

A REVIEW OF INTERNATIONAL GRAIN TRADE ARRANGEMENTS
AND THE 1967 NEGOTIATIONS OF THE GENERAL
AGREEMENTS FOR TARIFFS AND TRADE

by 149

MARCUS J. McINERNEY

B. Agr. Sc., National University of Ireland, 1960

A MASTER'S REPORT

submitted in partial fulfillment of the
requirements for the degree

MASTER OF SCIENCE

Department of Economics

KANSAS STATE UNIVERSITY
Manhattan, Kansas

1967

Approved by:


Major Professor

20
2068
84
1967
M113
62

ACKNOWLEDGMENTS

I would like to take this opportunity to thank Dr. Leonard W. Schruben of Kansas State University for the continued encouragement given me while writing this report. The report grew and developed as the Kennedy Round of G.A.T.T. negotiations struggled ahead. There were many times when these negotiations bordered on failure. While this report was in final draft in April of this year, I considered that it was better to redraft it in June when the G.A.T.T. negotiations terminated with a new world grain arrangement. This has made it more topical and more useful in the long term.

I would also like to record my appreciation of the invaluable assistance I obtained from Mrs. Juna Haynie of the Department of Economics of Kansas State University. Mrs. Haynie typed many letters of enquiry which helped me compile a very valuable and up-to-date collection of literature for the Department's international grain trade library. The key redraft of the final report would not have been possible without the patience and perception of Mrs. Haynie.

Finally, I wish to acknowledge the assistance and help of Mr. Richard De Falice, Assistant Administrator of the Foreign Agriculture Service of the U.S. Department of Agriculture; Mr. Theodore Fielder of Great Plains Wheat, Inc., Mrs. F. Okura-Leiberg of F.A.O.; Mr. Clarence Palmbly of the U.S. Feed Grains Council; Mr. Ronnie Moora of The International Wheat Council; Mr. J. H. Richter of the International Federation of Agricultural Producers; and Dr. Joseph Hajda of Kansas State University.

TABLE OF CONTENTS

	Page
ACKNOWLEDGMENTS	11
LIST OF TABLES	v
INTRODUCTION	1
Chapter	
I. REGIONAL INTEGRATION SCHEMES	4
The European Economic Community	4
Impact of E.E.C. Grain Regulations on U.S. Grain Exports	10
The Central American Integration Scheme	12
The Latin American Free Trade Area	15
The Arab Common Market	19
The United Kingdom Grain Market	20
II. REVIEW OF INTERNATIONAL COMMODITY AGREEMENTS RELATING TO GRAIN	23
The International Wheat Agreement	24
International Grain Council	26
An International Feed Grains Agreement	26
The U.K. Grain Agreement and Guaranteed Market Accessibility	30
Public Law 480 and Food Aid	31
Public Law 480 and Commercial Sales	36
III. WORLD GRAIN PLANNING AND THE KENNEDY ROUND OF G.A.T.T.	39
The Origin of the New Proposals	40
A Summary of the G.A.T.T. Grain Negotiations	44
IV. THE NEW INTERNATIONAL CEREALS ARRANGEMENT	46
Grain Prices	47
Guaranteed Market Accessibility	50
Supply Management	50
Food Aid	51
Faults of the New Arrangement	52
The Effects of the New Arrangement on U.S. Grain Exports	53

Chapter	Page
V. SUMMARY AND CONCLUSIONS	57
Political Forces and International Grain Policy	57
The United States Competitive Position in World Grain Trade . .	60
BIBLIOGRAPHY	65

LIST OF TABLES

Table	Page
1. Grain Trade and Production of the C.A.I.S. Region: Wheat, Maize and Sorghum Imports and Exports 1960/61 and 1964/65, and Average Annual Production 1948-53 and 1961-64	14
2. Grain Trade of the L.A.F.T.A. Region: Imports, Exports, and Production of Six Major Grains 1954/55 and 1964/65	17
3. A.C.M.: Percentage Reductions in Customs and all Other Duties on Wheat Flour and Grain Starch, Annual and Cumulative, 1965-1971	20
4. P.L. 480 Exports and Commercial Sales of U.S. Wheat and Corn, 1965	32

INTRODUCTION

The purpose of this report is to appraise recent developments in the international grain trade which may effect the future volume of U.S. grain exports. These developments include regional integration systems such as the European Economic Community (E.E.C.), the Central American Integration System (C.A.I.S.), the Latin American Free Trade Area (L.A.F.T.A.), the Arab Common Market (A.C.M.) and the United Kingdom market (U.K.). The report reviews policy and regulatory developments in these areas. A general review of international commodity agreements relating to grain is also outlined in the study. The changing role and policies of the U.S. Government in grain exports and food aid is given by showing new policy changes in the Agricultural Trade Development and Assistance Act of 1954—commonly known as Public Law 480.

Since this work involved an examination of grain trade barriers and restrictions, close attention was paid to the development and outcome of the negotiations of the General Agreement of Tariffs and Trade which were held in Geneva from September 1966 to January 1967. These are commonly known as the Kennedy Round in honor of the late President of the U.S. who proposed them. A preliminary examination of the International Grains Agreement which resulted from the conclusion of these negotiations is submitted, and an attempt is made to appraise the effects which this agreement will have on future U.S. grain exports.

The report outlines possible policy and institutional adjustments in the U.S. grain trade which might increase U.S. commercial grain sales

abroad.

World wheat production increased from an average of 164.7 million metric tons during 1949-50 to 1953-54¹ to an estimated 274 million metric tons during 1966-67.² Wheat accounts for 30% of world grain production of which the U.S. produced 13%.

About 25% of world wheat production goes into world trade which amounted to 62.3³ million metric tons during cereal year 1965-66 of which the United States exported 23.4 million metric tons. About 16 million tons of U.S. wheat was exported under government-assisted programs.

World wheat stocks declined from 60 million tons in 1960-61 to 29 million tons in 1966.⁴ The U.S. Department of Agriculture on the recommendation of the National Grain Advisory Committee agreed on a policy aimed at maintaining U.S. wheat stocks at a level of 10 million tons instead of 15-17 million tons which has traditionally been recommended.

World production of feed grains increased from 305 million tons in 1950 to 445 million tons during 1965-66⁵ of which the U.S. produces one-third.

World trade in feed grains increased from an average of 13.7 million

¹International Wheat Council, Trends and Problems in the World Grain Economy 1950-70, p. 1, Table 1, 1966.

²United States Department of Agriculture, The World Agricultural Situation--Review of 1966 and Outlook for 1967, Foreign Agricultural Economic Report, No. 33, p. 13, January 4, 1967.

³International Wheat Council, Review of the World Wheat Situation, p. 78, Table 34, 1966.

⁴Ibid., p. 80.

⁵Ibid., p. 42, Table 22.

tons during 1949-54 to 42.7 million tons during 1965-66⁶ of which the U.S. exported 24.7 million metric tons. Only 8-10% of total feed grains production goes into world trade and 80% of world trade is between developed countries like the United States, Canada, and Western Europe.

World feed grain stocks amounted to 50 million metric tons in 1964-65. The U.S. government considered that the strategic stockpile reserve for feed grains was 41 million metric tons.⁷

⁶ Ibid., p. 56.

⁷ The National Agricultural Advisory Commission, Report of Subcommittee on Food and Fiber Reserves for National Security, Washington, D.C., October, 1964.

CHAPTER I

REGIONAL INTEGRATION SCHEMES

The European Economic Community

The European Economic Community is an important cash outlet for U.S. grain. In 1965 the E.E.C. imported 3,789,000⁸ metric tons of wheat of which the United States supplied 1,077,000 metric tons—(25% of U.S. commercial exports). The E.E.C. is a much bigger importer of feed grains—it imported 14,209,000⁹ metric tons during 1965, and the United States supplied 8,351,000 metric tons of this feed grain. The U.S. share of the E.E.C. wheat market has been constant at just over 1 million tons since 1962, however, the U.S. share of the E.E.C. feed grain market has increased from 2.7 million during 1958 to the 1966 figure of 8.8 million metric tons.¹⁰ The E.E.C. is likely to continue to buy its future supplies of hard wheats of high protein and quality in the U.S. and Canada and her future feed grain imports are likely to increase.

The E.E.C. increased its wheat exports to non-member countries from 1.05 million in 1958 to 3.8 million tons in 1965. During the same period,

⁸United States Department of Agriculture, France's Key Role in the Grain Sector of the European Economic Community, Foreign Agricultural Service Report No. 122, Washington, D.C., p. 4, April, 1963.

⁹ibid., p. 14.

¹⁰United States Department of Agriculture, Foreign Agricultural Trade of the United States, Economic Research Service, p. 8, Washington, D.C., March, 1967.

E.E.C. feed grain exports increased from 94 thousand tons in 1958 to 2 million tons in 1965 (75% barley, 25% corn). France played the dominant role in this export trade.

Wheat production in the E.E.C. has remained constant at 26 million tons while feed grain production has increased from 23.4 to 26.2 million tons¹¹ between 1962 and 1965. E.E.C. sources indicate that the region's feed grain production will be well over 30 million tons with French maize production increasing by 25% to 5.5 million tons by 1970.¹²

Since the E.E.C. is an important market for U.S. grains, it is necessary to summarize the E.E.C. grain prices and regulations as they affect U.S. grain exports to this area after June, 1967.

The basic E.E.C. grain regulations maintain a system of support prices through import levies but abolishes import quotas and all forms of quantitative restrictions.

Basically then, the E.E.C. levy system functions as follows: a so-called basic target price is established for the major deficit area and the price of grain from third countries is increased to E.E.C. levels by means of the import levy which forms the so-called threshold price.

The hub of the E.E.C. price structure is the target price, to which threshold prices and levies are related by regulations. These target prices are designed to be applicable at the wholesale levels of trade.

The aim is to maintain one basic target price for each of the various

¹¹ Ibid., p. 18, Table 7.

¹² Butterwick, M. W. and E. Neville Rolfe, Market Structure of Benelux Ports, United States Feed Grains Council, Oxford University, October, 1966, p. 28.

types of grain throughout the community which will be administered by one market organization. Related to this basic target price and taking freight cost into account a series of target intervention prices are fixed for certain points or areas. At these points, all grain offered at the pertaining intervention prices has to be taken over by the governments (only grain that does not find a ready market above the intervention level is handled in this way). Regulations require that intervention prices be 90 to 95 percent of the designated target prices. In effect, intervention prices are support prices at the wholesale level closest to producers. For that reason, they have a significant influence on farm returns.

Effective July 1, 1967, the grain trade in the member countries of the E.E.C. will operate under a common price policy and with common regulations. The aim will be to maintain a common wholesale or target price throughout the community. Intra-community levies and other national price differentials will then be abolished.¹³

In agreeing on a system of uniform grain prices in December, 1964, the E.E.C. fortified its position vis a vis the Kennedy round tariff negotiations. In effect, the Common Market officials argued that they were unable to consider reductions in the levies on grains, as these would be in conflict with internal price and production policy, which is similar to the arguments employed by the United States to implement Section 22 of the Agricultural Act of 1949 preventing the interference of imports with domestic farm programs.

Grain prices in the E.E.C. are guaranteed to the producer. Prices are

¹³ *Ibid.*, p. 22.

maintained above world prices by application of import taxes or levies and by support buying by the E.E.C. authorities. This policy is accomplished by applying guidelines under the general heading of target prices, intervention prices, threshold prices, export subsidies, and import levies.

