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POSSIBILITIES AND LIMITATIONS IN INTERNATIONAL  
AGRICULTURAL TRADE FROM THE POINT OF VIEW OF THE  
R S A

AGRICULTURAL TRADE POLICIES - SOME HIGHLIGHTS

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P r e t o r i a

"The World Food Conference" of the United Nations' Food and Agricultural Organization (FAO) created the following three principles more than ten years ago - in 1974 - under the belief that the world could be running into food shortages within the foreseeable future:

- 1           Increasing food production
- 2           Higher food security
- 3           Increasing trade opportunities.

In view of the present circumstances it would be appropriate to give some attention to the third principle. The original idea in 1974 was to enlarge export opportunities for food and agricultural commodities for developing countries. At that time all countries were very concerned about this issue and rated it essential for overall development and the establishment of a new international economic order. Progress in this field, however, has since been slow and both groups of countries - industrialised and developing - have been unhappy about the others' efforts. Nevertheless, on trade matters, both the United States and the European Economic Community, have made significant concessions as regards the exports of developing countries and have agreed in principle on special treatment in favour of developing countries in multilateral and bilateral trade negotiations. In January 1976, the United States put a generalised system of preferences into operation, whereby hundreds of commodities originating in developing countries, could be imported under more favourable terms. In April 1976 the United States unwheeled an offer for tariff cuts, under which

the United States was prepared to make concessions in respect of 147 tropical product categories. This had the result that imports by the United States amounted to almost 1 billion dollar in 1974 with by far the greater part coming from developing countries. In 1975 the EEC announced a new trade development agreement with some 46 developing countries (Lomé Convention), designed to boost the exports of these countries on the European market. The number of countries involved have since increased drastically and negotiations for the Lomé III Convention with 66 countries have just been finalised successfully on 8 December 1984. Other international activities, like the UNCTAD IV in Nairobi and the "Conference on International Economic Co-operation (CIEC)" in Paris, can also be mentioned.

But all efforts like the ones mentioned above, made no fundamental contribution towards solving the problems of international agricultural trade and helping developing countries. On the contrary, many developing countries dropped their agricultural exports because of internal problems and the industrialised importing countries, especially the EEC and the United States, stepped up their agricultural production rapidly, mainly by means of significant progress as regards their production techniques in the biological and the agro-technical fields.

There are so many problems involved in international agricultural trade, that it is difficult to mention only the most important in this short contribution. On the other hand one is hardpressed to say anything new and to go beyond the conventional slogan which advises that "we must negotiate improvements in domestic policies in order to expand agricultural trade". Throughout the developed world farm policy makers and farm leaders are becoming increasingly concerned about costly farm surpluses and the resulting ever-increasing costs for some measures of support.

Especially the EEC, which shared a dramatic increase in food production over the last ten years and soaring costs for support measures, has reached a cross-road and is busy adjusting its agricultural policy. The former traditional suppliers of food to Western Europe are now looking for new and expanding markets to be explored in for example Eastern Europe, the Soviet Union, China and other parts of East Asia. These developments divert the United States, Canada and others from dwelling for ever on the levy system of the "Common Agricultural Policy (CAP)", or on the amount of grain, which could possibly have been

exported to Europe, if the prices guaranteed to European farmers were not as high.

At other times it is easy to become pessimistic about the attempts to improve the prospects for increasing international trade. Trade talks have a tendency to try and solve the problems of the past. This tendency is not limited to international affairs and certainly not to agricultural affairs. This has been observed in nearly all the countries of the world in connection with domestic agricultural policy. In these countries, the political debate often focusses on "saving the small family farmer" or "raising farm prices". The results of political action, however, seems to only speed up the disappearance of the small farmer, and the imperatives of trade expansion severely limit the possibility of raising prices. This tendency to dwell on the past asserts itself especially in the actions of governments in attempting to recover trading advantages that were set aside in negotiations like the world-wide tariff negotiations in the sixties and the "Kennedy-Round" in the late sixties. Perhaps these exercises have some value, but the past has proven that it is rather useless to negotiate over past conditions and much better to take today as it is and work towards establishing both a method and a timetable for the future. All this must be based on a realistic assessment of the factors that have limited and will in future limit improvements in the accepted rules of international agricultural trade.

#### Agricultural Trade Problems are quite often home-based

In a number of countries in the industrialised world it is accepted that farmers should have some form of assistance to smooth out price effects due to climatic variations. Agricultural policy makers often advocate that farming is different from non-farming production, and this has led to a farm price-support policy in a large number of countries. The prices in these countries are supported at quite high levels, much above equilibrium prices, with the objective of increasing production. However, this situation suppresses and leads to surpluses which have to be stored, exported or destroyed. For these industrialised countries it is often less expensive to subsidise export, and in so doing they threaten the general price levels on the world market. In other countries

import restrictions are consequently created in order to protect their own farmers, whilst, at the same time, countries which are still importers, will create programmes for higher self-sufficiency in food production and use import protection and price-support measures as tools to encourage local production. Higher prices to stimulate production - like in the EEC - thus have as a result depressed consumption. This leads to surpluses which in turn lead to subsidised exports and finally suppressed farm incomes (table 1).

The questions of world agricultural adjustment, in respect of the income of farm operators and agricultural workers as compared with workers in other economic sectors and the prospects for agricultural trade expansion, continue to be of wide interest, not only for the agricultural specialist, but also for people in the political sphere and for industrial and monetary specialists. For several years, there have been a growing knowledge and intention among businessmen, whose daily bread is earned through the manufacturing of cars, shoes, textiles, chemicals, etc, able to discuss the impact of the common agricultural policy, the US policy or some other policy. The adverse effect of agricultural policies and programmes in nearly all countries on the expansion of trade is widely appreciated, especially outside the country of which the policy is under discussion, and the importance of doing better in the future is generally agreed on.

It is not easy to overstate the extent of confusion and even anarchy in world agricultural trade of recent years. Despite these facts of a certain period, agricultural trade - trendwise - has expanded, albeit not in every country or in every commodity or every year. It is now quite clear that exporting nations had excessive expectations in the sixties, and especially in the seventies with respect to Europe.

