

Agricultural Trade in the 21st Century

The Role of the MTN Today

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It is a pleasure to be here in the heartland of our nation. One cannot fly into this city without noticing the signs of America's agricultural abundance — the grain elevator, feed yards, and vast expanse of growing crops. These are signs of agricultural success, signs that we live in a nation that has succeeded in breaking through the historical barriers to abundant food production.

This breakthrough has significantly enhanced the standard of living in the United States and, through its impact on international trade, has enhanced the world's standard of living. Other nations have come to depend on us as reliable suppliers of agricultural products. Japan, for example, has come to rely on the United States to supply a major proportion of its total oilseed consumption, an important element in the Japanese diet. In fact, there is more land under cultivation in the United States for the feeding of the Japanese people than there is in Japan itself.

The European Community (EC) looks to the United States to supply a large part of the feed used to support its domestic livestock sector. Without U.S. feed, European consumers would eat considerably less livestock products. Likewise, in the less developed world, where the availability of foodstuffs means the difference between life and death, we ship 50 per cent of all imported food grains.

Despite our willingness to share our food abundance, no other nation can claim a standard of food consumption equal to our own. U.S. consumers use only 20 per cent of their spendable income to purchase food, a level significantly less than Europe and Japan's figure of 30 per cent. Per capita beef consumption in the United States equals more than 123 pounds compared to 9 pounds in Japan and 57 pounds in the European Community. Even Switzerland, a nation which boasts a per capita GNP of \$9,300, or 20 per cent above the U.S. per capita GNP, only has a per capita beef consumption of about 53 pounds.

The question then is: If the United States is willing to share its abundance, why is the rest of the world so far behind us in increasing its standard of food consumption and, thereby, enhancing its standard of living? Part of the answer to this

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question lies in the fact that U.S. abundance obviously is not large enough to feed the world in the manner to which Americans have grown accustomed. The other part lies in the fact that other nations, especially developed nations, impose barriers to imported food — barriers that increase the price of imported food to unaffordable levels, prices that discourage consumption.

An example is Japan, where beef imports are controlled through restrictive quotas, the average price of boneless sirloin beef is around \$15 per pound, compared to the United States, where the same cuts can sell for less than \$2 per pound. Another example is the European Common Market, where a bushel of corn is priced at \$6.00 despite the fact that U.S. exporters are willing to land corn in Europe for \$3.25. The list of trade barriers that raise the prices of food to consumers goes on and on. Even the United States has restrictions that keep food prices unnecessarily high.

This brings me to the main focus of my remarks — the Tokyo Round of trade negotiations. Some 100 nations are participating in this round of trade negotiations, the seventh round since World War II. Each round has had as its major objective the reduction of trade barriers and the expansion of international trade.

One of the key challenges in the Geneva talks is how to integrate agriculture into the multilateral trade negotiations so that the world achieves an improved standard of food consumption, and efficient production will not go to waste or land lie 'unnecessarily idle. At an earlier date, this question could be regarded as academic, theoretical, and remote. Today it is a central issue to be resolved.

Given our interest as the principal agricultural trading nation of the world, the United States has taken a leadership role. This was not done lightly or easily. No nation is enthusiastic about reducing its agricultural trade barriers despite the fact that it is in their overall long term national interest to do so. Progress can be made only through the exchange of reciprocal trade concessions with others. To encourage others to make their concessions, the United States put a substantial offer on the table. In January of this year, we stated to the other 97 countries in this negotiation that we would reduce our tariff and nontariff barriers on nearly \$3 billion of U.S. agricultural imports, as well as \$45 billion of nonagricultural imports.

Frankly, to this time, the response to our offer has been disappointing particularly in agriculture. Ambassador Strauss and I are very concerned, not only because of the implications this has for a successful Tokyo Round, but for the implications it could have for the future of the world trading system.

But as you know, the reduction of trade barriers is a long, hard process. In modern times, it began in 1934. Since World War II, the nations of the world have completed six rounds of multilateral trade negotiations, chipping away at trade barriers that impede the growth of world trade.

Unfortunately, agriculture has not played a major role in the previous negotiations. This is significant when we consider that expanded agricultural trade is in the common interest of all countries and integration of agriculture into the General

Agreement on Tariffs and Trade (the GATT) could lead to expanded trade in agricultural products.

The last attempt to integrate agriculture into the trading system occurred during the Kennedy Round. It has the reputation in our agricultural community of a failure, although our exports have nevertheless grown markedly during this last decade. The reason for this view is that the major trading countries failed to come to grips with providing for even the most rudimentary international cooperation in agricultural trade. The U.S. farm community has insisted on a larger role in this Tokyo Round of trade talks, and Bob Strauss and I, and your elected representatives, are fully committed to that goal. If this round fails to reduce agricultural trade barriers, if it fails to provide some understanding of what conduct is fair and equitable, these goals might not be achieved for many decades.

