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International Wheat Agreements

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THE history of wheat in the last twenty years has been marked by two vastly different types of crises. The first of these which persisted from the late 1920's into the war years saw exporting countries confronted with embarrassing surpluses and extremely low prices in the face of reduced overseas markets and continued high production at home. In the second crisis which has existed since the end of the war, the reverse has operated. The dislocation caused to European and Asiatic grain production by the war has forced countries in those areas to rely heavily upon the exporters for their supplies, and, as demand has continually exceeded supply, prices have been at an extremely high level. Thus both exporters and importers had relatively strong bargaining positions when they met early in 1948 to formulate a five-year wheat agreement. In the exporters' favour was the importing countries' fear that high prices might continue with a consequent drain on their financial resources and their desire for immediate relief from those high prices, while the importers had strong grounds for arguing that, in time, they could rebuild their production to pre-war levels or higher and thus restore the position where exporters lacked markets for all their production. Such was the background of the agreement reached in March 1948, the objectives of which were 'to assure supplies of wheat to importing countries and to assure markets to exporting countries at equitable and stable prices'.

The main points of the Agreement were as follows:

1. The three exporting countries, Australia, Canada, and the United States, agreed to export each year a minimum quantity of 500 million bushels of wheat or wheaten flour at prices between certain fixed limits.

2. The thirty-three importing countries guaranteed to purchase each year over a five-year period specified quantities of wheat totalling 500 million bushels.

3. A maximum price of $2 per bushel was to operate throughout the period of the Agreement. In the first season, 1948–9, the minimum price was fixed at $1.50, falling by 10 cents per bushel in each succeeding year. These prices, which were in terms of Canadian currency per bushel at the parity of the Canadian dollar as at 1 February 1948, related to No. 1 Northern Manitoba

wheat in store Fort William. Prices of other wheats were to be related to these according to accepted differentials.

4. Importing and exporting countries were to negotiate their transactions at prices agreed between themselves, either in private or bulk trade, provided such transactions conformed to the quantitative and price regulations of the Agreement.
5. Where 'free-market' prices were above the maximum or below the minimum prices fixed by the Agreement, the Council could intervene either to compel exporters to sell wheat to signatory importers or importers to buy from one of the exporters.
6. Minimum end-of-season stocks were to be maintained by the exporting countries, the specified amounts being Australia 25 million bushels, Canada 70 million bushels, and the United States 170 million bushels. In addition, both exporters and importers were to build up price-stabilization reserves when free-market prices were below the Agreement minimum, these to be sold or utilized when free-market prices exceeded the Agreement maximum.
7. A Wheat Council was established and all disputes were to be settled by it. Voting on the Council was divided equally between exporters and importers, each country's voting power being in proportion to the size of its sales or purchases under the Agreement.

In discussing the terms of the Agreement, it is well to bear in mind that it was but the most recent of a series of inter-governmental commodity arrangements which has covered not only foodstuffs but other types of raw materials such as rubber and tin. All of these arrangements had similar objectives which, stated briefly, were, first, to promote long-term equilibrium between the supply of and the demand for primary products and, secondly, to reduce those short-term fluctuations in the prices of commodities which have usually been due to rapid changes in supply.

While there seems to be general agreement as to the objectives of commodity arrangements, no such unanimity has been evident with regard to the methods by which they might be attained. At one extreme have been those who believe that the solution lies in a rigorous control of production so that importers are forced to pay higher prices because of restricted supplies, while at the other extreme have been those who would leave production patterns unchanged and whose panacea is the promotion of an enlarged demand. Notwithstanding divergencies of opinion as to the methods to be adopted, certain principles have been enunciated, notably by international bodies such as the International Labour Office, F.A.O., and the International Trade Organization, which should be considered when an agreement is formulated. These principles can be summed up in the words of the F.A.O. Preparatory Commission on World Food Proposals:

'Regardless of the particular form which commodity arrangements may take, they should all be motivated by genuinely multilateral considerations. They should all of them meet three requirements: first, they should contribute toward stabilisation of agricultural prices at levels fair to producers and consumers alike; secondly, they should, so far as possible avoid any restriction of production and should stimulate an expansion of consumption and improvement of nutrition; thirdly, they should encourage, consistently with considerations relevant to the national economy of each country, shifts of production to areas in which the commodities can be most economically and effectively produced.'[1]

The following discussion of the 1948 Wheat Agreement may reveal how closely its terms measured up to the standards set out above and whether the principles stated are really capable of practical application.