Important gains have been made in international rules governing the trade of industrial products, but there are still great problems. Even in agriculture there is continuous widespread news of quantitative restrictions, export subsidies, special protective levies and non-tariff barriers of various kinds. The maintenance of and even increasing use of these instruments are often justified

on the grounds that special conditions prevail in agricultural sectors, viz conditions concerning the difficult adjustment problems experienced in patterned agriculture, that industrial economies are unable to absorb people from farm and rural areas rapidly enough, and so on. These practices are not limited to agriculture, but there has however, been a tendency throughout 35 years of post-war experience to underrate the difficulties of human adjustment in the agricultural sectors of all developed countries.

The general opinion about domestic agricultural policies in most of the developed countries, especially Europe and the United States of America, is that they are unquestionably less reconcilable with national interests.

Agricultural production must, however, be seen in the same context as the monetary mess that has gripped the world or the problems between the developed and developing countries or others. It must be stated that in most instances there are no facts to demonstrate that agricultural problems are being handled with less skill than other economic problems. Agricultural problems are not bigger than others, only different. Their solution may require longer time schedules and greater official patience than some other sectors. The protection of agriculture, especially in the EEC, is rooted in a slow-moving peasant agriculture which is still changing slowly, even though it has during just one decade changed as much as it did over a whole century in the past.

#### The Impact of Domestic Agricultural Policy

It is generally agreed that the question of expanding agricultural trade more rapidly than was the case in the past, is mainly a question of restructuring domestic agricultural policies. The facts are that farmers respond and responded and will respond to the market and other stimulating factors by investing heavily to increase the production of specific commodities. Land prices will increase rapidly and general costs will push inflation up and agricultural prices will furthermore have to be increased. The public on the other hand, can no longer afford the high costs of food and neither can governments afford the high costs of hoarding or exporting. So, in the last instance, governments are in competition with one another.

Under these conditions the target is to reduce the levels of protection in developed countries, which control most of the agricultural trade. The question, however, is how this is to be done. The failures of the past do not give rise to much optimism. The recommendation would be that domestic agricultural policies must become the subject of trade negotiations. Negotiations between nations regarding agricultural policies probably hold more promise as a means of avoiding further trade restrictions than of speeding up progress in respect of trade expansion. At this moment in time no country in the world is probably ready to submit its future domestic agricultural policies for meaningful international bargaining with the objective of increasing the quantity and value of imported agricultural products.

But the question of what can be done, remains. Firstly, the possibilities for trade expansion of agricultural products as a result of international negotiations should be assessed objectively and without any binding advance commitment to lock ambitious objectives for agricultural products into the general round of trade negotiations. Secondly, objectives for marginal agricultural trade expansion should be established realistically. Both the volume and the value of world agricultural trade will increase. The most protective inclinations and efforts of farm organisations and politicians are not likely to prevail against the powerful world-wide competition for access to land which is now being used for agricultural purposes and the prospect of higher personal incomes. The considered opinion that the demand for meat and other high quality animal products will increase sharply in the developed and semi-developed countries, in particular constitutes a key factor in the prospective expansion of agricultural trade. This will make the importation of grain, oil-seeds and other products necessary and will lead to an expansion of the trade in high quality animal products.

The various countries are in different positions as regards internal possibilities of improving agricultural policies and ways in which to expand agricultural trade. Despite its continued high level of protected agricultural products over the past two decades, Japan has set an important example to the world in limiting its agricultural policy in the interest of import expansion without apparent reciprocity on the part of other countries. Japan has many years

ago embarked on a policy of increasing its reliance on agricultural imports. This growing demand for imports resulted partly from limited agricultural resources and partly from basic changes in the pattern of food consumption, associated with higher levels of income. These income patterns seem likely to continue. Japan is now becoming reconciled to a situation in which agriculture - as practised by most farmers - will be a subsidiary activity, whilst families will derive their most important income from non-agricultural sources. Some of the EEC countries, especially countries like Germany, the Netherlands, Belgium and other industrialised areas with a small farm structure, are in a similar position. Europe as a whole has the technological capacity to increase agricultural production further in the eighties and nineties, as incentives for production are kept high. The theoretical potential market for agricultural products in Europe will tantalise, but probably disappoint agricultural exporting nations, because European governments and the EEC Commission find themselves unable to meet the political challenge required to turn increasingly to agricultural imports, while compensating for rapid agricultural change with the gains from food imports. Prospects for change would be enhanced if finance ministers could have a strong influence on agricultural expenditure. This situation has arisen during the last year and there will be a fundamental influence on the part of budget ministers. The great problem that the rest of the world - with respect to Europe - faces, is to find ways of helping the EEC in avoiding further increases in the level of agricultural protection in these changing times. A great deal of momentum has been generated over the past years through the increase in levels of protection under the common agricultural policy and in connection with the enlargement of the EEC in the first half of the seventies. The political lessons learnt from this period will not be lost for the more sophisticated and better financed farmers of the eighties. Especially the pressure on the EEC budget with a further enlargement of the EEC towards Spain and Portugal, will lead to a very careful decision-making process and to generally lower levels of support.

The American role in promoting progress in agricultural trade in the decade ahead can take several forms. Like Europe, the United States of America is in some danger of falling back into old agricultural policy errors. Some farmers and their representatives still want "cost of production", including a "market return on the capitalised value of land" and "full parity prices".

The producers in the USA believe that world trading prices for grains are too low and would like to find a way by which to raise them. Avoiding the error of a new costly round of producer subsidies on export crops is one contribution the USA can make. Secondly, the USA can take some initiative towards increasing agricultural imports. Animal products, especially beef, as well as sugar and fruit and vegetables will offer the best prospects, and a start can be made. But we must expect that the USA will move towards greater imports largely for their own reasons, or not at all, and not because Europe will reform the CAP and lower the wheat price or because Japan has reduced the duty on soya-beans. Changes will only be brought about by making allowances for home advantages.

#### Facts and Figures

- 1 The world-wide economic recession which prevented any growth in trade volumes in 1980 and 1981 and which restrained growth to only 2 per cent annually in the following two years, has given way to a limited recovery. For the calendar year 1984 growth rates in dollar value terms may be 5 - 7 per cent. Although data are currently unavailable, it is likely that the volume of agricultural exports will surpass the two per cent growth rate of 1983 easily. Stagnation in volume and perhaps some increase in value is the likely scenario for 1984/85 for OECD agricultural exports to developing countries. As for the OECD countries, total import volumes (from all sources) are estimated to rise by 9 per cent in 1984; however, the agricultural component of this increase accruing to the LDC's has not had a significant impact on commodity prices or LDC exports.
  
