Food Shortages and Farm Prices

by Hugh Corbet, London *

In the forthcoming GATT negotiations attention is expected to focus more than in any previous round on the problems in international agricultural trade. The author suggests a set of courses that might be able to restore some semblance of order in world agricultural markets.

While the World Food Conference in Rome, conducted under the auspices of the United Nations, may highlight on the present disarray in international agrarian markets, it is to the negotiations in Geneva under the General Agreement on Tariffs and Trade (GATT) that governments must look for solutions 1. The latter were formally launched in Tokyo in September last year. So far the Tokyo Round negotiations have been marking time, waiting for the Congress of the United States to afford the Administration (no pun intended) a negotiating authority. And the European Community, too, has to settle its detailed "negotiating directives" 2.

Access to Supplies and Markets

In the negotiations attention is expected to focus more than in any previous GATT round on the problems in international agricultural trade. For that trade has been increasingly disrupted and distorted over the past decade by severe import controls and export subsidies and, more recently, by various export controls 3.

With the development of world-wide shortages of major farm commodities, particularly of cereals (a key determinant of prices for livestock products), rural interests have been lobbying more militantly than ever for increased government support for agricultural production. Many of these shortages have their origin in under-investment in the fields concerned — reflecting a distortion in the allocation of world resources.

Greater self-sufficiency at high cost is therefore not the appropriate answer to shortages of supply. International agreements should instead be sought on security of access to supplies and on security of access to markets. The opening of commercial markets for agricultural products is required in order to stimulate production in low-cost areas of the world. For increased production will not be undertaken without some assurance of a market for the resulting goods.

Causes of World Shortages

In the 1950s and 1960s, the United States built up large stockpiles of grains, almost as a by-product of its farm-support policies. These stocks accounted for the bulk of world reserves and helped to moderate the price effect of swings in production. But a number of developments contributed to the depletion of these reserves: famine relief, a succession of bad harvests in various major exporting countries, purchases in the world market by China and the Soviet Union and increased livestock production. By the late 1960s the world's reserves of grain were getting low.

Also by the late 1960s the European Community's common agricultural policy began to make a substantial impact on international trade in temperate-zone commodities — especially cereals. Surpluses generated by high support prices (protected by variable import levies) were being increasingly dumped, with the help of export subsidies, on the "world" markets of the traditional exporting countries.

1 For a fuller discussion of the issues raised in this article see Hugh Corbet, Agriculture's Place in Commercial Diplomacy, Ditchley Paper No. 48 (Enstone: Ditchley Foundation, 1974). This is a report on the deliberations of a high-level group of officials, farm leaders and economists from the European Community and the United States, besides Japan, Canada, Australia and New Zealand, that was convened by the Ditchley Foundation in England to consider farm-support policies as a source of difficulty in international trade.

2 These "negotiating directives" should not be confused with the broad negotiating position agreed by the Council of Ministers on 26 June 1973, as set out in Overall Approach to the Coming Multilateral Negotiations in GATT, Document 1/135 e/73 COMMER 42 (Brussels: Commission of the European Community, 1973).

These last, such low-cost cereal producers as the United States, Canada and Australia, were thus confronted with depressed prices, which induced them to cut production. These cuts contributed to the problem of tight supplies. In an economic activity that is subject to so much government intervention, it is impossible for politicians to absolve themselves, as most of them do, from responsibility for the disarray into which world agriculture has fallen.

Since commodity prices have been buoyant, thus relieving governments of the pressures normally associated with depressed prices, the general climate for trade liberalisation has improved. But the situation is not likely to last for very long. For costs of production are rising and many of the income benefits from high prices are being capitalised into higher values on farm assets — which farmers will soon take for granted.

**Strategy for Commercial Negotiations**

What is needed is a broadly accepted strategy for commercial negotiations. The underlying principle might be that governments should limit the extent to which the burden of domestic adjustment in the agricultural sector is shifted, through trade measures, to producers in other countries.

Negotiations should accordingly bear down on the measures which have been most disruptive of international trade. For a start governments should have no difficulty reaching an understanding, especially in a period of tight supplies, on the use of export subsidies.

4 This point is elaborated upon in Corbet, op. cit., pp. 14 and 20.
6 Such a principle was urged by the Director-General of the GATT Secretariat, Oliver Long, "International Trade in the 1970s: Some Immediate Problems", an address to the Bundesverband der Deutschen Industrie, Bonn, 26 January 1970.

Another objective, at this level, should be the negotiation of codes of conduct with respect to the various technical measures which — by either design or accident — impede imports of agricultural products. By these are mainly meant the wide range of health standards and regulations relating to food additives and so on which can be “over-zealously” applied with protectionist intent.

Just as export subsidies disrupt markets when supplies are plentiful, so also do export controls when supplies are tight, creating uncertainty in world markets and in policy-making circles everywhere — and providing much scope for commodity speculators. Reaching an understanding on export controls will be much more difficult while shortages persist.

Commodity shortages have made importing countries realise that they must be prepared to share the responsibility, and therefore the cost, of stockpiling instead of leaving it all to the exporting countries. With the importing countries interested in the security and stability of supplies, the Tokyo Round negotiations should be able to reach agreement on the financing and management of reserve stocks of storable commodities, mainly grains.

Having established a framework in which some semblance of order might be achieved in agricultural trade, the negotiations should take up, and carry a stage further, the montant de soutien programme. 7

7 For a review of these devices, see J. S. Hillman, Quota and Technical Restrictions on Agricultural Trade, Agricultural Trade Paper No. 5 (London: Trade Policy Research Centre, 1974).