The Agreement represented a contract between thirty-three importing countries and three of the four major exporters with Argentina being the notable absentee. Under this contract the three exporting nations were assured of a market for 500 million bushels of wheat annually of which Australia was to supply 85 million bushels, Canada 230 million bushels, and the United States 185 million bushels. In the five-year period 1934–8 these three countries exported on the average 316 million bushels, so that the Agreement represented a net gain in their trade of almost 200 million bushels. It represented a net gain of almost 200 million bushels in total world exports, of course, only if exports by other countries outside the Agreement remained at the same level as in the pre-war period.

However, while the guaranteed sales of 500 million bushels represented a gain of almost 200 million bushels to the three signatory exporters when compared with the five pre-war years, they were about 200 million bushels below average shipments in the three post-war years. This was covered to some extent by the fact that exporters were free to sell any wheat in excess of their obligations at whatever price the market would bring. It should also be noticed that the United States apparently lost most in comparison with her exports over recent years and that her loss was more apparent than real because of her responsibilities in regard to occupied areas. Moreover, it would have

[1] *Report of the F.A.O. Preparatory Commission on World Food Proposals*, p. 22.

been optimistic to forecast five more American crops of the level experienced in the past three years, or even to expect them as prices receded. In comparison with pre-war experience, Australia's guaranteed sales of 85 million bushels were less by over 20 million bushels. On the other hand, domestic utilization in Australia has risen by about 20 million bushels mainly because of increased feeding of wheat to livestock. Indeed, to fulfil her guaranteed sales and maintain home consumption at the present rate, Australia would have had to increase her production slightly above the average of the five pre-war years.

As an indication of how the situation has changed in six years, it is interesting to compare the export quotas allotted under the Draft Convention of 1942 and the guaranteed sales under the 1948 Agreement. The respective quotas were as follows:

Country	*Quota 1942*	*Quota 1948*
Canada	200	230
United States	80	185
Australia	95	85
Argentina	125	—
	500	500

In the first place it will be noticed that in 1942, 500 million bushels, representing the amount it was hoped could be marketed by the exporters, were divided between four exporting countries; under the 1948 Agreement, with Argentina not included, the three other exporters were guaranteed sales of 500 million bushels. Secondly, how much the experience of the past six years weighed with those framing the Agreement can be seen in the increased quotas given Canada and the United States and the smaller allotment given Australia, despite the larger quantity to be shared by the three countries.

The implications of Argentina's non-participation in the Agreement might well be studied briefly at this stage. Examination of the guaranteed purchases shows that the signatory importing countries left only small quantities to be bought outside. Austria, France, Greece, Italy, Holland, Portugal, Sweden, China, Egypt, India, New Zealand, and South Africa agreed to obtain almost all their normal requirements from the three exporting countries. The United Kingdom left about 30 million bushels for free-market purchases while Belgium, Brazil, and Switzerland allowed for moderate imports outside their quotas. As production in the importing countries returned to normal, the free market might have been expected to decrease so that Argentina would probably have found it increasingly difficult to dispose of her wheat, provided the Agreement were not broken. This could have led to one of two results: first, Argentina might have continued wheat-growing at the present level and by a low-price policy tried to attract purchases by signatory importing countries or, secondly, she might have decided to stimulate coarse-grain production at the expense of wheat. Whatever course she followed, it would appear that the assurance by the importing countries that they would obtain 500 million bushels annually from the other three exporters would have meant a loss to Argentina's wheat trade.

To the three exporting countries the guaranteed-sales provisions ensured that during the five years of the Agreement their minimum exports would be a very high proportion of their shipments in 1947–8. In that season the signatory importers' total purchases from overseas amounted to approximately 600 million bushels, some of which certainly came from Argentina.

The question as to whether importing countries were assured of regular and adequate supplies is rather difficult to answer. By signing the Agreement and thereby undertaking to purchase certain quantities of wheat each year, importers in effect put a limit on their domestic production and became dependent on the three exporters to the extent of their guaranteed purchases at least. Another implied result was that they bought less wheat from non-signatory exporters who, in the face of diminishing markets, might conceivably have reduced production in favour of other products. Under the Agreement, therefore, the thirty-three importing nations were dependent on successful crops in three exporting countries for a large proportion of their wheat supplies. How successful those crops had to be can be seen in the fact that, given present consumption levels, the United States had to produce a crop of 1,100 million bushels, Canada 390 million bushels, and Australia 165 million bushels to meet their guaranteed sales each year. For both Canada and Australia production above their average during the post-war years would have been needed.