- 2 During the past year agriculture has continued to be a source of tension within the international trading system. The existence of large supplies of several temperate commodities, in the face of slow-growing world markets and the lingering effects of the recession on many traditional markets, has led to continued aggressive marketing practices among major exporters in both developed and developing countries. Such practices vary between countries, but have generally taken the form of

generous export incentives which may include reduced export prices, more attractive credit terms and export promotional programmes which can assist individual exporters in maintaining or increasing their market shares on a sluggish market. As in the past, a side-effect of these competitive market conditions has been a continuation of the protectionist nature of many domestic trade-oriented policy measures which have hampered exports of both developed and developing countries. For many of the same reasons a large proportion of consultation and complaint cases reviewed by the GATT, involved agricultural trade. A special ad hoc group of the "International Meat Council" was established particularly to review the transparency and stability of the international market for beef and to investigate the usage of export subsidies. At the same time several trade disputes, involving agricultural products, were pending GATT decisions in 1984. In a related matter the EEC has initiated GATT proceedings to renegotiate tariff concessions on cereal substitutes (corn gluten feed). On a more positive note, the US resolved its dispute involving the EEC and Brazil concerning poultry export subsidies.

3 Although significant protectionist measures continue to insulate agricultural sectors to varying degrees, there were some important market-opening measures in 1984. For example, Japan increased its import quotas for beef and citrus fruit and implemented tariff concessions on 67 other products including a wide range of agricultural products. Certain tariff cuts agreed upon in the "Tokyo Round" were implemented prior to the official dates. Most of the above measures generally included selected agricultural products. Negotiations under the "Lomé Convention" will probably provide better access for ACP exports into the EEC, and may result in long-term supply agreements involving selected EEC products.

4 Partially as a result of the current atmosphere surrounding agricultural markets and the difficulties in arriving at multilateral agreements, there was a growing number of bilateral consultations between trading partners, which in several cases resulted in "market understandings"

and/or more formalised marketing procedures. Representative examples of such bilateral understandings include (among others):

butter imports	EEC -- New Zealand (quantities and prices)
cheddar cheese imports	EEC -- various countries (quantities and prices)
beef imports	Japan -- principal suppliers (quantities from US and Australia, Canada) -- EEC (prices)
citrus fruit imports	Japan -- US (import quotas)
mutton imports	EEC -- principal suppliers (e.g. VER's by NZ, selected CPE countries)
rice exports	US -- Taiwan (VER's by Taiwan)

5 Long-term bilateral agreements (LTA's) continue to be important marketing mechanisms for agricultural commodities. Such agreements are especially important for cereal exports and for sugar imports by many countries. In the case of cereals, it was estimated that in 1984 annual sales of about 50 million tons of cereals were tied up in LTA's. Such a quantity is equal to about 25 - 30 per cent of the estimated 1984 cereals trade. An even greater percentage of the 1984/85 wheat trade will be under LTA's (perhaps over 40 per cent) due to increased purchases by the USSR. Financial arrangements have not been included in traditional LTA's; however, it seems as if several recent agreements have also included specific (often preferential) financing arrangements. Representative LTA's are: Argentina -- Cuba, France -- Morocco and US -- Mexico.

6 The importance of countertrade in the international trading system continued to increase in 1984. Such trading practices have long been a significant aspect of East-West trade; however, in recent years countertrade has spread to the Third World and has also involved OECD countries to a greater extent. More and more agencies, trading companies, and commercial banks have expressed interest in accommodating countertrade deals, even if such trading practices may not be officially condoned.

The rise of countertrade involving the LDC's, is partially due to their problems regarding foreign exchange, external debt, poor international credit ratings and in some cases of inter-LDC barter, a desire to break loose from dependence vis-à-vis the industrialised countries which are accused of arbitrarily setting the prices of primary products. Indeed, the question facing some developing countries may no longer be "to trade or to countertrade", but to "countertrade or not trade at all". Significant countertrade developments during the first half of 1984, include:

- a) six countertrade deals by the Philippines, some involving the purchase of food products;
- b) contracts by Indonesia with eleven OECD countries, involving (among other things) food products;
- c) Columbian insistence that all brandy and sparkling wine imports be done by countertrade.

Another more recent countertrade-type deal has been signed between Brazil and Iraq in which poultry imports from Brazil valued at \$15 million will be "guaranteed" by oil from Iraq. Negotiations concerning Brazilian beef exports to the value of approximately \$135 million are currently in progress.

### Trade Highlights by Commodity

The following sections which are developed on a commodity-by-commodity basis attempt to highlight trade trends, trade confrontations and changes in both trade practices and trade-orientated policy measures during the past year when competition for major market outlets has been particularly strong. They reflect - hopefully - a neutral view, but may sometimes be based on the EEC point of view. Therefore it should be taken as additional information to the comprehensive paper of my colleague from the USA.

### Cereals

- 1 Preliminary calculations by the IWC and the FAO indicate that world trade in 1983/84 in cereals -- wheat, coarse grains and rice -- totalled just over 202 million tons. Though this total was only 2 per cent more

than that of the previous season, trade in wheat (about 100 million tons) almost regained the 1981/82 level despite a big drop in the quantities taken by China and India and unchanged imports by the USSR. Much of the increased demand came from North Africa and the Middle East.

Coarse grain trade (nearly 90 million tons) remained largely unchanged, a drop in imports by China being offset by higher quantities taken by African countries. Though trade in rice takes place on a smaller scale, a further increase took place in the calendar year 1983 (11,4 million tons). Because of large supplies, wheat prices were relatively low, but a tight situation in respect of coarse grains led to a sharp increase in prices in the early part of the season, though they have subsequently weakened again.

