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The Grain Trade and the Failure of International Control

by Nick Butler, London*

In common with international agricultural trade in general the grain trade has remained immune to pressure for liberalization, and equally immune to suggestions of international management in the form of reserve stock holding, price floors and ceilings, or a full scale commodity agreement. What are the reasons for failure of such attempts in the past? Is there still a chance for GATT at least to minimize the adverse effects, especially on developing countries, of the present inefficient trading system?

The total volume of world trade in agricultural products has grown by almost 4 per cent per year for the last three decades. Trade in grain alone grew by eight per cent per annum on average during the 1970s and was 190 per cent higher in 1980 than two decades earlier, against a total production increase of only 70 per cent over the same period. By 1980 the grain trade, led increasingly by trade in feedgrains for consumption by livestock accounted for over a quarter of non-oil bulk shipping trade. The expansion of trade in manufactures which for so long overshadowed agricultural developments was matched, and even surpassed in the 1970s by the growth of the grain trade.

The changes in the pattern of trade have been as significant as the changes in total volume. The Soviet Union has become a regular importer of substantial volumes, averaging well over thirty million tonnes per annum in each of the last four years. China has opened her ports to imports as part of her strategy of economic modernization. The EC after decades during which its member states were among the world's largest scale importers has, through the Common Agricultural Policy, achieved not just self-sufficiency but also the capacity to become a major exporter of grain. Restructuring and major gains in productivity as well as a generous support price policy on the part of the government have encouraged a continuing growth in US output almost all of which since 1970 has been exported. Japan and a few of the more rapidly growing Third World countries have accounted for a major proportion of that new trade.

Although the bulk of world grain output is consumed where it is produced, with less than a fifth of total output traded in an average year, the changes in the pattern and the scale of trade have established it as an important factor, politically as well as economically, for the countries concerned. In some US states as much as

70 per cent of farm income is now earned by exports. Grain partially offsets the adverse US trade balance. Chinese grain imports feed the cities and the army and allow greater quantities to be retained by the producers in the rural areas. Soviet imports have allowed the continued development of a livestock sector vital to the provision of food supplies to the Soviet consumer.

Growth in volume and importance, however, has not been matched by stability. During the period of trade expansion, year to year volumes have fluctuated widely. Trade in food grains grew by 4 per cent per annum between 1960 and 1980, with an annual average variation from trend of 7 per cent. The comparable figures for feed grains were 7.6 per cent per annum and 5.1 per cent, while the annual variation for all agricultural products was only 2.6 per cent, and for total trade as low as 1.5 per cent. Within the period the average annual variation of consumption from trend worldwide doubled in the 1970s as against the 1960s.

The fact that traded grain is in essence marginal – a reflection of surplus or deficit in individual countries, and that production is particularly vulnerable to adverse weather conditions and disease, accounts of course for the volatility. The grain trade is unlikely ever to be stable or predictable. The unpredictability, however, which in particular circumstances can have devastating effects on individual countries is enhanced by the lack of international organization or regulation of the trade. In common with international agricultural trade in general the grain trade has remained immune to pressure for liberalization, and equally immune to suggestions of international management in the form of reserve stock holding, price floors and ceilings, or a full scale commodity agreement.

Concern with the issue is of course nothing new. The attempts to bring agriculture and grains under the control of the General Agreement on Tariffs and Trade

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go back to the 1940s while efforts to create an effective wheat Agreement go back to the 1930s. The fear of shortage and famine in the 1970s generated numerous proposals in the area of food security, and repeated calls for a new global food regime but beyond a widening and strengthening of the intellectual debate little came of such proposals. The trade remains illiberal, erratic and unmanaged for reasons which are explored in more detail below.

Though starvation and hunger remain issues of immediate concern to the hundreds of millions of Third World citizens classed by the World Bank as the absolute poor, lacking the resources to make their all too obvious demand "effective", the issue of the early 1980s for the participants in the international grain trade is the issue not of shortage but of surplus – a reversion to the problems of the 1950s and 60s, although the passage of time has changed both the scale and the temper of the debate.

