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L'AGRICULTURE EUROPÉENNE DANS UNE ÉCONOMIE EN VOIE D'INTEGRATION

MORE OR LESS TRADE

by

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MORE OR LESS TRADE (1)

I INTRODUCTION

This paper is placed within the general theme under discussion i.e. "Europe's Food and Agricultural Trade and the Impact of Policies". From this it follows that the orientation will be on policy issues and their effects on trade and the consequences for international action, and not on a mere description of data and a comparison of figures. A brief background indication of main trade flows will be given to remind readers of some orders of magnitude and most striking trends. Therefore if no statistical compendium is aimed at, neither will it be a treatise on the theory of trade; what has been said on the latter aspect is contained in a well-documented literature. What will be attempted here is to focus on some of the main actions and policy problems that have shown their influence on agricultural trade, plus a short outlook on likely medium-term future trends.

The title seems sufficiently tempting to put either "will..." or "should there be" in front of it. As for the latter, let it be said in a general way that "the increase in international trade is not an objective in itself, but international trade can serve as a means to promote a higher level of real income in all countries" (OECD, 1965, para. 146). The answer to "will there be more or less trade" is seen as depending, besides a quantitative assessment of various economic parameters, also on the degree to which discrepancies between national and international effects of agricultural policies can be reduced. On both aspects, but in particular the latter one, an answer will be attempted. And there is of course - and in particular with respect to agriculture - a further dimension to

(1) The author is the Head of the Agricultural Policies Division of OECD. He assumes the sole responsibility for the views expressed in this paper which do not necessarily correspond to those of the Organisation to which he belongs.

be aware of, which is often seen as escaping anticipative assessment as well as policy action. That is the effects of innovation and technological progress which may force production in directions unwanted and perhaps even uncontrollable by policy action. The idea that policies are often lagging behind the pace set by technology seems to have proven its validity at least on several occasions, and not in the agricultural sector alone. And with reference to trade one must be aware that developments reflect, after all, decisions and developments at production, consumption and also distribution level.

II SOME GENERAL CONSIDERATIONS - THE PROBLEM OF COMPARATIVE ADVANTAGE AND COST

When discussing trade, and not only agricultural trade, the idea of comparative advantage is forcibly thrown into the debate and almost as inevitably withdrawn again and dismissed as non-applicable in practice. While this may be true (for the reasons mentioned in the following paragraph), it is nevertheless somewhat surprising that general acceptance of a free market economy should find its limits when it comes to freer trade, in particular in agriculture. The "special case" argument which is evoked to defend agricultural protectionism, can - when carried too far - become counter-productive and destroy the case it was built for. But there may be valid arguments under specific conditions for controlling trade in farm products - particularly in view of avoiding unwarranted market behaviour, fluctuations, etc. - and few are the countries which have not at one point or another taken refuge in discriminatory measures for the protection of national interests.

The difficulty of cost evaluation and comparison at international level comes up against problems familiar not only to farming but other sectors as well: non-homogeneity of production units within the national territory (no one single enterprise is really similar to another), largely differing conditions with respect to the overall setting within which a sector may produce (for example social security, taxation systems, labour laws, etc.), or the fact that various forms of market

intervention will falsify the meaning of a sales price. But for agriculture, more than for other sectors, it appears that the "off-farm" or "farm gate" price has lost much of its meaning. In all cases where the state intervenes directly in farm prices, this price has largely lost its value as a true efficiency measurement. And the tradition of public price fixing in agriculture is an old one. But at least as much as direct interference, indirect measures will also affect prices; such measures relate in particular to border protection and interference in trade flows. As a result, it can be said that for agriculture much more than for other sectors the "international market price" has lost its meaning as an indicator of relative cost advantage or sector efficiency. The significance of this fact is far reaching: it means that trade in agricultural products moving under price conditions which are the result of the factors indicated above, is not always the best reflection either of a rational international division of production or real supply-demand relationships.

The foregoing scepticism on the chances to arrive at true international cost comparisons should however not stop efforts to improve the existing situation and to attempt to arrive at a somewhat clearer picture than at present. International bodies and institutions of various kinds can make a contribution in this direction and the best economic minds will probably find a challenging task ahead of them. Results so far, as said are not yet entirely convincing.

But if a better means of cost comparison seems still much warranted this is not to say that all present knowledge lacks merit. The general work done on agricultural policy assessment, the assessment of national policies with respect to an international setting, permanent reviews and policy surveys, etc.; all this work - carried out especially by international organisations which have lived up to their vocation in this respect - permits a distinction to be drawn

in a general manner at least, between high and low cost producers. The reasons for such cost differences are of course also known and relate as much to historical traditions, overall natural and structural conditions, economic externalities, as to such things as managerial knowhow, etc.