- 2 The higher level of trade in wheat was not shared by all exporters. Australia (+3 million tons) and Argentina (+2 million tons) and the EEC (+1 million tons) were the main beneficiaries; Canadian exports were unchanged, while there was a further decline (-1 million tons) in exports by the United States. As regards coarse grains, the main change was the virtual disappearance of exports from South Africa (nearly -3 million tons), offset by higher exports by the United States (+3 million tons) and Australia (+2 million tons).
- 3 Markets have been active in recent months, primarily due to bad harvests in the USSR, which have stimulated Soviet demand. Purchases under the US-USSR agreement for delivery in 1983/84 amount to well over 14 million tons, and substantially exceed the minimum quantities laid down in the agreement. They will be even greater in 1984/85. According to recent estimates cereal imports into the USSR in 1984/85 may total 48 million tons (25 million tons wheat, 23 million tons other grains, mainly maize) in order to rebuild stocks and to maintain livestock herds. Such a quantity is assumed to be the maximum which the Soviet port system can handle, and is reflected in a probable 5 per cent increase in the total trade in cereals in 1984/85 to about 210 million tons. According to the FAO, cereal imports by developing countries are expected to reach 106 million tons, which will be the same as in the previous two seasons, though imports by low-income food deficit countries are

forecasted to fall from 41 tot 39 million tons. Developed country imports (including the USSR) should rise by about 5 per cent to about 106 million tons.

- 4 World trade in wheat is expected to reach a new record in 1984/85 at about 103 million tons, 3 per cent higher than the past season. According to forecasts by the IWC the imports of OECD countries will amount to approximately 12 per cent, and that of developing countries to nearly 50 per cent of this total. Imports by the CPE's, including China, which are included in the latter percentage, could rise to about 38 million tons, as the demand from the USSR has been particularly strong since July. As regards individual exporters, shipments from the US, EEC and Australia are expected to rise, while exports from Argentina and Canada will decline.
- 5 World trade in coarse grains may rise by at least 5 per cent in 1984/85 to 95 million tons or more. Demand has strengthened over recent months, reflecting sharply increased purchases by the USSR. Imports by Western Europe will decline due to bumper harvests; the Eastern European market remains constrained by a shortage of foreign exchange. Japanese imports may not rise any further. Developing country imports (including China) may remain about 35 million tons. Among exporters, shipments from the US may be about 10 per cent higher, and EEC exports are predicted to exceed 5 million tons. Australian exports could increase by 1 million tons.
- 6 World trade in rice in 1984 is predicted by FAO to reach about 12 million tons, an increase of 600 000 tons compared with 1983. Import demand in several countries (particularly in Africa) will remain constrained by foreign exchange difficulties. Among major exporters, Thailand may benefit from a large price differential between Thailand and US export prices.
- 7 Unlike rice, prices for wheat and coarse grains are likely to be relatively low, because of the heavy volume of supplies and competition between exporters. This is particularly the case for wheat in respect of which competition could be especially strong between the US and the EEC due to ample stocks in both regions and the continuous strength of the

dollar which, (if sustained) could eliminate the need for significant wheat export refunds by the EEC. In general, in order to gain or maintain market shares, export incentives such as special pricing procedures, attractive credit/repayment terms and/or export subsidies have almost become the rule rather than the exception. The US continues to use varied credit programmes in this regard; France continues to offer credit assistance (recently to Morocco), Canada has issued a \$16 million line of credit to Peru to finance 75 000 tons of wheat imports; and Argentina has recently entered the "credit competition" by offering a \$600 million line of credit to Cuba to finance farm and industrial products, including cereals.

### Dairy Products

- 1 The international market for dairy products remained depressed in 1984 due to high levels of supplies in major producing countries, the prospect that output may not decline as rapidly as hoped, and weak demand. The sales outlook for the Middle East remains relatively favourable; however, purchases by LDC's and CPE's will continue to be restricted due to foreign exchange constraints and increased domestic output. In addition to this, commercial sales may be hampered by increased concessional sales and food aid donations in 1984/85, and the level of international prices will remain under pressure.
- 2 Against such a background it is likely that trade in dairy products in 1984 will, at best, stagnate at around 22,5 million tons (milk equivalent) after two successive years of decline.
- 3 Both the level and trend of supplies, together with the problems caused by their disposal, continue to have a disquieting effect on the world market. Both the EEC and the US have implemented significant domestic legislation aimed at reducing production (and supplies), but supplies nevertheless remain high. The level of supplies at the end of September 1984 (based on OECD questionnaires) held by major producers was (in thousand tons):

	<u>Cheese</u>	<u>Butter</u>	<u>Skim milk powder</u>
EEC	n.a. but low	867	1 031
U.S.	596	236	612
Australia	77	30	20
New Zealand	42	21	60

- 4 As regards individual products, exports of skim milk powder in 1983 amounted to 856 000 tons (including food aid). Prices during this period have been rather low at \$690 - 760 per ton, continuing a decline which began in 1980/81, and sales for animal feed were made at lower prices. Prices are unlikely to recover soon.
  
- 5 Exports of butter declined by 20 per cent in 1983 to 477 000 tons for countries reviewed by the GATT, and 1984 exports remained weak under current market conditions. Prices in mid-1984 were around \$1 350 to \$1 550 per ton, after declining from around \$1 500 - 1 680 per ton at the end of 1983.
  
- 6 Exports of cheese in 1983 amounted to 681 000 tons compared with 663 000 tons in 1982 for countries reviewed by the GATT. Sales in 1984 are expected to recover somewhat; however, prices remain low under current market conditions. In mid-1984 prices were \$1 150 - \$1 300 per ton, down from \$1 200 - 1 500 at the end of 1983.
  
- 7 In the summer of 1984 the EEC began to seek additional outlets for some of its butter surplus actively. For example plans are underway to market about 150 000 - 200 000 tons domestically through industrial usage, "Christmas butter", reduced prices to unemployed workers, etc. In addition to this, several Middle Eastern countries expressed an interest in purchasing up to 100 000 tons of butter and butter oil at reduced prices. The USSR was also offered the same opportunity. The sale price may be around \$1 350 - 1 380 per ton. Potential sales of such magnitude have contributed to further tensions in the international market, for example, New Zealand has said that it is prepared to "meet the competition" by offering lower prices to obtain outlets for its dairy products. Such action, together with a 20 per cent devaluation of the NZ dollar in July 1984, could strengthen New Zealand's competitive position, at least in the short term.