In the United States and the European Community the pressures of protectionism, and the strength of the farm lobby, coupled with achievements of technical progress which other sectors would envy, have generated large and growing surpluses of supply over demand. Grain consumption per capita in both regions has plateaued while grain output per capita has accelerated. The consequence has been that the US volume of exports has risen by 60 million tonnes in a decade and now accounts for 25 per cent of production (40 per cent of feed grain production). At the same time the farm policy of the EC has left the Community with a trade surplus in grains likely to grow according to recent forecasts to well over 20 million tonnes by 1990.

Worldwide, effective demand has not matched that growth. Prices have declined from their peak in the mid 70s (feed grain by 12 per cent, wheat by 15 per cent). Fears of supply insecurity and the perception of grain as a strategic commodity have encouraged the development of grain production in many countries, in some cases regardless of the true economics of the situation. Both the US and to a much greater extent the EC have been forced to subsidise their exports – the EC by as much as 100 per cent of the world price, contributing to the financial burden on the Community caused by export restitutions to agriculture of 6,054 million ECU, 46 per cent of the Community's agriculture budget last year.

In the recent past that situation and the competition for markets has become sharper, even bitter, and the

threat from one side of the Atlantic or the other of an agricultural trade war is almost a daily event.

In such circumstances it is worth examining the reasons for the failure of past attempts to liberalize and regulate trade and questioning whether there is indeed a way forward which does not involve a war of subsidies and an even greater misallocation of resources.

Meagre Liberalization Success

For four decades the GATT rounds of trade negotiations have failed to penetrate the agricultural sector. While tariffs on manufactured goods have been reduced and codes of practice developed, the agricultural sector has stubbornly remained beyond the reach of the general tide of liberalization. Tariff levels (in one guise or another) have actually increased and the effect of national measures on international trade has grown as that trade itself has expanded.

A major study of agricultural trade relations written a decade ago analysed the circumstances which brought this about, "in essentially all countries, and for a variety of economic, security, social and political reasons the agriculture industry is supported, planned and managed to a degree which is without parallel in any other sector of the economy, with the possible exception of defence industries . . . Agriculture ministers and officials regard external demands to lower import barriers as a troublesome and unwarranted interference with the national farm programmes for which they are responsible . . . (Consequently) agriculture trade liberalization is an area which has had meagre success. Every country has a compelling reason to give primacy to supporting some sector of its agriculture over its general obligations under GATT and for the most part other members have acquiesced."¹

The world market in grains, important though it is to all sides has therefore remained merely the residual result of the sum of the national policies of the major trading nations – importers and exporters. Given the fact that trade barriers and in particular the variable levies of the EC prevent the transmission of market signals though price changes² and the unwillingness of the United States in the recent past to accept its former responsibility for managing the market by absorbing

¹ Warley: Western Trade in Agricultural Products, in: Shonfield (ed.): International Economic Relations of the Western World 1959-71, 1976.

² "The impact on world price stability of the variable levy system. . . A fixed consumer price has joined a fixed producer price, ensuring that neither is responsive to world price changes. . . In addition to not allowing foreign production instability (through prices) to impact on the importer's domestic markets, their domestic production instability is exported in its entirety." Josling: Domestic Agricultural Price Policies and their Interaction through Trade, in: McCalla, Josling (eds.): Imperfect Markets in Agricultural Trade, 1981.

fluctuations it is remarkable that the system has had operated without a serious breakdown for the bulk of the last decade.

From the immediate post war years onwards first in the Havana Charter and then within GATT the advocates of trade liberalization have fought a series of bureaucratic and political battles in order to include agricultural trade within the framework of the General Agreement. In the early rounds the pressure for liberalization came almost exclusively from the exporting countries – Australia, New Zealand and Canada prominent among them. In Europe the concern was to redevelop an agricultural sector destroyed by war and, with the historic traditions of protection in almost all the European countries other than Britain, this meant that liberalization of agricultural trade did not figure high in any list of European priorities. The United States, too, was no advocate of liberalization. The Agricultural Adjustment Act of 1933, one of the early New Deal measures to secure American agriculture and the livelihood of the American farmer remained on the statute book and the American administration was far from confident that the removal of import duties and quotas, which the general application of GATT rules to agriculture would imply, would benefit their farmers in the face of foreign competition. When in the mid 1950s agriculture did become nominally subject to GATT rules the US sought and obtained a waiver to permit the continued use of the AAA provisions. In the forum of GATT where the American voice had been the strongest advocate of open trade in general, the waiver marked the end of aspirations for a full incorporation of agriculture into the new trading system.

