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The Impact of Agricultural Protectionism

by Brian E. Talboys, Minister of Agriculture, New Zealand

New Zealand is not blessed with large or easily workable deposits of the major minerals and is not a developed country in the industrial sense—although the industrial base is being expanded in the present establishment of a steel industry based on local iron sands—and there are plans for the establishment of an aluminium smelter. The country is not blessed with a fertile soil—large quantities of phosphates and sulphurs and other fertilisers are imported. But it has a climate excellent for livestock farming and skilled farmers who have applied science and technology, making them capable of developing a farming system which in terms of labour productivity is the most efficient in the world.

There are 2–2.75 mn New Zealanders. But there are also 3.7 mn dairy cattle, there are 4.5 mn beef cattle, a total cattle population of 8.2 mn. And there are about 61 mn sheep. And the livestock are all fed on our basic raw material—grass.

A Livestock Farming System

The obvious results of these factors is that New Zealand has become one of the largest exporters of dairy products and meat and the second largest exporter of wool. Dairy products and meat between them account for over 50 per cent of foreign exchange earnings. In normal years exports of wool account for another third. It is therefore not surprising that New Zealand's livestock industries based on sheep and cattle provide over 90 per cent of total export earnings.

It is that income that New Zealand relies on for its capacity to import industrial plant and equipment, chemicals, plastics—things which are essential to sustain the achieved living standards and make further growth possible.

The country is something of an anomaly in the modern world—an economy with living standards characteristic of a developed country, but almost entirely dependent on an efficient livestock farming system and the ability to export the product. There are clearly inextricable links to economic and political events in the world at large—New Zealand lives by trade.

The government seeks to lessen the historic dependence on a narrow range of exports by developing new products for new markets and by expanding markets for existing products. But it cannot alter the topography or the geology of the country. The best estimates are that even in ten years time the traditional pastoral or livestock products will still make up over 70 per cent of the export income.

Policies of Agricultural Protection

This underlines the dependence on these products and this is why measures which have the effect of restricting or preventing the flow of international trade in agricultural products are of grave concern to New Zealand's economy. The responsible politicians are sensitive to the political and social demands which have motivated the formation of policies of agricultural protection. No-one could object to the desire of any country or group of countries to develop the farming sector—within the limits of economic good sense—to produce a proportion of its food needs. No-one could object to the determination to seek an adequate reward for the farmer. But there are severe objections against the policies which have been chosen by the industrial countries. They do in many cases exclude New Zealand from a market and more than that they lead to the dumping of surpluses in other parts of the world where there are markets to be developed. It is in Western Europe that New Zealand's farming encounters the full force of a highly developed system of agricultural protection.

Price policies, which have the disadvantage of discouraging consumption, are buttressed by an import regime which in many cases offers major difficulties or uncertainties to international traders. Nowhere is this more apparent than in dairy products, where our ability to supply a share of Western European requirements has been virtually eliminated.

Community policies have had serious consequences for New Zealand's trade with third countries. Large surpluses of dairy products are being

produced over and above the full requirements of the community and its normal export outlets. On the basis of present projections (and according to the Commission's own forecast) the surplus of butter produced in the 1971/72 season is expected to be in the vicinity of 210,000 tons. Outlets for surpluses of such magnitude of this and other dairy products simply do not exist in the normal markets. International markets are already under heavy pressure from EEC exporters who have called on the Community's export subsidy system to sell off some of the surplus production at low prices. The threat to the trade of other, efficient and non-subsidising suppliers in these markets is obvious.

The Trojan Horse of the Dairy Industry

To New Zealand these policies are in effect an attack on the foundations of the economy. The resources of European treasuries are pitted against the skill of New Zealand's farmers. This imposes great burdens on the dairy farmers but it is surely apparent that in this struggle New Zealand cannot afford to lose.

