AGRICULTURE WITHIN WORLD TRADE

Address by Eric Wyndham White, Director-General
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This Congress affords a timely opportunity to examine the place of agriculture in world trade. A few months ago the Kennedy Round of trade negotiations was brought to a successful conclusion, a high point in the impressive history of post-war trade liberalization. Yet once again the negotiations fell far short of anything like full success in relation to agriculture, and this despite a determined effort to integrate agriculture fully into the negotiations for the first time in the history of post-war trade negotiations.

Yet agricultural products play a very important rôle in international trade and it is clear that ways and means must be found to overcome the difficulties which have hitherto inhibited progress in international collaboration in this vital sector of trade and production.

In Europe in the immediate post-war period the stimulation of domestic agricultural production was a natural means of import saving in countries plagued with an acute shortage of foreign exchange to finance essential imports, and with their export capacity gravely impaired by the ravages of war. Concurrently the United States and other major producers of temperate zone agricultural products had every incentive to expand their production to meet the demands of a hungry world. With these incentives added to the social pressures which have always militated in favour of governmental assistance for agricultural production there came into being a formidable armoury of subsidies, price supports and frontier controls which had the cumulative effect of insulating domestic agricultural producers from the disciplines of international market forces. As economic recovery proceeded the attention of governments was directed towards the dismantling of controls and the liberalization of international trade. From this process agriculture was largely excluded. In the OEEC liberalization programme there was a heavy concentration of agriculture in the sectors of production excluded from the elimination of quotas and other controls. In the GATT trade negotiations, though there were a number of negotiated reductions of customs tariffs on individual products, the basic elements of protection were largely untouched. Meanwhile, as production elsewhere revived, the greatly expanded United States production became an increasingly troublesome element, particularly as the high levels of support in the United States had encouraged large-scale investment in the improvement of production techniques. (Parenthetically, I would suggest that Europe could usefully profit from United States experience - whilst there is still time.) Huge surpluses accrued in the hands of the United States Government which was hard put to it to house
and finance them. Growing production everywhere, stock accumulation, export subsidization, more or less thinly disguised dumping, rigid import controls in all shapes and forms—accompanied necessarily by an acute pressure on the international price structure—these have been the characteristics of agricultural trade in a world otherwise firmly bent upon the path of liberalizing and expanding international trade.

It is easy to understand the mounting exasperation of the traditional producers and exporters, for whom agriculture is not an adjunct to a powerful industrial economy, but the main basis of their economic well-being. Is it possible to construct a viable international economic and trading system which in effect leaves agriculture completely outside the rules of the game? Clearly not indefinitely—and yet we have still to find the answers and techniques for reconciling the political and social necessities of domestic agricultural policies with a viable and acceptable basis for trade in agricultural products.

This conflict has continually perplexed the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade, which has operated in general with remarkable success in maintaining order in international trading relationships. It is a matter for some surprise that those who drew up the General Agreement showed such little apparent awareness of the problems to which agriculture would inevitably give rise in establishing and operating a widely acceptable multilateral trading system.

With minor exceptions it contains no special provisions governing trade in agricultural products. It assumed that, by and large, agricultural trade and production would be subject to market forces and governed by the same trade rules as industry. In fact, an international trade charter which proceeded on any other assumption would have had small chances of acceptance by traditional producers and exporters of agricultural products. What is perhaps rather more surprising is that other countries were prepared to subscribe to a treaty which made little or no provision for so sensitive an area of the national economy and where in the event they would have to resort to measures glaringly inconsistent with their treaty commitments. The explanation is complex. The United States position is somewhat ambivalent. As one of the world's largest traditional exporters of agricultural products they could hardly subscribe to an international trade agreement which overtly discriminated against agricultural products. On the other hand their own support policies clearly required some accommodation in the treaty. It is for this reason that the major exception to the general trade rules in favour of agriculture was largely tailored to United States requirements. The General Agreement thus allows—contrary to the otherwise unconditional condemnation of import quotas—the quantitative restriction of imports of agricultural products benefiting from internal support measures provided that at the same time there are also restrictions on domestic production or marketing. Unhappily this leeway was not to prove enough for the United States, who in 1954 sought and obtained a waiver of its GATT obligations so as to be free to restrict imports when these threatened to impede the operation of domestic support programmes.
The United Kingdom, wedded to a policy of cheap food imports, with domestic production then a small part of consumption, relied upon deficiency payments to domestic producers and therefore required no special accommodation. The continental European countries sought none, no doubt because of their belief that import restriction for balance-of-payments reasons would continue indefinitely and provide ample cover for the maintenance of restrictions on agricultural imports.

When in fact the post-war economic recovery in Europe was complete the agricultural sector remained a blatant exception to the general elimination of quantitative restrictions in conformity with GATT treaty commitments.