As an insurance against crop failures, exporting countries were required to maintain minimum stocks of 265 million bushels, and, when supplies were available, a price-stabilization reserve of 10 per cent. of their export quotas. The maximum amount exporters were obliged to hold as stocks was, therefore, 315 million bushels. A succession of poor seasons in North America such as occurred in the 1930's could have made this quantity far too low to guarantee a continuation of supplies to importing countries. This danger was increased by the lack of provisions in the Agreement to ensure that exporters shipped wheat in time of drought rather than feed it to livestock when the latter was the more paying proposition. The possibility should also be mentioned that even in normal years exporters might have moulded their production policy to their export quotas, thereby reducing world wheat supplies.

It would appear that, while in normal seasons importers were guaranteed adequate supplies, there are strong reasons for believing that they might not have been given sufficient safeguards against crop failures. Reduced production in exporting countries outside the Agreement would have made this risk still greater.

The price clauses of the Agreement provided that guaranteed sales were to be made at prices between a maximum fixed for the whole five-year period and a minimum which varied each year. The maximum price fixed was \$2 per bushel, basis No. 1 Northern Manitoba wheat in store Fort William, while in the first year the minimum price was to be \$1.50 falling thereafter by 10 cents a year to \$1.10 in the fifth year. When the free-market price exceeded \$2, importers could require the exporters to sell them their guaranteed quota at \$2 per bushel, while if the free-market price was below the minimum exporters could require importers to take from them the amount specified in the Agreement at that minimum price.

Of all the articles in the Agreement, that relating to prices probably was the one on which it was hardest to reach a decision. The prices eventually fixed no doubt represented a compromise between the views of the exporters and importers and as with most compromises the inevitable criticisms have been made.

One such criticism was that fixing the maximum price as high as \$2 was unfair to importers because of the danger that exporting countries might plan their agriculture so that a condition of permanent shortage existed, with the result that prices would tend to remain around the maximum. In the words of the *Corn Trade News*, 'the justification of a high export price is solely and wholly in the encouragement it gives to production. If the payment of top prices under the agreement means that world supplies are short or are expected to be short, then the payment of that price should imply an actual or prospective increase in supply. The existence of a high price merely because wheat is short, without any measures to end that shortage, perpetuates the worst features of monopoly exploitation and organized gambling. We consider, therefore, that the top price of $2 a bushel is far too high under the operative terms of the Agreement.' While it must be admitted that there would be a temptation for exporters to try and keep prices high, this danger was surely removed by several factors. First, there was the exporters' undertaking not to operate their internal agricultural and price policies 'in such a way as to impede the free movement of prices between the maximum price and the minimum price in respect of transactions in wheat into which the contracting Governments are prepared to enter'. In the second place, the fact that no provisions for control of acreage were written into the Agreement reduced this danger, while thirdly, and probably most important, would be the desire of the exporting countries to maintain the goodwill of the importers in case a renewal of the Agreement was to be sought.

A more valid criticism was that no clear definition was given as to how prices were to be fixed within the range between the maximum and minimum. Presumably, they were to be arrived at by reference to free-market prices, but in the present era of bulk trading such prices hardly exist. The only major grain markets which have been operating are those in the United States, and trading on them could be limited by the virtual floor price loan levels impose, and if the loan level happened to be above the maximum price under the Agreement, as it would have been in 1948–9, it is difficult to see how American prices could have been used as guides in arriving at a price between the Agreement limits. It would seem that in practice prices between countries would have had to be negotiated on the basis of current conditions. Given sufficient goodwill on either side, it should have been possible to reach a mutually acceptable price.

The question of coarse grain also arises in any discussion of the price clauses of the Agreement. While the three exporting countries pursued an agricultural policy which maintained a high wheat output, there would be no danger that the normal relationship between the prices of wheat and other grains would be upset. If, however, the world price for coarse grains remained high compared with the stabilized price for wheat, producers in the exporting countries might sow a larger area of those cereals at the expense of wheat. This could have had detrimental effects on wheat supplies and caused prices to remain nearer the $2 maximum.