Target Price

Each year the authorities decide for each particular type of grain, a target price (sometimes known as a Basic Indicative or Guide price). This represents the level towards which the wholesale market price should tend in the area of greatest deficit. Duisberg in Germany is considered to be the area of greatest deficit in the E.E.C. It must be stressed that the target price is the foundation on which the Common Market cereal pricing structure rests, and is designed to be applicable at wholesale trade levels. The target prices effective July 1, 1967-June, 1968, have been announced as:

Soft wheat	\$106.20 per metric ton (\$2.80 per bushel)
Corn	\$ 90.60 per metric ton (\$2.25 per bushel)
Barley	\$ 90.12 per metric ton (\$2.05 per bushel)
Hard Red Winter wheat	\$120.00 per metric ton (\$3.34 per bushel) ¹⁴

Intervention Price

A basic intervention price which is the wholesale market price level in the area of greatest deficit (Duisberg) at which the national intervention agency is obliged to step in to support the market by purchasing all offers made to it. This is in effect a guaranteed minimum wholesale price

¹⁴U.S. Feed Grains Council, E.E.C. Position Paper, April, 1967, p. 2.

and ranges between 5% and 10% below the basic indicative price or target price.

Derived Target and Intervention Price

In the E.E.C. there are many points at which the cereal authorities intervene to purchase grain. For this reason it is necessary to fix Derived Target prices and Derived Intervention prices. Intervention prices are support prices at the wholesale level closest to producers. These prices are calculated by deducting the cost of transporting the grain from the local point of intervention to the area of greatest deficit (Duisberg).

Threshold Price

In order to relate international prices to the basic Community price the Commission calculates transport costs from the main ports so that a Threshold price can be fixed. The Threshold price represents a minimum duty-paid or levy paid import price at which the Community will permit cereals to be imported into the E.E.C. The Threshold price takes into account storage costs and quality differences. In other words, for any product for which a Target price is specified, the Threshold price is the applicable Target price: (1) less marketing costs (transportation, handling, etc.) from port of entry to the deficit center for which the target price is established; (2) plus the import levy; and (3) plus or minus adjustment from national-quality standard to the Community-quality standard. Threshold prices are implemented by means of levies which are import taxes which bring the price of imported grain up to or near their target price value.

As of July 1, 1967, the Rotterdam Threshold prices will be the only Threshold prices. They will be calculated by deducting from the Duisberg

target price the marketing costs and transportation costs from Rotterdam to Duisberg. It is expected that they will be somewhere around the following levels.¹⁵

Soft wheat	\$102.20 a metric ton or \$2.76 a bushel
Corn	\$ 88.40 a metric ton or \$2.21 a bushel
Barley	\$ 89.00 a metric ton or \$1.92 a bushel
Sorghum	\$ 85.50 a metric ton

Export Subsidies

Since the E.E.C. grain price level is generally higher than that of the world market, exports would be impossible were it not for a system of subsidizing. Such export subsidies are referred to as "restitutions." According to the E.E.C. regulations there are three possibilities for paying restitutions for exports to non-member countries:

- (a) cash restitutions equal to the import levies applicable on the export day.
- (b) cash restitutions through an export tender (most favorable bid) procedure.
- (c) restitution in the form of levy-free imports of grain.

The Variable Import Levy

The variable import levies and the target prices are the key to the Community's cereal marketing apparatus. It is necessary to emphasize that the E.E.C. has completely abolished import quotas for grains. These have been replaced by variable import levies.

¹⁵ Ibid., p. 3.

The arithmetic involved in fixing the import levy is quite simple.

Here is roughly how the corn calculation will look on July 1, 1967:--

Rotterdam Threshold Price 2 yellow corn	\$2.20 a bushel
Free Market Value 2 yellow corn delivered	
Rotterdam	<u>1.60 a bushel</u>
	\$0.60 a bushel ¹⁶

The levy in the illustration is 37% of the C.I.F. price--so out of every three bushels of corn which the Common Market imports, 2 bushels represent the cost of the corn, and one bushel represents the value of the levy paid for crossing the threshold of the E.E.C. The actual price paid by German manufacturers in June, 1967, is approximately \$2.70 per bushel for corn.¹⁷ The additional 50 cents is caused by the E.E.C. target price plus transport and marketing costs. In reality then the total E.E.C. import tax is \$1.10 a bushel for corn to the manufacturer and 10% more to the producer.

This levy does two things: (a) It destroys the comparative advantage which the U.S. has in grain production. (b) It means that in the final analysis the Common Market customers pay the levy through higher feed costs because they pay the price of three bushels in order to obtain two bushels.

The Impact of the E.E.C. Grain Regulations on U.S. Grain Exports

The E.E.C. is likely to allow imports to supply 10% of total requirements in the case of wheat and 15%¹⁸ of total requirements in the case of

¹⁶ Ibid., p. 4.

¹⁷ Letter from Mr. Clarence Pelsby, Director of United States Feed Grain Council to Secretary of Agriculture, Orville Freeman, February 3, 1967.

¹⁸ Dreyer, H. P. "World Grain Pact Still Cloudy," Journal of Commerce, p. 3, April, 1967.

feed grains. This will mean that U.S. grain exports to that region will likely be static in the case of wheat and may increase slowly in the case of feed grains over the next five years.

The implementation of the common grain price in July, 1967 is unlikely to have immediate effects on U.S. grain exports to the E.E.C. It will however have a significant effect on grain price levels in the E.E.C. during the next two years. It is expected that unified prices will be considerably higher than world prices. In the case of soft wheat a compromise between high German and lower French prices may reduce the overall target price in the Common Market. In the case of corn and barley France is the principal producer and target prices are expected to increase, thereby putting the U.S. in a less favorable position in the feed grain market.

In the long term it would seem that the U.S. is at the mercy of the E.E.C. variable levy system since the E.E.C. refuses to give guaranteed market accessibility.

In the future, variable levies could be applied in an exceedingly restrictive manner to the detriment of imports. They could also be applied in a liberal manner so as to permit reasonable access for imports. The E.E.C. has given assurances that the latter is its intention.

A test of whether this intention is achieved is the level of internal support prices which the E.E.C. finally determines. Should these be set too high, domestic production will be excessively stimulated and imports will be subject to more restrictive levies.

In the final analysis three factors are of importance to the U.S.

(a) The use of the G.A.T.T. negotiating machinery in future years as a politico-economic lever to obtain improved accessibility to the E.E.C.

- grain market based on "quid pro quo" trading concessions and the principle of comparative advantage. These pressures must be aimed specifically at reduction of the domestic target prices of the E.E.C.
- (b) With rising living standards more meat will be consumed by the huge population of the E.E.C. They will tend to demand low cost, high quality meat. Similarly it is likely the number of E.E.C. farmers will decline in the long term. This leaves us with a situation in which both meat producers and consumers will form a strong political lobby for cheap grain imports. This will help the U.S.
- (c) If the U.S. is to begin to negotiate successfully with the E.E.C., it will be necessary to repeal the agricultural import legislation embodied in Section 22 of the Agricultural Act of 1949. This would undoubtedly improve the E.E.C. attitude to increased U.S. imports.
- (d) Finally U.S. grain interests¹⁹ are understandably concerned regarding the sincerity of the E.E.C. in implementing its common agricultural price in grains. If this were implemented in Germany for example, feed grain prices would have to be reduced by 14% a factor which would be of enormous help to U.S. feed grain sales in Germany. As yet the Germans have only reduced their grain price by approximately 1% and there are no indications that further reductions will be made.

The Central American Integration Scheme (C.A.I.S.)

C.A.I.S. is sometimes referred to as the Central American Common Market. This integration scheme is based on the General Treaty on Central

¹⁹ Letter from Mr. Clarence Pelsby, Director of United States Feed Grain Council to Ambassador William Roth, Chief of U.S. Delegation to the C.A.T.T., February, 1967.

American Integration which was signed by Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica. By 1965 a common external tariff was established. Intra regional trade has expanded at a rate of 42 percent per year²⁰ compared to 11 percent for C.A.I.S. imports from outside the region and was valued at 128 million dollars in 1965 compared to 8 million dollars in 1950.

The C.A.I.S. is a net importer of cereal grain. Inter regional cereal trade was valued at 6.2 million dollars in 1962 compared to imports from the rest of the world which were valued at 23.2 million dollars during the same year. In 1965 C.A.I.S. members signed a special protocol on basic grains known as the protocol of Limon which established free trade for maize and sorghum produced within the C.A.I.S. region. The objective of the agreement was the reduction of grain imports from third countries where possible. No agreement was reached for wheat. Table 1 gives an outline of the grain trade and production of the C.A.I.S. region.

Under the new grain protocol, common tariffs on maize and sorghum are .08 dollars per kilogram (specific) and equal to 10 percent ad valorem. The introduction of the common external tariff does not appear to have altered the C.A.I.S. position with respect to imports from the outside world.

Indications are that the new tariffs may stimulate maize production but this will depend on the nature, terms, and size of U.S. shipments to the area under P.L. 480. The common tariff on sorghum is a reduction on previous levels of protection. While no tariff agreement has been reached import tariffs are low and the area is greatly dependent on the U.S. and Canada for

²⁰ F.A.O., Regional Integration Schemes Outside Europe Affecting Trade in Grains, CR 67/5, Study Group on Grains, Item XIII of the Agenda, Table 2, p. 3, Rome, March, 1967.

TABLE 1

GRAIN TRADE AND PRODUCTION OF THE C.A.I.S. REGION: WHEAT, MAIZE AND
SORGHUM IMPORTS AND EXPORTS 1960/61 AND 1964/65, AND
AVERAGE ANNUAL PRODUCTION 1948-53 AND 1961-64

Type of grain	Imports ^a		Exports		Production ^b	
	1960/61	1964/65	1960/61	1964/65	1948-53	1961-64
In thousand metric tons						
Wheat	185.4	240.0	NA	NA	21	26
Maize	0.1	90.0	NA	NA	1,034	1,244
Sorghum	NA	NA	NA	NA	211	225

^aF.A.O. Study: Regional Integration Schemes Outside Europe Affecting Trade in Grains, CCF CR 67/5 March 67 Study Group on Grains Item XIII of the Agenda, Table 2, p. 3.

^b*Ibid.*, Tables 3 and 4, pp. 4 and 5.

NA - Not available.

wheat.

Along with the introduction of a common external tariff for grains the C.A.I.S. countries are coordinating their national grain policies by setting up a commission of marketing and price stabilization. This commission will be operated by the State Grain Agencies of each member country.

A recent study²¹ indicates that gradual liberalization of trade within the C.A.I.S. since 1960 has not led to any significant increase in inter-regional trade in grains.

Future interregional trade in grains in the C.A.I.S. region will

²¹*Ibid.*, p. 3, Table 2.

depend on:

- (a) The volume of U.S. P.L. 480 sales to the area,
- (b) The extent of U.S. Agronomic and technical aid in the region,
- (c) The availability of land, labor, and capital, and the extent to which specialization in different grains can occur.
- (d) The C.A.I.S. region is virtually self sufficient in maize which is its principal food grain. In the case of wheat ecological limitations hinder any significant production increase. Foreign Agricultural Service sources indicate that as standards of living increase wheat imports (which have now reached 240,000 tons per annum) will show a steady rise. It would seem then that as P.L. 480 wheat sales to the area are phased out the region may develop into a profitable commercial wheat market for the United States.

The Latin American Free Trade Area (L.A.F.T.A.)

The Latin American Free Trade Area was set up under the terms of the Treaty of Montevideo in 1960. By the autumn of 1966 it consisted of ten member countries, namely, Argentina, Brazil, Chile, Mexico, Paraguay, Peru, Uruguay, Colombia, Ecuador and Venezuela.