Faced with this uneasy situation, the GATT reacted with characteristic pragmatism. In 1958 a panel of independent, highly qualified experts, commissioned by the GATT member governments to examine the trends in international trade, examined inter alia the problem of agricultural protectionism. Their report which was balanced and realistic, advocated the moderation of protectionism in combination with measures to facilitate the necessary reorganization of agriculture. Following this report, the GATT member governments organized a series of consultations on the various ingredients of national agricultural policies. Whilst these consultations had no immediate practical results, they did bring about a greater understanding of the nature and motivation of domestic policies, going beyond purely commercial measures, and an increased awareness of the necessary interconnection of national and international policies. This work found an echo, though unhappily no final fulfilment, in the Kennedy Round. As I shall suggest later, it points the road ahead.

The gulf between the strict requirements of the General Agreement and the actions of governments is easily explained. The conditions of agricultural and industrial production are not the same. Because of the vagaries of climate agricultural production is inelastic: unlike in industry, production cannot be adjusted up or down in mid-stream to take account of market conditions. Many agricultural products are perishable; or, at best, their storage presents difficult technical and financial problems. The more marked the seasonal character of production, the more important these considerations become; in the case of fruit and vegetables, for example, all produce in a same region comes on to the market during the same brief period.

On the national plane, there is the prospect of periodic price declines and reductions in income that can maintain or even increase the gap between agricultural producers on the one hand, and those employed in industry and the services, on the other. Whence the desire of agriculturists - translated into trade union or political action - for stability of income; for assured prices before undertaking production programmes; for adjustments in prices to assure the maintenance of parity of income with the other sectors of the economy; and, as a consequence, for protection of the national market against the production of certain countries and regions where the technical, financial and social conditions of production are substantially different.
The end-result of all this is an insistence on guaranteed prices and outlets, negotiated with and decreed by the authorities, having a certain period of validity, and underwritten by the necessary allocation of financial resources. All of this is, of course, well-known. From simple origins, however, these arrangements have taken on increasingly complex and detailed forms. They have reached a summit of complexity and sophistication in the Common Agricultural Policy of the European Economic Community, into the rarified atmosphere of which only a few specialized and experienced mountaineers dare venture.

There is a saying "tout comprendre c'est tout pardonner". This will not do for our examination of the consequences of current trends in agricultural policies, for unless - while meeting the legitimate interests of their producers - governments correct the distortions inherent in some of these policies they will face increasingly acute domestic and international problems. In the first place, there is the lack of homogeneity in conditions of production in any one country. If the level of guaranteed prices is set so as to meet the requirements of marginal or inefficient producers, the result may well be to stimulate and in effect to subsidize a sharp increase in production in the relatively more profitable farms, particularly in an age of technical revolution in agriculture. This may well lead to the unintended effect of requiring more stringent import restrictions - with the risks of retaliation which will ensue - and even further financial charges to subsidize the export of production which is surplus to domestic requirements. Common prudence would appear, therefore, to indicate fixing guaranteed prices at levels which yield adequate returns to farms of economic size and efficiency, and also a quantitative limit on the total amount of production for which support payments will be provided. Such policies would, of course, run into difficult problems of a social character, but these could be met by introducing the full rigours of these policies gradually over time.

Furthermore, I suggest, a modern industrialized country cannot afford for long to ignore the economic costs of excessive agricultural supports. In so far as support is afforded by direct subsidy payments to producers, the cost is at least apparent and subject to periodic control and scrutiny through the normal budgetary process. Perhaps for this reason this practice is rare. In so far as the support is afforded by price regulation and the subsidy is thus paid directly by the consumer, the cost is concealed but no less real. Food looms large in the cost-of-living index and high agricultural prices accordingly play a large rôle in triggering pressures for increased wages. Indeed industrial wages often anticipate rising food costs, so that it is said that industrial wages go up by the lift while agricultural prices go up by the stairway.

There have also been paradoxical situations in recent years where governments, plagued with over-heating of the economy and an acute shortage of industrial manpower, have nevertheless felt impelled to pay substantial sums to induce the retention of manpower in agriculture.

The price of an unwise agricultural policy may well be inflation, impairment of competitive ability of industry, damage to the country's export opportunities, and pressure on the balance of payments.
The level of domestic price supports necessarily determines the level of protection at the frontier. It would be self-defeating to impose internally a certain price level unaccompanied by techniques aimed at the prohibition, the restriction, or at least the equalization of prices, of the imported products. The result is that the powers of negotiation of a country are considerably reduced. The resistance of agriculture to integration in a multilateral system of trade jeopardizes the chances, and in any case reduces the possibilities, of the liberalization of trade as a whole. This phenomenon will be even more apparent in the future, for the imbalance between the two sectors has become more marked as a result of the Kennedy Round, during which obstacles to trade in industrial products were decisively whittled down whereas, once again, the tariff and non-tariff barriers impeding the flow of agricultural products were only modestly touched upon.

It is hardly necessary to point out that this basic disparity in treatment between the two sectors has become more apparent as throughout the world, in the Community, the United Kingdom and the United States, more and more elaborate agricultural policies, increasingly erudite pricing arrangements and watertight trading systems have seen the light of day during the past decade.