Over succeeding decades although the US government's perception of the strength of US farming has changed, and although its interest in the establishment of open markets and access for its exports have been enhanced by the rapid growth of productivity and output, agriculture has remained beyond GATT control, and the degree of protection tolerated in the post war period has become entrenched and apparently irremovable.

Acceptance of the Status Quo

The record since then has been of successive attempts to introduce codes, to regulate tariff levels and, in the 1970s and in particular in the Tokyo Round, to set limits to the impact of non-tariff barriers, export subsidies and countervailing duties. It is certainly arguable that the reach of the attempts has shortened over time. The early attempts to treat agriculture on a par with other trade in manufactured goods, which

sought a parallel reduction of tariff barriers with the ultimate aim of free trade, soon came to appear unrealistic. By the 1960s when the setting of price levels within the EEC had established the Community's commitment to a policy of agricultural protection and output growth the problem for GATT was arguably to prevent conflicts in agricultural trade adversely affecting other trade liberalization as they threatened to. On the eve of the Kennedy Round the US threatened to refuse to conclude any part of the negotiations until "equitable tariff and trade agreements have been developed for agricultural products."³

A decade later in the run up to the Tokyo Round negotiations another US trade representative wrote: "We should make clear to our partners right from the start that we are seriously prepared to withdraw from GATT and return our import duties to more protective levels if we cannot arrive at a satisfactory trade and monetary settlement including liberalization of the grain-feed-livestock sector along with appropriate additional settlements for other agricultural commodities."⁴

Though the threats were never fulfilled the danger of fundamental damage to wider trade relations was perceived and every effort made to separate agricultural and non-agricultural negotiations, with the aim of reducing the scope for potentially dangerous attempts to link the two.

The Tokyo Round in particular confirmed the earlier reluctant acceptance of the status quo and the implicit recognition that agricultural trade would not be liberalized. Despite much rhetoric the CAP "emerged virtually unscathed from the negotiations and the levy system thus received the final approval of the contracting parties".⁵ By the late 70s the GATT approach to agricultural trade was clearly to limit the development of new distortions and trade barriers rather than to seek the removal of those already in existence. The code on subsidies and countervailing duties applies to both agricultural and non-agricultural trade, establishing a clear incentive for the EC as a large exporter of industrial goods to accept some limitation of its freedom of action in relation to the subsidization of agricultural exports. Under the code export subsidies on primary products are not to be applied when the exporting country would gain more than an equitable share of world export trade in these products.

³ US Office of the Special Representative for Trade Negotiations, 17 May 1963.

⁴ Quoted in: Warley, *op. cit.*, p. 291.

⁵ Buchholz: *The Multilateral Trade Negotiations and EEC Agriculture*, in: *Prospects for Agriculture in the EEC*, Bruges, 1979.

The implicit legitimization of export subsidies (and the other mechanisms of the CAP) short of the point where they shift the current pattern of trade and the vagueness of the definitions in the restrictive part of the code indicate the small amount of progress made. The challenges now before GATT panels, and the continuing French pressure for an explicit European export policy illustrate the unresolved problems. The issue of export subsidies was the central issue of concern at the GATT ministerial meeting in November 1982 with a new proposal from the Australians for a standstill on trade distorting measures and a review of the GATT clause on subsidies with the aim of extending GATT scrutiny to cover measures of domestic assistance.