The objectives of L.A.F.T.A. are the reduction of trade barriers among member countries in order to stimulate interregional trade. Another L.A.F.T.A. objective is to stimulate the specialization of production in areas best suited for different commodities. L.A.F.T.A. members hope that by increased interregional trade their countries will become less dependent on the other countries of the world.

Under the Montevideo Treaty, liberalization of inter-L.A.F.T.A. trade is to proceed in three ways:

- (1) National LISTS. National lists consist in essence of special

bilateral arrangements which L.A.F.T.A. members may make among themselves for the purpose of tariff reduction. Each member is required to reduce barriers on inter-L.A.F.T.A. trade by 8 percent per year.

(2) Common LISTS.²² According to the Treaty, products accounting for 25 percent of inter-L.A.F.T.A. trade are to be added to a common LIST every three years. The Treaty provides for complete liberalization of inter-regional trade by 1973. When a product is on the common list trade among all member countries moves duty free. Special escape clauses exist for agricultural products. A large proportion of inter-L.A.F.T.A. trade consists of agricultural products and many sources doubt whether the second 25 percent reduction will be effective.

(3) Complementations Agreements. Complementations agreements provide for industrial specialization agreements where members agree to specialize in various industries in order to become more efficient producers. It is not known whether this concept will be applied to agriculture.

A brief examination of the grain trade of the Latin American Free trade will be most useful in assessing the future role which this area will play within the context of the world grain situation. The following Table summarizes the main features of L.A.F.T.A. imports, exports, and production.

Table 2 shows significant increases in grain production, imports and exports in L.A.F.T.A. The United States supplied about half of the regions wheat imports during 1964/65 mostly through P.L. 480. The Argentine supplied practically all inter-L.A.F.T.A. trade in wheat and flour during

²² Items on the common lists have not to be freed at once from all trade restrictions and customs charges: the complete liberalization can be spread over the entire transitional period.

TABLE 2

GRAIN TRADE OF THE L.A.F.T.A. REGION: IMPORTS, EXPORTS, AND PRODUCTION
OF SIX MAJOR GRAINS 1954/55 AND 1964/65

Type of grain	Imports ^a		Exports ^a		Production ^b	
	1954/55	1964/65	1954/55	1964/65	1954/55	1964/65
In thousand metric tons						
Wheat and wheat flour	2,690	3,760	4,160	4,265	8,300	9,800
Rye	-	-	285	97		
Berley	5	50	380	445		
Oats	25	45	290	490		
Sorghum milo	15	15	55	725		
Maize	-	200	1,870	3,470		
Total coarse grain	45	310	2,880	5,227	19,500	29,300
Total all grain	2,735	4,070	7,040	9,492	27,800	39,100

^aF.A.O., World Grain Statistics 1964/65, p. 57, Table 29.

^bInternational Wheat Council, Trends and Problems in the World Grain Economy 1950-70.

the period. It is estimated that the Argentine produced 7 million tons out of a total L.A.F.T.A. wheat production of 9.8 million during 1964/65. About 85 percent of L.A.F.T.A. grain imports consisted of wheat.

L.A.F.T.A. wheat exports are steady at 4 million metric tons per year. However, coarser grain exports have increased from 2.8 million tons in 1954/55 to 5.2 million tons during 1961/65.

Wheat production in the L.A.F.T.A. has increased slightly over the ten

year period. On the other hand there has been a phenomenal increase in coarse grain production from 19 to 29 million tons during the ten year period 1954/55 to 1964/65.

At a 'common list' conference at Bogota in 1964 oats was the only grain included. A proposal to include wheat was not accepted. In spite of this, Argentina, Brazil, Colombia, Chile, Ecuador and Peru, reduced their tariffs on wheat imports considerably.

Large tabulated tariff reductions have little meaning since the governments of many L.A.F.T.A. countries operate a government import monopoly in all grains. This in effect makes nonsense of any negotiated tariff reductions. The prospects for free trade in wheat in L.A.F.T.A. are not good at this time although Brazil and Peru have reduced their wheat tariff to zero and some trade expansion has resulted.²³ F.A.O. sources indicate that the tariff concessions on wheat and wheat flour imports from L.A.F.T.A. have so far not had any tangible effect on inter-area trade.

Similarly, tariff reduction in the case of rye and barley have no practical meaning at this time. The prospects for free trade in oats is much better since it was included in the first common list of 1964. By the end of 1972 inter-L.A.F.T.A. trade in oats should be completely free. Argentina is the sole producer and since total imports to the region were only 18,000 tons free trade in oats is relatively meaningless and tariff levels play no role.

Maize imports to the region are only 1.2 percent of production. Argentina and Brazil have made sizeable tariff cuts for maize but since

²³ *ibid.*, p. 16.

these regions together produce two-thirds of the L.A.F.T.A. maize the tariff cuts are meaningless.

The Arab Common Market

In 1964 the Arab League States established a permanent Council of Arab Economic Unity which decided to found an Arab Common Market. The following countries have since ratified this decision: Iraq, Jordan, Kuwait, Syria and the United Arab Republic. It is expected that the Arab Common Market will develop through the stage of a free trade area into a customs union. Interregional free trade in agricultural products is to be achieved by January 1, 1969.

Trade in wheat, barley, maize, and rice between the member states of the A.C.M. is virtually exempt from customs and other duties and taxes. Trade in wheat flour and grain starch produced within the area is to be liberalized on the schedule as shown in Table 3.

U.S.D.A. sources indicate that imports of grains into the five Arab countries (2.6 million tons in 1961-63) are likely to continue to increase. Per capita consumption of wheat, though relatively high already, should show a further moderate increase as consumers shift away from other grains. The requirements of coarse grains for animal feed is also expected to grow. The region's grain production, shows little sign of sustained growth. Wheat production in Iraq and the U.A.R. fluctuates widely. The U.A.R. follows a policy of producing rice for export while meeting its cereals deficit by imports of wheat. The U.A.R. is the area's only substantial producer of maize and sorghum, and output has been virtually stationary.

The region is expected to remain a net exporter of barley. Providing production in Syria and Iraq is maintained, the liberalization measures

TABLE 3

A.C.M.: PERCENTAGE REDUCTIONS IN CUSTOMS AND ALL OTHER DUTIES ON WHEAT FLOUR AND GRAIN STARCH, ANNUAL AND CUMULATIVE, 1965-1971

Date of reduction	Percentage reductions	
	Annual	Cumulative
1 January 1965	35	35
1 January 1966	10	45
1 January 1967	10	55
1 January 1968	10	65
1 January 1969	10	75
1 January 1970	10	85
1 January 1971	10	95
1 July 1971	5	100

could promote some interregional trade in barley (and possibly also maize) to meet the growing needs for livestock feed. There is a large potential import market for wheat, which is more competitive now than the U.A.R. is buying U.S. wheat on commercial, rather than concessional, terms. The region's ability to share in this trade, however, is severely limited by the fact that for ecological reasons, exporters such as Syria grow only durum wheat, while the U.A.R. imports predominantly bread wheats.

The United Kingdom Grain Market

While the U.K. is not considered part of a regional integration system a brief description of recent U.K. grain policy changes shows the spreading influence of E.E.C. grain policy.

The U.K. is a significant cash market for U.S. grain and imports 4 million tons of wheat, 4 million tons of maize, 0.5 million tons of barley and 0.5 million tons of grain sorghums each year. Over 60% of the market is supplied by the United States. During the last decade the U.K. has increased its domestic consumption and production of grain. Prior to 1964 foreign grain entered the U.K. at world prices and could be bought by farmers, millers and feed manufacturers at those prices. U.K. farmers sold their grain at these world prices but were compensated through an unlimited deficiency payment system.

In Spring 1964, the U.K. made a significant policy change to a minimum import price system similar to the E.E.C. system. The minimum import prices were designated as follows:²⁴

<u>Grain</u>	<u>Dollars per bushel</u>
Wheat	\$1.68 3/4 to \$1.98 3/4
Corn	\$1.47
Barley	\$1.20

The U.K. government also introduced a system of standard quantities whereby the deficiency payments to U.K. farmers for grain production would be limited.

The future of the U.K. market for U.S. grain will depend on U.K. entry into the E.E.C. French policy on this issue opposes the development and

²⁴ Schertz, L. P. and Roy L. Neeley, Barriers to the International Grain Trade in Selected Countries, U.S. Dept. of Agric., Foreign Agricultural Service Report No. 126, p. 13, May, 1965.

most sources indicate that while the French dominate the E.E.C., U.K. entry will not be possible.²⁵

²⁵ Ambassade De France, Press Service, Charles de Gaulle, British Entry to E.E.C., Paris, May 16, 1967.

CHAPTER 11

REVIEW OF INTERNATIONAL COMMODITY AGREEMENTS RELATING TO GRAIN

International commodity agreements can, in principle, be devised to serve one of five objectives or a combination of them.

1. They can both raise producer prices by producer arrangements which restrict production or exports.
2. They can promote economic stability by preventing undue price fluctuations and quantities traded.
3. They can attempt to bring about long term demand-supply adjustments.
4. They can maintain markets for primary producing countries by organization of wealthy importers.
5. They can be used as instruments of international commodity programming for commercial and emergency food requirements.

The success or failure of International Commodity Agreements depends on the member countries' abilities to bring world production and consumption into balance.²⁶ The big problem in the negotiation of International Commodity Agreements is that negotiating countries are not sure which of the five objectives they are aiming for.

The so-called Havans Charter serves as a code of guiding principles

²⁶ Bleu, G., International Commodity Arrangements and Policies F.A.O., Commodity Policy Studies, No. 1, Rome, 1964.

governing international commodity negotiations which in essence states that no country should be excluded from international negotiations and that importing and exporting countries should have equal voting power.

The International Wheat Agreement (I.W.A.)

The International Wheat Agreement is an example of a multilateral contract agreement. The original I.W.A. of 1949 provided for about two-thirds of world trade; the maximum price was then \$1.80 per bushel and the minimum price was stipulated to fall progressively from \$1.50 in the first year to \$1.20 in the fourth and final year.

When the agreement was re-negotiated in 1953 the exporting countries were successful in securing a rise in the stipulated maximum price to \$2.05, and of the stipulated minimum price to \$1.55 throughout the subsequent three year period. The U.K. and some other importers withdrew at this juncture and the proportion of the world trade covered by the agreement dropped to 25%. When the agreement was re-negotiated in 1959 the concept of guaranteed quantities was abandoned and was replaced by an undertaking of member importing countries to buy a minimum percent of their commercial requirements from member-exporting countries as long as prices moved within a stipulated range. The exporters retain the obligation to sell at the maximum price, if called upon to do so by importing countries, this is equal to the annual average of importers' purchases over the previous four years (less transactions already made within the agreement year). The latest agreement signed in 1962 is similar to the 1950 agreement. Minimum and maximum prices were raised to \$1.62½ and \$2.02½ per bushel. The U.S.S.R. is a member of the current wheat agreement. A revised extension of the agreement states that "the International wheat agreement, 1962 as extended

by the 1965 PROTOCOL shall continue in force between the parties to this PROTOCOL until 31 July 1967."²⁷

During the time covered by the four agreements the significance of the world price of wheat as a market force has been undermined because world prices have basically been set through the collusion of America and Canada and because exporters with mounting wheat supplies have been disposing of increasing quantities in non commercial concessional outlets. The development of the variable non quantitative import levy of the E.E.C. has further emasculated the agreement. Another important factor is the increased use of wheat as a feed grain and its relative substitutability for feed grains in large European markets where wheat consumption is declining and feed grain consumption is soaring.