It is true that some of the tension inherent in the present agricultural conjuncture have been lessened by the temporary phenomena of heavy demands from China, the USSR, and the developing countries. Indeed many have seen the last factor as a justification for stimulating production in the developed countries. This is an evident fallacy. It is clear that any soundly conceived approach to the problems of the developing countries must lay heavy emphasis on improved agricultural production in these countries, both to meet domestic demand and eventually for export. These temporary factors are not a sound basis on which to construct a longer-term international agricultural policy.

Against the broad background which I have endeavoured to sketch a case clearly exists for a more ambitious and imaginative approach to international negotiations on trade in agricultural products. Experience in the Kennedy Round - disappointing as it may have been in immediate results - nevertheless opened up interesting possibilities for the future.

One thing was made abundantly clear at the very outset of the Geneva negotiations, i.e. that significant trade negotiations can no longer leave agriculture on one side. From the beginning the agricultural exporters insisted that the negotiations must include as an essential element the attainment of acceptable conditions of access to world markets for agricultural products, such as to lead to a significant expansion in trade in these products. Events forced them to settle for relatively modest results, but their basic position remained unchanged. Significantly, the European Economic Community - one of the largest food importing areas of the world - accepted the thesis, but with the important qualification that negotiations would have to go beyond the traditional method of concentrating only on tariffs and other frontier controls. Negotiations must relate to all relevant measures of protection and
support whether in importing or exporting countries. This would bring into the range of international negotiation domestic production and price policies, international prices, subsidies and any other governmental measures which bear upon the conditions of international trade. This far-reaching initiative by the European Economic Community met with only qualified success.

Why did the idea of negotiating on domestic agricultural policies not attract a more receptive audience? Apart from the fact that the idea encountered the normal mistrust of innovation, I feel that there were two basic reasons for the cold welcome accorded to it. In a few words, the proposal was perhaps incomplete and not flexible enough.

It was incomplete in two ways: first, it postulated the present price position and high levels of protection as an accepted and unchangeable principle which, from the outset, was to the disadvantage of most of the other negotiating parties; secondly, it did not include access to the market, except at a later stage and then only in the cereals sector. In short, it offered some assurance that the trade position would not worsen during three years. On account both of the play of the internal mechanisms of the proposal and because of the concerns entertained about the future course of the Community's agricultural imports, this doctrine found its full value only from a medium-term point of view; for the immediate future it had few attractions. Exporters, on the other hand, were seeking immediate improvements in conditions of access, comparable to what they were prepared to negotiate for industrial products.

Again, the proposal should have been selective and tuned to the various sectors: for it must be open to doubt whether a single formula can be adapted to product sectors where the production and trading conditions and the degree of State intervention - in short the basic problems - are radically different. For lack of this, and despite good intentions, this intended panacea ran a serious risk of appearing as a most complicated way of doing nothing which, after all, is not the ultimate aim of negotiation.

Nevertheless it is, I think, a legitimate contention that the future of international trade in agricultural products is henceforth bound up with the negotiated co-ordination of domestic agricultural policies in their essential aims and instruments. If we are to look constructively to the future it will be necessary to return with an open mind to this idea - which is basically sound - whilst at the same time ridding it as far as possible of the elements and uncertainties which led to its lack of success.

As regards these objectives, I shall limit myself to posing the pertinent questions: - is it not reasonable to think that the cereals sector as a whole, and not only wheat, should be the object of an international co-ordination of domestic price, support and supply policies? - is it not right to maintain, in the critical situation in which the market for dairy products finds itself, that the multilateral rationalization of production and of commercial and non-commercial exchanges should likewise be tackled? - would it not be advisable in
the meat sector, where at least in Europe the prospects for increased consumption are bright, to envisage as from now procedures for supervision and vigilance, and regular consultations which could lead, if needs be, to a more elaborated organization of this market? - would it not be prudent, and more beneficial, for sectors supplying only a small proportion of national consumption to be protected against seasonal competition by production subsidies rather than by a prohibition of imports? - is it not likely that progress in productivity in certain sectors will result in increases in production which, hereafter, will have to be disposed of at great cost in foreign markets? and could not this money be put to better use for a modification in depth of the production and trading structure?

I have no illusions that I will have said much that is new in this well-informed audience, or indeed much that will not draw down upon me a wealth of enlightened criticism. My purpose will, however, have been well achieved if I succeed in stimulating a lively debate on where we should go from here. For I am convinced that at a very early date we should pick up where we left off in the Kennedy Round. We should salvage and elaborate the new concepts and ideas which were put forward in the negotiations but which, either for lack of time, or because of incompleteness of preparation or presentation, or because they were not well adapted to the immediate negotiating context, had to be laid aside. Of course no ready-made formulae will be applicable to all sectors or to all countries. But I am convinced that if all countries are prepared to negotiate constructively on all relevant aspects of their agricultural policies, in the various sectors of production, there are bright hopes for bringing about an orderly expansionary and mutually beneficial international régime for agriculture.