

Senti, Richard

Article — Digitized Version

Bilateral agricultural and commodity agreements— protectionism made to measure

Intereconomics

Suggested Citation: Senti, Richard (1978) : Bilateral agricultural and commodity agreements—
protectionism made to measure, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol.
13, Iss. 5/6, pp. 115-122,
<https://doi.org/10.1007/BF02929177>

This Version is available at:

<https://hdl.handle.net/10419/139540>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Bilateral Agricultural and Commodity Agreements—Protectionism Made to Measure

by Richard Senti, Zürich *

While multinational agreements are subject to lively discussions and their negotiations the frequent topic of our news, little is known about bilateral agreements. This despite the fact that their number has greatly increased since the worldwide recession. So alone the USA and the EC have both signed over a hundred bilateral trade agreements to protect them against imports or safeguard their export interests.

Bilateral agreements are contractual arrangements between two states. Some of these arrangements, such as the agricultural agreements of the USA with India, Portugal and individual Eastern states, are in the form of treaties signed by the contracting parties. Others may be based on an exchange of letters. In this case, the state which proposes the agreement requests its trade partner to indicate its consent to the contents of the letter, for instance by writing: "... if this proposal is acceptable to the Government of ..., this note and your note of confirmation shall constitute an agreement between our two Governments which shall enter into force on the date of your reply."¹ Most of the bilateral agreements between the USA and the EC and their trade partners are at present in this form. Finally, there are informal agreements, such as verbal ones on American deliveries of grains, feeding stuffs and soy beans between the USA and Japan.

Bilateral trade and commodity agreements were of very great importance during the economic slump of the thirties, in the second world war and in the first post-war years. The German Reich for instance, made use of this treaty form during the depression in order to assert its predominant political and economic position. During the war and in the post-war period, bilateral agreements were the usual means of safeguarding currency reserves and keeping the balance of payments, with trade partners whose currencies were not convertible, in equilibrium. At that time there existed also many bilateral agreements between so-called "mother countries" and their colonies².

With the restoration of convertible currencies, the independence of many Third World states and the gradual effectiveness of various international organizations, like GATT and IMF, most bilateral agreements lost their *raison d'être*. They were suspended or allowed to expire.

A change occurred however in the late sixties and early seventies. The traditional economic order proved incapable of coping with the wide price and volume oscillations in the agricultural and raw material trade which had been caused by crop fluctuations, international wage cost differentials, changed currency parities and the technical progress. The reaction of the industrial states to these trade disturbances was the more forceful because they were themselves experiencing a recession at that time. They resorted to various measures of self-defence, including bilateral agreements. Both the USA and the EC are at present operating far over 100 bilateral trade agreements as a protection against undesirable imports or in order to safeguard their export interests.

The following survey covers the most important agricultural and raw material agreements. According to the interests involved we distinguish between bilateral import agreements and bilateral export agreements. Agreements bearing on development policy or military aspects are left out of account. It is the purpose of the following comments to indicate the essential features of the individual agreements and to subject them to a brief analysis.

* Center for Economic Research, Swiss Federal Institute of Technology, Zürich.

¹ This is the formulation in most US textile and agricultural agreements.

² A compilation of the bilateral agreements throughout the world in the forties is given in: J. M. Letichie, *Reciprocal Trade Agreements in the World Economy*, King's Crown Press, New York 1948, p. 67-82.

Bilateral Import Agreements

We speak of bilateral import agreements if the initiative for the contractual arrangements emanates from the country which is in this way trying to guard itself against imports causing injury, or threatening to cause injury, to its economy.

The importers base their trade restrictions on GATT Art. XIX which gives a party to the agreement the right to "suspend the obligation in whole or in part or to withdraw or modify the concession" if "any product is being imported into the territory in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers in that territory of like or directly competitive products".³

In want of an international authority, some agreements rest on national statutory authorization. To give an example, all the more recent US import protection agreements refer to the Trade Act of 1975 which calls upon the president in SEC. 203 in the event of trade disruptions, *inter alia*, "to proclaim a modification of, or imposition of, any quantitative restriction on the import into the

US . . . , to negotiate orderly marketing agreements with foreign countries limiting the export from foreign countries and the import into the US . . . , to take any combination of such actions". The bilateral treaties signed by the EC, refer to EEC Treaty Art. 113 which lays down that the trade policy of the member states is to be based on uniform principles. The EEC Treaty makes special mention of the conclusion of trade agreements and the adoption of protective measures. Similar statutory provisions have been made in other countries.

