

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

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COMMUNICATION FROM THE UNITED STATES

The following communication from the delegation of the United States on the relationship between the US Proposal on Tropical Products and the US Proposal on Agriculture is circulated to the members of the Group

U.S. Agriculture Proposal

The United States has proposed the elimination of trade distorting policies affecting all agricultural products, including tropical agricultural products. All market access barriers and subsidies which directly or indirectly affect trade would be eliminated within ten years. Health and sanitary measures would be harmonized.

The United States is advocating a comprehensive reform of all measures and policies affecting agricultural trade. This approach is different from any previous GATT negotiations on agriculture. An important feature of this approach is that it goes beyond the traditional areas of negotiations—market access barriers and export subsidies—by addressing domestic agricultural programs.

This approach is based on the realization that border measures affecting agricultural products are largely the result of domestic agricultural support programs. Efforts to liberalize agricultural trade must address those policies which cause governments to impose the border measures. The inability of past negotiations on agriculture to deal effectively with these internal support mechanisms is the principal reason for their failure to achieve significant liberalization of world agricultural trade.

Agricultural policies are deeply entrenched—particularly in developed countries. Efforts to reform these policies must overcome great political resistance. The political will to accept reform in each sector can be achieved only if the burden of adjustment is spread equitably among all sectors domestically and among all countries internationally.

Our objective in proposing that all products compete on an equal basis is to create the opportunity for world trade in agriculture to grow and for scarce resources to be allocated efficiently. To accomplish this goal, all agricultural products—including tropical agricultural products—must be included.

U.S. Tropical Products Proposal

The United States acknowledges the particular role for tropical products cited in the Punta del Este Declaration. We have proposed the expeditious elimination of trade-distorting policies affecting an agreed list of agricultural tropical products. We have not excluded any agricultural tropical product from expedited treatment, and we have not distinguished between various stages of processing. In principle, we would be prepared to eliminate our trade-distorting policies as quickly as all other participants.

We also have suggested several possible considerations for developing countries needing distinctive treatment in an elaboration of our agriculture proposal to the Negotiating Group on Agriculture. The elaboration applies to all agricultural products, including tropical products.

We have been able to make our far-reaching proposal for agricultural tropical products solely because of our proposal in the Agriculture Group. To approach the tropical products and agriculture negotiations in the traditional manner of past negotiations, in our view, would only result in the traditional minimalist outcome associated with those negotiations. Such an outcome would be particularly unfortunate for the interests of developing countries.

To understand more clearly why the U.S. proposals for agriculture and tropical products are linked, it is necessary to appreciate the potential gains from liberalization and to consider the interrelationship between commodities, countries and policies.

The Interrelationships Between Agricultural Products

The interrelationships between the various agricultural products—whether they are tropical or temperate—are fundamental to the agricultural economy. International trade responds to these interrelationships. As officials responsible for trade policy, we cannot ignore them.

The United States produces a tremendous variety of agricultural products, ranging from Temperate Zone crops to tropical products. We are major exporters of numerous agricultural products, some of which some countries consider to be tropical products—such as rice, tobacco and groundnuts. We are also one of the largest importers of many tropical products.

The agricultural diversity in the United States is mirrored in the international market. Many developed countries are exporters as well as importers of tropical products. Likewise, many developing countries are large importers of tropical products in addition to being major exporters.

Competition between agricultural products is intense. All agricultural products compete for scarce resources, and all food-related products compete for the consumer's dollar. For example, the consumer can drink tea or coffee, eat a banana instead of an apple, and substitute rice for wheat. But competition between agricultural products is often even more direct. Palm oil might be used in place of soybean oil, or manioc can displace corn.

On the production side, farmers can produce alternative crops from the land, labor and capital available to them. Their crop selection depends on government policy incentives, as well as the price and market opportunities facing them. In some countries producers have switched from rubber to palm oil or cocoa; producers in other countries have chosen to plant either corn, soybeans or wheat. Sometimes the choice will depend on the import protection provided. For example, some countries restrict imports of bananas in order to encourage domestic production of bananas or other fruit.

The relationship between policies in different countries must be considered. For example, government support granted to producers of a particular commodity in one country might cause another country to establish a similar program. The support given to the product in the second country might provide an unintended incentive for expanded production of another product, which in turn transfers benefits to a third crop. The U.S. sugar program offers a good illustration of such an interrelationship between policies and between products (sugar, high fructose corn syrup and corn). Moreover, would participating countries, for example, want to agree to the elimination of trade-distorting domestic policies for palm oil but not for soybean oil?

The economic realities of global agriculture are: (1) interest in tropical products cannot be conveniently categorized on the basis of level of economic development—between LDC exporters and DC importers; (2) markets for agricultural products cannot be neatly segregated according to whether the product is produced in a tropical climate or in the Temperate Zone; (3) the impact of governments' agricultural policies cannot be considered on a product-by-product basis, but must be handled in a comprehensive manner.

We have taken the comprehensive approach outlined in our tropical products proposal precisely because it provides the best prospects for the fullest liberalization of trade in all agricultural products. Such an outcome would be of substantial benefit to developing countries, while requiring developed countries to make the most adjustments.

Benefits from Trade Liberalization

In order for the benefits of liberalization of agriculture to be realized fully, all products must be included and all countries must participate. Numerous studies have demonstrated that the benefits from liberalization are magnified as the number of countries participating expands and the range of products included grows. For example, the World Bank's 1986 World Development Report estimates that with global liberalization of only selected commodities, developing countries gain over \$18 billion annually in income. The gains from liberalization increase by over 30 percent if both developed and developing countries participate compared to the gains if only developed countries participate. Using later data and a broader range of commodities, a study by the Australian Center for International Economics estimates that incomes of developing countries would increase by \$26 billion annually from liberalization of agricultural trade.

Impact of U.S. Proposal

The impact of our proposal would be profound. All countries would be able to produce and trade the agricultural commodities for which they have a comparative advantage. Production would no longer be determined by government policies—by the countries willing to spend the most resources to support their agricultural sectors. Countries could export products they produce most efficiently and would import products others produce more efficiently. The efficient use of resources is where the real gains from liberalization would be made. Developing countries, whose agriculture development is hindered by the current agricultural environment, would be among the major beneficiaries of the liberalized trading system we have proposed.

Conclusion

We recognize that the Punta del Este Declaration specifies that tropical products should receive special attention. It does not say that participants in the negotiations should attempt to create an artificial distinction between the treatment of commodities that are inherently related.

The United States seeks the fullest liberalization of trade in agricultural products—tropical and temperate alike. For diverse economic and political reasons, a comprehensive approach to the negotiations encompassing all commodities, all policies and all countries is the only way to achieve that goal. We are prepared to work rapidly to achieve this objective. We urge others to make the same commitment.