Mr. Clarence Felby openly criticizes the effectiveness of any international wheat agreement in helping the U.S. maintain or expand her share of the E.E.C. market. He bases this on the following evidence.²⁸

- (a) "The amount of wheat consumed by the six is not materially affected by the price level."
- (b) "Wheat and feed grain production in the E.E.C. is related to E.E.C. price."
- (c) "The quantity of feed grains consumed by the E.E.C. is inversely related to the price level."

²⁷ U.S. Dept. of State, Further Extension of International Wheat Agreement 1962, Article I, Treaties and Other International Acts, Series 6057, 1962.

²⁸ Felby, C., Information Bulletin #14-64, U.S. Feed Grains Council, Washington, D.C., August, 1964.

- (d) Palmy stresses E.E.C. price reduction rather than International Grain Agreements.

International Grain Council

The proceedings and recommendations of the International Federation of Agricultural Producers' (I.F.A.P.) 1966²⁹ annual meeting suggested the possibility of setting up an International Grain Council which would serve joint agreements on wheat and coarse feed grains. This is strongly opposed by the U.S. Grain Trade.³⁰ The I.F.A.P. stressed the growing interrelation and increasing substitutability between the marketing and production of and demand for wheat and feed grains and the importance of stable feed grain prices in the years ahead.

The I.F.A.P. conference also supported higher wheat prices in a new International Wheat Agreement. It also supported increased wheat production specifically for food aid, the establishment of world wheat reserves for emergencies and more advanced international systems of control over grain production.

An International Feed Grains Agreement

The growing substitutability of wheat as a feed grain makes it imperative to examine the world feed grain situation with special reference to international commodity arrangements. International feed grain prices have shown a gradual downward decline during the last ten years as world trade

²⁹ Deleau, J., International Federation of Agricultural Producers: Proceedings of the 15th General Conference, London, England, 1966, p. 23.

³⁰ Palmy to Roth, loc. cit.

and production in feed grain showed a high rate of growth. There are two main reasons for the application of an international commodity scheme to coarse grains.

- (a) The need for structural adjustments in the pattern of world production and supply. This is particularly true of Argentine oats, South African maize and E.E.C. denatured wheat exports.
- (b) The need to avoid short term price instability in the international coarse grain trade.

Only about 8% of world output of coarse grain goes into international trade compared to 28% for wheat.

The Food and Agriculture Organization of the United Nations in its publication "The Stabilization of World Trade in Coarse Grains"³¹ outlines three possible schemes whereby world trade in feed grains might be stabilized as to price and rationalized as to production and supply. An international coarse grains arrangement would be tailored so that substitute products should not be available on any large scale outside the agreement. It would therefore have to cover a number of grain commodities which compete with each other. It is more than likely that both importers and exporters would support any moves toward international price stability in coarse grains, but it would be most difficult to reconcile the long term and sometimes conflicting interests of the importing and exporting countries of the international feed grains trade.

The F.A.O. study examines the feasibility of an international Coarse Grains Agreement from the point of view of (a) an export regulation scheme;

³¹United Nations Food and Agricultural Organization, The Stabilization of World Trade in Coarse Grains, p. 15, Rome, Italy, 1965.

(b) an international buffer stock; and (c) a multilateral contract agreement.

In summary the F.A.O. would recommend an international feed grains agreement which would restrict the quantity of grains coming on the world market and would maintain world prices at an agreed level. This scheme would be based on the relative magnitude of feed grain exports from each country in a post datum period. The advantage of this flexible quote system is that it would enable the exporting countries to meet changes in world demand without disastrous swings in production. The major disadvantage of this system is that it might perpetuate uneconomic high cost production and prevent more efficient producers from entering the market. Of course quotas could be reviewed at regular intervals. The F.A.O. study suggests that food aid, humanitarian and concessional sales to underdeveloped countries would have to fall outside the program. Another disadvantage of increased feed grain prices would be that it might encourage marginal high cost producers to enter the international grain market. It might also favor the highly developed countries and possibly damage the livestock and feed equilibrium of the underdeveloped countries. It would also affect increased world livestock production.

The operation of a buffer stock in the coarse grains market would have similar economic effects to those concerning an export regulation scheme. A buffer scheme might encourage increased production through higher prices and could encourage substitution against coarse grains by consumers.

The problems concerned with financing a buffer stock scheme are that it would cost a lot of money and it would be difficult to distribute the cost among member countries. Finally what specific instructions should be

given to the buffer stock manager regarding his methods of market intervention? The selection of grades, prices and the final composition of the buffer stock would also present problems.

A multilateral contract agreement does not specifically aim at maintaining world prices at pre-determined levels—exporters and importers agree to sell and buy guaranteed quantities as guaranteed percentages of their total trade in the commodity concerned at a stipulated maximum or minimum price. To be effective the agreement should cover two-thirds of the total trade of the participants.

The first problem regarding the application of a multilateral contract system to an International Coarse Grain Agreement, is that this agreement should include all varieties and grades which stipulate maximum and minimum prices.

The second problem is that guaranteed quantities of imports and exports would have to be agreed upon by all member countries with respect to the different grades of feed grains. The F.A.O. suggests that import members of a proposed International Grains Agreement may apply to be relieved of their obligation to buy coarse grains in any year as part of an action to safeguard its balance of payments position—a suggestion which would automatically weaken the agreement.

Workable international agreements in grains are only possible with a high percent participation of importers and exporters without escape clauses. Because of increased substitutability it must cover wheat and feed grains of all classes. These two factors are singularly lacking today. Any workable grains arrangement requires a complete integration of humanitarian food, concessional sales and commercial sales. It would seem that world

opinion is not yet strong enough to set up the necessary machinery to administer such an agreement.

The U.K. Grain Agreement and Guaranteed Market Accessibility³²

On April 15, 1964, and effective from that date, the U.K. Government drew up an agreement with its suppliers concerning the U.K.'s future production and trade policies relating to cereals.³³ The objective of the agreement was "a fair and reasonable balance between home production and imports." The agreement set down increased quantitative domestic production targets in cereals in the U.K. and the legislative power to implement them by price incentives. There was also a specific acknowledgment of the need for "a better and more economic balance between world supply and demand" and an assurance that the agreement would not prejudice the negotiation of international cereals arrangements in a wider framework. At the time the agreement was signed the United States lauded the agreement both nationally and internationally. U.S. negotiations looked upon the market accessibility guarantee given by Britain as a milestone in the history of the international grain trade. Mr. Christian Herter looked upon the agreement as a blue print³⁴ for American market guarantees during the pending G.A.T.T. negotiations with the E.E.C. The key issue in this agreement as far as the U.S. was concerned was the stated guarantee by the U.K.

³²U.S. Department of State, Agreement Between the U.S. and the U.K., Treaty and Other International Series, No. 5581, Signed, London, April 15, 1964.

³³Richter, J. H., World Agriculture, Vol. XV, No. 4, p. 28, October, 1966.

³⁴Brunthaver, C. G., U.K. Grains Agreement. Format for an International Grain Agreement, Grain and Feed Dealers National Association.

government "to take effective action if grain imports fell below a three year average." History has shown that when imports did go below the three year average in 1965-66 the U.K. did not take the promised corrective action. This proves that the concept of guaranteed accessibility is most difficult to guarantee and that the U.S.-U.K. agreement has suffered the stigma of a "broken treaty."

Public Law 480 and Food Aid

During the first ten years the United States has exported vast amounts of food aid under the Agricultural Trade Development and Assistance Act of 1954. From the start of U.S. P.L. 480 programs through January 1, 1965, the U.S. exported 86 million metric tons of wheat under concessional programs and 11 million tons of all other grains. The market value of such shipments in recent years has been running at about \$1.66 to \$1.70 billion annually,³⁵ one-fourth of total U.S. agricultural exports. In October, 1966³⁶ new legislation was signed by President Johnson which will authorize continuation of the Agricultural Trade and Development and Assistance Act of 1954 for another two years (calendar years 1967 and 1968). Some significant policy changes³⁷ have been written into the new legislation and in the President's Budget message to Congress on January 29, 1967. In referring to P.L. 480 it

³⁵ U.S. Department of Agriculture, Annual Report "Food for Peace" (Public Law 480), 1965.

³⁶ U.S. Congress, "Food for Peace" Report, No. 2304, 89th Congress, 2nd Session, House of Representatives.

³⁷ Davis, J. H., U.S. Department of Agriculture, Foreign Agricultural Services Memorandum to Agricultural Attaches, Subject: New Public Law 480 Programs.

was evident that no substantial rise³⁸ in direct food aid was anticipated by the administration in spite of the fact that the Food for Peace Act of 1966 authorizes a considerable extension in financing of sales for both foreign currency, credit and donations. One of the principal reasons for this is that the Grain Advisory Committee of the U.S. Department of Agriculture has agreed to reduce the U.S. wheat reserve from 600 million bushels to 400 million bushels. The administration aims at maintaining the reserve level steady during future years—a level which is well below wheat stocks of the late fifties and early sixties.³⁹

The following table shows the relative percent of concessional to commercial sales during 1965.

TABLE 4
P.L. 480 EXPORTS AND COMMERCIAL SALES OF
U.S. WHEAT AND CORN, 1965

Type of export	Wheat	Corn
	(million bushels)	
P.L. 480 exports	479	48
Commercial sales	<u>241</u>	<u>560</u>
Total exports	720	609
P.L. 480 exports as % of total exports	67%	8%

Source: Food for Peace 1965 Annual Report on P.L. 480, U.S. Dept. of Agric.

³⁸ Report on President's Budget Speech, Southwestern Miller, p. 40, January 31, 1967.

³⁹ Staff Report "Cut 12% in Wheat Acreage Allotments Expected in Response to Producers Pleas," Wall Street Journal, p. 4, May 18, 1967. ✓

The administration plans to export approximately 535,000,000 bushels of wheat during 1967-68 under P.L. 480 which is not much more than the 531,000,000 shipped during 1965-66 (cereal year). It is expected that grain sorghum shipments will be reduced from 96,000,000 bushels during 1966-67 to 64,000,000 bushels during 1967-68.

The President recently spelled out the new criteria for qualification in P.L. 480 programs. In summary these will:⁴⁰

1. Require more effective self-help measures by recipient countries as a condition for U.S. food aid.
2. Increase the amount of assistance for the key sectors of agriculture, health and education.
3. Support regional arrangements and make greater use of multilateral channels through which other nations cooperatively share the costs of economic development.
4. Encourage greater participation by private enterprise in the development process.
5. Concentrate aid in those countries where successful development is most profitable.

The following are the major points of change specifically mentioned in the new Public Law 480 program.

Aid must be accompanied by a major effort on the part of those who receive it. To qualify for U.S. food aid, countries must be trying conscientiously to provide more and more of their own food requirements from their own resources and their own efforts.

⁴⁰"No Substantial Rise Planned for P.L. 480," Southwestern Miller, p. ✓
40, January 31, 1967.

Food aid shipments will be those commodities that are "available," rather than those that are in "oversupply." World requirements will be included in U.S. agricultural production planning, along with domestic requirements, to assure such availability.

The new program sets a goal of countries now buying U.S. farm products with their local currencies to buy for dollars, or with dollar credits, by the end of 1971.

As in the past, the program's concessional sales agreements will be made only to countries deemed friendly to the U.S. Countries controlled or dominated by the world Communist movement are excluded from such agreements. Also excluded are countries that do business with Cuba or North Vietnam--except that the President (when in the national interest) may authorize sales agreements with countries that export to Cuba such items as medical supplies, and non-strategic agricultural or food supplies and must inform the Congress of his reasons for making the exception.

Stress will be placed, particularly in donation programs, on foods for children that meet their requirements of protein, minerals, and vitamins.