The bilateral import agreements listed in Table 1 are probably the most important ones in the agricultural and raw material sector at the present time.

Specific Features

There is a great similarity between bilateral import agreements in regard to their essential features. This no matter by which countries and for what products they are concluded.

Quantitative restriction of imports is the main objective of almost all bilateral import agreements. Usually the basis of reference is the average volume of imports of the two or three years preceding the agreement. Depending on the purpose of the agreement, the trade quantities are either left at the level of the preceding years, as in the US agreements on meat imports from South America, Australia and New Zealand, or reduced by appropriate amounts. In regard to cuts a distinction must be made between once-for-all or step-by-step reductions of the volume of trade. The bilateral agreements between the USA and South Korea and between the USA and Taiwan about the American imports of shoes and footwear for instance, provide for once-for-all import cuts by up to 30 % of the imports in preceding years. The textile agreements on the other hand, stipulate a progressive reduction of import quantities, so as to avoid hardship being caused at one stage. A distinction is made between global, group and individual-product quotas, as the agreements for the most part relate to entire product ranges. Quotas on the same level are mostly to a certain degree transmutable, in the sense that unused quotas for one product may be assigned to other product quotas. Depending upon the degree of competition with domestic products, between one and 12 % of the quotas may be mutually transferable. Some flexibility also exists in respect of time. Quotas which have not been used in one period may be transferred to the following period (carry-over), and quotas for later periods may, up to a certain point, be anticipated (carry-forward).

Table 1
Bilateral Import Agreements of the USA
and the EC (in selection) ¹

Article	Importer	Exporter
Textiles *	USA	Brazil, Czechoslovakia, Egypt, El Salvador, Greece, India, Israel, Jamaica, Malta, Nicaragua, Peru, Poland, Romania, Spain, Taiwan
	EC	Brazil, Colombia, Egypt, Hongkong, India, Japan, Macao, Malaysia, Pakistan, Romania, Singapore, South Korea, Yugoslavia
Hand-woven fabrics of wool, cotton and silk *	USA	Brazil, Colombia, Haiti, Japan, Malaysia, Mexico, Philippines, Portugal, Singapore, South Korea, Taiwan, Thailand, Yugoslavia
	EC	Bangladesh, India, Laos, Pakistan, Sri Lanka, Thailand
Steel, steel products *	USA	Japan
	EC	Japan
Sugar	EC	Barbados, Congo, Fidji, Guyana, Jamaica, Kenya, Madagascar, Malawi, Mauritius, Swaziland, Tanzania, Trinidad and Tobago, Uganda
Jute products	EC	Bangladesh, India, Thailand
Meat	USA	Australia, Guatemala, Honduras, New Zealand
Coconut products	EC	India, Sri Lanka
Footwear, leather	USA	South Korea, Taiwan
Coffee	USA	Brazil
Maize, sorghum, wheat, rice and poultry	EC	USA
Cheese	USA	EC

¹ A full survey of the agreements in force at present can be found in: US, Department of State, *Treaties in Force, A List of Treaties and other International Agreements of the US*, Jan. 1, 1977, p. 1-255; EC, *List of Agreements between the European Communities and Third Countries*, in: EC Information, External Relations, No. 139/77.

* Mentioned with regard to the basic products concerned.

³ Cf. J. H. Jackson, *World Trade and the Law of GATT*, Indianapolis, Kansas City and New York 1969, p. 564 and 565.

The provisions of the textile agreement between the USA and Portugal⁴ may be mentioned here, as an example of a typical quota arrangement:

Global quota per year, from Jan. 1, 1975	31,809,890 square yards *
The global quota comprises the following group quotas:	
Group quota I, Cat. 1-64, 200-243 (Yarns, fabrics, garments of cotton and synthetic fibres)	
	30,381,750 square yards
Group quota II, Cat. 101-132 (Wool products)	
	1,428,140 square yards
The groups are sub-divided by product categories including for instance:	
Cat. 50 51 Upper garments for men, of cotton and synthetic fibres	1,047,400 square yards
Cat. 221 Jackets, hand-woven, of cotton and synthetic fibres	2,696,400 square yards
Cat. 223 Underwear (personal linen), of cotton and synthetic fibres	1,995,350 square yards

* Square yard conversion factors for individual products are given in the individual agreements.