- 8 Increased food aid shipments can also play a part in stock reduction schemes, notwithstanding their effects on the level of international prices. In 1983 food aid shipments amounted to approximately slightly more than 3 million tons (milk equivalent) or about 14 per cent of all trade in dairy products. Skim milk powder is the major component of such aid and shipments by the US and the EEC have increased substantially as stocks have accumulated. For example, US food aid allocations for FY 1984 amounted to 133 880 tons, which is 50 per cent more than FY 1983. The EEC is expected to donate 122 500 tons in 1984. Other significant donor countries are Australia, New Zealand, Switzerland, Finland, Japan.
  
- 9 Another major component of food aid is butter oil which in the GATT statistics is not included with butter. In 1983, 171 000 tons of butter oil were exported, mostly by the EEC and New Zealand. EEC exports increased 28 per cent in the first quarter of 1984.

#### Sugar

- 1 The world sugar market is likely to remain depressed as a result of abundant export supplies and production increases induced largely by policies. In the short term the most obvious concern resulting from the expiry of the ISA at the end of 1984, will be the response of exporters to the removal of export restrictions on ISO Special Stocks. These supplies amount to about 2,5 million tons, but it is not clear if they are really available to the market. It is, however, fairly certain that the major sugar trading nations hold supplies that substantially exceed ISO supply commitments and which constrict a surplus in respect of normal commercial requirements.
  
- 2 On the demand side, there are storage and economic constraints which will limit imports by governments and national industries in spite of record availabilities at historically low prices. Given its centrally planned economy, the world's largest sugar importer, the USSR, is likely to have a highly inflexible import schedule, due to its LTA with Cuba and its current stock level. The world's second most important sugar

importer, the US, is reducing its level of imports due to stagnant consumption and the rapid growth of alternative sweeteners supplied from domestic sources. Its sugar import quota for 1984/85 (October - September) will amount to 2,3 million tons, a decline of 20 per cent compared with 1983/84.

- 3 Recovery from the 1983/84 droughts in South Africa, Australia, India and the Philippines, could boost cane sugar production by over 2 million tons in 1984/85. Brazil and the Philippines are the only two major cane sugar exporting countries responding to low world sugar prices by taking action to constrain sugar output in the short term, but there is concern that these countries, along with Thailand, may experience downward pressure on prices by increasing their export volumes during the next few years in order to achieve a larger market share at the next round of ISA negotiations.
- 4 Although the area planted with beets has not increased more than marginally (3 per cent) since 1983/84 as a result of reduced planting in the previous two seasons, production is predicted to increase by 14 per cent to 12,5 million tons (with value) and the EEC will continue to be the source of a large proportion of world exports. Current estimates of the total exportable surplus for 1984/85 amount to 4,4 million tons (with value), assuming a total availability of 13,8 million tons (including ACP imports) and stagnant EEC consumption of 9,4 million tons. However, against a background of expected low world prices which will add further to supporting costs (predominantly export refunds), the self-financing elements of the EEC sugar regime could in the short term induce a limitation of exports and an increase of privately held supplies.
- 5 In the medium term remunerative prices on the world market will not be achieved until the agricultural and trading policies of many exporting and importing countries are made more responsive to both cyclical and structural changes on the world sugar market.
- 6 On balance, the medium term outlook for the world sugar market is for reduced volumes of world trade. This suggests that the world free

market will become even more residual by nature and, therefore, more volatile. The constraint on consumption growth, due to the continued debt crisis in developing countries, and the market penetration of alternative sweeteners in developed countries, will tend to lengthen the period of low prices in the world sugar price cycle.

### Meat

- 1 World trade in beef and veal in 1984 has decreased, affected by weak demand as a result of the slow pace of economic recovery in many importing countries and also by a reduction of export availabilities in Australia, New Zealand, Argentina and Uruguay, only partially offset by increased exports from the EEC, Brazil and the US. World stocks have risen and price levels in US dollar terms remained depressed.
- 2 As regards the main importing countries, all except Japan and Canada are expected to import less than in the previous year. Imports by the United States during the 1984 calendar year will not reach the trigger level at which quotas or voluntary restraints (VER's) would be applied. Beef and veal imports by the EEC are expected to decline by 3 - 4 per cent due to increased domestic supplies and intervention stocks, and to special internal sales. The EEC reduced the level of imported frozen beef by 10 000 tons to 50 000 tons under the manufacturing balance sheet scheme and the number of young male cattle imported for fattening by 15 000 to 190 000 head.
- 3 Japanese imports of beef were a subject of discussions in 1984 between Australia (for chilled and manufacturing beef) and the US (for high-quality beef). Discussions continue between Japan and Australia. It is understood that Japan is willing to raise its import levels of beef from all sources gradually to reach 177 000 tons in FY 1987 compared with 141 000 tons in FY 1983. Under this proposal chilled beef imports from Australia would remain at the old level of 24 000 tons annually, and aged beef imports would rise from 10 000 tons in FY 1983 to 14 000 tons in FY 1987. There are also discussions concerning imports



of manufacturing beef. As regards discussions with the US, Japan agreed in April 1984 to raise its import quota for high-quality beef. The quota will rise by 6 900 tons annually over the four-year period FY 1984 - FY 1987, an increase from 30 800 tons to 58 400 tons.

- 4 Among major exporters, EEC exports may rise from last year's level of 600 000 tons to as much as 700 000 tons (carcass weight) in 1984, a level which would make the EEC the world's biggest beef exporter.

Intervention stocks continue to rise and may approach 450 000 tons by the end of the year, due to the side-effects of the implementation of new dairy policies. This is in addition to supplies held privately but supported by public funds. A ban by the USSR on imports of beef from animals which have been slaughtered more than 90 days ago, may also have an effect on stock levels. Australian exports are predicted to decline to about 645 000 tons (carcass weight) due to lower export availabilities. In New Zealand both slaughter rates and exports of beef and veal had been predicted to decline by about 14 per cent, i.e. to 315 000 tons (c.w.), in the year ending September 1984. The recent 20 per cent devaluation of the New Zealand dollar could result in higher exports in late 1984, but subsequent export availabilities may decrease as herd rebuilding is stimulated. Argentine exports in the first half of 1984 amounted to 145 000 tons, 34 per cent less than in the corresponding period in 1983, due to a higher domestic demand than was anticipated and herd rebuilding. However, Argentina abolished its 20. per cent export levy on meat exports on 1 October in order to stimulate domestic output and to boost exports. Brazilian exports are predicted to rise from last year's 463 000 tons to more than 500 000 tons in 1984, making this country the world's third largest exporter.