Though this is not an essay on cost comparisons it might however be added - as this is sometimes forgotten - that considerations of costs of production relate in the first instance to basic products (cereals, beef, also milk); with respect to such intensive livestock products as poultry, eggs, pigmeat, etc. price differences are mostly, though not exclusively due to cost differences in agricultural inputs, and of course costs of labour and capital. In fact, conversion ratios, technical knowhow, etc. in this field are rather comparable and show no very great variations at least amongst industrialised countries. The level of technical efficiency thus tends to be the same.

The international market price for many of the agricultural goods produced and traded by industrial countries has therefore lost much of its role as allocative indicator - except for national or international treasuries in view of the financial support that is often required to move goods in this market. Almost paradoxically a great volume of trade in farm goods can mean an overall loss in wealth and general economic efficiency; this is the case where trade results from high cost production being traded with strong support from public funds at times when comparatively lower cost production were available but cannot obtain full market access. This reveals and underlines the above quotation that trade cannot be seen as an objective by itself.

III INSTRUMENTS AND MEASURES

Volume, flow and composition of trade (agriculture as well as non agriculture) are conditioned by a variety of instruments and a set of measures established by countries and often monitored through an international framework. Several of these measures are the classical ones like duties, tariffs, quotas, etc. which over the past have been applied at varying degrees of intensity. They are also those that are best followed in international bodies, in particular GATT, but where agriculture again kept a special position. A continuous effort is made within these bodies through successive tariff-rounds, etc. to reduce existing barriers and trade limitations and also to include agriculture into this process. As most recent developments indicate, some progress in this respect seems to be under way (1).

Although a deeper discussion or analysis of trade measures is not undertaken, it may still be of interest to look into the changing emphasis given on one particular set of measures against another, the causes thereof and the effect this had on trade. It appears that the traditional measures, (as said above) though by far not totally ineffective, are often considered by countries (because perhaps of their international commitments) as not providing the necessary support and degree of intervention which is seen necessary, particularly under suddenly arising situations. In the face of such developments and very often with regard to one particular product or group of products, countries do not hesitate to fall back on rather direct and strong measures like embargoes, or various safeguard clauses which can close frontiers completely, etc. The existing international network of trade regulations, though in principle opposed to such

(1) The Geneva trade talks, presently under way, have brought out once again the hard core problems linked with agriculture and have shown that progress or failure in the agricultural sector is one of the main issues at stake.

practices, does not yet provide sufficient sanctions, especially in the agricultural field, to stop such practices. Escape clauses are used and found to avoid certain international obligations and pursue national goals.

A field of increasing concern in this respect for agricultural and non-agricultural trade alike, is the existence of non-tariff barriers (including things like government-mandated product standards, etc.). Countries seem to have sometimes gone to some length in establishing ingenious devices of all sorts aiming at avoiding unwarranted trade flows, i.e. mostly competitive imports. Another example from the wide arsenal of trade control instruments in the agricultural sector are so called "ex-import" or re-exportation schemes which condition imports of one product to a comparable volume of export of the same product group. This may cause, depending on how applied in practice, differential treatment of outsiders, a consequence generally ruled out by existing international regulations. Further measures relate to licensing arrangements, state trading systems, import/export calendars, direct premiums, government mandated product standards, etc.

Levies, are amongst the more common and widely used of present instruments. Their effects are immediate; they can be quickly adjusted to changing circumstances. They affect volumes in an indirect way; when put on imports or exports they contribute to price maintenance within the region by restricting either access to or exit from domestic markets. On the other hand, export subsidies (or restitutions) in the agricultural field mainly act as a measure of surplus disposal on lower-priced outside markets. The very effect of the latter measure may be (assuming *ceteris paribus* conditions) a cumulative downward price action on third markets which in turn will increase the amount of the export subsidy required; there can thus be an inbuilt amplifier effect at the expense of public spending (1).

(1) Prevailing demand situations on world markets will of course in each case determine how prices actually develop.

In view of this variety of measures and their changing shift of emphasis the role of international bodies should become of increasing importance. Their powers of decision will lastly be determined by the will of participating national governments but examples have shown that in some cases they have developed a momentum of their own pushing towards less trade interference and more free and competitive trade expansion. The so called "Trade Pledge" elaborated within the forum of OECD and which in principle applies equally to agriculture, is one such example. International organisations should also be instrumental in opposing trends towards increased bilateralism which have manifested itself. In fact, over recent years agriculture has provided some of the examples of bilateral trade arrangements. Bilateral dealings can perhaps have under specific circumstances and for certain commodities a market regulatory effect and may aim at more stable trading conditions. But if such arrangements become the rule, then the international scene for commodity exchange will be split up in a number of sub-markets closed off from each other. International co-operation within the existing or eventually new institutional frameworks should therefore be directed towards maintaining conditions for open market access for all participants.