If this were to occur, we would lose the opportunity to bring agriculture into the trading system, and most of all, the world would lose the chance to move toward achieving a more rational, economically efficient world food system. Importing countries would not have the opportunity to achieve a higher standard of living through the reduction of agricultural trade barriers. And exporting nations would continue to face the problems of overabundant food production while hunger remains in other parts of the world.

This is not to say that we do not recognize the social and political need of countries to support their agricultural capability. We believe, however, that the time has come for nations to begin the adjustment toward a more rational agricultural system — a system in which the world's limited food resources can be utilized most efficiently; a system where consumers can have the opportunity to enjoy a higher standard of consumption with regard to basic food commodities, regardless of the geographic region where such commodities may be produced.

We believe it is time to begin the process of working toward this rationalization of our agricultural systems. We believe it is time to do this through a reduction in trade barriers. Moreover, in our inflation-plagued world, it makes good sense to reduce barriers that maintain high food prices. We do not expect nations to eliminate their barriers immediately. But it is reasonable to ask them to begin the process of reducing those barriers.

We are insisting that the world agricultural trading system be designed to encourage rather than inhibit the development of more trade. We are insisting that this should lead to a rationalization of world agricultural production, utilizing the comparative advantages of each nation. We believe this would lead to long term benefits for consumers of all nations, much as the growth in trade in non-agricultural production since World War II has improved living conditions and increased employment both here and abroad.

The facts speak for themselves. In the decades after the end of the second World War, there was unprecedented world economic growth and prosperity. Expanding trade was one of the principal engines of that growth. It was no mere coin-

cidence that the period was marked by a progressive dismantling of trade **barriers** under the GATT. Year after year, increases in international trade exceeded increases in world production. No one can argue with any credibility that our nation, and the world as a whole, has not benefitted very substantially from this development.

This was particularly true for U.S. agriculture. We became the world's largest exporter of agricultural products — over \$24 billion worth in 1977. We became one of the world's largest importers of food products, over \$13.4 billion in 1977. In terms of individual commodities, we are extremely large exporters. For example, exports of **oilseed** and **oilseed** products amounted to over \$6 billion in 1977. We account for 43 per cent of the world's exports of wheat and 63 per cent of the world's exports of coarse grains. While much has been made of imports of **oilseed** products like palm oil, imports of all **oilseeds** and their products totaled only \$650 million or only about one-tenth of our exports in 1977.

As a result of trade balances like these, we have stressed strongly the benefits of freeing up world agricultural trade even though such freedom can increase market risks. The benefits from freer trade are similar to the benefits from freer domestic markets toward which the U.S. farm industry has been moving slowly over the past several decades. Exposure to greater market risks has caused individual producers to protest, but it has kept our agricultural industry highly competitive in world markets.

In those world markets, the existence of GATT disciplines could reduce risks of agricultural trade, much as our domestic farm programs tend to lessen risks of domestic farm production. Our focus in the Geneva trade talks has been to **expand** opportunities for agricultural trade through a strengthening of the world trading framework. We believe this should be a common goal of these negotiations.

The question then is how can we proceed in the Tokyo Round to bring agriculture into the **GATT** trading system. I believe this can be done by means of a two-track approach. First, we should achieve tangible results in the Tokyo Round by reducing tariff and nontariff barriers, as well as by achieving additional disciplines on the use of specific export subsidies. Tangible results can take the form of reduced tariffs, expanded quotas, liberalized licensing systems, and the removal of standards designed as barriers to trade, to name a few concrete examples.

The question of export subsidies must also be adequately dealt with. Export subsidies, in particular, have been a long-standing problem in the trade of primary products. The successful negotiation of a code which would discipline the use of export subsidies for agricultural commodities would provide, in my view, a necessary element for a successful Tokyo Round package.

I do not underestimate the value of the specific concessions that could be exchanged. But this is not enough.

It is time that we took a second step to establish a world forum within GATT for resolving conflicts between internal farm and food policies and policies related to

international trade in agricultural products. In other words, nations would for the first time be accountable to the international community for the impact of their individual agricultural policies on world trade. What is surprising about international trade in agriculture is that although we are so highly dependent on foreign markets as outlets for our production, and foreign countries are so dependent on this nation as a source of supply, we do not have serious and regular consultations in the GATT on overall national agricultural policies, nor effective guidelines to avoid behavior that seriously interferes with trade.

I believe that there is a possibility for establishing a forum of this kind within GATT during this negotiation, a forum that would work toward resolving trade questions related to agriculture. Such a forum might carry out several specific tasks that would relate to freeing up trade in agricultural and food products.

1. For example, such a forum might conduct an annual review of national policies and international commodity arrangements. This review would include an examination of how responsive national prices have been to changes in world supplies and trends in consumption patterns.

2. Such a forum might also review changes in historical patterns of agricultural trade and changes in market shares of individual exporting countries. This review could examine the degree to which countries use unfair trade practices to increase market shares. Such practices include the use of export subsidies and the dumping of surplus agricultural products on world markets.