- 5 Competition for the more or less stagnant export markets remains strong, especially in the USSR, the Middle East and Northern Africa and the EEC has been particularly active in these areas as it has become the largest exporter of beef and veal. Such increased exports by the EEC have not gone unnoticed by other exporters. For example, early in

1984 a special session of the GATT arrangement on bovine meat was convened at the request of Argentina to examine the problem of "excessive" export subsidies provided by major beef exporters, and resulted in the creation of an ad hoc group to report to the GATT Meat Council late in 1984 with an assessment on how to restore a balanced world market.

- 6 International trade in pork will be characterized by larger exports from the EEC (from 265 000 tons to 350 000 tons), primarily due to the lifting of a foot-and-mouth import ban by Japan and the resumption of Danish exports to this country. Exports by the US may be around 150 000 tons, while imports (primarily European canned pork and carcasses and live hogs from Canada) may rise to about 250 000 - 300 000 tons. Canadian exports will be around 180 000 tons, primarily to the US and with much lower quantities than in 1983 to Japan.
  
- 7 Trade in mutton is likely to fall in 1984, mainly as a result of poorer demand. Australian exports of mutton are remaining below 1983 levels because Japanese processors have reverted to using Danish pork, no purchases are being made by Iran, competition is keen for other Middle Eastern markets, and the USSR is confining its imports to relatively freshly slaughtered meat.
  
- 8 Poultry exports in 1984/85 could decline somewhat from the stagnant level of the past two seasons, due to sluggish export demand and higher feed costs which will hinder expansion. Import demand on the once booming Middle East market, as well as in the USSR, is likely to decline as self-sufficiency increases but, on the other hand exports to the Japanese and East Asian markets could increase. Competition for export markets will remain strong between the EEC (France), Brazil and the US which together account for most of the world exports. The EEC agreed to limit its broiler export subsidies to the difference between EEC cereal prices and world cereal prices.

Fibres (Cotton and Wool)

Here my US colleague has covered the whole picture and from EEC point of view these products are treated as typical import products.

Fruit and Vegetables

- 1 Adequate reports concerning this category, are often complicated by the number and diversity of products involved and limited export forecasts from national governments. As regards fresh fruit, Southern Hemisphere exporters are expected to ship 450 000 tons of apples and 82 000 tons of pears to Europe in 1984. Hence, Europe's apple imports would be 34 per cent more than the 1983 level. New Zealand will be the major supplier. Its exports to all destinations could be around 6,0 million cartons compared with 5,2 million in 1983. Pear imports are down from last season's 93 000 ton level and about 8 per cent lower than the average for 1980 - 1983. As regards citrus exports, oranges available for export from Spain are expected to be around 900 000 tons in 1984 as compared with 750 000 tons during the past season. Exports from Greece and Italy should be around 150 000 and 140 000 tons respectively. Exports of both oranges and grapefruit from the US are expected to decrease sharply as compared with 1983 (461 000 tons and 308 000 tons respectively) due to the severe 1983 winter in Florida. Juice production from these fruits will also be below domestic requirements and will be sustained by substantial imports from Brazil. Spanish exports of tangerines may total around 770 000 tons compared with 725 000 tons in 1983; lemon exports may be around 360 000 tons, which constitutes an increase of about 14 per cent compared with last year. Exports of these fruits from the US may be only slightly lower, since California is the main production area.
  
- 2 A significant aspect of the international citrus market in 1984 was the decision by Japan to liberalize its import quotas for fresh fruit and fruit juice concentrates. The import quota for oranges (82 000 tons in FY 1983) will be raised by 11 000 tons annually over the four-year period to FY 1987. The orange juice quota (6 500 tons in 1983)

will be increased by 500 tons annually during the same period. Quotas for grapefruit juices will be set at a level equal to domestic demand in FY 1984 and FY 1985, but after FY 1985 such quotas will be abandoned altogether. Several other measures by Japan will liberalize import restrictions for FY 1984 and/or FY 1985 on a variety of semi-processed and certain processed fruits, vegetables and juices.

#### South African Agriculture's Export Chances

South African agricultural products have in certain instances received more favourable access to the Community than similar products from the ACP states, e.g. certain fresh fruits, though not pineapples, have a lower import tariff. However, it is true that ACP agricultural exports on the whole receive preferential treatment compared with that of non-Lomé producers. But the entry of the United Kingdom into the EEC in 1973, and more recently the proposed membership of Spain and Portugal, have contributed to the erosion of the South African agricultural sector's easy access to the Community market.

Despite the loss of imperial preference when the UK entered the EEC, South Africa accepted the changing trade regime and absorbed the five year UK duty increases. South African wine and fresh and canned fruit exports have been hampered continually by the EEC's common external tariff and a host of non-tariff barriers and South Africa has been brought to book in Brussels on several occasions on anti-dumping charges. For instance, Cape fortified wines have received disadvantageous competition on the EEC market and from Spain, Portugal and Cyprus despite the KWV's adoption of a system of delimitation of wines of origin in 1972 in order to comply with the EEC's strict third country import regulations. The local canning industry has recently seen an almost 40 per cent contraction due to increasing subsidies to fruit growers and canners in Southern Europe and continued international US predominance as regards canned fruit.

Following the Greek entry into the EEC, the competitive advantage of certain Greek agricultural products in the EEC market has affected South African exports and further dislocation of South African products seems likely to result from the entry of Spain and Portugal. This will leave South Africa with only a seasonal advantage with respect to certain fresh fruits. Apart from the fact that this will result in a loss of job opportunities and export earnings, South African agriculture also has its own domestic problems, such as wine lakes.

Short- to medium-term advantages in the EEC market will continue to be exploited by South African exporters, yet long-term survival seems to be dependent on increasing footholds on non-EEC markets through imaginative marketing programmes. Because of the high cost structure of production in the Republic of South Africa, the marketing structure and the unfavourable growing conditions for a large number of bulk products (e.g. cereals, meat, etc), there are no long-term chances for a competitive supply from the RSA on these "world markets".