The agreement quoted here as an example, provides that "group quota I" may be increased by the total amount of the unused group quota II, whereas group quota II may only be increased by a maximum of 1 % even if far less use is being made of "group quota I". In other words, the import protection is primarily intended for the products of "quota group II".

The carry-over (subsequent use of not previously utilized quotas) is limited under the agreement between the USA and Portugal to 11 % of the current quota, even if a larger amount of the previous quota was not used. The carry-forwards (early use of subsequent quotas) must not exceed 6 % of the current quota. Carry-over and carry-forwards are not to exceed 11 % of the current quota.

Analogous or quite similar quantity arrangements are to be found in almost all import agreements, especially in the bilateral textile agreements.

Development Clause

The so-called *development clause* is another essential feature of the bilateral import agreements. Agreements of more than one year duration regularly contain so-called escalation rates, i.e. an indication of the rate by which the annual import quotas may be raised. The International Textile Agreement for instance, provides that the annual quota rates must be increased by at least 6 % under bilateral agreements, smaller increases are only allowed if the extra imports are manifestly causing injury to the domestic market or threaten to do so. In view of this provision the Americans allow the global textile quotas to be increased by about 6 % a year but different rates are applied to the group and product quotas according to the vulnerability of the market. The EC

similarly provides in its bilateral textile agreements for a global 6 % rate of increase per year but differentiates in regard to sectional quotas, according to the degree of competition in individual products. The textile agreement between the USA and Portugal which was quoted as an example provides that the global quota can be raised by 6.25 % a year but the increase of the group quota II must not exceed 1 %. The difference between the 6.25 % increase of the global quota and the 1 % increase of the group II quota may be added to the group I quota. This additional protective device is in fact the real reason for operating with group quotas. It may be mentioned at this point that the free textile imports into the USA and the EC have been increasing in recent years at annual rates varying between 20 and 40 % according to product group. The US shoe and footwear import agreements with Taiwan and South Korea provide for annual increases of 10 or 15 %, varying according to product, from 1977 to 1981⁵.

Short Duration

Another characteristic feature of the bilateral agreements is their *short duration*. Unlike the multilateral agreements which run for four to five years, the bilateral agreements are often concluded for only one year (e.g. all US meat agreements) or for two years (all the textile agreements). The US shoe and footwear agreements with South Korea and Taiwan for a duration of four years are an exception. They are adapted to the US government programme which aims at improving the market position of the domestic shoe industry over the next four years⁶. The termination of all agreements is subject to two or three months' notice, except for textile agreements which terminate only at the close of the agreement year. Virtually all agreements contain the clause that the government "may at any time propose revisions in the terms of (the) agreement".

The bilateral agreements impose a duty on the trade partners to *provide information* at frequent intervals, partly on a very extensive scale. Many US meat agreements call for weekly statements on the whole meat trade. The information required under most agreements however is limited to monthly statements. This is true for all textile agreements, the shoe and footwear agreements, the US steel agreement with Japan and the US meat agreements with Australia and New Zealand. Information must normally be provided about import and export values and quantities of products

⁴ Bilateral Agreement between the USA and Portugal of Jan. 1, 1975, in: US Department of State, Treaties and other International Acts Series (TIAS) 8027.

⁵ US, Non-Rubber Footwear Imports, Presidential Proclamation 4510, in: US, Federal Register, Vol. 42, No. 122, June 24, 1977, p. 32438.

⁶ A summary of the US Government Programme can be found in: Wall Street Journal, July 21, 1977, p. 17.

covered by the agreement. Individual agreements, especially the textile agreements, also contain a mutual promise "to supply promptly any other pertinent and readily available statistical data requested by the other government"⁷. When bilateral agreements are an integral part of a certain economic programme, as is the case in respect of the US shoe and footwear agreements with South Korea and Taiwan, the US President calls for additional information on production, imports, consumption, employment and prices. These data have to be given in quarterly and annual reports, as a rule by the international Trade Commission. Additional information requirements of this kind are however only rarely stipulated in the agreements themselves but result from the President's proclamations⁸.