3. Such a forum might also review progress toward the general objective of rationalizing world agricultural production along lines of comparative advantage, taking into account national food and agricultural programs and the operation of international arrangements for individual commodities, including the international grains agreement and international arrangements for meat and dairy products.

Finally, such a forum could watch over the world food systems for the purpose of achieving what many scholars of agricultural economics have called, including a speaker here today, Dr. D. Gale Johnson, equity and fairness. Dr. Johnson has often pointed out that nations that stabilize their domestic agricultural sectors through trade barriers, transfer the instability of their farm sectors to other nations. In essence, stability for one nation comes at the cost of instability for others. We would maintain that those costs should, in fairness, be shared through an open international trading system.

I am convinced that some type of forum like this could assist nations in expanding world trade in agricultural products over the next century. On the other hand, I am equally convinced that if no progress is made in this round of negotiations toward resolving the serious potential conflicts facing trade in agricultural products, the next few years will likely witness further efforts to restrict the flow of farm products. The result would be a continuation of unduly large food costs for some nations, disruptive price increases for others during international droughts, and a repetition of many of the other unfortunate occurrences of the recent past.

Let me turn to other aspects of the MTN. A brief review of other key areas under negotiation should give you a better idea of (1) what is at stake overall in the MTN, (2) what we have been seeking for agricultural interests, and (3) how these particular interests might be accommodated.

Tariffs. In January, this year, the United States and other major developed countries tabled comprehensive offers for tariff bamer reductions on both industrial and agriculture products. This set the basis for a significant reduction of tariffs which, in my view, were an essential corrective on the distortions that are still causing high tariff protection. A substantial tariff cut is still seen as the clearest possible declaration of the determination to continue postwar efforts to reduce trade barriers and resist a drift toward protectionism.

Given developed country interest in expanding international trade, one might assume full support for a significant reduction of tariff bamers. It would seem to be a common goal of all countries to remove the trade distorting effects of tariffs. In fact, support for tariff cuts has been limited, especially for agricultural products. There has been widespread exaggerated concern that tariff reductions will harm food producers. This has been true of some in this country as well, despite the obvious gains from expanded agricultural trade of the past few years.

Subsidies and Countervailing Duties. No subject in the trade negotiations causes quite the same amount of emotion as this one. Government export aids are often used by most nations despite their effect on the trade interests of others. The application of offsetting or countervailing duties on the subsidized trade is often regarded not as a trade neutral measure, but as a direct political and economic attack on the sovereign policies of the subsidizing country.

To avoid a large number of very serious conflicts in the future, international agreement must be reached on what trade conduct is acceptable, both in terms of the granting of subsidies, and other countries' reactions to these aids. The international community will have to face squarely the acceptability of subsidization of primary products, such as grains and oilseeds. We continue to feel that such actions are disruptive and unwarranted. Our basic position is that the trading systems should lead to the removal of trade subsidies and countervailing duties. Our belief is that firm and lasting trade relations are based on a mutuality of interest in more efficient patterns of production and trade. This is particularly true in agriculture where gains to consumers would be so significant.

Finally, let me close with a few general words on the agricultural component of these trade negotiations. They deserve special mention for several reasons. For one, agriculture is of interest to all the nations — all are food consumers. For another, the issues in agricultural trade are of fundamental economic and social concern, which means that they also have a particularly great political importance. Third, food issues touch on national security sensitivities which add to the protectionistic tendencies of nations. For these reasons, agricultural trade problems are both important and enormously difficult to solve.

The U.S. view in this round has been that, despite their intractability, the problems of agricultural trade must be addressed and the efforts of solutions made an essential part of the broader trading system. This belief is built on several basic concepts.

We believe that international cooperation in agricultural trade can enhance the ability of individual countries to improve the welfare of their farmers and consumers;

We further believe that international cooperation can lead to a continued expansion of international trade in agriculture;

Finally, we believe that international cooperation can lead to national policies and programs that promote improved patterns of agricultural production and a more equitable sharing of the burden of adjustment during periods of oversupply or scarcity.

These basic concepts underlie our negotiating efforts in Geneva for agricultural trade. We recognize that there is considerable linkage between these negotiations and the domestic policies and programs of participating countries. This is, of course, inevitable. It also explains why agriculture has traditionally been excluded from trade negotiations. Regulation has grown up over the decades as governments attempted to solve social problems of rural migration, rural underemployment and low farm incomes, as well as political problems of social unrest and voter dissatisfaction in rural areas.

We believe that the time has now arrived to begin the process of counting among the costs of national farm programs the adverse impact on trade in farm products. It is this objective that we have stressed in the negotiations and which we believe holds much promise for expanding the trade in agricultural products in coming decades. Such an expansion could lead to improved standards of food consumption for other nations and thereby to higher standards of living. This after all is the objective of the multilateral trade negotiations.

I am optimistic that the MTN can produce a comprehensive set of new agreements which, in the process of reducing trade barriers and strengthening the GATT framework, will encourage fuller integration of world agriculture into the trading system. But there is quite a bit of work to be done and active participation of all countries and all groups here at home will be necessary for getting the job done.