The remarks on the policies of the Community should not convey the impression that New Zealand regards Community policies of protectionism as being in any way unique in this respect. Certainly the common agricultural policy is extremely complicated and the freedom with which Community surpluses are being subsidised all over the world is in striking contrast to the approach of the United States which generally takes considerable trouble to ensure that its surplus disposal operations have a minimum of disrupting effect on commercial trade. The agricultural policies of the United States, developed from the bitter experiences of farming in the depression, have probably set a pattern for the wave of agricultural protectionism which has swept over the world since the Second World War. In the United States the effect on dairy products has been an increasingly rigid import regime aimed at keeping out imports. This resulted in much higher levels of price than are compatible with reasonable levels of consumption. For example,

butter consumption has dropped from 15 to 20 lb some years ago to under 6 lb today.

But neither the Administration nor the dairy farmers give any indication that they recognise that high prices are simply creating a market for substitutes—for butter and for milk. High prices are not a solution to the dairy problem—they reduce consumption, encourage production and create another problem. There is plenty of evidence to show that the policy of higher prices exposes dairy products to attack from the real competition—the substitute. The Trojan horse of the dairy industry is not loaded with foreign farmers but with the scientist and his laboratory.

A Multilateral Trader

New Zealand as a very large per head trader and as a very efficient producer of certain agricultural products is almost by definition a supporter of the fundamental GATT principles and in particular the principle of multilateral trading. Unfortunately, while multilateral trading principles have been applied reasonably well in the industrial field, when it comes to agriculture countries they seem to find all sorts of reasons or excuses for making exceptions to their general policies. It was, in fact, the chaotic conditions which were prevailing in trade in industrial products in the 1930's which prompted the development of GATT as an international enterprise after World War II and clearly no industrial country would contemplate for one moment returning to the dreary system of quotas, subsidies, etc., for industrial products as generally applies for agriculture. Industrial countries would not tolerate in trade in industrial goods the policies they impose in agricultural trade.

With the access difficulties which New Zealand has faced, particularly the dairy industry, there is pressure for a close look at the multilateral trading concept and at the possibilities which might lie in bilateral arrangements with those countries which are prepared to take New Zealand's produce. The basic philosophy of the New Zealand government remains that of a multilateral



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trader, but whether this can continue to remain so must depend on what success New Zealand achieves in meeting its trading position by more orthodox methods. It will on the other hand be obvious that insofar as the national and international effects of agricultural protectionism restrict the ability to purchase overseas, the direct cost of these policies in the industrialised countries will be increased by diminished sales of industrial goods to New Zealand.

Some Signs of Progress

There have been some signs of progress. After the Kennedy Round had failed to come up with an answer, New Zealand last year called for an urgent study of the situation facing the world dairy trade and consultations which would lead to a mutually acceptable solution to its problems. This initiative was rewarded by the establishment in Geneva of a working party on dairy products under the aegis of GATT. New Zealand and the other trading nations involved share the hope that these discussions will soon yield some concrete results in the form of at least a movement towards the principles of comparative economic advantage and orderly marketing, though the need for longer-term structural reform will remain. There is no simple solution. But this would be a beginning—and there has to be a beginning.

Moreover, it seems that those principles are increasingly on the minds of the EEC members themselves. As long ago as November 1967, Dr Mansholt, Vice-President of the EEC Commission responsible for agriculture, was reported to have said: "I think that we should be realists

and should admit that we cannot go on in this way. We must call a halt and consider what is to be done to regulate the milk market so that we do not end up with these enormous surpluses since these cannot simply be sold off on the world market."

The old-established economic tenet of world specialisation of production seems to have assumed new relevance in the face of the world's growing shortage of food. The acute problem of malnutrition which cannot but concern all developed countries makes it imperative to avoid wastage of resources. But precisely one way to bring about such wastage is to drive efficient producers, like New Zealand, to the wall.

Balance between Conflicting Elements

Despite apprehension at the disruption to world trade caused by agricultural protectionism, New Zealand has never sought special favours. It asks no more than fair access to markets and a right to compete. The marketing disorder created by allowing internal factors to gain absolute priority over recognised international needs is of benefit to no-one in the long run. To seek to solve domestic political problems by exporting them is simply to create chaos.

Balance, however old-fashioned that too may sound between these seemingly conflicting elements, is needed if a viable trading policy is to be attained. New Zealand looks to its trading partners to join with it in the GATT and other international efforts to formulate more acceptable—and sensible—rules for international commerce in agricultural products.

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