South Africa has a much better chance in respect of extensive, low-cost production systems, e.g. wool, mohair, etc and the export of high quality products of specialised production like wine, etc, and especially in respect of the exportation of out of season fruit and vegetables.

As long as the high-quality standards of these South African products are maintained, they will have preference on the export market, especially as compared with other offers from the Southern hemisphere.

Excursion:

#### Principles and Prospects of the Common Agricultural Policy

In the early hours of March 31, 1984 the European Ministers of Agriculture made the most drastic decision in the history of the common agricultural policy in Brussels; a decision which was in particular concerned with cuts in common prices for surplus commodities and the introduction of a quota system for milk.



These measures have been forced upon the Agricultural Ministers by the absolute need of bringing the ever-rising costs of the CAP under control.

During the last two decades, since the creation of the common agricultural policy, the advance of technical progress and productivity in agriculture has been rapid. The long-term trend of increase in the volume of agricultural production in the community has been 1,5 to 2% a year, while consumption has increased between 0 and 0,5% a year. Consequently, the community has become more than self-sufficient in respect of many principal products and has come to rely increasingly on export or on subsidised sales within the community for the disposal of its production.

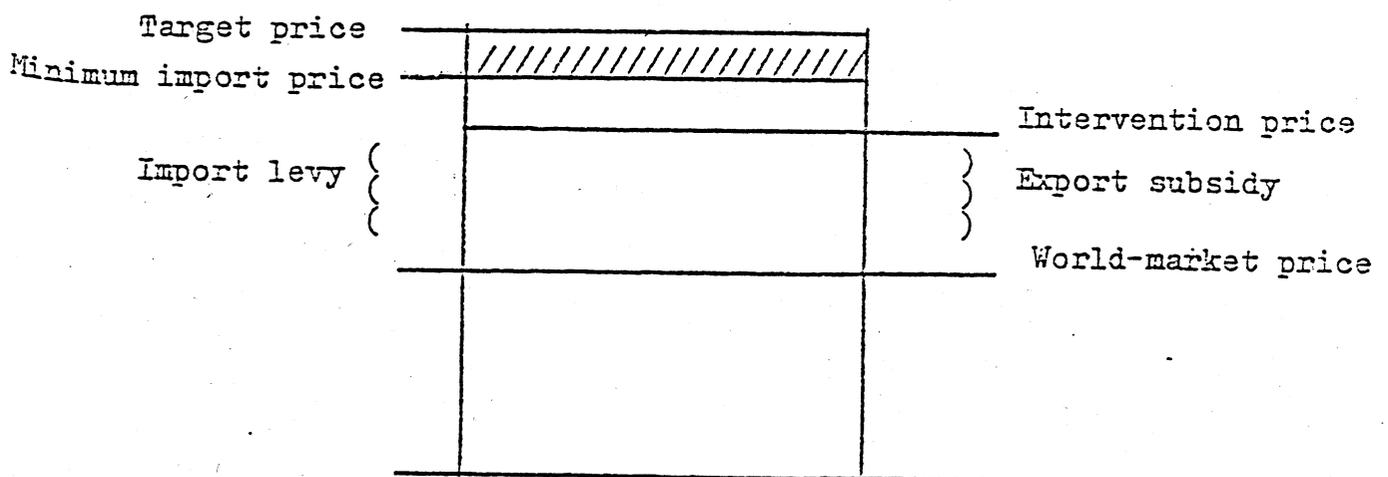
Percentage of Inland Production of Total Consumption  
(total consumption = 100)

Product	Federal Republic of Germany			EEC (10)		
	1974/75	1982/83	1983/84	1974/75	1982/83	1983/84
Wheat	105	112	105	116	137	123
Sugar	100	147	114	87	145	115
Wine	46	96	79	96	130	122
	1975	1982	1983	1975	1982	1983
Milk	111	121	130	108	118	123
Butter	125	131	158	97 <sup>1)</sup>	131	151
Skimmed Milk Powder	234	248	273	171 <sup>1)</sup>	147	131
Beef	97	111	114	101	102	104
Pork	86	86	87	99	101	102

1) EEC (9)

For each of the main commodity groups shown in the table, the net import requirement has been transferred into a net export availability. The reason for this development was the high price level, which was fixed by the policy makers and the security of the prices, which was fixed through target prices, minimum import prices, import levies on the one hand and intervention prices and export subsidies on the other hand.

The EEC Pricing System



Efforts have been made at various times to avoid the imbalances. The introduction in 1982 of "guarantee thresholds" for several surplus commodities was the first useful step. But, as long as there was no clear signal that producer prices would no longer be so remunerative in the future, production was not discouraged significantly. This failure under the CAP to make timely adjustments in the market policy and the tendency to complicate the policies somewhat, probably arise from deficiencies in the decision-making process in the community.

The agreement of 31 March 1984 shows that, faced with the prospect of immanent breakdown, unpleasant decisions can be taken.

What are the policy goals for the future?

- 1 Farm Income: There is a growing tendency to call in question the open-ended guarantees from which farmers have benefitted since the Second World War. In future, support will have to become more selective, and will increasingly have to be justified with reference to farmers' contributions to other policy goals. Any overall-"parity" concept now has even less meaning than it ever had.
- 2 Market Balance: In order to keep down the costs of support and also to reduce frictions with other countries, a better market balance must be achieved. The question is how much Western Europe can produce competitively.
- 3 Preservation of Environment: This includes things like the avoidance of environmental pollution from farming, the preservation of the landscape and a decreasing reliance on non-renewable resources.
- 4 Rural Balance: As more countries are urbanised, there is a tendency among people to want to live in the country and especially interrelations between the rural community, farming practices, farm income and farm employment will play a definitive role in future policy decisions.