Provisions for Sanctions

A characteristic feature of many bilateral agreements is that they *stipulate sanctions and contain warnings to this effect*. Supplies in excess of the quotas are not accepted or else set off against later quotas. This provision is for instance to be found in all the textile agreements. It should be mentioned in this context that many agreements contain warnings addressed to other states than the contracting parties in case their supplies should exceed the level desired by the importing country: "... if during any restraint period the quantity of footwear of the types covered by the agreements, from countries other than the Republic of ... (contracting party) appear likely to disrupt the effectiveness of the provisions of the orderly marketing agreements ..., the Special Representative may initiate consultations with the countries responsible for such disruptions and may prevent further entry of such articles for the remainder of that restraint period or may otherwise moderate or restrict imports of such articles from such countries ..."⁹. A similar provision is found in the US steel agreement with Japan¹⁰. The bilateral textile and meat agreements do not contain this kind of warning.

Finally, it should be pointed out that the bilateral import agreements do not as a rule contain *any price regulations*. Some agreements, like the US steel agreement with Japan, state explicitly that "no provision of this note will be construed as applying to prices ... of steel ..."¹¹.

Effects of Import Agreements

Do the bilateral import agreements produce the desired results? What are their side-effects?

⁷ Cf. Textile Agreement between the USA and Taiwan, Jan. 1, 1975, Art. 12, in: US, TIAS 8033.

⁸ Cf. Proclamation 4510, in: US, Federal Register, Vol. 42, No. 122, June 24, 1977, p. 32438.

As bilateral import agreements are in fact often akin to unilateral directions by importing countries (to which their trade partners agree mostly because they have no choice), the initiators of the agreements are in a position to enforce their demands at very short notice and with great effect. In accordance with GATT Art. XIX measures may be taken immediately in cases of particular urgency "where delay would cause damage difficult to repair". Art. 91 of the EC Treaty likewise authorizes the Commission to take immediate protective measures in the event of dumping. The US Trade Act of 1975 requires the International Trade Commission to examine every application for protection against imports within no more than six months and to report on its justification; the President has to take a decision on appropriate measures within the following two months. Quantitative import restrictions are undoubtedly effective, especially if supported by supplementary measures against trade-evasion via third countries.

It needs pointing out that bilateral agreements are a trade policy instrument in the hands of the economically strong. Only the economically stronger trade partner is in a position to take measures without incurring the risk of counter-measures. Asked whether other countries would not react to US import restrictions by retaliatory measures, US Treasury Secretary Lane Kirkland said in an interview published in U.S. News: "The American market is the largest market in the world. Access to our market is a major objective of almost every country that is looking for exports, and they would think twice before endangering that access by retaliation."¹² Bilateral negotiations allow the Great Powers to make better use of their power position than multilateral agreements in which the small states take a common stand as trade partners.

Nevertheless it is to be noted that the governments of the Great Powers are ill advised when they give preference to a bilateral arrangement for their foreign trade. The domestic pressure groups' attitude towards their own governments will be the more uncompromising the more certain they feel about the power of their country to stick to its position in international negotiations. This will have disastrous consequences for free trade when governments in office have no safe majority behind them and for political reasons cannot

⁹ Ibid. (concerning agreement on shoe imports), p. 32434.

¹⁰ Steel Agreement between the USA and Japan, June 11, 1976, in: US, TIAS 8442, Art. 5.

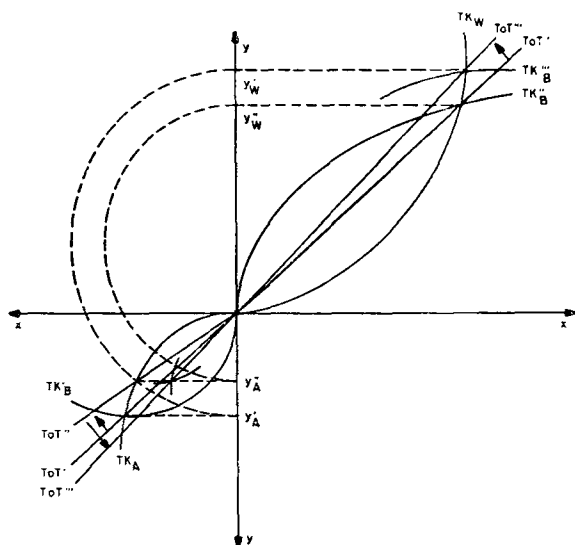
¹¹ Art. 7b of the Steel Agreement between the USA and Japan, June 11, 1976, in: US, TIAS 8442.