Under the Food for Freedom approach, food assistance to meet current needs and technical assistance to help a country better take care of its future needs will be closely related. Where countries show willingness to give high priority to food production improvement, the U.S. will reinforce such self-help efforts with support from U.S.D.A., Land-Grant Universities and private agricultural resources.

The new program emphasizes that the world food problem is increasing at such a rate that as many countries as possible must contribute their products, services, and talents in finding solutions.

The new program also authorizes on a request basis the use of foreign currencies from export sales in support of programs of family planning.

Realignments are made in the program titles: Title I authorizes both the sale of U.S. farm products for local currencies and the sale for dollars on credit terms (formerly Title IV).

Title II authorizes food donations, both government-to-government basis and through voluntary organizations.

Title III authorizes barter of U.S. farm products for materials and services from other countries.

Title IV stipulates that the program will be used to help those friendly countries that seriously try to cope with their own problems of food and population.

The new P.L. 480 proposals are due to mounting criticism of the traditional food aid shipments which tended to increase population in countries short of food and make them more dependent on foreign food aid. The net effects of foreign food aid then were short-term. The emphasis in the new food aid program is on self-help, through increased technical aid and the use of food aid for labor payments, in the planning and development of irrigation systems, dams and hydroelectric plants. The accumulation of vast quantities of U.S. funds in national currencies of the recipient countries suffered severe criticism when India devalued the rupee by 40 percent. This meant that U.S. foreign assets in India where they are relatively large dropped by 40 percent in value overnight. Similar action in other recipient countries have reduced U.S. foreign assets.⁴¹

⁴¹Widener, A., "Paving Hunger with Good Intentions," Human Events, p. / 9, August 6, 1966.

The United States government is now strongly pressing other countries to form a multilateral consortium which would specifically donate food to India. World discussion and opinion is forming a new dimension in this respect. The Indian crisis during the early part of 1967 prompted President Johnson to donate another 2 million tons of grain to Indian food relief on February 4.⁴²

While the administration is now emphasizing the self-sufficiency approach to world food aid, it is also becoming more concerned about the future food prospects of the world. Undersecretary of Agriculture John A. Schnittker made this plain last October when he said, "The food deficit of the less developed world is widening rapidly, large grain crops this year around the world should not obscure the fact that world food consumption has exceeded production for the past five years."⁴³

Public Law 480 and Commercial Sales

P.L. 480 has initiated new developing countries in the uses of U.S. grains and in some cases this has led to the development of new commercial markets for U.S. grains. Many market development activities are now financed by P.L. 480 funds and for this reason a close appraisal of the role of P.L. 480 and commercial sales is required. Market development cannot be effective unless the developing agency has ownership of the commodity. It is for this reason that a pilot government agency should be considered

⁴²Kilpatrick, C., "More Grain is Allocated for India," Washington Post, p. 1, February 4, 1967.

⁴³Schnittker, J. A., Undersecretary for U.S. Department of Agriculture, Address before the National Catholic Rural Life Conference, Manhattan, Kansas, October 15, 1966.

which would attempt to develop new markets by direct sales abroad. This agency could operate within the framework of a recognized Commodity Credit Corporation.

U.S. millers and grain processors should be allowed to benefit from P.L. 480 insofar as this is possible. The increased use of flour and bulgar in P.L. 480 would help the U.S. milling industry and would also be more convenient to the recipient country. Mr. Gordon Boals, Export Secretary of the Millers National Federation and Representative Robert Dole in Kansas have stressed the mutual advantages of this policy many times.⁴⁴

While P.L. 480 legislation may improve the efficiency and utilization of U.S. food aid, no major improvement is likely unless (a) the U.S. grain export system is rationalized, and (b) world grain producing countries form a vigorous and working international grain council. Both points are unlikely to be fulfilled.

Under the terms of the new three year agreement negotiated in May, 1967, 4.5 million metric tons of grain will be diverted to food aid by the developed countries of the world. Of the total the United States will provide 1.9 million tons or 42%. About the same amount will be provided by the importing countries, including the European Economic Community which has agreed to contribute one million tons.⁴⁵

According to Barlow and Libbin⁴⁶ "concessional export programs, such

⁴⁴ U.S. Congress, Report of Congressional Agricultural Hearing, November 14, 1966.

⁴⁵ Schmittker, J. A., Undersecretary of Agriculture, Address (U.S. Department of Agriculture 1681-67, p. 8), Salina, Kansas, June 5, 1967.

⁴⁶ Barlow, F. D. and Susan A. Libbin, World Grain Trade and Pricing Policies and Their Effects Upon International Trade, U.S. Department of Agriculture Economic Research Service, Washington, D.C., June, 1965.

as P.L. 480, have not interfered greatly with the commercial grain trade patterns of the United States or third country exporters. Also, there is evidence that they have not depressed world prices for wheat and feed grains. Schultz has made the point that concessional sales have actually prevented a complete collapse in world grain prices by diverting surplus from commercial markets."

Furthermore--an O.E.C.D. study⁴⁷ indicated that "a large part of the wheat and wheat flour sent on concessional terms to underdeveloped regions has represented "additional consumption" While total U.S. concessional sales in grain increased from 8.4 million metric tons in 1955-56 to 13.8 million metric tons in 1964, commercial sales in this category increased from 6.5 million metric tons in 1955-56 to 27.9 million metric tons in 1964. Meanwhile total world grain trade increased from 47.7 million metric tons in 1955-56 to 94.6 million metric tons in 1964 and under these conditions P.L. 480 sales stimulated increased expansion of immediate commercial markets and acted as a positive catalyst to international economic development.

⁴⁷ Organization for European Cooperation and Development, Food Aid Its Role in Economic Development, p. 52, Paris, 1964.

CHAPTER III

WORLD GRAIN PLANNING AND THE KENNEDY ROUND OF G.A.T.T.

World grain policy makers have been decidedly active during the last eighteen months. This resulted from (a) a growing world opinion which is sharply in favor of a major multilateral food aid program to feed the underdeveloped countries of the world; (b) the reduction in world wheat stocks; (c) the increase in world wheat trade and production and finally, the general feeling of dissatisfaction on the part of the wheat exporting countries of the world with the existing International Wheat Agreement have all combined to turn traditional international wheat policies inside out. There is also evidence for the fact that there was strong institutional pressure from F.A.O., U.S.D.A., I.F.A.P. and the E.E.C. to link both feed and food grain in one international grain agreement. The U.S.-E.E.C. negotiations within the framework of G.A.T.T. brought things to a climax. In January, the United States took the initiative and in so doing put forward four principal points upon which she would be willing to base a new three-year world wheat and grains agreement. These points are:

1. Improved accessibility to importer markets.
2. Improved export earnings through remunerative world prices.
3. Participation by all exporters in managing supplies for commercial markets ("supply management").
4. Participation in food aid by exporters and importers alike.

These four points form the most comprehensive international grain proposals

ever conceived and proposed, for, if fully agreed to, a new grains agreement would mean accord on two additional points: (a) That feed grains and wheat would be combined under one agreement. (b) That such an agreement could only be administered by a very strong international grain agency. The U.S. proposals formed praiseworthy goals to which international grain negotiations could aim. As the May grains agreement of G.A.T.T. showed, only points two and four were agreed on and feed grains was excluded from the agreement.

The Origin of the New Proposal

It is interesting to trace the origin of the new U.S. proposal. The following brief note on the genesis of these proposals seems to indicate that they originated in France.

The most notable was the Pisani-Baumgartner Plan which the French Government proposed in 1961. The plan recommended (a) a price increase in commercially traded grain, (b) international supply management by production control, and (c) multilateral food aid based on surplus production.

In 1963 the Mansholt proposals were put forward by the E.E.C., these recommended the binding and freezing of international grain support levels. It included international quotas for production, commercial exports, food aid based on world reference and world market prices.

The latest European proposal was that of Mr. M. J. Lequartier, Director of French Grain Coops. He recommended a world grain price increase, an international food aid program and the formation of a new international grains council to administer world grain flow.

It is interesting to note the similarity of the January, 1967 U.S.

proposals at the G.A.T.T. negotiations and it is ironic to relate that it was the European negotiators who could not agree to two of their own original proposals—supply management and import quotas or market accessibility.

U.S. Position

The present U.S. administration was said to be determined not to repeat certain mistakes, such as oversupply; inflexible acreage allotments; and non-competitive export pricing.⁴⁸ The U.S. administration was also emphasizing a farm policy that is foreign trade oriented. In drawing out the four points outlined above, three central issues seemed to underlie U.S. international grain policy.

1. More remunerative grain prices through the Kennedy Round of G.A.T.T.
2. Improved market development possibilities.
3. Food aid and world economic development.

The deadline for completion of the Kennedy Round was June 30, 1967. The cereals negotiations were one of the main issues and the negotiating countries were Australia, Argentina, the E.E.C., the U.K., Japan, Switzerland, and Norway, the countries which make up the G.A.T.T. cereals group.

The increasing protective nature of E.E.C. and U.K. grain production policies is encouraging domestic production and reducing the traditional export markets of the world's major grain producers. Since the E.E.C. and

⁴⁸ Schnittker, J. A., Undersecretary of Agriculture, "The Kennedy Round: Three years of Trade," FOREIGN AGRICULTURE, Vol. 5, No. 23, p. 3, June 4, 1967.

the U.K. together import one-third of the world's commercially traded grain their future policies are important as far as the U.S. is concerned.

The U.S. and other major exporters sought a guarantee that their traditional markets would be maintained and in some cases with a growth factor.

Objections to the Grain Agreement Proposal

The U.S. preconditions as set out by U.S.D.A. officials did not go unnoticed. The Grain and Feed Dealers National Association (G.F.D.N.A.) and the U.S. Feed Grains Council strongly criticized the new U.S. proposals for an International Grains Arrangement. In a shortly worded position paper the association stated that the new proposals contradict the basic U.S. trade policy objectives⁴⁹ which were trade liberalization. Referring to the proposed price increase the statement says "The proposed revision of present arrangements governing international trade in wheat reflects an alien trade philosophy. It would suspend competition among wheat producing countries, encourage the growth of less efficient wheat production by increasing price incentives on a world-wide basis, and when supplies exceed commercial demand, it would allocate markets among exporters on a basis unrelated to marketing and production efficiency."

The Association was critical of the U.S. approach which emphasized accessibility to traditional markets based on historical grounds. It stated that the basis for U.S. negotiations should be economic specialization and comparative advantage.

⁴⁹U.S. Congress, 87th Congress, 2nd Session, Trade Expansion Act, Public Law 87-794, October 11, 1962.

Referring to the proposed price increase the association says that a more restrictive pricing policy is "likely to deprive the U.S. of the flexibility needed to assure a share of the world's commercial wheat market which reflects our growing efficiency." It is also pointed out that increased world prices for wheat would not help the U.S. wheat grower and would damage the growth of commercial wheat markets in the most advanced less developed countries, such as Brazil. Regardless of any grain agreement, it is reasonable to assume that a rise in wheat prices is likely to encourage increased wheat production in deficit countries. A price increase would encourage increased E.E.C. and possible pirata dumping into the international wheat market.

The Association states that improved wheat crops in Russia and Eastern Europe indicate that the world has adequate capacity to increase production at present prices.

Other objections were that world wheat price increase would be unfair to Japan which has been encouraged to consume large quantities of U.S. wheat, and that U.S. balance of payments might suffer if wheat sales declined due to a price hike.

The G.F.D.N.A. further states that the U.S. proposal should aim at preventing higher internal price guarantees in the European markets--an objective which is virtually politically impossible at this time. Similarly, the U.S. demand for grain production controls in Europe similar to U.S. controls is deemed virtually impossible.