That this was the most radical proposal under consideration is perhaps indicative of the extent to which agricultural trade has "slipped away from GATT" to a degree comparable to the textile sector, "which has been hived off with built in and legally sanctified restrictions on trade. The difference between the two is that there is no separate agreement for agriculture: the trading nations have simply constructed their own policies in the loopholes of GATT".⁶

It is certainly clear in retrospect that the EEC proposal at the beginning of the Kennedy Round for consolidating (and effectively freezing) the levels of support offered to agriculture through all the various devices available (the "montant de soutien") was perhaps the nearest that GATT came to success in agricultural trade. The institutionalization of protection which it implied and the lack of anticipation of the long term effects on production of EEC support price levels led to its rejection by the American negotiators and no similar scheme has since been advanced.⁷

Reasons for the Lack of Progress

Agriculture and the grain trade in particular have resisted the efforts of liberalizers for the last thirty years for three main reasons.

First, and most significant is the "special" importance attached by national governments to the farm sector and their consequent commitment – in the case of Europe, the Communist bloc, some developing countries and in different ways, the USA – to protectionist devices to secure a greater degree of self-sufficiency and a higher level of income in the farm

sector and the rural community it supports than would be the case if protectionist devices were removed.

Tim Josling, though sceptical of the claim for special status, has summarized the reasons why the claim has succeeded: "Agriculture is the only sector which (i) provides an essential human need, (ii) is subject to erratic output variations on account of the vagaries of the weather, (iii) employs thousands of small businessmen in rural areas where other employment opportunities are scarce, (iv) has its own government ministries with deep seated involvement in economic and social programmes, and (v) exhibits a tendency to impose on itself stresses through the adoption of new technology which requires a significant resource adjustment to alleviate."⁸

It is clear though that agriculture is not the only sector for which special case status can be claimed and that there must be other related reasons why trade liberalization has so noticeably failed. The absence of a clear mutuality of interests – achievable through liberalization and capable of overriding the strong domestic pressures for protection – has been of significant importance.

In contrast to the majority of other sectors the major obstacle to open trade has taken the form not of tariff barriers as such but rather a complex set of non-tariff barriers which are not susceptible to easy measurement or to percentage reductions in the traditional GATT way. The non-tariff barriers vary from one country to another and are not easily equated. Given the inherent uncertainties of production and trade requirements the potential benefits and costs of liberalization are not easily estimated. Agricultural policy is also so clearly a domestic matter with side effects on trade that significant liberalization would unavoidably impinge on the sovereignty of domestic policy making in a way few other GATT measures do. Given that most exporters do not have an explicit trade policy but rather export as a consequence of the effect of domestic policies on supply and demand the problem is particularly difficult for an international institution to deal with.

The third reason for the lack of progress is that the main participants in GATT discussions – the EEC and the US – have for most of the period found the existing arrangements tolerable if not optimal. The GATT negotiations on agriculture which have taken the form in essence of an Atlantic dialogue have been characterized by rhetoric, but rhetoric which has not disguised the fact that trade has continued to grow –

⁶ Cheesewright: Agriculture: The Threat to GATT, in: Financial Times, 12 October 1982.

⁷ The offer, and the negotiations which followed, are described in detail in Casadio: Atlantic Trade, 1973.

⁸ Josling: Agriculture in the Tokyo Round, Trade Policy Research Centre, 1977.

providing scope until very recently for expanding production and relatively secure farm incomes. Looking back at the 1950s and 1960s Warley concluded that "the international effects of national agricultural policies were adverse but not intolerably so".⁹

Such a judgement is valid for the 1970s also. The US has lost much of the European market for its grains which existed in the 50s and 60s but has found new markets for grain outside Europe, and new agricultural trade markets for other products in Europe which assure it of a very favourable trade balance. The benefits of liberalization (which would have affected US agricultural imports as well as its exports) were, and are, at best uncertain and questionable. Recent studies suggest that a general liberalization of Japanese and European agricultural policies would have a significant impact upon the distribution of income within the US agricultural sector but only a minor impact on the total. Producers of some commodities (e.g. wheat) would gain while producers of others (e.g. soybeans) would lose. The net income gain to US agriculture would be relatively small. Considering the impact upon US customers and the rest of the economy there might not be a net gain.

