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THE TORONTO ECONOMIC SUMMIT
3. TRADE IN AGRICULTURAL PRODUCTS

In recent years, inappropriate agricultural policies have induced dramatic growth in farm production, particularly in the developed countries. World farm output outstripped growth in world demand, with the result that stocks have grown and international prices for agricultural commodities have declined. In the past few months, stocks have been reduced somewhat and some prices have made a modest recovery. World wheat prices remain depressed compared to levels prevailing at the start of this decade, however, and the need for policy reform to cure the root causes of the problem still remains to be acted upon.

The financial position of farmers exposed to low world prices has suffered seriously. Costs of farm support programs have increased dramatically and constitute a major charge against countries' treasuries.

The international community is placing great emphasis on the underlying causes of this crisis. The main cause is the incentive to over-produce which support programs give to farmers. Price and income supports to producers account for over 80 per cent of total assistance to agriculture in OECD countries. The gap between world prices and domestic support prices has widened sharply in recent years.

This situation has been aggravated during the last decade by the slowdown of demand related to world economic developments and further increases in supply arising from technological advances in developed countries, and expanded production in some developing countries.

Some policies stand out as being particularly damaging to the world agricultural economy. In 1977 the European Economic Community (EEC) experienced a cereals deficit of 24 million tonnes. High farm support prices have transformed this into a surplus of 14 million tonnes in 1986; a change of 38 million tonnes in the net cereals trading position of the EEC in less than a decade. Although recent decisions by the EEC are intended to constrain agricultural support expenditures, the effects of these measures on production and trade are, in Canada's view, not likely to be significant. Recent changes in US policies too, have had a dramatic impact on world market prices, for grains in particular. The US has significantly

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