States of establishing even larger stocks capable of stabilizing prices over a comparable time period, would surely be unacceptable. The United States does not intend to hold such a disproportionate share of world stocks in future periods of substantial surplus.

Production

In response to sharply increased export demand, the United States brought back into production approximately 40 million acres previously set aside because of lack of adequate market opportunities. Under normal conditions, this response would have resulted in a substantial increase in annual availabilities. However, a number of factors limited this. First, some land which had not been continuously cultivated could not be brought back into full production immediately. Moreover, continuing uncertainty over access to foreign markets, many of which remained insulated from world market forces, caused United States farmers to exercise caution in increasing production. Adverse weather and reduced rates of application of fertilizer as a result of the general energy crisis were important factors affecting output during part of this period. Finally, some of the restored acreage went into soybean production which supplemented animal feed supplies and thus reduced pressures on feedgrains markets.

What conclusions can be drawn from this? Most importantly, while grain production is responsive when market forces operate, production alone cannot be relied on as a sure means of major short-term adjustment. In the long run, of course, improved production is the only solution to the major food challenge represented by projected population growth.

Consumption

Extremely adverse weather reduced the 1974/75 United States grain crop by approximately 34 million tons in comparison to the preceding year. World prices soared at the prospect of this staggering decline and key countries implemented variable and other types of export restrictions in order to protect domestic supplies and maintain normal consumption patterns. The United States opposed this approach and made every effort to keep its market open with the result that the impact of world needs and prices was felt fully on the United States markets, particularly the livestock sector. Domestic United States livestock feeding declined by 37 million tons in the 1974/75 crop year alone. The supplies thus released, along with a further 4 million ton drawdown of United States stocks, permitted the United States to export 62 million tons of grain - the third highest level of United States exports in the past thirty years.

The adjustment of United States livestock feeding was not, of course, without repercussions on United States prices for livestock products and on livestock producers' incomes. This adjustment would have been much more manageable, and would have had a much smaller impact on United States and world grain prices, if it had been shared by other developed countries with large animal feeding sectors.

The next time major production shortfalls affect world supplies over a prolonged period, and no doubt there will be a next time, adjustment may be much more difficult than during recent years. There may not be a reservoir of retired cropland standing ready for short-term use. There may not be such large reserve stocks as existed in mid-1972. And it is also conceivable that those few countries who this time permitted their internal consumption levels to change with world supply conditions may, next time, not be able to do so to the same extent. Under any of these circumstances, the impact on world prices and on the availability of grain for direct human food would be much more acute. It is thus, in the United States view essential that the world's capacity for adjustment of grain consumption be increased, and shared more equitably. The consequent reduction of extreme price instability, and improvement in the availability of food during periods of shortage, would be of particular benefit to developing countries.

Another important observation should be made about the experience of the past few years. It is the firm view of the United States that its response to world grains requirements would not - indeed, could not - have occurred if an international grain agreement had obligated the United States to adhere to a rigid, predetermined range of export prices during this period. Based on experience prior to 1974, an international price "band" operating during 1974 would almost certainly have had a maximum price substantially below \$6 per bushel for wheat and \$4 per bushel for corn. Yet had the United States been pledged to restrict prices below these levels, the key 1974 adjustment of the United States animal feeding would not have

taken place, and United States grain exports would have been reduced correspondingly in that crucial year. Under such a commodity agreement would other countries have released supplies to make up the difference at that time? In the light of experience, this seems highly unlikely. Under one major proposal made in this Sub-Group, only exporting countries would be obligated to supply specific quantities at maximum prices, and these quantities would be in line with historical exports. This would mean that major developed countries with large animal feeding sectors would appear to have no significant obligation to make available supplies so long as they were self-sufficient in grains or were slight net importers. Clearly, in a severe shortage situation, all countries with adequate supplies should have to make a portion of them available for export - as the United States did during recent years - if a crisis is to be avoided. The artificial containment of world market forces and prices under a commodity agreement for grains would, in the United States view, not permit this to happen. The result would be continued instability, and risk of severe grain shortages. Similarly, during times of surplus supplies, such a commodity agreement would minimize production and consumption adjustments and thus amplify downward pressures on world prices. This would in turn lead to eventual production cutbacks in exporting countries, setting the stage for another period of world shortages.