While it must be conceded that the price terms are open to criticism, consideration ought also to be given to the achievement they represented. From the exporters' point of view, they gave a guarantee that for five years producers could carry on without fear of a sudden, catastrophic fall in prices such as had occurred in the inter-war period. To the importers they represented an immediate relief from high prices and a guarantee against their recurrence. Both exporters and importers had probably made some sacrifice—exporters by agreeing to a maximum price well below the level operating when the Agreement was negotiated, and importers by the fixing of minimum prices which towards the end of the five years might easily have been higher than the world price. Regarded in this light, the Agreement prices were reasonable to both exporters and importers.

The Agreement aimed at 'equitable and stable prices', a similar objective to that stated by the F.A.O. Commission in referring to 'prices fair to producers and consumers alike'. Although it is comparatively easy to conclude that the prices fixed were broadly reasonable, much more difficulty is experienced in deciding whether they were 'equitable' or 'fair'. Differences between countries, internal regional differences, variations in costs of production, changes in yield from season to season, all render it virtually impossible, in a short period at any rate, to determine prices that are equitable even to the majority of farmers in the exporting countries. On the other hand, importing countries have to balance their desire for cheap wheat with their policies of protecting their own producers, while the financial position of each importing country might differ so that prices considered fair by one are thought unfair by another. In the final analysis, the conception of fair prices for this particular Agreement from the importers' point of view was probably governed by its ability to do two things—assure a regular and stable supply, and afford some relief from prevailing high prices.

In order to prevent the accumulation of burdensome surpluses, two solutions have been proposed at different times. The first of these, control of production in the exporting countries to a level where it did not exceed the quantity needed for domestic requirements, basic export quotas, and maximum reserve stocks, was written into the Draft Convention of 1942. The alternative view which has been increasingly favoured in recent years eschews restriction of production and advocates energetic measures to expand the effective demand for wheat. In the more advanced countries the lower-income groups have probably not been able to afford to consume as much wheaten products as they would like, so that consumption could be increased by government-sponsored programmes whereby products are disposed of on special terms. The reduction of tariffs in some countries would mean cheaper bread and probably some increase in consumption. In view, however, of the tendency for consumption per head to fall when living standards reach a certain level, the biggest field for expanding wheat utilization lies not in western countries where such a position has been reached but in the less developed countries where the larger proportion of the population is under-nourished. In those regions it becomes necessary not only to make the commodity available but to ensure that its distribution is effective and that finance is available to pay for it. The latter is a long-term project which would entail the general economic development of the area by expanding production and exports of the commodities for which the area is most suited. To help cover the period while this is being achieved, suggestions have been made that producing countries with surpluses which they are unable to dispose of commercially, rather than curtail production might be willing to send their wheat to those areas at a cheaper rate. By so doing, they would maintain their productive capacity at home and build up the demand for wheat in new areas. In such cases, however, the exporter is expected not to seek compensation for these low-price sales by increasing the price of his product sold commercially.

This alternative which fits in with the F.A.O. Commission's requirement that commodity arrangements should, so far as possible, avoid any restriction of production and should stimulate an expansion of consumption and improvement of nutrition, was adopted in framing the 1948 Agreement. Under Article VIII any exporting country was permitted to export wheat at special prices provided that it had met or could meet the full commercial requirements of the importing countries at not more than the current minimum price. Such exports of wheat were to be utilized in nutritional programmes approved by the F.A.O.

It should, of course, be realized that such a policy, while possibly offering an opportunity of disposing of unwanted surpluses, does not inevitably mean that a large-scale expansion in consumption would occur. Economic expansion in under-developed countries such as India and China would certainly be accompanied by agricultural development while, as inhabitants of those regions are predominately rice-eaters, an expansion in the effective demand for rice would seem more likely than for wheat.

One form of demand for wheat which has become increasingly important over the past decade is as a feed for livestock. In Australia, for example, feed utilization rose from a pre-war average of under 10 million bushels to over 40 million bushels annually in 1943 and 1944, while the United States and Canada had similar experiences on a larger scale. That this was mainly a concomitant of relatively low prices is shown by the fall in requirements for this purpose since prices rose. However, should wheat prices fall sufficiently, there are strong grounds for believing that more wheat would be fed to livestock, thus reducing to some extent the growth of over-large stocks. Under the terms of the Agreement, the sale of wheat to stock feeders at prices lower than those fixed was not prevented. By the stabilization scheme which the Australian Government proposed, should the Agreement operate, feed wheat would have been sold at the same price as wheat used locally for human consumption. This policy has been continued in the scheme now being brought into operation.