The E.E.C. offered to put a ceiling on present high production incentives with no guarantee as to the size or value of its future grain requirements. The E.E.C. also came forward with a "self sufficiency" concept that

has been incorporated into the proposal advanced by exporting countries as a means of assuring access. The vital point of this proposal was that importing countries would maintain their total imports of wheat and feed grains at given percentages of domestic consumption. Any grain produced above the negotiated level of self-sufficiency would be stored or exported as food aid. The E.E.C. was willing to give 10% of its market to imports—a figure which was unacceptable to the U.S.

A Summary of the G.A.T.T. Grain Negotiations

As the negotiations hardened in February, bargaining emphasis and attention focused on wheat. The U.S. grain trade and the E.E.C. forced negotiators to abandon talks which would include wheat and feed grain in one agreement. U.S. negotiators did however press for guaranteed accessibility for feed grain but without success.

The U.S. along with other world wheat exporting countries maintained that present world wheat prices were far from adequate. At present the minimum world trading price for wheat under the I.W.A. is equivalent to \$1.05 to \$1.15 for ordinary quality wheat at farm gate prices in the Great Plains. Today's minimum world trading price would return only \$1.45 to \$1.55 per bushel for the same U.S. wheat. American negotiators demanded a world price hike of 40 cents a bushel or more over the minimum of the existing International Wheat Agreement. This proposal was strongly supported by all wheat exporters and attacked by importers. The new agreement would also alter the basic grade and grading point on world wheat trade from no. 1 Manitoba stored in Fort William and Port Arthur, Canada, to no. 2 Hard Red Winter, basis f.o.b. the Gulf. In addition a specific schedule of quality differentials is proposed. Many American officials felt that the

United States has been "holding the price umbrella" for wheat on the international market through the old I.W.A. for too long. U.S. officials were also anxious to develop "a new system for effectively sharing the burden of managing commercial marketings of wheat so that minimum prices can be maintained."⁵⁰

U.S. policy makers also felt that America was carrying an excessive burden of world food aid, and that all affluent countries should systematically program a certain percentage of their production capacity to fulfill world food aid needs. It is believed that the U.S. has strong support from Canada, France, U.K., and Australia with regard to this particular proposal.

The E.E.C. proposed (a) a self-sufficiency index which was so high that agreement to it would be absolutely meaningless in terms of U.S. trade and (b) further unilateral adjustments of the self-sufficiency index to take into account special conditions. Accessibility for a given percent of the E.E.C. and U.K. markets was in fact impossible to negotiate at any price. It is known that Australia and Canada did not press the accessibility issue as strongly as the U.S. which further reduced the U.S. chances of success. Also the E.E.C. is now likely to be an exporting market in terms of wheat regardless of accessibility.

⁵⁰ Schnittker, J. K., Undersecretary of Agriculture, Address, National Association of Wheat Growers, Seattle, Washington, January 16, 1967.

CHAPTER IV

THE NEW INTERNATIONAL CEREALS ARRANGEMENT

During the development of this report it has been impossible to avoid mentioning the results of the new international grain arrangement negotiated after the long and arduous G.A.T.T. grain negotiations.

The negotiations were tedious and frustrating. The goals of importing and exporting countries did not always coincide. Nevertheless, all major grain trading countries were willing to agree that world grain policy centered around two basic problems.

1. The problem of rationalizing and stabilizing the International commercial grain trade.
2. The problem of distributing food surplus and food aid to underdeveloped countries.

While the G.A.T.T. negotiations on grain included Japan, the U.K. and the E.E.C. as the principal grain importers and the U.S., Canada and Australia as the principal exporters it is true to say that in May the negotiations developed into a direct bargaining dialogue between the U.S. and the E.E.C.

With this in mind a summary of the major points of the agreement are as follows:

The new agreement will replace the International Wheat Agreement which expires on July 31, 1967, and will last for a period of three years.

The world grains agreement of 1967 which emerged from the G.A.T.T.

negotiation suffered a painful delivery. The new agreement has two principal features.

1. An increased minimum international wheat price of \$1.73 per bushel.
 2. A multilateral food aid program of 4.5 million tons of grain.
- U.S. and E.E.C. negotiations failed to come to any agreement on:
1. Guaranteed accessibility.
 2. International supply management.

Under the new agreement the basic grade and passing point in the world wheat trade has been changed from No. 1 Manitoba basis Fort William and Fort Arthur to No. 2 Hard Red Winter basis f.o.b. the Gulf of Mexico.

Grain Prices

The pricing provisions of the new grain accord establish a world floor price of \$1.73 a bushel and a maximum of \$2.13 per bushel for U.S. No. 2 Hard Red Winter, ordinary protein, f.o.b. U.S. ports on the Gulf of Mexico. For U.S. wheats, the new minimum prices are generally about 23 cents a bushel higher than the minimum under the old International Wheat Agreement, which will run through July 31, 1967. The U.S. originally asked for a price increase of 40 cents. Minimum prices for other major wheats are set according to differences in quality and location.

Maximum prices for the world wheat trade have been set at 40 cents above the minimum for each wheat. This provides a 40 cent range in which prices may fluctuate in line with supply and demand. If prices reach a maximum level, exporters will provide agreed quantities to importers at not more than the agreed maximum prices.

It is understood that these new prices will be administered by the

International Wheat Council which enforces price disciplines by consultation.

Under the new arrangement a schedule of minimum and maximum prices for ten major types of wheat has been set up. They are quoted as follows in U.S. dollars f.o.b. basis the Gulf.⁵¹

	<u>Minimum</u>	<u>Maximum</u>
Canada—		
No. 1 Manitoba	\$1.95½	\$2.35½
No. 3 Manitoba	1.90	2.30
United States—		
No. 1 dark northern spring, 14%	1.83	2.23
No. 2 hard winter, ordinary	1.73	2.13
No. 1 western white	1.68	2.08
No. 1 soft red winter	1.60	2.00
Argentina—		
Plate	1.73	2.13
Australia—		
F.a.q.	1.68	2.08
European Common Market—		
Standard	1.50	1.90
Sweden	1.50	1.90

"Minimum and maximum prices f.o.b. U.S. West coast ports are all 6¢ per bu. below the Gulf prices."

"Based on current ocean freight rates, the following factors may be used to adjust the Gulf minimums to the equivalent price at ports from which various wheats are actually exported:"

	Cents above or below Gulf
Canada, f.o.b. St. Lawrence	+ 1.5
Canada, in store Lakehead	-14.5
West Australia, f.o.b.	- 2.5
East Australia, f.o.b.	- 6.5
Argentina, f.o.b. to U.K.	-12.0
France, f.o.b. to U.K.	+16.0
Sweden, f.o.b. to U.K.	+ 8.0

⁵¹"World Minimum on 10 Major Wheats," Southwestern Miller, Vol. 46, No. 12, p. 25, May 23, 1967.

Under the new grains arrangement 4.5 million tons of food aid has been committed by the participating countries on a multilateral basis. This falls short of the 10 million tons originally requested by the U.S.⁵²

"Under the multilateral food aid section of the new arrangement, preliminary commitments cover 94.6% of the 4,500,000-ton annual food aid program. The balance is expected to be obtained from countries that will be brought into the pact in the last-minute negotiations, which clearly indicates a desire for Russia to become a member."

"While the food aid is expected to be mainly wheat, it is indicated that the terms of the arrangement will permit shipments of coarse grains if the donor and recipient countries agree."

"Following is a list of the annual pledges made to the 4,500,000-ton food aid program in percent of the total and in tons:"

	<u>Percent</u>	<u>Metric tons</u>
U.S.	42.0	1,890,000
Canada	11.0	495,000
Australia	5.0	225,000
Argentina	0.5	23,000
E.E.C.	23.0	1,035,000
U.K.	5.0	225,000
Switzerland	0.7	32,000
Sweden	1.2	54,000
Denmark	0.6	27,000
Norway	0.3	14,000
Finland	0.3	14,000
Japan	<u>5.0</u>	<u>225,000</u>
Total	94.0	4,259,000

While 4.5 million tons of food aid does seem large it is worth mentioning that the U.S. alone exports some 16 million tons of grain on a

⁵² ibid., p. 37.

non-commercial basis annually. It is understood that the new food program will not alter present U.S. P.L. 480 commitments and that the two programs will be handled separately.

Guaranteed Market Accessibility

It is interesting to note that it was the E.E.C. countries that originally suggested some form of self sufficiency quotas during 1966 and again during the G.A.T.T. negotiations of early 1967. The issue of guaranteed accessibility to the E.E.C. grain market was understandably crucial to the U.S. Since E.E.C. officials admitted that the Six was 86%⁵³ self sufficient in grains, hopes were high that some agreement would result. As we now know E.E.C. overtures regarding accessibility guarantees were idealistic platitudes, and the U.S. had to abandon this subject in order to save the negotiations.

There is no doubt that the loss of guaranteed accessibility was a very grave one for U.S. grain exports to that region. The quantity of U.S. grain exported to this area is now completely in the hands of the E.E.C. authorities.

Supply Management

The E.E.C. and particularly France has had some proposals regarding supply management. The Schnitker proposals of January, 1967, showed that the U.S. would be more than glad to comply with such a program since the U.S. was in fact already doing so. The supply management feature was

⁵³Journal of Commerce, April 19, 1967.

abandoned in February as being "administratively impossible."⁵⁴ Supply management turned out to be a mild embarrassment to U.S. negotiators because it would mean tying wheat and feed grains into one price and quota structure in a comprehensive grains agreement. The U.S. feed grain lobby violently opposed the move so the U.S. played the proposal down even though the E.E.C. authorities were keen to support it because of the increased substitution of wheat for animal feed.

Food Aid

The new multilateral food aid grain pact of 4.5 million metric tons is just over 25% of the total annual U.S. concessional grain sales of 16 million tons. It does however include feed grains and wheat and it will have one important effect of creating a market vacuum in net grain importing countries such as the U.K., E.E.C. and other signees (see Table above) who will export given quantities annually. Schnittker⁵⁵ made the point that this will mean a market opportunity of 2.5 million tons of grain, 2 million tons of wheat and 5 million tons of feed grain for the U.S.

The second aspect of the food aid pact is that it is a milestone in multilateral food aid. It means that other developed countries no longer look to the U.S. as the sole giver to hungry nations, and that in the future all food aid will be on a multilateral basis. This brings us closer to the day when government will produce grain especially for food aid. It also

⁵⁴G.A.T.T. News Bulletin, XVII, p. 4, para. 2, February 27, 1967.

⁵⁵Schnittker, J. A., Undersecretary of Agriculture, "The Kennedy Round: Three Years of Trade," Foreign Agriculture, Vol. 5, No. 23, June 5, 1967, p. 3.

means that as developing countries grow the U.S. will be able to expand its commercial sales and exports.

Faults of the New Arrangement

As far as the U.S. is concerned the new arrangement has three principal faults. These are:

1. No access guarantee to traditional U.S. grain markets. The volume of U.S. exports to Europe is completely at discretion of E.E.C. and other European countries. In fact the U.S. has no guarantee of future access to any share of any European market.
2. As far as price is concerned the U.S. has no improved price advantage in the E.E.C. in either feed grains or wheat. Future U.S. grain negotiations with the E.E.C. should aim specifically at reduction of the common E.E.C. target price.
3. It would seem that the attention of U.S. negotiators was focused entirely on U.S. wheat exports to the E.E.C. This was a major tactical error since the U.S. exports feed grains to that area are already much greater than wheat and offer a much greater potential for future expansion. (Total feed grain market is 8 million tons, U.S. share 4 million. Total wheat market is 4 million tons, U.S. share 1 million.)
4. The United States failed to obtain any "supply management" commitment from any of the G.A.T.T. cereal committee members. International supply management is a vital prerequisite to any long lasting and workable international grain arrangement.