Multilateral commodity agreements, on the other hand, are presently seen as an answer to improved trade conditions. They are under discussion for several commodities; the one on sugar has been concluded (1). By definition they operate within some sort of institutional international framework. Past experience with multilateral arrangements has not always been conclusive. They can certainly play a useful role in promoting short-term stability. They carry the risk, however, of inhibiting longer-term adjustments of resource use and may thus

(1) Prospects for a wheat agreement are - at present - somewhat encouraging; the situation for other commodity agreements is however still largely uncertain.

even introduce an element of market rigidity. Most agreements essentially involve the establishment of a quota system of one form or another; at the same time they allow for a sharing of market growth and tend to set upper and lower price limits for market intervention. Errors that were made in the past should be conducive for negotiating new arrangements, as several countries certainly "feel that multilateral trade agreements are one of the most potentially effective methods of reducing the problems of world agricultural trade" (OECD, 1975, para. 198).

The strong swings in international commodity markets experienced over past years have certainly increased countries' willingness to co-operate in international commodity agreements. A strong pressure for integrated international commodity programmes comes from developing countries, and action taken in UNCTAD has been paving the way in this direction. Discussions so far have clarified some of the issues and increased the awareness for the problems still to be overcome. For any such programme to achieve some success it cannot operate on a one-way street, but responsibilities must be shared by all partners involved. Hesitation by countries, industrial and developing alike, to subscribe to internationally controlled supply schemes is likely to remain. Some may therefore consider whether a more orderly functioning of the free market mechanism - which would certainly also require adjustments of the present situation - might not serve better the purpose of competitive trade and rational commodity flows in the agricultural sector.

IV OTHER FACTORS INFLUENCING TRADE

Besides the measures and instruments discussed briefly above and which relate to agriculture proper, there are a number of other factors originating outside the agricultural sector but which have a bearing on trade in food. The importance of these factors underlines the growing interdependence of agriculture and the rest of the economy and show that the food system is increasingly subject to influences from other areas.

Such factors are, for instance, monetary developments, balance of payments, inflation, transportation problems, etc. The degree of their impact on agricultural trade certainly varies but they belong to the policy background against which trade developments have to be seen.

Changes in currency parities, especially when they occur suddenly and unpredictably, can lead to reactions by trading partners which may affect flows most directly. Situations will certainly vary from commodity to commodity as will the specific measures which countries take in order to deal with currency changes. The anticipated export improving effect of a devaluation is to be measured against inflationary elements on the import side and will thus depend on the overall trading position of a country. There seems reason to believe however that with respect to basic agricultural commodities the price effect on foreign markets of a parity change will imply stronger demand reactions than for non-agricultural goods where price is just one, and often not the decisive factor for demand on third markets. But also for farm goods, the non-price elements of demand are increasing. But abruptly changing monetary conditions (notwithstanding refuge taken to forward contracting or similar techniques) are certainly rendering attempts towards more stable agricultural trade difficult. And changing parities exert a particularly unfavourable role on food trade under a system where a certain degree of monetary stability is pivotal to its functioning. This is the case for instance for intra-EEC trade and the problems related to the so-called monetary compensatory mechanisms. Varying exchange rates "threaten to break up and to a certain extent have broken up the monetary market for agricultural commodities ..." under such conditions regulatory procedures become important "in order to avoid the increasing distorsion of the agricultural markets which are the result of these monetary compensatory mechanisms". (Gundelach, 1977, page 6).

Balance of payments problems have in the past and quite recently again induced countries to promote higher cost domestic production of some commodities in order to reduce import dependence. Strong changes in balance of payments have also been evoked when countries modified their negotiating positions or envisaged unilateral moves on trade in farm goods. Corrective international schemes (i.e. OECD trade pledge, see above) have been set up to avoid such action. If balance of payments deficits thus tend to mobilise domestic forces in favour of increased output, a surplus in the balance of payments will not always be beneficial in the first instance to trade (i.e. increased imports) of agricultural foods. It is however a factor generally operating in favour of such an increase in trade.

Transport problems, just to mention another factor outside the control of agricultural policies, can contribute quite decisively to trade possibilities. Problems of proper transportation and its costs arise with respect to the domestic as well as international shipping of goods. Freight subsidies can play a role in trading availabilities of a commodity, and arrangements concerning transport are becoming a major point of consideration in trade discussions.

Another, quite different, important aspect in relation to trade, worldwide as well as amongst industrialised countries, is the setting up and existence of regional groupings. Such regional economic integration usually leads to an increase in the total agricultural trade amongst participants. Market access for outsiders may become more difficult. On the other hand such groups - if they achieve a degree of unification that establishes them to act as one single purchaser and participant in the market - can exert considerable negotiating power, and can offer important trade concessions to third parties. Regional groupings will have a strong positive impact on trade if, as a result of their internal economic cooperation, growth

and demand in general are stimulated, if economic adjustment and specialisation along competitive lines takes place, and if, as a consequence, protective trade barriers can be dismantled. Experience so far with regional groupings and their effects on trade seems to indicate a middle of the road trend where periods of positive trade developments alternate with times of great difficulties to outside suppliers, particularly also in trade of agricultural goods.