¹² L. Kirkland however points out that it would be inappropriate to speak of "retaliations" because it had been the Americans who were in the first place hit by unjustified trade practices of other states. US News, Aug. 8, 1977, p. 25.

afford to offer strong resistance to the representatives of particular interests. The ongoing negotiations in the USA and European countries are evidence of the pertinacity and refractoriness of the representatives of the steel and textile industries in putting their governments under pressure¹³.

Diagram 1

Changes in the Terms of Trade under Bilateral Import Restrictions



The possible repercussions of bilateral agreements on the level of international trade prices is shown by Diagram 1. The country imposing quantitative import restrictions on a bilateral basis appears as A and the country affected by them as B. The exports from A and other parts of the world to B — in other words, the imports of B from A and other parts of the world — are marked on the x-co-ordinate of the diagram and the imports of A and other parts of the world from B — put differently, the exports of B to A and other parts of the world — on the y-co-ordinate. The foreign trade between the countries A and B is indicated by the trade curves TK_A and TK'_B in the third quadrant. The trade curves TK''_B and TK_W in the first quadrant, show the foreign trade of country B with other parts of the world. The terms of trade arising in the course of free trade are on the line ToT' . If there is no trade outside the countries A and B and A imposes a quantitative import restriction of the difference between y'_A and y''_A , the terms of trade worsen for country A. They change from ToT' to ToT'' . However, if there is a (substantial) trade with third countries (other parts of the world) and if country B is not willing or able to offset the loss of sales

which it suffers in country A by reducing its output (an assumption which we shall discuss later), additional supplies will reach third countries. The reduction of imports marked in the lower half of the diagram is transferred to the upper half ($y'_A - y''_A = y'_W - y''_W$). The trade curve of country B with third countries changes from TK''_B to TK'''_B . This extra supply logically leads to price falls in third countries, that means to a change of the terms of trade from ToT' to ToT''' , the new point of intersection between the existing TK_W and TK'''_B . The new price relations in the world market are however bound to have an effect on country A. Country B will be unable to obtain prices in country A which are above the price level in the world market. Otherwise country A would cover its requirements in third countries. From this follows that countries which impose import restrictions profit from the price falls in the world market caused by them even though the prices in the protectionist countries are now higher than before. The difference accrues to the importers as a special benefit, a quota premium. The new point of intersection for trade between countries A and B appears on ToT''' at y''_A (indicated in the diagram by two short intersecting curves).

The statement that bilateral import restrictions lead to price falls in world trade is based on the assumption that country B in the diagram, standing for producers in general, is not willing to respond to partial sales losses by cutting its production in like measure. Under what conditions is this assumption justified?

The answer to this question depends upon the market organization in the production sphere. In the case of a polypoly, the price elasticity of the suppliers will be relatively low if the share of the fixed costs is relatively high. They will be willing to supply their product at lower prices as long as these cover part of the fixed costs as well as their variable costs. This is probably largely the situation in the textile, steel and meat industries (which are the main areas of bilateral import agreements at the present time), chiefly because the countries supplying these products are low-wage countries¹⁴.