We now have a full year's experience behind us in this Sub-Group. We are all aware that some important work has been achieved. We have built an impressive base of documentation on grain trade and national policies. We have examined intensively countries' policies and have aired thoroughly the views of delegations on the bilateral and multilateral implications of these policies. Perhaps most important of all, countries have stated their major goals for grain negotiations and some suggestions have been made as to how negotiations should proceed.

All of this was necessary groundwork for the ultimate task that is now before us. We must now move forward in this Sub-Group and in other relevant groups of the MTN to expand and liberalize world trade in grains. We must commit ourselves to creating a more responsive structure for the world grain trade - one that is more in keeping with the much larger rôle of animal feeding in the total grain economy and one that recognizes the vastly improved systems of market information. We must begin the progressive dismantling of obstacles to trade as pledged in the Tokyo Declaration. Surplus and deficit countries alike - particularly developed countries - must recognize a new obligation to participate to a reasonable extent in world adjustment to severe grain surpluses and shortfalls. We can greatly reduce market instability if more countries participate in responding to global market forces. In so doing we will enormously ease the impact of tight supply situations on developing importing countries.

These are the overall objectives of highest priority to the United States. We are realistic about them. We recognize that if important steps toward liberalization are achieved in these negotiations, they may need to be phased in over a period of years. But the food challenges of the present indicate that the time to begin is now.

We do not know whether short supply situations or surplus situations will be more frequent in future years. We no longer believe that the case for trade liberalization rests simply on the presumption of long-term surpluses. What is needed, in our view, is a system which facilitates transition back and forth between tight supply and over-supply situations.

The major elements for grains negotiations in the MTN are clear to the United States. I will state them succinctly.

- Trade liberalization must be our overriding goal. We must begin to create a more flexible system in which trade grows, resources are used efficiently and supplies are allocated according to the requirements of the world market - not solely on the basis of excessively protected national markets. If it continues to be left to one or two countries to make the bulk of these adjustments, there is risk that they will be forced to take steps to protect themselves during times of excessive external pressures.

- Border measures should be the immediate focus of our concerns. In June we stressed that the United States proceeds from the fullest respect for the internal agricultural policies of all countries. What is essential is that countries provide for a large degree of freedom for the interplay of world market forces as regards international trade.

- Avoidance of international price commitments which would create new rigidities in production and trade and which would prevent adjustment of demand and supply to market requirements is an essential principle for the United States.

- Multilateral solutions concerning tariff and non-tariff measures developed in the MTN must be applicable to grains.

- Priority attention must be accorded to the concerns of developing countries at all stages in the work of the Sub-Group in furtherance of paragraph 5 of the Tokyo Declaration.

- Bilateral and plurilateral contacts will be essential in resolving differences and seeking compromise approaches to the wide range of objectives that countries have with respect to grains. It would be clearly impossible for

countries to discuss confidential, conditional and highly sensitive views with respect to possible negotiating approaches in future plenary meetings of the Sub-Group. Moreover, barriers to trade are diverse and different in virtually every country so that many specific problems must be discussed bilaterally.

It was in recognition of this last point that the United States delegation proposed at the October meeting of the Sub-Group that a notification and consultation procedure be adopted by the Sub-Group so that necessary bilateral and plurilateral contacts may begin immediately and continue over a sufficient period of time to allow results by the crucial final stage of the MTN next year (MTN/GR/W/4/Add.1). We also pointed out that this would be a procedure under which specific, concrete objectives of all countries could be pursued - whether they related primarily to liberalization, stabilization or the concerns of developing countries. It did not seek to commit all countries to a single negotiating hypothesis as did the proposals of some other countries.

The United States proposal remains on the table and we would welcome the views of other delegations.