V GENERAL AGRICULTURAL POLICY IMPLICATIONS FOR TRADE

When looking at the policy relevance and implications of measures for trade one has to be aware of the national and international interlinkages of all actions. In a general way domestic policy objectives in OECD countries relate - with varying degrees of emphasis - to efficient output under rational structural conditions, i.e. stable supply at reasonable prices, satisfactory farm incomes, and a positive contribution to the balance of trade; more recently environmental objectives have been added and adopted by most countries.

Not only the latter of these broad objectives but also the first two have a bearing on trade. In many cases the almost classical sequence of national policy action and effects is as follows: income considerations for farms requiring high support prices leading to high cost output calling for measures in the trade field (i.e. import protection or export aid). The crucial point in this sequence is the link between income and price policies (or in other words, the attempt to achieve the income objective exclusively through price policy, in spite of the effect this has on intra-sectoral disparity). If this linkage can be loosened (for example through reliance upon off-farm incomes, or direct payment schemes) then supply management will be facilitated and trade problems may become less serious. It would be naive, however, to assume this could be achieved in all circumstances, and be unrealistic to deny the strong and direct effect of producer prices on farmers' incomes. But the problem in practice is often one of degrees: a positive,

even only minor move, in the indicated direction and re-orientation of policies can already bring about non-negligeable results.

Another line of reasoning - bearing on national policy behaviour and its effects on trade - follows the rationalisation argument: i.e. structural improvement - bigger farms - higher productivity - lower costs - better incomes - less price pressure - fewer trade constraints. The element of error contained in this argument concerns the fact that bigger, more productive farms are not likely to produce less of total output (they may, but rarely will). And as final output determines trade, problems will remain; though possibly at a different level of prices which by itself may be seen as progress. Furthermore on larger farms it is generally easier to apply supply management measures and thus to control output (1).

With respect to many OECD countries individually, and certainly for the region as a whole, policy considerations as those indicated above are - when applied in practice - complicated by the fact of relative resource abundancy of production when compared to demand. Inputs of labour and in particular of land could be, and in the past repeatedly have been, in many countries, substantially reduced in order to achieve a better supply-demand balance. Factor mobility is however generally low: with respect to labour it depends largely on the absorptive capacity of outside factors (thus on general economic growth); with respect to land it often depends on the capacity of the national budget to pay for laying land fallow. The whole situation becomes still more complex when, under favourable conditions of growth, Governments are prone to grant higher prices which may incite farmers to hold on and enable any reduction of labour of land to be compensated by increased capital inputs. Agriculture clearly becomes more capital-intensive but investments also tend to make production adjustment less flexible.

(1) Bigger farms, though achieving better incomes, may still claim high prices due to high capital input requirements.

A central question for trade in this overall policy compound is whether trade barriers will go down when less from income support is required. The foregoing considerations suggest that the answer may be more complex and difficult than it appears at first glance. But if barriers as such will not disappear completely per se and immediately, their gradual modification should at least become easier if Governments are released from some of the income aid pressure. Long-term structural adjustment, coupled if necessary with resource management, will therefore still have to remain an essential element of policies. By the very nature of the agricultural environment, its socio-economic attitudes and reactions to change, any such adjustment will however not occur rapidly. Policies must therefore plan in the long term, even if situations on the trade side fluctuate rapidly and would require immediate responses. But the one need not necessarily obscure the other. It is conceivable, and certainly highly warranted, that short-term measures on specific aspects act in harmony and concordance with longer-term background policy orientations aiming at more profound structural modification. The lessons to be learnt from past experience should make us more receptive for such considerations.

If this reasoning and the foregoing arguments are accepted the question still arises about their chances of implementation under present economic conditions. Assuming an overall situation of continuing sluggish growth, unemployment, a certain degree of inflation and non-buoyant demand and external account disequilibrium - which, with varying degrees of intensity, is what forecasters seem to agree upon for the future unless policies are changed - creates an economic climate not very favourable to the type of factor shifts singled out in preceding paragraphs. This would mean difficulties and certainly a slowing down of the adjustment process. Paradoxically again, it is however under such economic conditions that the need for adjustment becomes most apparent as this adjustment is

to create the conditions necessary to overcome the causes. The answer probably lies in a longer-term perspective and proposal where a series of carefully selected measures with perhaps limited immediate effects gains momentum as they proceed and as their results become felt. Into such a context the right agricultural measures have to be built in, with a certain degree of stringency, but at the same time trying not to reduce the scope for manoeuvre by policy-makers in the international field. Some of the past errors must be avoided when, under a certainly more positive macro-economic setting, governments were only acting in a marginal way and sometimes even contrary to longer-term needs.