What will be the reaction of a monopolist to sales shortfalls? If the demand curve (depicted in Diagram 2) moves towards the left, from N_1 to N_2 , Cournot's point moves from CP_1 to CP_2 and thus the price from p_1 to p_2 . The new monopoly price p_2 will stay below the price level of p_1 as long as the marginal cost curve rises less sharply than the demand curve, that means, as long as it does

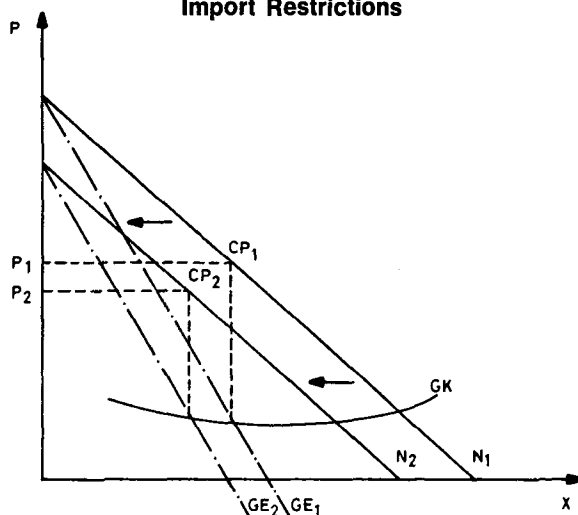
¹³ Cf. US Government Printing Office, Hearings before the Committee on Finance, United States Senate, in January and February 1976, Washington 1976 (67-937); European Community, Information P-87, September 1977.

¹⁴ Production losses in poor countries are often not just a price-cost question but an employment policy issue.

not show a markedly degressive trend with increasing production. If it can be assumed that with a high share of fixed costs the marginal costs will follow a relatively constant course (at least in the area of satisfactory capacity utilization), the monopolist will tend to react to import restrictions by reducing his prices.

Diagram 2

Changes in Monopoly Prices under Bilateral Import Restrictions



To sum this up, it may therefore be said that the bilateral import agreements now in existence or preparation are most likely to exert additional pressure on prices, from which the countries which imposed the import restrictions will themselves profit as well.

Bilateral Export Agreements

Bilateral export agreements are contractual arrangements by which exporters, taking advantage of momentary shortage in the market, "force" the buyer to enter longer-term purchasing commitments.

GATT Art. XI forbids export restrictions in the form of quotas, export licences or any other kind of restraint. Exceptions are however allowed to secure national food supplies or in the interest of the state's political security (GATT Art. XI, par. 2 and Art. XXI). These saving clauses, together with the other GATT exemptions, allow, as John H. Jackson says, "very little, if any, effective GATT policing of export control policy"¹⁵. No government will find it difficult to justify its bilateral export agreements on one ground or another.

Unlike the bilateral import agreements, export agreements are rare. The two most important export agreements at present are probably the US

agreements on grains with the Soviet Union and Japan. The agreement with the Soviet Union was signed in Moscow on October 20, 1975¹⁶. The agreement with Japan rests on a verbal assurance of the US Secretary of Agriculture in August 1975 that the quantities of grain in demand by the Japanese would be supplied in the following three years¹⁷. The member states of the EC were also informally assured of continuing access to the American market¹⁸. The grain agreement with the USSR dates back to a time of grain and fodder shortage when deliveries to Russia were subject to US export restrictions. The longer-term purchasing commitments are, to simplify slightly, the price which the Soviet Union pays for having abolished the export restrictions¹⁹.

Specific Features

The bilateral export agreements are of a very simple kind indeed. They contain provisions about minimum purchasing quantities, duration, use of the traded goods and, possibly, means of transport to be used.

The US grain agreement with the USSR lays down that the Soviet Union must take 6,000,000 tons of wheat and maize a year, in about equal proportions, for five years starting on Oct. 1, 1976. The annual quota may be exceeded by 2,000,000 tons without further negotiations if the total grain supply in the USA does not fall below 225,000,000 tons. If the US supply is below 225,000,000 tons, the Americans are entitled to reduce the quota under the agreement. Japan has undertaken to buy 3,000,000 tons of wheat, 8,000,000 tons of fodder grains and 3,000,000 tons of soy beans a year in 1976–1979. Nothing has been said, according to a USDA publication, about possible increases or cuts of the quantities to be traded with Japan.

In the grain agreement with the Soviet Union, the Americans stipulate that the US grains are to be used solely for human nutrition and not to be re-sold to third countries.

Separate arrangements have been agreed about the transport of the grain. Free oil tanker capacities are to be used for part of the transports²⁰.

¹⁶ The text of the agreement was published in: US, Weekly Compilation of Presidential Documents, Oct. 27, 1975, Vol. II, No. 43, p. 1187 and 1188.