Attempts at Regulation

Just as attempts at liberalization have been unsuccessful so too have the various proposals for regulation and for partial or total control of the grain markets by some external authority. The attempts have taken many forms over the last three decades and the debate surrounding the issue has revived since the fears of "food crisis" in the mid 1970s. Attempts at control can be divided into three distinct categories: (a) the attempt to establish a full scale wheat or grains agreement, covering all aspects of trade internationally; (b) attempts to improve food security – through food aid conventions, internationally held reserves, food financing facilities or aids to production in vulnerable areas; (c) the quite distinct efforts by the major grain exporting countries to divide the market between them and to set an effective floor price.

All three have been pursued in the last decade but only the second, which falls outside the commercial arrangements under consideration here has made any degree of progress, and that very limited.

The most comprehensive of the plans put forward in recent years for the management of the international grain trade has centred on the establishment of internationally controlled stocks and the extension of the

International Wheat Agreement with the aim of stabilizing the markets for wheat and coarse grains and providing security of food aid supplies.

International Wheat Agreements have existed in one form or another for fifty years. The first fifteen from 1933 onwards were spent trying to develop an effective multilateral agreement which assured supplies to importing countries and markets to exporters at equitable and stable prices. The agreement which came into force in 1949 was successful for two decades but the loss of market stability at the beginning of the 1970s broke the consensus which had existed and left the IWA and the Wheat Council which services the agreement as no more than a channel of information – important though that role has been.

The attempt to use the IWA as the basis of market regulation in the interests of stability and security arose out of the 1974 World Food Conference and the earlier FAO international undertaking on world food security. Five years of discussion produced no agreement and though periodic attempts have been made to revive the issue since the breakdown in 1979 the only achievement has been the extension of the existing (limited) agreement and the increased commitments to food aid in the 1980 Food Aid Convention.

Conflicting Interests

The negotiations focused on the details of a proposal to establish a clear set of guidelines for action in the event of either rising or falling prices. The "action points" ranged from a close review of the market to a commitment to purchase or release stocks. Beyond this general framework of discussion few points of detail were agreed. "There were substantially different views on the price levels for reserve stock action. Developing country importers generally supported accumulation and release prices of \$ 130 and \$ 160 per metric ton respectively and major exporters generally supported \$ 140 and \$ 210. Furthermore the size of reserve stock obligations was not established."¹⁰ Both the United States and the developing importers argued for a level of 25-30 million tons as a minimum; the European Community for some 15-20 million tons.

The arguments offered reflected the interests of the various participants in the context of their national agricultural policies. Exporters generally sought to increase world prices (or to avoid anything which might reduce them), importers to limit any such increase.

⁹ Warley, *op. cit.*, p. 326.

¹⁰ Morrow: The International Wheat Agreement and LDC Food Security, in: Valdes (ed.): Food Security for Developing Countries, 1981.

Given the significantly greater efficiency of a system based on international rather than national stock holding, and the reduced cost of such a system the developing countries had a clear interest in the success of the proposals limited only by the inability of the negotiators to agree on the division of the costs involved.

"The EEC being both an importer and exporter of grain took a relaxed view of the price stability problem. Since its own international grain markets were so thoroughly insulated from world price fluctuation the Community preferred a modest International Grain Reserve – modest in its implied financial obligations and requiring no modification of the elaborate internal pricing and external trading practices of the CAP."¹¹

The United States was instinctively cool to the idea of stock managements and particularly unhappy that the scheme further entrenched the CAP, requiring no change in its operations and no constraints on its future expansion. The US sought a large stock level in order to spread the burden away from its own budget.

US-European conflicts, the difficulties of negotiating any agreement between seventy countries, the uncertain and ill-defined role of the Soviet Union and finally the objections of the developing countries to the proposed price levels all delayed and in the end prevented agreement. World market conditions also contributed. The shift from scarcity (or the perception of scarcity) to surplus led the US in 1977 through the establishment of the farmer owned reserve to assume the effective burden of stock holding without any

international obligation. The concept of the problem and of the solution required altered while the negotiations were taking place to the extent that the assumptions on which the discussions began were eroded.