VI DEVELOPING COUNTRIES

The issue of developing countries is another essential one in the overall agricultural policy-and-trade context. The most currently used arguments in this respect concern the following points: Developing countries constitute a vast potential for absorbing temperate zone foodstuffs. But due to a lack of purchasing power only very little of this potential can be mobilised and represents effective demand; to improve the foreign exchange situation of developing countries they should improve their export earnings, in particular through exports to OECD, i.e. hard currency countries. But much of these exports - so the argument runs - are agricultural commodities, some of which compete directly or indirectly with food produced in industrial countries. At a later stage of their development developing countries may turn increasingly to semi-finished or final industrial products, but at present their dependence on agricultural commodities is primordial. The experience gained from some of the newly industrialised countries (i.e. former developing countries which have now achieved a high level of economic performance) shows that they

became substantial purchasers of food and fiber from the OECD regions. Some of the present developing countries claim a net advantage in some farm products over industrial countries under any circumstances. Hence the request for increased market access, and adjustment of developed countries' agricultural policies in view of the demands and requirements of the developing world.

That some of the efforts made in this respect - though perhaps considered insufficient by ldc's - are not without consequences for production, markets and trade of developed countries, is demonstrated by the provisions of the Lomé Convention (concluded between the EEC and African, Caribbean and Pacific Associate countries) with respect to sugar.

Food aid, all parties concerned seem to agree, is not a lasting solution; it will remain necessary, however, and has at least indirect effects also on commercial trade. And there is probably some justification for the saying - employed not only by developing countries - that food aid, in the past at least, was often more a measure of surplus disposal than part of an overall aid strategy.

Present and increasing recognition of the support to be given to agricultural development in developing countries and the channeling of aid and assistance along a basic needs concept may contribute to what is recognised as the long-term answer to food problems in the third world: increasing domestic food output. And this - following the above reasoning - may at least for some products lead, in the end, to more trade with industrial countries. Whatever the long-term future development may be, developing countries will remain for some time to come a specific factor on international markets. Their domestic output fluctuates strongly and will continue to do so even under stronger development efforts. The worldwide food imbalance with its complex effects on trade is thus likely to

persist for some years (1).

VII TRADE OUTLOOK AND PROBLEMS AHEAD

Although, as explained at the beginning, this paper was not undertaken as a quantitative projection exercise but as an analysis of policy interaction, a brief final assessment of general trade prospects will be made. The indications given in the following paragraphs on possible medium-term future trade flows reflect mainly the findings of a major recent OECD study of supply and demand trends (2). Let it be remembered that in a general way population trends and income growth will determine demand, subject of course to changing consumption habits, which may occur together or independently of developments for disposable incomes.

Overall growth and rising incomes is however seen as the strongest single factor for expansion of food demand. The potential of new uses for farm products for non-food purposes may increase but is unlikely to constitute a major element of growth in demand. Likewise the development of more competitive products for human consumption based on non-farm components is not seen as gaining a bigger share of the market over the decade ahead. Composition and preferences of demand within the food sector will change, however, and will increasingly become subject to marketing strategies and quality competition. For industrialised countries the broad aspects of future demand developments are likely to follow the lines already recognisable at present.

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- (1) For a more detailed analysis of likely future import requirements of developing countries and related issues see OECD, 1976, in particular pages 102-107.
- (2) More details and indications of future developments can be found in OECD, 1976.

Production on the other hand is likely to increase further. As a matter of fact the overall potential for additional production in industrialised countries is seen as being definitely larger than any foreseeable increase of food demand in these countries. Situations will differ with regard to particular commodities and certainly with respect to individual countries. Prospects for trade within industrialised countries may therefore, in a general way, be coming up against serious limitations or certainly a lesser rate of expansion than in the past (1). Whether more or less will be traded world wide and in real terms will depend largely on developments in regions outside the OECD area like the Soviet Union, China and the developing countries.

In the cereal sector Europe may move from a net importing position to one of approximate balance in net trade. Import demands by Eastern Europe, in particular the USSR, may increase somewhat and the lesson to be learnt from most recent years is that the uncertainties of production due to weather conditions will persist. The USSR is thus likely to remain a market factor with strongly varying needs. China on the other hand may - contrary to past assumptions - develop into an importer of a steadily increasing volume of cereals. And the developing countries, notwithstanding all efforts to enlarge their domestic output, will have to feed their rapidly growing populations with a higher share of cereal imports from the OECD region.

In the meat sector global expansion of trade will not be very strong. Pigmeat will be traded mostly within European countries, in particular within the EEC. Beef - currently the most important meat in world trade - will probably assume

(1) It is hoped that the current GATT negotiations can contribute to lowering barriers to trade in the agricultural sector.

a larger volume of trade over coming years. But trade in this sector will continue to undergo fluctuations due to the cyclical nature of production. Trade in sheepmeat (only of importance to some countries) may increase because of rising demand in some of the near-Eastern oil producing countries.