All incentives and pressures have so far been in favour of intensive production and specialisation. For the future goals of the EEC, low-input systems would appear to have several advantages in comparison to the more intensive systems. Such systems would especially contribute to a market balance and should be more in line with conservation aims. They might also keep more labour on the land, although this would clearly depend on whether systems providing adequate returns to labour, can be devised. A possible course of action would be to restrict certain inputs, particularly fertilizer, either by tax measures or even by quantitative controls. The latter course has been advocated by Prof Weinschenk in Germany in 1983, and a considerable debate is going on in Germany on the subject. The need to find alternative systems for relatively large commercial farms will lead to a lot of discussions and also to a great deal of friction in the farming community. But it is inevitable that changes

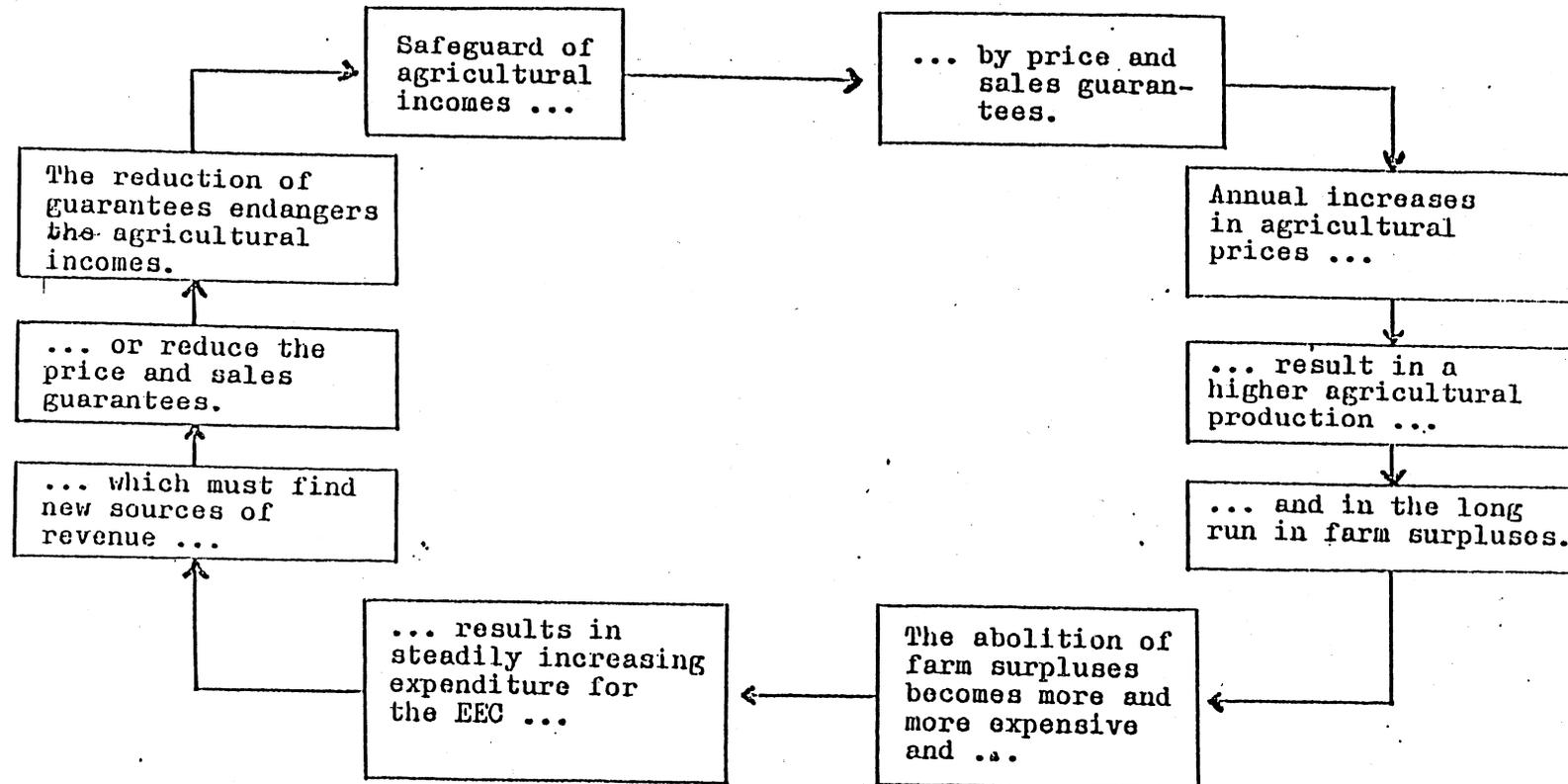
have to be made, and the dictate of empty state budgets will force the changes.

The world-wide question regarding agriculture, and especially in South Africa with only 60 000 farmers will be: Who is to produce, where is to be produced and what and how much is to be produced. In addition to this the production of very large producers will also be limited.

Table 1

Circle of Agricultural Policies

--- Main Issues of the EEC Agricultural Market ---



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### CURRICULUM VITAE

Date of birth:	19.08.1944	In Kerpen/Erft, son of Heinrich Weiers, farmer, and his wife Maria, née Fischer.
Education:	1951 - 55	Blatzheim Primary School
	1955 - 61	Kerpen Secondary School, general certificate of education at ordinary level.
	31.7.1965	Awarded higher school certificate on passing out of Brühl Agricultural College.
Professional training:	1961 - 64	Practical agricultural training (2 years apprenticeship, 1 year as volunteer).
	1964 - 65	Brühl Agricultural College.
	July 1965	Ing. agr. (grad.)
	1965 - 69	University studies in agriculture, specializing in economics and social science in Hohenheim and Bonn.
	July 1969	Dipl. Ing. agr.
	1969 - 70	Post-Graduate studies at the University of Nottingham as foundation scholar of the DAAD.
	11.12.70	Master of Philosophy (Agric. Economics), University of Nottingham.
	1.9.1970 - 31.7.1972	Member of scientific staff at Institute of "Science of Industrial Organization applied to Agriculture" at University of Bonn.
	1.8.1972 - 28.2.1974	Scientific Assistant at same Institute.
	1.3.1974 - 29.2.1975	Research Team Leader at Centre for European Agriculture, Wye College, University of London, Wye, Ashford, Kent.
22.4.1974	Examination for Doctor's degree at Faculty of Agriculture, University of Bonn.	
1.3.1975	Head of Sub-Department for Industrial Planning and Economic Counselling at Rhineland Chamber of Agriculture, Bonn.	
15.2.1979	Dept. 311, BML (Federal Ministry of Food, Agriculture and Forestry, 5300 Bonn).	
since	1.8.1982	Agricultural Attaché to the German Embassy, Pretoria.