The Effects of the New Arrangement on U.S. Grain Exports

The new grains arrangement is a compromise with advantages and disadvantages for the U.S. In the area of price the level of \$1.73 per bushel would have no immediate advantage for the U.S. since in June 15 of 1967 European importers were paying over \$1.83 per bushel for Hard Red Winter f.o.b. the Gulf. During the three-year period it is likely that world wheat production will increase⁵⁶ and under these circumstances the new minimum will be a significant price support. It is likely that the U.S. subsidy payments on wheat will be reduced as a result of the new price increase.

The grade change from Manitoba to Hard Red Winter will focus world attention on this wheat and this is likely to be a useful aid in market development.

Reliable sources estimate⁵⁷ that the new pact will bring national average prices for U.S. wheat from \$1.38 during the last three years to between \$1.48 and \$1.63 per bushel during the coming three years.

Trade sources⁵⁸ indicate that the new price arrangements will not have any immediate expansionary effect on the commercial market of U.S. wheat overseas. It will however place U.S. wheat in a more competitive position price-wise in markets where the sole competitor is Canada. It does help the U.S. operate a more competitive and flexible pricing system.

⁵⁶ Food and Agriculture Organization of U.N., "Long Term Development in Wheat and Coarse Grain Situation," Monthly Bulletin of Agricultural Economics and Statistics, Vol. 15, January, 1966, pp. 11, 12.

⁵⁷ Schnittker, J. A., Undersecretary of Agriculture, Press Report, Southwestern Miller, Vol. 46, No. 12, May 23, 1967, p. 25.

⁵⁸ Conversation with Official of Louis Dreyfus Corp., Minneapolis Grain Exchange, May 25, 1967.

Dr. John Schnittker states⁵⁹ that world trading prices for wheat will be 10-25 cents per bushel higher than during the last three years as a result of the agreement. He further states that the new I.W.A. minimums will be an additional price insurance for farmers. (See Table 16, p. 15, Wheat Price, Agricultural Statistics, 1966, U.S.D.A.)

A brief examination of U.S. and E.E.C. price structure shows that the new price increase does not have any significance at this time as far as U.S. export price and sales volume are concerned.

The U.S. loan rate price for No. 2 Hard Red Winter 14% protein in St. Louis was 1.48 cents on June 8, 1967. The actual market cash price on the same day in St. Louis varied between 173 to 178 cents per bushel.⁶⁰ If this wheat was exported from the Gulf it would qualify for an export subsidy of 8 cents a bushel on June 8. Transport costs from St. Louis to the Gulf are estimated at 10 cents a bushel. This would mean that the world price on a ship loaded in the Gulf would be somewhere between 191 and 196 cents a bushel for No. 2 Hard Red Winter ordinary protein (14%).

Shipping costs to Europe would cost another ten cents a bushel which would bring the price to between \$2.01 and \$2.06 a bushel. Now, it is estimated that the E.E.C. target price for Hard Red Winter wheat will be \$3.34 a bushel (\$120 per metric ton) July 1, 1967. Therefore including port charges of 10 cents a bushel U.S. Hard Red Winter wheat will cost between \$2.11 and \$2.16 in, say Rotterdam. If the wheat moves into the Common

⁵⁹ Op. cit., Ref. 55 above.

⁶⁰ U.S. Dept. of Agriculture, Grain Market News, Vol. 15, No. 23, pp. 2-3, June 9, 1967.

Market it will pay an approximate E.E.C. levy of between \$1.18 and \$1.22 per bushel. The following tabulation sketches the price rise as the grain moves into European trade.

The following example illustrates the increasing price of wheat as it moves from the U.S. to the E.E.C. market:

Date: June 8, 1967
 Grain: Hard Red Winter 14.0 Protein
 Location: St. Louis, Missouri
 Loan Rate: \$1.48 per bushel

	<u>Cost factors</u>	<u>Cumulative price</u>
	(dollars per bushel)	TABLE (dollars per bushel)
MARKET CASH PRICE	1.73-1.78 cents per bushel	1.73 — 1.78
EXPORT SUBSIDY GULF June 8th	.08 " "	1.81 — 1.86
TRANSPORT COST St. Louis - Gulf	.10 " "	1.91 — 1.96
SHIPPING COSTS	.10 " "	2.01 — 2.06
PORT CHARGE ROTTERDAM	.10 " "	2.11 — 2.16
APPROXIMATE E.E.C. IMPORT LEVY		
and INTERNAL MARKET COSTS	1.18-1.22	3.29 — 3.38
ESTIMATED E.E.C. TARGET PRICE		3.34

It is evident then from the above price analysis that the new price increase will not have any major effect on U.S. shipments to the E.E.C. It is evident also that the E.E.C. will collect less levy money at present target levels. Of course there is no guarantee that the E.E.C. will not increase their target levels, if (a) world prices increase, and (b) if she imports higher costing quality wheat.

Trade sources indicate that the new price increase may encourage increased E.E.C. exports but will not have a direct effect on production.⁶¹

⁶¹Trade Sources, Conversation with Officials of Great Plains Wheat Inc., Washington, D.C., February 4, 1967.

CHAPTER V

SUMMARY AND CONCLUSIONS

Political Forces and International Grain Policy

Since World War II there has been a definite increase in the trade restriction and barriers to free international movement in grain. A country with a comparative advantage in grain production can no longer be sure of an outlet for that grain regardless of price or quality. The essential reasons for this are:

1. Stronger policies towards self sufficiency in traditional grain importing countries caused by the political pressure of domestic farmers, and the economic pressure of diminishing foreign exchange reserves.
2. The growing importance of regional integration in international trade.
3. The increased role of national governments and international institutions in the world grain trade.

World grain production is likely to increase substantially by 1970.⁶² For this reason there is an obvious need for rationalization of the world commercial grain trade and world food aid programs.

An honest and realistic look at the world grain trade today suggests a

⁶²Food and Agriculture Organization of the United Nations, Agricultural Commodities Projections for 1970, Supplement E/en. 13/48, CCP 62/15, Section II, Table I, Rome, Italy, 1962.

picture of intense national and international political activity of a pragmatic nature on one hand mixed with a growing sense of international idealism and altruism on the other. This situation makes analysis very difficult because countries combine national interests where they coincide and take opposite positions where they disagree. National pressures by high cost domestic producers in reality take precedence over international idealism purely on a political basis. International trade is increasingly hampered by the protection which results from the political force of these producers. International trade is further hampered by the ideological differences between Russia, China, and the United States. Above all, national economic interest is the prime objective of the international trade negotiator. This was increasingly confused by the repeated idealistic assertions of France, Canada, Australia, the United States and Britain to form an International Grains Agreement which it is said would solve two basic problems.

- a. Rationalize and stabilize the International Grain Trade.
- b. Distribute food surplus and food aid to needy underdeveloped countries.

The prime movers in the suggestions above are idealistic civil servants, diplomats, international farm leaders, intellectuals and politicians. They are aware and sensitive to the growing world opinion created by U.S. food aid and mass communication which sees no rationality in starvation and malnutrition when the capacity for rich countries to produce food surplus exists. They are also aware of the growing trade in world grain and the opportunity that their nations and their farmers may reap in growing share of this increasing trade. While these negotiations have much to recommend them they have one major draw-back--they are far from being realistic. High

ideals are always laudable but they are worthless unless they are related to reality. The overtures and pre-negotiations surrounding the Kennedy round of G.A.T.T. grain negotiations were worthwhile but had three weak points which were:

- (a) That the participants have not done enough domestic preliminary ground work regarding their own policies and objectives.
- (b) That the sense of urgency damaged the quality and scope of the agreement--as far as the U.S. was concerned.
- (c) That there is at present no administrative international machinery which could administer a comprehensive agreement.

It would seem that there are four principal forces at work in the International Grain Trade today. They are:

- (a) Demands of domestic grain producers.
- (b) Policies of National Governments.
- (c) National and International Commercial grain trade.
- (d) Intellectual pressure, internationalism, and world opinion.

Domestic producers demand high grain prices and protection from the cheapest foreign grain imports of other countries. They force governments by political pressure to build protective barriers which hinder international trade in grain.

Governments are most susceptible to domestic interests and while there is a growing pandering to internationalism in reality the domestic interest dominates.

The modus vivendi of the national and international grain trade is profit maximization. Its leaders are to be commended for their outstanding tactical ability in the field of public relations with the producer and the

government. The skill of the grain trade is such that while it plays a most powerful role in the national and international trade it plays down this power in public and rarely clashes openly with government or producer associations. The grain trade increases its power and wealth by its maneuverability in a confused situation. It finances, insures, and ships grain from source to consumer with outstanding entrepreneurship and quiet efficiency. It is the real power center on the international grain scene. Governments at the international negotiating table seem to forget the power of the trade. Any workable international grains agreement must have much more liaison with and participation of the world's large grain merchandisers.

World opinion is the most hopeful growing force which will aid the international grain negotiations particularly from the world food aid point of view. Since it is a dynamic force it is a most hopeful element—but the essential question is how long will it take world opinion to be strong enough to force the international policy which gives global benefits over the national policy of "charity begins at home." The United States must be given credit for taking the initiative here. U.S. international policy on food aid was based on abundant grain supply—but today these supplies no longer exist and world opinion and its international institutions are frantically trying to fill the approaching vacuum, in order to prevent the collapse of the international food aid program of the future.

The United States Competitive Position in World Grain Trade

The United States government and the U.S. agricultural industry are committed to a policy of expanding U.S. commercial grain exports. It would seem that the future competitive position of U.S. grains in the world market will depend on the following points:

1. Flexible domestic production policies which result in adequate supplies for domestic and export markets.
2. The nature, scope, and structure of future U.S. export systems.
3. A flexible and adaptable export pricing policy.
4. The nature, scope, and administration of future international grains agreements.

Wheat

Under the present circumstances, the U.S. is well established in the commercial feed grain market of the world but seems to be in a weaker position in the international market for commercial wheat where the long established and co-ordinated export programs of Canada and Australia limit the sales of U.S. wheat.

The U.S. wheat industry has some built-in structural disadvantages. It produces a greater range of wheat types over a wide geographical area. Traditionally the U.S. has exported a relatively low percentage of its total production and for this reason it is only in recent years that the industry has become export "conscious." A brief examination of the efforts to expand U.S. commercial marketing of wheat abroad indicates some lack of co-ordination and duplication of effort. For example, export pricing and policy supervision of promotional activities are handled by the U.S. Department of Agriculture. Export promotional activities are handled by the semi-autonomous producer cooperators. The bulk of grain merchandising and sales are handled by the trade of six large grain corporations.

It must be stated that while there is a high degree of cooperation between government, trade, and cooperator, nevertheless it is difficult to promote U.S. wheat effectively against a co-ordinated export agency such as

the Canadian Wheat Board. This is particularly true when the U.S. cooperators and government agencies cannot deliver the grain which their market development activities stimulate. They can and do advise the trade of new grain orders, but, in the final analysis, each sale must appear to offer an opportunity for profit which is the basic criterion used by the trade in deciding whether a given order is worthwhile considering.