In the dairy sector the situation on international markets will continue to be tight. European countries will generally increase their degree of self-sufficiency. North America, i.e. the U.S., may import larger quantities, but trade with Eastern countries will not expand much. Again therefore chances could lie in more exports of dairy products to developing countries. But even more than for cereals the weak purchasing power of these countries will set narrow limits for more trade in dairy produce.

These rather sketchy references to possible future trade developments make nevertheless clear that OECD countries may have to face the possibility of an international market of reduced dimensions. Policy-makers will have to take these aspects into consideration and prepare appropriate responses, taking account on the one hand of the constraints under which agricultural policies have to operate and on the other hand of the general national and international policy objectives of basically free market economies. And one must also recognise that more liberal trading policies may not have a very big impact on the overall supply/demand balance; from this it also follows that the price consequences for importing countries, especially the large ones, would be minimal.

Agricultural policies in OECD countries will be called upon to pay increasing attention to supply management. Programmes in this field that are already existing or about to be applied at present will have to be continued and possibly strengthened. Income support to farmers may have to come less from prices; to provide satisfactory incomes farm units, especially in many European regions, will have to accept

further and stronger structural adjustment. On the other hand - general economic growth permitting - possibilities for off-farm incomes may increase; and lastly, when neither of the two above possibilities is sufficient, direct income transfers may be applied. This could dissociate somewhat the link between production and income policies, without however necessarily diminishing public support as such, but possibly channeling it towards more efficient use in view of longer-term adjustment.

In their action for the agricultural sector, policy-makers will have to take account of the externalities associated with agricultural decisions. "The roots for a lasting improvement of markets at international level lie in national policy behaviour, coupled with improved instruments and mechanisms at trade level.....". European countries, as others, will have to "decide on the degree of openness of their agricultural economies considering the trade-offs between trade liberalism, the risks involved in international interdependence, and the degree to which exterior forces are permitted to condition interior options in resource use". (OECD, 1977, paras. 4.20 and 4.21). For OECD countries the international balance in agriculture may thus perhaps not show a drastic expansion in size over coming years but could improve in substance and in the means through which it is achieved.

VIII CONCLUSIONS

The remarks and analysis made up to now may raise the question of what constructive response could be given to agricultural trade problems and their interlinkage with policies. The following points, which sum up the issues treated before, are presented for consideration:

- It has to be recognised that agricultural trade problems are not ephemeral but are rooted in the structure of domestic policies (both objectives and instruments), and resource utilisation patterns. It follows from this that any constructive response to agricultural trade problems must be based on long-term policies - not emergency action for the present; there is no short, quick acceptable solution to these problems. The only realistic response is a strategy which recognised that the benefits of change are likely to come slowly.

- It is impossible to approach agricultural trade problems in isolation. The overall framework of international economic relations has to be working reasonably well for there to be any hope of a solution to agricultural trade problems.

If these two conditions are recognised and can be satisfied to a manageable degree, the way out could be a concerted strategy for reducing the risks of agricultural interdependence which allows countries to more easily pursue policies which maximise the net benefits of international trade while allowing sufficient opportunities for countries to pursue necessary political and economic objectives.

The instruments of such a concerted strategy should include: (i) developing more flexibility in domestic policy instruments so that the shifts in agricultural trade can be more easily absorbed, and (ii) positive adjustment policies. This is probably the key issue. The difficulty is to complement adjustment policies on a continual long-term basis rather than setting them into motion only when a crisis strikes.

Such measures might then be complemented by joint action on a multilateral basis through international commodity agreements which are structured in a way to ensure their successful operation. That is they need to cover a high proportion of world trade in the commodity, and no major exporter should be outside the agreement; importers are to co-operate not only to ensure that non-member exporting countries cannot work against an agreement but also to ensure that their production policies do not disrupt global balance. And there is need for adequate consultative machinery to ensure that likely future problems are promptly identified and discussed. At the basis of this strategy is the pursuit of positive farm adjustment policies over the long run. Adjustment requires room for manoeuvre when general economic circumstances are constraining; but there is a necessity for change in the overall stance of agricultural policies towards greater emphasis on adjustment. The longer-term logic of adjustment and the manifold benefits of international trade should work in favour of giving the necessary policy orientations.