No greater progress has been achieved in the very different attempts to organize international trade in grain by the establishment of a common set of policies by the main grain exporting countries. The Canadians and Australians with strongly export orientated industries have long favoured attempts to set floor prices¹², and to limit the risks of competitive subsidies by a division of the market between them. Agreement on market shares, however, has always been elusive given the American aim of increasing export trade. The European Community, as exporter and importer, has conflicting interests and has consequently never fully embraced the idea. In addition to the problems of policing arrangements, and the provision of special deals for particular customers, such as the Third World importers, the main stumbling block has been the acceptance of a measure of external control over domestic production levels. As a recent study of the subject suggests the achievement of high prices if passed on to the producer would make the imposition of controls on supply unavoidable.¹³ All the factors which have militated against liberalization in terms of the national sovereignty of agricultural policy making are raised again by such a proposal.

Predominance of Bilateral Arrangements

In the absence of international control the grain trade has in effect been managed by government to government agreements at a bilateral level. The role of the international grain companies cannot of course be left out of account. A recent book, "Poor Harvest" by Richard Gilmore demonstrates the extent of corporate influence in the trade. Lack of space prohibits a full discussion of its arguments here.¹⁴

¹¹ Paarlberg: A Food Security Approach for the 1980s in the United States and the Third World, Overseas Development Council, 1982.

¹² Warley, op. cit., p. 325.

¹³ Schwartz, McCalla: The Case of Grain Export Controls, in: Josling, McCalla (eds.): Imperfect Markets in Agricultural Trade, 1981.

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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

The excess of supply over effective demand in recent years has contributed significantly to the development of bilateral trade – reducing the proportion of traded grain available in the open market in any one year. In addition to the US-Soviet grain agreement of 1975, bilateral agreements have been signed by the US, Canada and Australia. One of the propositions under consideration by the EC is an export policy based on such bilateral agreements.

The attempt on the part of exporters to secure markets and thereby to provide guaranteed commercial outlets for their production, and on the part of importers to secure a guarantee of first call on supplies, even in times of supply shortage, is the result of the perceived instability of the world market and the desire of those involved to minimize their vulnerability to such instability. For both exporters and importers bilateral deals have become an extension of the system of national protection. They are unsatisfactory in global terms because of the risks they pose in times of shortage.

Although three times more grain, as a proportion of production, is now traded internationally than was the case in 1950, a substantial proportion of that is now accounted for by bilateral deals signed in advance. Since only those countries reasonably secure in their ability to pay for imports enter into such commitments it is the countries whose financial strength is less certain which must make do with the residual. The last five years have seen remarkable stability and indeed declining real prices but a poor North American or European harvest coupled with a further heavy call on the market from the Soviet Union would push prices for available, unallocated supplies beyond the reach of a number of developing countries.

As things stand the instability would emerge in the lower half of the two tier world market. The relative vulnerability of developing countries is increased by the fact that livestock provides an additional buffer stock of food supply for the developed countries. These facts plus the vulnerability of concessionary supplies in such circumstances explain the continuing pressure for some form of food security regime. Scepticism about the likelihood of such a regime emerging is one of the main factors which in turn strengthens the view that protection and self-sufficiency policies, at almost any cost, are the only means of ensuring acceptable levels of security of supply. In the absence of wider agreements, bilateralism is also the central feature of trade negotiations.

As well as supply arrangements, questions of access, barriers to trade and marketing practices have tended to be handled directly between states with GATT doing no more than observing from the sidelines. The long running and never fully resolved conflicts between the USA and the European Community have been contained by a mutual acceptance of specific policies in return for other particular trading advantages. Such arrangements are rarely explicit and often emerge only as a breach is threatened – as for instance when the Community looked likely earlier this year to impose taxes on corn gluten imports and to restrict access for products which have provided the US with its balance of payments surplus in agriculture.