¹⁷ The assurances were published in: US Department of Agriculture, News, Aug. 12, 1976, USDA 2351-75, p. 4302.

¹⁸ Cf. R. L. Paarlberg, Die Einwirkung der Sowjetunion auf die Weltagrarmärkte (The influence of the Soviet Union on the world's agricultural markets), in: Agrarwirtschaft 26 (1977) 5, p. 151.

¹⁹ Until Oct. 20, 1975 the Soviet Union was subject to an export embargo qualified by provisions for state licences.

²⁰ The provisions by an exchange of letters on Soviet oil deliveries to the USA were published in: US, Weekly Compilation of Presidential Documents, Oct. 27, 1975, Vol. II, No. 43, p. 1188.

¹⁵ J. H. Jackson, *ibid.*, p. 502.

Finally, the agreements lay down that the contracts have to be concluded at the usual market prices.

Effects of Export Agreements

The annual purchasing commitment undertaken by the Soviet Union amounts to about 10% of all US wheat exports and between 10 and 20 % of the US exports of maize. The US deliveries to Japan account for another 10 % of the US wheat exports, about 15 % of the maize shipments and 20 % of the exported soy beans²¹.

What is the effect of bilateral export agreements on the mutual trade relations of the parties to the contract and their trade with other countries? President Gerald R. Ford mentioned the following advantages, from the US point of view, of the grain agreement with the Soviet Union:

- ☐ Stabilization of the external market,
- ☐ Stabilization of the continuous flow of export earnings,
- ☐ Better capacity utilization in agriculture,
- ☐ Expedition of the procurement of means of production for US agriculture (due to more assured product marketability), and
- ☐ Increased employment for transport services on land and sea²².

Whether the present US grain agreement with the Soviet Union is really making a contribution to the achievement of these objectives may however be questioned on several grounds: First of all, the Russian grain purchases in the USA cover no more than 30–50 % of the annual import requirements of the Soviet Union; the other imports are obtained from third countries. Were access to the American market to be made more difficult, the Soviet Union (known as a trade partner able to pay for purchases) would turn increasingly to third markets. The drain on supplies in third countries however, would in turn draw US supplies into these markets. In other words, it is impossible to keep the extra demand caused by shortages in the Soviet Union in check as long as the USA has no purchase and supply agreements with third states. The same argument applies, secondly, if the Soviet Union should by virtue of its own grain production be able to do without imports. The Soviet Union is at liberty to export its own grains to the extent to which it is committed to imports. The undertaking under the grain agreement with the USA that the imported quantities

will not be re-exported is little more than a matter of form. As long as the Soviet Union can export its own products, this condition hardly matters. Soviet exports to third countries have the effect that these states can do without additional grain purchases in the USA. The supply and purchase commitments under the US-USSR agreement are thus seen to be ineffective, also in the event of Soviet overproduction.

Thirdly, it is suggested by the supporters of the agreement that the purchase commitment has involved the Soviet Union in a major contribution to the storage costs which they had so far not been willing to discuss. In the five-year plan for 1976–1980 the Soviet Union earmarked the sum of roubles 3.5 bn for the erection of grain silos with a storage capacity of 34,000,000 tons²³. There is no definite evidence however that the Soviet silo investment is in fact a consequence of the US-USSR grain agreement. Opponents of the agreement also argue that the enlargement of the Soviet storage capacity is not necessarily a positive development. On the contrary, the Western producers should consider themselves fortunate in having the world storage facilities and thus the food stocks.

If what has been said so far suggests that the grain agreement between the USA and the USSR has not been very effective, it must be added that the agreement protects the Americans from being taken by surprise by direct buying such as occurred in 1972 and, to a lesser extent, in 1975 and thereby alone helps to stabilize the external trade and thus the domestic market in some measure. As long as there are no other export controls and, seen against the background of the present US farm policy, such controls cannot be created, the current agreement with all its faults is a "second best solution", all the more so because the Soviet Union with its secretiveness about harvest prospects makes all world-wide crop planning and stock-piling impossible and tries alone to profit from the free trading system of the West, no matter who has to pay for it. A few opponents of the agreement see the "best solution" in the introduction of generalized export controls²⁴ or the creation of a joint "American-Canadian Commission for a Food Policy"²⁵. The talks on fixing common grain export prices which the USA and Canada commenced in February, do not seem to have advanced beyond the initial

²¹ US Department of Agriculture, US Foreign Agricultural Trade Statistical Report, Calendar Year 1976, p. 39-41.