By not including provisions for control of acreage, the framers of the 1948 Agreement put themselves on the side of those opposing restrictive policies. The point should be made, however, that the time was propitious for this with stocks at a very low level and requirements of importing countries not being met in full. Under conditions as they were in 1933 and 1942, it is extremely doubtful if an Agreement could have been reached without some control scheme.

For the period covered by the Agreement there was probably not much danger that control of production would have been necessary. Importing countries still had a long way to go before production was restored to pre-war levels; many of them were still rationing bread which in most cases was of very high extraction and often contained admixtures of coarse grains. Furthermore, very few of them held stocks at a level previously considered necessary. Probably, however, in the last two of the five years, most of these would have returned to normal so that the need for imported wheat would be far below the level of 1947–8. It would be then that a position might arise where, production in the exporting countries having been geared to meet a high level of demand, large stocks would begin to accumulate unless exporting countries were able to dispose of them through nutritional sales or by feeding wheat to livestock. The former, however, might be too big a burden unless commercial sales were made at a price sufficiently high to prevent them making the average return in all sales too low. In the fifth year of the Agreement, exporters might have found the minimum price too low to make it possible for them to sell surplus wheat at low prices. Viewed in this light, it seems that it would be in the exporters' interests, especially if another Agreement were contemplated, to have had some provision permitting production control when the danger of over-supply became apparent. The presence of importers on the Wheat Council could have prevented such provisions being abused by being used merely as a device to keep prices high.

A further question is whether the terms of the Agreement were such as to encourage shifts of production to areas where the crop could be grown most economically and efficiently. A major cause of instability in the wheat industry in the pre-war years was the expansion of high-cost production in Europe under government sponsorship, and, in overseas countries, the development of wheat-growing in marginal and sub-marginal areas. If, therefore, some reduction could be effected in European production, the world wheat market would be expanded. When it is remembered, however, that it was the desire to become self-sufficient in the face of unsettled world conditions which was one of the main factors causing such a policy, there can be little reason to expect European countries to encourage greatly reduced production under conditions as they are to-day, especially as currency problems have added to their difficulties. Rather, the European importing countries might be expected to have done their utmost to increase production at least to pre-war levels as they are striving to do now under the European Recovery Programme. As far as the exporters are concerned, inefficient or uneconomic producers will leave the industry only if prices are too low to enable them to continue and if there is no governmental aid to overcome the gap between prices and costs. With some type of support programme operating in each of the exporting countries as at present, there is little incentive for farmers to improve their efficiency.

Even assuming that importing and exporting countries were willing to make such shifts, in addition to considering the effect on their national security, their general exchange position and their balance of payments, they would also have to be assured of profitable outlets into which uneconomic wheat-growers could be diverted. That all these factors could not come within the scope of an arrangement covering a single commodity is apparent. They could perhaps be covered by a wider agreement.

To sum up, this limited discussion of the 1948 International Wheat

Agreement has endeavoured to examine it in the light of four questions:

(*a*) Did it assure exporting countries of markets for their wheat and importing countries of regular and adequate supplies?

(*b*) Were the fixed prices fair?

(*c*) Did it envisage a restriction of production or did it aim at overcoming any disequilibrium between supply and demand by attempting to expand consumption?

(*d*) Were its terms such as to encourage shifts of production to areas where wheat could be grown most economically and efficiently?

With regard to the first question, it has been shown that exporting countries would have had to maintain a high rate of production to meet their obligations under the Agreement; importing countries were assured of regular and adequate supplies so long as the exporters were able to keep production at a high level, but in the event of adverse seasons in the overseas countries they might have had to look elsewhere for wheat from countries which had been forced to reduce production because of lack of markets. The price terms of the Agreement appear to have been reasonable to both exporters and importers under conditions as they were early in 1948. The main weaknesses revealed in the price terms were the lack of a clear definition of how prices were to be fixed between the maximum and minimum while problems might have been encountered with regard to coarse grains. Control of production, a feature of earlier agreements, was not included in this one, probably because no one anticipated that stocks would become too large within five years; it is difficult to see how it could be avoided in an Agreement reached once production in importing countries returned to normal. Finally, it has been seen that the Agreement contained no positive measures to bring about the most efficient world production, but this would seem to be not a weakness of the Agreement but a result of world conditions as they are to-day.