A New Role for GATT

The conclusion must be that despite the apparent ease with which the agricultural trading system has dealt with the sharp changes in supply and demand for grain over the last decade it remains inefficient and weak. Increased trade, coupled with the nature of the trading arrangements has made the world food system in Robert Paarlberg's words, "more interdependent but less dependable".¹⁵ The absence of stability has produced an overcompensation in terms of self-sufficiency which is highly inefficient in resource allocation. The "stability" of the last few years has been rooted in the imbalance between protected production and the shortfall of effective demand. The immediate problems with which the trading system as it exists is unable to cope are the unrealized demands of many LDCs and the possible intensive competition among exporters for markets. The present system offers no limits to competitive subsidies (other than by bilateral agreement) and does "nothing to stop Comecon or the EEC dumping their production instability on global markets".¹⁶

This is not the place for a full scale and detailed examination of what GATT should be doing in agricultural trade, product by product. The history of its past failure, however, as well as the evidence of current and increasing conflict should not on the other hand be taken as suggesting that there is nothing which GATT can do. Although the prospects of extending a liberalizing philosophy of international trade to the agriculture sector are negligible, the status and expertise of the GATT organization does give it the chance to play a valuable if more limited role.

¹⁵ Paarlberg, *op. cit.*

¹⁴ Gilmore: A Poor Harvest. The Clash of Policies and Interests in the Grain Trade, Longman, 1982.

¹⁶ Yudelman: Development Issues in the 80s: Achieving Food Security, February 1982.

Out of the study of agricultural trade agreed at the Geneva ministerial meeting should come a proper and permanent Agriculture Committee. Given the realities of the present situation the main function of that Committee will be to monitor existing protectionist measures and to referee disputes in the hope of avoiding open trade warfare or the spread of agricultural disputes to other areas of international trade. The value of such a committee, which would undoubtedly be questioned by the free trade purists given its acceptance of protection, would be that agricultural trade issues would at last find a forum for regular international discussion in place of the purely bilateral settings in which they now take place. Attempting to regulate trade relations is some distance from the original concept of GATT, particularly if the Committee

found itself advocating one form of protection against another as a means of minimizing the adverse effects on third parties, and especially on developing countries. In the longer term one might hope that the regulation would be more ambitious, but that is a long way off and should be recognized as such.

To move to such a position, and to induce member states to participate fully in the work of an Agriculture Committee GATT will have to accept the "individual" character of the farm sector as a permanent and not a temporary phenomenon. If by a recognition of the reality that liberalization is not on the agenda, GATT is able to limit the worst effects of protectionism in a sector of increasing rather than declining importance in world trade, the effort will be well worthwhile.

AGRICULTURAL POLICY

US and EC Agricultural Trade Policies: Confrontation or Negotiation?

by Jimmie S. Hillman, Tucson*

The current American and European mutual accusations of agricultural protectionism are an obvious case of the pot calling the kettle black. What series of events led up to this confrontation? And how can the conflict situation be eased?

The overriding feature of the US agricultural situation during the past decade was the dramatic surge in exports commencing in the early 1970s (see Table 1). This surge in exports was rather unexpected on the part of agricultural policymakers and was largely precipitated by the anomalous series of events beginning in 1972. In 1967, for example, estimates of the USDA for agricultural exports in 1980 did not exceed \$ 10 billion: "Starting from a current (1967) level of about \$ 7 billion, exports of \$ 8 billion are projected for 1970 and \$ 10 billion for 1980 or perhaps even sooner."¹ Actually, exports turned out to be \$ 7.3 billion and \$ 41.3 billion, respectively. Even with some inflated prices, this was a dramatic change.

For several decades prior to the early 1970s, it will be remembered, the US Government played a dominant role in the domestic agricultural economy; and agricultural exports were an "appendage" to policies designed to solve farm problems in Washington, not through foreign markets. Price supports, acreage allotments, production controls, land diversion, government payments, stocks policies and export subsidies were all part of legislative schemes which, to a great degree, ignored the foreign market. To be sure, Public Law 480 was designed to rid the United States of stocks by dumping them on the foreign market. Beginning in the late 1960s, Congress and the

* University of Arizona.

¹ Report of the President's National Advisory Commission on Food and Fiber: Food and Fiber for the Future, U.S. Government Printing Office, Washington D.C., July 1967, p. 295.