²² US, Weekly Compilation of Presidential Documents, Oct. 27, 1975, Vol. II, No. 43, p. 1187.

²³ R. L. Paarlberg, *ibid.*, in: *Agrarwirtschaft* 26 (1977) 5, p. 151.

²⁴ This suggestion was made to me personally by Prof. Gregory Grossman of the University of California, Berkeley.

²⁵ R. L. Brown, *The Politics and Responsibility of the North American Breadbasket*, Worldwatch Institute, Washington, D.C., Worldwatch Paper No. 2, October 1975, quoted from R. L. Paarlberg, *ibid.*, in: *Agrarwirtschaft* 26 (1977) 5, p. 153.

stage²⁶. Their failure may have been due to the fact that had the two countries fixed minimum prices, they would have run the risk of being stuck with an unsaleable surplus because other suppliers (Australia and Argentina) could have used the opportunity for disposing of all their stocks at prices just below the North American minimum.

The Position of Third Countries

Bilateral agreements in the form practised today are interesting trade policy measures at the disposal of economically strong states. They make it possible for the big ones to force their trade partners to adopt "voluntarily" trading conducts which are of advantage to the Great Powers ("protectionism made to measure"). They need hardly feel apprehensive about countervailing measures.

Bilateral agreements however affect not only the supplying countries directly involved. Third countries with relatively liberal import policies are also being hit hard, for it is to their markets that the obstructed trade flows are diverted. The diverted commodities will of course be sold at very low prices in order to increase the supplier's share of existing markets or open up new markets. What then are the consequences for the countries which are affected indirectly by the bilateral agreements?

First of all, these countries will have to do all in their power to give fresh emphasis to the principle of non-discrimination as laid down in the General Agreement on Tariffs and Trade and to draw attention to the fact that the emergency measures under GATT Art. XIX do not permit the abolition of obligations on certain countries or the revocation of concessions differing from country to

country. In the light of the protectionist bilateral agreements it appears that the GATT emergency provisions are today in need, not so much of a revision in the sense of the US Trade Act, as of a re-interpretation in the spirit of the Havana Charter and the main regulations of GATT.

In more than a few instances, multilateral agreements are the only remaining alternative to bilateralism. Multilateral negotiations alone give the economically weak and small states an opportunity to link up and form an aggregate with more "weight" for negotiations. This situation may explain why many small and economically weak states are now taking an interest in multilateral agreements. Care must be taken to ensure that no provisions for exemptions running counter to the principle of most-favoured nation treatment, find their way into the multilateral agreements. The emergency measures allowed under the International Textile Agreement and the enfranchisement of bilateral agreements must not be an exemplar for other agreements. It must be the aim of the multilateral agreements to circumscribe the conditions for a policy of non-discrimination.

As the events of recent years show, both the USA and the European Economic Community have – in spite of numerous and diverse objections – increasingly resorted to far-reaching import restrictions, thereby causing particular concern to countries with relatively liberal import policies. This has happened at a time when these countries had also to cope with unemployment. To ward off low-price supplies, the governments which have until now been supporting liberal import policies will be compelled in the interest of their own economies to take appropriate defensive measures – in the form of flexible surcharges or import quotas – so as to remedy the trade diversions triggered by the bilateral agreements.

²⁶ Cf. Wall Street Journal, February 28, 1977, p. 2

PUBLICATIONS OF THE HWWA-INSTITUT FÜR WIRTSCHAFTSFORSCHUNG-HAMBURG

NEW PUBLICATION

Klaus Boeck

DIE WÄHRUNGSPOLITISCHEN FORDERUNGEN DER ENTWICKLUNGSLÄNDER ZUR SCHAFFUNG EINER NEUEN WELTWIRTSCHAFTSORDNUNG

(The Developing Countries' Monetary Demands for the Creation
of a New International Economic Order)

Large octavo, 176 pages, 1978, price paperbound DM 34,-

ISBN 8-87895-170-1

V E R L A G W E L T A R C H I V G M B H - H A M B U R G