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STATISTICAL ANNEX

Table 1
OECD AGRICULTURAL TRADE *

	<u>Imports</u>				<u>Exports</u>			
	Av. 1965-1969	Av. 1970-1974	1975	1976	Av. 1965-1969	Av. 1970-1974	1975	1976
<u>(\$ US million)</u>								
OECD Total	28 991	53 738	84 085	89 986	19 033	40 453	67 776	71 498
EEC 9	17 380	31 613	49 589	52 921	9 058	20 425	35 385	36 873
Other Europe	3 208	6 002	10 187	9 994	2 221	4 099	5 993	6 964
Canada/US	6 090	10 376	13 778	16 015	7 297	15 121	25 547	26 776
Japan	2 313	5 747	10 531	11 053	457	808	851	985
<u>% of Total</u>								
OECD Total	18.8	15.6	14.6	13.6	13.1	12.3	12.2	11.6
EEC 9	21.4	17.8	16.7	15.5	11.7	11.7	12.0	11.3
Other Europe	14.1	12.0	11.5	10.3	13.3	10.9	9.3	9.6
Canada/US	15.6	12.5	10.5	10.0	18.1	18.2	18.5	17.7
Japan	20.2	17.7	18.2	17.3	4.0	2.5	1.5	1.5

* 0, 1, 4, 22, 29 classification S.I.C.T. includes fishery products, but excludes hides and skins, wood, lumber and textile fibres.

Source : Based on OECD Statistics of Foreign Trade.

Table 2
FOREIGN TRADE OF FOOD PRODUCTS
(BY MAIN GROUPS OF PRODUCTS)

	OECD EUROPE			EEC-9		NORTH AMERICA			JAPAN		
	1970	1973	Average 1975/76	1973	Average 1975/76	1970	1973	Average 1975/76	1970	1973	Average 1975/76
GROSS IMPORTS (in million US \$)	25,494	46,250	61,345	39,426	51,255	7,844	11,995	14,897	3,825	7,409	10,792
	(%)										
Live Animals + Meat	15.9	18.6	14.3	19.7	15.7	16.7	19.2	12.3	4.4	11.7	7.7
Dairy Products and Eggs	5.8	5.8	6.9	6.2	7.6	1.6	3.0	1.8	1.5	1.6	1.5
Fish and preparations	3.9	4.1	4.1	3.8	3.8	10.8	12.5	11.8	8.0	13.3	13.7
Cereals	13.0	12.6	14.2	12.4	13.8	1.7	1.9	2.3	31.9	27.3	29.8
Fruit and Vegetables	17.5	16.6	16.5	16.7	16.9	14.2	13.3	11.0	9.4	7.1	6.6
Sugar and preparations	3.1	3.0	5.0	2.7	4.2	11.5	10.6	14.4	10.5	7.3	13.5
Coffee, Tea, Cocoa	10.9	8.3	8.7	7.7	9.1	22.4	19.7	22.2	4.7	4.0	4.5
Feeding-stuff for Animals ^a	6.4	7.8	6.0	7.4	6.2	1.4	1.3	1.3	4.1	3.9	2.2
Beverages and Tobacco	8.0	8.4	7.6	8.2	7.5	11.8	11.4	11.4	2.8	3.3	4.2
Oils and Fats ^b	4.9	4.4	4.6	4.5	4.6	2.6	2.6	4.0	2.4	2.4	1.8
GROSS EXPORTS (in million US \$)	15,426	30,705	42,557	25,898	36,129	8,993	20,383	26,161	693	906	918
	(%)										
Live Animals + Meat	19.1	18.7	17.7	21.2	20.2	4.7	4.8	4.2	-	0.7	1.0
Dairy Products and Eggs	10.9	11.6	12.4	12.6	13.4	2.1	0.8	0.7	-	1.3	-
Fish and preparations	5.6	5.3	4.9	3.3	3.0	3.8	3.6	3.1	45.7	58.2	57.1
Cereals	11.3	12.3	13.4	13.8	14.7	39.1	49.7	53.1	24.8	12.7	2.0
Fruit and Vegetables	15.3	15.2	15.0	12.0	12.1	7.4	5.3	5.9	9.9	9.3	9.9
Sugar and preparations	3.1	3.6	4.3	4.0	4.6	2.5	4.0	6.8	-	1.9	5.2
Coffee, Tea, Cocoa	3.9	3.3	3.9	3.3	4.0	3.4	4.4	4.5	-	1.6	0.6
Feeding-stuff for Animals ^a	3.8	5.3	4.0	5.2	4.0	6.4	5.0	-	1.9	-	3.4
Beverages and Tobacco	14.3	14.0	12.7	13.5	12.1	10.5	6.4	6.7	2.3	2.0	5.9
Oils and Fats ^b	4.3	4.4	4.5	3.5	4.2	5.8	3.6	3.9	3.8	4.0	5.5

^a Except cereals. ^b Animal origin.

Source: OECD Trade Statistics.