Since the U.S. government policy is to expand commercial grain exports, the achievement of this goal requires a close study of the effectiveness of the present export promotional system. In the case of feed grains, promotional activities are useful because the U.S. is the dominant force in the market. In the case of wheat, foreign competition accentuates the problem and seems to spotlight a key policy issue, namely that the U.S. government should examine whether or not it would be better to leave export promotional activities to the owners of the wheat (the grain trade) or make the necessary institutional adjustments which would coordinate the export promotional activities of cooperators, government, and trade under a semi-government wheat export authority.

It is possible that the grain trade might promote U.S. grain sales most efficiently if given long-term objectives and promotional assistance. On the other hand, the government's regulatory role in the grain trade is increasing. It now covers production, storage, grading, export pricing, compliance with international grain arrangements, and world food aid donations.

It is likely that the successful promotion of commercial wheat exports will inevitably require increasing participation by government agencies. It is possible that a Wheat Export Authority might coordinate grading, export

pricing, and market development more efficiently than the present system and by so doing put U.S. wheat on an equal footing with Canadian wheat. If the Government funds normally allocated to the wheat market development cooperators was used to operate a pilot wheat sales agency there would be less likelihood of wasting the taxpayers money. Such a pilot agency might be efficiently operated as a branch agency of the Commodity Credit Corporation. Its success could be measured in terms of new markets developed and increased sales volume in these new markets. The growth of regional integration systems seems to suggest that the future terms of trade between imports and exports of grain will be decided by official negotiation. A Wheat Export Authority would have definite advantages under such circumstances from an export promotional point of view.

Feed Grains

Future exports of U.S. feed grains may be hampered by limited market accessibility caused by high import levies. The U.S. is the dominant force in the world's expanding feed grains market. U.S. Feed Grains Council studies⁶³ show that in the case of Europe, livestock producers are tending to specialize.

Further studies⁶⁴ indicate that European producers paid an average of \$98 per ton for mixed feed during 1960-64. This relatively high price was caused by protection of domestic grain production through levies on imports.

⁶³U.S.F.G.C., National University of Ireland, Cooperative Feed Experimental Project No. 1, 1962.

⁶⁴U.S.F.G.C. Series, National University of Ireland, Cooperative Feed Experiment, Project 2, 1965.

These studies further suggest that many farmers in the north and west of Europe would be more profitably employed in livestock production rather than grain production mainly because of high rainfall. The study pointed out that free imports of feed grains at world prices would increase hog and broiler profits by one-third. The study further suggests⁶⁵ the grave need for cheap grain imports at world prices during January-June period in Europe in order to maintain a constant supply of fat beef cattle for the expanding beef slaughter industry.⁶⁶

U.S. feed grain interests might best be promoted in Europe by attempting to reduce feed grain import levies by direct government consultation or by administering a specific public relations program aimed at European meat producers and consumers. While many European livestock producers are grain growers, the trend is toward specialization. A U.S. feed grains promotion should aim at convincing the European livestock producer that he would have higher profits from cheaper imported grain. The second approach would be aimed at convincing the European meat consumer that he would have cheaper and better meat and more of it if the United States were allowed to sell its quality grains at world prices in Europe.⁶⁷

⁶⁵ Ibid., p. 26.

⁶⁶ O'Keefe, Irish Farmers Journal, April 14, 1966, Editorial.

⁶⁷ Op. cit., p. 10.

BIBLIOGRAPHY

Reports

- Ambassade De France, Press Service, Charles de Gaulle. British Entry to the E.E.C. Paris, May 16, 1967.
- Bleu, G. International Commodity Arrangements and Policies. Food and Agriculture Organization of the U.N., Commodity Policy Studies No. 1. Rome, 1964.
- Brunthaver, C. G. U.K. Grain Agreement. Format for an International Grain Agreement. Grain and Feed Dealers National Association. 1964.
- Butterwick, M. W. and E. Neville Rolfe. Market Structure of Benelux Ports. U.S. Feed Grains Council, Oxford University. October, 1966.
- Deleau, J. Proceedings of the 15th General Conference. International Federation of Agricultural Producers, London, England. 1966.
- Food and Agriculture Organization of the U.N. Regional Interation Schemes Outside Europe Affecting Trade in Grains. C.R. 67/5, Study Group on Grains, Item XIII of the Agenda. March, 1967.
- Food and Agriculture Organization of the United Nations. Agricultural Commodities Projections for 1970. Supplement, E/en 13/48, CCP 6213, Rome, Italy. 1962.
- General Agreements for Tariffs and Trade. News Bulletin. No. XVII. February 27, 1967.
- International Wheat Council. Trends and Problems in the World Grain Economy 1950-1970. 1966.
- International Wheat Council. Review of the World Wheat Situation. 1966.
- Organization for European Cooperation and Development. Food Aid--Its Role in Economic Development. March, 1964.
- Felmsby, C. Information Bulletin #14-64. U.S. Feed Grains Council, Washington, D.C. August, 1964.
- Richter, J. H. World Agriculture. Vol. XV; No. 4. October, 1966.
- Schertz, L. F. and Koy L. Neeley. Barriers to International Grain Trade in Selected Countries. U.S. Department of Agriculture, Foreign Agricultural Service Report, No. 126. May, 1965.

- The National Agricultural Advisory Commission. Report of Subcommittee on Food and Fiber Reserves for National Security. Washington, D.C. October, 1964.
- U.S. Congress. "Food for Peace" Report No. 2304. 89th Congress, 2nd Session, House of Representatives.
- U.S. Congress. Trade Expansion Act. 87th Congress, 2nd Session, Public Law 87-794. October 11, 1962.
- U.S. Congress. Report of Congressional Agricultural Hearings. 88th Congress, 2nd Session. November 14, 1966.
- U.S. Department of Agriculture. Grain Market News. Vol. 15, No. 23. June 9, 1967.
- U.S. Department of Agriculture. Annual Report "Food for Peace". Public Law 480. 1965.
- U.S. Department of Agriculture. "France's Key Role in the Grain Sector of the European Economic Community," Foreign Agricultural Service Report, No. 122, Washington, D.C. April, 1963.
- U.S. Department of Agriculture. The World Agricultural Situation--Review of 1966 and Outlook for 1967. Foreign Agricultural Economic Report, No. 33, January 4, 1967.
- U.S. Feed Grains Council. E.E.C. Position Paper. April, 1967.
- U.S. Feed Grains Council. National University of Ireland. Cooperative Research Project No. 1. 1962.

Articles and Periodicals

- Drayer, H. P. "World Grain Pact Still Cloudy," Journal of Commerce, April, 1967.
- Kilpatrick, C. "More Grain is Allocated for India," Washington Post, February 4, 1967.
- "No Substantial Rise Planned for P.L. 480," Southwestern Miller, January 31, 1967.
- O'Keefe, P. Irish Farmer Journal, Editorial, Dublin, April 14, 1966.
- "Report on President's Budget Speech," Southwestern Miller, January 31, 1967.
- Staff Report. "Cut of 12% in Wheat Acreage Allotments Expected in Response to Producer Pleas," Wall Street Journal, May 18, 1967.

Schnittker, J. A., Undersecretary of Agriculture. "The Kennedy Round: Three Years of Trade," Foreign Agriculture, Vol. 5, No. 23, June 5, 1967.

Widener, A. "Paving Hunger with Good Intentions," Human Events, August 6, 1967.

Other Sources

Conversation (telephone) with Official of Louis Dreyfus Corporation, Minneapolis Grain Exchange, May 25, 1967.

Davis, H. J., U.S. Department of Agriculture, Foreign Agricultural Service, Memorandum to Agricultural Attaches, Subject: New Public Law 480 Programs. October, 1966.

Letter from Mr. Clarence Palaby, Director of the United States Feed Grains Council to Secretary of Agriculture, Orville Freeman. February 3, 1967.

Letter from Mr. Clarence Palaby to Ambassador William Roth, Chief U.S. Delegation to the G.A.T.T. Negotiations. February, 1967.

Schnittker, J. A., Undersecretary of Agriculture, Address National Association of Wheat Growers, Seattle, Washington. January 16, 1967.

Schnittker, J. A., Undersecretary of Agriculture, Address (U.S. Department of Agriculture No. 1681-67), Salina, Kansas. June 5, 1967.

Trade Sources, Conversation with Officials of Great Plains Wheat Inc., Washington, D.C. February 4, 1967.

A REVIEW OF INTERNATIONAL GRAIN TRADE ARRANGEMENTS
AND THE 1967 NEGOTIATIONS OF THE GENERAL
AGREEMENTS FOR TARIFFS AND TRADE

by

MARCUS J. McINERNEY

B. Agr. Sc., National University of Ireland, 1960

AN ABSTRACT OF A MASTER'S REPORT

submitted in partial fulfillment of the

requirements for the degree

MASTER OF SCIENCE

Department of Economics

KANSAS STATE UNIVERSITY
Manhattan, Kansas

1967

This is a review of world grain trading arrangements with special reference to regional integration systems, the world grain situation, national grain policies and the new grain arrangement negotiated at the Kennedy Round of G.A.T.T. negotiations.

The objective of the report is to identify broad trends in the grain industry and to try to analyze how these trends will affect U.S. grain exports during the coming decade.

World grain production and trade are increasing steadily each year. F.A.O. sources indicated that world grain production will increase by 3 percent per annum between 1967 and 1977. World trade in grain is also expected to increase but at a slower rate.

The following factors will effect the volume of world grain production and trade.

- (a) The success of regional integration schemes with respect to protecting high-cost producers.
- (b) The ability of consumers and livestock producers within the integrated areas and the other traditional grain importing nations to lobby for cheaper grain imports.
- (c) The volume of production from centrally planned economies.
- (d) The extent to which technology and institutional improvement are applied to the agricultural areas of Latin America and Africa.

The European Common Market is having a major effect on world grain policies. Since the E.E.C. was formed, its imports, exports and production of grain have increased. Nevertheless no third country can be guaranteed a future place in this market. The E.E.C. grain import policies are becoming evident in the U.K., Denmark, L.A.F.T.A., C.A.I.S. and the A.C.M.

The effects of L.A.F.T.A., C.A.I.S. and A.C.M. on world grain trade may not be significant for some time.

International commodity agreements in grain are likely to assume more importance in future years because world food requirements have reached a high level of international concern. Such agreements help to (a) balance supply and demand, (b) stabilize prices, and (c) guarantee future market outlets. The new grains agreement which resulted from the Kennedy Round of G.A.T.T. is an improvement of the old International Wheat Agreement.

A comprehensive international grain arrangement would cover all grains. It would ideally have to have built in supply management quotas, and would be responsible for all world food aid shipments. Its pricing structure would have to be geared to meet the requirements of underdeveloped and developed countries. Developed countries would have to give some grain market access guarantees if producer countries pledged maximum price levels.

The new three year grain arrangement which resulted from the 1967 G.A.T.T. negotiations provides for a wheat price minimum of \$1.73 a bushel for Hard Red Winter wheat f.o.b. the Gulf, and for 4.5 million tons of multilateral food aid.

Reliable sources consider that domestic and export prices of U.S. wheat will be 10-25 cents higher during the next three years than during the previous three years. The higher price may stimulate world production. The multilateral food aid may provide a market vacuum of two million tons of wheat in Europe. Beyond this the United States is still left with three-fourths of the world food aid burden.

The long term increase in United States exports of wheat will likely be to the developing countries and attempts should be made to help those

markets achieve commercial status quickly. This can be done by vigorous market development where the United States government owns the wheat and grain it promotes. Long term United States exports of feed grains offer phenomenal prospects in Europe, Japan, and the developed countries because of the huge demand for red meat. The United States must aim at convincing the affluent consumers and the skilled livestock producers in these regions that their mutual interests would be best served when and only when their governments allow free importation of high quality low cost feed grain.