Table 3

DEGREE OF SELF-SUFFICIENCY FOR SOME AGRICULTURAL PRODUCTS

	1970/71	<u>Cereals</u> (except rice)						<u>Meat</u>						
		1971/72	1972/73	1973/74	1974/75	1975/76	1976/77	1970	1971	1972	1973	1974	1975	1976
EEC - 9	80.8	90.9	90.2	91.1	94.6	88.2	82.6	93.3	94.5	91.6	92.6	97.6	97.7	96.3
USA	109.4	138.6	126.8	131.6	126.7	172.9	..	98.2	97.9	97.1	97.8	98.3	97.9	100.4
Canada	129.2	167.1	154.4	159.0	150.0	174.1	..	100.0	100.0	100.0	100.0	100.0	100.0	95.7
Japan	7.1	6.7	3.9	2.6	2.5	2.6	..	90.0	87.0	84.0	81.5	89.3	85.7	82.8
Australia	219.0	268.5	187.5	278.3	290.9	153.3	173.3	192.9	176.9	152.9	166.7	182.4

Butter

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
EEC - 9	85.9	89.6	106.6	104.0	94.9	98.1	105.7
USA	107.7	110.4	109.4	92.1	100.5	97.6	104.5
Canada	100.0	87.6	91.9	86.1	80.7	107.3	97.5
Japan	100.0	100.0	78.6	70.0	61.0	95.2	69.8
Australia	173.5	175.0	169.7	168.3	164.3	157.4	145.7

.. non available.

Source : OECD Secretariat computations, based on national data.

Table 4

GROWTH INDICES OF AGRICULTURAL PRODUCTION

	CEREALS							MEAT						
	1970/ 71	1971/ 72	1972/ 73	1973/ 74	1974/ 75	1975/ 76	1976/ 77	1970	1971	1972	1973	1974	1975	1976
EEC-9	100	114.0	117.0	119.9	122.2	110.8	103.2	100	104.5	102.8	104.5	113.3	113.3	114.5
USA	100	127.8	122.6	127.4	108.9	132.9	137.5	100	103.6	103.1	98.2	104.9	101.8	110.7
CANADA	100	136.4	124.4	128.6	108.1	130.4	157.6	100	105.0	105.0	105.0	105.0	105.0	110.0
JAPAN	100	9.7	58.3	41.7	41.7	41.7	41.7	100	111.1	116.7	122.2	138.9	133.3	133.3
AUSTRALIA	100	114.2	82.7	131.5	126.0	137.0	133.9	100	113.0	117.4	100.0	113.0	130.4	134.8

	BUTTER						
	1970	1971	1972	1973	1974	1975	1976
EEC-9	100	97.1	109.5	112.6	107.8	111.4	116.2
USA	100	100.4	96.9	80.7	84.2	86.1	85.7
CANADA	100	87.6	88.9	77.1	71.2	86.9	77.1
JAPAN	100	111.6	102.3	97.7	90.7	93.0	102.3
AUSTRALIA	100	96.6	91.1	86.2	79.3	72.9	58.1

Source: OECD Secretariat Computations based on national data.

TABLE 5

Agricultural Trade (a) as Percentage of Gross Agricultural Product (b)

	Agricultural Exports as percentage of GAP									Agricultural Imports as percentage of GAP								
	1960	1965	1970	1971	1972	1973	1974	1975	1976	1960	1965	1970	1971	1972	1973	1974	1975	1976
U.S.A.	19.0	25.6	25.4	24.7	26.3	32.3	41.1	40.7	44.6	18.0	19.4	24.4	21.9	23.3	19.0	23.2	21.0	25.9
CANADA	50.2	65.6	68.2	70.5	71.8	64.6	63.4	64.6	65.9	30.5	31.0	39.4	37.5	41.6	38.3	40.7	42.1	44.5
FRANCE	16.5	22.8	31.4	37.7	40.0	40.6	48.4	47.8	51.6	27.3	29.0	32.1	32.2	30.2	32.1	39.2	41.9	48.0
AUSTRALIA			69.6	73.9	64.6	49.0	76.9					12.0	10.7	8.4	6.8	13.8		
SWEDEN	13.3	11.1	12.1	14.8	17.5	20.8	18.1	17.4	15.8	41.7	44.6	60.5	53.1	55.8	70.1	51.7	50.1	53.0
JAPAN		4.4	5.4	5.7	4.4	4.1	4.0				21.5	25.8	28.1	27.4	33.6	39.5		
UNITED KINGDOM	22.4	30.2	42.2	44.4	43.3	48.7	51.3	58.6	56.6	184.8	182.8	181.9	173.1	162.0	182.4	194.0	188.1	177.4
GERMANY	6.7	10.9	21.2	24.1	24.9	32.1	39.1	38.6	37.3	67.6	88.4	99.5	105.3	102.1	109.2	113.0	113.1	115.2
	Total Exports as percentage of GDP									Total Imports as percentage of GDP								
OECD-TOTAL	5.2	8.7	10.3	10.4	10.8	12.2		14.6		5.8	9.0	10.6	10.6	11.1	12.6		14.1	

Notes : (a) 0, 1, 4, 22, 29. Classification SITC
 Includes fishery products but excludes hides and skins, wood and lumber and textile fibres
 (b) Includes agriculture, hunting, forestry and fishing

Sources : OECD, Statistics of Foreign Trade, various issues
 OECD, National Accounts, various issues